Prumo Participações e Investimentos S.A.

Financial statements as of December 31, 2018 and 2017

KPDS 445565

Contents

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Independent Auditor's Report on the Financial Statements

To the Shareholders, Board of Directors and Management of
Prumo Participações e Investimentos S.A
Rio de Janeiro - RJ

Opinion

We have audited the financial statements of Prumo Participações e Investimentos S.A. ("the Company"), 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 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 Financial Statements section of our report. We are independent of the Company 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.

Responsibilities of Management 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.

Auditor's 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 22, 2019

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

Original in Portuguese signed by
Luis Claudio França de Araújo
Accountant CRC RJ-091559/O-4

Prumo Participações e Investimentos S.A.

Balance sheets as of December 31, 2018 and 2017

(In thousands of reais)

	Note	2018	2017
Assets			
Current			
Cash and cash equivalents	6	3,232	2,146
Escrow deposits		375	-
Recoverable taxes	7	3,641	4,294
Income taxes and contributions recoverable	7	6,899	25,692
Loan with related parties	8	57,601	61,483
Other receivables		2	9
Total current assets		**71,750**	**93,624**
Non-current			
Recoverable taxes	7	20,594	2,713
Loan with related parties	8	733,884	738,405
Equity method investment	9	329,148	333,297
Intangible assets		16	-
Total noncurrent assets		**1,083,642**	**1,074,415**
Total assets		**1,155,392**	**1,168,039**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Balance sheets as of December 31, 2018 and 2017

(In thousands of reais)

	Note	2018	2017
Liabilities			
Current			
Trade accounts payable		210	6
Loans and borrowings	10	54,778	16,807
Taxes payable	12	248	6,162
Income and social contribution taxes payable	12	3,447	2,561
Other accounts payable		-	25
Total current liabilities		**58,683**	**25,561**
Non-current			
Loans and borrowings	10	295,961	322,191
Deferred taxes	11	13,045	32,610
Total noncurrent liabilities		**309,006**	**354,801**
Equity	13		
Share capital		788,559	753,164
Capital reserve		14,285	14,285
Profit reserves		-	20,516
Equity valuation adjustment		-	(288)
Accumulated losses		(15,141)	-
Total equity		**787,703**	**787,677**
Total liabilities and shareholders' equity		**1,155,392**	**1,168,039**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of operations

Years ended December 31, 2018 and 2017

(In thousands of reais)

	Note	2018	2017
Operating expenses			
Administrative expenses		(297)	(269)
Finance income	14		
Finance revenue		124,141	147,673
Finance costs		(171,182)	(117,333)
		(47,041)	**30,340**
Share of profit (loss) of equity-accounted investees	9	(4,438)	39,231
Profit (loss) before taxes		**(51,776)**	**69,302**
Current income and social contribution taxes	12	(3,447)	(2,561)
Deferred income and social contribution taxes	12	19,566	3,174
Net income (loss) for the year		**(35,657)**	**69,915**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of other comprehensive income (loss)

Years ended December 31, 2018 and 2017

(In thousands of reais)

	2018	**2017**
Net income (loss) for the year	**(35,657)**	**69,915**
Other Comprehensive Income (loss)	288	(1,260)
Total comprehensive income (loss) for the year	**(35,369)**	**68,655**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of changes in equity

Years ended December 31, 2018 and 2017

(In thousands of reais)

		Capital Reserve							
	Share capital	**Capital contribution (*)**	**Advance for future capital increase**	**Legal reserve**	**Profit reserves**	**Equity valuation adjustment**	**Additional dividends proposed**	**Accumulated losses**	**Total equity**
Balance at January 1, 2017	**606,424**	**14,285**	**25**	**7,722**	**-**	**972**	**110,036**	**-**	**739,464**
Net income for the year	-	-	-	-	-	-	-	69,915	**69,915**
Capital increase through conversion of AFAC	25	-	(25)	-	-	-	-	-	-
Profit reserves	-	-	-	-	9,298	-	-	(9,298)	-
Legal reserve 5%	-	-	-	3,496	-	-	-	(3,496)	-
Capital increase through conversion of proposed dividends	110,036	-	-	-	-	-	(110,036)	-	-
Capital increase through conversion of dividends payable	36,679	-	-	-	-	-	-	-	**36,679**
Advancement of dividends using 2017 earnings	-	-	-	-	-	-	-	(25,318)	**(25,318)**
Prepayment of interest on shareholders' equity	-	-	-	-	-	-	-	(31,803)	**(31,803)**
Financial instrument - Ferroport hedge	-	-	-	-	-	(1,260)	-	-	**(1,260)**
Balance at December 31, 2017	**753,164**	**14,285**	**-**	**11,218**	**9,298**	**(288)**	**-**	**-**	**787,677**
Loss for the year	-	-	-	-	-	-	-	(35,657)	**(35,657)**
Advance for future capital increase	-	-	35,395	-	-	-	-	-	**35,395**
Capital increase	35,395	-	(35,395)	-	-	-	-	-	-
Offsetting of losses with reserves	-	-	-	(11,218)	(9,298)	-	-	20,516	-
Financial instrument - Ferroport hedge	-	-	-	-	-	288	-	-	**288**
Balance at December 31, 2018	**788,559**	**14,285**	**-**	**-**	**-**	**-**	**-**	**(15,141)**	**787,703**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of cash flows

