CONEX ERNST & YOUNG et Associés

Société Nationale Industrielle et Minière

S.N.I.M.

Year ended December 31, 2013

Statutory auditors and independent auditors' report on the consolidated financial statements

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Société Nationale Industrielle et Minière
S.N.I.M.

Year ended December 31, 2013

Statutory auditors and independent auditors' report on the consolidated financial statements

To the Chairman,

We have audited the accompanying consolidated financial statements of S.N.I.M., which comprise the statement of the consolidated financial position as at December 31, 2013, the consolidated income statement, the consolidated statement of change in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of S.N.I.M. as at December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Nouakchott and Paris-La Défense, May 9, 2014

The statutory auditors CONEX	The independent auditors ERNST & YOUNG et Associés
Sidi Mohamed Elemine	Pierre Abily

SOCIETE NATIONALE INDUSTRIELLE ET MINIERE

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

STATEMENT OF FINANCIAL POSITION

ASSETS

In million Ouguiyas	Note	31/12/2013	2012 Corrected	31/12/2012
Non-current Assets		**634 093**	**488 492**	**489 007**
Property, plant and equipment	5.1	599 185	465 811	466 326
Exploration Assets	5.1	794	410	410
Intangibles assets	5.2	2 870	2 808	2 808
Other financial fixed assets	5.3	14 264	6 620	6 620
Investment in associated companies	5.3	241	345	345
Investments in associates	5.3	16 645	12 415	12 415
Deferred taxes		94	83	83
Current Assets		**485 978**	**463 719**	**463 719**
Inventories	5.4	75 866	57 375	57 375
Trade receivables	5.5	47 025	78 694	78 694
Other receivables	5.6	25 630	13 426	13 426
Future Contracts	5.7	1 282	2 354	2 354
Cash and cash equivalents	5.8	336 175	311 870	311 870
TOTAL ASSETS		**1 120 071**	**952 211**	**952 726**

EQUITY AND LIABILITIES

In million Ouguiyas	Note	31/12/2013	2012 Corrected	31/12/2012
Capital and reserve		**752 699**	**634 059**	**646 621**
Issued capital	5.9	182 700	12 180	12 180
Share Premium		6 464	6 464	6 464
Underlying net earnings on forward contracts	5.7	(3 021)	(2 756)	(246)
Accumulated profits		**566 556**	**618 171**	**628 223**
Legal reserve		1 218	1 218	1 218
Retained profit brought forward		344 486	426 474	426 474
Profit for the year		173 358	142 985	153 037
Revaluation reserve		47 494	47 494	47 494
Minority shareholding interests		**7 687**	**5 209**	**5 209**
Non-current liabilities		**272 567**	**235 118**	**223 071**
Interest-bearing loans and borrowings	5.10	233 429	198 172	198 172
Retirement benefits obligation	5.11	34 403	32 532	20 485
Other provisions	5.12	4 734	4 414	4 414
Current liabilities		**87 119**	**77 825**	**77 825**
Trade payables	5.13	41 910	41 932	41 932
State and other public taxes	5.14	7 528	9 724	9 724
Other taxes	5.15	5 417	1 621	1 621
Other payables	5.16	28 035	16 364	16 364
Bank overdraft	5.8	2 454	5 658	5 658
Derivatives	5.7	1 775	2 527	2 527
TOTAL LIABILITIES		**1 120 071**	**952 211**	**952 726**

INCOME STATEMENT

In million Ouguiyas	Note	31/12/2013	2012 Corrected	31/12/2012
Sales	**6.1**	380 181	345 192	345 192
Revenue from ancillary business activities	**6.2**	4 764	4 886	4 886
Other operating income	**6.3**	527	956	956
Operating income		**385 472**	**351 034**	**351 034**
Changes in inventory of finished goods and work-in-progress		1 457	(4 644)	(4 644)
In-house production		22 319	16 376	16 376
Reversal of depreciation and provisions		7 566	3 394	3394
Raw materials and consumables used	**6.4**	(105 196)	(93 742)	(93 742)
Personnel expenses	**6.5**	(40 937)	(44 870)	(35 333)
Depreciation, amortization and provision expenses	**6.6**	(36 829)	(31 365)	(30 850)
Taxes and duties	**6.7**	(693)	(500)	(500)
Other operating expenses	**6.8**	(22 854)	(22 094)	(22 094)
Profit from operation		**210 305**	**173 589**	**183 641**
Financial income	**6.9**	21 908	27 535	27 535
Financial expenses	**6.10**	(23 969)	(26 210)	(26 210)
Share of profits (losses) of equity-accounted affiliates		(304)	(654)	(654)
Profit before tax		**207 939**	**174 260**	**184 312**
Income Tax		(34 222)	(30 881)	(30 881)
Net profit		**173 718**	**143 379**	**153 431**
Earnings per share (1,218,000 shares) in Ouguiyas		**360**	**393**	**393**

