# Ferroport Logística Comercial Exportadora S.A.

**Financial Statements as of December 31, 2017 and 2016**

KPDS 219728

# Contents

| | |
|---|---|
| **Independent Auditors' Report on the Financial Statements** | **3** |
| **Balance sheets** | **6** |
| **Statements of income** | **7** |
| **Statements of comprehensive income** | **8** |
| **Statements of changes in shareholders' equity** | **9** |
| **Statements of cash flows** | **10** |
| **Notes to the financial statements** | **11** |

KPMG Auditores Independentes
Rua do Passeio, 38 - Setor 2 - 17º andar - Centro
20021-290 - Rio de Janeiro/RJ - Brasil
Caixa Postal 2888 - CEP 20001-970 - Rio de Janeiro/RJ - Brasil
Telefone +55 (21) 2207-9400, Fax +55 (21) 2207-9000
www.kpmg.com.br

# Independent Auditor's Report on the Financial Statements

To the Shareholders, Board of Directors and Management of
Ferroport Logística Comercial Exportadora S.A.
Rio de Janeiro - RJ

**Opinion**
We have audited the financial statements of Ferroport Logística Comercial Exportadora S.A. ("the Company"), which comprise the balance sheet as of December 31, 2017, the statements of income and other comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ferroport Logística Comercial Exportadora S.A. ("the Company") as of December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil.

**Basis for Opinion**
We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting Practices Adopted in Brazil and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Brazilian and international standards on auditing 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 financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 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.

Rio de Janeiro, March 29, 2018

KPMG Auditores Independentes
CRC SP-014428/O-6 F-RJ

Luis Claudio França de Araújo
Accountant CRC RJ-091559/O-4

# Ferroport Logística Comercial Exportadora S.A.

## Balance sheets as of December 31, 2017 and 2016

***(In thousands of Reais)***

| | Note | 2017 | 2016 |
|---|---|---|---|
| Assets | | | |
| | | | |
| Current assets | | | |
| Cash and cash equivalents | **4** | 25,028 | 32,580 |
| Accounts receivable from related parties | **11** | 97,065 | 132,317 |
| Inventories | **5** | 20,016 | 18,322 |
| Recoverable taxes | **7** | 43,327 | 5,427 |
| Derivative financial instruments | **21** | - | 3,303 |
| Income taxes and social contribution recoverable | **6** | 785 | 3,994 |
| Prepaid expenses | | 2,893 | 2,542 |
| Other | | 7,647 | 4,039 |
| Total current assets | | **196,761** | **202,524** |
| | | | |
| Noncurrent assets | | | |
| Judicial deposits | **8** | 34,755 | 33,036 |
| Recoverable taxes | **7** | 36,064 | - |
| Deferred income tax and social contribution | **6** | - | 60,667 |
| Related parties - asset to be transferred | **11** | 210,102 | 210,102 |
| Property, plant and equipment | **9** | 2,125,745 | 2,182,158 |
| Intangible assets | **10** | 2,515 | 3,313 |
| Deferred charges | | 4,438 | 5,076 |
| Total noncurrent assets | | **2,413,619** | **2,494,352** |
| | | | |
| Total assets | | **2,610,380** | **2,696,876** |
| | | | |
| Liabilities and equity | | | |
| | | | |
| Current liabilities | | | |
| Trade accounts payable | | 41,751 | 39,032 |
| Payroll and related charges | | 13,915 | 10,878 |
| Taxes payable | **12** | 5,328 | 5,359 |
| Derivative financial instruments | **21** | 775 | - |
| Income taxes and social contribution payable | **12** | 18,712 | 740 |
| Related parties - loans and accounts payable | **11** | 128,123 | 126,108 |
| Total current liabilities | | **208,604** | **182,117** |
| | | | |
| Noncurrent liabilities | | | |
| Income taxes and social contribution payable | **12** | 33,453 | 31,826 |
| Deferred income tax and social contribution | **6** | 6,886 | - |
| Related parties - loans and accounts payable | **11** | 1,648,930 | 1,844,053 |
| Deferred revenue with related party | **11** | 55,029 | 57,223 |
| Provision for contingencies | **13** | 2,937 | 2,825 |
| Other | | 420 | 419 |
| Total noncurrent liabilities | | **1,747,655** | **1,936,346** |
| | | | |
| Shareholders' equity | **14** | | |
| Capital | | 414,397 | 414,397 |
| Capital reserve | | 94,589 | 94,589 |
| Contingencies reserve | | 138,357 | 64,109 |
| Legal reserve | | 7,282 | 3,374 |
| Other comprehensive income | | (504) | 1,944 |
| Total shareholders' equity | | **654,121** | **578,413** |
| | | | |
| Total liabilities and shareholders' equity | | **2,610,380** | **2,696,876** |

See the accompanying notes to the financial statements.

# Ferroport Logística Comercial Exportadora S.A.

## Statements of income

## Years ended December 31, 2017 and 2016

***(In thousands of Reais)***

| | Note | 2017 | 2016 |
|---|---|---|---|
| Net revenue of services | **15** | 523,681 | 548,366 |
| Costs of services | **16** | (141,716) | (150,459) |
| Gross profit | | 381,965 | 397,907 |
| Operating income (expenses) | | | |
| General and administrative expenses | **17** | (32,450) | (26,451) |
| Provision for impairment | **9** | (13,458) | - |
| Other operating income (expenses), net | **18** | 16,415 | 8,816 |
| Income before financial income (expenses) and taxes | | 352,472 | 380,272 |
| Financial income (expenses) | | | |
| Financial income | **19** | 8,200 | 11,226 |
| Financial expenses | **19** | (199,518) | (276,551) |
| Income before taxes | | 161,154 | 114,947 |
| Income and social contribution taxes | | | |
| Current | **6** | (14,137) | - |
| Deferred | **6** | (68,862) | (39,151) |
| Total income and social contribution taxes | | (82,999) | (39,151) |
| Net income for the year | | **78,155** | **75,796** |

See the accompanying notes to the financial statements.

# Ferroport Logística Comercial Exportadora S.A.

## Statements of comprehensive income

## Years ended December 31, 2017 and 2016

***(In thousands of Reais)***

| | 2017 | 2016 |
|---|---|---|
| Net income for the year | 78,155 | 75,796 |
| **Other comprehensive income** | | |
| Items that can be subsequently reclassified to the result: | | |
| Derivative financial instruments - Hedge accounting gain (loss) | (3,709) | 2,946 |
| Income and social contribution taxes on other comprehensive income | 1,261 | (1,002) |
| Total comprehensive income for the year | 75,707 | 77,740 |

See the accompanying notes to the financial statements.

