Ferroport Logística Comercial Exportadora S.A.

Financial Statements as of December 31, 2018 and 2017

KPDS 432445

Contents

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Independent Auditor's Report on Individual and Consolidated 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 individual and consolidated financial statements of Ferroport Logística Comercial Exportadora S.A. ("the Company"), respectively referred to as Individual and Consolidated, which comprise the balance sheet as of December 31, 2018, and the statements of operations and other comprehensive income (loss), changes in shareholder´s equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying individual and consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, 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 Auditor's Responsibilities for the Audit of the individual and consolidated Financial Statements section of our report. We are independent of the Company and its subsidiary in accordance with the relevant ethical requirements included in 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.

KPMG Auditores Independentes, uma sociedade simples brasileira e firma-membro da rede KPMG de firmas-membro independentes e afiliadas à KPMG International Cooperative ("KPMG International"), uma entidade suíça.

KPMG Auditores Independentes, a Brazilian entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Responsibilities of Management for the Individual and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the individual and consolidated 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 individual and consolidated 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 and its subsidiary or to cease operations, or has no realistic alternative but to do so.

The management is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated 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 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 individual and consolidated 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 and its subsidiary'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 and subsidiary'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 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 Company and its subsidiary to cease to continue as a going concern.

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Management 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.

Rio de Janeiro, March 13, 2019

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

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

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Ferroport Logística Comercial Exportadora S.A.

Balance sheets as of December 31, 2018 and 2017

(In thousands of Reais)

		Parent Company		Consolidated	
	Note	**2018**	**2017**	**2018**	**2017**
Assets					
Current assets					
Cash and cash equivalents	**4**	31,655	25,028	31,925	25,028
Accounts receivable from related parties	**12**	30,126	97,065	30,264	97,065
Inventories	**5**	21,618	20,016	21,618	20,016
Recoverable taxes	**7**	89,345	43,327	89,345	43,327
Income taxes and social contribution recoverable	**7**	787	785	787	785
Prepaid expenses		1,842	2,893	1,844	2,893
Other		939	7,647	939	7,647
Total current assets		**176,312**	**196,761**	**176,722**	**196,761**
Noncurrent assets					
Judicial deposits	**8**	35,974	34,755	35,974	34,755
Recoverable taxes	**7**	-	36,064	-	36,064
Related parties - asset to be transferred	**12**	210,102	210,102	210,102	210,102
Deferred income tax and social contribution	**6**	57,709	-	57,709	-
Participation in subsidiary and associate	**9**	375	-	-	-
Property, plant and equipment	**10**	2,113,754	2,125,745	2,113,754	2,125,745
Intangible assets	**11**	1,541	2,515	1,541	2,515
Deferred charges		3,781	4,438	3,781	4,438
Total noncurrent assets		**2,423,236**	**2,413,619**	**2,422,861**	**2,413,619**
Total assets		**2,599,548**	**2,610,380**	**2,599,584**	**2,610,380**
Liabilities and equity					
Trade accounts payable		18,510	41,751	18,510	41,751
Payroll and related charges		11,352	13,915	11,352	13,915
Taxes payable	**13**	3,196	5,328	3,200	5,328
Derivative financial instruments	**21**	-	775	-	775
Income taxes and social contribution payable	**13**	16,631	18,712	16,663	18,712
Related parties - loans and accounts payable	**12**	159,898	128,123	159,898	128,123
Total current liabilities		**209,587**	**208,604**	**209,623**	**208,604**
Noncurrent liabilities					
Income taxes and social contribution payable	**13**	34,485	33,453	34,485	33,453
Deferred income tax and social contribution	**6**	-	6,886	-	6,886
Related parties - loans and accounts payable	**12**	1,636,647	1,648,930	1,636,647	1,648,930
Deferred revenue with related party	**12**	52,835	55,029	52,835	55,029
Provision for contingencies	**14**	15,613	2,937	15,613	2,937
Taxes payable		3,984	-	3,984	-
Other		20,534	420	20,534	420
Total noncurrent liabilities		**1,764,098**	**1,747,655**	**1,764,098**	**1,747,655**
Shareholders' equity	**15**				
Capital		414,397	414,397	414,397	414,397
Capital reserve		94,589	94,589	94,589	94,589
Contingencies reserve		109,595	138,357	109,595	138,357
Legal reserve		7,282	7,282	7,282	7,282
Other comprehensive income		-	(504)	-	(504)
Total shareholders' equity		**625,863**	**654,121**	**625,863**	**654,121**
Total liabilities and shareholders' equity		**2,599,548**	**2,610,380**	**2,599,584**	**2,610,380**

See the accompanying notes to the financial statements.

Ferroport Logística Comercial Exportadora S.A.

