CONEX

ERNST & YOUNG Audit

# Société Nationale Industrielle et Minière

Year ended December 31, 2018

## Statutory auditor's and independent auditor's report on the annual financial statements

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# Société Nationale Industrielle et Minière

Year ended December 31, 2018

**Statutory auditor's and Independent auditor's report on the annual financial statements**

To the President,

## Opinion

We have audited the annual financial statements of 'Société Nationale Industrielle et Minière (S.N.I.M), which comprise the statement of the financial position as at December 31, 2018, as well as the income statement, statement of change in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and its financial performance and cash flows for the year then ended, in accordance with international Financial Reporting Standards.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management and Those Charged with Governance for the annual Financial Statements

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

In preparing the annual financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

## Auditor's Responsibilities for the Audit of the annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our 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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 internal control that we identify during our audit.

Nouakchott et Paris-La Défense, May 13,2019

The Statutory Auditor and the Independent Auditor

| CONEX | ERNST & YOUNG et Audit |
|---|---|
| El Agheb Limam Brahim | Pierre Abily |

**SOCIETE NATIONALE INDUSTRIELLE ET MINIERE**

**STANDALONE FINANCIAL STATEMENTS**

**YEAR ENDED ON DECEMBER 31st, 2018**

# SNIM
## STATEMENT OF FINANCIAL POSITION
### As of December 31st, 2018

**ASSETS**

| In MUM | Note | 31/12/2018 | 31/12/2017 (*) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, Plant & Equipment | 4.1 | 64 442 | 67 467 |
| Exploration assets | | 15 | 30 |
| Intangible assets | 4.2 | 326 | 254 |
| Other financial assets | 4.3 | 1 507 | 1 343 |
| Investment in associates | 4.3 | 3 517 | 2 947 |
| **Total of non-current assets** | | **69 805** | **72 042** |
| **Current Assets** | | | |
| Inventories and work in progress | 4.4 | 6 505 | 7 074 |
| Trade receivables | 4.5 | 3 815 | 20 20 |
| Other receivables | 4.6 | 3 339 | 3 021 |
| Financial instruments | 4.7 | 21 | 95 |
| Cash and cash equivalents | 4.8 | 7 442 | 9 536 |
| **Total current assets** | | **21 121** | **21 746** |
| **TOTAL ASSETS** | | **90 927** | **93 788** |

**EQUITY & LIABILITIES**

| In MUM | | 31/12/2018 | 31/12/2017 |
|---|---|---|---|
| **Equity** | | | |
| Issued capital | 4.9 | 18 270 | 18 270 |
| Share premium | | 646 | 646 |
| Underlying net earnings on forward contracts | 4.7 | 1 791 | 2 076 |
| Accumulated profits (not distributed) | | 44 210 | 45 594 |
| **Total Equity** | | **64 917** | **66 586** |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowing | 4.10 | 11 715 | 13 825 |
| Retirement benefit obligations | 4.11 | 2 567 | 2 450 |
| Provisions | 4.12 | 471 | 473 |
| **Total non-current liabilities** | | **14 752** | **16 749** |
| **Current Liabilities** | | | |
| Trade payables | 4.13 | 4 012 | 4 003 |
| State and other public taxes | 4.14 | 512 | 406 |
| Other taxes | 4.15 | 164 | 63 |
| Other payables | 4.16 | 6 261 | 5 967 |
| Forward contracts | 4.7 | 307 | 13 |
| **Total current liabilities** | | **11 257** | **10 453** |
| **TOTAL EQUITY AND LIABILITIES** | | **90 927** | **93 788** |

(1) - TAT : Forward Contract

(*) Comparative figures have been restated to reflect the change in the Ouguiya standard. More details in Note 3.1.2.

# SNIM
## INCOME STATEMENT
### Period of 12 months ended on December 31st, 2018

| In MUM | Note | 31/12/2018 | 31/12/2017 (*) |
|---|---|---|---|
| **Sales** | 5.1 | **18 369** | **18 309** |
| Revenue from ancillary business activities | 5.2 | 544 | 496 |
| Other operating income | 5.3 | 210 | 734 |
| **Operating income** | | **19 122** | **19 540** |
| Changes in inventory of finished goods and work-in-progress | | (347) | 250 |
| Capitalized production | | 621 | 713 |
| Raw materials and consumables used | 5.4 | (8 230) | (7 409) |
| Personnel expenses | 5.5 | (3 337) | (3 584) |
| Depreciation, amortization and provision expenses | 5.6 | (5 422) | (5 641) |
| Taxes and duties | 5.7 | (10) | (56) |
| Other operating expenses | 5.8 | (1 190) | (1 564) |
| **Profit from operation** | | **1 207** | **2 250** |
| Financial income | 5.9 | 924 | 1 300 |
| Financial expenses | 5.10 | (1 661) | (1 793) |
| **Profit before tax** | | **470** | **1 756** |
| Income tax | | (1 714) | (1 675) |
| **Net Result** | | **(1 243)** | **81** |
| **Earnings per share in Ouguiya** | | **(68)** | **4** |

# SNIM
## STATEMENT OF COMPRENSIVE INCOME
### Period of 12 months ended on December 31st, 2018

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Net result | (1 243) | 81 |
| Impact of financial instruments | (285) | 125 |
| **Comprehensive income** | **(1 528)** | **94** |

(*)Comparative figures been restated to reflect the change in the Ouguiya standard. More details in Note 3.1.2.

# SNIM
## STATEMENT OF CASH FLOWS
### Period of 12 months ended on December 31st, 2018

| In MUM | Note | 31/12/2018 | 31/12/2017 (*) |
|---|---|---|---|
| **Operating activities** | | | |
| Income before tax | | 470 | 1 756 |
| Amortization, depreciation and provision | 6.1 | 5 103 | 5 468 |
| Reversal of amortization, depreciation and provisions | 6.4 | (907) | (1 404) |
| Gains /losses on asset sales | | 0 | 0 |
| Gains /losses on exchange | 6.5 | 432 | 31 |
| Investment income | | (243) | (291) |
| Financial expenses | | 778 | 841 |
| Changes in working capital | 6.2 | (1 600) | 2 956 |
| **Cash flow generated by operating activities** | | **4 033** | **9 358** |
| | | | 0 |
| Interest paid | | (742) | (796) |
| Income tax paid | | (1 612) | (1 880) |
| **Net cash flow from operating activities** | | **1 679** | **6 681** |
| **Investing activities** | | | |
| Acquisition of fixed assets | 6.3 | (2 096) | (2 651) |
| Loan repayment | | 293 | 16 |
| Proceeds from sale of equipment | | | 0 |
| Interest received | | 221 | 208 |
| Dividends received | | 22 | 83 |
| **Net cash flow from investing activities** | | **(1 560)** | **(2 345)** |
| **Financing activities** | | | |
| Proceed from long-term borrowings | | 67 | - |
| Other financial payments | | 230 | 65 |
| Payments on long-term borrowings | | (2 415) | (2 479) |
| Other financial Proceeds | | (95) | (66) |
| Dividends paid | | - | - |
| **Net cash flow from financing activities** | | **(2 213)** | **(2 480)** |
| **Cash and cash equivalents at the beginning of the period** | | **9 536** | **7 680** |
| Net decrease in cash and cash equivalents | | (2 094) | 1 856 |
| **Cash and cash equivalents at the end of the period** | **6.6** | **7 442** | **9 536** |

(*)Comparative figures have been restated to reflect the change in the Ouguiya standard. More details in Note 3.1.2.

**SNIM**
**STATEMENT OF CHANGES OF EQUIITY**
**As of December 31st,2018**

| **In MUM** | **Issued Capital** | **Share premium** | **Accumulated profits** | **Underlying net earnings on forward contracts (1)** | **Total (*)** |
|---|---|---|---|---|---|
| **Shareholders' equity as of January 1st,2017** | **18 270** | **646** | **45 512** | **2 064** | **66 492** |
| Revaluation of financial instruments | - | - | - | 13 | 13 |
| Net result of the period | - | - | 81 | - | 81 |
| **Shareholders' equity as of December 31st,2017** | **18 270** | **646** | **45 594** | **2 076** | **66 586** |
| IFRS 9 impact (2) | - | - | (141) | - | (141) |
| **Shareholders' equity as of January 1st,2018 restated** | **18 270** | **646** | **45 453** | **2 076** | **66 445** |
| Revaluation of financial instruments | - | - | - | (285) | (285) |
| Net result of the period | - | - | (1 243) | - | (1 243) |
| **Shareholders' equity as of December 31,2018** | **18 270** | **646** | **44 209** | **1 791** | **64 917** |

(*)Comparative figures have been restated to reflect the change in the Ouguiya standard. More details in Note 3.1.2.

(1) TAT : Forward Contract
(2) SNIM applied IFRS 9 - Financial Instruments for the first time on January 1, 2018. Given the transition method chosen, comparative figures have not been restated and the impact resulting from the first detailed application at the level of Note 3.1 was recognized in shareholders' equity at January 1, 2018.

**NOTES TO THE FINANCIAL STATEMENTS**
**As of December 31st, 2018**

# NOTES TO THE STANDALONE FINANCIAL STATEMENTS

The statutory financial statements for the year ended December 31st, 2018 were authorized for issuance in accordance with a resolution of the Board of Directors on April 22, 2019.

## I. MAJOR EVENTS OF THE YEAR

The financial year 2018 has been marked by the following events:

- Transition to the new MRU currency as from 01 January 2018.
- Finalization of the financing agreement for the dredging project of Mineral Port for a total amount of USD 109 million.
- Signature of the amendment to the terms of reference related to GuelbII & Mineral Port financing agreements
- **-**Ratification by the National Assembly of the special agreement signed between the Mauritanian government and SNIM on 27 March 2018 for an additional validity period of 20 years starting January 1st,2019
- **-** Appointment of a new Chief Executive Officer Mr Hassena Ould Ely

## II. COMPANY AND BUISNESS ACTIVITY

The National Industrial and Mining Company (SNIM) is a limited company under Mauritanian laws. The company is registered in the Islamic Republic of Mauritania. The company headquarters are located in Nouadhibou, PO. 42.
The company carries out the exploration, production and marketing of iron ore. The company extracts iron ore from the mines of M'haoudat, Guelbs and Kédia.

## III. ACCOUNTING POLICIES

### 3-1 Principles for the preparation of the Financial Statements

#### ***3 .1.1 Applicable standards***

The 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.

***Standards, amendments and interpretation applicable as of 1stJanuary 2018***

The financial statements as at December 31$^{st}$, 2018 have been prepared in accordance with IFRS (*International Financial Reporting Standards*) as approved by the EU (*European Union*) in effect on that date, and in accordance with IFRS standard as issued by the IASB (*International Accounting Standards Board*) and mandatory as at December 31st, 2018.

The accounting policies applied at 31 December 2018 are identical to those used for the financial statements at 31 December 2017, except for the following normative changes, which were not applied early.

### First-time adoption of IFRS 15 "Revenue from customer contracts'''.

IFRS 15 replaces IAS 11 **-** Construction Contracts and IAS 18 **-** Revenue, IFRIC 13 **-** Customer Loyalty Programs and IFRIC 15 **-** Agreements for the Construction of Real Estate. Its scope covers all contracts concluded with customers, with the exception of rental contracts (rental and sublease income), financial instruments (interest income) and insurance contracts, which are covered by other standards.

IFRS 15 introduces a single five-step model for determining the timing and amount of revenue to be recognized under the contract. It introduces new concepts and principles for income recognition, such as the identification of performance obligations or transaction price allocation for multi-component contracts. Revenue is recognized to reflect the transfer of control of goods and services to customers in a manner that reflects the payments the company expects to receive in exchange for these goods or services.

The accounting for these revenues will remain unchanged as long as the majority of SNIM's revenue consists of mineral sales made in FOB and the control passes to the customer at the port of loading without any further separate performance obligations relating to transport costs.

### First-time adoption of IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 - Financial Instruments - Recognition and Measurement for the classification and measurement of financial assets and liabilities and general hedge accounting. The company has applied IFRS 9 as at 1 January 2018, without restating the comparative financial years, as permitted by the standard. The cumulative effect of the first-time adoption of the standard, recognized in shareholders' equity as of January 1, 2018, is not material.

The new standard does not result in any material changes to the accounting principles applied by the company.

The impacts related to the first retrospective application of the standard, recognised in opening equity at 1 January 2018, are mentioned below.

This standard has three components: classification and measurement of financial instruments, impairment of financial assets, and recognition of hedging transactions excluding macro-hedging.

The main changes induced by each component are as follows:

- The application of the' 'classification and measurement of financial instruments" component has not had a significant impact on current accounting policies. The new standard adopts a new approach based on the contractual characteristics of the assets and on the business model for managing them. The new standard presents three main classes of financial assets: those measured at amortized cost, those measured at fair value through other comprehensive income (recyclable or non-recyclable) and those measured at fair value through net income. The classification of financial assets in accordance with IFRS 9 is based on the economic model of the asset's ownership and the characteristics of its contractual cash flows. For securities, the new standard had no impact on the classification and measurement of financial instruments. For SNIM, trade receivables, loans and investments recorded under IAS 39 as "held-to-maturity securities" are presented in accordance with IFRS 9 at the level of the category "assets measured at amortized cost".

