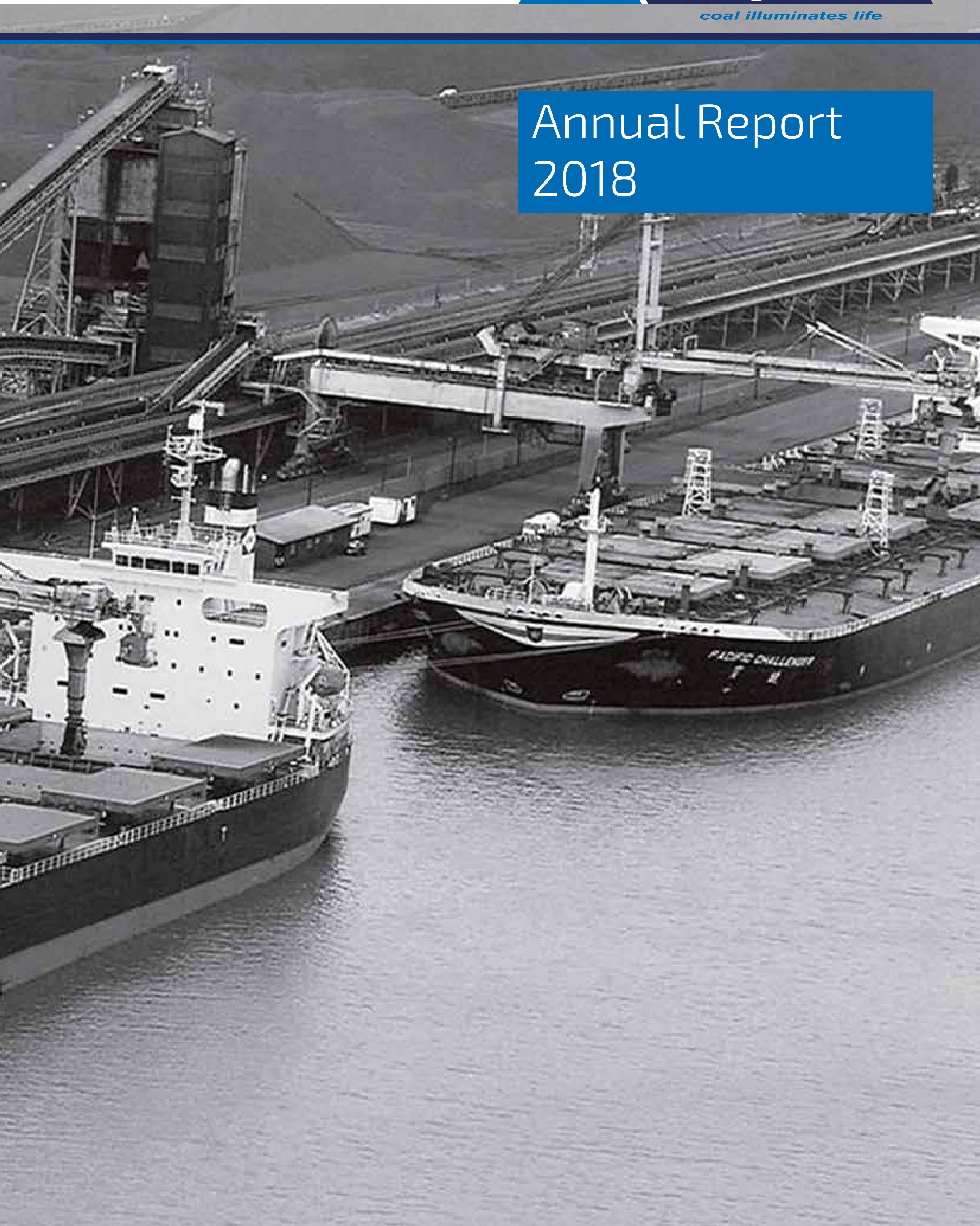
HMS Bergbau AG

coal illuminates life

# Annual Report 2018



# Group key figures

| Balance sheet figures | 31/12/2018 EUR thousand | 31/12/2017 EUR thousand |
|---|---|---|
| Total assets | 59,129 | 46,154 |
| Non-current assets | 15,110 | 12,175 |
| Current assets | 42,053 | 32,230 |
| Shareholders' equity | 9,500 | 4,528 |
| Provisions | 7,690 | 6,801 |
| Liabilities | 41,938 | 34,822 |

| Income statement figures | 2018 EUR thousand | 2017 EUR thousand |
|---|---|---|
| Sales | 254,204 | 220,971 |
| Net profit* | 1,453 | 720 |

**2,333,449.92 EUR 2018 net profit excluding 880,521.39 EUR non-cash pension provisions (2017: 727,735.62 EUR pension provisions)*

# Finance Calendar

| | Expected date |
|---|---|
| Start of the financial year | 1 January 2019 |
| Annual General Meeting | 7 August 2019 |
| Interim Report 2019 | 30 June 2019 |
| End of the financial year | 31 December 2019 |
| Annual financial statements 2019 | 30 June 2020 |

# Index



The English version of the annual report and the consolidated financial statements 2018 of HMS Bergbau AG is a one-to-one translation. The English version is not audited; in the event of variances, the German version shall take precedence over the English translation.

# Letter to Shareholders

## Dear Ladies and Gentlemen,

As was already apparent in our half-year report for the 2018 financial year, the full year was a successful one overall. The expansion of our global business activities, the sustained positive upward trend in commodity markets, the increased demand for coal and higher commodity price levels provided a positive environment for HMS Bergbau AG's development.

Once again, the HMS Group either met or exceeded its sales forecasts announced last year. Sales at the HMS Bergbau Group in the 2018 financial year amounted to EUR 254,204 thousand after totalling EUR 220,971 thousand in 2017. EBITDA in the past 2018 financial year also improved slightly to EUR 2,086 thousand. Net profit for the period even more than doubled as at 31 December 2018. Net profit totalled EUR 1,453 thousand compared to EUR 720 thousand as at 31 December 2017. Following an increase in total assets of around EUR 13 million to EUR 59.1 million as at the 31 December 2018 reporting date, the equity ratio improved significantly year-on-year by roughly 9.8 per cent to a total of 18.3 per cent.

An important factor driving HMS Bergbau AG's stronger capital base and improved balance sheet structure was the capital increase carried out in autumn 2018, which resulted in a rise of EUR 220,588.00, or just under 5.07 per cent, in the Company's share capital from EUR 4,370 thousand to EUR 4,591 thousand. Shareholders' equity as at 31 December 2018 came to a total of EUR 9,500 thousand compared to EUR 4,528 thousand as at 31 December 2017.

The energy markets also performed well. The steady rise in global energy consumption over the past several years – with the fossil fuel coal as a primary source of energy – will continue in the years ahead with China continuing to represent the most important consumer of coal. The management of HMS Bergbau AG expects coal and raw material prices to trend higher in the future – despite the temporary price declines – driven by rapidly growing industrial demand from the Pacific Rim, the growth in the global population and the general increase in per capita energy consumption.

Based on the expectation of higher world market prices for raw materials, securing our own resources and the accompanying expansion of the value chain will continue to play an essential role in securing HMS Bergbau AG's long-term market position. Management does not anticipate a decline in the global demand for fossil fuels, particularly in light of the known risks of nuclear energy and the current difficulties in implementing the turnaround in energy policy, or „Energiewende", and despite current discussions of a coal exit in Germany. Coal-fired power generation will become increasingly important as a flexible energy source in the world's growth regions.

For this reason, HMS Bergbau AG's activities are focused not only on expanding its business in established markets but also on improving its market position in regions that are strategically important for the Group, such as South Africa, India and Indonesia. At the same time, the initial activities in China and the United States have led to the first business transactions, with developments in the US being particularly positive. Our new business partners were impressed with HMS Bergbau AG's position as an international commodities trading group with expertise mapping the entire value chain from production to logistics to delivery. In addition to our focus on the coal business, our efforts are directed at increasing our trade in other raw materials such as ores, fertilizers and cement products as we place importance on our further diversification on the world market. Of particular note here are the transactions in ore trade, which have recently shown promising developments.

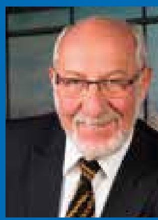
Alongside the aforementioned operating activities, HMS Bergbau AG is working on developing and producing its own coal resources. The most promising project in this respect is the Silesian Coal International Group of Companies S.A. in Poland. It was not until the end of May 2019 that the local environmental authority in Katowice, Poland, issued a favourable environmental decision in the course of our application for a mining license. A positive environmental decision is considered the last milestone on the road to receiving the final mining license while, at the same time, outlining the framework conditions for the environmental compatibility of the mining process. As a result, the mining license can be applied for in a timely manner.

Silesian Coal International Group of Companies SA was already awarded the "Green Laurel" environmental award in January 2019 by the "Ekorozwój" ("Eco-Development") Economic Chamber. The prize was awarded for the innovative hard coal mining project that uses the existing infrastructure to largely avoid unnecessary environmental pollution.

The drilling in Orzesze, carried out by HMS and based on an exclusive exploration license, indicated potential coal reserves of 2.2 billion tonnes in-situ, of which approximately 672 million tonnes were identified as high-grade, recoverable coal according to the JORC standard. Silesian plans to develop the reserves using the existing infrastructure and to build production to roughly 3 million tonnes of coal annually at low cost (approx. 1/3 of the cost of a greenfield project) and within two and a half years of receiving the mining licence. The planned production is split equally between high-margin coking coal and thermal coal. The license region has a total area of approximately 20 km² and is located in the historic coal region of Katowice, Poland.

The international positioning and consistent growth in the range of services of HMS Bergbau AG have fuelled the company's steady development in recent years and is expected to lead to stronger results and higher sales volumes in the future. Consequently, management intends to systematically pursue its chosen path during the 2019 financial year. For the current 2019 financial year, management is forecasting slightly higher gross margins accompanied by a positive annual result similar to the level reported in the 2018 financial year. A fundamental prerequisite for the planning of HMS Bergbau AG is relatively free markets without major trade restrictions. Against this background, the US-China trade war made increased demands on the company's risk management, especially in terms of hedging currency risks amid greater exchange rate volatility. HMS Bergbau AG has fully met these more stringent requirements but is nevertheless hoping for a rapid solution to trade conflicts and the creation of a stable and more predictable trading environment.

## Chief Executive Officer



**Heinz Schernikau,** CEO of HMS Bergbau AG, founded the Company in Berlin in 1995. He has been in the international coal trade since 1973 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.

## Chief Financial Officer

**Steffen Ewald** is the CFO of HMS Bergbau AG. After graduating in business administration, Ewald began his career at a medium-sized, international power plant engineering company, rising through the ranks to become Commercial Manager. Before switching to HMS Bergbau AG, Ewald was responsible for Group Finance and Reporting at the German holding company of an international media corporation.

## Chief Operating Officer

**Dennis Schwindt** (COO) holds a degree in Economics from the Humboldt-University in Berlin. At HMS Bergbau AG, he has been managing several operating projects within the commodity trading area as the company's authorised representative since 2012. He gained extensive experience in engineering and in the oil and gas industries from his previous positions at medium-sized German companies and international groups.

Berlin, June 2019

Heinz Schernikau
Chief Executive Officer

Steffen Ewald
Chief Financial Officer

Dennis Schwindt
Chief Operating Officer

# Report of the Supervisory Board

## Dear Ladies and Gentlemen,

In the 2018 financial year, the Supervisory Board of HMS Bergbau AG carried out its tasks as stipulated by law and the Company's Articles of Association and continuously monitored and advised the Management Board in its work. The Supervisory Board 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 regular board meetings and through additional verbal and written reports submitted to the Supervisory Board by the Management Board. The reports also pertained to the current earnings situation, opportunities and risks and risk management. The Supervisory Board discussed all fundamentally important decisions in depth with the Management Board. The Supervisory Board assessed any business transactions requiring our approval in detail before the relevant resolutions were adopted. The Supervisory Board voted on reports and proposals put forward by the Management Board when required by law or the Articles of Association.

### Focal points of the meetings

The Supervisory Board of HMS Bergbau AG held a total of 5 meetings in the 2018 financial year. 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 of the resolutions required by law and the Articles of Association were passed. The Management Board informed the Supervisory Board promptly between meetings about important matters. Where necessary, resolutions were passed by circular procedure.

At the centre of the Supervisory Board meetings in the 2018 financial year was again the Group's strategic focus and corporate planning, as well as the corresponding adjustments to the organisational structure and to personnel at the Company and its subsidiaries. The strategic position of the Silesian Coal International Group of Companies S.A. and the funding of operational activities were repeated topics for discussion at the meetings. HMS Group's international operations in Asia and Southern Africa were expanded during the year. The developments on the domestic and European coal markets and price trends were also subjects at the Supervisory Board meetings accompanied by issues relating to the financing of the local subsidiaries' trading activities and the provision of the necessary guarantees by HMS Bergbau AG. Issues concerning know-your-client processes and sustainable business, as well as the implementation in commercial contracts, were also discussed.

The Management Board regularly informed us about general market developments, price and earnings forecasts and intended actions. The Management Board also presented and discussed with us potential future projects. Important transactions approved by the Supervisory Board are described in the combined management report for the Company and the Group.

### Personnel changes

The composition of the Supervisory Board remained unchanged in the 2018 financial year. Dr Hans-Dieter Harig, Dr h. c. Michael Bärlein and Ms Michaela Schernikau were discharged by the Annual General Meeting on 11 September 2018 for the 2017 financial year.

In January 2018, the Supervisory Board appointed Dennis Schwindt as a new member of the Management Board with immediate effect. As the Chief Operating Officer (COO), Mr Schwindt is responsible for commodity trading. He also continues to be responsible for the development of special projects and the comanagement of foreign subsidiaries. Following his appointment, the HMS Bergbau AG Management Board has consisted of three members.

### 2018 annual financial statements

The annual and consolidated financial statements of HMS Bergbau AG for the 2018 financial year were prepared in accordance with provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The company's auditor for the 2018 financial year, PANARES GmbH Wirtschaftsprufungsgesellschaft Steuerberatungsgesellschaft, Berlin, was appointed to audit the annual and consolidated financial statements of HMS Bergbau AG, as well as the combined management report and the report of the Management Board on the relationships with associated companies in the 2018 financial year.

The auditor reviewed the annual and consolidated financial statements of HMS Bergbau AG and the combined management report for the Company and the Group, including the accounting system, in accordance with German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) and issued unqualified audit opinions. The internal control system was also deemed to be effective.

All Supervisory Board members had access in due time to the annual and consolidated financial statements, the combined management report for the Company and the Group and the corresponding audit reports. The documents were reviewed and discussed in detail by the Supervisory Board at the meeting on 12 April 2019. Both the Management Board and auditor were present at the meeting and provided detailed answers to all questions posed by the Supervisory Board. The auditor also reported on the key findings of the audit. Our own examination of the annual and consolidated financial statements, as well as the combined management report for the Company and the Group, did not lead to any objections, and we approved the audit results. After its final review 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 2018 and the consolidated financial statements as of 31 December 2018, as prepared by the Management Board, at its meeting on 12 April 2019. The 2018 annual financial statements have therefore been adopted in accordance with Section 172 of the German Stock Corporation Act (AktG).

On 12 April 2019, the Management Board proposed to carry the full amount of HMS Bergbau AG's remaining unappropriated retained earnings of EUR 2,623,268.82 forward to new account. We also examined and approved this proposal.

There were no conflicts of interest of 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 and dedication in the 2018 financial year.

Berlin, April 2019

Dr. Hans-Dieter Harig
Chairman of the Supervisory Board

## Members of the Supervisory Board during the reporting period

- Dr. Hans-Dieter Harig
  Chairman of the Supervisory Board
- Dr. h.c. Michael Bärlein
  Deputy Chairman of the Supervisory Board
- Michaela Schernikau
  Member of the Supervisory Board

# Investor Relations

## Capital market development

After the 2017 trading year ended substantially higher, the year 2018 on the international stock markets proved to be very volatile and, in some cases, heavy losses. The stock markets in Europe, the US and in the emerging markets posted significant price declines, sometimes of more than 20 per cent. Despite the positive development of the stock market in the second and third quarters of 2018, steep losses, especially in the fourth quarter, were the main reason for the market‘s weaker overall performance.

The main cause of the high volatility was growing concern about an imminent global recession and a significant economic slowdown. 2018 was also another capital market year shaped by politics, with US President Donald Trump, in particular, causing considerable uncertainty. For the first time in the history of the Fed, a president tried to exert significant influence on the independent Federal Reserve (the Fed) by fiercely criticising the Fed as the „only problem“. In addition, the general sentiment on the capital markets was also brought down by Brexit, the budget dispute in Italy, the trade conflict between the US and China and the threat of a trade conflict between the US and the EU. The US government is expected to continue to cause uncertainty for share prices in 2019 and even affect global economic development.