Statements of operations

Years ended December 31, 2018 and 2017

(In thousands of Reais)

		Parent Company		Consolidated	
	Note	**2018**	**2017**	**2018**	**2017**
Net revenue of services	**16**	188,082	523,681	188,914	523,681
Costs of services	**17**	(133,911)	(141,716)	(134,216)	(141,716)
Gross profit		**54,171**	**381,965**	**54,698**	**381,965**
Operating income (expenses)					
General and administrative expenses	**18**	(41,640)	(32,450)	(41,805)	(32,450)
Provision for impairment		-	(13,458)	-	(13,458)
Equity income (loss), net		276	-	-	-
Other operating income (expenses), net	**19**	15,697	16,415	15,697	16,415
		(25,667)	(29,493)	(26,108)	(29,493)
ncome before financial income expenses) and taxes		**28,504**	**352,472**	**28,590**	**352,472**
Financial income (expenses)					
Financial income	**20**	4,752	8,200	4,752	8,200
Financial expenses	**20**	(126,613)	(199,518)	(126,615)	(199,518)
		-	-	-	-
ncome (loss) before taxes		**(93,357)**	**161,154**	**(93,273)**	**161,154**
ncome and social contribution taxes					
Current	**6**	-	(14,137)	(84)	(14,137)
Deferred	**6**	64,595	(68,862)	64,595	(68,862)
Total income and social contribution taxes		-	-	-	-
Net income (loss) for the year		**(28,762)**	**78,155**	**(28,762)**	**78,155**

See the accompanying notes to the financial statements.

Ferroport Logística Comercial Exportadora S.A.

Statements of comprehensive income (loss)

Years ended December 31, 2018 and 2017

(In thousands of Reais)

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Net income (loss) for the year	**(28,762)**	**78,155**	**(28,762)**	**78,155**
Other comprehensive income (loss)	-	-	-	-
Items that can be subsequently reclassified to the result:				
Derivative financial instruments - Hedge accounting gain (loss)	764	(3,709)	764	(3,709)
Income and social contribution taxes on other comprehensive income, net	(260)	1,261	(260)	1,261
Total comprehensive income (loss) for the year	**(28,258)**	**75,707**	**(28,258)**	**75,707**

See the accompanying notes to the financial statements.

Ferroport Logística Comercial Exportadora S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2018 and 2017

(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, 2017	**15**	**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**
Loss for the year		-	-	-	-	-	(28,762)	**(28,762)**
Compensation loss for the year		-	-	(28,762)	-	-	28,762	**-**
Derivative financial instruments - Hedge accounting		-	-	-	-	504	-	**504**
Balances as of December 31, 2018		**414,397**	**94,589**	**109,594**	**7,282**	**-**	**-**	**625,863**

See the accompanying notes to the financial statemen

Ferroport Logística Comercial Exportadora S.A.

Statements of cash flows

Years ended December 31, 2018 and 2017

(In thousands of Reais)

	Parent Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Operating activities				
Income (loss) before taxes	(93,357)	161,154	(93,273)	161,154
Adjustments to reconcile income before taxes and net cash provided by operating activities:				
Depreciation and amortization	48,107	44,551	48,107	44,551
Provision for derivative financial instruments	(12)	369	(12)	369
Monetary variation and interest	123,875	191,634	123,875	191,634
Amortization of insurance	3,736	4,170	3,733	4,170
Provision for bonus	8,404	10,432	8,413	10,432
Provision for legal proceeding	12,677	111	12,677	111
Deferred revenue amortization	(2,194)	(2,194)	(2,194)	(2,194)
Equity pickup	(275)	-	-	-
Impairment on corelocs, net	-	14,166	-	14,166
	100,961	**424,393**	**101,326**	**424,393**
(Increase) decrease of assets and increase (decrease) of liabilities:				
Account receivable from related parties	66,952	35,252	66,813	35,252
Inventories	(1,384)	(1,695)	(1,384)	(1,695)
Recoverable taxes	1,942	1,065	1,942	1,065
Prepaid expenses	(2,685)	(4,539)	(2,685)	(4,539)
Trade accounts payable	857	2,720	857	2,720
Taxes payable	(2,446)	3,805	(2,492)	3,805
Payroll and related charges	(11,079)	(7,399)	(11,089)	(7,399)
Accounts payable to related parties	(4,168)	(485)	(4,168)	(485)
Taxes payable related to intercompany loans	(13,016)	(38,487)	(13,016)	(38,487)
Interest paid	(73,760)	(204,331)	(73,760)	(204,331)
Other assets and liabilities	6,561	(3,312)	6,561	(3,312)
Net cash flows generated by operating activities	**68,735**	**206,987**	**68,905**	**206,987**
Investing activities				
Investiment in subsidiary	(100)	-	-	-
Acquisition of intangible assets	(614)	(1,131)	(614)	(1,131)
Acquisition of property, plant and equipment (a)	(16,824)	(71,878)	(16,824)	(71,878)
Net cash flows used in investing activities	**(17,538)**	**(73,009)**	**(17,438)**	**(73,009)**
Financing activities				
Intercompany loans settled (principal)	(44,570)	(141,530)	(44,570)	(141,530)
Net cash flows used in financing activities	**(44,570)**	**(141,530)**	**(44,570)**	**(141,530)**
Increase (decrease) in cash and cash equivalents	**6,627**	**(7,552)**	**6,897**	**(7,552)**
Cash and cash equivalents				
At beginning of the year	25,028	32,580	25,028	32,580
At end of the year	31,655	25,028	31,925	25,028
Increase/Decrease in cash and cash equivalents	**6,627**	**(7,552)**	**6,897**	**(7,552)**