# Ferroport Logística Comercial Exportadora S.A.

## Statements of changes in shareholders' equity

## Years ended December 31, 2017 and 2016

*(In thousands of Reais)*

| | Note | Capital stock | Capital reserve | Contingencies reserve | Legal reserve | Other comprehensive income | Accumulated profit (losses) | Total |
|---|---|---|---|---|---|---|---|---|
| Balances as of January 1st, 2016 | **14** | **414,397** | **94,589** | **-** | **-** | **-** | **(8,313)** | **500,673** |
| Net income for the year | | - | - | - | - | - | 75,796 | **75,796** |
| Derivative financial instruments - Hedge accounting | | - | - | - | - | 1,945 | - | **1,945** |
| Reserves constitution - profit allocation | | - | - | 64,109 | 3,374 | - | (67,483) | **-** |
| Balances as of December 31, 2016 | | **414,397** | **94,589** | **64,109** | **3,374** | **1,944** | - | **578,414** |
| Net income for the year | | **-** | **-** | - | - | **-** | 78,155 | **78,155** |
| Derivative financial instruments - Hedge accounting | | **-** | **-** | - | - | (2,448) | **-** | **(2,448)** |
| Reserves constitution - profit allocation | | - | - | 74,247 | 3,908 | - | (78,155) | - |
| Balances as of December 31, 2017 | | **414,397** | **94,589** | **138,356** | **7,282** | **(504)** | **-** | **654,121** |

See the accompanying notes to the financial statements.

# Ferroport Logística Comercial Exportadora S.A.

## Statements of cash flows

## Years ended December 31, 2017 and 2016

*(In thousands of Reais)*

| | | 2017 | 2016 |
|---|---|---|---|
| **Operating activities** | | | |
| Income before taxes | | 161,154 | 114,947 |
| Adjustments to reconcile income before taxes and net cash provided by operating activities: | | | |
| Depreciation and amortization | | 44,551 | 45,448 |
| Provision for derivative financial instruments | | 369 | (358) |
| Monetary variation and interest | | 191.634 | 281,745 |
| Amortization of insurance | | 4.170 | 6,588 |
| Provision for bonus | | 10.432 | 9,153 |
| Provision for legal proceeding | | 111 | 1,713 |
| Deferred revenue amortization | | (2,194) | (2,193) |
| Impairment on corelocs, net | | 14,166 | - |
| Other | | - | (354) |
| | | **424,393** | **456,689** |
| (Increase) decrease of assets and increase (decrease) of liabilities: | | | |
| Account receivable from related parties | | 35,252 | (41,724) |
| Inventories | | (1,695) | (1,916) |
| Recoverable taxes | | 1,065 | (5,690) |
| Prepaid expenses | | (4,539) | (6,308) |
| Trade accounts payable | | 2,720 | (10,691) |
| Taxes payable | | 3,805 | (3,759) |
| Payroll and related charges | | (7,399) | (13,135) |
| Accounts payable to related parties | | (485) | 6,748 |
| Taxes payable related to intercompany loans | | (38,487) | (51,467) |
| Interest paid | | (204,331) | (158,793) |
| Other assets and liabilities | | (3,312) | 478 |
| Net cash flows generated by operating activities | | **206,987** | **170,432** |
| **Investing activities** | | | |
| Acquisition of intangible assets | | (1,131) | (991) |
| Acquisition of property, plant and equipment (a) | | (71,878) | (57,472) |
| Net cash flows used in investing activities | | **(73,009)** | **(58,463)** |
| **Financing activities** | | | |
| Intercompany loans settled (principal) | **11** | (141,530) | (170,279) |
| Net cash flows used in financing activities | | **(141,530)** | **(170,279)** |
| Increase (decrease) in cash and cash equivalents | | **(7,552)** | **(58,310)** |
| Cash and cash equivalents: | | | |
| At beginning of the year | | 32,580 | 90,892 |
| At end of the year | | 25,028 | 32,580 |
| Decrease in cash and cash equivalents | | **(7,552)** | **(58,310)** |

(a) Refers to the cash effect on acquisition of property,plant and equipment, net of asset allocation agreement.

See the accompanying notes to the financial statement

# Notes to the financial statements

***(In thousands of Reais, unless otherwise stated)***

## 1 Operations

In 2007, Ferroport Logística Comercial Exportadora S.A. ("Ferroport" or the "Company"), formerly known as LLX Minas-Rio Logística Comercial Exportadora S.A., located in the state of Rio de Janeiro, Rua da Passagem 123/ 11th floor - Botafogo, was incorporated with the purpose of developing and operating port facilities and providing logistics support services.

Ferroport is joint owner of an area of 300 hectares in the Açu Port which is responsible for iron ore processing, handling, and storage, and an offshore structure comprising an access bridge, access canal, breakwater and two berths for iron ore loading. The development of the project was established by the Framework Agreement and Asset Allocation Agreement ("Agreement") which sets forth the operating and commercial relations between the Company, Prumo Participações e Investimentos S.A. ("Prumopar"), Prumo's subsidiary Açu Petróleo S.A. (" Açu Petróleo") and Anglo American Minério de Ferro do Brasil S.A. ("AAMFB").

The Agreement determines that Ferroport was responsible for the construction of the T1 port terminal, and sets out the allocation of assets between the parties, means of payment, transfer of divisible assets to AAMFB and joint ownership rules for the indivisible assets. The assets are transferred to the shareholders according to a formula defined in the Agreement at construction cost. Upon delivery of the assets, the Company recognized the related gain ("Mark-up gain"). The Company records its ownership share in the port and other assets in proportion to the total amount invested in the construction of the assets.

The commercial and operating terms of the aforementioned agreements include a take-or-pay commitment from AAMFB, subject to port capacity availability, of 26.6 million Wet Metric Ton (WMT) per year for shipment of iron ore at US$7.10 (seven dollars and ten cents) per WMT, based on July 1, 2013 terms, to be annually escalated by the United States Producer Price Index ("PPI") up to the first shipment, and then from this date onwards escalated by 2/3 of PPI per annum on each January 1. A reduced tariff is applicable to the shipped volume of iron ore which exceeded the 26.6 million WMT in the year. The contract term is 25 years.

The Port Access agreement with the shareholders provides that Ferroport is responsible for the maintenance of T1 offshore infrastructure, including the dredging of access channel and breakwater, and will charge port fees based on the number of vessels berthing, oil transshipment volume and berthing time.

In October 2014, the Company entered into operations through the accomplishment of the first shipping of approximately 80 thousand tons of iron ore. In 2017, the Company loaded 16.5 million tons of iron ore in 98 vessels (15.9 million tons in 105 vessels as of December 31, 2016). Since the beginning of operations in October 2014, the Company loaded 41.4 million tons of iron ore, reaching a mark of 272 vessels berthing at the port.

In June 2015, the shareholders signed a Side Agreement to Shareholders Agreement, which established terms and conditions for the Intercompany Loan repayment, including the calculation formula to define the available cash and the minimum cash required, periodic payment on a monthly basis and IC loan term. The Side Agreement became effective on January 1, 2016 and the repayment of outstanding amounts shall be paid by no later than December 31, 2030.