In the bond market, the low level of interest rates has been left virtually unchanged. The European Central Bank terminated its bond purchase programme – which has contributed around EUR 2.6 trillion in financial market support since 2015 – by the end of 2018 as planned, while at the same time maintaining its zero interest rate policy. The ECB justifies continuing a „loose“ monetary policy by pointing to a core inflation rate (price increases excluding food and oil) in the eurozone that is too low. Experts do not expect any moderate hike in interest rates until the end of 2019 at the earliest. The picture is different in the US. Here, the central bank has continued its strategy of successive interest rate hikes, at least in 2018, and has finally abandoned its expansionary monetary policy. Interest rates reached 2.25 to 2.50 per cent as a result of the Fed‘s four interest rate hikes alone in 2018. The Fed has announced its plans for two further interest rate hikes in 2019; although, it recently expressed its doubts about the country‘s economic momentum. The Fed is also signalling a more cautious monetary policy stance in the future and, at least in 2019, is moving away from its original plan to raise interest rates because it sees a sustained solid economy as a prerequisite for further interest rate increases.

Based on the above, the underlying conditions remain rather difficult for stock markets. In addition to the political risks, a cyclical decline could place some additional pressure on the capital markets.

Global growth is strong but has peaked, according to the chief economist of the Organisation for Economic Co-operation and Development (OECD). The OECD expects global economic growth to slow only slightly. Global economic output, in contrast, is expected to grow by 3.3 per cent and 3.4 per cent, respectively, in the next two years.

For the eurozone, the OECD lowered its forecast for 2018 to 1.9 per cent and expects a further slowdown to 1.0 per cent in 2019 and 1.4 per cent in 2020. The forecasts for Italy are below average, with a rise in gross domestic product of only 0.2 per cent in 2019, which would mark a recession, and 0.5 per cent in 2020.

Economic activity is also likely to be weaker in the United Kingdom than in the eurozone. Brexit-related uncertainty is hampering economic growth. According to the OECD, growth in 2018 should reach 1.3 per cent. Growth in 2019 is forecast at 0.8 per cent and 0.9 per cent for the year 2020.

A slowdown in the economic cycle is predicted even in the US, the world‘s largest economy. Growth of 2.9 per cent is expected to be reported for 2018, followed by only 2.6 per cent and 2.2 per cent for the years 2019 and 2020. The latest tax reform and favourable financial conditions mean that high corporate investments are still anticipated in 2019 and 2020. According to the OECD, however, economic activity is expected to come under pressure from the weaker outlook for the global economy and the trade measures that have already been introduced.

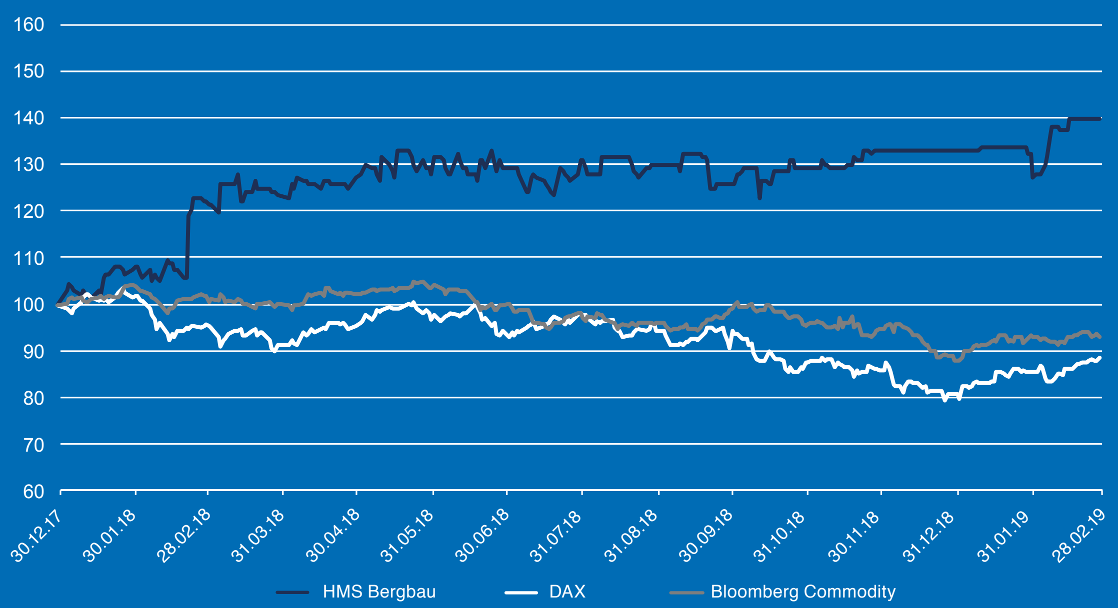
Risks stem from the as yet unpredictable effects of Great Britain's exit from the EU, possible US trade restrictions, and a variety of other foreign policy conflicts worldwide.

The situation in the emerging markets is also difficult to assess. While the commodity-driven economies benefitted more from the stabilisation in commodity prices in 2018, there is now a threat that the prospects for economic expansion are deteriorating again. The main cause of this is the increasing difficulty in attracting international capital. The most visible sign of a turnaround among international investors is the pressure on emerging market currencies since the beginning of the year. At the same time, there are uncertainties, above all, in China due to steadily declining growth rates.

## Stock market development

The DAX index, Germany's most important stock market index, fell from 12,917 points to 10,381 in 2018. Compared to the beginning of the year, this represents a significant loss of 19.63 per cent, marking the worst performance on the stock market since 2008.

Performance of HMS shares versus DAX and the Bloomberg Commodity Index from the beginning of 2018 to the beginning of 2019




*Source: Finanzen.net, HMS Bergbau AG*

## HMS share price development

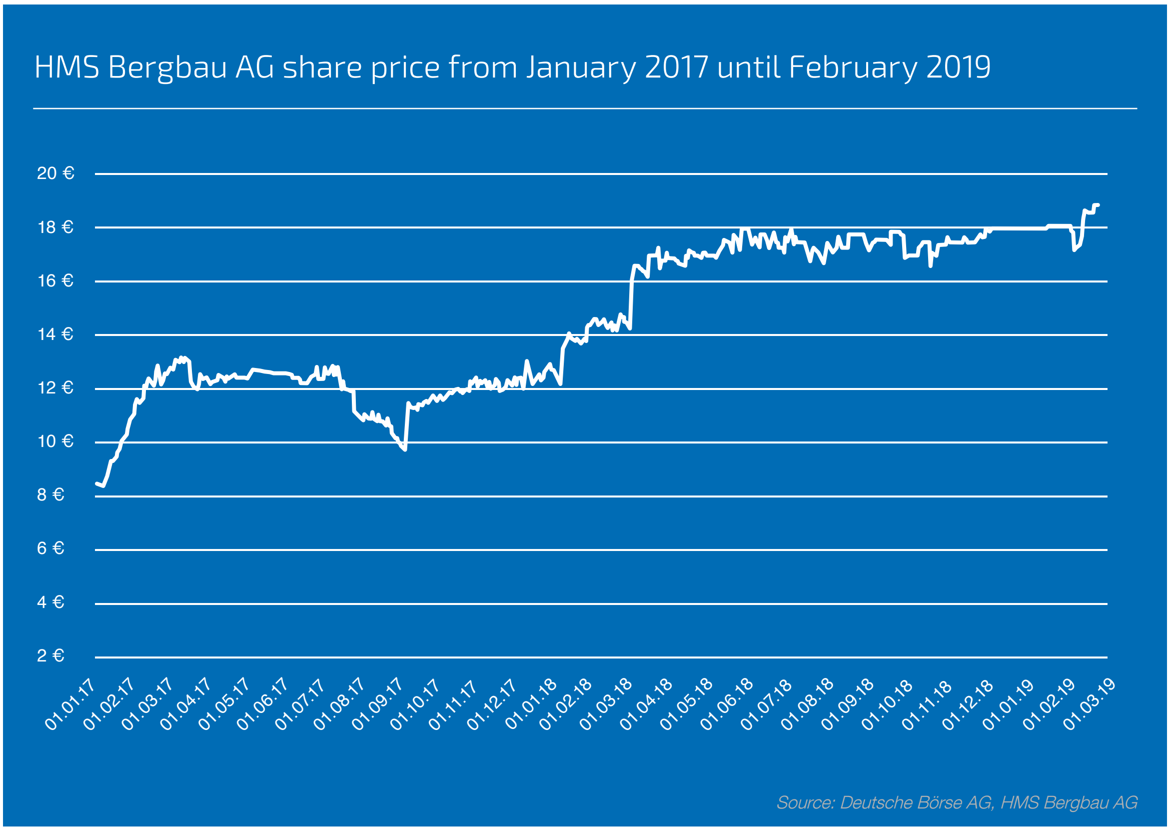
Large public companies belonging to major stock indices such as the DAX or EUROStoxx 50 continue to attract great interest from investors and capital providers globally. Small caps have received far less attention in recent years – especially in Germany. For these companies, an attractive equity story, a company's market capitalisation and high trading volume are particularly important. These factors usually have a significant impact on a stock's price performance and valuation.

HMS shares escaped this trend once again. Compared to the DAX and the Bloomberg Commodity Index, the gratifying performance of HMS Bergbau shares continued in the 2018 trading year. Since the end of 2017, the shares have outperformed by a significant 40 to 50 per cent.

## HMS Bergbau AG share price

The HMS Bergbau AG share price increased from EUR 13.68 on the last trading day of 2017 to EUR 18.00 at the end of the reporting period on 29 December 2018, representing a significant increase of more than 30 per cent.

The market capitalisation of HMS Bergbau AG increased from EUR 59.78 million at the end of 2017 to EUR 82.63 million at the end of the 2018 trading year, with HMS Bergbau shares performing very well overall.

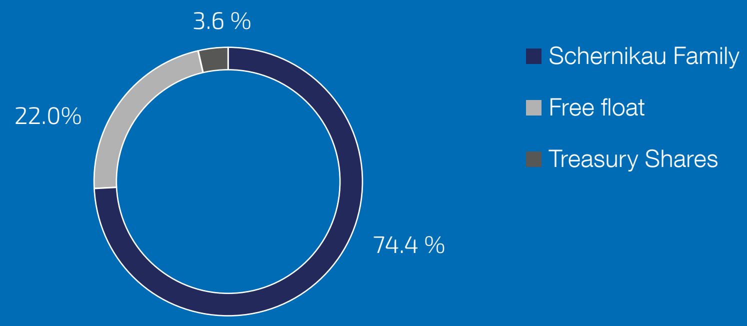


## Shareholder structure

The share capital of HMS Bergbau AG as at 31 December 2018 consisted of 4,590,588 shares with a nominal value of EUR 1.00 each for a total of EUR 4,590,588.00.

The Schernikau Family holds 74.4 per cent of the shares. A total of 3.6 per cent is held by HMS Bergbau AG as treasury shares, and 22.0 per cent is attributable to the free float.

### Shareholder structure as at 31 December 2018




*Source: HMS Bergbau AG*

## 2018 Annual General Meeting

The Annual General Meeting of HMS Bergbau AG was held on 11 September 2018 in Berlin. The agenda included the proposed resolutions on the appropriation of unappropriated retained earnings, the discharge of the Management and Supervisory Boards and the election of the auditor. The Company's shareholders approved all of the proposed resolutions with almost 100 per cent of the share capital represented at the Annual General Meeting.

## Investor relations activities

In addition to the publication of financial reports, the Company's Management Board fully informs shareholders about HMS Bergbau AG's development on a timely basis via capital market announcements. All capital market-relevant news is published in German and English, which exceeds the requirements of the stock exchange. In addition, the Management Board meets regularly with institutional investors, financial journalists and industry analysts to discuss the company's business model and future prospects, as well as other capital market-related topics.

## Key share figures as at 31 December 2018

### Basic information

| | |
|---|---|
| ISIN/WKN | DE0006061104/606110 |
| Ticker symbol | HMU |
| Bloomberg symbol | HMU GY |
| Reuters symbol | HMUG.DE |
| Market segment / transparency level | Open Market / Basic Board |
| Designated sponsor / listing partner | ODDO BHF Aktiengesellschaft |
| Investor relations | GFEI Aktiengesellschaft |
| Subscribed capital | EUR 4,590,588.00 |
| Number of shares | 4,590,588 |
| Free float | 22.02 % |

### Performance data

| | |
|---|---|
| Share price on 29/12/2017 (closing price on the Frankfurt Stock Exchange) | EUR 13.68 |
| Share price on 29/12/2018 (closing price on the Frankfurt Stock Exchange) | EUR 18.00 |
| Market capitalisation on 29/12/2017 | EUR 59,781,600 |
| Market capitalisation on 29/12/2018 | EUR 82,630,584 |

# Group management report

## HMS Bergbau AG, Berlin

## Combined management report for the Group and the Company
## Financial Year 2018

### 1. Overview

The HMS Bergbau Group is a globally active group of companies that serve as trading and distribution partners for renowned international electricity producers, cement manufacturers and industrial consumers with coal and energy raw materials such as steam coal, coking coal and coke products, as well as other raw materials such ore, cement, fertilisers and similar raw materials.

In 2018, HMS Bergbau AG continued its strategy to expand its business activities to include additional raw materials such as ore, metals, fertiliser and cement products and plans to develop into an international raw material trading company. The focus of its activities remains the coal business. HMS Bergbau AG's has spent decades building its widely recognised expertise throughout the entire value chain from mining to logistics to customer deliveries.

HMS Bergbau Group has built up an international network of long-term business partners and consistently pursues its philosophy of building long-term and profitable business relationships with international producers and consumers. The Group's high degree of internationality is also a result of its subsidiaries HMS Bergbau Africa (Pty) Ltd., HMS Bergbau Singapore Pte Ltd. and PT. HMS Bergbau Indonesia.

As at 31 December 2018, HMS Bergbau AG held 98.7 per cent of the shares in its subsidiary Silesian Coal International Group of Companies S.A., Poland, which has already carried out geological surveys for the 'Orzesze' area in Silesia. The current shareholding now equals 98.9 per cent.

To finance the operating activities of the Silesian Coal International Group of Companies S.A., HMS Bergbau AG had planned to sell up to 20 per cent of Silesian's shares to Carbo Funding AG who, in turn, had planned to place a bond to gradually finance the purchase of the Silesian shares, a part of which has already been financed. After Carbo Funding AG's unsatisfactory placement of the bond, HMS Bergbau AG exercised its right to reverse the agreement between Carbo Funding AG and HMS Bergbau AG. At present, the company is working on other measures to finance the project's further development.

Drilling at Orzesze under HMS's exclusive exploration license revealed a potential 2.2 billion tonne coal deposit in-situ, of which around 672 million tonnes of high-grade coal were identified as recoverable under the JORC standard. Silesian Coal intends to develop the reserves using existing infrastructure and mine approximately 3 million tonnes of coal at low cost (about 1/3 of the cost of a greenfield project) and start operations in a short period of time (within two and a half years after receiving the mining license). Production is planned to be split equally between high-margin coking coal and thermal coal. In the current financial year, HMS expects to receive the mining license, which encompasses an area of 20 $km^2$ in the historical coal mining region of Katowice, Poland.

The corporate structure of the HMS Bergbau Group and its major subsidiaries as at 31 December 2018 is as follows:


HMS Bergbau AG is a performance-oriented and dynamic company as well as a major player in the international coal trading business. Our strategy of observing long-term developments in global commodity markets without losing sight of current trends continues to be based on the following prerequisites:

### 1.1 Price development

Coal prices developed well overall in 2018, despite fluctuating strongly all the way into August. Since mid-August, there has been a sustained price increase to a level that, at times, has amounted to more than USD 78/tonne. To effectively compensate for future market fluctuations, HMS Bergbau AG has the ability to optimise its added value by vertically integrating mining, handling and transportation taking into account current and future price increases. The Company is also expanding into new export and import markets, as well as into other product categories.

### 1.2 Market internationalisation

Commodity markets continue to converge as a result of international trade and improved logistics. At the same time, market transparency is increasing through the use of trading platforms and index-based trading activities. Although these trends fuel higher competition, they also offer HMS Bergbau AG additional opportunities to expand its business into areas such as trading in other commodities. At the same time, HMS Bergbau AG is entering new markets. At the end of 2018, for example, a new subsidiary in the United States was founded and named HMS Bergbau USA Corp.

### 1.3 Vertical integration

In order to extend our coverage of the value chain from mining to logistics and delivery to the customer and ensure our future security of supply as energy demand grows, it is essential that we invest in our own resources. Investments in exclusive marketing agreements make particular economic sense for HMS Bergbau AG.