- The application of the' 'Impairment of financial assets" section led to the recognition of asset write-downs using an Expected Credit Loss (ECL) model, which replaces the incurred loss model used by IAS 39. For trade receivables, the company has assessed expected losses based on historical loss rates. This analysis did not have a material impact on the company as of January 1, 2018.

- The application of the "Hedging Operations" component results in the inclusion of the intrinsic value of hedging instruments in the hedging relationship and the application of the "hedging cost" method to the time value of the options. Thus, the following changes are excluded from the hedging relationship:
    - o the change in the time value of options (interest rates, exchange rates and petroleum products)
    - o Changes in the value of premium/discount points on firm foreign exchange derivatives (foreign exchange forward),
    - o The change in value of the contengo/backwardation effect for petroleum derivative instruments is excluded from the hedging relationship.

The application of the provisions of IFRS 9 has no material impact on the company's balance sheet, income statement and shareholders' equity as at 31 December 2018. The impact of the adoption of IFRS 9 is presented below:

| **In MUM** | **Impairment as per IAS 39 as of 31.12.2017** | **ECL impact** | **Impairment as per IAS 39 as of 01.01.2018** |
|---|---|---|---|
| Loans & advances | - | (138) | (138) |
| Trade receivables | (140) | (2) | (142) |
| **Total** | **(140)** | **(138)** | **(280)** |

***New IFRS standards and IFRIC interpretations published but not yet effective***

The financial statements presented do not take into account new standards, revisions to existing standards and interpretations published by the IASB but not yet effective and are not expected to have a material impact on SNIM's financial statements. The main standards relevant to SNIM are as follows:

- ***IFRS 16 Leases:*** The standard is applicable for annual periods beginning on or after 1 January 2019). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize all leases using a single balance sheet accounting model similar to financial lease accounting under IAS 17.

  The standard recognizes two exceptions for lessees: contracts on underlying assets of low value and short-term contracts, i.e. with a lease term of 12 months or less. On the effective date of the contract, the lessee recognizes a lease obligation (i.e. a commitment to pay the lease payments) and a right of use asset (i.e. an asset representing the right to use the leased asset). The right of use asset will be amortized over the term of the contract, and an interest expense will be recorded for the lease obligation.

  The latter will be revalued at the time of certain events (for example, a change in the rental period or in future rental payments due to indexation). These revaluations of the lease obligation will generally be recognized as an adjustment to the right to use the asset.

  The accounting for the lessor is not substantially modified by IFRS 16 compared to the current accounting under IAS 17. Finally, the disclosure requirements under IFRS 16 are extended compared to those under IAS 17.

  The analysis of the impact of IFRS 16 "Leases" is in progress and the new features introduced by the standard should have only a limited impact on the financial statements.

- ***- IFRIC 23 "Uncertainty regarding tax treatment".*** The interpretation is applicable as from 1 January 2019. It clarifies the methods for recognizing and measuring current and deferred tax assets and liabilities under IAS 12 - Income Taxes, in the specific case of uncertain tax treatment. The expected impacts are not significant.

- ***Others standards and interpretations:*** The following standards, interpretations and amendments that are not likely to have a material impact on the Company's financial statements:

| **Standards, interpretations and amendment** | **Effect date - IASB** |
|---|---|
| Amendments to IFRS 9 entitled "Early Redemption Characteristics with Negative Remuneration", | 01/01/2019 |
| Amendments to IAS 28 "' Investments in associates | 01/01/2019 |
| Annual improvements to IFRS cycles 2015-2017 (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23) | 01/01/2019 |
| Amendments to IAS 19 "Amendment, Curtailment or Settlement of a Plan" | 01/01/2019 |
| Amendment to IFRS 3 Business Combinations | 01/01/2020 |
| Amendments to IAS 1 and IAS 8 "Definition of Materiality" | 01/01/2020 |
| Amendment of the accounting framework | 01/01/2020 |
| IFRS 17 Insurance Contracts | 01/01/2020 |

### *3.1.2 General principles*

The principles used are based on the historical cost method and the accrual basis of accounting method, except for (1) derivative financial instruments and (2) categories of reevaluated 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.

As from 1 January 2018, the Central Bank of Mauritania "BCM" changed the Ouguiya standard. The basis for the change is to divide the old currency by ten (10). This change of standard does not affect the name of the national currency which remains the Ouguiya (MRU instead of MRO). Opening balances have been restated to reflect this change.

The financial statements are presented and evaluated in ouguiyas. All tables and annexes are presented in millions of ouguiyas (MMRUs).

The income statement is presented by category.

### 3-2 Property, plant and equipment

***Accounting policies:***

Tangible assets are recorded on the basis of cost model according to the standard IAS 16. Cost includes the purchase price, all costs necessary to bring the asset to working condition less accumulated depreciation and impairment. The fair value model is applied for some asset categories as the following:

| | |
|---|---|
| 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:***

Depreciation of tangible assets are calculated on a straight-line basis over the useful life of the asset to reflect the rhythm of consumption of the future economic advantages expected from the asset according to the IAS 16.
The estimated useful life of the respective asset categories are 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 |

***Lease agreement***

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 or the discounted value of the minimum payments under the lease related to contract in accordance with IAS 17.

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.

***Impairment***

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.

***Stripping Costs***

In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. There can be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

- Stripping cost incurred during the development phase: costs incurred are capitalized and are included in the cost of mine construction and subsequently amortized over its useful life. Capitalization of discovery costs ceases when the mine or component is commissioned and ready for use as planned by management.
- Stripping cost incurred during the operating phase: IFRIC 20 provides for the following treatments:

(a) Accounted for as current costs of production in accordance with IAS 2 if they are related to routine stripping cost.
(b) Recognition as a non-current asset 'stripping activity asset') when stripping activities provide better access to the natural resource in subsequent periods if, and only if, all of the following are met:

(i) It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
(ii) The entity can identify the component of the ore body for which access has been improved;
iii) The costs relating to the stripping activity associated with that component can be measured reliably.

Given the constraints related to the implementation of the standard that affect the reliability of the information to be produced, the stripping cost incurred during the production phase is allocated to inventories produced during the period

***The costs of obligations for dismantling, removing and restoring the site***

Within the context of the Guelbs 2 project and the mineral port, implicit commitments could lead SNIM to recognize assets with a view to the dismantling and/or rehabilitation of the facilities. SNIM also remains attentive to any changes in legislation and decisions taken in such matters by the Mauritian authorities (cf.3.14 Site rehabilitation).

**3-3 Intangible assets**

Intangible assets are recognized at their acquisition cost in accordance with IAS 38. They are depreciated on a straight-line basis over their estimated useful life, between 3 and 5 years.
The carrying value of intangible assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may be less than its recoverable amount or when the asset does not meet the amortization requirements of IAS 38 (economic benefits consumed over several years).

The company intangible assets do not include any Goodwill.

### 3-4 Exploration for and Evaluation of Mineral Resources

IFRS 6, which specifies the financial information to be disclosed relative to the exploration and evaluation of mineral resources, has been compulsory since 2006.
An entity shall determine an accounting policy specifying which expenditures are recognized as assets of exploration and apply the policy consistently and permanently, the method applied by SNIM is as follows:

For intangible assets, recognized expenditures are as specified in §9 and only concern the research and development costs provided for by IFRS 6, including:

- Acquisition of rights to explore ,
- Topographical, geological, geochemical and geophysical studies.
- Exploratory drilling,
- Trenching,
- Sampling.

For tangible assets these are the tangible assets used by the entity dedicated to research.

### 3-5 Other Financial Assets

The Company grants interest-free loans to employees. Deposits and guarantees, requested by the Mauritanian electricity, water and telecommunications companies, are intended to cover the risk of credit and potential equipment damage. Loans and guarantees are accounted for at their historical cost.

### 3-6 Investments in associates

Equity investments are equity instruments measured in accordance with IFRS 9 at fair value through profit or loss. The standard allows the option to elect, upon initial recognition of each financial asset, to recognize the change at fair value with a corresponding entry in other comprehensive income. For these securities, only dividends can be recognized in the income statement.

If the fair value of an instrument is not reliably determined, the securities are recorded at their acquisition cost. A provision is made for impairment in relation to the acquisition value.

### 3-7 Inventories and work-in-progress

Inventories and work in progress are mainly composed of raw materials, iron ore and other supplies (Spare parts)

In accordance with IAS 2, raw materials and other supplies, including spare parts, are valued at the lower of the weighted average cost and net realizable value.

Inventories of iron ore and other supplies are depreciated every year and are valued at its net realizable value. The depreciation method of raw materials and other supplies can be presented as follows:

***Strategic Items:***

- No depreciation on strategic items for which coverage is less or equal to one year;
- 10% Statistical depreciation per year of coverage beyond first year ;
- Review with the main users of the 50 main provisioned items at year end in order to determine the economic reality of inventory use and check their expiration dates ;

***Other Items:***

- Consumption > 1 year : statistical depreciation of 15% ;
- Consumption > 2 year : statistical depreciation of 30% ;
- Consumption > 3 year : statistical depreciation of 50% ;
- Consumption > 4 year : statistical depreciation of 75% ;
- Consumption > 5 year : statistical depreciation of 100% ;
- Review with the main users of the 50 main provisioned items at year end in order to determine the economic reality of inventory use and check their expiration dates.

***Iron ore Inventories:***

Inventories of iron ore, including ore stockpiles, are valued at their weighted average price or at their net realizable value if such value proves to be lower. The cost includes the direct costs of the mines, the production sites, the railway and the port, as well as a portion of amortization and depreciation and general expenses.

This valuation does not take into account financial expenses, the fixed and variable general administrative expenses incurred to transform the raw materials into finished products and the costs related to sales and marketing.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The ore with a poor quality is totally depreciated. It has no market value.

**3-8 Impairment test**

In accordance with IAS 36, impairment tests are performed on tangible and intangible assets when any indication of potential loss of value is identified. Such tests are performed at least once a year on intangible assets with an indefinite useful life and on goodwill.

When the net book value of assets grouped together in a cash-generating unit exceeds their recoverable value, depreciation is recorded for an amount corresponding to the difference between the net book value and the recoverable value. Recoverable value is defined as the highest value between the asset's fair value less costs to sell and its useful value. Useful value is determined according to the discounted cash-flow method.

In case of cash generating unit, goodwill on consolidation is apportioned by cash-generating unit for the purposes of the impairment test.

**Definition of cash generating unit**

According to IAS 36, goodwill, tangible asset and intangible asset values are subject to impairment tests whenever there is an indication of loss of value. These indications are reviewed at year-end. This test must be performed at least once a year for assets with an undefined life, a category which does not exist at SNIM.

In order to perform such a test, assets are gathered into cash-generating units (CGUs). These CGUs are composed of homogeneous assets which generate cash-flows that are largely independent of cash-flows generated by other groups of assets. The criterion for defining CGUs has led SNIM to make the following grouping: Company SNIM: this is a homogeneous, integrated unit which groups the three mines operated at Zouerate, the private railway siding and the port facilities in Nouadhibou. These items cannot generate cash-flows that are largely independent of cash-flows generated by the other components of SNIM.
The useful value of these units is determined according to net discounted cash-flows. When the net value of assets grouped into a cash-generating unit exceeds its useful value, depreciation is recorded for an amount corresponding to the difference between net value and useful value. Depreciation is allocated first to reduce the carrying amount of any goodwill.

**3-9 Trade receivable**

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts in accordance with IAS 39. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Bad debts are recorded as losses when identified as such.

**3-10 Borrowing cost**

In accordance with IAS 23, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are recorded as part of the cost of that asset
In 2016, all interests of qualifying assets have been recorded in expenses further to the putting into service of the projects relative to it (mainly Guelb, Port).

**3-11 Cash or cash-equivalents**

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.
For the purposes of the cash flow statement, cash and cash equivalents correspond to the definition above and are net of outstanding bank overdrafts

**3-12 Interest-bearing borrowings**

SNIM's financial debt is mainly contracted with international financial sponsors at preferred rates.
According to IAS 39 principles, loans at preferred rates are accounted for as "other financial liabilities". Thus they should initially be registered at fair value, i.e. a discounted value based on the current market rate for a loan with similar conditions or for a similar borrower.

In order to determine the market value of a favorable-rate loan, a reliable future cash-flows discount rate must be calculated. This rate is determined according to the market and takes several factors into account:
the loan currency,

When no information is directly available on the market, IAS 39 allows the recording of a favorable-rate loan by comparison with fixed-rate loans of equal maturity taken out by the company or by a similar company (size and activity) under normal market conditions.

In view of SNIM's specific environment, the market information that is necessary for determining a rate trend, in order to calculate the market value of favorable-rate loans, is not available because of the following:

- No market for long-term financing of private business in foreign currencies exists in Mauritania,
- It is difficult to evaluate SNIM's credit spread,
- No comparable ore extracting company exists in Western Africa.

It is consequently impossible to reliably determine a market value for the favorable-rate loans taken out by SNIM. In such a case IAS 39 allows the accounting of financial assets and liabilities at historical cost, which equals the amounts received. Interest is recorded on a nominal rate basis.