In 2016, the Company completed the dredging of the access channel, deepening to 20.5 meters. In March 2016, the Company received the approval from Rio de Janeiro Harbour Master to operate Capesize vessels with a maximum sailing draft of 18.5 meters. The Port Construction is expected to be finalized by the mid of 2018, remaining decommissioning works.

In August 2016, Açu Petróleo carried out the first oil transshipment, involving two Suezmax vessels and the Port Access agreement became effective. In 2017, Açu Petróleo performed 14 operations in 28 vessels, loading 1.8 million metric tons of oil transshipment. Since the beginning of operations in August, 2016, they carried out 21 operations in 42 Suezmax vessels.

In 2017, the Company loaded 16.5 million tons of iron ore in 98 vessels (15.9 million tons in 105 vessels as of December 31, 2016). Since the beginning of operations in October 2014, the Company loaded 41.4 million tons of iron ore, reaching a mark of 272 vessels berthing at the port.

In April 2017, the company carried out the highest loading volume per vessel through Aboy Karlie vessel, which was loaded with 202 thousand of iron ore. After the approval of Navy in July 2017, the first night-time unmooring maneuver was performed in November 2017.

# 2 Licenses

| **Type** | **Issue date** | **Maturity** |
|---|---|---|
| Permit the management of terrestrial fauna in the port terminal by the company Ecologus Consulting Engineering LI no.IN 30418.<br>Provisory environmental authorization release until September, 2018 (License renewal requested - Protocol number E-07/002.8027/2015) | April 29,2015 | September 30, 2018 |
| Permit to Use Water Resources OUT IN023738 authorizes the extraction of raw water through tubular wells, for human consumption, and other applications (in civil construction works and to spray on roads), in the Hydrographic Basin RH-IX - BaixoParaíba do Sul | July10, 2013 | July10, 2018 |
| INEA (State Institute of Environment): Statutory law for receipts of iron ore, stockyard iron transfer unit, access bridge, loading pier, areas of utilities and repair shop, administrative area, , dredging for maintenance of draught for access and navigation, trans-shipment of waste of vessels and food loading activities, inputs of drinking water on vessels. Statutory Law - Regulatory Procedure 027024.(AVB002815).<br>License renewed for another 6 Years through AVB003584. | September 02, 2015 | December 22, 2023 |
| ANTAQ (Supervising Office for Grants of the National Waterway Agency) authorizes Ferroport to start operating the port terminal. | September 02, 2014 | September 02, 2039 |
| Permit temporary refueling, by using tank trucks, tug boats, and speed boats on Porto do Açu iron ore terminal LI no.IN 32632.<br>Provisory environmental authorization release until September, 2018 (License renewal requested - Protocol number E-07/002.9935/2015) | December 8, 2015 | September 30, 2018 |

# 3 Basis of preparation and presentation of the financial statements and summary of significant accounting practices

## a. Statement of compliance

The Company's financial statements were prepared in accordance with accounting practices adopted in Brazil ("BR GAAP"), which comprise dispositions of the Brazilian Corporate law, previewed on Law 6,404/76 with updates on Law 11,638/07 and Law 11,941/09 and accounting pronouncements, interpretations and orientations issued by the Accounting Pronouncements Committee (CPC) approved by Brazilian CVM. The Company's Directors authorized the conclusion of these financial statements on March 29, 2018.

## b. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which have been measured at fair value.

## c. Functional and reporting currency

These financial statements are presented in Brazilian *Reais*, which is the Company's functional and reporting currency.

## d. Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company considers cash equivalents a short-term investment with a maturity of three months or less, which are subject to an insignificant risk of change in value.

## e. Financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

Financial assets are initially recognized at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement of financial assets at fair value through profit or loss is recorded in the balance sheet at fair value, and their corresponding gains or losses are recognized in the statement of operations.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated taking into account any discount on acquisition and fees or costs that are an integral part of the effective interest rate.

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. When there is objective evidence of impairment, the impairment loss is measured as the difference between the asset book value and the present value of the estimated future cash flows (excluding future credit losses expected but not incurred). The present value of estimated future cash flows is discounted at the original effective interest rate of the financial asset. When applicable, the asset book value is decreased by a provision and the loss amount is recognized in profit or loss. If in a subsequent year the estimated impairment loss increase or decrease due to an event occurred after the impairment loss recognition, the loss previously recognized is increased or decreased, adjusting the related provision.

A financial asset is written off when the rights to receive cash flows from the asset expire and/or when the Company transfers its rights to receive cash flows of the asset or assumes an obligation to fully pay cash flows received, and has transferred substantially all the risks and rewards related to the asset.

The financial liabilities are classified, at initial recognition, as "other liabilities" and not measured at fair value (i.e. loans and borrowings). Financial liabilities are initially recognized at fair value and net of directly attributable transaction costs, and are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in profit or loss.

A financial liability is derecognized when the liability has been discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the profit or loss.

The fair value of financial instruments actively traded in organized financial markets is determined based on purchase prices quoted in the market. The fair value of financial instruments for which there is no active market is determined by using valuation techniques, such as the use of recent market transactions (on an arm's length basis); reference to the current fair value of another similar instrument, discounted cash flows or other valuation models.

## f. Inventories

Inventories are represented by maintenance items and are stated at the average cost of acquisition, not exceeding market value.

## g. Property and equipment

These are measured at historical acquisition or construction cost, less accumulated depreciation and accumulated impairment losses, if any. Costs include expenditures directly attributable to an asset acquisition, and the construction costs include:

- The cost of materials and direct labor;
- Costs attributable to bringing the asset to the location and condition required for it to operate in the manner intended by management; and
- Borrowing costs on qualifying assets.

Gains and losses on disposal of a property and equipment item (determined by comparing the proceeds from disposal with the book value of property and equipment) are recognized in other operating income (expenses) in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Property and equipment are depreciated on a straight-line basis, according to the estimated economic useful life of each item (as described in Note 8). Land is not depreciated. Property and equipment items are depreciated as of the date they are installed and are available for use.

The Company classifies under "construction in progress" all activity at the construction and installation phase to the moment in which they start operating, when they are reclassified to the accounts relating to assets in operation.

### h. Intangible assets

Intangible assets are represented by software acquired by the Company with finite useful lives, and are measured at cost, less accumulated amortization and impairment losses, when applicable.

### i. Deferred charges

The Law No.11941/09 and the CPC 43(R1) - First-time Adoption of Accounting Pronouncements CPC 15 to 41 eliminated the deferred charges, however, allowed the companies to keep the accumulated balance at December 31, 2008 to be amortized in 10 years, after the beginning of operations, subject to impairment test. These deferred charges are valued at formation cost and represent pre-operating expenses incurred by the Company up to December 31, 2008. The deferred charges started the amortization in October 2014, and will be amortized within 10 years.

