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Letter to the Shareholders

Dear Shareholders, Ladies and Gentlemen,

After utilising the financial year 2013 to continue to consolidate HMS Bergbau AG's position on the international coal market, we are successfully pursuing our growth strategy in 2014.

In terms of future business development, the takeover of Polish company Śląski Węgiel Żory – Suszec Sp. Z.o.o. in February 2014 was an important milestone. This company, which was renamed Silesian Coal Sp. z o. o. with effect from 31 January 2014, holds exploration licenses for the Orzesze and Studzionka-Mizerów regions. Both regions are located in Silesia, and with existing coal reserves of well over 1 billion tonnes, they offer huge mining potential for long-term coking coal and steam coal production. Until the mining licence is acquired in 2015, HMS Bergbau AG will carry out the required investments to prepare for the mining license application process. Now that the company has the exploration license, preparations for co-investment by a strategic or financial partner are already underway. Once the mining license is issued, investments will then be conducted with a strategic/financial investor to begin mining the coal as quickly as possible. Besides the development of the project and subsequent coal production, HMS Bergbau AG will secure marketing through its international coal-trading structures. Access to the high-volume and high-quality resources will strengthen our position in the European market as well as in the coking coal market overseas. This also allows us to be more independent from other procurement channels. Exploration in the Silesian regions will have a positive, sustainable impact on the company's sales and results from a current perspective.

The economic advantage is primarily access to subterranean reserves via a neighbouring mine's infrastructure.

In addition, our African subsidiary HMS Africa is conducting negotiations for long-term marketing agreements with African producers. HMS Africa expects to achieve at least 1 to 2 marketing agreements in the second half of 2014, which will create a long-term basis for international and national marketing for South African production.

Investing in our own resources is essential in order to push forward vertical integration within the value chain from mining through to logistics and delivery, as well as to ensure that future supply covers the growing demand for energy. In this context, it makes particular sense for HMS to enter into exclusive marketing agreements. The cornerstone for our future growth and success as a business is the further expansion of our trading activities based on solid, long-term customer and supplier relationships and stable contributions to value.

The beginning of financial year 2014 has progressed with very little change from developments in the last quarter of the previous year. As anticipated, incoming orders in the European market have remained low. However, there are opportunities for marketing American coking coal and coke products. Due to weak prices in Asia in recent months, customer markets are behaving with a high degree of caution. We continue to see considerable growth potential for overseas trade in Asia. In Africa, we commenced the first shipments in the last quarter of the financial year as a result of the marketing agreement. HMS expects this agreement to generate significant deliveries in the future, leading to an increase in sales revenues and margins. In this context, we expect a significant improvement over the next two financial years compared to 2013. We anticipate a slight increase in sales revenues and also expect vertical integration in our commercial transactions to lead to marginally higher gross margins. The estimated positive trend and without the one-off effects for both the Group and HMS AG in 2013 mean that the EBITDA and annual results of both the Group and HMS AG are expected to be positive once again.

The good operating development is also evident in the key financial figures for the first six months of 2014. Sales revenues increased EUR 26.4 million from EUR 42.7 million in the previous year to EUR 69.1 million. This corresponds to a 61.8 % increase. Earnings from current operating activities increased from EUR 2.1 million from EUR -1.5 million to EUR 0.6 million. Profit for the period also rose sharply from EUR -1.6 million in the previous year to EUR 0.5 million as at 30 June 2014. With total assets of EUR 18.7 million (31 December 2013: EUR 15.5 million), the equity ratio remains almost unchanged at 17.6 % (31 December 2013: 17.5 %). Cash and cash equivalents increased EUR 1.9 million to EUR 5.4 million as of the balance sheet date compared to 31 December 2013.

Given the current market position and prospects provided by the exploration in Poland and the long-term marketing agreement in Africa as well as rising sales in Southeast Asia, we continue to assume an increase in sales revenues in the next two financial years and a slight improvement in margins thanks to the further vertical integration of trading business.

For 2014 we continue to forecast positive EBITDA and a positive annual result.