STATEMENT OF COMPREHENSIVE INCOME

In million Ouguiyas	31/12/2013	2012 Corrected	31/12/2012
Net profit	173 718	143 379	153 431
Impact of financial instruments	-265	2 034	4 544
Comprehensive income	**173 453**	**145 413**	**157 975**

CASH FLOW STATEMENT

In million Ouguiyas	Note	31/12/2013	31/12/2012	2012 Corrected
OPERATING ACTIVITIES				
Income before tax		207 939	184 312	174 260
Amortization, depreciation and provision	7.1	36 341	31 078	41 130
Reversal of amortization, depreciation and provisions	7.4	(22 474)	(16 376)	(16 376)
Gains/losses on sale of assets				
Foreign exchange gains/losses	7.5	(545)	6 533	6 533
Investment income		(2 669)	(2 726)	(2 726)
Interest expenses		2 975	1 790	1 790
Investments in associates		305	654	
Working capital needs	7.2	20 332	(30 583)	(30 583)
Cash generated by operating activities		**242 204**	**174 682**	**174 028**
Interest paid		(2 374)	(1 771)	(1 771)
Income tax paid		(37 022)	(32 972)	(32 972)
Net cash flow from operating activities		**202 808**	**139 939**	**139 285**
INVESTING ACTIVITIES				
Acquisitions of fixed assets	7.3	(163 349)	(129 177)	(129 177)
Proceeds from sale of equipment		1 351	0	0
Interests received		2 668	2 726	2 726
Dividends received		0	0	0
Net cash flow from financing activities		**(159 329)**	**(126 451)**	**(126 451)**
FINANCING ACTIVITIES				
Capital increase		1940		
Proceed from long-term borrowings		46 242	84 767	84 767
Payments on long-term borrowings		(9 515)	(18 870)	(18 870)
Dividends paid		(54 639)	(83 819)	(83 819)
Net cash flow from financing activities		**(15 971)**	**(17 922)**	**-17 922**
Net cash flow		**27 508**	**-4 434**	**-5 088**
Cash and cash equivalents at the beginning of the period		**306 212**	**309 486**	**309 486**
Cash and cash equivalents at the end of the period	**7.6**	**333 720**	**310 935**	**310 935**

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

In million Ouguiyas	Share Capital	Share Premiums	Accumulated Profit	Underlying net earnings on forward contracts	Total	Minority Interest
Shareholders' equity as of January 01, 2012	**12 180**	**6 464**	**558 344**	**(4 790)**	**572 198**	**4 810**
Revaluation of fixed assets				4 544	4 544	
Net profit of the period			153 037		153 037	399
Dividends			(83 834)		(83 834)	
Other			676		676	
Correction			(9 970)	(2 510)	(12 480)	
Shareholders' equity as of December 31, 2012	**12 180**	**6 464**	**618 253**	**(2 756)**	**634 141**	**5 209**
Capital Increase	170 520		(170 520)		**0**	
Revaluation of fixed assets				(265)	(265)	
Net profit of the period			173 358		173 358	2 478
Dividends			(54 611)		(54 611)	
Other			76		76	
Shareholders' equity as of December 31, 2013	**182 700**	**6 464**	**566 556**	**(3 021)**	**752 699**	**7 687**

Correction of errors

The 2012 net result has been written off for a total amount of MUM (10 052) due to error corrections as stated below:

- ✓ Retrospective application of IAS 19R : MUM (9 537) of net impact
- ✓ Correction of non-recognized depreciation on assets commissioned in 2012 : MUM (515)
- ✓ Correction of error in 2012 ATTM profit : MUM 81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of SNIM for the year ended December 31, 2013 were authorized for issuance in accordance with a resolution of the Board of Directors on April 28, 2014.

1 KEY EVENTS

The financial year 2013 is characterized by an absolute record of sales in 13 042 000 of metric tons and by an increase of important orientation towards Chinese market.
As a consequence for SNIM, the ore selling price has decreased of 8% compared to 2012.