### j. Impairment of non-financial assets

The Company assesses, at each reporting date, whether is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An impairment loss is recognized when the book value of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its 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 conditions as to the recoverability period of capital and the risks specific to the asset.

Impairment loss related to other assets (except for goodwill) is only reversed to the extent that the book value of an asset does not exceed the book value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years.

### k. Provisions

A provision is set up when the Company has a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation.

The Company recognizes provision for civil and tax proceedings. Assessment of the probability of loss includes analysis of available evidence, the hierarchy of laws, available case law, the most recent court decisions and their relevance in the legal system, as well as the opinion of external legal advisors.

Provisions are reviewed and adjusted considering changes in existing circumstances, such as the applicable statutes of limitation, tax audit conclusions, or additional exposures identified based on new matters or court decisions. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimation process.

### l. Operating revenue

Revenue is recognized on an accrual basis as the service is rendered, which is linked to the storage services, shipping, logistics operations and port access.

### m. Financial income and expenses

Financial income includes interest income on short-term investments recognized in the profit or loss.

Financial expenses include interest expenses on related-party loans. Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized in profit or loss using the effective interest rate method. After the beginning of the operations, capitalization of the borrowing costs was ceased and those expenses are recognized in profit or loss. Interests on loans paid in the year are presented under operating activities within the statement of cash flow.

### n. Income tax and social contribution

Deferred income tax and social contribution are recorded over tax losses carryforward and temporary differences existing between assets and liabilities tax base versus the corresponding book values. Deferred tax assets and liabilities are offset when there is a legal enforceable right to settle the tax assets and liabilities, and when levied by the same tax authority on the same taxable entity. Deferred income tax and social contribution assets are reviewed on an annual basis and reduced to the extent that their realization is no longer probable, when applicable.

### o. Other current and noncurrent assets and liabilities

An asset is recognized in the balance sheet when its future economic benefits are likely to flow to the Company, and its cost or value can be reliably measured.

A liability is recognized in the balance sheet when the Company has a legal or constructive obligation arising from a past event, the settlement of which is expected to result in an outflow of economic benefit. Provisions are set up reflecting the best estimates of the risk involved.

Noncurrent monetary assets and liabilities are adjusted to present value and so are current monetary assets and liabilities whenever the effects are considered significant on the overall financial statements. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities.

## p. Use of estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions which affect the application of accounting practices and the reported values of assets, liabilities, revenues and expenses. Estimates and assumptions are reviewed on a continuous basis. Accounting estimates are recognized in the year in which they are reviewed and in any future periods that may be affected. Actual results may differ from these estimates. The significant issues that may be affected by the use of estimates are: deferred income tax and social contribution, determination of the useful lives of property and equipment and intangible assets, impairment of non-financial assets, provision for legal proceedings and determination of the fair value of financial instruments. Future settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent to the determination process. The Company reviews its estimates and assumptions at least once a year.

## q. Expected impact of the new standards issued

The Company assessed the initial impacts of the adoption of the new standards (IFRS 9 - Financial Instruments and IFRS 15 - Contracts with customers) that will be effective as of January 1, 2018, which are as follows:
IFRS 9 - Financial Instruments (CPC 48 - Financial Instruments):

In December 2016, CPC 48 was issued in correlation with the IFRS 9. This will replace CPC 38 - Financial Instruments: Recognition and Measurement (IAS 39) and has as main modifications: (i) impairment requirements for financial assets, going to the hybrid model of expected and incurred losses, replacing the current model of losses incurred ; (ii) new criteria for classification and measurement of financial assets; and (iii) makes hedge accounting requirements less stringent. CPC 48, in general, should be applied retrospectively, starting January 1, 2018.

The Company's management and its subsidiaries have made a preliminary analysis of their financial assets and liabilities and have not identified significant impacts from the adoption of the new standard as of January 1, 2018

IFRS 15 - Revenue from contracts with customers (CPC 47 - Revenue from contracts with customers):

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including CPC 30 (IAS 18) Revenue, CPC 17 (IAS 11) Construction Contracts and CPC 30 Interpretation A (IFRIC 13) Customer Loyalty Programs. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Company made a preliminary analysis of the effects that this statement may have on the financial statements, and concluded that there will be no material changes. The Company is currently analising eventual impacts of this standard in the quarterly information.

IFRS 16 - Leases (no equivalent CPC has been issued yet):

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including CPC 06 (IAS 17) Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) additional matters regarding commercial leases. The standard is applicable from January 01, 2019.

IFRS 16 - Leases (no equivalent CPC has been issued yet) - Continued

The Company has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Company uses the practical expedients and recognition exemptions, and any additional leases that the Company enters into.

# 4 Cash and cash equivalents

| | **2017** | **2016** |
|---|---|---|
| Cash and banks | 249 | 776 |
| Cash equivalents | | |
| Investment funds | 21,255 | 28,538 |
| Bank deposit certificate (CDB) | 3,524 | 3,266 |
| | 25,028 | 32,580 |

Highly liquid short-term investments are readily convertible into a known amount of cash and subject to insignificant risk of change in their value. The return on investments in 2017 and 2016 are 101.37% and 100.18% of Interbank Deposit (DI) rate, respectively. The portfolio currently consists of nvestiments fund and deposit certificate issued by Banco ABC and Santander, respectively.

# 5 Inventories

| | **2017** | **2016** |
|---|---|---|
| Consumables spare parts (maintenance)(a) | 20,016 | 18,322 |
| | **20,016** | **18,322** |

(a)In 2017, the balance of inventories applied to equipment maintenance totaled R $ 18,322 (R $ 20,016 in 2016).

# 6 Income tax and social contribution

The changes in the deferred income and social contribution taxes assets and liabilities are as follows:

| | 2016 | Additional amount/offset (liability) recorded | 2017 |
|---|---|---|---|
| Assets | | | |
| Tax loss carryforwards | 8,625 | 2,439 | 11,064 |
| Temporary differences: | | | |
| Difference between tax basis and book value - deferred assets (a) | 44,519 | (44,519) | - |
| Tax credits originated from merger (b) | 42,564 | (9,459) | 33,105 |
| Other | 13,610 | (13,610) | - |
| **Total deferred income taxes assets** | **109,318** | **(65,149)** | **44,169** |
| Liabilities | | | |
| Difference between tax basis and book value of depreciation rates | (48,651) | 14,032 | (34,619) |
| Temporary differences: | | | |
| Capitalized interests | - | (5,760) | (5,760) |
| Other | - | (2,467) | (2,467) |
| Reversal of provisions | - | (8,209) | (8,209) |
| **Total deferred income taxes liabilities** | **(48,651)** | **(2,404)** | **(51,055)** |
| **Net effect** | **60,667** | **(67,553)** | **(6,886)** |

(a) This refers to the recognition of deferred income tax and social contribution on the difference between the accounting and tax treatment of deferred charges arising from January 1, 2009 to October 2014. For accounting purposes, beginning 2009, the pre-operational expenditures were expensed while for tax purposes it has been treated as deferred charges. These deferred charges have been amortized since the Company started its operations in October 2014 and will be amortized within 10 years.