The debt ratio calculated from the data of the year ended 31/12/2018 is 1, 08.

Within the context of the Development and Modernization Project, SNIM signed financing agreements with commercial financial institutions and institutional sponsors. Among these agreements, two loans contracted within the following banking pool:

i) the African development bank ,the French Development Agency, the European Investment Bank ,the Islamic Development bank , BNPParibas , Société Générale, BHF-BANK Aktiengestellschaft et Kfw as regards the financing ***GuelbII project*** and

ii) ii) BNPParibas, Société Générale ,BHF-BANK Aktiengestellschaft et Kfw for the financing of **new mineral harbor** project. As at 31 December 2018, outstanding bank loans amounted to US$283 million for the Guelb II project and US$38 million for the new Mineral Port Project.

These two bank loans are subject to covenants requiring compliance with certain ratios. Failure to comply with these ratios gives lenders the option to require early repayment of their loans. The ratios are calculated every six months on the basis of the individual and consolidated financial statements.

These ratios are as follows:

- Debt coverage service ratio (Free Cash-Flow /Debt Service) : >1,3
- Indebtedness Ratio (DLMT/Exceeds gross operating) : <3,5
- Ratio of Financial Structure (DLM / Equity) : <2
- Current Ratio (Current Assets /Current liabilities) : >1,5

On June 20, 2018, SNIM concluded an agreement with its donors, the main terms of which are as follows:

1) Debt Service Coverage Ratio: non-compliance with the levels would no longer be an Event of Default until December 31, 2018 (inclusive).

2) Debt ratio: The Debt Ratio (financial debt to EBITDA) is replaced by the Net Debt Ratio (net debt (net of cash on financial debt) to EBITDA).

3) Communication to lenders on a monthly basis of i) Cash Balance On shore and Offshore and ii) Customer invoicing

4) Communication to lenders of offtake contracts

5) The introduction of a new liquidity control: the minimum level of cash must be USD 100 million. Non-compliance will be considered as an Event of Default.

6) If the cash level falls below USD 150 million, SNIM agrees to have an analysis conducted by a third party of its forecasts and the measures taken to restore the cash level.

As at 31/12/2018, the ratios as provided for in the above terms were respected.

**3-13 Allowance for contingencies**

In accordance with standard IAS 37, provisions are booked when the company has a present obligation (legal or constructive) which has arisen as a result of a past event, when it is probable that an outflow of resources representing economic benefits will be necessary to extinguish the obligation and when the amount can be estimated reliably. The obligations resulting from restructuring operations are recognized at the time of their announcement to the people concerned.

**3-14 Site rehabilitation**

***The obligation to rehabilitate sites is mentioned in 1979 mining code.***

This code, as updated in 2009 following the publication of law no. 2009-26 of 7 April 2009, states that the abandonment of the operations of any mining extraction zone must be the subject of a ministerial order defining the action taken in terms of "public health and safety and essential features of the environment".

**As of April, 22, 2019**, **the Council of Ministers has not adopted any decree instituting the practical obligations.**

***Law no. 2000-45 relating to the environment***: The law confirms the existence of this legal obligation to rehabilitate extraction sites in Mauritania. Article 44 of this text, enacted on 26 July 2000, states that: *«The operation of quarries and mines, as well as mineral exploration work, must be designed and performed in such a way that:*

- *It does not damage the environment surrounding the sites, or create or aggravate erosion phenomena*
- *The sites operated can be returned to their initial state..*

*The rehabilitation of the sites is the responsibility of the operator of the quarry or mine. The methods and deadlines for carrying out the work will be fixed by decree adopted on the basis of a joint report of the Minister for the Environment and the Minister for Mines."*

(Title III: Protection of resources and the natural environment / Chapter III: Protection of the soil and subsoil / Article 44)

This law has been the subject of the adopting of the following decrees:

*Decree no. 2004-94 requires that an environmental impact assessment must be carried out before any mine with a capacity exceeding 100 tons/day is opened for operation*

The decree no. 2007-107 confirms this obligation and its article 7.8 requires that the measures taken in connection with this obligation to clean up the sites be accompanied by a bank guarantee, but it does not give any guidelines as to the interpretation of the term "rehabilitation".

**As of April, 22th, 2019, these two decrees have not been published.**

*On 4 February 2009, decree no. 2009-051 was adopted within the framework of the law on the environment*

The decree didn't modify the article 14 of decree no. 2008-159 ruling on the following obligation: "Two months before expiry of the operating license, the mining cadaster must inform the Mines and Geology Cadaster of such expiry so that it makes sure that the license-holder carries out the clean-up work in compliance with the provisions of the decree relating to the Mines Police and of the decree relating to the mining environment."

In conclusion, although the legal obligation exists, it is not accompanied by an implementing decree specifying its interpretation. As the obligation cannot be assessed reliably, no provision has been booked in the financial statements of SNIM as of year-end.

In addition, since the end of February 2011, SNIM has been certified ISO 14001. Within this context, the objectives set

- The environmental analysis of the sites, the launch of the environmental management plan and the definition of the environmental program targets.
- SNIM's legal department is monitoring any changes in the legislation relating to these obligations.
- Technical department is actually working on valuation hypothesis based on the interpretation of actual laws and based on informal obligations linked to ISO 14001's certification.

A provision will be recognized as soon as a reliable assessment of this obligation will be made. Variations of this passive evaluation will be record as per IFRIC 1's meanings.

**3-15 Employee benefits**

***Benefit pension plan:***

The company has a benefit pension plan which is qualified as a defined-benefit pension plan. Note that there is no separately administered fund financing whole or part of the pension plan.

The method applied for evaluating the plan is that of the projected unit credit actuarial valuation method. This method consists in measuring the benefit according to the projected wage at the end of the employee's career and to the acquired rights at valuation date.

Actuarial differences have been booked according to the corridor method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses for each individual plan exceed 10 % of the higher of the defined-benefit obligation and the fair value of the plan assets. These gains or losses are recognized on the expected average remaining working lives of the employees participating in the plan.

The option provided by IAS 19 allowing the recognition of all the actuarial gaps in equity and not yet applied by the SNIM became mandatory as of 1st January 2013.

The company offers certain additional non post-employment benefits to its senior executives. These include mainly tax sharing, healthcare, company cars, fuel and allocated housing. The costs related to these benefits are insignificant. Consequently they are accounted for as expenses.

***Definition of contribution plan:***

SNIM has decided to set up, as from January 2011, a defined contribution supplementary pension plan with the following main characteristics:

- An employer contribution corresponding to 10% and an employee contribution corresponding to 7% of the reference salary
- The prior service cost is borne by SNIM
- The reference salary is the base salary plus the seniority bonus (cf. 4.11 Actuarial assumptions)

Increases and reversals of the lump-sum pension indemnities and supplementary pension are booked to personnel charges.

**3-16 Income from ordinary activities**

IFRS 15 requires the identification of service obligations for the transfer of goods and services to the customer for each contract. Revenue is recognized when the performance obligations are met on the basis of the amount of remuneration the company expects to receive in exchange for the transfer of goods and services to the customer.

Revenue from SNIM's ordinary activities consists essentially of turnover on mineral sales, which is recognised when control of the property is transferred to the buyer and the amount can be reasonably estimated. Mineral sales are made FOB and the transfer of control is made at the time of loading the minerals.

**3-17 Public subsidies**

Government grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is recognized, on a systematic basis, as income over the years necessary to match the grant to the costs that it is intended to offset. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

**3-18 Income tax**

In view of SNIM's current fiscal status and the bases for the determination of tax (9% of the turnover) there are no deferred taxes.

**3-19 Management of the functional and presentation currency**

SNIM presents its financial statements in local currency, the Ouguiya. However, according to IAS 21 revised, the economic analysis of SNIM's activities shows that the Ouguiya is not SNIM's functional currency. If SNIM opts for USD as functional currency, the company will have to obtain authorization from the Mauritanian authorities to present its financial statements on that basis.

The information system is currently set for the Ouguiya as functional currency, with the Dollar being used as parallel currency. However, the system allows the editing of financial statements presented in USD. Shareholders' equity based on USD as a functional currency and presented in MRO (converted to average annual rate) can be estimated at 82 623 MUM against to 64 917 MUM in the presented financial statements. Likewise income based on USD as a functional currency and presented in MRO can be estimated at 2 223 MUM against 1 243 disclosed in the financial statements

**3-20 Derivative financial instruments and Hedging transactions**

SNIM uses derivative financial instruments to hedge against the risks relating to its business (exchange risk related to its operating, investing and financing activities).

Derivative financial instruments negotiated for hedging the company's exposure to risks linked to its business or to financing operations are qualified as cash-flow hedges where the company hedges exposure to variability in cash-flows attributable to a future transaction. SNIM does not uses financial instruments to cover the exposure to variations in the fair value of assets or liabilities, except for the exchange risk, or to cover investment in foreign activity.

**Cash-flow hedging respecting the eligibility criteria of the hedge accounting**

Gains or losses on hedging instruments are recognized in equity for the portion that is determined to be effective and in the income statement for the ineffective portion.

At the time the hedging transaction is recognized, the associated gains or losses that had previously been recognized in equity are transferred to the income statement for the same period as the hedged transaction and to the same account.

Hedge accounting ceases to be applied when the hedging instrument expires or is sold, terminated or exercised, or when it no longer meets the criteria for hedge accounting as defined in IFRS 9. In this case, the cumulative gain or loss on the hedging instrument initially recognized directly in equity shall be maintained separately in equity until the commitment or forecast transaction has occurred

In the event that the hedged transaction is not realized, the cumulative changes in value recognized directly in equity are recognized in profit or loss for the year.

**Derivative financial instrument operations not qualifying for hedge accounting:**

Gains or losses arising from the changes in the fair value of the derivative instruments (such as the put options or the conditional contracts so called exotic contracts), are taken directly to net profit or loss for the year.

All derivative financial instruments are stated in assets or liabilities at their fair value when the contract is negotiated and later revalued at the fair value at every year-end.

The market value of forward contracts and interest rate swaps, during their lifetime and at maturity, is determined by an independent expert on the basis of immediate and at term data at the time when the different underlying items and risk-free interest rate trends are valued for discounting.

During the option lifetime and at maturity, the market value is determined by an independent expert according to the Black and Scholes model, on the basis of the following elements:

- ✓ Market value of the underlying item
- ✓ Option exercise price
- ✓ Sensitivity “to the forward currency”
- ✓ Risk-free interest rate.
- ✓ Maturity of the option.

**3-21 Interest and dividends**

Dividend revenue is recognized when the shareholders’ right to receive the payment is established.

The company’s accounting policy is to classify dividends and interest received as investing activities, dividends paid as financing activities and interest paid as operating activities in the Cash flow Statement.

## IV. ADDITIONAL INFORMATION RELATING TO THE STATEMENT OF FINANCIAL POSITION

### 4.1 Tangible assets

| Assets valued at fair value | 31/12/2017 | Acquisitions | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Gross value | 48 584 | 1 415 | - | (167) | 49 832 |
| Amortization | 16 054 | 1 585 | (166) | - | 17 474 |
| **NET VALUE** | **32 530** | **(170)** | **(166)** | **(167)** | **32 358** |

| Assets valued at cost | 31/12/2017 | Acquisitions | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Gross value | 51 452 | 3 006 | | (302) | 54 156 |
| Amortization | 23 722 | 2 914 | (76) | 0 | 26 560 |
| **NET VALUE** | **27 729** | **91** | **76** | **(302)** | **27 595** |
| **TOTAL GROSS VALUE** | **100 035** | **4 420** | **0** | **(468)** | **103 987** |
| **TOTAL AMORTIZATION** | **39 776** | **4 499** | **(242)** | **0** | **44 034** |
| **FIXED ASSETS IN PROGRESS** | **7 208** | **1 854** | **0** | **(4 573)** | **4 488** |
| **NET VALUE FIXED ASSETS** | **67 467** | **1 775** | **242** | **(5 041)** | **64 442** |

The additions of the year amount to 1 854 MUM of which 621 MUM of capitalized production.

An impairment test was performed and no impairment of the assets of the company is necessary.

There is also no collateral on property, plant and equipment.

**Capitalized borrowing costs:**

The loan costs incorporated into the cost of assets for the year are as follows:

| In MUM | 31/12/2017 | Incorporated costs during the period | 31/12/2018 |
|---|---|---|---|
| **Guelb2** | 2 024 | - | 2 024 |
| **Mineral Port** | 4 06 | - | 4 06 |
| **Total** | **2 429** | **-** | **2 429** |

**Finance leases**

The gross book value of finance leases included in work in progress assets and finals assets (see 4.1 Property, plant and equipment) presents a nil value.