Our long-term strategy of vertical integration is based on the following pillars:

#### Strong trading business

The basis for our future growth and business success is the continued expansion of our trading activities with solid, long-term supplier and customer relationships and steady value contributions.

#### Growth

Our aim is to sustainably increase our results through vertical integration and the accompanying competitive advantages in order to generate adequate growth. This specifically means expanding our international coal marketing activities in the South African coal market through a cooperation agreement with the Masingita Group. By signing the contract with Shumba Energy and gaining exclusive access to more than 2 billion tonnes of high-grade coal in southern Africa, the HMS Bergbau Group will be able to generate further growth. The HMS Bergbau Group is also opening up further growth opportunities through exclusive marketing rights in South Africa and neighbouring countries.

HMS Bergbau also established a new subsidiary in the United States at the end of 2018 under the name HMS Bergbau USA Corp. This subsidiary was founded in order to strengthen existing business contacts in North and South America, as well as to develop new business relationships. The management expects the first significant business activities in the current financial year.

#### Corporate culture

The everyday experience of a corporate culture characterised by highly professional and ethical standards throughout the Group is a true advantage for HMS Bergbau Group in the competition for qualified international personnel who can drive forward our chosen strategy.

### 1.4 Horizontal integration

The expansion of global trading to include other commodities is intended to be yet another important pillar for HMS Bergbau AG in the medium term. Steadily growing demand from our existing and new customers for various raw materials is expected to be satisfied by HMS Bergbau's structures. The focus is placed on new markets – especially those in Asia, Africa and the Middle East – to continuously tap into and further develop existing as well as new sourcing markets for HMS Bergbau AG. This strategy based on horizontal integration was again consistently pursued in the 2018 financial year. The existing network, the expertise acquired over many years and proven transport options are used not only for the Company's coal activities but also increasingly for other commodities and products such as ores, metals, cement products and petcoke. This strategy not only offers better utilisation of our existing capacities but also offers attractive opportunities in terms of risk diversification and gross margins. In addition, the share of deliveries to non-power plant customers has steadily risen. In 2018, more than 80 per cent of deliveries were to industries that use coal or its ashes as materials. As a result, the option to substitute coal is limited, and the cement industry is taking on a dominant role in the customer portfolio.

# 2. Business and economic environment

## 2.1 Global economy

World trade slowed down significantly in 2018, especially in the second half of the year when there was a noticeable decline in the global economy's momentum. According to initial calculations, the global economy has also had a weak start to the year 2019.

According to the Institute for the World Economy (IfW), global economic growth in 2018 equalled 3.7 per cent. Global trade, which has picked up significantly since the end of 2016, has been in a slight downward trend since the second half of 2018. Political uncertainties such as trade conflicts emanating from the United States, the lack of clarity about the conditions of Brexit, as well as uncertainty about the extent of the economic slowdown in China are also weighing on the outlook.

The downturn in the global economy is expected to continue in the current year as well as in 2020. The IfW expects global economic growth of 3.3 per cent for both years.

Despite the slowdown in the pace of expansion, macroeconomic capacity utilisation is likely to remain high, especially in the advanced economies. Experts even expect a further reduction in unemployment and, based on this, there is no pronounced economic weakness currently expected.

Economic trends are increasingly mixed among advanced economies. Important to note is the difference in the pace of expansion in 2018, which was still similar in most of the major economies in 2017. While gross domestic product in the United States rose sharply until just recently, economic growth in other countries slowed, particularly in the euro area and in Japan. These regions recorded an increase of merely 1.1 per cent and 0.3 per cent, respectively, in the fourth quarter compared to 2.7 per cent and 2.4 per cent respectively in the prior year.

In contrast, GDP growth in the United States accelerated from 2.5 per cent to 3.1 per cent over the same period.

Economic growth was positive in the advanced economies in 2018, although not as strong as in 2017. The IfW expects gross domestic product (GDP) to have risen by 2.3 per cent in 2018, after 2.4 per cent in the previous year. In the US, GDP growth even saw a significant acceleration from 2.4 per cent in the previous year to 2.9 per cent in the reporting year. Growth slowed down in the European Union to 1.9 per cent in 2018, after 2.5 per cent in the previous year. In the euro area as a whole, last year's GDP increase reached a mere 1.8 per cent according to Eurostat, after a notable 2.4 per cent in 2017, which had marked the highest increase in 10 years.

In the years ahead, the IMF forecasts slower production growth in the advanced economies compared to the level of potential production in 2018. At the same time, the environment will be characterised by accommodative monetary policy and faltering fiscal stimulus.

Despite the relatively high level of capacity utilisation, experts anticipate moderate increases in economic growth in the next two years, with forecasts of 1.7 per cent for 2019 and 2020, respectively. Production growth is also unlikely to be as high in the United States as it was in 2018. Nevertheless, the economy is expected to grow 2.1 per cent and 1.8 per cent in the US in 2019 and 2020, respectively. The eurozone is projected to see a significant slowdown in economic growth. The IfW expects growth rates of 1.2 per cent in 2019 and 1.5 per cent in 2020. In the UK, Brexit will lead to slower growth of 0.8 per cent in 2019 and 1.0 per cent in 2020.

Germany also recorded growth again in 2018, albeit at a more moderate level. The Federal Statistical Office calculated a 1.5 per cent increase in gross domestic product, signifying the ninth consecutive year of growth for the German economy. At the same time, however, momentum slowed.

In a ten-year comparison, growth in 2018 was almost 1.2 per cent above the average. In addition to private and public consumption, the construction sector and rising investments contributed to the increase.

Growth is expected to continue in the current year in Germany but with a slowdown in economic output. The OECD forecasts growth of only 0.7 per cent in 2019 and 1.1 per cent in 2020.

The expansion in the emerging economies faltered in 2018. Monetary policy tightening in the US caused a reversal in capital flows which, in turn, led to a hike in interest rates. This reversal even led to an economic crisis in both Turkey and Argentina.

GDP in the emerging economies increased by 5.1 per cent overall in 2018, following 5.2 per cent in the previous year. In the years ahead, the IfW expects a slower expansion in economic output than in the two prior years. This is primarily due to the deterioration in financial conditions and the more difficult access to international capital that resulted.

In China, the largest emerging market economy, economic growth slowed only marginally to 6.6 per cent following 6.8 per cent in 2017, despite a withdrawal in monetary incentives. China is still expected to counteract the economic slowdown with expansionary economic policies. The experts at IfW are forecasting growth of 6.1 per cent in China in 2019 and 5.8 per cent in 2020. Despite lower growth rates, China will still make a significant contribution to global economic growth.

### Economic policy risks

The economic outlook for the years ahead is determined by very different and partly overlapping influences, causing economic uncertainty. Against the backdrop of a global economic slowdown, political risks are having an impact on investment and consumer decisions. Although the direct impact of the trade disputes between the US and China and the US and the EU has not yet been severe, this could change significantly as tariffs expand. Generally, if the US continues to try to accomplish its goals using economic sanctions, it will increase the planning uncertainty among the economic players. The still uncoordinated Brexit, whose formal cut-off date was 29 March 2019, also continues to be a burden. An unregulated exit of the UK would have both a direct and an indirect dampening effect on trade and on the industries affected. A positive impact on global economic development should continue to come from the somewhat neutral to expansive monetary and fiscal policies in many countries.

## 2.2 Commodities

On average, commodity prices rose by 24 per cent in 2018 compared to 2017; energy commodities rose by 28 per cent and industrial commodities by 6 per cent. Prices for food and luxury food commodities, in contract, fell by 5 per cent.

## 2.3 General development of the capital markets

After the 2017 trading year ended substantially higher, the year 2018 on the international stock markets proved to be very volatile and, in some cases, heavy losses. The stock markets in Europe, the US and in the emerging markets posted significant price declines, sometimes of more than 20 per cent. Despite the positive development of the stock market in the second and third quarters of 2018, steep losses, especially in the fourth quarter, were the main reason for the market's weaker overall performance.

The main cause of the high volatility was growing concern about an imminent global recession and a significant economic slowdown. 2018 was also another capital market year shaped by politics, with US President Donald Trump, in particular, causing considerable uncertainty. For the first time in the history of the Fed, a president tried to exert significant influence on the independent Federal Reserve (the Fed) by fiercely criticising the Fed as the „only problem". In addition, the general sentiment on the capital markets was also brought down by Brexit, the budget dispute in Italy, the trade conflict between the US and China and the threat of a trade conflict between the US and the EU. The US government is expected to continue to cause uncertainty for share prices in 2019 and even affect global economic development.

In the bond market, the low level of interest rates has been left virtually unchanged. The European Central Bank terminated its bond purchase programme – which has contributed around EUR 2.6 trillion in financial market support since 2015 – by the end of 2018 as planned, while at the same time maintaining its zero interest rate policy. The ECB justifies continuing a „loose" monetary policy by pointing to a core inflation rate (price increases excluding food and oil) in the eurozone that is too low. Experts do not expect any moderate hike in interest rates until the end of 2019 at the earliest. The picture is different in the US. Here, the central bank has continued its strategy of successive interest rate hikes, at least in 2018, and has finally abandoned its expansionary monetary policy. Interest rates reached 2.25 to 2.50 per cent as a result of the Fed's four interest rate hikes alone in 2018. The Fed has announced its plans for two further interest rate hikes in 2019; although, it recently expressed its doubts about the country's economic momentum. The Fed is also signalling a more cautious monetary policy stance in the future and, at least in 2019, is moving away from its original plan to raise interest rates because it sees a sustained solid economy as a prerequisite for further interest rate increases.

Based on the above, the underlying conditions remain rather difficult for stock markets. In addition to the political risks, a cyclical decline could place some additional pressure on the capital markets.

### 2.4 Global primary energy consumption

The global increase in the trade of goods and steadily increasing production have led to a sharp increase in global energy consumption. In the last four decades alone, consumption has more than doubled. Next to a change in the absolute consumption of the respective energy sources, the energy mix has also changed, among others, due to an increase in renewable energies.

The International Energy Agency is forecasting an increase in demand for primary energy by 2060 of about twice the current value to a total of over 320,000 billion kWh. These forecasts are based on the assumption that, by that time, the standard of living in emerging and developing countries will have adjusted to the level of the western industrial nations. According to experts at the World Energy Outlook, energy consumption in Africa, India, China, Southeast Asia and the Middle East should increase 30 per cent by 2040.

According to the 2019 BP Energy Outlook, global primary energy consumption will increase on average by just 1.2 per cent p.a. over the next 20 years compared to 2.0 per cent in the period from 1998 to 2018. The increase in energy consumption is closely linked to the increase in global economic output. Energy-saving measures, however, have been causing the rise in energy consumption to lag the rise in the economy for the past few years. For example, global gross domestic product is expected to double by 2040, while energy consumption is projected to increase by just one-third. The emerging markets – particularly China and India – will be driving future growth. China will initially remain the largest growth market for energy, with India expected to take its place by the end of the forecast period in 2040.

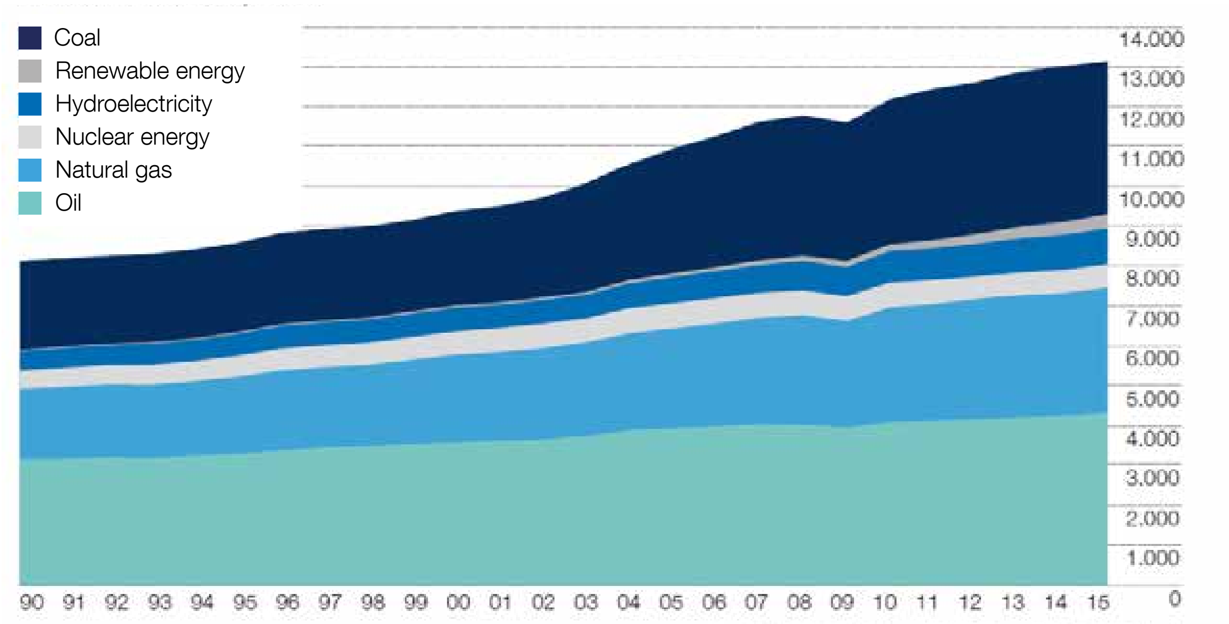
The current BP Energy Outlook assumes that the share of renewables will increase rapidly over the next 20 years from today's 4 per cent to roughly 15 per cent, and together with natural gas will make up around 85 per cent of the increase over the next few years. Despite this increase, oil, gas and coal will remain the dominant energy sources. The share of fossil energy sources is anticipated to fall from around 85 per cent in 2018 to around 75 per cent in 2040, albeit from a sharply higher base. As gas continues to grow at a rate of around 1.7 per cent, growth in oil and coal will come to a standstill.

According to BP's study, global coal consumption will remain virtually unchanged. In the mid-2020s consumption is expected to peak and then decline slightly (-0.1 per cent) until 2040. Over the last 20 years, coal consumption has increased by 2.7 per cent, making gas the second most important source of energy after oil by 2040. It is predicted that coal will drop to third place as a primary source of energy but will continue to rank first in terms of electricity generation. The slight decline in coal can be attributed to the rise in the use of other energy sources in China. Nevertheless, China remains the most important market for coal and will consume almost half of this resource in 2040.

Coal will continue to be a low-cost resource worldwide. The decline in coal demand in the developed world is offset by higher demand in emerging economies such as China or India. While the share of coal as a primary energy source is anticipated to decline from 27 per cent in 2017 to around 21 per cent in 2040, in absolute terms, its use will remain roughly the same due to rising demand for energy.

## Global primary energy consumption

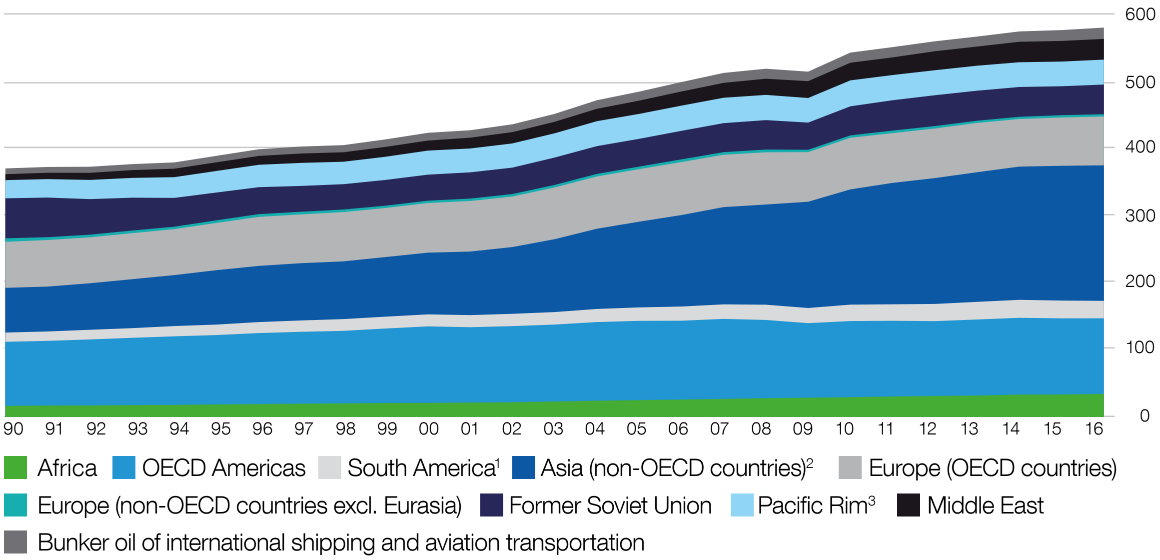
In million tonnes of oil equivalents




*Source: BP Energy Outlook 2019, HMS Bergbau AG*

## Global primary energy consumption

By region




[1] 1) Excluding Chile; [2] Excluding Middle East; [3] Includes Japan, South Korea, Australia, New Zealand

*Source: Internationale Energie Agentur (EA), HMS Bergbau AG*

## 2.5 Energy consumption in Germany

According to calculations by the Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen – AGEB), energy consumption in 2018 fell by 5 per cent year-on-year to 12,900 petajoules (PJ) or 440.2 million tonnes of coal equivalent (million tce), which is the lowest level since the early 1970s. While consumption declined across all fossil fuels, renewable energies recorded growth. Based on this, the AGEB expects a decline in energy-related CO2 emissions in the order of 6 per cent. Experts believe that lower energy consumption in Germany is primarily due to higher prices, mild weather and improvements in energy efficiency.