Years ended December 31, 2018 and 2017

(In thousands of reais)

	2018	2017
Cash flows from operating activities		
Net income (loss) before tax	(51,776)	69,302
Expenses (income) not affecting cash:		
Share of profit (loss) of equity-accounted investees	4,438	(39,231)
Monetary variance and interest	38,142	(55,719)
Amortization of transaction costs	10,318	10,319
	1,122	**(15,329)**
(Increase) decrease in assets and increase (decrease) in liabilities:		
Income tax on loan	3,165	(4,467)
Recoverable taxes	1,565	10,422
Trade payables	204	(194)
Taxes payable	(8,475)	(19,363)
Other assets and liabilities	(18)	16
Net cash used in operating activities	**(2,437)**	**(28,915)**
Cash flows from investment activities		
Acquisition of intangible assets	(16)	-
Loans received from related parties	62,510	192,176
Net cash from investing activities	**62,494**	**192,176**
Cash flows from financing activities		
Net capital increase	35,395	-
Dividends	-	(25,318)
Interest on shareholders' equity (“JCP")	-	(27,033)
Escrow account	(375)	57,926
Loans settled with third parties	(59,550)	(128,990)
Interest paid	(34,441)	(39,256)
Net cash used in financing activities	**(57,469)**	**(162,671)**
Increase in cash and cash equivalents	**1,086**	**590**
Cash and cash equivalents at beginning of year	2,146	1,556
Cash and cash equivalents at end of year	3,232	2,146
Increase in cash and cash equivalents	**1,086**	**590**

The notes are an integral part of these financial statements.

Notes to the financial statements

(In thousands of Reais, unless stated otherwise)

1 Operations

Prumo Participações e Investimentos S.A. (“Prumo Participações” or “Company”), located at the address Russel, 804, 5º andar, Glória, Rio de Janeiro, Prumo Participações e Investimentos S.A. (“Prumo Par” or “Company”) was incorporated on January 06, 2015 in order to acquire interests in other companies as a shareholder or partner, and to represent Brazilian and foreign companies regardless of their core activity. The Company carries out its operations via the joint venture Ferroport (“joint subsidiary”) with Anglo American Participações Minério de Ferro Ltda. (“Anglo American”).

Ferroport began exporting on October 25, 2014. The company occupies a 300-hectare area at Porto do Açu Operações to process, handle and store iron ore and is the co-owner of an offshore structure (T1) consisting of an access pier, approach channel, breakwater and pier with two berths for loading iron ore. In 2018 Ferroport shipped a total of 3,217 thousand tonnes of iron ore, in nineteen Capesize ships.

On April 19, 2018 Ferroport received a notification from Anglo American Minério de Ferro Brasil S.A. ("AAMFB"), by which the company announced the occurrence of two leakages at its slurry pipeline on March 12 and 29, 2018, resulting in an operational stoppage and its operating license being suspended by the Brazilian Institute of the Environment - Ibama.

AAMFB initially announced that the suspension could last approximately 90 days, to permit a complete and independent inspection along the entire slurry pipeline. The notification also claimed that the closure of the slurry pipeline in the described circumstances was an event that entails *force majeure* under the contracts entered into by AAMFB and Ferroport.

Anglo American announced a 64% decrease in iron ore production at Minas-Rio to 3.2 million tonnes in the 1st half of 2018 compared with 8.7 million tonnes in the same period the previous year, primarily due to the suspension of operations in March 2018, after two leakages in its slurry pipeline.

A detailed inspection of the slurry pipeline was conducted, where a 4-km section of the pipeline, where the leaks occurred, was replaced as a precautionary measure and was completed in the 4th quarter of 2018, followed by resetting of the operation subject to regulatory authorizations. Anglo resumed its operations on December 21, 2018, and Ferroport´s operations was returned on December 26, 2018.

The production guidance for Minas-Rio for the entire year remains at 3 million tonnes, reflecting production delivered up to December 31, 2018.

2 List of Subsidiaries

	Country	Equity interest 2018	Equity interest 2017
Direct joint subsidiary:			
Ferroport	Brazil	50.00%	50.00%

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

a. Statement of compliance

The financial statements were prepared in accordance with accounting practices adopted in Brazil ("BR GAAP").