The gross book value of the financial leases included in the final assets (see 4.1 Tangible fixed assets) is as follows:

| In MUM | 31/12/2017 | Acquisitions | Disposal | 31/12/2018 |
|---|---|---|---|---|
| Renewal of Port Equipment (part BID) | 769 | - | - | 7 69 |
| Other materials Guelbs II (part BID) | 2 324 | - | - | 2 324 |
| Railway materials (Part BID) | 631 | - | - | 6 31 |
| **Gross Value** | **3 723** | **-** | **-** | **3 723** |

Other materials Guelbs II correspond to

i) 10 mining trucks for MUM 6 14

ii) 6 locomotives for MUM 574

iii) 6 loading systems of wagon for MUM 463

iv) 4 wet concentrations for MUM 674

Railway materials correspond to:

i) Concrete sleepers plant for MUM 375

ii) Supplies of equipment of Railway for MUM 256

**<u>Finance lease obligations</u>**

| Minimum lease payments in thousands of USD | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Due within one year | 12 892 | 12 371 |
| From 2nd to 5th year inclusive | 45 834 | 44 551 |
| More than five years | 17 002 | 26 875 |
| Less future financial charges | (13 524) | (12 331) |
| **Finance leases debt** | **62 204** | **71 468** |

### 4.1.1 Property, plant and equipment at fair value

Tangible assets are valued at their acquisition cost except for the categories of fixed assets that were revalued during financial year 2000. The revalued amounts were confirmed during financial year 2001 by an independent expert, the firm Met-Chem. Certain classes of assets have been regularly revalued since then, notably during financial year 2006. The fair value has been determined according to the replacement cost method less accumulated depreciation, as there was no market-based evidence.

The replacement cost has been estimated taking the following criteria into consideration:

- Value at purchase
- The technical condition of the equipment
- The useful life and the age of the equipment

| GROSS VALUE In MUM | 31/12/2017 | Acquisitions | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Specialized complex installations | 39 854 | 1 193 | - | (137) | 40 910 |
| Railway rolling stock and railroad track | 8 730 | 221 | - | (29) | 8 922 |
| **TOTAL** | **48 584** | **1 415** | **-** | **(167)** | **49 832** |

| AMORTIZATION | 31/12/2017 | Depreciation | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Specialized complex installations | 12 090 | 1 354 | (136) | - | 13 307 |
| Railway rolling stock and railroad track | 3 964 | 231 | (29) | - | 4 166 |
| **TOTAL** | **16 054** | **1 585** | **(166)** | **-** | **17 474** |

| NET BOOK VALUE | 31/12/2017 | Increase | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Specialized complex installations | 27 764 | (160) | 136 | (137) | 27 602 |
| Railway rolling stock and railroad track | 4 766 | (10) | 29 | (29) | 4 756 |
| **TOTAL** | **32 530** | **(170)** | **166** | **(167)** | **32 358** |

### 4.1.2 Property, plant and equipment at acquisition cost

| GROSS VALUE<br>In MUM | 31/12/2017 | Acquisitions | Transfers | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Land | 665 | - | (4) | - | 661 |
| Land improvements | 19 | - | | - | 19 |
| Buildings | 20 688 | 1 870 | 4 | (12) | 22 22 550 |
| Operating equipment | 27 859 | 933 | | (284) | 28 508 |
| Transportation equipment | 1 542 | 92 | | 0 | 1 634 |
| Office and IT equipment | 531 | 11 | | 0 | 542 |
| Office furniture | 146 | 100 | | 0 | 246 |
| **TOTAL** | **51 452** | **3 006** | **-** | **(296)** | **54 156** |

| AMORTIZATION | 31/12/2017 | Allowance | Transfers | Reversals | 31/12/2018 |
|---|---|---|---|---|---|
| Land | | | | | - |
| Land improvements | 17 | - | - | - | 17 |
| Buildings | 6 981 | 1 074 | (12) | - | 8 044 |
| Operating equipment | 14 794 | 1 674 | (64) | - | 16 404 |
| Transportation equipment | 1 298 | 137 | - | - | 1 434 |
| Office and IT equipment | 502 | 18 | - | - | 520 |
| Office furniture | 132 | 11 | - | - | 142 |
| **TOTAL** | **23 722** | **2 914** | **(76)** | **-** | **26 560** |

| NET BOOK VALUE | 31/12/2017 | Increase | Transfers | Decrease | 31/12/2018 |
|---|---|---|---|---|---|
| Land | 665 | - | (4) | - | 661 |
| Land improvements | 2 | - | - | - | 2 |
| Buildings | 13 707 | 796 | 16 | (17) | 14 501 |
| Operating equipment | 13 066 | (742) | 64 | (284) | 12 104 |
| Transportation equipment | 245 | (45) | - | - | 200 |
| Office and IT equipment | 29 | (7) | - | - | 22 |
| Office furniture | 13 | 90 | - | - | 103 |
| **TOTAL** | **27 729** | **91** | **76** | **(302)** | **27 595** |

The following table shows the gross values of fully depreciated property, plant and equipment that are still in use as of December 31, 2018:

| | **Gross Value** | |
|---|---|---|
| **In MUM** | **31/12/2017** | **31/12/2 018** |
| Buildings | 1 409 | 1 674 |
| Railway rolling stock and railroad track equipment | 1 786 | 1 873 |
| Specialized complex installations | 6 805 | 7 189 |
| Operating equipment | 7 085 | 8 210 |
| Transport equipment | 943 | 1 015 |
| Other tangible assets | 524 | 581 |
| **TOTAL** | **18 552** | **20 542** |

### 4.2 Intangible assets

| Variation in Intangible gross fixed assets | 31/12/2017 | Acquisitions | Transfer | Disposals | 31/12/2018 |
|---|---|---|---|---|---|
| Intangible fixed assets value | 666 | 128 | | - | 794 |
| **TOTAL** | **666** | **128** | **-** | **-** | **794** |

| Change in amortization | 31/12/2017 | allowance | Transfer | Reversal | 31/12/2018 |
|---|---|---|---|---|---|
| Intangible fixed assets value | 412 | 56 | - | - | 468 |
| **TOTAL** | **412** | **56** | **-** | **-** | **468** |
| **Net value of intangible fixed assets** | **254** | **72** | **-** | **-** | **326** |

These intangible assets relate to acquired patents and software

### 4. 3 other financial assets and investments in Associates

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Loans and advances | 1 532 | 1 235 |
| Deposits and guarantees | 112 | 108 |
| Impairment | (138) | - |
| **Other financial assets** | **1 507** | **1 343** |
| Investment in associates | 3 517 | 2 947 |
| **TOTAL** | **5 024** | **4 290** |

#### 4 .3.1 other financial assets:

Loans and advances mainly include:

- **-** Loans and advances granted to the company's employees. These loans are recorded at the value of the amounts lent and do not generate interest.

- The Najah loan, which relates to the tripartite agreement (State, SNIM and NAJAH) by which the State undertakes to pay the SNIM the remainder of the loan and NAJAH undertakes to carry out certain works in favor of the State.

The provision for impairment of other financial assets corresponds to the impairment of loans calculated in accordance with IFRS 9. The amount of impairment at 31 December 2017 has not been adjusted to take into account the impact of the application of IFRS 9, in accordance with the permitted transition terms (no restatement of comparative figures). The impact of IFRS 9 on loan impairment in 2017 is 138 MUM**.**

### 4.3.2 Investments in associates

| In MUM | 31/12/2017 | Increase | Transfer | Disposal | 31/12/2018 |
|---|---|---|---|---|---|
| Investments in associates | 5 823 | 85 | - | - | 5 909 |
| Subsidiary loans | 1 212 | 516 | - | - | 1 728 |
| **Gross value** | **7 036** | **601** | **-** | **-** | **7 637** |
| Depreciation of Investments in associates | 2 959 | 2 | - | - | 2 961 |
| Depreciation of Subsidiary Loans | 1 130 | 30 | - | - | 1 160 |
| **Provision for impairment** | **4 088** | **32** | **-** | **-** | **4 120** |
| Interest | 2 865 | 83 | - | - | 2 948 |
| Loans to subsidiaries | 83 | 486 | - | - | 569 |
| **Net value** | **2 947** | **569** | **-** | **-** | **3 517** |

The increase in the gross value of the investments is explained mainly by the participation in the increase in TAKAMUL's capital for 84 MUM.

The increase in Subsidiary Loans corresponds to:

- New shareholder advances granted to GHM for 441 MUM corresponding to the cost incurred by SNIM in connection with the hotel project on the date of sale.
- Drawings on the shareholder loan granted to EMC for 45 MUM

The impairment of Equity securities was recorded: on EMC's shareholder advances for 30 MUM.

| Investment in associates as of 31 12 2018 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| In MUM | Capital | Equity other than capital | Share capital held (in %) | Book value of the investment in balance sheet | | Loans or advances granted and not repaid in balance sheet | | Guarantees and endorsement given | Turnover | Income | Total of Balance sheet | Dividends received during the year |
| | | | | Gross | net | Gross | net | | | | | |
| SOMASERT | 57 | 26 | 100% | 56 | 56 | - | - | - | 48 | - 2 | 122 | 3 |
| SAFA | 30 | 174 | 100% | 28 | 28 | - | - | - | 128 | 20 | 269 | 30 |
| SAMMA | 10 | 307 | 53% | 1 | 1 | - | - | - | 97 | 25 | 345 | - |
| ATTM | 304 | -24 | 79% | 2 376 | 263 | 134 | - | - | 2 574 | 42 | 3 647 | |
| COMECA | 20 | 27 | 92% | 18 | 18 | 10 | 10 | - | 70 | 41 | 72 | |
| SAMIA | 76 | 32 | 50% | 38 | 38 | - | - | - | 76 | - 11 | 264 | - |
| GMM | 70 | -48 | 96% | 304 | 38 | 31 | 31 | - | 3 | - 9 | 93 | |
| TUM | 123 | -127 | 65% | 82 | - | - | | - | - | - | 108 | |
| EMC | 2457 | -383 | 50% | 1 228 | 1 037 | 1 094 | 69 | - | - | - 63 | 4 667 | - |
| GIP | 728 | 511 | 68% | 495 | 495 | - | - | - | 119 | 56 | 1 485 | - 10 |
| MAIL | 2099 | -799 | 15% | 316 | 16 | | - | - | 1 714 | - 114 | 5 767 | |
| DAMANE ASSURANCE SA | 600 | 195 | 20% | 120 | 120 | - | - | - | 122 | 55 | 1 085 | |
| MEE | 50 | 27 | 100% | 50 | 50 | | | | 95 | 23 | 276 | - |
| MSMS ( TAKAMUL ) | 1075 | 48 | 50% | 535 | 526 | | | | - | - 48 | 1 139 | |
| AMSAGA | 5 | 5 | 100% | | - | 4 | 4 | | - | - | - | |
| GHM | 506 | -2 | 50% | 253 | 253 | 455 | 455 | - | - | - | 977 | |
| SRN | 8 | -1 | 35% | 3 | 3 | - | - | - | 173 | 9 | 155 | |
| ENCO | 4 | -1 | 30% | 1 | 1 | - | - | - | 4 | 0 | 7 | |
| IQAR | 5 | 0 | 100% | 5 | 5 | | | | | | | |
| Total | | | | 5 909 | 2 948 | 1 728 | 569 | - | 5 222 | 24 | 20 475 | 22 |

The business purpose of each of the subsidiaries is presented below:

- ***La Société Mauritanienne de Services et de Tourisme (SOMASERT) :*** is managing hotel infrastructures and promotion of potential tourism in the country ;
- ***La Société Arabe du Fer et de l'Acier (SAFA)*** is producing iron and operating an iron-foundry with a capacity of 2,000 tons ;
- ***La Société d'Acconage et de Manutention en Mauritanie (SAMMA)*** does operations of consignment, transit and handling in the ports of Nouakchott and Nouadhibou ;
- ***La Société d'Assainissement, de Travaux, de Transport et de Maintenance (ATTM)*** does civil engineering and road construction ;

- ***La société Construction Mécanique de l'Atlantique (COMECA)*** does manufacturing, production and repair framework mechanical parts, mechanical ensembles, and boiler works ;
- ***La Société Arabe des Industries Métallurgiques (SAMIA)*** extracts and produces gypsum and plaster ;
- ***La société Granite et Marbre de Mauritanie (GMM***) does the exploitation and trade of ornemental stones, mainly granite and marble ;
- ***Gestion des Installations Pétrolières (GIP*** does the storage, transport and distribution of refined hydrocarbons;
- ***Tazadit Underground Mine*** does the search and underground mining of iron ore ;
- ***Damane Assurance :*** industrial insurance ;
- ***El Aouj Mining Company (EMC)*** produces pellets for the direct reduction of iron ore from the El Aouj guelbs ;
- ***Kharafi*** manages the hotel infrastructure ;
- ***Mauritanian Airlines International (MAIL)*** deals with the domestic, regional and international air transport.
- ***Mauritanienne d'Eau et d'Electricité (M2E)*** for execution and management of water and electricity distribution network;
- ***Mauritania Saudi Mining and Steel (TAKAMUL):*** produces and exports iron ore.
- ***AMSAGA***
- ***Grand Hôtel de Mauritanie (GHM) :*** construction and the management of hotels to cost categories.
- ***Société de Remorquage Nouadhibou (SRN)*** has for object the realization of activity of towing as well as any service of lamanage and piloting in the prot of Nouadhibou and in quite different port of Mauritania out outside.
- ***Engineering And Consulting Associes (ENCO ) Strategic and operational consulting services***
- ***IQAR :*** Real state

***Presentation of the Guelb El Aouj project***

**(a) Joint venture agreement**

SNIM and the Australian company Sphere Investments signed a joint-venture agreement on October 22, 2001 regarding the performance of the research and studies necessary for a project concerning the production of pellets for the direct Reduction of iron ore from the El Aouj Guelbs.