Consumption of **mineral oil** decreased by 5.6 per cent in 2018, with the sharpest decline recorded in the sales of heating oil. Petrol and diesel fuel declined only slightly, while sales of aviation fuel increased.

**Natural gas** consumption in Germany in 2018 also declined and dropped by a total of 7.3 per cent. After the cold weather in the first quarter caused a clear rise in consumption, warmer temperatures over the course of the year led to declines in consumption in the heating market. A further decline in consumption for the year as a whole resulted from the continued rise in power generated from renewable energies and price developments.

Consumption of **hard coal** fell by 11.2 per cent in Germany in 2018. The decline in the consumption of hard coal for power and heat generation in power stations was particularly strong and fell by more than 16 per cent. Both the increase in power generation from renewable energies and the increase in fuel costs – especially CO2 prices – contributed to the decline. The consumption of coke and coking coal in the German steel industry was below the level of the previous year.

The consumption of **lignite** fell by 1.9 per cent in 2018, due to a decline in power generation from lignite. By 2020, the use of lignite for power generation will decrease by 13 per cent compared to 2015 as a result of transitioning the power stations to standby mode as back-up.

**Nuclear energy** saw a slight decline in electricity generation of 0.3 per cent compared to the previous year.

**Renewable energies** increased their contribution to total energy consumption in 2018 by a total of 2.1 per cent. Wind power increased by 7 per cent, solar energy grew 16 per cent, biomass remained flat, whereas hydropower declined 16 per cent.

The share of different energy sources in the domestic energy mix continued to shift in 2018. Despite renewable energies increasing their contribution to 14 per cent, the domestic energy was still characterised by a broad energy mix. Just under 58 per cent of German energy consumption could be attributed to oil and gas. Hard coal and lignite together comprised just over one-fifth of consumption.

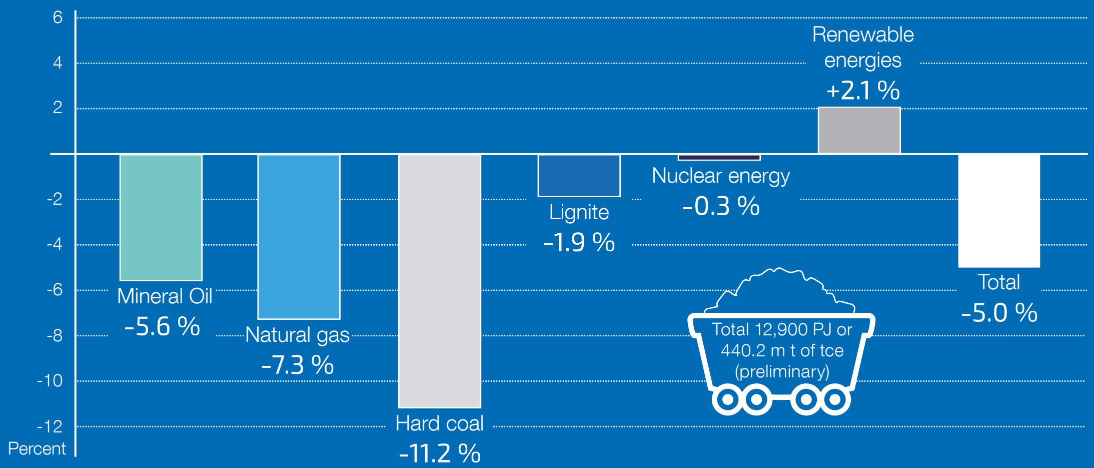
## 2.6 Development of crude oil prices

Oil prices fell sharply from mid-2014 to early 2016. Grades such as WTI and Brent reached lows of just over USD 30 a barrel in early 2016, representing a price decline of around 70 per cent. Since that time, a trend reversal with significant price fluctuations can be seen and, in 2018 alone, there were sharp fluctuations in prices between USD 52 and USD 85 per barrel. At the end of 2018, the price of Brent was just under USD 55 per barrel.

The price of oil developed favourably in 2018 until October. While Brent per barrel (= 159 litres) had cost just under USD 66.42 at the beginning of the year, the peak price in early October reached USD 85.51, marking an increase of nearly 29 per cent. As of the beginning of October 2018, however, the massive increase in US oil production and dampened economic forecasts led to an oversupply that caused oil prices to fall sharply. Despite the broadly adhered to cut in production agreed to by Russia and OPEC at the end of 2017, prices still fell around 17.8 per cent in 2018 ending the year at USD 52.21 per barrel. A further 1.2 million barrel per day reduction by OPEC helped oil prices return to around USD 65 in the first quarter of 2019.

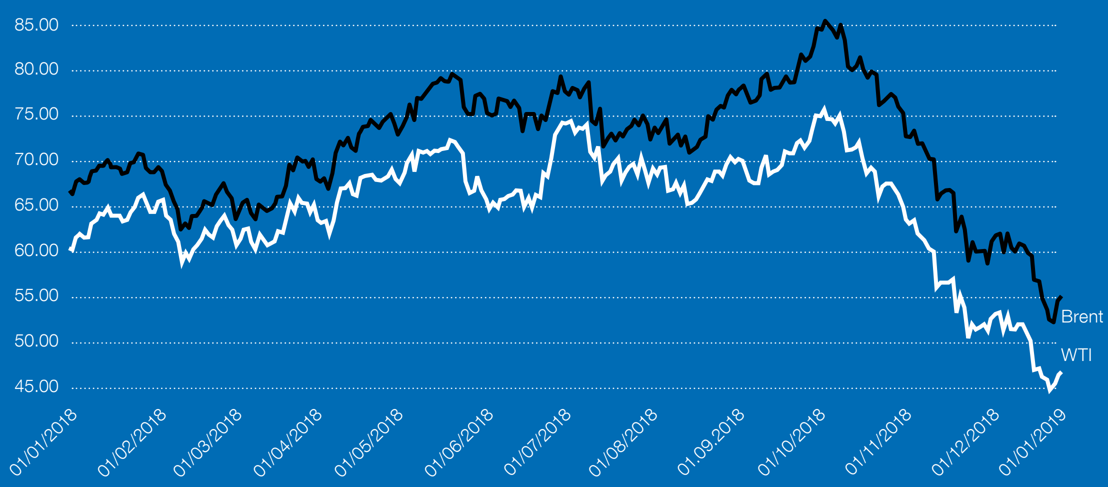
## Primary energy consumption in Germany in 2018 vs. 2017

Development of primary energy consumption in Germany in 2018 – changes in per cent




*Source: Working Group on Energy Balances (Arbeitsgemeinschaft Energiebilanzen e.V.), HMS Bergbau AG*

## Absolute price development of WTI and Brent in 2018 in US dollars




*Source: http://www.onvista.de/rohstoffe/, HMS Bergbau AG*

## 2.7 Development in the energy consumption of coal

Global energy consumption has grown considerably over the past 150 years. As early as the 19th century, coal was already traded as a major energy source and gained importance alongside natural gas and oil. Today, more than 85 per cent of global primary energy use is generated by fossil fuels. While energy use is becoming increasingly efficient, economic growth and consumption increases are hindering a decline in consumption.

After a two-year decline in global coal consumption, coal demand increased by one per cent in 2017. In the electricity sector alone, production increased by 250 billion kWh (+3 per cent). As a result, coal accounted for 38 per cent of the world's electricity mix, compared to the years before when consumption was declining. Preliminary data from the International Energy Agency (IEA) indicate a further increase for 2018. According to the IEA, this development is mainly caused by the electricity markets in China and India. China remains the largest coal consumer, producer and importer, accounting for just under 50 per cent of consumption.

Looking ahead to the next five years, the IEA also expects stable consumption. Declines in Europe and North America are expected to be offset by growth in India and Southeast Asia. The share of coal in the global energy mix in 2017 was still around 27 per cent. Moreover, at an estimated 25 per cent, this is unlikely to change by 2023. In absolute terms, coal consumption should continue to increase. The share of coal for power generation is estimated to be around 40 per cent. India is expected to remain the country with the largest increase, even though the growth rate of 3.9 per cent per year is probably slowing somewhat thanks to new power plant technology and renewables expansion. The IEA also classifies Indonesia, Vietnam, the Philippines, Malaysia and Pakistan as countries with significant increases in coal consumption.

The uneven trend towards less coal continues worldwide and in Europe. While Western Europe is nearing an exit from coal motivated by the expansion of renewables and concerns about climate protection, most Eastern European countries have not yet planned to phase out coal. In Eastern Europe, lignite still remains a cornerstone of the electricity system.

Another example of the long-term use of coal for electricity generation is India. Currently, 25 per cent of India's population, or 300 million people, have no access to electricity. This number is significantly higher than in any other developing country except Nigeria, where today about 50 per cent of the population lives without electricity. India intends to provide each citizen with access to electricity by 2022. This ambitious target is expected to raise coal demand for power generation and industry to such a great extent that, by 2040, India will represent the largest increase in demand for coal by far and coal will comprise half of the country's energy mix.

Aside from India, Indonesia, Brazil, the Middle East and China are also expecting sharp increases in energy demand. Experts are therefore estimating that world energy consumption will increase by one-third by 2040. The IEA expects demand for coal in all OECD countries to decline until 2025. Demand for coal, in contrast, is expected to rise in all non-OECD countries.

## 2.8 Coal prices

According to the preliminary calculations of the German Association of Coal Importers e. V., world trade in hard coal in 2018 increased by 3.7 per cent to 1,202 million tonnes. The global production of hard coal increased by 1.7 per cent to 7.1 billion tonnes. Production in India alone increased by 54 million tonnes or 8.2 per cent to 714 million tonnes. After a rise in 2017, production and world trade in 2018 increased again significantly. Seaborne exports increased in all of the major exporting countries of Australia, Indonesia, Russia and the US. South Africa, once a major supplier to Europe, now supplies mainly Asian countries.

The major production countries of China and India are also large consumers of imported coal and an important pillar of global hard coal trade. The increase in world trade in hard coal is also attributable to the growing demand in Southeast Asia.

The decline in production in 2016 was mainly caused by the difficult situation in the US with a series of bankruptcies and the closure of unsafe mines in the People's Republic of China. In both countries, however, growth was again recorded in 2017, in the US by 7 per cent and in China by 2 per cent. India also saw a strong increase of 3.2 per cent.

The increase in the world trade of hard coal in 2017 and 2018 was due primarily to the growing demand in the ASEAN countries, which in turn was driven by growing demand in the manufacturing sector. The construction of modern coal-fired power plants and growing steel production lead to additional demand for coke and steam coal. The model of development in these countries is similar to that of China and is based on hard coal and will only extend to renewable energy sources after a certain time.

In contrast to the global trend, German hard coal imports in 2018 fell sharply by roughly 13 per cent or 7 million tonnes. While imports of coking coal decreased by 5 per cent, imports of steam coal fell by 17 per cent. The reason for these declines is the increase in power generation from renewable energy sources and fiercer competition with natural gas following the significant increase in the price of CO2.

According to the Association of Coal Importers (VDKi), development in the international coal market continues to be largely determined by China and India. World coal production increased by 2.7 per cent in 2017.

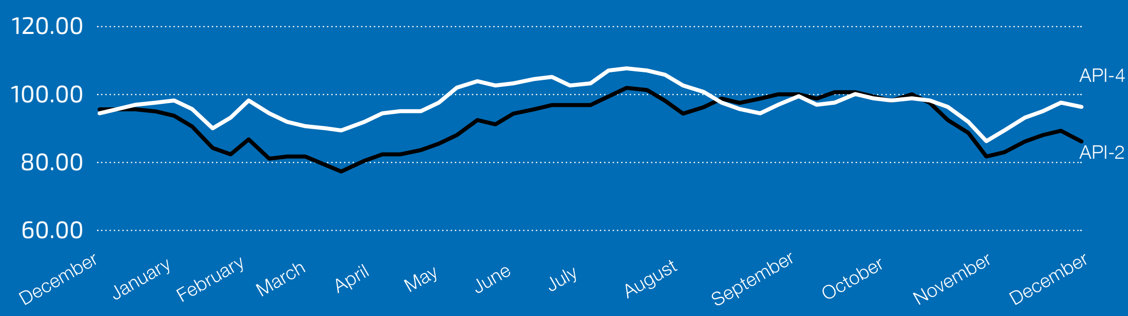
A key factor that drove the sharp rise in coal consumption in the reporting year was the development in China (+70 million tonnes) and in the US (+42 million tonnes). These two countries were largely responsible for the decline in global coal production in 2016. It is also important to note that there are increasing incentives in countries that play an essential role in the maritime transport of hard coal. Coal mining also increased in Russia (+24 million tonnes), Indonesia (+13 million tonnes) and Australia (+7 million tonnes). Australia, Indonesia, Russia and the USA are major pillars of the global coal trade. The increase in production of these countries shows that there are still countries with growing coal demand. While China and India produce a significant portion of their own demand (India 2017: +21 million tonnes) and import significant quantities from the world coal market, there are a number of ASEAN countries whose demand is growing in the world coal market for the supply of new coal-fired power plants.

The largest coal exporters in 2017 were Australia (372 million tonnes), Indonesia (318 million tonnes) and Russia (163 million tonnes), followed some distance later by Colombia (86 million tonnes), South Africa and Russia (83 million tonnes each). According to the German Association of Coal Importers (VDKi), coal production in Germany fell from 3.9 million tonnes to 3.6 million tonnes. Imports in 2017 amounted to 48.5 million tonnes, compared to 53.6 million tonnes in 2016.

After coal prices fell below USD 50 per tonne in 2016, the two major carbon price indices – Coal API 2 and API 4 – rose sharply in 2017 and 2018 and reached a level of USD 86.18 (API 2) and USD 96.87 (API 4) at the end of 2018. The price trend from 2017 initially continued into 2018 until a price correction in March occurred that brought down the API 2 to USD 76.25 and the API 4 to USD 89.32. Coal prices then rebounded to over USD 100/tonne.

Only with the emergence of global economic concerns in October 2018 did coal prices return to USD 86.18 (API 2) and USD 96.87 (API 4), ultimately ending the year below their levels at the start of the year of USD 95.83 (API 2) and USD 94.48 (API 4).

API-2 and API-4 2018




*Source: Argus Overview 2018/19, HMS Bergbau AG*

## 2.9 Trading

Trusting, stable business relationships with customers and suppliers form the basis of the successful international trading activities of the HMS Bergbau Group.

The main customers of the HMS Bergbau Group include power plant companies, steel and cement producers, as well as industrial companies such as glassworks, paper mills and waste processing plants. Our customer base consists of both private and state-owned companies from Asia, Europe, the Middle East and Africa.

The HMS Bergbau Group cooperates with renowned and reliable producers mainly in Indonesia, South Africa, Russia, Poland, and North and South America. In addition, we are responsible for the representation of numerous international coal producers. The HMS Bergbau Group handles the complete marketing of coal in selected markets.

## 2.10 Logistics business unit

The HMS Bergbau Group offers its customers and business partners a complete range of services from the timely supply of raw materials to organising the entire transport logistics. The service portfolio of our highly professional and experienced team ranges from the chartering of ships, the organisation of inland transportation, port handling, warehouse management, as well as coal preparation, all the way up to technical monitoring, as required.

For example, the HMS Group organises all of the logistics needs – from truck transport to rail transport and port handling – for its partners in South Africa thereby providing a high degree of delivery reliability to its suppliers and customers.

## 2.11 Research and development

HMS Bergbau AG does not engage in research and development.