Authorization for the conclusion of the preparation of these financial statements was given by Management on March 22, 2019. These financial statements consider subsequent events to be events that could have an impact up to the reporting date.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which have been measured at fair value through profit and loss.

c. Functional and presentation currency

These financial statements are reported in Reais, which is the Company's functional currency. All balances have been rounded off to the nearest thousand, except where specified otherwise.

d. Cash and Cash Equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company classifies cash equivalents as short-term investments maturing within three months or less, and subject to an insignificant risk of impairment.

e. Financial instruments

(i) Recognition and initial measurement

Trade accounts receivable and issued debt securities are initially recognized on the date they originate. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

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

(ii) Classification and Subsequent Measurement

Financial Instruments - Policy applicable from January 01, 2018

Upon initial recognition a financial asset is classified as measured: at amortized cost; at FVOCI - debt instrument; at FVOCI - equity instrument; or at FVTPL.

Financial assets are not reclassified subsequently to initial recognition, unless the Company changes its business model to financial asset management. In this case all the affected financial assets are reclassified on the first day of the first period following the business model change.

A financial asset is measured at amortized cost if both of the following conditions are met and it is not stated as measured at FVTPL:

- is maintained within a business model with the objective of maintaining financial assets in order to receive contractual cash flows; and
- its contractual terms generate the cash flows on specified dates that constitute solely payments of principal and interest on the outstanding principal.
- A debt instrument is measured at FVOCI if both of the following conditions are met and it is not stated as measured at FVTPL
- is maintained within a business model whose objective is affected by both the receipt of contractual cash flows and the sale of financial assets; and
- its contractual terms generate the cash flows on specified dates that constitute payments of principal and interest on the outstanding principal.

Upon initial recognition of an investment in an equity instrument that is not held for trading, the Company can elect to make irrevocable subsequent changes to the fair value of the investment in OCI. This choice is made for each investment.

All financial assets not classified as measured at amortized cost or FVOCI, as described above, are classified as FVTPL.

Upon initial recognition, the Company irrevocably assigns a financial asset that would otherwise meet the requisites to be measured at amortized cost or FVOCI as FVTPL if this eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company assesses the objective of the business model in which a financial asset is maintained in the portfolio which better reflects how the business is managed and the information is provided to Management. The information considered includes:

- the policies and objectives stipulated for the portfolio and the practical functioning of these policies.
- These include the question of ascertaining whether the Management strategy is focused on obtaining contractual interest revenue, maintaining a given interest rate profile, the correspondence between the duration of financial assets and the duration of related liabilities or expected cash flows, or the realisation of cash flows through the sale of assets;

- how the portfolio’s performance is assessed and reported to Company Management;

- the risks affecting the performance of the business model (and the financial asset maintained in said business model) and how such risks are managed;

- how business managers are compensated - for example, if the compensation is based on the fair value of the assets managed or the contractual cash loans obtained; and

- the frequency, volume and timing of the financial asset sales in previous periods, the reasons for these sales and expectations for future sales.

The transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales, in a way consistent with the ongoing recognition of the Company’s assets.

Financial assets - assessment as to whether the contractual cash flows are merely payments of principal and interest: Policy applicable from January 01, 2018

For the purpose of this assessment, the principal is defined as the fair value of the financial asset upon initial recognition. The interest is defined as a payment for the value of the money over time and the credit risk posed by the outstanding principal over a given period of time and the other underlying loan costs and risks (for example liquidity risk and administrative cost), in addition to a spread.

The Company examines the instrument’s contractual terms to determine whether the contractual cash flows only entail payments of the principal and interest. This includes assessing whether the financial asset contains a contractual term that could change the timing or value of the contractual cash flows so that it would no longer meet this condition. When making this assessment the Company takes into account:

- contingent events modifying the value or timing of the cash flows;

- terms that could adjust the contractual rate, including variable fees;

- prepayment and extending the term; and

- the terms limiting the Company’s access to specific cash flows from specific assets (for example based on an asset’s performance).

Financial assets - Assessment of the business model: policy applicable from January 01, 2018

Prepayment is consistent with the criteria of paying the principal and interest if the prepayment mainly represents unpaid amounts of the principal and interest on the outstanding principal - which may include reasonable additional compensation for early termination of the contract. Furthermore, in relation to a financial asset acquired for an amount less than or greater than the nominal value of the contract, the permission or requirement for prepayment at an amount representing the nominal value of the contract plus the contractual interest (which may also include reasonable additional compensation for early termination of the contract) accumulated (but not paid) are treated as consistent with this criteria if the fair value of the prepayment is insignificant upon initial recognition.