(b) At June 30, 2014, the Company's shareholder Centennial Asset Participações Minas-RioS.A. and part of spun-off assets of Anglo American Participações Ltda. was merged into Ferroport with the objective of simplifying the ownership structure of Anglo American's investments in Brazil, reducing costs and the number of legal entities, simplifying the procedures to distribute profits within the corporate structure and permit the use of corporate tax relieves available for Ferroport in the Brazilian law.

The recoverability of the deferred income tax assets is supported by a business plan approved by the Executive Board. The Company's Management evaluates the carrying value of the deferred tax assets based on the Company's projected future taxable income, and maintain these assets at their expected realization value.

The reconciliation of the reported income tax and social contribution and the amount determined by applying the nominal rate for the periods ended December 31, 2017 and 2016, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Income before income taxes | 161,154 | 114,947 |
| Income tax at the nominal rate 34% | (54,793) | (39,082) |
| **Permanent adjustments:** | | |
| Donation non deductible | - | (69) |
| Other | 274 | - |
| **Tax adjustments:** | | |
| Deffered - Depreciation rate difference | (23,593) | - |
| Tax debt regularization - Government Program | (9,256) | - |
| Other | 4,369 | - |
| | **(82,999)** | **(39,151)** |
| Current income and social contribution tax | (14,137) | - |
| Deferred income and social contribution tax | (68,862) | (39,151) |
| Total income and social contribution tax | | |
| Total income and social contribution tax | **(82,999)** | **(39,151)** |
| Effective rate | **52%** | **34%** |

# 7 Recoverable taxes

| | 2017 | 2016 |
|---|---|---|
| Income tax - Anticipation | 1,347 | - |
| Social contribution - Anticipation | 229 | - |
| PIS and COFINS (a) | 77,747 | 302 |
| IRRF | - | 5,049 |
| ISS | 68 | 76 |
| Subtotal recoverable taxes | **79,391** | **5,427** |
| Income tax | 784 | 2,583 |
| Social contribution | 1 | 1,411 |
| Total Income taxes and social contribution recoverable | **785** | **3,994** |
| Total | **80,176** | **9,421** |
| Current | 44,112 | 9,421 |
| Noncurrent | 36,064 | - |

(a)In November 2017, the company recognized R$ 72,127 from Pis and Cofins credits related to construction (according to Law 11.488 / 07).

# 8 Judicial deposits

| | 2017 | 2016 |
|---|---|---|
| Income tax and social contribution (a) | 33,453 | 31,826 |
| Other | 1,302 | 1,210 |
| | **34,755** | **33,036** |

(a) The Company challenges the payment of income tax and social contribution on net income recognized in its pre-operating phase and filed an injunction in January 2008, making a judicial deposit in the original amount of R$ 16,403 (actual amount R$33,150). Ferroport obtained an unfavorable decision and is awaiting decision on its appeal. The amount deposited is fully reserved under "Taxes payable".

# 9 Property, plant and equipment

| | Annual depreciation rate % | Cost | Accumulated depreciation | Net balance at 2017 | Net balance at 2016 |
|---|---|---|---|---|---|
| Improvements | **4** | 69,228 | (67,925) | 1,303 | 1,192 |
| Furniture and fixtures | **10** | 677 | (367) | 310 | 338 |
| Vehicles | **20** | 904 | (896) | 8 | 8 |
| IT equipment | **20** | 6,579 | (1,820) | 4,759 | 3,058 |
| Machinery and equipment | **10** | 6,910 | (1,700) | 5,210 | 3,315 |
| Electronic equipment | **20** | 5,504 | (3,292) | 2,212 | 2,290 |
| Defenses | **10** | 4,031 | (1,157) | 2,874 | 3,093 |
| Breakwater | **2.22** | 828,425 | (58,493) | 769,932 | 797,440 |
| Maritime access canal | **2.22** | 451,690 | (24,326) | 427,364 | 434,068 |
| Pier - Port Terminal | **2.22** | 813,168 | (38,323) | 774,845 | 530,851 |
| Safety equipment | **10** | 14,524 | (3,933) | 10,591 | 9,817 |
| Operational tools and equipment | **10 and 5** | 4,235 | - | 4,235 | 3,274 |
| Advances to suppliers | **-** | 258 | - | 258 | 1,334 |
| Construction in progress | **-** | 112,838 | - | 112,838 | 382,072 |
| Other | | 10,393 | (1,387) | 9,006 | 10,008 |
| | | 2,329,364 | (203,619) | 2,125,745 | 2,182,158 |

## Changes in property, plant and equipment

| | Annual depreciation rate% | 2016 | Additions | Asset allocation | Writte-offs (a) | Transfers (b) | 2017 |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| Improvements | **4** | 67,943 | 351 | - | - | 934 | 69,228 |
| Furniture and fixtures | **10** | 633 | 41 | - | - | 3 | 677 |
| Vehicles | **20** | 904 | - | - | - | - | 904 |
| IT equipment | **20** | 4,514 | 2,172 | - | (107) | - | 6,579 |
| Machinery and equipment | **10** | 4,570 | 2,266 | - | (28) | 102 | 6,910 |
| Electronic equipment | **20** | 5,562 | 23 | (2) | - | - | 5,583 |
| Defenses | **10** | 3,864 | - | - | - | 167 | 4,031 |
| Breakwater | **2.22** | 838,437 | 4,186 | - | (14,198) | - | 828,425 |
| Maritime access canal | **2.22** | 451,690 | - | - | - | - | 451,690 |
| Pier - Port Terminal | **2.22** | 556,228 | - | - | - | 256,940 | 813,168 |
| Safety equipment | **10** | 12,526 | 1.998 | - | - | - | 14,524 |
| Operational tools and equipment | **10 and 5** | 3,274 | 928 | - | - | 33 | 4,235 |
| Advance to suppliers | | 1,334 | (400) | - | - | (676) | 258 |
| Construction work in progress | | 382,072 | 75,408 | (22,741) | - | (321,901) | 112,838 |
| Other | | 10,262 | - | - | - | 52 | 10,314 |
| | | **2,343,813** | **86,973** | **(22,743)** | **(14,333)** | **(64,346)** | **2,329,364** |

(a) The main write-off refers to the impairment due to a change on the breakwater project technology. The new applied technology caused 4,000 units of core-locs leftovers in the total cost of R$ 14 million.