## 2.12 Sustainability

Megatrends such as energy efficiency, climate change and globalisation are changing the way almost all services and industries are thinking worldwide and prompting a change in their actions. The energy sector is also constantly working on new and more efficient energy generation systems that are also expected to produce the lowest amount of emissions possible. At the top of the agenda is the general supply of energy to a globally increasing population, as well as the storage of energy, which should lead to a steady supply. According to leading institutes for energy analysis, these two objectives are can only be achieved through a mix of renewable and fossil fuels, such as coal. At the same time, the steadily increasing awareness of sustainable energy supply and generation is leading to a change in business processes and practices. Ultimately, these global megatrends will lead to a lasting change in working and trading conditions within value-added chains. HMS Bergbau AG has also started to reduce its global footprint in recent years. In the context of know-your-

client processes, HMS Bergbau AG tries, for example, to have an influence on motivating its trading partners to also operate sustainably. Corresponding clauses are to be included in future business contracts in order to comply with key environmental legislation and to avoid an impact on the environment. At the same time, HMS Bergbau AG trading partners are required to check their suppliers and enforce similar standards. Still today, customers are given advice in official meetings on how to improve their efficiency. By implementing the suggestions made by HMS Bergbau AG, partners can reduce their negative environmental impact and increase efficiency. As part of its business model, HMS Bergbau AG has always maintained direct customer relations in Europe, Africa, America and Asia, which is helpful in initiating these types of consultations.

HMS Bergbau AG firmly believes that the Group's targeted growth can go hand-in-hand with sustainable and environmentally friendly production and sales processes. Maintaining a sustainable approach in which people, the environment and economic success are in balance, is an important and long-term success factor for HMS Bergbau AG.

## 2.13 Employees

International competition for qualified employees remains high. In its pursuit of long-term employment relationships between staff and the HMS Group, management continues to focus on ongoing employee development, together with highly specialised and continuing training. In keeping with this strategy, we have hired additional employees, particularly in the Asian and South African markets, and are planning to continue hiring. Risks resulting from employee fluctuation are mitigated by succession and substitute planning. We also conducted training for employees, particularly new employees. To offer our employees incentives, we have an employee option programme. Among other things, it allows employees to purchase their own shares held by the company at an advantageous price by converting their income.

## 3. Group results of operations

The results of operations of the HMS Group in the 2018 financial year compared to the previous year were as follows:

| | 31/12/2018 EUR thousand | % | 31/12/2017 EUR thousand | % | Change EUR thousand | % |
|---|---|---|---|---|---|---|
| **Total performance** | **254,204** | **100** | **220,971** | **100** | **33,233** | **15** |
| Cost of materials | 246,910 | 97 | 213,549 | 97 | 33,361 | 16 |
| Personnel costs | 2,048 | 1 | 1,659 | 1 | 389 | 23 |
| Depreciation and amortisation | 93 | 0 | 115 | 0 | -23 | -20 |
| Other operating expenses | | | | | | |
| ./. other operating earnings | 4,034 | 2 | 3,717 | 2 | 317 | 9 |
| Taxes (excluding income taxes) | 4 | 0 | 4 | 0 | 0 | 6 |
| **Tax expenses** | **253,089** | **100** | **219,045** | **99** | **34,045** | **16** |
| | | | | | | |
| **Operating result** | **1,114** | **0** | **1,926** | **1** | **-812** | **-42** |
| Earnings from investment and financial result | -684 | | -2,579 | | 1,894 | 74 |
| Sale of shares | 1,098 | | 185 | | 913 | > 100 |
| Allocation to pension provisions (1/15 of allocation under German Accounting Law Modernisation Act [BilMoG]) | -223 | | -223 | | 0 | 0 |
| **Earnings before income taxes** | **1,305** | | **-690** | | **1,996** | **> 100** |
| Income taxes | 148 | | 1,410 | | -1,262 | -90 |
| **Net profit*** | **1,453** | | **720** | | **733** | **> 100** |

**2,333,449.92 EUR 2018 net profit excluding 880,521.39 EUR non-cash pension provisions (2017: 727,735.62 EUR pension provisions)*

Sales were characterised by the strong trading business in Asia and the rise in coal prices over the course of 2018, but also by increased tonnage. At around 92 per cent, the majority of the volume traded by the Group was once again in Asia and Africa. In 2017, it was more than 90 per cent. The cost of materials ratio deteriorated slightly compared to the previous year and amounted to 97.1 per cent in the reporting period after 96.6 per cent in 2017.

Personnel costs increased slightly over the previous year, rising from EUR 1,659 thousand to EUR 2,048 thousand, as the personnel in the departments of Trading and Operations in Asia and Africa, among others, were also expanded in the year 2018. Nevertheless, the personnel cost ratio remained essentially unchanged at around 1 per cent

Depreciation and amortisation fell slightly in the 2018 reporting period to EUR 93 thousand after a level of EUR 115 thousand in the 2017 financial year.

Other expenses net of other income result specifically from legal and consulting fees, vehicle and travel costs, fulfilment costs, occupancy costs and 1/15th of the allocation to pension provisions. In the year 2018, marginal improvements were realised in the expense ratio compared to the previous year.

The sale of a 1.1 per cent interest in the Polish subsidiary Silesian Coal International Group of Companies S.A. resulted in the recognition of a gain of EUR 1,098 thousand through profit or loss.

## 4. Group net assets

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

| | 31/12/2018 EUR thousand | % | 31/12/2017 EUR thousand | % | Change EUR thousand | % |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Non-current assets | 15,110 | 26 | 12,175 | 26 | 2,935 | 24 |
| Inventories | 116 | 0 | 129 | 0 | -13 | -10 |
| Receivables | 39,162 | 66 | 30,163 | 65 | 8,999 | 30 |
| Cash and cash equivalents | 1,614 | 3 | 347 | 1 | 1,268 | > 100 |
| Other assets | 3,127 | 5 | 3,340 | 7 | -213 | -6 |
| | **59,129** | **100** | **46,154** | **100** | **12,975** | **28** |
| | | | | | | |
| **Capital** | | | | | | |
| Shareholders' equity | 10,845 | 18 | 5,872 | 13 | 4,973 | 85 |
| Own shares | -1,345 | -2 | -1,345 | -3 | 0 | 0 |
| Non-current liabilities | 7,090 | 12 | 6,209 | 14 | 881 | 14 |
| Current liabilities | 42,538 | 72 | 35,416 | 77 | 7,122 | 20 |
| | **59,129** | **100** | **46,154** | **100** | **12,975** | **28** |

The increase in non-current assets in 2018 mainly resulted from a rise in non-current financial assets of EUR 2,074 thousand and a further investment of EUR 983 thousand in the development of the 'Orzesze' hard coal area by the Silesian Coal International Group of Companies S.A. The receivables result from deliveries and services and are primarily against customers in Asia. The build-up compared to the previous year is largely due to volume and reporting date effects.

Non-current liabilities include pension obligations. The changes are due to actuarial reasons. Current liabilities mainly consist of liabilities to suppliers and from trade financing. The year-on-year increase is a result of the upturn in business activity and essentially due to reporting date effects.

## 5. Group financial position

Cash and cash equivalents developed as follows in the 2018 financial year:

| | 2018 TEUR | 2017 TEUR |
|---|---|---|
| **1. Cash flow from current operating activities** | **5,746** | **-3,748** |
| **2. Cash flow from investment activities** | **-1,856** | **-846** |
| **3. Cash flow from financing activities** | **846** | **34** |
| **4. Cash and cash equivalents at the end of the period** | | |
| Change in cash and cash equivalents affecting payment | 4,737 | -4,561 |
| | | |
| Cash and cash equivalents at the start of the period | -8,906 | -4,345 |
| Cash and cash equivalents at the end of the period | -4,169 | -8,906 |
| | | |
| **5. Composition of cash and cash equivalents** | | |
| Cash and cash equivalents | 1,614 | 347 |
| Current liabilities to credit institutions | -5,783 | -9,253 |
| Cash and cash equivalents at the end of the period | -4,169 | -8,906 |

Due to the significant improvement in the net profit for the period and the increase in trade payables as at the reporting date, cash flow from operating activities improved considerably compared to the prior year. Cash flow from investing activities is derived primarily from investments in the development of the 'Orzesze' coal field by the Silesian Coal International Group of Companies S.A., as well as investments in associated companies. Cash flow from financing activities was largely a result of the assumption of a long-term bank loan.

## 6. Information on the annual financial statements of HMS Bergbau AG

HMS Bergbau AG is the parent company of the HMS Group. HMS Bergbau AG remains responsible for the central management functions – strategy, finance, accounting/controlling – and all key trading activities. A significant number of trade agreements are conducted via the parent company. In other words, the activities of HMS Bergbau AG largely determine 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:

| | 2018 EUR thousand | % | 2017 EUR thousand | % | Change EUR thousand | % |
|---|---|---|---|---|---|---|
| **Revenue (= Total performance)** | **190,996** | **100** | **152,589** | **100** | **38,407** | **25** |
| Cost of materials | 185,800 | 97 | 146,453 | 96 | 39,347 | 27 |
| Personnel costs | 1,375 | 1 | 891 | 2 | 484 | 54 |
| Depreciation and amortisation | 27 | 0 | 33 | 0 | -6 | -18 |
| Other operating expenses | | | | | | |
| ./. other operating earnings | 3,053 | 2 | 4,087 | 0 | -1,034 | -25 |
| Taxes (excluding income taxes) | 4 | 0 | 3 | 0 | 1 | 19 |
| **Tax expenses** | **190,258** | **100** | **151,466** | **98** | **38,792** | **26** |
| | | | | | | |
| **Operating result** | **738** | **0** | **1,123** | **2** | **-385** | **-34** |
| Earnings from investment and financial result | -293 | | -2,145 | | 1,852 | 86 |
| Sale of shares | 1,098 | | 185 | | 913 | > 100 |
| Allocation to pension provisions (1/15 of allocation under German Accounting Law Modernisation Act [BilMoG]) | -223 | | -223 | | 0 | 0 |
| **Earnings before income taxes** | **1,319** | | **-1,060** | | **1,467** | **> 100** |
| Income taxes | 275 | | 1,618 | | -1,343 | -83 |
| **Net profit*** | **1,595** | | **558** | | **1,037** | **> 100** |

**2,333,449.92 EUR 2018 net profit excluding 880,521.39 EUR non-cash pension provisions (2017: 727,735.62 EUR pension provisions)*

### 6.1 Results of operations

The results of operations of HMS Bergbau AG are significantly influenced by the Company's primary trading activities. The sharp increase in sales is due to an increase in volumes and higher coal prices in 2018. The markets in Asia and Africa, which are developing with increasing demand, are being served by HMS Bergbau AG in addition to the local companies. More than 92 per cent of sales were generated with customer and supply relationships from Africa and Asia. The cost of materials ratio deteriorated slightly year-on-year by around 1 per cent due to high-volume transactions. Other operating expenses net of other earnings income resulted in particular from fulfilment costs, onward charging of other services of group companies, vehicle and travel expenses, legal and consulting fees as well as 1/15th of the allocation to pension provisions (EUR 223 thousand).

The sale of a 1.1 per cent interest in the Polish subsidiary Silesian Coal International Group of Companies S.A. resulted in the recognition of a gain of EUR 1,098 thousand through profit or loss.

## 6.2 Net assets

| | 31/12/2018 EUR thousand | % | 31/12/2017 EUR thousand | % | Change EUR thousand | % |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Non-current assets | 16,129 | 34 | 14,876 | 22 | 1,253 | 8 |
| Receivables | 27,170 | 58 | 24,832 | 62 | 2,338 | 9 |
| Cash and cash equivalents | 1,256 | 3 | 91 | 2 | 1,165 | > 100 |
| Other assets | 2,616 | 6 | 2,845 | 15 | -229 | -8 |
| | **47,172** | **100** | **42,645** | **100** | **4,527** | **11** |
| | | | | | | |
| **Capital** | | | | | | |
| Shareholders' equity | 15,753 | 33 | 10,462 | 39 | 5,291 | 51 |
| Own shares | -1,345 | -3 | -1,345 | -10 | 0 | 0 |
| Non-current liabilities | 7,090 | 15 | 6,209 | 17 | 881 | 14 |
| Current liabilities | 25,673 | 54 | 27,318 | 54 | -1,644 | -6 |
| | **47,172** | **100** | **42,645** | **100** | **4,527** | **11** |

The increase in fixed assets in 2018 was mainly a result of the increase in non-current advances. Due to the trading activities of HMS Bergbau AG, the balance sheet structure is characterised by receivables from customers and current trade payables. Changes are mainly a result of volume and reporting date effects. In addition, the financial position is characterised by the shares in affiliated companies and loans to the Indonesian and African HMS companies. Current liabilities mainly consist of liabilities to suppliers and from trade financing.

Non-current liabilities include pension obligations. The year-on-year increase as of the balance sheet date of 31 December 2018 is based on actuarial effects.

## 6.3 Financial position

The financial position of the HMS Group is significantly influenced by HMS Bergbau AG and, therefore, we refer you to our corresponding explanations.

## 6.4. General statement

Sales, gross margin and EBITDA represent our financial performance indicators, which the Board of Management controls and monitors on an ongoing basis. In relation to the entire HMS Group, we were able to achieve and partially even exceed the sales forecast made in the previous year due to the market environment and the excellent trading results. Sales amounted to EUR 254,204 thousand in the 2018 financial year after EUR 220,971 thousand in 2017 and were not only price and volume-driven. Sales of HMS AG also increased significantly from EUR 152,589 thousand in the 2017 financial year to EUR 190,996 thousand in the reporting year. The Group's gross margin fell slightly from 3.8 per cent in 2017 to 3.5 per cent in 2018. The gross margin of HMS AG also fell from 4.4 per cent to 3.5 per cent.

Group EBITDA of EUR 2,086 thousand (previous year: EUR 2,007 thousand) improved slightly compared to the previous year. Despite significantly higher sales, EBITDA increased only slightly due to the higher cost of materials ratio. The EBITDA of HMS AG amounted to EUR 1,643 thousand after EUR 1,121 thousand in the year 2017. Here, too, the reason for the increase can be found in the significant increase in sales. Overall, we were able to fully achieve the forecast target at the Group level.

## 7. Risks and opportunities

The Management Board of HMS Bergbau AG is responsible for the Group's 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 engage in risks that result in significant opportunities to generate income. If possible, risks should be minimised or transferred to third parties. Opportunities are assessed with regard to their income potential. The following sections describe opportunities and risks that could have a significant impact on the Company's net assets, financial position and results of operations:

### 7.1 Price fluctuations

In HMS Group's traditional business – coal trading using back-to-back contracts and index- or fixed-price-based purchasing and sales agreements – there are by definition no effects on contractually agreed margins for individual transactions. Where the back-to-back principle is deviated from, for example in the case of varying base values on the purchase and sale side for heating value calculations, 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. We continue to pursue the principle of avoiding significant risk positions in purchasing and sales by limiting such risks upon contract conclusion. The management of HMS Bergbau AG will continue to strive to execute back-to-back transactions.

### 7.2 Financial risks

Exchange rate and interest rate fluctuations can have a significant impact on the HMS Group's earnings. The Company's financial risk management therefore aims to hedge currency risks primarily using currency forwards and without entering into speculative transactions. We also attempt to eliminate currency differences in financing, purchasing and sales. All group companies are obliged to assess and, where necessary, hedge all exchange rate risks. Changes to interest rates, or in other words risks from interest-bearing liabilities, are accounted for as financing costs and included in the assessment of each trading transaction, taking into account a risk premium and currency-specific differences. If deemed appropriate in the long term from a risk management perspective, and after evaluation of all possible scenarios, we exchange variable interest rates for fixed interest rates.

### 7.3 Credit ratings of business partners and counterparty risk

Credit risks arise from our business relationships with customers and are increasing on account of ongoing growth in the proportion of our business partners located in Asia and Africa. In this context, the implemented risk management system aims to obtain adequate collateral for risk-bearing transactions or to insure receivables where financially practicable. Furthermore, we secure payment promises in advance of deliveries using letters of credit. Failure or partial failure to deliver on the part of suppliers may also give rise to risks that cannot be transferred completely to the purchaser. Our risk management policies attempt to address these risks appropriately by deploying staff in the regions to examine individual terms and specifications of contracts in detail.

### 7.4 Political risks

The expansion of our business to the Asian and African markets 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 economic strategies that may have detrimental effects on our business. We include risks from environmental and other geographical influences in these considerations. Furthermore, uncertainties arise from the existing legal framework, which is and will remain subject to ongoing change. In both Asia and Africa, excellent business opportunities go hand in hand with an increased level of risk. The Company's risk management system responds to individual risks by attempting to draw up corresponding contractual arrangements or eliminate the risks by consulting with experienced local partners. Realistically, it is never possible to eliminate such risks completely.

### 7.5 Investment risks

The Company's risk management system attempts to identify the potential negative impact on its business at an early stage by continuously monitoring the marketing strategy and its successful implementation, in order to respond to such risks accordingly by adjusting our strategy.

### 7.6 Risk and opportunities resulting from the corporate strategy

Because they involve considerable opportunities and risks, decisions on investments and acquisitions are examined based on an assessment and approval process. In some cases, experts are also consulted. The Management Board of HMS Bergbau AG makes the final decisions and, to the extent that these decisions are significant, obtains the approval of the Supervisory Board. We take particular care to exhaustively investigate and weigh the risks and opportunities when entering into long-term agreements. The main factors to examine are the size of the reserve, the logistical infrastructure, the financial situation, legal requirements, management and the political landscape. Our risk management system includes actions such as obtaining expert advice and reports.