Financial assets - Subsequent measurement and gains and losses: Policy applicable from January 01, 2018

Financial assets at FVTPL	These assets are subsequently stated at fair value. The net income including interest or dividend revenue is recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at the amortized cost using the effective interest rate method. The amortized cost is reduced for impairment. Revenue from interest, exchange variance gains and losses and impairment is recognized in profit or loss. Any gain or loss resulting from derecognition is recognized in profit or loss.
Debt instruments at FVOCI	These assets are subsequently stated at fair value. Interest revenue calculated by the effective interest rate, exchange variance gains and losses and impairment are recognized in profit and loss. Other net income is recognized in OCI. Upon derecognition, the gain or loss accumulated in OCI is reclassified to profit or loss.
Equity instruments at FVOCI	These assets are subsequently stated at fair value. The dividends are recognized as a gain in profit and loss, unless the dividend clearly represents a recovery of part of the investment cost. Other net income in recognized in OCI and never reclassified to net income.

(iii) Financial liabilities - classification, subsequent measurement and gains and losses

Financial liabilities were classified as measured at amortized cost or FVTPL. A financial liability is classified as at fair value through profit or loss if it is classified as held-for trading, is a derivative or is designated as such on initial recognition. Financial liabilities measured at FVTPL are measured at fair value and the net revenue, including interest, is recognized in profit or loss. Other financial liabilities are subsequently measured at the amortized cost using the effective interest rate method. Expenses on interest, exchange variance gains and losses are recognized in profit or loss. Any gain or loss resulting from derecognition is also recognized in profit or loss.

(iv) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the contractual 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 Company neither transfers nor substantially retains all the risks and rewards of ownership of the financial asset nor retains control over the financial asset.

The Company makes transactions in which it transfers assets recognized in the statement of financial position but maintains all or most of the risks of the transferred assets. In these cases, the financial assets are not derecognised.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire. The Company also derecognizes 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 is recognized based on the modified terms and recognized at fair value.

Upon derecognizing a financial liability, the difference between the former carrying amount and the amount paid (including assets transferred that do not flow through cash or undertaken liabilities) is recognized in profit or loss.

(v) Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

f. Adjustment of assets and liabilities to present value
Long-term monetary assets and liabilities are monetarily restated and therefore adjusted to their present value. The adjustment to present value of short-term monetary assets and liabilities is calculated and only recorded if considered to have a material effect on the financial statements as a whole. Based on analyses conducted and Management's best estimates, the Company concluded that the adjustment to present value of monetary assets and liabilities is immaterial in relation to the financial statements, meaning no adjustments were made.

g. Finance income and finance costs
Finance income and finance costs include interest revenue, interest expenses, net foreign currency gain or loss on financial assets and financial liabilities. Interest income or expense is recognized using the effective interest method. The Company classifies interest earnings as cash flows from investment activities.

h. Income and social contribution taxes
Deferred income and social contribution taxes, when applicable, are recorded on tax losses and the negative basis of social contribution, and also on temporary differences between the tax bases of assets and liabilities and their respective carrying amounts. Deferred tax assets and liabilities are offset if there is a legal right to offset tax assets and liabilities, and they are related to income taxes levied by the same tax authority on the same entities subject to taxation. Deferred income and social contribution tax assets are reviewed annually and are reduced to the extent that realisation is no longer probable, when applicable.

i. Other current and noncurrent assets and liabilities
An asset is recognized in the balance sheet when it is probable that its future economic benefits will be generated in favor of the Company and its cost or value can be reliably measured.

A liability is recognized in the statement of financial position when the Company has a present or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required in settlement. Provisions are recorded using best estimates of the risk involved.Long-term monetary assets and liabilities are adjusted to their present value and short-term items when the effect thereof on the financial statements as a whole is deemed material. The adjustment to present value is calculated based on the contractual cash flows and the explicit or, in certain cases, implicit interest rate on the relevant assets and liabilities.

j. Capital expenditure

The interest in the joint subsidiary is valued by the equity income method in the Company's financial statements.

k. Use of judgment and estimates

Judgments, estimates and assumptions are used to measure and recognize certain assets and liabilities in the Company's financial statements. These estimates took into account experience from past and current events, assumptions about future events and other objective and subjective factors.

Significant assets subject to these estimates include the impairment of deferred income and social contribution taxes. The future settlement of transactions involving these estimates may result in amounts different from those recorded in the financial statements due to the inaccuracies inherent to the determination process. The Company reviews its estimates and assumptions at least annually.

The accounting policies described in detail throughout these financial statements have been applied consistently and are being presented by the Company.

4 Description of significant accounting policies

The accounting practices used to prepare these financial statements are consistent with those used to prepare the financial statements as of December 31, 2017, dated March 29, 2018, except for the new accounting practices related to the adoption of the standards IFRS 9 - Financial Instruments (CPC 48) and IFRS 15 - Revenue from contracts with customers (CPC 47), as described below.