(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 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.

In August 2016, Açu Petróleo carried out the first oil transshipment, involving two Suezmax vessels and the Port Access agreement became effective. In 2018, Açu Petróleo performed 30 operations in 69 vessels, loading 5.2 millions metric tons of oil transshipment. Since the beginning of operations in August, 2016, they carried out 51 operations in 111 Suezmax vessels.

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.

In 2018, the Company loaded 3.2 million tons of iron ore in 19 vessels (16.5 million tons in 98 vessels during 2017). Since the beginning of operations in October 2014, the Company loaded 44.6 million tons of iron ore, reaching a mark of 291 vessels berthing at the port.

On March 12, 2018, Anglo American Minério de Ferro Brasil (AAMFB) identified a leakage in the pipeline whereby the iron ore production is transported from the Minas-Rio Mines to the T-ORE Terminal Operated by Ferroport. AAMFB repaired the pipe damaged and resumed operations. On March 29, 2018, AAMFB identified a second leakage in the pipeline, and announced the pipeline operations would be suspended for 90 days, until a detailed inspection of the pipeline is executed.

On April 18, 2018, Ferroport received a notice from AAMFB, indicating the two slurry pipeline leakages, occurred on March 12 and 29, have caused the local authorities to suspend the pipeline license until a detailed inspection throughout its entire length is executed and its safety is confirmed by an independent expert. Besides AAMFB suspended the *take-or-pay* payments.

The amount under discussion was classified as a contingent asset, not recognized in balance sheet as determined by CPC 25 (Contingent liability provision and contingent asset), as mentioned in note 14.

During the operational stoppage to slurry pipeline maintanance, Ferroport has adopted measures to mitigate the financial and operational impacts, including employee's layoff and renegotiation of main contracts.

On December 21, 2018, Anglo announced the resumption of operations at its Minas-Rio iron ore operation in Brazil. The restart of the integrated iron ore operation follows an extensive and detailed technical inspection of the 529 km pipeline that carries the iron ore in slurry form from the mine to the port, the pre-emptive repair of certain sections of the pipeline, and receipt of the appropriate regulatory approvals. The inspection of the entire pipeline by specialist pipeline inspection devices ("PIGs"), and the analysis of the collected data by expert teams drawn from Brazil and internationally, confirmed the pipeline's integrity.

On December 26, 2018, the operation returned, with the first receipt of iron ore after the stoppage.

1.1 Subsidiary

See out below the subsidiary of Ferroport Logística:

Activity	Ownership interest
Ferroport Serviços Service of maintenance	100%

In August 2018, Ferroport Serviços EIRELI ("Ferroport Serviços"), a fully controlled subsidiary of Ferroport Logística, started the operations providing maintenance and engineering services to the companies located in the port terminal.

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.		
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. (License renewal requested).	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).		
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.		
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 13, 2019.

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

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - Business model assessment: Policy applicable from 1 January 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses: Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities - Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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

g. Property, plant 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 10). 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. Main changes in accounting policies

The Company initially adopted the IFRS 9 - Financial Instruments (CPC 48 - Financial Instruments) and IFRS 15 - Revenue from contracts with customers (CPC 47 - Revenue from contracts with customers) as from January 1st, 2018.

IFRS 9 - Financial Instruments (CPC 48 - Financial Instruments)

Nature and effect

The mainly impact refers to the recognition of expected credit losses on energy accounts receivable. The methodology is to calculate a weighted average of the percentage received in the last 12 months on the monthly outstanding balances.

Classification and measurement

CPC 48 / IFRS 9 largely retains the requirements in CPC 38 / IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the old categories of CPC 38 / IAS 39 for financial assets held to maturity, loans and receivables and available for sale.