In the Trading segment, we are able to identify opportunities and risks at the earliest possible stage by intensely monitoring and analysing markets and competitors. Overall, the risk management system enables the HMS Group to mitigate the above risks at all times and seize any of the resulting opportunities. The management of HMS sees the greatest opportunities in the potential development of new mining projects and investments in South Africa with the help of the collaborations entered into with Shumba and Masingita. In particular, HMS sees the opportunity to contribute its experience in marketing agreements to be concluded.

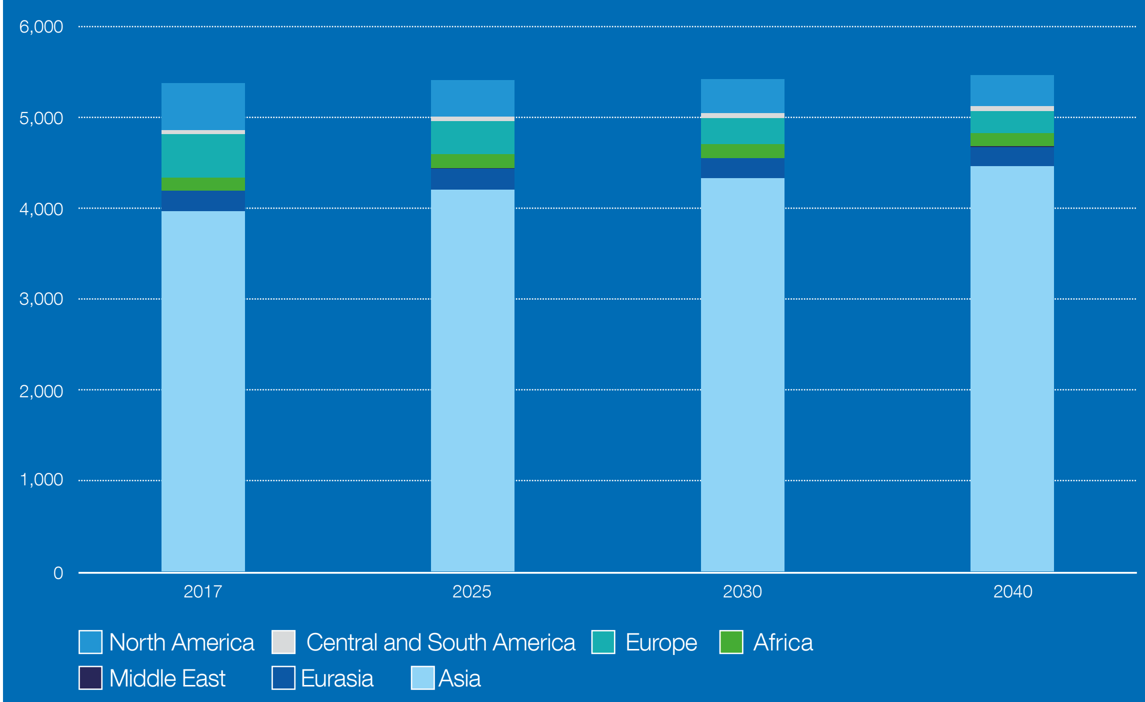
HMS also sees significant opportunities in terms of expanding its sales activities in new markets in Asia, particularly in Malaysia, Vietnam and Thailand. The Management Board also sees considerable potential in the US subsidiary founded at the end of 2018.

We expect Silesian Coal International Group of Companies S.A. will be granted a mining license in 2019, which would be a considerable enhancement to the overall project.

## 8. Report on forecasts

In comparison to other energy resources, the largest reserves and resources globally are still reported for coal. According to calculations by the Federal Office for Geosciences and Natural Resources (BGR) in the Energy Study 2017, reserves will still last for 120 to 200 years, depending on the type of coal and the degree of global economic development. It remains undisputed, however, that the remaining potential of coal is sufficient enough to meet the foreseeable demand for many decades. In addition, scientific analysis and market surveys indicate that the share of coal in global electricity generation will continue to develop steadily. According to the IEA (International Energy Agency), hard coal will continue to be the largest carrier for industrial power generation. The following diagram illustrates the compensation for the decline in global coal-fired power generation by the growing industries, especially in Asia but later also in Africa. In addition to the growing world population, which is anticipated to increase to 8.2 billion by 2030, the biggest driver of this development is certainly growing energy consumption. Therefore, a primary energy matrix without coal is inconceivable for the next 50 years.

### Global coal demand by region




Source: http://www.onvista.de/rohstoffe/, HMS Bergbau AG

The steadily increasing development of world energy consumption in recent years, with fossil fuel coal as the primary energy source, will continue in the next few years. Coal prices will tend to increase in the future driven by rapidly growing industrial demand from the Pacific Rim, population growth and generally rising per capita consumption. The management of HMS Bergbau AG assumes that the Pacific Rim region will continue to gain in importance as an important sales market. As in previous years, Asia is increasingly becoming the focus of HMS Bergbau AG's strategic orientation. In addition to South Africa, Indonesia is one of the most important production markets in the next few years from the management's point of view because of the resources available, the favourable mining conditions and the central location in the Pacific region. Significant growth potential, especially in securing large coal resources, continues to be essential in order to operate as a reliable trading partner in volatile markets. By securing its own resources, the management wants to guarantee the supply of end users in the Asian market as well as in southern Africa in the long run.

With the expectation of increasing world market prices, securing our own resources and the related expansion of the value chain – from production to the sale to the end customer – is an essential component in sustainably consolidating our market position. Particularly given the known risks in nuclear energy and the current difficulties in implementing the "energy transition" in Germany, management does not expect declining demand for fossil fuels in Europe. As a flexible energy supplier, coal-fired power generation will retain its importance, above all in Eastern Europe. Our efforts in Europe continue to focus on renewing expired contracts, closing new contracts with European non-power plant customers and power plant operators and expanding and consolidating our market position in niche products such as petcoke, coking coal and coke products to achieve even better product diversification. In Africa and Asia, the Company is focusing on building long-term supplier and customer relationships to participate in the growing importance of both regions in world coal trading. In financial years 2019 and 2020, the main task of HMS Bergbau AG will be to regain market share in Europe while at the same time expanding the Asia and Africa business and entering the US market. At the same time, the strategy of expanding the value chain, particularly by concluding and successfully implementing exclusive marketing agreements and collaborations, as well as the development of proprietary production resources, must be pursued consistently.

In addition to expanding business volumes, HMS Bergbau AG's activities focus on improving its market position in strategically important markets and business segments. The focus continues to be on global positioning, above all in South Africa, India and Indonesia, but also in the US. In addition to the coal business, the Company's activities are focussed in the expansion of trade in other raw materials, such as ores, fertilisers and cement products. In the medium term, this trading business should become another pillar of HMS Bergbau AG.

The flexible structures of HMS Bergbau AG have enabled the company to assert itself and develop well in a difficult market environment over the past few years. Next to making its structures even more flexible, the company has also tapped new markets over the past few years as part of its vertical and horizontal integration. This development should lead to better results in the future and allow HMS Bergbau AG to continue to participate in the market on a lasting basis and participate in the long-term positive upward trend emerging in the commodity markets. Management will continue to pursue these goals consistently in the 2019 financial year. Management plans to increase its sales slightly this year while maintaining its attractive gross margins. The net profit for the 2019 financial year is expected to be positive, similar to the level achieved in 2018.

## 9. Key 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 the remuneration for individual Management Board members. Management Board remuneration consists of fixed elements alongside variable, performance-related components. Fixed remuneration is paid as a monthly salary, regardless of performance. Management Board members also receive additional non-cash fringe benefits, which mainly consist of the value under tax law for the private use of a company car. Performance-related remuneration is dependent on the Company's result for the financial year and the personal performance of the Management Board member in question. The remuneration of the Chief Executive Officer also includes pension commitments.

## 10. Hedges

The HMS Group entered into hedging transactions in the reporting period due to the price and currency risks of underlying individual physical transactions.

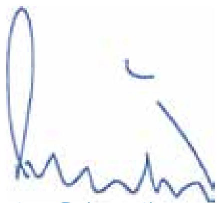
## 11. Closing comments pursuant to Section 312 (3) AktG

There were no dependencies in the reporting period as defined under Section 312 (3) AktG.

## 12. Forward-looking statements

This management report includes forward-looking statements that reflect the current opinion of the HMS Group's management with regard to future events. Any statement contained in this report reflecting or building upon intentions, assumptions, expectations, forecasts or underlying assumptions is a forward-looking statement. These statements are based upon plans, estimates and forecasts that are currently available to the HMS Group's management and, therefore, only refer to the point in time at which they were made. Forward-looking statements are inherently 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 Bergbau AG does not assume any responsibility for such statements and does not intend to update such statements in light of new information or future events.

Berlin, 29 March 2019


Heinz Schernikau
Chief Executive Officer


Steffen Ewald
Chief Financial Officer


Dennis Schwindt
Chief Operating Officer

# Consolidated Balance Sheet as of 31 December 2018

## Assets

| | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| | EUR | EUR | EUR |
| A. Non-current assets | | | |
| **I. Intangible assets** | | | |
| 1. Licences, industrial property rights, similar rights and values and licences in such rights and values | 12,316.66 | | 12,016.72 |
| 2. Company value | 4,203.11 | | 54,640.57 |
| | | **16,519.77** | **66,657.29** |
| **II. Fixed assets** | | | |
| 1. Other equipment, office and factory equipment | 63,262.81 | | 91,084.88 |
| 2. Advance payments and assets under construction | 5,390,338.74 | | 4,407,016.53 |
| | | **5,453,601.55** | **4,498,101.41** |
| **III. Financial assets** | | | |
| 1. Shares in associated companies | 412,586.02 | | 457,508.06 |
| 2. Other loans receivable | 9,227,083.19 | | 7,152,790.15 |
| | | **9,639,669.21** | **7,610,298.21** |
| | | **15,109,790.53** | **12,175,056.91** |
| | | | |
| B. Current assets | | | |
| **I. Inventories** | | | |
| 1. Products | | 116,246.62 | 129,273.76 |
| | | | |
| **II. Receivable and other assets** | | | |
| 1. Trade receivables | 39,161,657.61 | | 30,162,836.23 |
| 2. Receivables from associates | 136,230.94 | | 152,741.62 |
| 3. Other assets | 1,024,232.61 | | 1,438,622.29 |
| | | **40,322,121.16** | **31,754,200.14** |
| | | | |
| **III. Cash and cash equivalents** | | 1,614,390.11 | 346,854.75 |
| | | **42,052,757.89** | **32,230,328.65** |
| | | | |
| C. Accruals and deferrals | | **115,907.62** | **130,163.93** |
| | | | |
| D. Deferred taxes | | **1,850,320.33** | **1,618,066.00** |
| | | **59,128,776.37** | **46,153,615.49** |

## Passiva

| | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| | EUR | EUR | EUR |
| A. Shareholders' equity | | | |
| **I. Subscribed equity** | | **4,205,096.00** | **4,208,746.00** |
| **II. Capital reserve** | | **3,916,647.36** | **3,966,747.36** |
| **III. Profit reserves** | | | |
| 1. Statutory reserve | 5,112.92 | | 5,112.92 |
| 2. Other profit reserves | 273,158.45 | | 273,158.45 |
| | | **278,271.37** | **278,271.37** |
| **IV. Contributions made to implement the capital increase** | | **3,750,000.00** | **0.00** |
| **Paid In Capital** | | **11,871,743.36** | **8,175,493.36** |
| **V. Consolidated net loss** | -1,941,413.98 | | -3,398,563.72 |
| **VI. Exchange differences** | -717,648.08 | | -538,632.14 |
| | | **-2,659,062.06** | **-3,937,195.86** |
| **VI. Minority interests** | | 9,466.09 | 11,219.10 |
| | | **9,500,418.76** | **4,527,787.97** |
| B. Provisions | | | |
| 1. Pension provisions and similar obligations | 7,089,991.90 | | 6,209,470.51 |
| 2. Tax provisions | 292,526.77 | | 157,969.06 |
| 3. Other provisions | 307,904.13 | | 433,753.26 |
| | | **7,690,422.80** | **6,801,192.83** |
| C. Liabilities | | | |
| 1. Liabilities to banks | 6,683,243.65 | | 9,252,701.62 |
| 2. Trade payables | 31,248,185.55 | | 19,388,098.07 |
| 3. Other liabilities - thereof from taxes EUR 117 thousand (previous year: EUR 48 thousand) - thereof therof for social security EUR 3 thousand (previous year: EUR 2 thousand) - thereof from shareholders EUR 2,688 thousand (previous year: EUR 3,276 thousand) | 4,006,505.61 | | 6,180,749.24 |
| | | **41,937,934.81** | **34,821,548.93** |
| D. Accruals and deferrals | | **0.00** | **3,085.76** |
| | | **59,128,776.37** | **46,153,615.49** |

# Consolidated Income Statement 2018

| | | 2018<br>EUR | 2017<br>EUR |
|---|---|---|---|
| 1. | Sales | 254,203,683.12 | 220,970,972.14 |
| | | | |
| 2. | Other operating earnings | 1,258,683.13 | 769,537.80 |
| | - thereof from currency translation: EUR 172 thousand (previous year: EUR228 thousand) | | |
| | | 255,462,366.25 | 221,740,509.94 |
| | | | |
| 3. | Cost of materials | | |
| | Costs for goods purchased | -246,910,399.65 | -213,549,483.45 |
| | | | |
| 4. | Personnel costs | | |
| | a) Wages and salaries | -1,612,273.99 | -1,514,986.52 |
| | b) Social security costs and pension support costs - thereof for pensions EUR 262 thousand (previous year: EUR 89 thousand) | -435,847.31 | -144,434.01 |
| | | -2,048,121.30 | -1,659,420.53 |
| | | | |
| 5. | Amortisation | | |
| | Amortisation of intangible assets and fixed assets | -92,698.36 | -115,419.00 |
| | | | |
| 6. | Other operating expenses - thereof from currency translation: EUR 286 thousand (previous year: EUR 81 thousand) | -4,418,045.88 | -4,524,420.39 |
| 7. | Earnings from associated companies | 0.00 | 0.00 |
| 8. | Other interest and similar earnings | 445,772.43 | 240,875.18 |
| 9. | Depreciation of financial assets and securities held as current assets | 0.00 | -1,700,001.00 |
| 10. | Interest and similar expenses - thereof from discounting of pension obligations: EUR 791 thousand (previous year: EUR 662 thousand) | -1,129,839.70 | -1,119,402.02 |
| 11. | Income taxes - therof from deferred taxes EUR 232 thousand (previous year: EUR 1.618 thousand) | 147,780.65 | 1,410,084.98 |
| **12.** | **Earnings after taxes** | **1,456,814.44** | **723,323.71** |
| 13. | Other taxes | -3,885.91 | -3,667.84 |
| **14.** | **Net profit for the period*** | **1,452,928.53** | **719,655.87** |
| 15. | Loss carryforward | -3,398,563.72 | -4,118,219.59 |
| 16. | Result to be allocated to minorities interest (Loss) | 4,221.21 | 0.00 |
| **16.** | **Consolidated balance sheet loss** | **-1,941,413.98** | **-3,398,563.72** |
| | | | |
| | **Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)** | **2,085,799.42** | **2,007,185.57** |

*2,333,449.92 EUR 2018 net profit excluding 880,521.39 EUR non-cash pension provisions (2017: 727,735.62 EUR pension provisions)*

# Consolidated Cash Flow Statement 2018

| | 2018<br>EUR thousand | 2017<br>EUR thousand |
|---|---|---|
| 1. Cash flow from current operating activities | | |
| Net earnings for the period<br>(in the previous year Including share attributable to minority interests) | 1,453 | 720 |
| Depreciation of fixed assets | 93 | 1,815 |
| Profit from sales of minorities | -1,098 | -185 |
| Decrease (prev, increase ) in provisions | 889 | 211 |
| Other non-cash expenses/income (incl, pension provision) | -737 | -565 |
| Increase in inventories, trade receivables and other assets | -8,773 | -6,922 |
| Increase in inventories, trade payables and other liabilities | 13,433 | 1,236 |
| Interest expense/interest income | 684 | 879 |
| Income tax expense/tax benefit | -148 | -1,410 |
| Income tax payments | -50 | 473 |
| **Cash flow from current operating activities** | **5,746** | **-3,748** |
| | | |
| 2. Cash flow from investment activities | | |
| Cash outflow for investments in property, plant and equipment | -875 | -837 |
| Cash inflow from disposals of fixed assets | 0 | 3 |
| Cash outflow for investments in intangible assets | -6 | -12 |
| Cash inflow from sales of minority interests to consolidated subsidiaries | 1,100 | 0 |
| Cash outflow for investments in associated companies | -2,074 | 0 |
| **Cash flow from investment activities** | **-1,856** | **-846** |
| | | |
| 3. Cash flow from financing activities | | |
| Cash inflows from equity injections | 25 | 34 |
| Cash outflows for the repurchase of treasury stock | -79 | 0 |
| Raising of long-term loans | 960 | 0 |
| Repayment of long-term loans | -60 | 0 |
| **Cash flow from financing activities** | **846** | **34** |
| | | |
| 4. Cash and cash equivalents at the end of the period | | |
| Changes affecting payment (Subtotals 1 – 3) | 4,737 | -4,561 |
| Cash and cash equivalents at the start of the period | -8,906 | -4,345 |
| **Cash and cash equivalents at the end of the period** | **-4,169** | **-8,906** |
| | | |
| 5. Composition of cash and cash equivalents | | |
| Cash and cash equivalents | 1,614 | 347 |
| Current liabilities | -5,783 | -9,253 |
| **Cash and cash equivalents at the end of the period** | **-4,169** | **-8,906** |