Due to the transition methods chosen by the Company when applying these standards, the comparative information for these financial statements has not been re-presented to reflect the requirements of these new standards.

a. CPC 48 / IFRS 9 - Financial Instruments

(i) Impairment - Financial assets and contract assets

CPC 48/IFRS 9 set out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. This standard replaces CPC 38 (IAS 39) Financial Instruments: recognition and measurement. This requires considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

Under CPC 48 / IFRS 9, loss allowances will be measured on either of the following bases:

(i) 12-month ECLs, i.e. ECLs that result from possible default events within the 12 months after the reporting date; and

(ii) lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Classification and measurement - Under IFRS 9, financial assets are initially measured at fair value (and include the transaction costs if they are not measured at fair value through profit or loss).

(ii) Cash and Cash Equivalents

The estimated financial losses were calculated based on the loss rates in a Corporate Default study published by S&P on April 13, 2017, based on 15 years of data gathered by it regarding the corporate default risk in each rating level.

Cash and cash equivalents are held at banking and financial institutions grouped into 5 levels ranging from AAA to BB, according to their rating at Fitch Ratings, Moody's and Standard & Poor's. As shown in the table below, the institutions in which the company holds outstanding balances at December 31, 2018 are rated between AAA and A, based on their average classifications at the rating companies listed above.

The estimated position of losses in cash and cash equivalents was calculated based on the 12-month expected loss rate and reflects the short-term maturities of the risk exposures.

In thousands of reais

Risk Level	**Rating**	**Gross balance**	**Rate loss[1]**	**Provision for loss**
Level 1	AAA	3,232	0.01%	(0.3)
Level 2	AA	375	0.02%	(0.1)
Level 3	A	-	0.06%	-
Level 4	BBB	-	0.18%	-
Level 5	BB	-	0.72%	-
Total		3,607		-

1. Loss Rate includes the Global Corporate Average Default Rate for 1 year published by S&P on 4/5/2018

Investments in financial debt instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortized cost or fair value through comprehensive income ("FVOCI"). The classification is based on two conditions: the Company's business model in which the asset is held; and whether the contractual terms generate the cash flows on specified dates that solely constitute payments of principal and interest on the outstanding principal.

The FVOCI category only includes equity instruments not available-for-sale, for which the Company has irrevocably elected designation upon initial recognition. Gains or losses on equity instruments classified as FVOCI are not reclassified to profit and loss when written off nor are they subject to impairment assessments under IFRS 9.

b. CPC 47 / IFRS 15 — Revenue from contracts with customers

CPC 47/IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It has replaced CPC 30 / IAS 18 Revenue, CPC 17 / IAS 11 Construction Contracts and related interpretations. Under CPC 47 / IFRS 15, revenue is recognized when the customer obtains control of the goods or services.

Determining the timing of control transfer, at a specific moment in time or over time - requires judgment.

CPC 47/IFRS 15 did not have a significant impact on the Company’s accounting policies in relation to other revenue sources, as the company does not make operating revenue.

5 New standards and interpretations not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018. The company has not adopted these changes in the preparation of the financial statements.
Of the standards not yet in force, CPC 06 (R2)/IFRS 16 is not expected to have a material impact on the Company's financial statements in the initial application period.

a. CPC 06 (R2)/ IFRS 16 - Leases

The Company plans to adopt apply CPC 06(R2) / IFRS 16 - Leasing initially on January 01, 2019. The Company is assessing the potential impact that the initial application of CPC 06 (R2) / IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on January 01, 2019 could change, as the new accounting policies are subject to change until the Company presents its initial financial statements that include the initial application date.

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 recognition 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 lease guidance including CPC 06/IAS 17 Leases and ICPC 03/IFRIC 4, SIC 15 and SIC 27 additional matters regarding commercial leases.

b. Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

- IFRIC 23/ICPC 22 - Uncertainty over Income Tax Treatments.
- Prepayment Features with Negative Compensation (Alterations to IFRS 9).
- Investment in associates, subsidiaries and joint ventures
- (Amendments to CPC 18 (R2) / IAS 28).
- Alterations to the plan, reductions or settlement of the (Alterations to CPC 33 / IAS 19).
- Cycle of annual improvements to IFRS for 2015-2017 - several standards.
- Amendments to references to the conceptual framework of IFRS standards.
- IFRS 17 Insurance Contracts.

6 Cash and cash equivalents

	2018	2017
Cash and bank deposits	1,975	190
Cash equivalents		
CDBs	1,257	1,956
	3,232	**2,146**

The balance of cash and banks as of December 31, 2018 and 2017 consists of current accounts and CBD investments, that are promptly convertible into a known cash amount and are subject to an insignificant risk of impairment.

