

Prumo
Participações e
Investimentos S.A.

**Interim financial statements
as of June 30, 2019**

*(A free translation of the original report
in Portuguese prepared in accordance
with the accounting practices adopted in
Brazil)*

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Independent auditors' report on review of interim financial information

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

Introduction

We have reviewed the balance sheet of Prumo Participações e Investimentos S.A. ("Company"), as of June 30, 2019, and the related statements of income and comprehensive income for the three and six-month periods ended at that date, and changes in shareholders' equity and cash flows for the six-month period then ended, including the explanatory notes.

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with standard *CPC 21(R1) - Demonstração Intermediária*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Interim Information Review Standards (*NBC TR 2410 - Revisão de Informações Intermediárias Executada pelo Auditor da Entidade* and *ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity*). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information, referred above, has not been prepared, in all material respects, in accordance with CPC 21(R1).

Rio de Janeiro, August 06, 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 Sheet as of June 30, 2019 and December 31, 2018

(In thousands of reais)

Assets	Note	6/30/2019	12/31/2018
Current			
Cash and cash equivalents	6	6,894	3,232
Escrow deposits		-	375
Income and social contributions taxes recoverable	7	15,626	10,540
Accounts receivable from related parties	8	66,175	57,601
Other receivables		<u>-</u>	<u>2</u>
Total current assets		<u>88,695</u>	<u>71,750</u>
Non-current			
Income and social contributions taxes recoverable	7	14,268	20,594
Accounts receivable from related parties	8	675,953	733,884
Investments	9	390,187	329,148
Intangible assets		<u>16</u>	<u>16</u>
Total non-current assets		<u>1,080,424</u>	<u>1,083,642</u>
Total assets		<u>1,169,119</u>	<u>1,155,392</u>

The notes are an integral part of these interim financial information.

Prumo Participações e Investimentos S.A.

Balance Sheet as of June 30, 2019 and December 31, 2018

(In thousands of reais)

Liabilities	Note	6/30/2019	12/31/2018
Current			
Trade accounts payable		157	210
Loans and financing	10	45,408	54,778
Taxes payable	12	221	248
Income and social contribution taxes payable	12	654	3,447
Total current liabilities		46,440	58,683
Non-current			
Loans and financing	10	450,973	295,961
Deferred taxes	11	16,821	13,045
Total non-current liabilities		467,794	309,006
Equity	13		
Capital		573,967	788,559
Advance for future capital increase		12,100	-
Capital reserves		14,285	14,285
Retained earnings (Accumulated losses)		54,533	(15,141)
Total equity		654,885	787,703
Total liabilities and equity		1,169,119	1,155,392

The notes are an integral part of these interim financial information.

Prumo Participações e Investimentos S.A.

Statements of income

Three and six-month period ended June 30, 2019 and 2018

(In thousands of reais)

		Six months		Three months	
	Note	1/1/2019 to 6/30/2019	1/1/2018 to 6/30/2018	4/1/2019 to 6/30/2019	4/1/2018 to 6/30/2018
Operating expenses					
Administrative expenses		(756)	(148)	(706)	(133)
Impairment loss		(1)	-	-	1
		<u>(757)</u>	<u>(148)</u>	<u>(706)</u>	<u>(132)</u>
Finance income	14				
Finance income		69,215	52,319	30,022	17,658
Finance costs		(55,393)	(101,854)	(17,287)	(69,097)
		<u>13,822</u>	<u>(49,535)</u>	<u>12,786</u>	<u>(51,423)</u>
Share of profit (loss) of equity-accounted investees	9	<u>61,039</u>	<u>8,563</u>	<u>31,758</u>	<u>(23,892)</u>
Profit (loss) before taxes		<u>74,104</u>	<u>(41,120)</u>	<u>43,787</u>	<u>(75,463)</u>
Current income and social contribution taxes	12	(654)	(2,155)	351	(731)
Deferred income and social contribution taxes	12	(3,776)	19,059	(4,435)	18,271
Net income (loss) for the period		<u>69,674</u>	<u>(24,216)</u>	<u>39,703</u>	<u>(57,923)</u>

The notes are an integral part of these interim financial information.

