CONEX

ERNST & YOUNG et Associés

Société Nationale Industrielle et Minière

S.N.I.M.

Year ended December 31, 2014

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

CONEX
B.P. 3225
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Société Nationale Industrielle et Minière
S.N.I.M.
Year ended December 31, 2014

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 financial position as at December 31, 2014, and the income statement, statement of change in equity and cash flow statement for the year-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 annual 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 financial position of S.N.I.M. as at December 31, 2014, and of its financial performance and its cash flows for the year-ended in accordance with International Financial Reporting Standards.

Nouakchott and Paris-La Défense, May 19, 2015

The statutory auditors and the independant auditors

CONEX	ERNST & YOUNG et Associés
Sidi Mohamed Elemine	Pierre Abily

SOCIETE NATIONALE INDUSTRIELLE ET MINIERE

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

Société Nationale Industrielle et Minière
Statement of financial position as of December 31, 2014
(In millions Oguiyas)

	Note	Dec 31, 14	Dec 31, 13	Dec 31, 13 (Adjusted)	Jan 01, 13 (Adjusted)
Assets					
Non-current assets					
Property, plant and equipment	5.1	699 792	599 185	593 937	462 924
Exploration Assets	5.1	1 082	794	794	410
Intangibles assets	5.2	4 066	2 870	2 870	2 808
Other financial fixed assets	5.3	22 006	14 264	14 264	6 620
Investment in associated companies	5.3	27	241	241	345
Investments in associates	5.3	17 477	16 645	16 645	12 415
Deferred taxes		104	94	94	83
Total non-current assets		**744 554**	**634 093**	**628 845**	**485 605**
Current assets					
Inventories	5.4	84 110	75 866	77 489	57 375
Trade receivables	5.5	11 947	47 025	47 025	78 694
Other receivables	5.6	35 792	25 630	25 630	13 426
Future Contracts	5.7	241	1 282	1 282	2 354
Cash and cash equivalents	5.8	187 143	336 175	336 175	311 870
Total current assets		**319 233**	**485 978**	**487 601**	**463 719**
Total assets		**1 063 787**	**1 120 071**	**1 116 446**	**949 324**
Equity and liabilties					
Equity					
Issued Capital	5.9	182 700	182 700	182 700	12 180
Share premium		6 464	6 464	6 464	6 464
Underlying net earnings on forward contracts	5.7	4 886	(3 021)	8 679	(246)
Accumulated profits		503 292	393 198	393 198	475 186
Net profit for the year		23 674	173 358	169 733	140 098
Total equity		**721 016**	**752 699**	**760 774**	**633 682**
Minority shareholding interest		**7 542**	**7 687**	**7 687**	**5 209**
Non-current liabilities					
Interest-bearing loans and borrowings	5.10	190 006	233 429	207 882	188 768
Retirement benefits obligation	5.11	26 336	34 403	22 703	30 022
Other provisions	5.12	6 064	4 734	4 734	4 414
Total Passifs non courant		**222 406**	**272 566**	**235 319**	**223 204**
Passifs courant					
Trade payables	5.13	45 574	41 910	41 910	41 932
State and other public taxes	5.14	3 625	7 528	7 528	9 724
Other taxes	5.15	2 702	5 417	5 417	1 621
Other payables	5.16	53 034	28 035	53 582	25 768
Bank overdraft	5.8	2 545	2 454	2 454	5 658
Derivatives	5.7	5 343	1 775	1 775	2 527
Total current liabilities		**112 823**	**87 119**	**112 666**	**87 230**
Total liabilities		**335 229**	**359 685**	**347 985**	**310 434**
Total equity and liabilities		**1 063 787**	**1 120 071**	**1 116 446**	**949 324**

Income statement and other comprehensive income

(In million Oguiyas)

	Note	Year ended As of Dec 31, 2014	Year ended As of Dec 31, 2013	Year ended As of Dec 31, 2013 (Adjusted)
Sales	6.1	227 728	380 181	380 181
Revenue from ancillary business activities	6.2	6 435	4 764	4 764
Other operating income	6.3	6 487	527	527
Operating income		**240 650**	**385 472**	**385 472**
Changes in inventory of finished goods and work-in-progress		3 652	1 457	3 080
In-house production		24 682	22 319	22 319
Reversal of depreciation and provisions		-	7 566	7 566
Raw materials and consumables used	6.4	(107 698)	(105 196)	(105 196)
Personnel expenses	6.5	(44 560)	(40 937)	(40 937)
Depreciation, amortization and provision expenses	6.6	(46 039)	(36 829)	(42 077)
Taxes and duties	6.7	(672)	(693)	(693)
Other operating expenses	6.8	(21 512)	(22 854)	(22 854)
Profit from operation		**48 503**	**210 305**	**206 680**
Financial income	6.9	19 551	21 908	21 908
Financial expenses	6.10	(22 614)	(23 969)	(23 969)
Share of profits (losses) of equity-accounted affiliates		(507)	(304)	(304)
Profit before tax		**44 933**	**207 940**	**204 315**
Current income tax		(20 762)	(34 222)	(34 222)
Net profit		**24 171**	**173 718**	**170 093**
Net total profit for the year		**24 171**	**173 718**	**170 093**
Earnings per share (1,218,000 shares) in Ouguiyas		497	360	360