The adoption of CPC 48 / IFRS 9 did not have a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments. The impact of CPC 48 / IFRS 9 on the Classification and Measurement of Financial Assets is described below:

	Original classification according to CPC 38/IAS 39	**New classification according to CPC 48 / IFRS 9**	**Original book value as CPC 38 / IAS 39**	**New book value as CPC 48 / IFRS 9**
Cash and cash equivalents	Fair Value through Profit and Loss	Fair Value through Profit and Loss	31,925	31,925
Accounts receivable from related parties	Loans and receivables	Fair Value through Profit and Loss	30,264	30,264
Other - Accounts receivable from energy (a)	Loans and receivables	Amortized Cost	4,997	643

(a) As per IFRS 9, the amount of R$ 4,354 related provision was recognized for expected credit losses from account receivable energy.

Transition

The Company opted not to restate comparative information from prior periods in relation to classification and measurement requirements (including impairment). Accordingly, the information presented for 2017 does not reflect the requirements of CPC 48 / IFRS 9, but rather of CPC 38 / IAS 39.

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.

After analysis, the Company concluded that there are no impacts on the application of the new standard.

IFRS 16 - Leases (CPC 06 - R2):

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). The standard is applicable from January 1, 2019.

The Company assessed the potential impact that the initial application of CPC 06 (R2) / IFRS 16 would have on the consolidated financial statements, as described below:

	Lease Asset	Lease Liability
As of January 1, 2019	2,966	2,966

The real impacts of adoption of the standard as of January 1, 2019 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

4 Cash and cash equivalents

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Cash and banks	401	249	670	249
Cash equivalents				
Investiment funds	16,941	21,255	16,941	21,255
Bank deposit certificate (CDB)	14,314	3,524	14,314	3,524
	31,655	**25,028**	**31,925**	**25,028**

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 2018 and 2017 are 99,89% and 101.37% of Interbank Deposit (DI) rate, respectively. The portfolio currently consists of investiments fund and deposit certificate issued by Banco ABC and Santander, respectively.

5 Inventories

	Company and Consolidated	
	2018	**2017**
Consumables spare parts (maintenance) (a)	21,618	20,016

(a) In 2018, the balance of inventories applied to equipment maintenance totaled R$ 21,618 (R$ 20,016 in 2017).

6 Income tax and social contribution

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

	Company and Consolidated		
	2017	**Additional amount/offset (liability) recorded**	**2018**
Assets			
Tax loss carryforwards	11,064	82,044	93,108
Temporary differences:			
Provisions of bonus, contingencies and others			
Difference between tax basis and book value - deferred assets	-	28,764	28,764
Tax credits originated from merger (a)	33,105	(18,917)	14,188
Other	-	-	-
Total deferred income taxes assets	**44,169**	**91,891**	**136,060**
Liabilities			
Difference between tax basis and book value of depreciation rates	(34,619)	(13,172)	(47,791)
Temporary differences:			
Capitalized interests	(5,760)	(22,697)	(28,457)
Judicial deposits	(2,467)	364	(2,103)
Reversal of provisions	(8,209)	8,209	-
Total deferred income taxes liabilities	**(51,055)**	**(27,296)**	**(78,351)**
Net effect	**(6,886)**	**64,595**	**57,709**

(a) 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 years ended December 31, 2018 and 2017, are as follows:

Income Tax and Social Contribution	**Company**		**Consolidated**	
	2018	**2017**	**2018**	**2017**
Income (loss) before income taxes	**(93,357)**	**161,154**	**(93,273)**	**161,154**
Income tax at the nominal rate 34%	31,741	(54,793)	31,713	(54,793)
Tax aliquot effect about presumed profit	-	-	84	-
Tax adjustments:				
Tax debt regularization - Government program	-	(9,256)	-	(9,256)
Defferred - Provision and reversal provision	16,804	(23,593)	16,804	(23,593)
Other	16,050	4,643	15,994	4,643
Total	**64,595**	**(82,999)**	**64,595**	**(82,999)**
Current income and social contribution tax	-	(14,137)	-	(14,137)
Deferred income and social contribution tax	64,595	(68,862)	64,595	(68,862)
Total income and social contribution tax	**64,595**	**(82,999)**	**64,595**	**(82,999)**
Effective rate	**69%**	**(52%)**	**69%**	**-52%**

7 Recoverable taxes

	Company and Consolidated	
	2018	**2017**
Income tax - Anticipation	11,661	1,347
Social contribution - Anticipation	3,313	229
PIS and COFINS	74,279	77,747
INSS	24	-
ISS	68	68
Subtotal recoverable taxes	**89,345**	**79,391**
Income tax	784	784
Social contribution	3	1
Total income taxes and social contribution recoverable	**787**	**785**
Total	**90,132**	**80,176**
Current	**90,132**	**44,112**
Non current	**-**	**36,064**

8 Judicial deposits

	Company and Consolidated	
	2018	**2017**
Income tax and social contribution (a)	34,485	33,453
Other	1,489	1,302
	35,974	**34,755**

(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$34,485). Ferroport obtained an unfavorable decision and is awaiting decision on its appeal. The amount deposited is fully reserved under "Taxes payable".