Prumo Participações e Investimentos S.A.

Statements of comprehensive income

Three and six-month period ended June 30, 2019 and 2018

(In thousands of reais)

	<u>Six months</u>		<u>Three months</u>	
	<u>1/1/2019 to 6/30/2019</u>	<u>1/1/2018 to 6/30/2018</u>	<u>4/1/2019 to 6/30/2019</u>	<u>4/1/2018 to 6/30/2018</u>
Net income (loss) for the period	69,674	(24,216)	39,703	(57,923)
Items that may be reclassified subsequently to profit or loss				
Hedge Instrument, net of tax – accounting reflection	<u>-</u>	<u>288</u>	<u>-</u>	<u>288</u>
Total comprehensive income (loss) for the period	<u>69,674</u>	<u>(23,928)</u>	<u>39,703</u>	<u>(57,635)</u>

The notes are an integral part of these interim financial information.

Prumo Participações e Investimentos S.A.

Statements of changes in shareholders' equity

Six-month period ended June 30, 2019 and 2018

(In thousands of reais)

	Share capital	Advance for future capital increase	Capital Reserve				Retained earnings (Accumulated losses)	Total equity
			Capital contribution (*)	Legal reserve	Profit reserves	Asset and liability valuation adjustments		
Balance at December 31, 2017	753,164	-	14,285	11,218	9,298	(288)	-	787,677
Net loss for the period	-	-	-	-	-	-	(24,216)	(24,216)
Advance for future capital increase	-	800	-	-	-	-	-	800
Financial instrument - Ferroport hedge	-	-	-	-	-	288	-	288
Balance at June 30, 2018	753,164	800	14,285	11,218	9,298	-	(24,216)	764,549
Balance at December 31, 2018	788,559	-	14,285	-	-	-	(15,141)	787,703
Net income for the period	-	-	-	-	-	-	69,674	69,674
Capital reduction	(214,592)	-	-	-	-	-	-	(214,592)
Advance for future capital increase	-	12,100	-	-	-	-	-	12,100
Balance at June 30, 2019	573,967	12,100	14,285	-	-	-	54,533	654,885

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

The notes are an integral part of these interim financial information.

Prumo Participações e Investimentos S.A.

Statements of cash flows

Six-month period ended June 30, 2019 and 2018

(In thousands of reais)

	6/30/2019	6/30/2018
Cash flows from operating activities		
Net income (loss) before tax	74,104	(41,120)
Items not affecting cash		
Share of profit (loss) of equity-accounted investees	(61,039)	(8,563)
Monetary variance and interest	(31,232)	44,701
Amortization of transaction costs	5,434	5,160
	<u>(12,733)</u>	<u>178</u>
(Increase) decrease in assets and increase (decrease) in liabilities:		
Income tax on loan	11,275	2,415
Recoverable taxes	1,240	800
Trade payables	(53)	(6)
Escrow account	375	965
Taxes payable	(3,474)	(8,478)
Other assets and liabilities	2	9
	<u>(3,368)</u>	<u>(4,117)</u>
Net cash used in operating activities		
Cash flows from investment activities		
Acquisition of intangible assets	-	(17)
Interest received on related-party loans	63,891	-
Loans received from related parties	12,105	63,260
	<u>75,996</u>	<u>63,243</u>
Net cash from investing activities		
Cash flows from financing activities		
Capital reduction, net	(214,592)	-
Advance for future capital increase	12,100	800
Transaction costs	(11,922)	-
Loans from third parties	226,358	-
Loans settled with third parties	(64,709)	(43,399)
Interest paid	(16,201)	(17,060)
	<u>(68,966)</u>	<u>(59,659)</u>
Net cash used in financing activities		
Increase (decrease) in cash and cash equivalents	<u>3,662</u>	<u>(533)</u>
Cash and cash equivalents at beginning of period	3,232	2,146
Cash and cash equivalents at end of period	<u>6,894</u>	<u>1,613</u>
Increase (decrease) in cash and cash equivalents	<u>3,662</u>	<u>(533)</u>

The notes are an integral part of these interim financial information.