Heinz Schernikau

CEO

Macroeconomic Development

The first half of 2014 progressed with very little change from developments in the last quarter of the previous year. As anticipated, incoming orders in the European market have remained low. However, there are opportunities for marketing American coking coal and coke products. Due to weak prices in Asia in recent months, customer markets are behaving with a high degree of caution. The company continues to see considerable growth potential for overseas trade in Asia. In Africa, we commenced the first small shipments in the last quarter of the year as a result of the marketing agreement with IchorCoal and its subsidiary Vunene Mining (Pty) Ltd.

Due to the positive development of the global economy in 2013, negative effects from the current crisis in eastern Ukraine, and particularly in Russia, could lead to a slump in growth owing to Russia's involvement in the Ukraine crisis, according to the IMF. If the crisis escalates, this could lead to an economic downturn. Analysts currently forecast a GDP of just 0.2 % for 2014, whereas in April the forecast was 1.3 %.

The development of the Russian economy is also reflected in forecasts for the global economy. Experts have reduced their growth estimates by 0.3 % to 3.4 %. Besides the effects from international crisis hotspots, the revised growth estimates are largely based on the unexpectedly weak development in the US due to the harsh winter as well as sluggish demand in China.

Along with the above-mentioned crisis in Ukraine, the situation in the Middle East, which could send petrol prices up, is one of the main risks. According to the IMF report, political turmoil has led to weaker demand and a slowdown in economic activity. Investments in Russia in particular are likely to continue to decline.

However, the IMF's long-term outlook remains optimistic. For 2015 the IMF continues to forecast 4 % global economic growth despite the increase in international crises. While growth forecasts for Germany, Japan, Spain and the UK are more ambitious, the outlook for emerging markets China and Brazil is more subdued.

In Germany, the Federal Statistical Office announced that German GDP declined 0.2 % in the second quarter of 2014 compared to the previous quarter after adjustments for price, seasonal and calendar effects. This is probably related to the extremely mild weather, with strong growth rates at the beginning of the year. According to recent calculations, the German economy grew 0.7 % in the first quarter of 2014. Adjusted for price, seasonal and calendar effects, the first half of 2014 even gained 0.8 % compared to the second half of 2013.

German consumption (adjusted for price, seasonal and calendar effects) also provided positive impetus. In the second quarter of 2014, both private (+ 0.1 %) and government spending (+ 0.1 %) were higher compared to the first quarter of 2014. Investments were down, on the other hand. Machinery – mainly machines, equipment and vehicles – saw lower investments compared to the previous quarter (-0.4 %). Construction spending fell sharply by 4.2 %, which was largely attributable to pre-emptive effects in the first quarter due to the unusually mild winter of 2013/2014. Exports likewise were unable to support GDP. Although April to June saw slightly higher exports of goods and services (+ 0.9 %) compared to the first three months, imports increased more strongly at + 1.6 %, which results in a negative growth contribution of 0.2 % to GDP.

Compared to the previous year, the German economy lost momentum, but grew nonetheless. Price-adjusted GDP was 0.8% higher than in the second quarter. Adjusted for calendar effects, the increase was 1.2 %, as there was one fewer working day compared to the previous year.