7 Recoverable taxes

The recoverable taxes break down as follows:

	2018	2017
Income tax and social contribution (“IRPJ/CSLL”)	20,594	25,692
Income tax withheld at source (“IRRF”)	3,641	3,777
Income tax on loan (“IRPJ”)	6,899	3,230
	31,134	**32,699**
Current	10,540	29,986
Non-current	20,594	2,713

8 Related parties transactions

The Company adopts practices of Corporate Governance and/or recommendations required by law, including those set down on the Regulations for the New Market (Novo Mercado). Furthermore, the Company´s Corporate Governance Policy establishes that the members of the Board of Directors must monitor and administrate any potential conflicts of interest among the executive officers, the members of the Board and the partners, in such a way as to avoid the inappropriate use of Company assets and, especially, abusive conduct in transactions between related parties.

In compliance with Corporation Law, all members of the Company's Board of Directors are prohibited from voting in any assembly or meeting of the Board, or from acting in any operation or business transaction in which there are interests in conflict with those of the Company.

The main balances of related parties assets and liabilities as of December 31, 2018 and 2017, as well as the related parties transactions that affected income for the year, are the result of transactions between the Company and its joint subsidiary, as follows:

	Accounts receivable	
	2018	**2017**
Loan with related parties		
Ferroport	791,485	799,888
	791,485	**799,888**
Current	57,601	61,483
Non-current	733,884	738,405

The table below denotes the effect on net income of the related parties transactions by company:

	Finance revenue	
	2018	**2017**
Loan interest		
Ferroport	63,652	97,915
	63,652	**97,915**

Management Compensation

Company Management is compensated by the parent company Prumo Logística.

9 Investment

a. Equity interests

	2018								
Direct investee	**% interest**	**Number of shares/quotas (thousand)**	**Assets**	**Liabilities**	**Equity**	**Capital**	**Capital reserve**	**Profit reserves**	**Retained earnings**
Ferroport	50%	1,080	2,697,433	2,039,138	658,295	414,397	94,589	145,639	3,671

	2017									
Direct investee	**% interest**	**Number of shares/quotas (thousand)**	**Assets**	**Liabilities**	**Equity**	**Capital**	**Capital reserve**	**Profit reserves**	**Gains (loss) on financial instruments**	**Retained earnings**
Ferroport	50%	1,080	2,673,106	2,006,511	666,595	414,397	94,589	67,483	(576)	90,702

b. Movements on investees

Direct investee	**12/31/2017**	**Equity in net income of subsidiaries**	**Equity valuation adjustment**	**2018**
Ferroport	333,297	(4,438)	288	329,148
	333,297	**(4,438)**	**288**	**329,148**

Direct investee	**2016**	**Equity in net income of subsidiaries**	**Equity valuation adjustment**	**2017**
Ferroport	295,326	39,231	(1,260)	333,297
	295,326	**39,231**	**(1,260)**	**333,297**

10 Loans and borrowings

	Maturity	**Rates in %**	**Principal**	**Interest and restatement**	**2018 Tota**	**2017 Total**
Organization						
Brookfield Asset Management	9/30/2022	**Dollar + 8.50% p.a**	390,294	-	390,294	388,872
(-) Transaction cost			(39,555)	-	(39,555)	(49,874)
			350,739	**-**	**350,739**	**338,998**
Current			54,778	-	54,778	16,807
Non-current			295,961	-	295,961	322,191

(*) The interest paid is being classified under financing in the cash flow statements.

As reported in previous financial statements, in 2015 the Company issued overseas debt securities in the amount of USD 200 million, currently held by Brookfield Asset Management (“Brookfield”).

The debt securities mature on September 30, 2022, incur interest of 8.50% p.a. and quarterly amortization of interest and principal payments. The first interest payment began on December 31, 2015 and the first principal payment on June 30, 2016.

After the forecast expenses and commission had been deducted, the net funding obtained by Prumo Participações under this issuance will be used in its entirety by Prumo Participações to acquire credits held by Prumo against the company Ferroport.

In 2016 and 2017 Prumo Participações advanced the amortization of USD 62.34 million of this financing via the contractual cash sweep mechanism. This mechanism was used in 2018 for the early amortization of US$ 8.63 million through December 31, 2018. These advances were made possible due to receipt of the Ferroport loan at amounts above the debt obligations.

In April 2018, Ferroport was informed by Anglo American Brasil that it had invoked force majeure in its iron ore transportation agreement and consequently suspended payments under it. Despite the temporary interruption of the payment of Ferroport's loan to Prumo Participações, the debt securities' principal was successfully amortized and the interest paid on June 29, September 28 and December 28, 2018., with funds provided by Prumo.

In December 2018, Anglo American Brasil announced it had resumed its iron ore transportation operations, ending the contractual suspension. Operations were resumed on December 21, 2018.