This partnership agreement defines the obligations of the parties as follows:

- SNIM contributes with a research permit (right of exploration) for the El Aouj zone, which comprises 5 guelbs,
- Sphere carries out a full bankable feasibility study (BFS), the costs of which are borne by Sphere.

At the end of this feasibility study, Sphere gets 50% of the rights for the El Aouj zone. The two parties then create a new common company in which both will hold a 50% stake. The purpose of this company is to assume the financing, realization and exploration of the project.

The El Aouj project should include:

- A large scale open cut mine,
- An enrichment factory (both dry enrichment and water based enrichment),
- A 7MT/year capacity pelletizing factory,
- A power station of 125 MHertz,
- Additional systems and services.

These facilities shall produce 7MT/year of high-quality pellets for direct reduction (DR).

The product will be transported by the existing iron ore railway infrastructure and loaded onto ore carriers by the existing SNIM port infrastructure, in exchange for an acceptable remuneration that will be determined by an agreement to be concluded between SNIM and the future company.
The necessary financing should be around USD 2.5 billion, of which one third should be provided by the shareholders.

**(b) Chronology**

SNIM and Sphere Investment decided in 2006 to open the capital of the future Newco to two major Arab steel producers: the Saudi Basic Industries Corporation (SABIC) and the Qatar Steel Company (QASCO).These two partners are consumers of pellets made for direct reduction. The Pre-Feasibility study was published on February 7, 2007.

In May 2007, SNIM and Sphere Investment offered to sell 49.9% of the El Aouj project to the steelmaker partners, SABIC and Qatar Steel, for an amount of USD 375 million.

On July 30, 2007, an agreement was signed according to which SNIM and Sphere Investment would transfer 49.9% of the El Aouj project to its partners for USD 375 million.

It should be noted that the amount of the transaction should serve as financing for the participation of SNIM and Sphere in the capital increase of the "Future Company". The capital should be increased to 30% of the total amount of capital expenditures In October 2007, SABIC withdrew in favor of the Qatar Steel which confirmed its decision to buy 49.9% of the project.

The project was to continue with three partners, but in 2008, Qasco first informed SNIM of its decision to limit its participation to 15%, before withdrawing entirely from the project. The final feasibility study was published in March 2008.

In August 2008, Sphere, a 100% shareholder of the company El Aouj SA, cancelled from the latter’s accounts all costs not related to the exploration and evaluation of the iron ore deposit, and SNIM acquired 50% of the capital of the company, renamed El Aouj Mining Company (EMC), for MUM 5.

SNIM and Sphere have decided to seek a third partner and a call for tender has been prepared.
The takeover of Sphere by Xstrata became effective in November 2010 brought all parties to resize the project such as:

- The 7MT/year capacity pelletizing plant shall be resized to 30 MT/year ;
- Production will extract pellets and raw iron ore ;
- The exploration program is extended to 2 new Guelbs, Tintekrate and Bouderga in order to estimate the mineral reserves of these Guelbs according to the JORC standard, with a view to better use of the license.

As of December 31st, 2018, the expenses incurred for this program amount to 3 035 MUM registering an increase of 46 MUM compared to 2017.

| **In MUM** | **31/12/2018** | **31/12/2017** |
|---|---|---|
| Cap Bouderga Tintekrate | 1 095 | 1 095 |
| Cap Expenses Study 2010 | 19 | 19 |
| JV south Cappitalized | 28 | 28 |
| Cap Guelb El Aouj | 1 894 | 1 847 |
| **TOTAL** | **3 035** | **2 988** |

### (c) Accounting treatment

As of December 31, 2018, the fair value of SNIM's investment in the El Aouj joint venture has not been modified and is based on Sphere's expenses for the feasibility study as of December 31, 2009, is 12,283 MUM ( see 4.3.1 holdings in companies). As part of this project, SNIM receives assets corresponding to expenditures made by Sphere in return for a right of exploration that was partially valued in the accounts of SNIM.

### Presentation of TAKAMUL Joint venture

Mauritania Saudi Mining and Steel Company (TAKAMUL) is a 50%:50% joint venture (JV) between SABIC & SNIM. The JV agreement was signed in September 2012 then Company established officially name in 12th December 2012 with registered License number 14113 at Nouadhibou, Mauritania.

Takamul started in 2013 the development of Atomai permit which is a magnetite deposit located 9 Km from F'DERIK town SNIM IN Zouerate region in Mauritania.

The Atomai project aims to produce 10 Million ton per year of Direct Reduction (DR) grade pellets over 25 years. It is expected that the project will come into production in year 2024.

The BFS has been completed in March 2019 by Ausenco, a Canadian firm, and the shareholders have decided to go further to the FEED, after a complementary update on the BFS.

The company's capital amounts to USD 35 million and will be increased by the value of the mining permit at the time of its transfer by SNIM scheduled for 2019.

### 4.4 Inventories and work-in-progress

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials at weighted average cost | 6 809 | 6 629 |
| Goods at weighted average cost | 34 | 17 |
| Ore at weighted average cost | 3 023 | 3 370 |
| **Gross value of inventories** | **9 866** | **10 016** |
| Allowance for depreciation of inventories of raw materials | (1 867) | (1 354) |
| Allowance for depreciation Decrease in the ore inventories | (1 494) | (1 588) |
| **Total inventories at the lower of weighted average cost and net realizable value** | **6 505** | **7 074** |

Inventories are valued at the lower of weighted average cost and net realizable value.

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Raw materials at weighted average cost | 6 809 | 6 629 |
| **Raw materials at net realizable value** | **4 942** | **5 275** |
| **Goods** | **34** | **17** |
| Iron ore at weighted average cost | 3 023 | 3 370 |
| **Iron ore at net realizable value** | **1 529** | **1 782** |
| **Total inventories at the lower of weighted average cost and net realizable value** | **6 505** | **7 074** |

The increase in inventories of raw materials is recorded mainly on Hydrocarbons and mining equipment respectively for 161 MUM and 112 MUM.

The decrease of iron ore stock is explained by:

- ✓ The decrease in Semi-finished Product stock due to a quantity effect in line with the decrease in quantities processed.
- ✓ The decrease in finished goods inventories is due to a negative quantity effect related to the decrease in production at the Nouadhibou plant.

The company does not practice any pledge on stocks

### 4.5 Trade receivables and related accounts

Trade receivables are detailed as follows:

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Iron ore trade receivables | 2 782 | 1 373 |
| Receivables due from group companies | 547 | 387 |
| Other trade receivables | 665 | 400 |
| **Total Gross** | **3 995** | **2 160** |
| Impairment of Iron ore trade receivables | (2) | - |
| Impairment of Receivables due from group companies | (82) | (77) |
| Impairment of Other trade receivables | (95) | (63) |
| **Total impairment** | **(179)** | **(140)** |
| Iron ore trade receivables net | 2 780 | 1 373 |
| Receivables due from group companies net | 465 | 309 |
| Other trade receivables net | 570 | 337 |
| **Total net value** | **3 815** | **2 020** |

The application of IFRS 9 did not have a material impact on the impairment of trade receivables.

The amount of impairment on mineral receivables at 31 December 2017 has not been adjusted to take into account the impact of the application of IFRS 9, in accordance with the permitted transition terms (no restatement of comparative figures).

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| **Impairment as of 1st January** | **140** | **104** |
| Impairment loss under IFRS 9 | 2 | |
| Additional depreciation | 40 | 80 |
| Reversals | - 3 | - 42 |
| **Impairment as of 31st December** | **179** | **140** |
| Amount recovered from impaired receivables | 880 | 42 |
| Gross amounts of impaired receivables | 1 666 | 1 022 |

### 4.6 Other receivables

Other receivables are detailed as follows:

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Trade payables – debit balances | 939 | 724 |
| Personnel receivables | 110 | 85 |
| Trustee | 1 561 | 1 538 |
| Sundry receivables | 141 | 118 |
| Tax receivables | 531 | 523 |
| Deferred expenses | 56 | 33 |
| **TOTAL** | **3 339** | **3 021** |

- Trade payables **-** debit balances relate to advances granted to its suppliers and orders realized before the issuing of the corresponding invoices
- Personnel receivables are mainly composite of short term advances granted to staff.
- Tax receivables are mainly composite of unique tax or other income from State.
- Deferred expenses are mainly composite of prepaid expenses

## 4.7 Financial instruments: disclosure

### 4.7.1 Financial instruments presented in the statement of financial position

The company defines its financial assets into the following categories: assets measured at fair value through profit or loss, assets and liabilities measured at amortized cost.

Financial assets are initially recognized at fair value, which generally corresponds to the price paid, i.e. the acquisition cost (including related acquisition costs, where applicable). Subsequently, financial assets are measured at fair value or amortized cost depending on the category of financial asset to which they belong.

As from 1 January 2018, financial assets are classified in the categories "financial assets measured at amortized cost", "assets measured at fair value through other comprehensive income" and "financial assets measured at fair value through net income". This classification depends on the entity's business model for managing financial assets and the contractual conditions under which it is determined whether cash flows are only the payment of principal and interest (SPPI). Financial assets with an embedded derivative are considered in their entirety to determine whether their cash flows are SPPI.

***Financial assets at fair value through profit or loss***

Financial assets measured at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired primarily for the purpose of resale in the short term. Derivative financial instruments are also designated as held for trading unless they qualify as hedges. They are classified as current assets.

***Financial assets measured at amortized cost***

Financial assets measured at amortized cost include debt instruments whose management intention is to collect contractual cash flows that correspond solely to the repayment of the nominal amount and the payment of interest on the remaining nominal amount due. At each balance sheet date, these assets are measured at amortized cost using the effective interest rate method. When there is objective evidence that the financial asset has lost all or part of its value, an impairment loss corresponding to the difference between the net carrying amount and the recoverable amount (discounting of expected cash flows at the original effective interest rate) is recognized in income. It is reversible if the recoverable amount is likely to change favorably in the future.

The main financial liabilities consist of borrowings and trade payables. The main purpose of these financial liabilities is to finance the company's operating activities.

On initial recognition, borrowings should be measured at fair value with transaction costs directly attributable to them as a result of the issuance of the liability being charged to them. Debt issue costs and premiums are not included in the initial cost but should be included in the calculation of amortized cost using the effective interest rate method and should be recognized in profit or loss on an actuarial basis over the life of the liability.

As at December 31, 2018, the financial instruments included in the statement of financial position are as follows:

| Breakdown by instrument category | | | | | |
|---|---|---|---|---|---|
| **In MUM** | **Amortized cost** | **Fair value through profit or loss** | **Fair value through equity** | **Value in the statement of financial position** | **Fair value** |
| Other financial fixed assets | 1 507 | - | - | 1 507 | 1 507 |
| Trade receivables and related accounts | 3 815 | - | - | 3 815 | 3 815 |
| Other receivables and related accounts | 3 339 | - | - | 3 339 | 3 339 |
| Cash and cash equivalents | 7 399 | 43 | - | 7 442 | 7 442 |
| **Assets** | **8 548** | **43** | **-** | **16 101** | **16 101** |
| Interest bearing loans and borrowings | 11 715 | - | - | 11 715 | 11 715 |
| Trade payables | 4 012 | - | - | 4 012 | 4 012 |
| Other payables | 6 261 | - | - | 6 261 | 6 261 |
| **Liabilities** | **10 274** | **-** | **-** | **21 988** | **21 988** |

As at December 31, 2017, the financial instruments included in the statement of financial position are as follows:

| Breakdown by instrument category | | | | | |
|---|---|---|---|---|---|
| **In MUM** | **Amortized cost** | **Fair value through profit or loss** | **Fair value through equity** | **Value in the statement of financial position** | **Fair value** |
| Other financial fixed assets | 535 | - | - | 535 | 535 |
| Trade receivables and related accounts | 2 020 | - | - | 2 020 | 2 020 |
| Other receivables and related accounts | 3 021 | - | - | 3 021 | 3 021 |
| Cash and cash equivalents | 10 018 | 326 | - | 10 344 | 10 344 |
| **Assets** | **15 594** | **336** | **-** | **15 920** | **15 920** |
| Interest bearing loans and borrowings | 13 825 | - | - | 13 825 | 13 825 |
| Trade payables | 4 003 | - | - | 4 003 | 4 003 |
| Other payables | 5 967 | - | - | 5 967 | 5 967 |
| **Liabilities** | **23 795** | **-** | **-** | **23 795** | **23 795** |

The fair value of other financial instruments (loans and deposits) was not deemed significant and these items are therefore valued at amortized cost.

The fair value of the trade receivables, other receivables, trade payables and other payables was not deemed significant and these items are therefore valued at amortized cost discounted at closing market price in the transaction currency.

Taking into account SNIM's economic environment (lack of market data required to determine a yield curve in order to estimate the market value of loans and borrowings at preferential rates), borrowings and loans are valued at amortized cost.