Notes to the interim financial information

(In thousands of Reais, except when stated otherwise)

1 Operations

Prumo Participações e Investimentos S.A. (“Prumo Participações” or “Company”), located at 804, Russel Street, 5^o floor, Glória, Rio de Janeiro, Prumo Participações e Investimentos S.A. (“Prumo Par” or “Company”) was incorporated in 2015 in order to acquire interests in other companies and to represent Brazilian and foreign companies regardless of their core activity. The Company carries out its operations via the joint venture Ferroport Logística Comercial e Exportadora S.A. (“joint venture” or “Ferroport”) with Anglo American Participações Minério de Ferro Ltda. (“Anglo American”).

Ferroport began exporting in 2014. The Company occupies a 300-hectare area at the Açú Complex where it processes, handles and stores iron ore. It 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 the second quarter of 2019 Ferroport shipped 6,166 thousand tons of iron ore.

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 in March 2018 resulting in an operational stoppage and its operating license being suspended by the Brazilian Institute of the Environment - Ibama.

The notification claimed that the closure of the slurry pipeline was an event that entails *force majeure* under the contracts entered into by AAMFB and Ferroport.

A section of the slurry pipeline was replaced following an inspection and in the 4th quarter of 2018 the slurry pipeline operations were resumed after authorization by the respective regulatory agencies. AAMFB and Ferroport resumed operations in December 2018.

2 Joint venture

	Country	Ownership interest 6/30/2019	Ownership interest 12/31/2018
Direct joint venture:			
Ferroport	Brazil	50.00%	50.00%

3 Basis of preparation and presentation of the interim financial information

a. Statement of compliance

The interim financial information has been prepared in accordance with CPC 21 (R1) - Interim Statements issued by the Accounting Pronouncements Committee (“CPC”) and the accounting practices adopted in Brazil (“BR GAAP”).

The interim financial information should be read in conjunction with the financial statements as of December 31, 2018, approved on March 22, 2019, prepared in accordance with the accounting practices adopted in Brazil (“BR GAAP”).

Authorization for the conclusion of the preparation of this interim financial information was given by Management on August 06, 2019.

b. Basis of preparation

The interim financial information has 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 currency and reporting currency

This interim financial information is reported in Real, which is the Company’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4 Use of estimates and judgments

Preparing the interim financial statements required Management to make judgments and estimates that affect the application of accounting policies and the reported values of assets, liabilities, revenue and expenses. The actual results may differ from these estimates.

5 Changes in significant accounting policies

The new standards in force, CPC 06 (R2) / IFRS 16 had no impact on the Company's interim financial information in the period of initial application, except through its investee Ferroport Logística Comercial Exportadora SA, which has 50 % of participation. Ferroport recognized in its balance sheet the right-of-use assets and lease liabilities of R\$ 2,966 on January 1, 2019, at the time of initial adoption, and there was an impact on the period ended June 30, 2019 R\$ 898 of amortization of right-of-use assets and R\$ 173 of interest on lease liabilities, which for the Company represent amounts of R\$ 449 and R\$ 87, respectively, through the equity method, which does not bring significant impacts to the Company.

6 Cash and cash equivalents

	6/30/2019	12/31/2018
Cash and bank deposits	5,662	1,975
Cash equivalents		
Investment Fund	1,233	1,257
	6,895	3,232
Impairment loss (IFRS 9)	(1)	-
	6,894	3,232

The balance of cash and cash equivalents at June 30, 2019 and December 31, 2018 consists of current accounts and investment fund investments, that are promptly convertible into a known cash amount and are subject to an insignificant risk of impairment.