Debt amortization schedule

	2018	**2017**
2018	-	27,126
2019	65,097	55,574
2020	54,247	46,312
2021	92,995	79,392
from 2022 to 2033	177,955	180,468
	390,294	**388,872**

Guarantees provided

The guarantees submitted by the Company to Brookfield in relation to the debt securities are: (i) Statutory lien of the Ferroport shares for Prumo Participações; (ii) Statutory lien on the shares of Prumo Participações held by the parent company Prumo; (iii) Statutory lien on escrow accounts and (iv) Statutory lien of receivables from the Ferroport loan.

Transactions not involving cash or cash equivalents

		Cash Flow			Noncash effect		
	2017	Secured / (settled)	Interest paid	Addition of transaction costs	Interest, monetary restatement and exchange variance	Amortization of transaction costs	2018
Loans and borrowings	338,998	(59,550)	(34,441)	-	95,414	10,318	**350,739**
	338,998	**(59,550)**	**(34,441)**	**-**	**95,414**	**10,318**	**350,739**

11 Deferred taxes

The Company records deferred income and social contribution tax assets and liabilities at the rate of 34%. Brazilian tax legislation allows tax losses to be offset against future taxable income for an indefinite term. However, this offsetting is limited to 30% of the taxable income in each accrual period.

The carrying amount of the deferred tax asset is revised and restated periodically, while the projections shall be restated annually, unless material factors occur that can modify them.

The origin of the deferred income and social contribution taxes is presented below:

	2018	2017
Deferred tax liability		
Temporary difference - Exchange variance	(13,045)	(32,610)
Total deferred taxes	**(13,045)**	**(32,610)**

12 Taxes and social contributions payable

	2018	2017
PIS/COFINS	246	263
Withholding Income Tax - IRRF	-	5,899
PIS/COFINS/CSLL - Withheld	2	-
IRPJ/CSLL	3,447	2,561
	3,695	**8,723**

The reconciliation between the tax expense as calculated by the combined statutory rates and the income and social contribution tax expense charged to net income is presented below:

	2018	2017
Profit (loss) before income and social contribution taxes	(51,776)	69,302
Income and social contribution taxes at the rate (34%)	17,604	(23,563)
Adjustment to determine the effective rate		

Interest on equity	-	10,813
Equity in net income of subsidiaries	(1,509)	13,339
Tax credits are not recognized	24	24
Total income and social contribution taxes	**16,119**	**613**
ffective rate	(31.13%)	(0.88%)
Current	(3,447)	(2,561)
Deferred charges	19,566	3,174
Total income and social contribution taxes	**16,119**	**613**

13 Equity

a. Capital

The Company's ownership structure as of December 31, 2018 and 2017 is as follows:

	2018		**2017**	
Shareholders	**Number of common shares (thousand)**	**%**	**Number of common shares (thousand)**	**%**
Prumo	788,559	100.00	753,164	100.00
	788,559	**100.00**	**753,164**	**100.00**

On December 21, 2018 Company Management approved, subscribed and paid in capital by converting the advance for future capital increase of R$ 35,395 and issuing 35,395 registered common shares.

b. Capital reserve

Capital contribution in the amount of R$ 14,285 deriving from transfer of Ferroport shares held by Prumo.

c. Dividends

	2018	**2017**
Net profit for the year	-	69,915
Legal Reserve - (5%)	-	(3,496)
Calculation base for the minimum dividends	**-**	**66,419**
Dividends	-	25,318
Interest on equity capital ("JCP")	-	31,803

The Company´s bylaws establish the distribution of discretionaty minimum dividends of 25% on the periods profit adjusted in accordance with the law nº 6.404/76, article 202. The Company approved in July 03, 2017 the anticipating of dividends for the period, as law nº 6.404/76, article 204, wich determines that the bylaws can authorize the management declare intermediate dividends in accumulated profit or profit reserves by the last annual balance. In 2018 there were not dividends distribution.

14 Finance income

	2018	2017
Finance revenue		
Loan interest	63,652	97,915
Interest on investments	84	264
Interest earned	988	1,112
Exchange variance	59,392	48,382
Other	25	-
	124,141	**147,673**
Finance costs		
Interest on loans	(33,658)	(38,820)
Exchange variance on loans	(116,940)	(51,019)
Commission and brokerage fees	(10,598)	(14,002)
Fine and interest	(53)	(1,128)
Taxes on financial revenue	(9,134)	(11,525)
Other	(799)	(839)
	(171,182)	**(117,333)**
	(47,041)	**30,340**

15 Financial instruments and risk management

The Company carries out transactions with financial instruments. These instruments are managed through operating strategies and internal controls, aimed at liquidity, profitability and security. Our control policy consists of periodically monitoring contract rates versus market rates. We do not invest in derivatives or any other risky assets on a speculative basis.

The estimated realization values of the Company's financial assets and liabilities were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market.