### 4.7.2 Derivative financial instruments

The company uses financial instruments such as term hedges or interest rate swaps. These derivative financial instruments should be initially recognized at fair value when the contract is negotiated and should be subsequently measured at the fair value. The derivatives must be recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses resulting from changes in market value of hedging instruments, within the framework of a future cash flow hedges, for which the group has chosen to apply the hedge accounting, are recognized in equity at an effective hedge percentage.

When the group has chosen not to apply hedge accounting, the gains or losses resulting from the changes in market value are recognized in income statement.

When the company has elected not to apply hedge accounting, gains or losses resulting from changes in market value are recognized in profit or loss.

In accordance with IFRS 7, the fair values of financial instruments are classified according to the various valuation techniques defined as follows:

- Level 1: direct reference to prices published on an active market;
- Level 2: valuation techniques based on observable data ;
- Level 3: valuation techniques based on unobservable data.

The group is using level 2 for the fair value valuation of derivative financial instruments.

***Foreign currency risk:***

As of December 31, 2018, financial instruments on exchange rates available at closing date are detailed below:

| Hedge accounting | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value in MUM | Fair value in KUSD | Nominal in thousands | | Fair value in MUM | Fair value in KUSD | Nominal in thousands | |
| | | | Bought | Sold | | | Bought | Sold |
| **Foreign currency risk** | | | | | | | | |
| **a) Cash flow hedging** | | | | | | | | |
| ***Forward contracts in foreign currency*** | | | | | | | | |
| Euro | (17) | (160) | 34 000 | | 11 | 316 | 20 500 | |
| ***Options on currency*** | | | | | | | | |
| Euro | 1 | 91 | 24 000 | 14 000 | 30 | 847 | 24 000 | 24 000 |
| **b) Fair value hedging** | | | | | | | | |
| ***Forward contracts in foreign currency*** | | | | | | | | |
| Euro | | (314) | 9 000 | 1 000 | 4 | 122 | 14 500 | |
| ***Options on currency*** | | (53) | 2 000 | 2 000 | | | | |
| Euro | | | | | 1 | 23 | 6 500 | 6 500 |
| **c) Other operations** | | | | | | | | |
| ***Options on currency*** | | | | | | | | |
| Euro | (8) | (218) | | 14 250 | (3) | (86) | | 20 000 |
| **Total** | **(24)** | **(654)** | | | **43** | **1 221** | | |

***Commodity price risk:***

As December 31, 2018, financial instruments related to commodity price risk (at the balance sheet date) are as follows:

| **Hedging accounting** | **2018** | | | | **2017** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value in MUM** | **Fair value in KUSD** | **Nominal in thousands** | | **Fair value in MUM** | **Fair value in KUSD** | **Nominal in thousands** | |
| | | | **Bought** | **Sold** | | | **Bought** | **Sold** |
| **Commodity price risk** | | | | | | | | |
| **a) Cash flow hedging** | | | | | | | | |
| **Swaps on raw material** | | | | | | | | |
| Fuel | (39) | (1 077) | 9 600 | | 10 | 270 | 32 100 | |
| Gasoil | (65) | (1 791) | 12 200 | | 21 | 593 | 33 375 | |
| **Options on commodities** | | | | | | | | |
| Fuel | (36) | (996) | 12 300 | 12 300 | 4 | 125 | 18 250 | 20 800 |
| Gasoil | (55) | (1 513) | 9 900 | 9 900 | 7 | 194 | 19 450 | 19 450 |
| **b) Other operations** | | | | | | | | |
| **Options on commodities** | | | | | | | | |
| Fuel | (22) | (617) | | 7 350 | (1) | (25) | | 10 500 |
| Gasoil | (37) | (1 021) | | 6 300 | (1) | (31) | | 8 150 |
| **Total commodity** | **(255)** | **(7 015)** | | | **40** | **1 127** | | |

***Interest rate risk:***

As December 31, 2018, financial instruments related to interest rate risk at the balance sheet date are as follows:

| **Hedging accounting** | **2018** | | | | **2017** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair value in MUM** | **Fair value in KUSD** | **Nominal in foreign currencies (thousands)** | | **Fair value in MUM** | **Fair value in KUSD** | **Nominal in thousands** | |
| | | | **Bought** | **Sold** | | | **Bought** | **Sold** |
| **Interest rate risk** | | | | | | | | |
| **a) Cash flow hedging)** | | | | | | | | |
| Interest rate swaps | | | | | | | | |
| EUR | | | | | 0,1 | 3 | 20 000 | |
| JPY | | | | | | | | |
| CHF | | | | | | | | |
| Interest rate options | | | | | | | | |
| Euro | 3 | 85 | 40 000 | | - | - | 15 000 | |
| JPY | | | | | | | | |
| CHF | | | | | | | | |
| **b) Other operations** | | | | | | | | |
| EUR | | | | | | | | |
| JPY | | | | | | | | |
| CHF | | | | | | | | |
| **Total interest rate** | **3** | **85** | | | **0** | **3** | **-** | **-** |
| **Total** | **(275)** | **(7 584)** | | | **83** | **2 351** | | |

The impacts on the income statement of derivative financial instruments as of December 31, 2018 are presented here below:

| **Cash-Flow Hedging**<br>**In USD** | **Amount transferred to gains and losses during the year** | **Inefficiency booked in Profit** |
|---|---|---|
| Foreign currency hedging | (54 976) | (313 742) |
| Interest rate hedging | (33 408) | 1 915 |
| Commodities hedging | 172 640 | (1 341 323) |

| **Fair Value Hedge**<br>**in USD**<br>**Fair Value Hedge** | **Gain and losses on Hedging instruments** | **Gain and losses on hedging instruments** | **Inefficiency booked in profit** |
|---|---|---|---|
| Currency hedging | (119 635) | (279 700) | 159 365 |
| Interest rate hedging | - | - | - |
| Commodities hedging | - | - | - |

| **Non-qualifying derivative hedging**<br>**In USD** | **Gains and losses recorded in income statement** |
|---|---|
| Foreign currency hedging | (34 044) |
| Interest rate hedging | - |
| Commodities hedging | (1 341 323) |

***Hedging objective and policy:***

The iron ore market is denominated in US dollars; therefore, all of SNIM's sales are made in US dollars.

Mauritania's exchange regulations prohibit any possibility of managing exchange rate risks against the national currency. SNIM is therefore exposed to foreign exchange risk against the US dollar on operating expenses denominated in third currencies (import of euros, in CAD against US dollars).

In addition, to finance its development, SNIM has contracted loans denominated in US dollars, euros and yen from international donors. Depending on the evolution of the US dollar against these currencies, a greater or lesser proportion of revenue will have to be allocated to debt servicing. Consequently, SNIM is indeed exposed to currency risk against the dollar for all its debt expressed in a third currency.

The company has formalized its risk management policy and, in particular, its tolerance level for these risks.

Procedures for measuring the Company's exposure to currency risk (actual and forecast) have been established. These procedures have been approved by Executive Management and are reviewed annually. The Company undertakes to treat its hedging transactions with leading banks (Société Générale, BNP Paribas).

***Foreign exchange risk:***

Pour gérer son risque de change sur transactions, la politique de la société consiste à couvrir le risque de change des SNIM's policy for managing its exposure to foreign currency risk consists in hedging foreign currency risk on firm and estimated purchasing commitments denominated in foreign currencies. Financial instruments that have been negotiated have a lifetime corresponding to that of firm or estimated operations. Usually financial instruments' maturities do not exceed one year.

To reach its hedging objectives, the company resorts to forward purchasing contracts or option sales on currency contracts. Usually option sales contracts are part of an overall hedging strategy (tunnel). Derivative financial instruments are negotiated by mutual agreement with first-rated financial institutions.

The analysis of sensitivity of profit before tax (due to variation of monetary assets and liabilities' fair value) and equity (linked to variation in forward contracts' fair value) of SNIM is presented below. This analysis is based on the following assumptions: on one hand, a reasonable variation in the euro exchange rate, on the other hand, all other variables remain stable.

| **In USD** | **Variation of euro** | **Impact on profit before tax** | **Impact on equity** |
|---|---|---|---|
| 2018 | 10% | 5 754 038 | 1 038 112 |
| | (10%) | (5 699 076) | (2 627 415) |

Dollar = 36,3 ouguiyas

***Commodity price risk:***

The company is exposed to the commodity price risk on firm and estimated operational transactions.
SNIM's policy is to hedge against exposure to these risks. In order to reach its hedging objectives, the company resorts to purchase and selling contracts on commodity options or on swap contracts. Some selling contracts are part of a global hedging strategy. Management of this risk is spread over less than a year.

The analysis of the sensitivity of SNIM's profit before tax (due to variations in the fair value of the monetary assets and liabilities) and equity (linked to variations in the fair value of the swaps) gives a reasonable variation of the raw materials exchange rate, as all other variable remain stable.

| **In USD** | **Variation on commodity prices** | **Impact on profit before tax** | **Impact on equity** |
|---|---|---|---|
| 2018 | 10% | (996 700) | (4 081 491) |
| | (10%) | (1 785 401) | (7 279 530) |

***Interest rate risk:***

SNIM has obtained important funding for the realization of the Development and Modernization Program (DMP).
These funding are indexed on variable rates (libor). Therefore the company is exposed to a financial risk related to the increase of interest rates.

SNIM's policy is to hedge the risks related to interest rates fluctuations on its floating rate debt on a 5-year management horizon.

In order to reach its hedging objectives, the company resorts to interest-rate derivative instruments, signs interest swaps and conditional financial instruments (caps, floors and collars).

In order to limit the effect of the dollar rate increase on its financial instruments, SNIM decided to implement a hedging policy, aimed at guaranteeing a maximum income rate.

The analysis of the sensitivity of SNIM's profit before tax and equity (linked to variations in the fair value of the derivative instruments) provides a change in interest rate within reason, all other variables remaining constant.

| **In USD** | **Variation in rate** | **Impact on profit and loss account before tax** | **Impact on equity** |
|---|---|---|---|
| 2018 | 5% | (22 443) | 106 552 |
| | (5%) | (58 802) | (101 660) |

***Credit risk:***

SNIM maintains commercial relations exclusively with reliable third parties.

Most of the client portfolio is constituted by iron ore customers whose terms of payments require a 90% advance at order and the remaining 10% within 21 days after delivery. Thus, for those clients, there exists no risk of credit.
For the other customer, trade receivables are not material and a credit risk analysis is performed regularly in order to adapt the possible depreciation on receivables.

The maximum exposure is equal to the book value mentioned in Note 4.5.

Regarding the credit risk on other financial assets of the Group, i.e., cash and cash equivalents, financial assets available for sale, loans and certain derivative instruments, the Group' exposure is due to a potential failure of the third party with the maximum exposure not exceeding the accounting value of those instruments.

***Liquidity risk:***

SNIM controls its liquidity risk based on a projected financial investment maturity and an estimated cash flow generated by operational activities.

90% of borrowings have been placed within the scope of the trustee in order to decrease the liquidity risk. This system consists in withholding a part of the monthly sales, until the six months maturity has been reached. The amount withheld cannot be used for anything other than debt redemption.

As at 31 December 2018, 18% of SNIM's debts were due within one year, compared with 16% in 2017.

***Maturity***

The table below shows the maturity of the financial liabilities as of December 31, 2018, based on contractual payments not discounted. The principal considers only the debt actually drawn by the company as of December 31, 2018.
Similarly, interest expenses reflect the interests of the company totally drawn as of December 31, 2018.

Therefore, future withdrawals of the debt of DMP and corresponding interest expenses are not taken into account in the preparation of this table of maturity.

The following table shows the debt maturity schedule year by year:

| In MUM | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Principal | 2 805 | 2 370 | 2 322 | 2 249 | 1 899 | 1 706 | 445 |
| Interest | 970 | 571 | 445 | 323 | 207 | 107 | 33 |
| **TOTAL** | **3 775** | **2 941** | **2 767** | **2 572** | **2 106** | **1 813** | **478** |

| In MUM | 2 026 | 2 027 | 2 028 | 2 029 | 2 030 | 2 031 | TOTAL |
|---|---|---|---|---|---|---|---|
| Principal | 136 | 136 | 123 | 137 | 191 | - | **14 518** |
| Interest | 19 | 16 | 12 | 9 | 6 | - | **2 719** |
| **TOTAL** | **155** | **152** | **135** | **146** | **196** | **-** | **17 237** |

### 4.8 Cash and cash equivalents

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Cash | 43 | 327 |
| Cash equivalents | 7 399 | 9 209 |
| **TOTAL** | **7 442** | **9 536** |

Cash and cash equivalents comprise cash at bank and cash in hand.

Cash equivalents are short-term deposits with an original maturity of less than three months, liquid and immediately convertible.

### 4.9 Equity

In 2013 the company's issued capital increased by 170,520,000,000 MRO ((Equivalent to 17 052 000 000 MRU) by capitalization of available reserves to bring it up to 182 700 000 000 MRO (18 270 000 000 MRU ), i.e. 18,270,000 shares each with a nominal value of 1000 UM each. The capital is called up and paid up in full.