(b) Mainly related to the conclusion of pier construction.

| | Annual depreciation rate % | 2016 | Additions | Asset allocation | Writte-offs (a) | Transfers | 2017 |
|---|---|---|---|---|---|---|---|
| Depreciation | | | | | | | |
| Improvements | **4** | (66,751) | (1,174) | - | - | - | (67,925) |
| Furniture and fixtures | **10** | (295) | (71) | - | - | - | (366) |
| Vehicles | **20** | (896) | - | - | - | - | (896) |
| IT equipment | **20** | (1,456) | (364) | - | - | - | (1,820) |
| Machinery and equipment | **10** | (1,255) | (445) | - | - | - | (1,700) |
| Electronic equipment | **20** | (3,272) | (844) | - | - | - | (4,116) |
| Defenses | **10** | (771) | (386) | - | - | - | (1,157) |
| Breakwater | **2.22** | (40,997) | (18,139) | - | 642 | - | (58,494) |
| Maritime access canal | **2.22** | (17,622) | (6,704) | - | - | - | (24,326) |
| Pier - Port Terminal | **2.22** | (25,378) | (12,945) | - | - | - | (38,323) |
| Safety equipment | **10** | (2,709) | (1,224) | - | - | - | (3,933) |
| Other | **10 and 5** | (255) | (308) | - | - | - | (563) |
| | | **(161,651)** | **(42,604)** | **-** | **642** | **-** | **(203,619)** |
| Property and equipment, net | | **2,182,158** | **44,369** | **(22,743)** | **(13,691)** | **(64,346)** | **2,125,745** |

### *Asset allocation*

As aforementioned, the Company, Açu Petróleo and AAMFB signed the Asset Allocation Agreement, which determines that the Company is responsible for the construction of the T1 port terminal, and sets out the allocation of assets between the parties, means of payment, transfer of divisible assets and joint ownership rules for the indivisible assets. The divisible assets transferred to the parties individually as stated in the Agreement.

As for the indivisible assets, each Company has its share of participation in the assets ("condominium agreement") according to the total amount invested in the construction, as follows:

| | **2016** | **Asset Alocation 2016** | **Additions** | **Adjustments*** | **2017** | **% of ownership of assets** |
|---|---|---|---|---|---|---|
| **Indivisible assets** | | | | | | |
| Transferred to AAMFB | 1,178,414 | 32,67% | 14,010 | 379,238 | 1,571,662 | 39,82% |
| Transferred to Açu Petróleo (a) | 307,513 | 8,53% | 11,158 | - | 318,671 | 8,07% |
| Ferroport's assets | 2,121,034 | 58,80% | 22,451 | -86,320 | 2,057,165 | 52,11% |
| Total indivisible assets | 3,606,961 | | **47,619** | 292,918 | 3,947,498 | |

* regularization of the asset alocation calculation, according to the shareholders' agreement.

Upon the transference of the assets, the Company records a gain corresponding to the costs incurred plus a mark-up defined in the Agreement. As of December 31, 2017 and 2016 there is no mark-up gain recorded.

### *Construction in progress*

The construction in progress at December 31, 2017 is mainly impacted to the conclusion of breakwater and pier enhancements.

### *Capitalized interest*

After the beginning of the operations in October 2014, capitalization of interest was ceased. Borrowing costs were calculated at the capitalization rate of CDI plus 2% p.a., over the qualified assets during the construction in progress amounting R$ 601,138 as of December 31, 2017 and December 31, 2016.

#### *Impairment test of property, plant and equipment*

In accordance with CPC 1 (R1) - Impairment of Assets, management regularly assesses whether there is any indication of impairment loss. As at June 30, 2017, the Company's Management has recognized impairment losses due to a project change in the breakwater contruction. The new applied technology caused core-locs leftovers in the net effect of R$ 13.5 million as provision for impairment in the income statements . The Company do not intend to use these core-locs and will be sold as soon as the final contract terms have been finalized.

# 10 Intangible assets

| | Amortization | 2016 | Additions | 2017 |
|---|---|---|---|---|
| Cost | | | | |
| Right-of-way (a) | 3 years | 5,528 | - | 5,528 |
| Software use license | 5 years | 8,891 | 1,131 | 10,022 |
| Total cost | | 14,419 | 1,131 | 15,550 |
| Amortization | | | | |
| Right-of-way | 3 years | (5,528) | - | (5,528) |
| Software use license | 5 years | (5,578) | (1,929) | (7,507) |
| Total amortization | | (11,106) | (1,929) | (13,035) |
| | | 3,313 | (798) | 2,515 |

(a) Right-of-way of the Company in areas owned by a third-parties for the execution of construction works is amortized based on the agreement term, which is three years as from the execution date of the agreement.

# 11 Transactions with related parties

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Assets to be transferred to AAMFB (a) | 210,102 | 210,102 |
| Accounts receivable from AAMFB (b) | 95,981 | 96,500 |
| Accounts receivable from Açu Petróleo (c) | 326 | 1,942 |
| | 306,409 | 308,544 |
| **Credit Note** | | |
| AAMFB | 347 | 16,933 |
| Açu Petróleo | 411 | 16,942 |
| Current | 97,065 | 132,317 |
| Noncurrent | 210,102 | 210,102 |

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Liabilities** | | |
| **Advances of the asset allocation** | | |
| AAMFB (a) | 210,102 | 210,102 |
| **Debit notes** | | |
| AAFMB (e) | 4,123 | 4,608 |
| **Intercompany loans** | | |
| Prumo Participações e Investimentos | 799,888 | 893,447 |
| Withholding income tax on loan | 71,736 | 79,574 |
| Anglo American Participações em Minério de Ferro Ltda. | - | 72,093 |
| Anglo American Capital London | 691,204 | 710,337 |
| | 1,777,053 | 1,970,161 |
| **Deferred revenue** | | |
| Deferred revenue with related party (d) | 55,029 | 57,223 |
| Current | 128,123 | 126,108 |
| Noncurrent | 1,648,930 | 1,844,053 |

(a) This refers to the divisible assets to be transferred to AAMFB, according to the Agreement described in Note 1.

(b) Receivables from the take-or-pay agreement with AAMFB.

(c) Receivables from the Port Access agreement related to T-Oil operations.

(d) In January 2008, an agreement was entered into with Porto do Açu for granting the right of accessing the port facilities to load and unload ships. This contract, amounting to R$ 62,159, is effective for 35 years, renewable for another 35 years, and was fully paid as of December 31, 2009. The revenue will be recognized over the contract term. After the start-up of operation in October 2014, this amount started to be monthly recognized as other revenues.

(e) This refers to the assignment of power supply with Light and intercompany recharges.

## Maturity and interest

Intercompany loans are subject to annual interest of 100% of the CDI plus 2% p.a. Intercompany loans have no covenants or guarantees.

The Company shall repay all amounts outstanding, including any outstanding interest thereon, under all shareholder loans by no later than December 31, 2030.