- All time high sale of 13 million metric tons.
- Discovery of probable reserves in TIZERGHAF EL BEIDHA of 830 Million metric tons. Inauguration of a new training center in Zouerate
- Inauguration of the new ore port
- Launch of the new rocker dumpers
- Appointment of a new Chairman of the Board of Directors Mr. Kaba ould Elewa replacing Mr. Mohamed Cherif.

2 COMPANY PURPOSE AND BUSINESS ACTIVITIES

The Société Nationale Industrielle et Minière (SNIM) is a company registered in the Islamic Republic of Mauritania to carry out the exploration, production, marketing and sale of iron ore.
The company headquarters are based in Nouadhibou, PO. 42.
The company extracts iron ore from the mines of M'haoudat, Guelbs and Kédia, while carrying on its own, mineral exploration activities.

3 ACCOUNTING POLICIES

3.1 Principles for the preparation of the Financial Statements

Applicable standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
The publication of the financial statements in IFRS is justified by:

- ✓ The wish for harmonization expressed by investors and sponsors, who are the main users of our financial statements;
- ✓ The use of these standards by SNIM's partners;
- ✓ Our concern to give comparable financial information.

Norms, norm amendments and effective interpretations
The group's consolidated financial statements as of 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (*IFRS*) as adopted by EU (*European Union*), and in accordance with norms issued by IFRS as published by IASB (*International Accounting Standard Board*) and with a mandatory application as of 31 December 2013.

The group has applied in its 2013 combined financial statements new norms and amendments as adopted by the European Union and with a mandatory application as of 1st of January 2013.

It is about the following:

- IAS 1 - Amendment – *Presentation of financial statements: presentation of other comprehensive income items*, as published by IASB on June 16, 2011, as adopted by EU on June 5, 2012, and published in EU's Official Journal on June 6, 2012. It discloses a presentation of other comprehensive income items (named « Charges and income booked in other comprehensive income » in the combined comprehensive income statement) which are included from now on according or not to their recycling in the income statement
- IAS 19 - Amendment – *Employees benefit*, as published by IASB on June 16, 2011, as adopted by EU on June 5 2012 and published in EU's Official Journal on June 6, 2012. The accounting principles and valuation methods relating to employee benefits plans are presented in Note 1.3.15 –Employee benefit plans.
- IFRS 13 – *Fair value measurement*, definition on the concept of fair value in terms of measurement and disclosure, has been published by IASB May 12, 2011, adopted by EU on December 11, 2012, and published in official Journal of EU December 29, 2012. The implementation does not have any significant impact, nor on the method of valuation used by the group, neither on the information disclosed in our annexes.
- Amendments in different IFRS norms included in the Annual improvement text Cycle 2009-2011 were published by IASB in May 2012 adopted in EU on March 27, 2013, and published in the EU's official Journal on March 28, 2013.

The group also decided to apply early in their consolidated financial statement as of December 31, 2013 the new standards of consolidation method: IFRS 10 - *Consolidated Financial Statements*, IFRS 11 - *Joint Arrangements*, IFRS 12 - *Disclosure of interests in Other entities* and IAS 28 - *Investments in Associates and Joint Ventures*, issued by the IASB on May 12, 2011, the EU adopted in December 11, 2012 and published in the EU's Official Journal on December 29 2012. Their application is mandatory from 1 January 2014 in the European Union.

The principles related to consolidation methods introduced by these new standards are presented below in Note 1.3.2 – Consolidation Methods.

New IFRS standards and IFRIC interpretations issued but not yet effective
Among other IFRS standards and IFRS interpretations issued by IASB/IFRS IC but not yet effective, for which the Group did not opted for early application, and which are likely to affect the group, found mostly the IFRIC 21 interpretation - *Duties or Taxes*, published by the IFRS IC 20 May 2013, the mandatory date of application is not yet known at this time, the EU has not yet adopted this interpretation. The application of this interpretation could lead, if applicable, to modify the analysis of the event giving rise to the recognition of liabilities.
The group's process of determining potential impacts of the application of this interpretation on the combined financial statements and on the content of combined financial statements notes is ongoing.
In addition, the group follows the evolution of IFRS 9 -. *Financial Instruments* to replace IAS 39. The Board of the IASB temporarily decided to shift the norm's entry date (originally scheduled for 2015), without pronouncing on another date.

SNIM is now analyzing the potential impact of these standards and interpretations on its financial statements.