Capital does not comprise any share with favorable voting right. The share capital structure is presented as follows:

| In MUM | 31/12/2018 | 31/12/2017 | (%) |
|---|---|---|---|
| Mauritanian State | 1 431 454 500 | 1 431 454 500 | 78,35% |
| Industrial Bank of Kuwait ( I B K ) | 130 980 000 | 130 980 000 | 7,17% |
| Arabe Mining Compagny | 103 468 500 | 103 468 500 | 5,66% |
| Irak Fund for External Development | 838 230 000 | 838 230 000 | 4,59% |
| Office National des Hydrocarbures | 419 250 000 | 419 250 000 | 2,29% |
| Islamic Development Bank | 327 450 000 | 327 450 000 | 1,79% |
| Private Mauritanian Individuals | 26 040 000 | 26 040 000 | 0,14% |
| **TOTAL** | **18 270 000 000** | **18 270 000 000** | **100%** |

Premiums arising from shares issuance relate to previous capital increases and amount to 6,464 MUM. As of December 31, 2018, the legal reserve amounts to 11 041 MUM, representing 6% of the equity.

## 4.10 Interest bearing borrowings

### 4.10.1 Loans within the scope of trustee agreement

These loans are covered by a trust agreement signed on July 7, 1980 between the company, sponsors, the government of the Islamic Republic of Mauritania, the Société Générale bank (to encourage the development of trade and industry in France) and the Law Debenture Trust Corporation. According to this agreement the latter was appointed as “Trustee”, and regular credit transfers to the trust account would serve to make the half-yearly repayments to the sponsors.

Furthermore, another agreement was concluded on July 7, 1980 between the company, sponsors, Mauritania Central bank and the Société Générale bank. Under this agreement, through which a debit account would be opened with the Société Générale to receive all cash from sales of ore, the Société Générale would make the necessary transfers to the "Trustee" to enable the latter to meet the provisions stipulated in the Trust Agreement referred to above.

The balance of the trust account as of December 31, 2018 amounts to 1561 MUM against 1 538 MUM as of December 31, 2017. It is classified as "Other debtors" (4.6under other receivables). The debts under trustees are as follows:

| **In MUM** | **Currency** | **Interest rate** | **Maturity** | **31/12/2018** | **31/12/2017** |
|---|---|---|---|---|---|
| AFD- loan n°. 70X | EUR | 5,00% | 2 019 | 1 | 3 |
| AFD loan n°. 89U | EUR | 2,00% | 2 020 | 11 | 18 |
| AFD (Centrale) | EUR | Var. | 2 019 | 105 | 205 |
| AFD (Centre de formation) | EUR | Var. | 2 021 | 87 | 118 |
| BEI VII (Centrale) | EUR | 6,90% | 2 019 | 134 | 252 |
| **PDM- VOIE** | | | | | |
| BID | USD | Var. | 2 024 | 564 | 639 |
| **PDM- GUELBES II** | | | | | |
| BEI | USD | 6,03% | 2 024 | 1 971 | 2 234 |
| BAD | USD | Var. | 2 024 | 3 465 | 3 927 |
| AFD | USD | Var. | 2 024 | 1 969 | 2 232 |
| BID | USD | Var. | 2 024 | 1 694 | 1 881 |
| KFW/G21/USD | USD | Var. | 2 021 | 220 | 299 |
| KFW/G22/USD01 | USD | 5,96% | | 967 | 1 127 |
| **PDM-PORT** | | | | | |
| KFW NP1 | USD | Var. | 2 022 | 752 | 912 |
| KFW NP2 | USD | Var. | 2 022 | 650 | 789 |
| **Sub total** | | | | **12 591** | **14 636** |

### 4.10.2 Loans outside the scope of the trustee agreement

These loans relate to mining projects that are not included in the trustee agreement. Repayments are made directly to lenders and are detailed as follows:

| In MUM | Currency | Interest rate | Maturity | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|---|
| FED/03/EUR | EUR | Var. | | 1 419 | 1 436 |
| FADS | KWD | 0 | | 67 | - |
| PRIME PAYER | USD | | 2 018 | | 2 |
| **Sub total** | | | | **1 487** | **1 438** |

The situation of the agreement PDM appears as follows:

| Project | Lender | Currency | Interest rate | Maturity | Total Millions | Drawn Millions | Not drawn Millions |
|---|---|---|---|---|---|---|---|
| **Guelbs II** | AFD | EUR | Var | 2024 | 99,5 | 99,5 | 0,0 |
| | BEI | EUR | Fixe | 2024 | 99,6 | 99,6 | 0,0 |
| | BAD | USD | Var | 2024 | 175,0 | 175,0 | 0,0 |
| | BID | USD | Var | 2023 | 80,0 | 80,0 | 0,0 |
| | Commercial bank (tranche 1) | EUR | Var | 2021 | 24,2 | 24,2 | 0,0 |
| | Commercial bank (tranche 2) | EUR | Fixe | 2023 | 53,3 | 53,3 | 0,0 |
| **Port** | Commercial bank (tranche 1) | EUR | Var | 2022 | 42,6 | 42,6 | 0,0 |
| | Commercial bank (tranche 2) | EUR | Var | 2022 | 51,8 | 51,8 | 0,0 |
| **Voie** | BID | USD | Var | 2024 | 28,0 | 28,0 | 0,0 |
| **Training center** | AFD | EUR | Var | 2021 | 7,0 | 7,0 | 0,0 |
| **Usine Guelb I** | ADF | KWD | Fixe | 2049 | 32,0 | 0,6 | 31,4 |
| **Dredging** | BEI | EUR | Var | 2031 | 50,0 | 0,0 | 50,0 |
| | BAD | USD | Var | 2031 | 50,0 | 0,0 | 50,0 |

### 4.10.3 Rescheduled Debts

In the context of the 8th club of Paris which met on July 8, 2002, and following the bilateral agreement between the government of the French Republic and the government of the Islamic Republic of Mauritania signed on May 26, 2003,the French debt that was rescheduled under agreements III, IV, V and VI, was cancelled for the benefit of the Mauritanian Islamic Republic, within the framework of PPTE initiative. Rescheduled debt of SNIM concerning these concessions, was reorganized by an agreement signed between the Ministry of Finance and SNIM dated August 21, 2003. This protocol defines the payment terms to the Mauritanian state of the debt initially due by SNIM to the Bank of France and Coface.
The total amount of this treaty (Agreement 8) is EUR 15,235,989.75, which represents interest accumulated from June 30, 2002 to June 30, 2019 for agreements III, IV, V and VI, including EUR 12,763,021.30 of principal amount (corresponding to the non-repaid amount on these agreements) and EUR 2,472,968.44 of interest.

The outstanding balance for this agreement amounts to 117 MUM on December, 31st 2018 against 117 MUM as at December 31st 2017.

| In MUM | Currency | Interest rate | Maturity | 31/12/2018 | 31/12/2017 |
|---|---|---|---|---|---|
| **Rescheduled debts** | | | | | |
| French debt due dates rescheduled ( agreement8) | EUR | 3,00% | 2 019 | 117 | 117 |
| **Sub total** | | | | **117** | **117** |

**4.104 Reassigned debt**

In the context of SYSMIN, the European Union granted the Mauritanian Islamic Republic 58 million Euros under Agreement No 5546/MAU signed on October 23, 1995. The agreement provides for the reassignment of the grant as a loan to SNIM for the rehabilitation of some of its industrial facilities. Within the framework of this retrocession, a tripartite agreement defining the repayment terms was co-signed by the Europeen Union, the Mauritanian government and SNIM. This agreement defines the retrocession terms as a non-repayable grant, equivalent to the amount allocated to technical assistance i.e. 0.8 million Euros and a repayable loan of 57.2 million Euros.

In most of the above-mentioned loan agreements, the Company had undertaken to comply with certain conditions, such as the repayment of the amounts due at maturity, the distribution of dividends being subject to certain conditions, and the maintaining of the debt and debt service ratios.

In the event of failure to comply with any of these conditions, lenders could stop fund drawdowns and demand immediate repayment of the loans.

| **In MUM** | **Currency** | **Interest rate** | **Maturity** | **31/12/2018** | **31/12/2017** |
|---|---|---|---|---|---|
| **Reassigned debt** | | | | | |
| European Economic Community (Sysmin 1) | EUR | 0,50% | 2 028 | 323 | 326 |
| **Sub total** | | | | **323** | **326** |
| | | | | | |
| **TOTAL LOANS** | **MUM** | | | **14 518** | **16 518** |
| | | | | | |
| **Loans maturing in less than one year** | **MUM** | | | **2 805** | **2 695** |
| **Long and mid-term loans** | **MUM** | | | **11 713** | **13 823** |

Loans maturing in less than one year comprise the part of loans that will be paid within the twelve coming months.

The table of changes in borrowings between December 31, 2017 and December 31, 2018 is as follows:

| **In MUM** | **31/12/2017** | **Cash movements** | **FX** | **Other** | **31/12/2018** |
|---|---|---|---|---|---|
| Loans maturing in less than one year | 13 823 | 67 | (337) | (1 841) | 11 713 |
| Long and mid-term loans | 2 551 | (2 415) | (10) | 2 500 | 2 625 |
| **Total** | **16 374** | **(2 348)** | **(347)** | **660** | **14 338** |

Other mainly includes the reclassification of maturities of less than one year.

**4.11 Retirement benefit obligation**

| **In MUM** | **31/12/2017** | **Increases** | **Reversals** | **31/12/2018** |
|---|---|---|---|---|
| Provisions for retirement indemnities | 485 | | (19) | 466 |
| Provisions for additional retirement | 1 965 | 231 | (95) | 2 101 |
| **TOTAL** | **2 450** | **231** | **(114)** | **2 567** |

***Description of plan:***

A benefit is provided to employees when they retire, depending on:

- Their salary when they leave the company;
- The employee's length of service in the company.

Note that this benefit is provided without any condition of the employee's presence within the company at retirement date.

***Actuarial assumptions s:***

The benefit obligation amount is determined according to the projected unit credit actuarial valuation method. This method consists in valuing the benefit according to the projected salary at the end of the employee's career and to the eligible amount at valuation date. The following assumptions were used:

| **Assumptions** | |
|---|---|
| Age of retirement | 60 year |
| Future salary increase | 0,39% |
| Actual rate of return | 6% |
| Death rate | TM 60-64 – 20% |
| Employee rotation rate | 0,24% average, distributed in decreasing order of age |
| Inflation | 1,17% |

The accrual basis held to recognize actuarial gains and losses is a booking in equity.

| **ASSUMPTIONS for the period ended as of** | **31/12/2017** | **31/12/2018** |
|---|---|---|
| Beginning of the period | 1st January, 2017 | 1st January, 2018 |
| End of the period | 31st December, 2017 | 31st December, 2018 |
| Actual rate of return | 6% | 6% |
| Expected average remaining working lives | 9,0 | 9,0 |

***Variation in benefit obligation:***

| **In MUM** | **31/12/17** | **31/12/18** |
|---|---|---|
| **Benefit obligation at the beginning of the period** | **424** | **485** |
| Current service cost | 17 | 22 |
| Interest cost | 31 | 30 |
| Actuarial (gains) losses | 80 | (12) |
| of which changes in assumptions | (123) | (99) |
| of which experience differences | 203 | 88 |
| Benefits paid | (68) | (60) |
| **Benefit obligation at the end of the period** | **485** | **466** |

***Variations in investments:***

The benefits defined by SNIM are not covered by investments.

***Financial cover:***

| **FINANCIAL COVER** | **31/12/17** | **31/12/18** |
|---|---|---|
| Financial cover | 485 | 466 |
| **(Provisions) Pension assets** | **485** | **466** |

***Actuarial cost for the year:***

| In MUM | 31/12/17 | 31/12/18 |
| --- | --- | --- |
| Current service cost | 17 | 22 |
| Interest on debt | 31 | 30 |
| **Charges (Incomes)** | **48** | **52** |

***Description of the defined contribution plan:***

SNIM agents of Mauritanian nationality on permanent contracts in force after 2011 receive an indemnity upon retirement, death or redundancy at the initiative of the company, which is equal to one hundred twentieths:

- The 10% employer contribution and the 7% employee contribution based on the reference salary
- The income from the investment of the employer and employee contributions
- The prior service cost borne by SNIM (10% of the reference salary)
- The reference salary is the base salary plus the seniority bonus

In other cases, only the employee contributions and the income from the investment of the employee contributions are paid to the employee.

***Actuarial assumptions:***

The charge has been determined according to the following assumptions:

- Subscription of all the employees
- No social charge due in respect of the supplementary pension
- Convergence of the rates over 20 years to 5% is taken into account, i.e. a risk premium of 3% compared to inflation
- No guaranteed rate of return
- The revaluation rate corresponds to the financial rate of return which is equal to 9%

### 4.12 Provisions

These provisions are detailed as follow:

| In MUM | 31/12/2017 | Increase | Reversal | 31/12/2018 |
| --- | --- | --- | --- | --- |
| Contingency provision | 473 | | (2) | 471 |
| **TOTAL** | **473** | **-** | **(2)** | **471** |

### 4.13 Trade payables

Trade payables are detailed as follows:

| In MUM | 31/12/2018 | 31/12/2017 |
| --- | --- | --- |
| Trade payables | 3 734 | 3 769 |
| Accrued payables | 278 | 234 |
| **TOTAL** | **4 012** | **4 003** |

### 4.14 State and other public taxes

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Taxe unique SNIM | 470 | 368 |
| Taxes on wages and salaries | 42 | 39 |
| **TOTAL** | **512** | **406** |

SNIM has a specific regime. An agreement was signed on December 23, 1998 between the Mauritanian Government – represented by the Ministry of Finance and the Ministry of Industry and Mines - and the company, for a period of 20 years starting on January 1, 1999. This agreement ensures SNIM's autonomy for management and importation.