# Consolidated Statement of Changes in Shareholders' Equity 2018

| | Group's Equity | | | |
|---|---|---|---|---|
| | Subscribed capital common shares | Capital reserve | Capital contributions made to implement the capital increase | Generated consolidated shareholders' equity |
| | EUR | EUR | | EUR |
| **31/12/2016** | **4,205,496.00** | **3,936,489.88** | **0.00** | **-3,839,948.22** |
| Changes in the basis of consolidation | 3,250.00 | 30,257.48 | 0.00 | 0.00 |
| Sales of minority interest | 0.00 | 0.00 | 0.00 | 0.00 |
| Exchange differences | 0.00 | 0.00 | 0.00 | 0.00 |
| | 4,208,746.00 | 3,966,747.36 | 0.00 | -3,839,948.22 |
| Consolidated net income / loss | 0.00 | 0.00 | 0.00 | 719,655.87 |
| **31/12/2017** | **4,208,746.00** | **3,966,747.36** | **0.00** | **-3,120,292.35** |
| Changes in the basis of consolidation | 1,850.00 | 23,390.00 | 0.00 | 0.00 |
| Repurchase of treasury stock | -5,500.00 | -73,490.00 | 0.00 | 0.00 |
| Non-cash capital increase | 0.00 | 0.00 | 3,750,00.00 | 0.00 |
| Sales of minority interest | 0.00 | 0.00 | 0.00 | 0.00 |
| Currency translation differences | 0.00 | 0.00 | 0.00 | 0.00 |
| | 4,205,096.00 | 3,916,647.36 | 3,750,000.00 | -3,120,292.35 |
| Consolidated net income / loss | 0.00 | 0.00 | 0.00 | 1,457,149.74 |
| **31/12/2018** | **4,205,096.00** | **3,916,647.36** | **3,750,000.00** | **-1,663,142.62** |

| | | Minority shareholders | | | |
|---|---|---|---|---|---|
| Accumulated remaining consolidated income Currency translation adjustments | Group's share | Minority interest | Accumulated remaining consolidated income Currency translation adjustments | Shareholders' equity | Group equity |
| EUR | EUR | EUR | EUR | EUR | EUR |
| **-142,010.96** | **4,160,026.70** | **0,00** | **0.00** | **0.00** | **4,160,026.70** |
| | | | | | |
| 0.00 | 33,507.48 | 0.00 | 0.00 | 0.00 | 33,507.48 |
| 0.00 | 0.00 | 11,219.10 | 0.00 | 11,219.10 | 11,219.10 |
| -396,621.18 | -396,621.18 | 0.00 | 0.00 | 0.00 | -396,621.18 |
| | | | | | |
| -538,632.14 | 3,796,913.00 | 11,219.10 | 0.00 | 11,219.10 | 3,808,132.10 |
| | | | | | |
| 0.00 | 719,655.87 | 0.00 | 0.00 | 0.00 | 719,655.87 |
| | | | | | |
| **-538,632.14** | **4,516,568.87** | **11,219.10** | **0.00** | **11,219.10** | **4,527,787.97** |
| | | | | | |
| 0.00 | 25,240.00 | 0.00 | 0.00 | 0.00 | 25,240.00 |
| 0.00 | -78,990.00 | 0.00 | 0.00 | 0.00 | -78,990.00 |
| 0.00 | 3,750,00.00 | 0.00 | 0.00 | 0.00 | 3,750,000.00 |
| 0.00 | 0.00 | 2,468.20 | 0.00 | 2,468.20 | 2,468.20 |
| -179,015.94 | -179,015.94 | 0.00 | 0.00 | 0.00 | -179,015.94 |
| | | | | | |
| -717,648.08 | 8,033,802.93 | 13,687.30 | 0.00 | 13,687.30 | 8,047,490.23 |
| | | | | | |
| 0,.00 | 1,457,149.74 | 0.00 | -4,221.21 | -4,221.21 | 1,452,928.53 |
| | | | | | |
| **-717,648.08** | **9,490,952.67** | **13,687.30** | **-4,221.21** | **9,466.09** | **9,500,418.76** |

# Statement of Changes in Current Assets as of December 31, 2018

| | Procurement and manufacturing costs | | | | | |
|---|---|---|---|---|---|---|
| | 01/01/2018 | Currency conversion | Additions | Disposals | Re-classifications | 31/12/2018 |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **I. Intangible assets** | | | | | | |
| 1. Licences, industrial property rights, similar rights and values and licences in such rights and values | 42,364.49 | 125.77 | 6,009.20 | 0.00 | 0.00 | 48,499.46 |
| 2. Goodwill | 252,187.29 | 0.00 | 0.00 | 0.00 | 0.00 | 252,187.29 |
| | **294,551.78** | **125.77** | **6,009.20** | **0.00** | **0.00** | **300,686.75** |
| **II. Property, plant and equipment** | | | | | | |
| 1. Other equipment, office and factory equipment | 576,234.14 | -18,214.61 | 14,447.23 | 1,308.29 | 0.00 | 571,158.47 |
| 2. Deposits paid / plant under construction | 4,407,016.53 | 122,481.57 | 860,840.64 | 0.00 | 0.00 | 5,390,338.74 |
| | **4,983,25.67** | **104,266.97** | **875,287.87** | **1,308.29** | **0.00** | **5,961,497.21** |
| **III. Investments** | | | | | | |
| 1. Investments | 520,855.95 | -44,922.04 | 0.00 | 0.00 | 0.00 | 475,933.91 |
| 2. Other loans receivable | 8,852,790.15 | 0.00 | 2,074,293.04 | 0.00 | 0.00 | 10,927,083.19 |
| | **9,373,646.10** | **-44,922,04** | **2,074,293.04** | **0.00** | **0.00** | **11,403,017.10** |
| | **14,651,448.55** | **59,470.70** | **2,955,590.11** | **1,308.29** | **0.00** | **17,665,201.06** |

| Accumulated amortisation and depreciation | | | | | | Book values | |
|---|---|---|---|---|---|---|---|
| 01/01/2018 | Currency conversion | Additions | Disposals | Re-classifications | 31/12/2018 | 31/12/2018 | 31/12/2017 |
| EUR | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| | | | | | | | |
| 30,347.77 | -151.64 | 5,986.67 | 0.00 | 0.00 | 36,182.80 | 12,316.66 | 12,016.72 |
| 197,546.72 | 0.00 | 50,437.46 | 0.00 | 0.00 | 247,984.18 | 4,203.11 | 54,640.57 |
| **227,894.49** | **-151.64** | **56,424.13** | **0.00** | **0.00** | **284,166.98** | **16,519.77** | **66,657.28** |
| | | | | | | | |
| 485,149.26 | -12,220.52 | 36,274.23 | 1,307.31 | 0.00 | 507,895.66 | 63,262.81 | 91,084.88 |
| 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5,390,338.74 | 4,407,016.53 |
| **485,149.26** | **-12,220.52** | **36,274.23** | **1,307.31** | **0.00** | **507,895.66** | **5,453,601.55** | **4,498,101.41** |
| | | | | | | | |
| 63,347.89 | 0.00 | 0.00 | 0.00 | 0.00 | 63,347.89 | 412,586.02 | 457,508.06 |
| 1,700,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,700,000.00 | 9,227,083.19 | 7,152,790.15 |
| **1,763,347.89** | **0.00** | **0.00** | **0.00** | **0.00** | **1,763,347.89** | **9,639,669.21** | **7,610,298.21** |
| **2,476,391.64** | **-12,372.16** | **92,698.36** | **1,307.31** | **0.00** | **2,555,410.53** | **15,109,790.53** | **12,175,056.90** |

# Notes to the consolidated financial statements

## HMS Bergbau AG, Berlin

## Financial Year 2018

## I. General company information

HMS Bergbau AG is headquartered in Berlin, Germany. The company is entered in the commercial register of the District Court of Berlin-Charlottenburg under HRB 59190.

## II. General information on the content and structure of the consolidated financial statements

HMS Bergbau AG is a **large stock corporation** within the meaning of Section 267 (3) of the German Commercial Code (HGB).

The consolidated financial statements of HMS Bergbau AG for the financial year from 1 January to 31 December 2018 were prepared in accordance with the accounting and valuation principles under German commercial law and the provisions of the German Stock Corporation Act (AktG).

The financial year of the Group and of all entities included in the consolidated financial statements corresponds to the calendar year.

In addition to the balance sheet, income statement and notes, the cash flow statement and statement of changes in equity are presented separately pursuant to Section 297 (1) HGB.

The income statement was prepared using the total cost method.

## III. Scope of consolidation

### 1. Information on all Group entities

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

| Name | Headquarters | Interest in % | Equity EUR thousands | Annual result EUR thousands |
|---|---|---|---|---|
| HMS Bergbau Africa (Pty) Ltd. | Johannesburg | 100 | 280 | 104 |
| HMS Bergbau Singapore (Pte) Ltd. | Singapore | 100 | 1,682 | 302 |
| PT. HMS Bergbau Indonesia | Jakarta | 100 | -3,407 | -100 |
| Silesian Coal International Group of Companies S.A. | Katowice | 98.7 | -986 | -384 |
| HMS Bergbau USA Corp.* | Miami | 100 | 1 | 0 |

**) founded in November 2018*

## IV. Consolidation principles

The annual financial statements of the subsidiaries included in the consolidated financial statements were prepared as at 31 December 2018, which is the reporting date of the parent company.

The annual financial statements of the subsidiaries included in the consolidated financial statements were prepared in a uniform manner, using the accounting and valuation princi-ples of HMS Bergbau AG pursuant to legal provisions.

The annual financial statements of the foreign subsidiaries were prepared in accordance with the applicable laws of each country and were reconciled to the reporting standards of the parent company. The balance sheet and income statement structure were aligned to the reporting structure of the parent company.

The consolidated financial statements were prepared as at the reporting date of the parent company.

### 1. Information of the capital consolidation method applied

For fully consolidated subsidiaries acquired prior to 1 January 2010, capital consolidation was carried out as at the date of acquisition according to the book value method pursuant to Section 301 (1) no. 1 HGB (old version), whereby the acquisition costs were offset against the pro rata equity of the subsidiaries as at the time of acquisition or their first-time consolidation. For subsidiaries acquired after 1 January 2010, capital consolidation is carried out as at the time of acquisition according to the revaluation method pursuant to Section 301 (1) HGB. Equity is recognised at the amount equivalent to the present value of the assets, liabilities, accruals and deferrals, and special items included in the consolidated financial statements applicable as at the time of acquisition.

### 2. Date of first-time consolidation

The date on which the entity is established by the parent company always represents the date on which capital is consolidated within the meaning of Section 301 (2) HGB. As a result, capital was consolidated based on the values as at the entities' establishment also for entities established prior to the reporting year. Any profits or losses generated by subsidiaries before 1 January 2010 were included in and offset against the parent company's retained earnings. For these companies, the consolidation did not result in a difference within the meaning of Section 301 (1) HGB (old version).

Entities acquired after 1 January 2010 are included as at the time they became subsidiaries of the parent company pursuant to Section 301 (2) HGB.

### 3. Debt consolidation

Mutual receivables and liabilities between the consolidated entities are offset against each other and eliminated within the context of debt consolidation. Any resulting differences from the consolidation of intra-group receivables and liabilities denominated in foreign currencies are directly recognised in equity.

### 4. Consolidation of income and expenses, elimination of intra-group profits

Intra-group sales are offset against the corresponding intra-group expenses.

Expenses and income from other business transactions between consolidated entities are also offset against each other.

There were no intra-group profits from deliveries and services within the Group.

## V. Currency translation principles

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

The balance sheets of foreign subsidiaries are translated using the spot exchange rate prevailing on the balance sheet date in accordance with Section 308a sentence 1 HGB and the income statements using the average annual rate in accordance with Section 308a sentence 2 HGB. Shareholders' equity is translated at the historical rate.

Differences arising from the currency translation of assets and liabilities are recognised directly in equity.

Exchange rate differences arising from the currency translation of items of the income statement and the annual results are reported as income or expenses within the consolidated net profit.

## VI. Accounting and valuation principles

### Accounting and valuation

The consolidated financial statements comply with the applicable provisions of Section 298 HGB.

Intangible assets are carried at cost less scheduled amortisation.

Property, plant and equipment are carried at cost less straightline depreciation over the expected useful life.

Financial assets are carried at cost. In cases of permanent impairment, financial assets are impaired at their lower fair value. If the reasons for the impairment no longer exist, the impairment loss is reversed.

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

Cash and cash equivalents impairment recognised at their nominal amounts.

Deferred tax assets resulted from differences in the carrying amounts of assets, liabilities, accruals and deferrals under commercial law and tax law. These differences are expected to be reversed in later years. Deferred tax assets are recognised for tax loss carryforwards to the extent they are expected to be offset against taxable income in the next five years. Deferred tax assets are based on the company-specific tax rate at the time of the reversal of the differences. The amounts recognised are to be released when the tax burden or relief occurs or is no longer expected to occur.

Defined pension obligations are calculated based on the projected unit credit method, using the "2018 G" mortality tables compiled by Prof Dr Klaus Heubeck, assuming an unchanged staff turnover and salary tend of 0%, a discount rate of 3.21% (previous year: 3.68%) and an unchanged pension trend of 2.0%. The difference between the seven-year and ten-year average interest rate, which is restricted from distribution (Section 253 (6) sentence 2 HGB, revised version) amounted to EUR 1,028 thousand. The first-time application of the German Accounting Law Modernisation Act (BilMoG) in the 2010 financial resulted in an amounted to be allocated to pension provisions of EUR 3,341 thousand in accordance with actuarial principles, which is spread over a period of 15 years pursuant to Article 67 (1), sentence 1, of the Introductory Act to the German Commercial Code (EGHGB). A total of EUR 2,227 thousand of this amount was allocated as at 31 December 2018. The remaining amount of EUR 1,114 thousand will be allocated to pension obligations until the year 2024 in yearly instalments of EUR 223 thousand and recognised as an expense. The transition from the „2005 G" mortality tables by Prof Dr Klaus Heubeck to the „2018 G" tables resulted in a one-time transition expense of EUR 140 thousand in the 2018 financial year.

Other provisions take into account all foreseeable risks and uncertain obligations and are recognised at their settlement amount, i.e. including expected increases in prices and costs.

Liabilities are recognised at their repayment amount.

The translation of business transactions in foreign currencies is based on the spot exchange rate in accordance with Section 256a HGB.

## VII. Notes on the consolidated balance sheet

The statement of changes in non-current assets shows the development of the individual line items within non-current assets.

Goodwill results from the interest (100%) in Silesian Coal International Group of Companies S.A. acquired in 2014. The useful life of goodwill is five years.

Advance payments and assets under construction relate to exploration and development costs associated with the acquisition of a mining licence for the coalfield in Orzesze, Poland.

Other loans receivable are to affiliated companies. Additions result from the provision of new loans.

As in the previous year, all receivables, other assets and liabilities (except for liabilities to banks) have remaining terms of less than one year.

Deferred tax assets resulted primarily from the difference in the valuation of pension provision (EUR 1,153 thousand) and tax loss carryforwards (EUR 698 thousand). The calculation of temporary differences is based on the respective company-specific overall tax rate of 30.18%. The measurement of deferred taxes as at 31 December 2018 continued to result in a surplus of deferred tax assets over liabilities as was the case on the prior year's reporting date. The amount of capitalised deferred tax assets (EUR 1,850 thousand) is restricted from distribution.