9 Investiments in subsidiary

The investiments in subsidiary are as follow:

a. Movement of participation in subsidiary

	2017	**Aquisition**	**Equity**	**2018**
Ferroport Serviços EIRELLI	-	100	275	375

b. Relevant information about subsidiary

Direct subsidiaries	**%**	**Number of shares (thousand)**	**Asset**	**Liability**	**Shareholders equity**	**Capital**	**Profit for the period**
Ferroport Serviços EIRELI	100	100	466	(91)	(375)	100	275

10 Property, plant and equipment

	Annual depreciation rate %	**Cost**	**Accumulated depreciation**	**Net balance at 2018**	**Net balance at 2017**
Improvements	**4**	69,730	(69,113)	617	1,303
Furniture and fixtures	**10**	676	(430)	246	310
Vehicles	**20**	1,039	(921)	118	8
IT equipment	**20**	7,361	(2,449)	4,912	4,759
Machinery and equipment	**10**	7,548	(2,433)	5,115	5,210
Electronic equipment	**20**	6,015	(4,183)	1,832	2,212
Defenses	**10**	4,031	(1,543)	2,488	2,874
Breakwater	**2.22**	851,433	(76,740)	774,693	769,932
Maritime access canal	**2.22**	451,690	(31,017)	420,673	427,364
Pier - Port Terminal	**2.22**	830,202	(52,992)	777,210	774,845
Safety equipment	**10**	18,549	(5,346)	13,203	10,591
Operational tools and equipment	**10 and 5**	9,750	-	9,750	4,235
Advances to suppliers	**-**	-	-	-	258
Construction in progress	**-**	94,667	-	94,667	112,838
Other equipaments	**-**	10,378	(2,148)	8,230	9,006
		2,363,069	**(249,315)**	**2,113,754**	**2,125,745**

Changes in property, plant and equipment

Company and consolidated

Cost	**Annual depreciation rate %**	**2017**	**Additions**	**Pis and Cofins**	**Asset allocation**	**Writte-offs**	**Transfers (*)**	**2018**
Improvements	**4**	69,228	502	-	-	-	-	**69,730**
Furniture and fixtures	**10**	677	-	-	-	(1)	-	**676**
Vehicles	**20**	904	135	-	-	-	-	**1,039**
IT equipment	**20**	6,579	921	-	-	(139)	-	**7,361**
Machinery and equipment	**10**	6,910	638	-	-	-	-	**7,548**
Electronic equipment	**20**	5,583	432	-	-	-	-	**6,015**
Defenses	**10**	4,031	-	-	-	-	-	**4,031**
Breakwater	**2.22**	828,425	1,374	-	-	-	21,634	**851,433**
Maritime access canal	**2.22**	451,690	-	-	-	-	-	**451,690**
Pier - Port Terminal	**2.22**	813,168	160	(19,519)	30,898	(211)	5,706	**830,202**
Safety equipment	**10**	14,524	640	-	-	-	3,385	**18,549**
Operational tools and equipment	**10 and 5**	4,235	5,515	-	-	-	-	**9,750**
Advance to suppliers		258	(258)	-	-	-	-	**-**
Construction work in progress		112,838	12,553	-	(119)	117	(30,725)	**94,667**
Others equipments		10,314	64	-	-	-	-	**10,378**
		2,329,364	**22,676**	**(19,519)**	**30,779**	**(234)**	**-**	**2,363,069**

Company and consolidated

	Annual depreciation rate %	2017	Additions	Pis and Cofins	Asset allocation	Writte-offs	Transfers (*)	2018
Depreciation								
Improvements	**4**	(67,925)	(1,188)	-	-	-	-	**(69,113)**
Furniture and fixtures	**10**	(366)	(65)	-	-	1	-	**(430)**
Vehicles	**20**	(896)	(25)	-	-	-	-	**(921)**
IT equipment	**20**	(1,820)	(768)	-	-	139	-	**(2,449)**
Machinery and equipment	**10**	(1,700)	(733)	-	-	-	-	**(2,433)**
Electronic equipment	**20**	(4,116)	(67)	-	-	-	-	**(4,183)**
Defenses	**10**	(1,157)	(386)	-	-	-	-	**(1,543)**
Breakwater	**2.22**	(58,494)	(18,246)	-	-	-	-	**(76,740)**
Maritime access canal	**2.22**	(24,326)	(6,691)	-	-	-	-	**(31,017)**
Pier - Port Terminal	**2.22**	(38,323)	(14,688)	-	-	-	19	**(52,992)**
Safety equipment	**10**	(3,933)	(1,394)	-	-	-	(19)	**(5,346)**
Others equipments	**10 and 5**	(563)	(1,585)	-	-	-	-	**(2,148)**
		(203,619)	**(45,836)**	-	-	140	-	**(249,315)**
Property and equipment, net		**2,125,745**	**(23,160)**	**(19,519)**	**30,779**	**(94)**	**-**	**2,113,754**