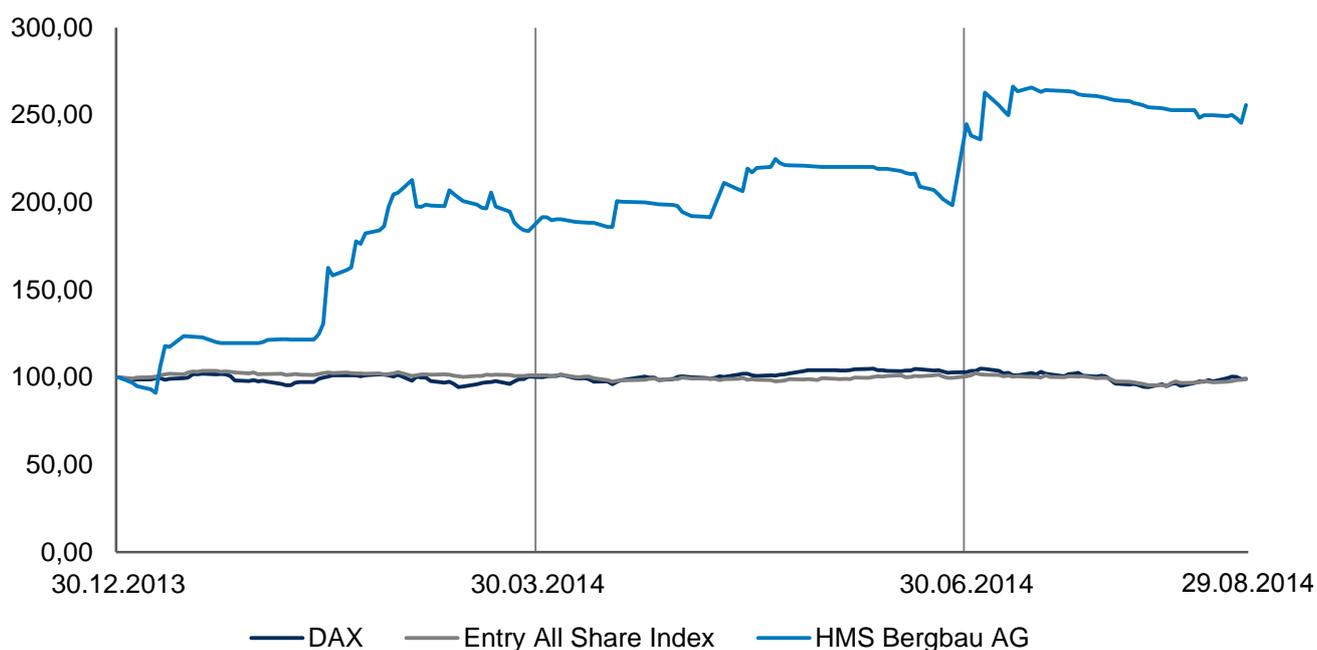


Investor Relations

The German DAX rallied by around 3 % in the first half of 2014, from 9,552 points at the end of 2013 to 9,833 points. The Entry All Share Performance Index gained just over 0.7 percent in the same period to around 823 points (end of 2013: 818 points). Due to geopolitical uncertainty in eastern Ukraine and the subsequent repercussions for the global economy following the imposed economic sanctions, the DAX and the Entry All Share Performance Index fell swiftly in July and August, closing at 9,470 and 809 points respectively at the end of August.

HMS Bergbau AG shares rose sharply from EUR 3.29 EUR to EUR 8.05 in the first six months of 2014. This corresponds to a 144.7 % increase. After the balance sheet date of 30 June 2014, the shares have remained within a corridor between EUR 8.00 and EUR 8.70. The stock ended trading at EUR 8.41 on 29 August, which corresponds to a market capitalisation of EUR 36.8 million.