General principles

The principles used are based on the historical cost method and the accrual basis accounting method, except for (1) derivative financial instruments and (2) categories of revalued fixed assets that have been measured at fair value. The carrying values of assets and liabilities that are hedged at fair value are adjusted to record changes in the fair value attributable to the risks that are being hedged.

The financial statements are presented and valued in Ouguiya (MRO). All of the tables and the notes to the financial statements are presented in million Ouguiyas.

The income statement is presented by category.
Asset and Liability accounts are presented according to the distinction between current and non-current assets and liabilities.

Assets held for sale or intended for consumption during the Group's normal business cycle, as well as cash and cash equivalents, are accounted for as current assets. Other assets represent non-current assets. Debts due during the Group's normal business cycle or during the twelve months following the end of the reporting period are accounted for as current liabilities. Other liabilities represent non-current liabilities.

Within the framework of the preparation of the statutory financial statements, and according to international accounting standards, the assessment of certain accounts in the statement of financial position and income statement requires the company's Management to take into account assumptions, estimations and judgments which have an impact on assets, liabilities, revenue and costs. These assumptions, estimations and judgments are based on information and situations that existed as of the drawing-up of the financial statements. However, the actual results in the future may be different.

3.2 Consolidation Basis

Companies controlled exclusively by the group, either by right (direct or indirect ownership of the majority of the voting rights), contractual or de facto (management of financial and operational operations over a long period of time), are consolidated through global integration. Thus accounts are all integrated at 100%, with deduction of minority interests.
Companies controlled jointly by the group and other companies are consolidated through proportional integration. Companies which are not subject to exclusive control from the group but on which the group has significant influence are consolidated through equity method if the percentage of control exceeds 20 %.

The group owes shares in a joint-venture. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. SNIM recognizes its interest in the jointly controlled entity using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss.

3.2.1 Operations eliminated through consolidation

Intercompany receivables and payables balances at Dec.31, 2013 as intercompany revenues and charges, so as intercompany operations such as dividends payments, amortization of consolidated shares, or loans to intercompany are eliminated taking into account their impact on profit or loss.
Internal margins on inventories are also eliminated.

3.2.2 Goodwill

Acquisition cost

Acquisition method is used in order to account acquisition of shares in subsidiaries. Acquisition cost equals to fair value of assets, liabilities and equity issued by the buyer at acquisition date.

Goodwill

Goodwill corresponding to the amount of acquisition cost exceeding amount of share in fair values of assets and liabilities of the purchased entity are accounted is heading "goodwill". Negative goodwill is posted directly in the income statement.

Goodwill is not amortized in compliance with IFRS 3R "Business Combination" but is subject to impairment test once indication of loss of value appears and at minimum once a year. In case of loss of value, depreciation is posted in the income statement. It is non reversible.

3.2.3 Foreign currency translations – unrealized exchange gains and losses

Due to the nature of SNIM's business, numerous transactions are denominated in foreign currencies. Transactions in foreign currencies are recorded as follows:

- ✓ Tangible and intangible fixed assets, as well as raw materials and other consumables, are translated at current exchange rates applicable at the date of the transaction, except for revalued categories of fixed assets,
- ✓ Non-monetary items accounted for at fair value denominated in foreign currency are translated using the exchange rates applicable when the fair value was determined,
- ✓ Other assets and liabilities are translated at the functional currency rate at the end of the reporting period. Profits and losses resulting from exchange operations are recognized in the income statement,
- ✓ Profits and losses are converted using the exchange rates applicable at the transaction date

3.3 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation, workforce cost and any impairment in value. The revaluation method is applied.

Buildings	Acquisition cost
Specialized complex installations	Fair value
Railway rolling stock and railroad track equipment	Fair value
Operating equipment	Acquisition cost
Transport equipment	Acquisition cost
Other tangible assets	Acquisition cost

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	14 to 30 years
Specialized complex installations	15 to 30 years
Railway rolling stock and railroad equipment	10 to 30 years
Operating equipment	5 to 30 years
Transport equipment	5 years
Other tangible assets	5 years

As from financial year 2009 assets held under finance lease are initially recorded in the statement of financial position at the lower of their fair value and the discounted value of the minimum payments under the lease.

The corresponding commitment is recognized in financial liabilities. The financial expenses which represent the difference between the total lease commitments and the fair value of the assets are recognized in profit or loss over the term of the lease.
Arrangements that do not take the legal form of a lease are analyzed on the basis of IFRIC 4 to determine whether they contain a lease to be recognized according to IAS 17.

The carrying value of tangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.
If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of the fair value of the depreciated replacement cost or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.