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:

	2017	Asset Alocation 2017	Additions/ write-offs	2018	% of ownership of assets
Indivisible assets					
Transferred to AAMFB	1,571,662	39.81%	(32,170)	1,539,492	39.52%
Transferred to Açu Petróleo	318,671	8.07%	(14,147)	304,524	7.82%
Ferroport's assets	2,057,165	52.12%	(5,432)	2,051,733	52.67%
Total indivisible assets	**3,947,498**		**(51,749)**	**3,895,749**	

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, 2018 and 2017 there is no mark-up gain recorded.

Construction in progress

The construction in progress at December 31, 2018 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, 2018 and December 31, 2017.

11 Intangible assets

		Company and Consolidated		
	Amortization	**2017**	**Additions**	**2018**
Cost				
Right-of-way (a)	3 years	5,528	-	5,528
Software use license	5 years	10,022	613	10,635
Total Cost		**15,550**	**613**	**16,163**
Amortization				
Right-of-way	3 years	(5,528)	-	(5,528)
Software use license	5 years	(7,507)	(1,588)	(9,094)
Total Amortization		**(13,035)**	**(1,588)**	**(14,622)**
		2,515	**(975)**	**1,541**

(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.

12 Transactions with related parties

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Assets				
Assets to be transferred to AAMFB (a)	210,102	210,102	210,102	210,102
Accounts receivable from AAMFB (b)	26,005	95,981	26,005	95,981
Accounts receivable from Açu Petróleo (c)	3,485	326	3,680	326
	239,593	**306,409**	**239,787**	**306,409**
Credit Note				
AAMFB	325	347	325	347
Açu Petróleo	254	411	254	411
Ferroport Serviços	56	-	-	-
Current	**30,126**	**97,065**	**30,264**	**97,065**
Noncurrent	**210,102**	**210,102**	**210,102**	**210,102**
Liabilities				
Advances of the asset allocation				
AAMFB (a)	210,102	210,102	210,102	210,102
Debit notes				
AAFMB (e)	-	4,123	-	4,123
Debit asset allocation				
AAMFB (f)	16,751	-	16,751	-
Açu Petróleo (f)	14,147	-	14,147	-
Intercompany loans				
Prumo Participações e Investimentos	791,485	799,888	791,485	799,888
Withholding income tax on loan	77,329	71,736	77,329	71,736
Anglo American Capital London	686,731	691.204	686,731	691.204
	1,796,545	**1,777,053**	**1,796,545**	**1,777,053**
Deferred revenue				
Deferred revenue with related party (d)	52,835	55,029	52,835	55,029
Current	**159,898**	**128,123**	**159,898**	**128,123**
Noncurrent	**1,636,647**	**1,648,930**	**1,636,647**	**1,648,930**

(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.

(f) The amount refers to the financial inefficiency in the taking of tax credits, according to shareholders agreement.

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)			
	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Revenue				
AAMFB - take-or-pay agreement (a)	165,427	571,380	165,427	571,380
Açu Petróleo	24,014	11,845	24,014	11,845
Ferroport Serviços	832	-	-	-
Expenses/Costs				
Anglo American	(18,730)	(22,813)	(18,730)	(22,813)
Financial expenses				
Interest on loans				
Prumo Participações e Investimentos	(63,652)	(97,915)	(63,652)	(97,915)
Anglo American Capital London	(60,410)	(91,783)	(60,410)	(91,783)
Anglo American Participações em Minério de Ferro Ltda.	-	(2,033)	-	(2,033)
	47,481	**368,681**	**46,649**	**368,681**

(a) On April 18, 2018, AAMFB notified Ferroport discussing the occurrence of several incidents involving the slurry pipeline and the ToP payments were suspended The amount under discussion was classified as a contingent asset, not recognized in the balance sheet as determined by CPC 25 (Contingent Liability Provisions and Contingent Assets), as mentioned in note 14.