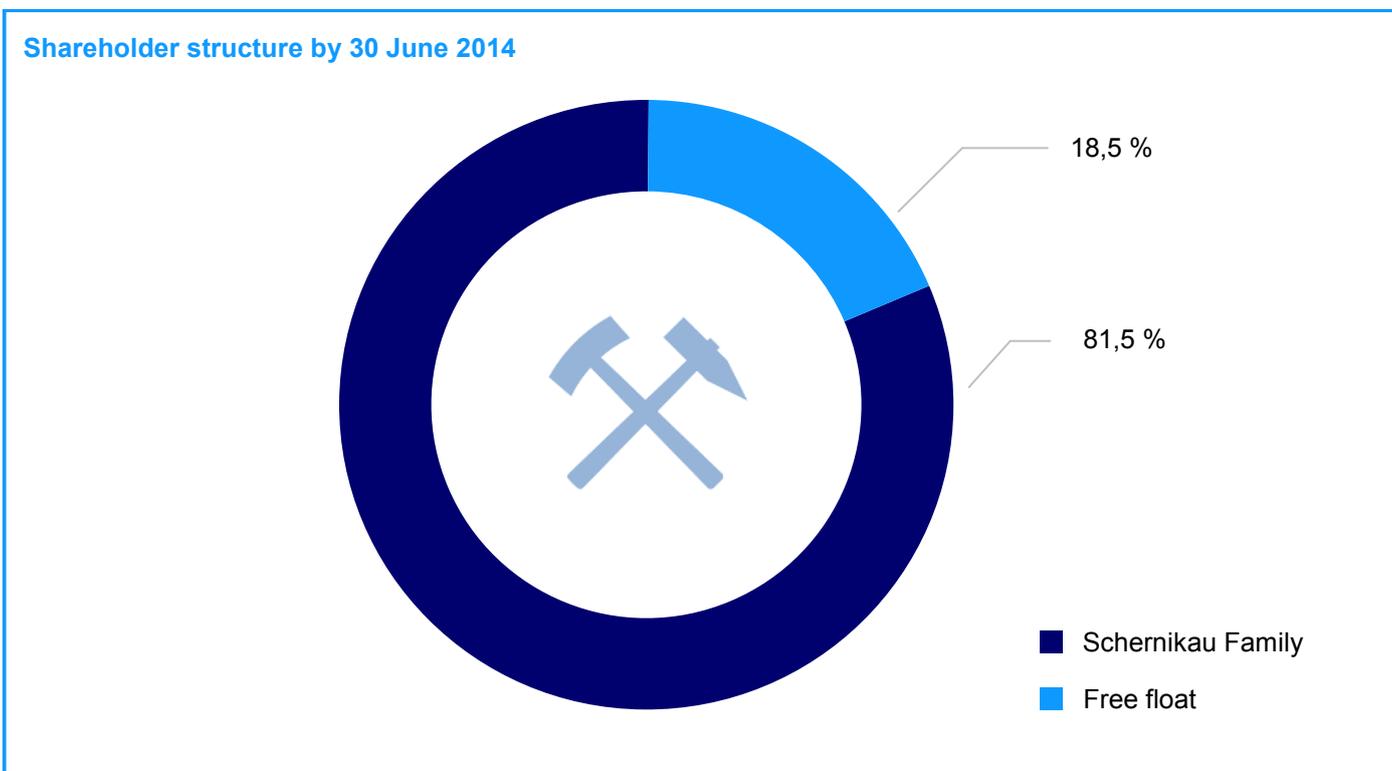
Performance of HMS-Bergbau share by 29 August 2014



Shareholder structure

As at 30 June 2014, the share capital of HMS Bergbau AG stood at EUR 4,370,000 with the same number of shares. The Schernikau family holds 81.5 % of the shares and 18.5 % are free float.

As at 30 June 2014, HMS Bergbau AG held 248,307 own shares.



Annual General Meeting 2014

The 2014 Annual General Meeting was held on 19 August 2014 at the business premises of HMS Bergbau AG in Berlin. The agenda of this year's Annual General Meeting included proposals to approve the Management Board's and Supervisory Board's actions and the appointment of the auditors for the annual financial statements, authorise the acquisition of own shares and utilise own shares, introduce a stock option programme and create contingent capital.

The shareholders of the company approved all the proposals.

Investor relations activities

Aside from the publication of financial reports, the company's Management Board also regularly informed shareholders promptly and comprehensively of important matters by means of corporate news. All capital-market-relevant information was published in both English and German and once again exceeded the requirements of the Entry Standards. In addition, the informative company website also ensured transparency in shareholder communications. Moreover, the Management Board met with institutional investors, financial journalists and industry analysts on a regular basis to discuss the company's business model and future prospects as well as other relevant capital market issues. In order to gain greater access to the capital markets, HMS Bergbau AG will introduce itself to a broad investor audience at the German Equity Forum in Frankfurt am Main in November 2014.

Management Report

Business Development in the First Half of 2014

HMS Bergbau AG is an international coal trading and marketing company that specialises in the reliable and just-in-time supply of steam coal, coking coal and solid fuels for power plants and other industrial consumers. As one of the leading coal trading companies in Germany with decades of experience, extensive specialist expertise and an outstanding global network of contacts, particularly in Asia and South Africa, HMS Bergbau AG is on sound footing and has excellent prospects for growth.