On March 27, 2018, the National Assembly ratified the renewal of the special agreement for an additional 20 years starting January 1, 2019

There is no need to recognize deferred taxes, as there is no difference between the carrying amounts of assets and liabilities on the statement of financial position. SNIM also pays an annual lump sum of 80 million ouguiyas representing the totality of the taxation of tax compensation and benefits in kind granted by SNIM to its employees.

Single tax advances and VAT credit are offset against the Single Tax because the due dates of the Single Tax and VAT credit are similar and these amounts are recovered or paid by the same administration and there is a legal right of set-off.

### 4.15 Other taxes

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Other taxes | 164 | 63 |
| **TOTAL** | **164** | **63** |

SNIM is exempted from all customs duty and assimilates taxes of all kind related to goods, equipment, services, and exploration of sources of ore and water by the convention signed with Mauritanian government. SNIM is also exempted from all customs and assimilated taxes on materials, consumables and goods imported by companies and subcontractors, which are dedicated to SNIM. Clause N°1 was added to this convention on June 19, 2001 concerning VAT and subjugation of SNIM to this tax.

Consequently SNIM is subject to VAT on goods and services that are not in correlation with industrial and mining exploitation.

### 4.16 Other creditors

Other creditors are detailed as follows:

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Payroll expenses and related costs | 251 | 217 |
| Dividends payable | 7 | 7 |
| Sundry payables and pre-payments | 3 198 | 3 048 |
| Short term loan | 2 805 | 2 695 |
| **TOTAL** | **6 261** | **5 967** |

Sundry payables and prepayments are detailed as follows:

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| SABIC advance | 1 089 | 1 057 |
| Credit customers | 530 | 333 |
| Accrued expenses | 563 | 502 |
| Investment of subsidiaries | 236 | 432 |
| Accrued expenses on borrowings | 412 | 375 |
| Remaining payment on the capital increase | 187 | 196 |
| Marking taxes | 74 | 13 |
| Social security contributions | 34 | 27 |
| Accruals and deferred income | 73 | 113 |
| **TOTAL** | **3 198** | **3 048** |

## V. ADDITIONAL INFORMATION RELATING TO THE INCOME STATEMENT

### 5.1 Sales

The production sold represents iron ore sales for the sum of 18,369 MUM (515,997 K USD) for the 2018 financial year (net demurrage).

Sales are made in FOB (Free on Board) and are recorded at the time of the transfer of control, which corresponds to the loading of the ore.

Almost all iron ore sales are made to various Western European countries and China. Three customers (CARGIL, GLENCORE and NIPPON STEEL) accounted for 64% of total revenue in 2018.

The breakdown by geographical area is as follows:

| In MUM | 2 018 | 2017 |
|---|---|---|
| China | 10878 | 10284 |
| Germany | 2711 | 3780 |
| Japan | 2 382 | 1 216 |
| Italy | 1 455 | 2 227 |
| France | 911 | 484 |
| Others | 32 | 318 |
| **TOTAL** | **18 369** | **18 309** |

### 5.2 Other income

Other income are detailed as follow:

| In MUM | 2 018 | 2017 |
|---|---|---|
| Rents, material disposal, telecom | 486 | 445 |
| Rentals of buildings and equipment | 21 | 28 |
| Other services | 11 | 11 |
| Supply of personnel | 24 | 12 |
| Disposals | 1 | 1 |
| **TOTAL** | **544** | **496** |

### 5.3 Other operating income

Other operating income are detailed as follow:

| In MUM | 2 018 | 2 017 |
|---|---|---|
| Discounts, rebates and refunds obtained | 11 | 26 |
| Products and Profits | 22 | 6 |
| Reversals / provisions | 164 | 702 |
| Profits / disposal | 14 | |
| **TOTAL** | **210** | **734** |

### 5.4 Consumable materials

| In MUM | 2 018 | 2 017 |
|---|---|---|
| Consumables used | (8 041) | (7 230) |
| Maintenance products | (15) | (11) |
| Supplies | (55) | (104) |
| Water and electricity | (107) | (56) |
| Materials | (12) | (5) |
| Consumables – DSP | - | (3) |
| **TOTAL** | **(8 230)** | **(7 409)** |

### 5.5 Employees Cost

The personnel costs heading is as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Wages | (2 961) | (3 176) |
| Social charges | (292) | (301) |
| Provision for retirement indemnities | 8 | 20 |
| Complementary pension schemes | (92) | (126) |
| **TOTAL** | **(3 337)** | **(3 584)** |

The evolution of the company's headcount is presented as follows:

| Category | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Executives | 332 | 339 |
| Supervisory staff | 2 868 | 2 726 |
| Workers | 2 995 | 3 168 |
| **TOTAL** | **6 195** | **6 233** |

The average workforce is calculated on the basis of the present number employees working for the company at the end of each month.

### 5.6 Depreciation, amortization and provision

Depreciation, amortization and provision are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Depreciation of property, plant and equipment | (4 521) | (4 736) |
| Amortization of intangible assets | (55) | (84) |
| Depreciation of financial assets | (32) | (219) |
| Depreciation of inventories | (513) | (222) |
| Depreciation and accrual for accounts receivable | (40) | (78) |
| Other depreciation | (261) | (302) |
| **TOTAL** | **(5 422)** | **(5 641)** |

### 5.7 Taxes

Taxes are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Tax on benefit | (8) | (8) |
| Other taxes | (2) | (48) |
| **TOTAL** | **(10)** | **(56)** |

### 5.8 Other operating expenses

Other operating expenses are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Expenses related to investment (1) | (815) | (879) |
| Expenses related to operations (2) | (187) | (314) |
| Other Charges (3) | (188) | (371) |
| **TOTAL** | **(1 190)** | **(1 564)** |

(1) The investment-related expenses relate mainly to repair and maintenance costs, insurance and the costs of studies and technical assistance.

(2) Expenses related to the operations concerns mainly the assignment expenses, fees, telephone, ore analysis and bank charges.

(3) Other Charges are related to donations, grants, fines, penalties and slowdown of stock.

### 5.9 Financial income

Financial income are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Interest and related income | 221 | 208 |
| Income on financial instrument | 159 | 191 |
| Foreign exchange gains | 542 | 902 |
| Other financial income | 3 | (1) |
| **TOTAL** | **924** | **1 300** |

Foreign exchange gains are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Unrealized exchange gains | 74 | 70 |
| Other exchange gains | 468 | 832 |
| **TOTAL** | **542** | **902** |

Unrealized exchange gains mainly comprise foreign exchange gains on debt denominated in euro.

Other exchange gains are related to gains on the revaluation of cash accounts and foreign currency investment.

### 5.10 Financial Expenses

Financial Expenses are detailed as follow:

| In MUM | 2018 | 2017 |
|---|---|---|
| Interest and related charges | (798) | (861) |
| Foreign exchange losses | (771) | (893) |
| Charges on financial instruments | (92) | (46) |
| Other financial charges | - | 7 |
| **TOTAL** | **(1 661)** | **(1 793)** |

Exchange losses are detailed as follows:

| In MUM | 2018 | 2017 |
|---|---|---|
| Unrealized exchange losses | (369) | (220) |
| Other exchange losses | (403) | (673) |
| **TOTAL** | **(771)** | **(893)** |

Unrealized exchanges losses correspond to the foreign exchange loss on the revaluation of financial debt denominated in euro.

Other losses are related to foreign exchange losses on the revaluation of investments, cash accounts, customers and suppliers.

### 5.11 Earnings per share

Earnings per share are detailed as follow:

| In MUM | 31/12/2018 | 31/12/2017 |
|---|---|---|
| Net income in million Ouguiyas | (1 243) | 81 |
| Total number of shares | 18 270 000 | 18 270 000 |
| **Earnings per share in MUM** | **(68)** | **4** |

SNIM's capital does not include any preferential or potential ordinary shares as of December 31, 2018. Thus, earnings per share are equal to diluted earnings per share.

The amount of dividends recognized as distributions is nil.

The amount of dividends proposed or declared before the authorization of the financial statements, but is not recognized as a distribution to equity holders during the period is zero

The amount of unrecognized cumulative preference dividends is zero because there is no preferred dividend to action.

## VI. ADDITIONAL INFORMATION RELATED TO THE STATEMENT OF CASH FLOWS

### 6.1 Restatement of amortizations and provisions

| In MUM | 2018 | 2017 |
|---|---|---|
| Amortization of property, plant and equipment | 4 521 | 4 73 |
| Amortization of intangible assets | 55 | 84 |
| Amortization of financial assets | 32 | 219 |
| Allocation to provisions (risks & charges + IDR) | 261 | 428 |
| Loss of tangible assets | 234 | 1 |
| **TOTAL AMORTIZATIONS AND PROVISIONS** | **5 103** | **5 468** |

### 6.2 Changes in working capital

| In MUM | 2018 | 2017 |
|---|---|---|
| Decrease (Increase) in inventories | 569 | (585) |
| Decrease (Increase) in trade receivables | (1 798) | 2 872 |
| Decrease (Increase ) in other receivables | (102) | (5) |
| Increase (Decrease) in trade payables | (520) | 587 |
| Increase (Decrease) State and other local authorities | 104 | (269) |
| Increase (Decrease) in other payables | 147 | 356 |
| **TOTAL** | **(1 600)** | **2 956** |

### 6.3 Expenditures on fixed assets

| In MUM | 2018 | 2017 |
|---|---|---|
| Acquisition of property, plant & equipment | (773) | (2 211) |
| Acquisition of intangible assets | (128) | (5) |
| Acquisition of financial assets | (1 194) | (436) |
| **TOTAL ACQUISITIONS** | **(2 096)** | **(2 651)** |

### 6.4 Reversal of depreciations and provisions

| In MUM | 2018 | 2017 |
|---|---|---|
| Capitalized production | (621) | (713) |
| Reversal of depreciations and provisions | (286) | (691) |
| **TOTAL** | **(907)** | **(1 404)** |

### 6.5 Foreign exchange gains and losses

| In MUM | 2018 | 2017 |
|---|---|---|
| FX gains / loss on loans | 348 | 89 |
| FX gains / loss on financial instruments | 84 | (58) |
| **TOTAL** | **432** | **31** |

## VII. OTHER COMMITMENTS AND LIABILITIES

Off balance sheet commitments are detailed as follows:

| **In MUM** | **31/12/2018** | **31/12/2017** |
|---|---|---|
| Documentary credits in progress | 608 | 954 |
| Commitments on contracts | 1 067 | 1 067 |
| Guarantees received from contractors | 36 | 15 |
| Undrawn loans committements | 7 652 | - |
| **Total** | **9 363** | **2 036** |

## VIII. RELATED PARTY DISCLOSURES

Transactions with related parties are not significant.

They mainly includes disposal of materials and fuel and workshop services.

The following table summarizes the main intergroup services invoiced in 2018 in MUM:

| **FILIALES** | **ATTM** | **COMECA** | **SAMMA** | **SAMIA** | **SOMASERT** | **GMM** | **SAFA** | **GIP** | **TAKAMUL** | **M2E** | **SNIM** | **TOTAUX** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ATTM | - | - | - | - | - | - | - | - | - | - | - | **0** |
| COMECA | - | - | - | - | - | - | - | 2 | - | - | 26 | **28** |
| SAMMA | - | - | - | 5 | - | - | - | - | - | - | 39 | **44** |
| SAMIA | - | - | - | - | - | - | - | - | - | - | - | **0** |
| SOMASERT | - | - | - | - | - | - | - | - | 1 | - | 41 | **42** |
| GMM | - | - | - | - | - | - | - | - | - | - | - | **0** |
| SAFA | - | - | - | - | - | - | - | - | - | - | 118 | **118** |
| GIP | - | - | - | - | - | - | - | - | - | - | 51 | **51** |
| MSMS | - | - | - | - | - | - | - | - | - | - | | **0** |
| M2E | - | - | - | - | 1 | - | - | - | - | - | 124 | **125** |
| EL AOUJ | - | - | - | - | - | - | - | - | - | - | - | **0** |
| DAMANE | - | - | - | - | - | - | - | - | - | - | - | **0** |
| TUM | - | - | - | - | - | - | - | - | - | - | - | **0** |
| MAIL | - | - | - | - | - | - | - | - | - | - | - | **0** |
| SNIM | 40 | 4 | 3 | 1 | 7 | 4 | 12 | 6 | - | 156 | - | **223** |
| **TOTAUX** | **40** | **0** | **3** | **6** | **8** | **4** | **12** | **2** | **1** | **156** | **399** | **666** |

The information relating to the remuneration of the managers of the subsidiaries is not disclosed for reasons of confidentiality.

## IX. EVENTS AFTER THE REPORTING PERIOD

The financial statements have been approved and authorized by the Executive Board on April 22, 2019. They don’t reflect the occurrence of subsequent events after this date.