Statement of other comprehensive income

In million Ouguiyas	31/12/2014	2013 Adjusted	31/12/2013	Adjustement
Net profit	24 172	170 093	173 718	(3 625)
Impact of financial instruments	(3 794)	(265)	(265)	-
Comprehensive income	**20 378**	**169 828**	**173 453**	**(3 625)**

Statement of cash flows
(In million Oguiyas)

	Note	Year ended As of Dec 31, 2014	Year ended As of Dec 31, 2013	Year ended As of Dec 31, 2013 (Adjusted)
Operating activities				
Income before tax		44 934	207 939	204 314
Amortization, depreciation and provision	6.1	45 052	36 341	41 589
Reversal of amortization, depreciation and provisions	6.4	(26 806)	(22 474)	(22 474)
Gains/losses on sale of assets		(517)		
Foreign exchange gains/losses	6.5	7 329	(545)	(545)
Investment income		(3 332)	(2 669)	(2 669)
Interest expenses		2 577	2 975	2 975
Investments in associates		507	305	305
Working capital needs	6.2	20 768	20 332	18 709
Cash generated by operating activities		**90 511**	**242 204**	**242 204**
Interest paid		(2 111)	(2 374)	(2 374)
Income tax paid		(23 340)	(37 022)	(37 022)
Net cash flow from operating activities		**65 061**	**202 808**	**202 808**
Investing activities				
Acquistions d'immobilisations	6.3	(134 517)	(163 349)	(163 349)
Encaissement résultant de la cession de matériel		597	1 351	1 351
Intérêts encaissés		3 332	2 668	2 668
Dividendes reçus		15	-	-
Flux de trésorerie liés aux activités d'investissements		**(130 573)**	**(159 329)**	**(159 329)**
Net cash flow from financing activities				
Capital increase			1 940	1 940
Proceed from long-term borrowings		5 767	46 242	46 242
Payments on long-term borrowings		(29 744)	(9 515)	(9 515)
Dividends paid		(59 632)	(54 639)	(54 639)
Net cash flow from financing activities		**(83 609)**	**(15 972)**	**(15 972)**
Net variation on cash and cash equivalents				
Cash and cash equivalents at the beginning of the period		(149 121)	27 508	27 507
Impact of the foreign currency change on the cash and cash equivalents balances		333 720	306 212	306 212
Cash and cash equivalents at the end of the period	6.6	**184 598**	**333 720**	**333 720**

Statement of changes in shareholders' equity

Expressed in Million Ouguiyas	Share Capital	Share Premiums	Accumulated Profit	Underlying net earnings on forward contracts	Total	Minority Interest
Capitaux propres au 01/01/2013	**12 180**	**6 464**	**618 253**	**(2 756)**	**634 141**	**5 209**
Capital increase	170 520		(170 520)	-	-	
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	
Correction			(3 624)	11 700	8 076	
Change in control percentages			263		263	(531)
Shareholders' equity as of December 31, 2013	**182 700**	**6 464**	**563 195**	**8 679**	**761 038**	**7 687**
Capital Increase					-	
Revaluation of fixed assets				(3 793)	(3 793)	
Net profit of the period			23 674		23 674	(145)
Dividends			(59 890)		(59 890)	
Other			(14)		(14)	
Shareholders' equity as of December 31, 2014	**182 700**	**6 464**	**526 966**	**4 886**	**721 015**	**7 542**

Correction of error

The net profit for 2013 is retrospectively adjusted for 8 076 MUM regarding to the followings:

- ✓ Adjustment of the late amortization start for an amount of (5 248) MUM ;
- ✓ Impact of the end of Corridor option according to IRFS 19 for 11 700 MUM
- ✓ Adjustment of the iron ore stock valuation for an amount of 1 623 MUM.
- ✓ Adjustement of the impact of minority interest acquisition on both companies, DAMANE and MAIL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1 KEY EVENTS

The financial year 2014 is marked by a spectacular drop in iron ore sales price.

- The decline in the average iron ore price of 42%.
- The estimation of TIZERGHAF reserves at 1,2 Billion tons
- Launch of the prefeasibility study in TIZERGHAF complex, to produce 14 Mt, targeted for year 2019
- Launch of the feasibility study in F'derick exploitation project, to produce 3 Mt, targeted for the year 2017
- Launch of the feasibility study of a 50 MW plant in Zouerate. Discovery of 830 Million metric ton of propable reserves in TIZERGHAF EL BEIDHA. Launch of the new technical training center of Zouerate .
- Signature of a Term Sheet with "Glencore" for the provision of rail and port services for the transport of Glencore Iron Ore produced from the Askaf Project.
- Launch of construction of TO14 new installations.

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 2014 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 2014.

The group has applied in its 2014 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, 2014 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.