Subscribed capital amounting to EUR 4,370,000.00 is comprised of 4,370,000 ordinary bearer shares with a nominal value of EUR 1.00 each. In June and November 2018, there was a resolution to increase the share capital by EUR 220,588.00 to EUR 4,590,588.00 by issuing 220,588 no-par value ordinary bearer shares with a notional interest in the share capital of EUR 1.00 per share against contribution in kind. The contribution consisted of receivables of LaVo Verwaltungsgesellschaft GmbH and IMT Commodities Holding AG, Vaduz, Liechtenstein, totalling EUR 3,750,000.00. The entry in the commercial register took place on 18 January 2019. According to the contribution agreement, the claims were already assigned to HMS Bergbau AG at the time the contract was concluded. As a result, the entire contribution in kind was recognised in a special item “Contributions made to execute the approved capital increase”. In the 2018 financial year, 1,850 treasury shares were issued to employees; each share represents EUR 1.00 in the share capital (EUR 1,850.00). In addition, a total of 5,500 shares were repurchased from former employees of the HMS Group who had previously been granted employee shares. As at the balance sheet date, the company held 164,904 treasury shares.

Capital reserves of EUR 3,824,847.36 resulted from the difference between the nominal value and the issue price. The decrease of EUR 50,100.00 was a result of the repurchase of 5,500 treasury shares from former employees, which was offset by an increase from the issue of 1,850 treasury shares to employees.

Authorised capital amounts to EUR 1,964,412.00. The authorisation expires at the end of 19 August 2020.

Subscription rights still exercisable within the context of an employee stock options programme totalled 41,438, which may be issued via treasury shares.

Pension provisions, net of the fair value of plan assets of EUR 673 thousand serving exclusively to meet pension obligations, amounted to EUR 7,090 thousand. Plan assets are held in the form of a management and collateral trust agreement for beneficiaries and consist of a bank account and custody account at DWS investing in equities. The fair value (EUR 673 thousand) equals the nominal amount of the bank account and the price of the equity fund as at the reporting date. In the financial year, EUR 50 thousand was recognised as an expense from the valuation of plan assets. Pensions amounting to EUR 480 thousand were paid in 2018, partially from trust assets. For actuarial reasons, a reversal of provisions in the amount of EUR 100 thousand was recognised in personnel expenses as well as an expense or allocation to provisions in the amount of EUR 140 thousand as a result from the transition from the “2005 G” mortality tables to the “2018 G” tables of Prof Dr Klaus Heubeck. The compounding of interest and the change in the discount rate resulted in an interest expense of EUR 791 thousand, which was recognised in the income statement.

Other provisions mainly concern costs for the preparation of the financial statements of EUR 102 thousand, Supervisory Board remuneration of EUR 99 thousand, outstanding invoices of EUR 43 thousand and personnel provisions of EUR 33 thousand.

Liabilities to banks include EUR 5,543 thousand of trade financing of individual back-to-back transactions and EUR 1,140 thousand of overdraft facilities. An amount of EUR 60 thousand is used quarterly to repay the overdraft facilities, resulting in EUR 900 thousand of the total facilities having a residual term of more than one year. The other components have a remaining term of up to one year.

All trade payables and other liabilities have a remaining term of less than one year.

## Contingent liabilities within the meaning of Section 251 HGB

HMS Bergbau AG issued a letter of comfort to duisport agency GmbH according to which it undertakes to meet the financial obligations of HMS Bergbau Coal Division GmbH (formerly: HMS Bergbau AG Coal Division) relating to a coal handling and processing contract with duisport agency GmbH. This letter of comfort is currently not expected to be utilised.

## Other financial obligations

As at 31 December 2018, the Group’s purchase obligations from contracts concluded amounted to EUR 15,582 thousand, all relating to the 2019 financial year.

Additional other financial obligations mainly result from rental and lease agreements. The maturities of these obligations are as follows:

| | | |
|---|---|---|
| Up to 1 year | EUR | 183 tousand |
| Between 1 and 5 years | EUR | 439 tousand |
| More than 5 years | EUR | 0 tousand |

## VIII. Notes on the consolidated income statement

Sales of EUR 254,204 thousand were generated in the financial year, mainly from trading coal products such as steam coal, coking coal, anthracite, ores and cement products. On a regional basis, sales originated from Asia (50%), Africa (42%), Europe/Other countries (8%).

Cost of materials resulted from the global purchase of steam coal, coking coal and anthracite.

Other operating income primarily includes currency translation gains of EUR 172 thousand and a gain of EUR 1,098 thousand from the sale of a 1.1% interest in the Polish subsidiary Silesian Coal International Group of Companies S.A.

Other operating expenses mainly include legal and consulting fees (EUR 1,379 thousand), vehicle and travel expenses (EUR 593 thousand), fulfilment costs (EUR 1,612 thousand), occupancy costs (EUR 191 thousand), currency translation losses (EUR 286 thousand) and the 1/15th of the allocation to pension provisions (EUR 223 thousand) resulting from the changed measurement pursuant to Section 253 (1) sentence 2 HGB.

The financial result includes interest expenses on pension obligations of EUR 791 thousand.

Income tax benefits resulted from the carryover of deferred tax assets (EUR 232 thousand).

## IX. Notes on the consolidated cash flow statement

Cash and cash equivalents include cash and liabilities to banks due on demand as well as other current borrowings related to the disposition of cash and cash equivalents.

## X. Other notes

### 1. Names of Management Board and Supervisory Board members

During the past financial year, the company's business was conducted by the following Management Board members:

- Mr Heinz Schernikau, Chief Executive Officer,
- Mr Steffen Ewald, Chief Financial Officer,
- Mr Dennis Schwindt, Chief Operating Officer.

Disclosure of the Management Board remuneration was waived by exercising the option granted by Section 286 (4) HGB.

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

- Dr Hans-Dieter Harig; engineer, retired, Chairman of the Supervisory Board,
- Dr h.c. Michael Bärlein; lawyer, Berlin, Deputy Chairman of the Supervisory Board,
- Ms Michaela Schernikau; merchant, Managing Director, Berlin.

During the financial year, Ms Michaela Schernikau was also a member of the Supervisory Boards of the following companies: HMS Bergbau AG Iron Ore & Metals Division, Berlin; and HMS Bergbau AG Coal Division GmbH, Berlin (formerly: HMS Bergbau AG Coal Division).

The members of the Supervisory Board received remuneration of EUR 32 thousand for their activities in 2018. The company has recognised a provision totalling EUR 99 thousand for the remuneration stipulated by the Company's Articles of Association for the 2018 financial year and prior years.

## 2. Auditor's fee

The auditor's fee amounted to EUR 44 thousand. In addition, the auditor performed other services totalling EUR 9 thousand in 2018.

## 3. Average number of employees during the financial year

An average of 37 staff (16 women, 21 men) was employed in the 2018 financial year.

## 4. Amounts restricted from distribution

The difference between the seven-year and ten-year average interest rate in the valuation of pension provisions is restricted from distribution (Section 253 (6) sentence 2 HGB) and amounts to EUR 1,028 thousand.

The capitalisation of deferred tax assets resulted in a distribution restriction of EUR 1,850 thousand pursuant to Section 268 88) HGB.

## 5. Subsequent events

There were no events of special significance after the end of the financial year.

Berlin, 29 March 2019

Heinz Schernikau
Chief Executive Officer

Steffen Ewald
Chief Financial Officer

Dennis Schwindt
Chief Operating Officer


# Imprint

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# Auditor's report

### Audit opinions

We audited the consolidated financial statements of HMS Bergbau AG, Berlin, and its subsidiaries (the Group) – consisting of the consolidated balance sheet as of 31 December 2018, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in shareholders' equity for the financial year from 1 January 2018 through 31 December 2018, as well as the notes to the consolidated financial statements, including the presentation of accounting policies. In addition, we audited the report on the situation of the company and the HMS Bergbau AG Group for the financial year from 1 January through 31 December 2018.

In our opinion, based on the knowledge obtained in the course of the audit,

- the accompanying consolidated financial statements comply with German commercial law in all material respects and, in accordance with German generally accepted accounting principles, give a true and fair view of the net assets and financial position of the Group as of 31 December 2018 and its results of operations for the financial year from 1 January 2018 through 31 December 2018;
- the accompanying report on the situation of the Company and the Group as a whole gives a true picture of the situation of the Company. In all material respects, this combined management report is consistent with the annual financial statements, complies with German statutory provisions and accurately presents the opportunities and risks of the future development.

In accordance with Section 322 (3) sentence 1 HGB (German Commercial Code), we declare that our audit has not led to any objections to the regularity of the consolidated financial statements or the report on the situation of the Company and the Group.

### Basis for the audit opinions

We conducted our audit of the consolidated financial statements and the report on the situation of the Company and the Group in accordance with Section 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Our responsibilities under these rules and policies are further described in the section entitled „Auditor's responsibilities for the audit of the consolidated financial statements and the management report" of our audit opinion. We are independent of the Group companies in accordance with German commercial law and rules of professional conduct and have fulfilled our other German professional obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to form the basis for our audit opinion on the consolidated financial statements and the report on the situation of the Company and the Group.

### The legal representatives are responsible for the other information.

Our audit opinions on the consolidated financial statements and the report on the situation of the Company and the Group do not extend to the other information and, accordingly, we provide neither an audit opinion nor any other form of audit conclusion on these issues.

In connection with our audit, we have the responsibility to read the other information and to evaluate whether the other information

- has material inconsistencies with the consolidated financial statements, the report on the situation of the Company and the Group or with our knowledge obtained during the audit;

or otherwise appears significantly misrepresented.

### Responsibility of the legal representatives for the consolidated financial statements and the management report

The legal representatives are responsible for the preparation of the consolidated financial statements, which comply with German commercial law in all material respects, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with generally accepted accounting principles. In addition, the legal representatives are responsible for the internal controls that they have determined to be necessary in accordance with generally accepted accounting principles in order to facilitate the preparation of consolidated financial statements that are free from any intentional or unintentional material misstatements.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern and for disclosing matters relating to the continuation of the business, where relevant. In addition, they are responsible for accounting on the basis of the going concern accounting principle, unless contrary to fact or law.

In addition, the legal representatives are responsible for the preparation of the report on the situation of the Company and the Group, which overall conveys a true picture of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German statutory provisions and accurately presents the opportunities and risks of the future development. In addition, the legal representatives are responsible for the arrangements and measures (systems) that they deem necessary to enable the preparation of a group management report in accordance with the applicable German statutory provisions and to provide sufficient and suitable evidence for the statements in the group management report.

### Responsibility of the auditor for the audit of the consolidated financial statements and the management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from intentional or unintentional material misstatements, and whether the report on the position of the Company and the Group as a whole provides a true picture of the Company's situation and in all material respects is consistent with the consolidated financial statements and the knowledge obtained in the course of the audit, complies with German statutory provisions, accurately presents the opportunities and risks of the future development and to issue an audit opinion that includes our audit opinion on the consolidated financial statements and the report on the position of the Company and the Group.

Reasonable assurance is a high level of assurance, but no guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if individually or together could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and the report on the position of the Company and the Group.

During the audit, we exercise due discretion and maintain a critical attitude. In addition, we

- identify and assess the risk of any intentional or unintentional material misstatements in the consolidated financial statements and the group management report, plan and perform audit procedures in response to such risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal controls;
- obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of the arrangements and measures relevant to the audit of the report on the position of the Company and the Group, in order to plan audit procedures that are appropriate for the circumstances but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company;
- evaluate the appropriateness of the accounting policies used, as well as the feasibility of accounting estimates and related disclosures made by the legal representatives;
- draw conclusions as to the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to this fact in our auditor's report to the related disclosures in the consolidated financial statements and report on the position of the Company and the Group or, if such disclosures are inadequate, to modify our particular opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the Group's net assets, financial position, and results of operations in accordance with German generally accepted accounting principles;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the report on the position of the Company and the Group. We are responsible for the direction, supervision and performance of the Group audit. We are solely responsible for our audit opinions;
- evaluate the consistency of the report on the position of the Company and the Group with the consolidated financial statements, its legal compliance and the presentation of the Company's position;
- perform audit procedures on the prospective information presented by the legal representatives in the report on the position of the Company and the Group. Based on sufficient and appropriate audit evidence, we hereby, in particular, review the significant assumptions used by the legal representatives as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions.

We are not issuing a separate audit opinion on the prospective information or the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control system that we identify during our audit.

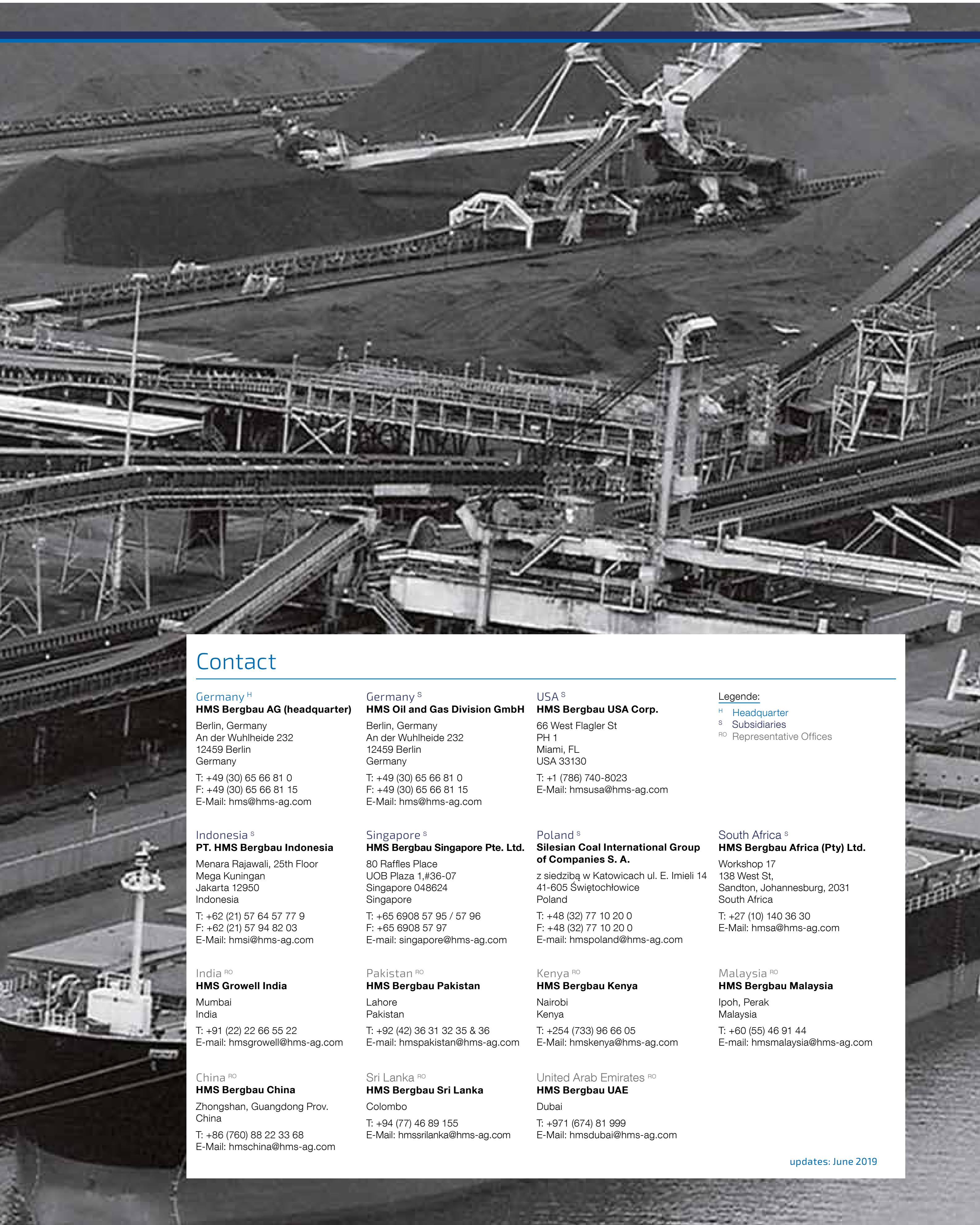
Berlin, 23 April 2019
PANARES GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Wenning
Auditor

# Legal notice

The report includes forward-looking statements that reflect the current opinion of HMS Bergbau AG'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 Bergbau AG's management. They therefore only refer to the day on 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 Bergbau AG does not assume any liability for such statements and does not intend to update such statements in view of new information or future events. This annual report of HMS Bergbau AG does represent annual financial statements in accordance with German commercial law and the regulations of the German Stock Corporation Act; information or figures contained in this report have been subject to an official audit by an auditor. This report is for reference only within the scope of HMS Bergbau AG's disclosure obligations in accordance with the general terms and conditions of Deutsche Börse AG concerning OTC trading on the Frankfurt Stock Exchange.

The English version of the annual report and the consolidated financial statements 2017 of HMS Bergbau AG is a one-to-one translation. The English version is not audited; in the event of variances, the German version shall take precedence over the English translation.



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