Results of operations of HMS Group for the first half of the year compared to the same period in 2013 were as follows:

	30.06.2014		30.06.2013		Change	
	TEUR	%	TEUR	%	TEUR	%
Sales revenues	69,058	100	42,742	100	26,316	62
Changes in inventories	6	0	0	0	6	-
Total benefits	69,065	100	42,742	100	26,316	62
Cost of materials	-66,090	-96	-40,193	-94	25,897	64
Personnel costs	-1,301	-2	-936	-2	365	39
Depreciation	-65	0	-319	-1	254	80
Other operating costs						
./. other operating earnings	-825	-1	-1,539	-4	714	46
Taxes (excluding income taxes)	-2	0	-2	0	0	-1
Operating costs	-68,284	-99	-42,989	-101	27,229	63
Operating result	781	1	-247	-1	-1,028	< -100,0
Earnings from investment and financial result	-231		-241		10	4
Earnings before income taxes	549		-488		1,037	> 100
Income taxes	30		0		30	-
Loss due port sale	0		-1,004			
Extraordinary expenses	-111		-111		0	0
Minority interests	295		0		295	-
Net profit	763		-1,603		2,366	> 100

HMS Bergbau AG's sales revenues improved from EUR 42.7 million to EUR 69.1 million in the first six months of 2014 compared to the previous year. This corresponds to an increase of 61.6% and is largely attributable to an increased business in Africa and Asia as well as the initial consolidation of HMS Coal & Coke Trading GmbH, Woltersdorf (Berlin).

Cost of materials rose by 64.4% from EUR 40.0 million in the reporting period. This increase is mainly a result of the sales increase.

Personnel expenses in the reporting period rose by 39.0%, from kEUR 936 to kEUR 1,301. This is related to the rise in employees due to the initial consolidation of HMS Coal & Coke Trading GmbH, Woltersdorf (Berlin).

Earnings from ordinary activities increased from EUR -1.5 million to EUR +0.5 million and demonstrates HMS Bergbau AG's earnings power. HMS generated net profit of EUR 0.5 million (previous year: loss of EUR 5.1 million).

Net assets of HMS Group as at 30 June 2014 compared to 31 December 2013 were as follows:

	30.06.2014		31.12.2013		Change	
	EUR thousand	%	EUR thousand	%	EUR thousand	%
Assets						
Fixed assets	548	3	223	1	326	> 100
Inventories	1,964	11	295	2	1,669	> 100
Receivables	8,795	47	9,207	60	-412	-5
Cash and cash equivalents	5,359	29	3,469	22	1,890	55
Other assets	1,986	11	2,267	15	-282	-12
	<u>18,652</u>	<u>100</u>	<u>15,461</u>	<u>100</u>	<u>3,191</u>	<u>21</u>
Capital						
Equity	5,670	30	5,095	33	576	11
Own shares	-2,392	-13	-2,392	-16	0	0
Difference from capital consolidation	49	0	144	1	-95	-66
Non-current liabilities	3,237	17	2,778	18	459	17
Current liabilities	12,087	65	9,836	64	2,251	23
	<u>18,652</u>	<u>100</u>	<u>15,461</u>	<u>100</u>	<u>3,191</u>	<u>21</u>

Total assets amounted to EUR 18.7 million as at 30 June 2014, up 20.6% compared to 31 December 2013. This is mainly attributable to the increase in cash and cash equivalents, which grew from EUR 3.5 million as at 31 December 2013 to EUR 5.4 million as at 30 June 2014. Moreover, inventories rose from EUR 0.3 million to some EUR 2 million, which is related to the balance sheet date. The initial consolidation of HMS Coal & Coke Trading GmbH, Woltersdorf (Berlin) accounts for around EUR 1.5 million of this. Compared to 31 December 2013, equity improved by 21.3% to EUR 3.3 million as at 30 June 2014. The equity ratio stood at 17.6% as at 30 June 2014 (31 December 2013: 17.5%). Provisions were up from EUR 3.2 million as at 31 December 2013 to EUR 3.6 million as at 30 June 2014. This is largely related to ongoing additions to pension provisions. Liabilities likewise increased by 24.3% from EUR 9.4 million. Trade payables in particular registered an increase due to the increase in sales.