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

(In thousands os Reais)	**Liabilities Intercompany loans**
Opening balances on january 1, 2018	**1,705,318**
Variations in cash	
Interest paid	(73,760)
Income tax on intercompany loans	(18,609)
Intercompany loans settled	(44,570)
Total variations in financing cash flows	**(136,939)**
Other variations	
Related liabilities	
Interest expense	124,062
Others	(4,168)
Total other variations related liabilities	**119,895**
Closing balances on December 31, 2018	**1,688,274**

Key management compensation was as follows:	2018	2017
Payroll and related charges	3,324	3,273

13 Taxes payable

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
PIS and COFINS	2,773	5,127	2,776	5,127
ISS	89	167	89	167
ICMS	3,984	-	3,984	-
Income tax and social contribution (*)	50,552	51,454	50,585	51,454
Other	898	745	898	745
	58,296	**57,493**	**58,332**	**57,493**
Current	**19,827**	**24,040**	**19,863**	**24,040**
Noncurrent (*)	**38,469**	**33,453**	**38,469**	**33,453**

(*) This refers to the judicial deposit for income tax and social contribution described in Note 8, and tax debt regularization (Government Program) described in Note 6.

14 Provision for legal proceedings

Contingent Liabilities

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:

	Company and consolidated	
	2018	**2017**
Labor claims	2,928	1,256
Tax claims	1,220	1,178
Civil claims (a)	11,465	503
	15,613	**2,937**

(a) In 2018, ARG/Civilport filed a new litigation claim in the amount of R$ 10,890.

Contingent moviments

	2017	**Additions**	**write-offs**	**2018**
Labor	1,256	2,319	(647)	2,928
Tax	1,178	42		1,220
Civil	503	11,465	(503)	11,465
	2,937	**13,825**	**(1,150)**	**15,613**

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

	Company and consolidated	
	2018	**2017**
Labor claims	6,057	4,979
Tax claims	5,764	12,882
Civil claims [(a)]	192,681	170,829
Total	**204,502**	**188,690**

(a) Impacted mainly by ARG/Civilport litigation in the amount of R$ 151,444 (R$ 130,380 in December 31, 2017) and Arcoenge R$ 39,630 (R$ 34,822 in December 31, 2017). The claims are due to breach of the contract (Lump Sum and Turn Key contracts) and the costs related to decommissioning.

Contingent Assets

Ferroport received a notice from AAMFB, indicating the two slurry pipeline leakages, occurred on March 12 and 29, have caused the local authorities to suspend the pipeline license until a detailed inspection throughout its entire length is executed and its safety is confirmed by an independent expert. Besides AAMFB suspended the *take-or-pay* payments.

The amount under discussion was classified as a contingent asset, not recognized in balance sheet as determined by CPC 25 (Contingent liability provision and contingent asset).

15 Shareholders' equity

Capital

The Company's shareholding structure at December 31, 2018 and 2017, 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.

Dividends

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

16 Net revenue from services

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Shipment of iron ore (Take or Pay)	185,488	571,380	185,542	571,380
Oil transshipment (T-Oil)	27,213	8,978	27,213	8,978
Port services	-	-	832	-
	212,701	**580,358**	**213,588**	**580,358**

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Gross revenue (a)	212,701	580,358	213,588	580,358
Net effect on derivate financial instruments (b)	1,590	8,613	1,590	8,613
Taxes on gross revenue - PIS/COFINS	(21,955)	(53,683)	(21,988)	(53,683)
Tax on services - ISS	(4,254)	(11,607)	(4,277)	(11,607)
Net revenue from services	**188,082**	**523,681**	**188,914**	**523,681**

(a) On April 18, 2018, AAMFB notified Ferropport discussing the occurrence of several incidents involving the Slurry Pipeline and the ToP payments were suspended. The amount under discussion was classified as a contingent asset, not recognized in the balance sheet as determined by CPC 25 (Contingent Liability Provisions and Contingent Assets).

(b) The realized amount of derivative financial instruments is R$ 1,590 in December 31, 2018 (R$ 8,613 in December 31, 2017), which is allocated to the revenue. However, in 2018 the Company opted for the discontinuation of hedge operations.

17 Costs of services

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Payroll and related charges	(34,523)	(43,448)	(34,792)	(43,448)
Depreciation and amortization	(47,134)	(30,193)	(47,134)	(30,193)
Third-parties services	(15,151)	(21,378)	(15,151)	(21,378)
Leases and rents	(3,830)	(5,868)	(3,847)	(5,868)
Insurance	(3,669)	(4,104)	(3,681)	(4,104)
Consumables spare parts	(25,428)	(36,278)	(25,433)	(36,278)
Other	(4,176)	(447)	(4,178)	(447)
	(133,911)	**(141,716)**	**(134,216)**	**(141,716)**

18 General and administrative expenses

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Payroll and related charges	(13,122)	(13,877)	(13,279)	(13,877)
Third party services	(6,595)	(7,876)	(6,595)	(7,876)
Depreciation and amortization	(6,484)	(7,529)	(6,484)	(7,529)
Insurance	(84)	(84)	(84)	(84)
Travel expenses	(400)	(391)	(400)	(391)
Leases and rents	(367)	(335)	(369)	(335)
Contingencies	(12,635)	(45)	(12,635)	(45)
Other	(1,953)	(2,313)	(1,959)	(2,313)
	(41,640)	**(32,450)**	**(41,805)**	**(32,450)**