The concept of fair value states that assets and liabilities should be valued at market prices, in the case of liquid assets, or by using mathematical pricing methods, in other cases. The hierarchy level of the fair value gives priority to unadjusted prices quoted on an active market. A part of the company's accounts has the fair value equal to book value, these accounts include cash equivalents, payables and receivables, bullet debts and short-term.

The table below demonstrates the book balances and respective fair values of the financial instruments and segregation of the hierarchal level, included in the balance sheet:

	2018			**2017**		
	Amortized cost	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortized cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**
Assets						
Cash and cash equivalents	3,232	-	-	2,146	-	-
Loan with related parties	791,485	-	-	799,888	-	-
Other accounts receivable	2	-	-	9	-	-
	794,719	**-**	**-**	**802,043**	**-**	**-**
Liabilities						

Trade payables	210	-	-	6	-	-
Loans and borrowings	350,739	-	-	338,998	-	-
Other accounts payable	-	-	-	25	-	-
	350,949	**-**	**-**	**339,029**	**-**	**-**

	2018			2017		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Liabilities						
Trade payable	210			6		
Loans and borrowings	350,739	-	-	338,998	-	-
	350,949	**-**	**-**	**339,004**	**-**	**-**

- (Level 1) Prices traded (unadjusted) in active markets for identical assets or liabilities.
- (Level 2) Different inputs, except for traded prices in active markets included in Level 1 that are observable for the assets and liabilities, directly (as prices) or indirectly (derived from prices).
- (Level 3) Inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

As of December 31, 2018 loans and financing are measured at amortized cost. The fair value calculated by Management for reference purposes only is R$ 366,856.

The carrying amounts of financial instruments measured at amortized cost are classified as loans and receivables (assets) and other liabilities measured at amortized cost. The carrying amounts of these balances approximate fair value.

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

(i) Market risk

Exchange Risk

Risk of change in exchange rates which could be associated to the Company's assets and liabilities. The Company manages the exchange risk for its companies to detect and mitigate risks posed by changes in exchange rates underlying global assets and liabilities. The foreign-currency debt therefore exists on debt securities issued in US dollars by Prumo Participações. The cash flow intended to service the payment of this debt comes monthly from its subsidiary Ferroport, whose revenue is denominated in US dollars, where the fee for handling iron ore in force is restated annually by the PPI US inflation index.

Ferroport is in the unique situation where its cost structure is denominated in Brazilian Reais and its monthly revenue is indexed to the dollar. The operational income of the joint venture is therefore exposed to the risk of exchange variance due to a mismatch between revenue and cost currencies. The appreciation of the Brazilian real against the US dollar could diminish the operational margin and free cash flow of Ferroport. In respect of Prumo Participações' debt, in our opinion the fact that servicing the debt and the revenue of Ferroport are denominated in the same currency creates a natural hedge for this exposure.

The table below summarizes the current value of the debt in millions of reais, with a sensitivity scenario in the exchange rates (USD) suffering oscillations of 10% and 20%.

2018	**Real**	**USD +10%**	**USD +20%**
Institution			
Brookfield	390,294	429,323	468,353
Total	**390,294**	**429,323**	**468,353**

2017	**Real**	**USD +10%**	**USD +20%**
Institution			
Brookfield	388,872	427,759	466,646
Total	**388,872**	**427,759**	**466,646**

(ii) Liquidity risk

The table below denotes the main financial liabilities of the Company as of December 31, 2018. These amounts are gross and are not discounted, and include payments of estimated interest.

	No maturity	**Up to 6 months**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**	**Total**
Financial liabilities							
Trade payable	-	-	210	-	-	-	210
Loans and borrowings	-	48,790	47,407	80,160	300,995	-	477,351
Total by time range	**-**	**48,790**	**47,617**	**80,160**	**300,995**	**-**	**477,561**

(iii) Credit risk

This arises from the possibility of the Company suffering losses due to the default of its counterparties or of financial institutions where they have funds.

The Company also carries out a rating analysis of the financial institutions, through credit reports provided by the “Bank Risk Classification System” - Risk Bank, in order to classify and systematically follow up the risk and performance of each bank.

The balances exposed to credit risk are as follows:

	2018	**2017**
Financial instruments		
Cash and banks	2,054	2,146
Related parties loans	777,957	799,888
Other accounts receivable	-	9
	780,011	**802,043**

(iv) Capital management

The Company's funds for developing its business plan were completely financed by capital contributions from shareholders and third-parties loans. The Company's Treasury Department monitors the funds required for working capital and capital expenditure, which are provided by the shareholder every month.

* * *

José Magela Bernardes
Chief Executive Officer

Eugenio Leite de Figueiredo
Chief Financial Officer

Thiago de Oliveira Ribeiro
Accountant
CRC-RJ 111771/O-3