Development in Individual Divisions

While the global population has more than doubled over the past 50 years, global energy consumption has tripled. Further growth in the global population and the potential of certain countries to consume more energy in the future point to a further increase in energy requirements. According to the International Energy Agency (IEA), non-OECD countries are setting the tempo of the energy markets on an increasing basis. Population and economic growth in these countries will make a major contribution to determining the dynamic of energy consumption over the next 25 years. As a result, experts are forecasting global energy consumption to rise by one-third by the year 2035. The largest energy consumer, China, will consume almost 70% more energy than the USA. Increases in energy requirements in India, Indonesia, Brazil and the Middle East are forecast to be even higher.

Despite the fact that the share of renewable energies and nuclear power in the global energy balance is set to increase by an estimated 2.5% per year, the US energy ministry predicts that approximately 80% of global energy demand will be met by fossil fuels by the year 2040. Coal consumption will grow more quickly than demand for crude oil beyond 2030. One major factor here is the huge demand for coal in China, coupled with a slowdown in the growth rate in terms of OECD member states' crude oil demand.

The strategic realignment of HMS Bergbau AG to a pure trading and marketing company in the coal and other energy commodities industries means that we possess unrivalled specialist expertise, decades of experience, a strong network of international contacts as well as a solid market position. Furthermore, we expect to conclude further marketing and representation contracts with renowned producers alongside existing contracts and thus generate substantial growth in our core business over the next few years. The focal point of our international expansion strategy is Africa and Asia, the most important production and consumer markets in the world.

The following section contains further information concerning the individual divisions of HMS Bergbau AG:

Trade

HMS Bergbau AG's international trading in coal is characterised by relationships of trust with customers and suppliers. HMS Bergbau Group's principal customers include power plant operators and cement manufacturers. We also supply coal to steel manufacturers and industrial companies such as glassworks and paper factories. HMS Bergbau Group serves both the private and public sectors. We purchase coal from reliable major-name production and sales companies, largely based in Indonesia, South Africa, Russia, Poland, and North and South America. In addition to this, we represent some international coal production companies exclusively, i.e. we handle all their coal marketing in particular markets. HMS Bergbau AG has since acquired 51% of the shares in company, which now trades under the name HMS Coal & Coke Trading GmbH. The remaining 49% of the shares are held by Franke, the former founding family. This cooperation aims to expand European coal trading market shares.

Handling

As a one-stop provider, HMS Bergbau Group not only ensures that its customers are supplied with the raw materials they need on time, but also takes care of the entire transport and logistics process. The professional team charts shipping on demand, organises domestic store by water, rail or road, takes care of harbour procedures, warehousing management, coal processing and technical monitoring. As the harbour operations in South Kalimantan, Indonesia, which were acquired in 2010, failed to meet their own trading operations expectations placed at the time of acquisition, the strategic realignment of HMS Group to a trading and marketing company was completed in the first half of financial year 2013 with the sale of harbour operations in Indonesia. The Company's focus on the most important growth markets in the coal industry in the Asian regions and on southern African markets will be further

intensified in the future. The Company will continue to adapt its corporate structure to global goods flows and the resulting requirements in order to consistently increase the involvement of subsidiaries and representative offices in Singapore, Indonesia, Pakistan and India in Asia's booming coal export industry.

Events after the Balance-sheet Date

Bernd Sagemann, member of the Management Board of HMS Bergbau AG since April 2014, asked the Supervisory Board to end his contract prematurely for personal reasons. The Supervisory Board yielded to his request. The Finance division has been managed by Steffen Ewald, as Finance Director, since the beginning of September.

HMS Bergbau AG's 51% investment in HMS Coal & Coke Trading GmbH, Woltersdorf (Berlin) was sold after the balance sheet date of 1 July 2014. The company is no longer part of the basis of consolidation of HMS Bergbau AG. In the first half of 2014, the company contributed EUR 3.8 million in sales to the HMS Group. The parties have agreed not to disclose the purchase price.