The transactions that affect the profit or loss are as follows:

| | Revenues (expenses) | |
|---|---|---|
| | **2017** | **2016** |
| **Revenue** | | |
| AAMFB - take-or-pay agreement | 571,380 | 541,535 |
| Açu Petróleo | 11,845 | 7,969 |
| **Expenses/Costs** | | |
| Anglo American | (22,813) | (18,605) |
| **Financial expenses** | | |
| Interest on loans | | |
| Prumo Participações e Investimentos | (97,915) | (138,232) |
| Anglo American Capital London | (91,783) | (109,850) |
| Anglo American Investimentos Minério de Ferro Ltda. | - | (8,065) |
| AAMFB - Minas Rio | - | (6,540) |
| Anglo American Participações em Minério de Ferro Ltda. | (2,033) | (10,759) |
| | **368,681** | **257,453** |

Reconciliation of assets and liabilities to cash flows from financing activities:

Key management compensation was as follows:

| (In thousands os Reais) | Liabilities<br>Intercompany loans<br>Total |
|---|---|
| **Opening balances on january 1, 2017** | **1,970,161** |
| Variations in cash | |
| Interest paid | (204,331) |
| Income tax on intercompany loans | (38,487) |
| Intercompany loans Settled | (141,530) |
| **Total variations in financing cash flows** | **(384,348)** |
| | |
| **Variations not cash** | |
| Interest expense | 191,634 |
| Others | (394) |
| **Total other variations related liabilities** | **191,240** |
| **Closing balances on december 31, 2017** | **1,777,053** |

| | **2017** | **2016** |
|---|---|---|
| Directors | | |
| Payroll and related charges | 3,273 | 4,290 |

# 12 Taxes payable

| | **2017** | **2016** |
|---|---|---|
| PIS and COFINS | 5,127 | 5,086 |
| ISS | 167 | 230 |
| Income tax and social contribution (*) | 51,454 | 32,566 |
| Other | 745 | 43 |
| | **57,493** | **37,925** |
| Current | 24,040 | 6,099 |
| Noncurrent (*) | 33,453 | 31,826 |

(*) This refers to the judicial deposit for income tax and social contribution described in Note 7, and tax debt regularization (Government Program) described in Note 4.

# 13 Provision for legal proceedings

The Company is subject to legal proceedings involving civil and administrative matters arising from the ordinary course of business. The Company classified as probable loss the following amounts:

| | **2017** | **2016** |
|---|---|---|
| Labor claims | 1,256 | 1,555 |
| Tax claims | 1,178 | 1,024 |
| Civil claims | 502 | 246 |
| | 2,936 | 2,825 |

According to the legal counsel, the main proceedings classified as possible loss are demonstrated bellow:

| | **2017** | **2016** |
|---|---|---|
| Labor claims | 4,979 | 6,779 |
| Tax claims | 12,882 | 4,999 |
| Civil claims[a] | 170,829 | 176,406 |

[a] Impacted mainly by ARG/Civilport litigation in the amount of R$ 130,380 and Arcoenge R$ 34,822. The claims are due to breach of the contract (Lump Sum and Turn Key contracts) and the costs related to decommissioning.

# 14 Shareholders' equity

## Capital

The Company's shareholding structure at December 31, 2017 and 2016, is as follows:

| **Shareholders** | **Number of shares** | **%** |
|---|---|---|
| Prumo Participações e Investimentos S.A. (a) | 539,988 | 50 |
| Anglo American Investimentos - Minério de Ferro Ltda. | 539,988 | 50 |
| | 1,079,976 | 100 |

## Reserves

In accordance with the Brazilian Corporate Law, the legal reserve, which is intended to ensure the integrity of capital and may only be used to offset losses or increase the capital stock, is set up on an annual basis at 5% of the net income for the year and it cannot exceed 20% of the capital stock.

According to the recommendation of the Financial Committee on December 05, 2017, the Company allocated the accumulated profit of 5% to legal reserve in the total amount of R$ 3,908 and R$ 74,247 as reserve for contingencies.

## Dividends

The Shareholder´s Agreement determines that dividends will be distributed after loans and financings with related parties are fully settled.

# 15 Net revenue from services

| | 2017 | 2016 |
|---|---|---|
| Gross revenue | 580,358 | 613,082 |
| Net effect on derivate financial instruments (a) | 8,613 | 4,256 |
| Taxes on gross revenue - PIS/COFINS | (53,683) | (56,710) |
| Tax on services - ISS | (11,607) | (12,262) |
| Net revenue from services | 523,681 | 548,366 |

(a) As per IAS 39, the realized amount of derivative financial instruments is R$ 8,613 in December 31, 2017 (R$ 4,256 in December 31, 2016), which is allocated to the revenue, considering the cash flow revenue strategy.

# 16 Costs of services

| | 2017 | 2016 |
|---|---|---|
| Payroll and related charges | (43,448) | (38,740) |
| Depreciation and amortization | (30,193) | (38,706) |
| Third-parties services | (21,378) | (27,305) |
| Leases and rents | (5,868) | (6,429) |
| Insurance | (4,104) | (4,444) |
| Consumables spare parts | (36,278) | (29,815) |
| Other | (447) | (5,021) |
| | (141,716) | (150,429) |

# 17 General and administrative expenses

| | 2017 | 2016 |
|---|---|---|
| Payroll and related charges | (13,877) | (11,842) |
| Third party services | (7,876) | (4,833) |
| Depreciation and amortization | (7,529) | (5,447) |
| Insurance | (84) | (78) |
| Travel expenses | (391) | (511) |
| Leases and rents | (335) | (642) |
| Other | (2,358) | (3,098) |
| | **(32,450)** | **(26,451)** |

# 18 Other operating income (expenses)

| | 2017 | 2016 |
|---|---|---|
| Non-consumed electric energy (a) | 13,539 | 6,404 |
| Deferred revenue - right of use | 1,991 | 1,991 |
| Other | 885 | 421 |
| | 16,415 | 8,816 |

(a) Refers to gain with the negotiation of non-consumed electric energy with CCEE - *Câmara de Comércio de Energia Elétrica and other energy traders.*

# 19 Financial income (expenses)

| | 2017 | 2016 |
|---|---|---|
| Financial expenses | | |
| Tax on financial transactions (IOF) | (385) | (543) |
| Interest - intercompany loan | (191,731) | (273,605) |
| Ineffective derivative financial instruments | (369) | - |
| Interest from tax debt regularization - Government Program | (4,927) | - |
| Other | (2,106) | (2,403) |
| | (199,518) | (276,551) |
| Financial income | | |
| Exchange and monetary variations | - | 50 |
| Ineffective derivative financial instruments | - | 357 |
| Interest income | 8,200 | 10,819 |
| | 8,200 | 11,226 |
| Financial results, net | (191,318) | (265,325) |

# 20 Commitments

The Company undertook future purchase commitments amounting to R$ 110,832 (R$ 154,779 on December 31, 2016) and these should be fulfilled in the course of the operations.