19 Other operating income (expenses)

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Non-consumed electric energy (a)	18,022	13,539	18,022	13,539
Provision for expected credit losses - Non-consumed electric energy (b)	(4,354)	-	(4,354)	-
Deferred revenue - right of use	1,991	1,991	1,991	1,991
Other	38	885	38	885
	15,697	**16,415**	**15,697**	**16,415**

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

(b) Provision recognized according to IFRS 9 - Financial Instruments

20 Financial income (expenses)

	Company		Consolidated	
	2018	**2017**	**2018**	**2017**
Financial expenses				
Tax on financial transactions (IOF)	(510)	(385)	(511)	(385)
Interest - intercompany loan	(124,062)	(191,731)	(124,062)	(191,731)
Ineffective derivative financial instruments	-	(369)	-	(369)
Interest on tax debt regularization - Government Program	-	(4,927)	-	(4,927)
Other	(2,041)	(2,106)	(2,042)	(2,106)
	(126,613)	**(199,518)**	**(126,615)**	**(199,518)**
Financial income				
Ineffective derivative financial instruments	12	-	12	-
Interest income	4,740	8,200	4,740	8,200
	4,752	**8,200**	**4,752**	**8,200**
Financial results, net	**(121,861)**	**(191,318)**	**(121,863)**	**(191,318)**

21 Commitments

The Company undertook future purchase commitments amounting to R$ 150,180 (R$ 110,832 on December 31, 2017) and these should be fulfilled in the course of the operations:

Area	2018	2017
Project Management Project	47,493	21
Operation	26,261	33,698
Sustainability	24,869	30,424
Administrative	11,812	16,014
Maintenance	11,669	9,412
Legal	9,964	3,644
HR	6,414	238
Others	11,698	17,381
Total	**150,180**	**110,832**

22 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. In 2018, the hedge strategy to protect the fluctuations of the dollar was revalued and considered not effective.

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 2018 and 2017 are as follows:

	Company					
	2018			**2017**		
Classifications	**Book Value**	**Measurement**	**Fair value measurement hierarchy**	**Book Value**	**Measurement**	**Fair value measurement hierarchy**
Assets						
Fair Value through Profit and losses						
Cash and cash equivalents	31,655	Fair value	2	25,028	Fair value	2
Accounts receivable	30,126	Fair value	2	97,065	Fair value	2
Liabilities						
Other financial liabilities						
Trade accounts payable	42,608	Amortized cost	2	41,751	Amortized cost	2
Related parties loans	1,796,545	Amortized cost	2	1,777,054	Amortized cost	2
Derivative financial instruments	-	Fair Value		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.

	Consolidated					
	2018			**2017**		
Classifications	**Book Value**	**Measurement**	**Fair value measurement hierarchy**	**Book Value**	**Measurement**	**Fair value measurement hierarchy**
Assets						
Fair Value through Profit and losses						
Cash and cash equivalents	31,925	Fair value	2	25,028	Fair value	2
Accounts receivable	30,264	Fair value	2	97,065	Fair value	2
Liabilities						
Other financial liabilities						
Trade accounts payable	42,608	Amortized cost	2	41,751	Amortized cost	2
Related parties loans	1,796,545	Amortized cost	2	1,777,054	Amortized cost	2
Derivative financial instruments	-	Fair Value		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.

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

	2018		2017	
	R$	**USD**	**R$**	**USD**
Accounts receivable from related parties	30,264	7,784	96,307	29,913
Net exposure of the balance sheet	**30,264**	**7,784**	**96,307**	**29,913**

Liquidity risk

The table below provides the Company's main financial liabilities at December 31, 2018. 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						
Trade accounts payable	-	42,608	-	-	-	42,608
Related parties - loans	210,102	158,823	224,832	1,558,168	-	2,151,925
Total by maturity range	**210,102**	**201,431**	**224,832**	**1,558,168**	**-**	**2,194,533**

The Company's shareholders have supported the implementation of the business plan. Up to December 2018, 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	**2018**	**2017**
Cash equivalents	31,925	25,028
Accounts receivable (Related parties)	30,264	97,065
	62,189	**122,093**

For the period ended on December 31, 2018 and 2017, 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.

23 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, 2018 and 2017, the insurance coverage was as follows:

	2018	**2017**
Property and equipment damages	2,299,900	2,299,900
Civil liability	193,740	165,410
Environmental Liability	30,000	30,000
Directors & Management	60,000	60,000

*   *   *

Carsten Bosselmann
Chief Executive Officer

Marcelo Amaral Palladino
Chief Financial Officer

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