Consolidated Balance Sheet as of 30 June 2014 (unaudited)

Assets	EUR thousand	30.06.2014 EUR thousand	31.12.2013 EUR thousand
A. Non-current assets			
I. Intangible assets			
1. Licences, industrial property rights, similar rights and values and licences in such rights and values	12		16
2. Goodwill	207		0
		219	16
II. Property, plant and equipment			
1. Constructions on external Property	26		0
2. Technical equipment and machinery	0		0
3. Other equipment, office and factory equipment	291		207
4. Deposits paid / plant under construction	13		0
		330	207
III. Financial Assets			
Investments of associated companies		0	0
		548	223
B. Current assets			
I. Inventories			
1. Goods	1,964		295
2. Advance payments	0		0
		1,964	295
II. Receivables and other assets			
1. Trade receivables	8,795		9,339
2. Receivables to shareholders	0		323
3. Other assets	1,910		1,879
		10,705	11,540
III. Cash and cash equivalents		5,359	3,469
		18,028	15,304
C. Accruals and deferrals		75	66
		18,652	15,593

Consolidated Balance Sheet as of 30 June 2014 (unaudited)

Shareholders' equity and liabilities	EUR thousand	30.06.2013 EUR thousand	31.12.2012 EUR thousand
A. Shareholders' equity			
I. Issued capital			
Subscribed capital		4,370	4,370
Own shares		-248	-248
II. Capital reserve		4,619	4,619
Own shares		-1,244	-1,244
III. Profit reserves			
1. Statutory reserve	5		5
2. Other profit reserves	273		273
Own shares	0		0
		278	278
IV. Consolidated net loss/profit	-4,547		-5,310
V. Difference in equity due to currency conversion	281		305
VI. Minority equity	-230		65
		-4,497	-4,940
		3,278	2,835
B. Balance from capital consolidation		49	144
C. Provisions			
1. Pension provisions and similar obligations	3,237		1,871
2. Tax provisions	44		5
3. Other provisions	369		443
		3,649	3,225
D. Liabilities			
1. Liabilities to banks	28		21
2. Deposits received	0		0
3. Trade payables	10,546		8,747
4. Liabilities against shareholders	0		0
5. Other liabilities	1,099		621
		11,674	9,389
E. Accruals and deferrals		0	0
		18,652	15,593

**Consolidated income statement for the period from
1 January 2013 to 30 June 2013 (unaudited)**

	EUR thousand	01.01.- 30.06.2014 EUR thousand	01.01.- 30.06.2013 EUR thousand
1. Sales	69,058		118,283
2. Changes in inventories	6		255
3. Other operating earnings	516		417
		69,581	118,955
4. Cost of materials			
Costs for raw materials and supplies and for goods purchased	-1,031		-1,671
Cost for services purchased	-270		-485
		-1,301	-2,156
5. Personnel costs			
a) Wages and salaries	713		626
b) Social security costs and and pension support costs	223		130
		936	756
6. Amortisation			
Amortisation of intangible assets and depreciation of property, plant and equipment		-65	-1,263
7. Other operating expenses		-1,341	-4,624
8. Income from investments		0	0
9. Income from investments of associated companies		0	0
10. Other interest and similar earnings		7	286
11. Interest and similar expenses		-239	-756
12. Earnings from ordinary activities		552	-4,678
13. Extraordinary expenses		-111	-223
14. Income taxes		30	-11
15. Other taxes		-2	-2
16. Net profit / loss		468	-4,914
17. Gain / loss carried forward		-5,310	-469
18. Profit or loss attributable to minority interest		295	74
19. Consolidated net loss		-4,547	-5,310

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Publisher:



HMS Bergbau AG

An der Wuhlheide 232
12459 Berlin
Deutschland
Phone: +49 (0) 30 / 65 66 81 0
Fax: +49 (0) 30 / 65 66 81 15
E-Mail: berlin@hms-ag.com
www.hms-ag.com

Concept, editorial, design:



Aktiengesellschaft

GFEI Aktiengesellschaft

Am Hauptbahnhof 6
60329 Frankfurt
Deutschland
Phone: +49 (0) 69 / 743 037 00
Fax: +49 (0) 69 / 743 037 22
E-Mail: info@gfei.de
www.gfei.de

Legal:

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HMS Bergbau AG
An der Wuhlheide 232
D - 12459 Berlin

Phone: +49 (0) 30 / 65 66 81 0
Fax: +49 (0) 30 / 65 66 81 15
E-Mail: berlin@hms-ag.com
Internet: www.hms-ag.com