# 21 Financial instruments

The Company is engaged in transactions involving financial instruments managed through operational strategies and internal control intended for liquidity, profitability and protection. Control policy consists of permanent monitoring of contracted rates versus market rates in effect. The hedge strategy is to protect the USD fluctuation to guarantee the cash flow revenue and the Company does not make speculative investments in derivatives or other risky assets. As of December 31, 2017 the derivative financial instruments are as follows:

| Notional USD | USD rate NDF | Due date | MtM in thousands of R$ Liabilities | Impact in OCI (Effective portion) | Impact in P&L (Ineffective portion) |
|---|---|---|---|---|---|
| 15,500 | 3.2950 | Jan/18 | (134) | (201) | (1) |
| 15,500 | 3.2780 | Fev/18 | (606) | (562) | (11) |
| | | | (740) | (763) | (12) |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Expected cashflow | | | |
| | **Accounting Value** | **Total** | **1-6 months** | **6-12 months** | **More than 1 year** |
| **Non-deliverable foward (NDF)** | | | | | |
| Asset | - | - | - | - | - |
| Liabilities | 775 | 775 | 775 | - | - |
| | **775** | **775** | **775** | - | - |

In December 31, 2017, the realized amount of derivative financial instruments is R$ 8,613 (R$ 4,256 in December 31, 2016), which is allocated to the revenue, considering the cash flow revenue strategy, as per IAS 39.

The estimated realizable values of the financial assets and liabilities of the Company were determined based on available market information and proper valuation methodologies. However, considerable judgment was required in interpreting market data to develop the most adequate estimate of realizable value. Consequently, the estimates do not necessarily indicate the values that could be realized in the current exchange market.

Financial assets and liabilities at December 31, 2017 and 2016 are as follows:

| | **2017** | | | **2016** | | |
|---|---|---|---|---|---|---|
| **Classifications** | **Book Value** | **Measurement** | **Fair value measurement hierarchy** | **Book value** | **Measurement** | **Fair value measurement hierarchy** |
| Assets | | | | | | |
| ***Fair Value through Profit and Loss*** | | | | | | |
| Cash and cash equivalents | 25,028 | | 2 | 32,580 | | |
| Derivative financial instruments | - | | 2 | 3,303 | Fair value | 2 |
| ***Loans and receivables*** | | | | | | |
| Accounts receivable from related parties | 97,065 | Amortized Cost | | 132,317 | Amortized Cost | |
| Liabilities | | | | | | |
| ***Other financial liabilities*** | | | | | | |
| Trade accounts payable | 41,751 | Amortized cost | 2 | 39,032 | Amortized cost | |
| Related parties loans | 1,777,054 | Amortized cost | 2 | 1,970,161 | Amortized cost | |
| Derivative financial instruments | 775 | Fair value | 2 | | | |

Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The financial assets and liabilities, due to their characteristics and due dates, Management understands that fair values do not differ relevantly from their booking values.

The Company's financial transactions are subject to the following risk factors:

### *Currency risk*
Risk of fluctuation in foreign exchange rates, which may be associated with the assets and liabilities of the Company. The Company manages foreign exchange risk to identify and mitigate risks associated with fluctuations in the value of the currencies with which its global assets and liabilities are associated. Currently, the only U.S. Dollar denominated transaction is the take-or-pay contract, converted into *Reais* when billed. As of December 31, 2017, the Company is engaged in hedge strategy to protect the USD fluctuation to guarantee the cash flow revenue.

An exhibition summary to foreign exchange risk in the table below:

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **R$** | **USD** | **R$** | **USD** |
| Accounts receivable from related parties | 96,307 | 29,913 | 98,442 | 29,780 |
| Net exposure of the balance sheet | **96,307** | **29,913** | **98,442** | **29,780** |

### *Liquidity risk*
The table below provides the Company's main financial liabilities at December 31, 2017. These amounts are gross and are not discounted, and include payments of estimated interest and exclude the impact of the offsetting agreements.

| | **No maturity** | **Up to 6 months** | **Up to 1 year** | **From 1 year to 5 years** | **Above 5 Years** | **Total** |
|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | |
| Derivative financial instrumentos | 775 | - | - | - | - | 775 |
| Trade accounts payable | - | 41,751 | - | - | - | 41,751 |
| Related parties - loans | 210,102 | 157,425 | 345,807 | 1,796,189 | - | 2,509,523 |
| Total by maturity range | 210,877 | 199,176 | 345,807 | 1,796,189 | - | 2,552,049 |

The Company's shareholders have supported the implementation of the business plan. Up to December 2017, the additional funds needed for the Company to complete its construction were funded by its shareholders. The remaining Capex to completion will be funded by Company's cash generation and the shareholders when required by the Agreement.

### *Credit risk*
This risk arises from the possibility of the Company incurring losses arising from default of their counterparties or financial institutions depository of funds.

The Company uses rating analyzes of the financial institutions through rating reports provided by the risk agencies, for the purpose of classifying and systematically follow up on the risk and performance of each bank.

The balances exposed to credit risk are the following:

| **Financial instruments** | **2017** | **2016** |
|---|---|---|
| Cash equivalents | 25,028 | 32,580 |
| Accounts receivable (Related parties) | 97,065 | 132,317 |
| | 122,093 | 164,897 |

For the period ended on December 31, 2017 and 2016, the Company's service revenue is entirely related to services provided to the related parties and cash and banks and cash equivalents are invested in banks with at least A- rating.

### *Capital Management*

The Company's funds to develop its business plan have been entirely funded through capital contributions and loans from the shareholders. The Company's treasury monitors the funds needed for working capital and capital expenditures, which are provided by the shareholders every month. The Company started its operations in October 2014 and started generating operating cash since then; the additional funds needed for the conclusion of the port construction will also be funded by its shareholders through additional loans when required by the Agreement, and operational cash generation.

## 22 Insurance coverage

The Company's policy consists of entering into insurance coverage for assets subject to risks at amounts deemed sufficient by management to cover claims, if any, considering the nature of its activity. The policies are in force and the premiums were duly paid.

As of December 31, 2017 and 2016, the insurance coverage was as follows:

| | **2017** | **2016** |
|---|---|---|
| Property and equipment damages | 2,299,900 | 4,697,252 |
| Civil liability | 165,410 | 162,955 |
| Environmental Liability | 30,000 | 30,000 |
| Directors & Management | 60,000 | 60,000 |

## Subsequent event

### Leak in pipeline

On March 12, 2018, a leak was identified by Anglo American in its pipeline with no impacts on Ferroport’s operations. On March 29, 2018, a second leak was identified and according to Anglo American’s announcement, the Minas-Rio iron ore operation was suspended for approximately 90 days, in order to perform a full inspection of the slurry pipeline. Ferroport´s Management is currently evaluating possible impacts of such matter on its operations.

* * *

Carsten Bosselmann
Chief Executive Officer

Marcelo Amaral Palladino
Chief Financial Officer

Douglas dos Santos Guimarães
Accountant CRC-RJ-110416/O-0