7 Income and social contribution taxes

The recoverable taxes break down as follows:

	6/30/2019	12/31/2018
Income tax and social contribution (“IRPJ/CSLL”)	1,480	20,594
Income tax withheld at source (“IRRF”)	28,089	3,641
Income tax on loan (“IRPJ”)	325	6,899
	<u>29,894</u>	<u>31,134</u>
Current	15,626	10,540
Non-current	14,268	20,594

8 Related parties

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-party assets and liabilities as of June 30, 2019 and December 31, 2018, as well as the related-party transactions that affected income for the year, are the result of transactions between the Company and its joint venture, as follows:

	<u>Accounts receivable</u>	
	6/30/2019	12/31/2018
Loan with related parties		
Ferroport	742,128	791,485
	<u>742,128</u>	<u>791,485</u>
Current	66,175	57,601
Non-current	675,953	733,884

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

	<u>Finance revenue</u>	
	1/1/2019 to 6/30/2019	1/1/2018 to 6/30/2018
Loan interest		
Ferroport	31,344	31,661
	<u>31,344</u>	<u>31,661</u>

Management Compensation

Company Management is compensated by the parent company Prumo Logística.

9 Investments

a. Equity interests

6/30/2019									
Direct investee	% interest	Number of shares/quotas (thousand)	Assets	Liabilities	Equity	Capital	Capital reserve	Profit reserve	Retained earnings
Ferroport	50%	1,080	2,741,606	1,961,233	780,373	414,397	94,589	116,877	154,510
12/31/2018									
Direct investee	% interest	Number of shares/quotas (thousand)	Assets	Liabilities	Equity	Capital	Capital reserve	Profit reserve	Retained earnings
Ferroport	50%	1,080	2,697,433	2,039,138	658,295	414,397	94,589	145,639	3,671

b. Changes

Direct investee	12/31/2018	Equity in net income of joint venture	Asset and liability valuation adjustments	6/30/2019
Ferroport	329,148	61,039	-	390,187
	<u>329,148</u>	<u>61,039</u>	<u>-</u>	<u>390,187</u>
Direct investee	12/31/2017	Equity in net income of joint venture	Asset and liability valuation adjustments	12/31/2018
Ferroport	333,297	(4,438)	288	329,148
	<u>333,297</u>	<u>(4,438)</u>	<u>288</u>	<u>329,148</u>

10 Loans and Financing

Institution	6/30/2019				12/31/2018
	Maturity	Principal	Interest and restatement	Total	Total
Brookfield Asset Management (i)	9/30/2022	321,565	-	321,565	390,294
(-) Transaction cost		(35,081)	-	(35,081)	(39,555)
Brookfield Asset Management (ii)	9/30/2022	218,436	2,424	220,860	-
(-) Transaction cost		(10,963)	-	(10,963)	-
		<u>493,957</u>	<u>2,424</u>	<u>496,381</u>	<u>350,739</u>
Current		45,408	-	45,408	54,778
Non-current		448,549	2,424	450,973	295,961

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

- (i) On March 29, 2019 Prumo Participações serviced its debt in the amount of R\$ 24,707, with R\$ 16,366 consisting of amortization and R\$ 8,341 interest. The payment of R\$ 56,203 was made on June 28, 2019, with R\$ 16,094 related to the amortization, R\$ 7,861 to interest and R\$ 32,248 to early amortization via a Cash Sweep mechanism.
- (ii) On May 14, 2019 the Company issued debt securities overseas for R\$ 226,358, fully subscribed and paid-in an affiliate of Brookfield Asset Management (“Brookfield”), maturing on September 30, 2022, payment of which is subordinated to the payment of the 2015 debt mentioned in item (i) above.

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. The guarantees are shared between the debt issued in 2015 and the 2019 debt.

Transactions not involving cash or cash equivalents

	Cash Flow		Noncash effect			6/30/2019	
	12/31/2018	Secured / (settled)	Interest paid (financing)	Addition of transaction costs	Interest, monetary restatement and exchange variance		Amortization of transaction costs
Loans and borrowings	<u>350,739</u>	161,649	(16,201)	(11,922)	6,683	5,433	<u>496,381</u>
	<u>350,739</u>	<u>161,649</u>	<u>(16,201)</u>	<u>(11,922)</u>	<u>6,683</u>	<u>5,433</u>	<u>496,381</u>

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:

	6/30/2019	12/31/2018
Deferred tax liability		
Temporary difference - Exchange variance	<u>16,821</u>	<u>13,045</u>
Total deferred taxes	<u>16,821</u>	<u>13,045</u>

12 Taxes and social contributions payable

	6/30/2019	12/31/2018
PIS/COFINS	219	246
PIS/COFINS/CSLL - Withheld	2	2
IRPJ/CSLL	<u>654</u>	<u>3,447</u>
	<u>875</u>	<u>3,695</u>

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:

	<u>Six months</u>		<u>Three months</u>	
	<u>1/1/2019 to 6/30/2019</u>	<u>1/1/2018 to 6/30/2018</u>	<u>4/1/2019 to 6/30/2019</u>	<u>4/1/2018 to 6/30/2018</u>
Profit (loss) before income and social contribution taxes	74,104	(41,120)	43,787	(75,463)
Income and social contribution taxes at the rate (34%)	(25,195)	13,980	(14,887)	25,657
Adjustment to determine the effective rate				
Share of profit of equity-accounted investees reported, net of tax	20,753	2,911	10,797	(8,124)
Tax credits not recognized	12	13	6	7
Total income and social contribution taxes	(4,430)	16,904	(4,084)	(17,540)
Effective rate	(5.98%)	(41.11%)	(7.12%)	(39.26%)
Current	(654)	(2,155)	351	(731)
Deferred charges	(3,776)	19,059	(4,435)	18,271
Total income and social contribution taxes	(4,430)	16,904	(4,084)	17,540

13 Equity

a. Capital

The Company's ownership structure as of June 30, 2019 and December 31, 2018 is as follows:

Shareholders	<u>6/30/2019 and 12/31/2018</u>	
	Quantity of common shares (thousand)	%
Prumo Logística S/A	788,559	100.00
	788,559	100.00

In December 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.

On May 16, 2019 Company Management approved the proposal to reduce its share capital from R\$ 788,559 to R\$ 573,967, an effective decrease of R\$ 214,592 in local currency, maintaining unchanged each shareholder's percentage interest in the Company's share capital.

b. Capital reserve

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

c. Advance for future capital increase

Prumo Logística S.A. made an advance for future capital increase of R\$ 12,100 on March 15, 2019. This contribution is irrevocable and irreversible, and convertible into the corresponding number of shares, subject to the par value.

d. Dividends

The Executive Board will present to the General Meeting for approval a proposal about the allocation of the net income that remains after the following deductions or increases have been made in this order:

- (i) 5% (five percent) to form the legal reserve, until it has reached 20% (twenty percent) of the share capital. Formation of the legal reserve may be waived in financial years where the balance of said reserve plus the capital reserves exceeds 30% (thirty percent) of the share capital.
- (ii) 25% (twenty-five percent) for payment of the minimum mandatory dividends to the shareholders.

14 Finance income

	<u>Six months</u>		<u>Three months</u>	
	<u>1/1/2019 to 6/30/2019</u>	<u>1/1/2018 to 6/30/2018</u>	<u>4/1/2019 to 6/30/2019</u>	<u>4/1/2018 to 6/30/2018</u>
Finance income				
Loan interest	31,340	31,661	15,459	15,547
Interest on investments	32	41	13	22
Interest earned	524	380	263	272
Exchange variance	37,319	20,237	14,287	1,817
	<u>69,215</u>	<u>52,319</u>	<u>30,022</u>	<u>17,658</u>
Finance costs				
Interest on loans	(18,514)	(16,486)	(10,461)	(8,383)
Exchange variance on loans	(26,188)	(76,712)	(1,219)	(57,232)
Commission and brokerage fees	(5,433)	(5,198)	(2,854)	(2,581)
Fine and interest	-	(53)	-	(53)
Taxes on financial revenue	(4,362)	(2,963)	(2,123)	(736)
IOF	(894)	-	(894)	-
Other	(2)	(442)	264	(165)
	<u>(55,393)</u>	<u>(101,854)</u>	<u>(17,287)</u>	<u>(69,150)</u>
	<u>13,822</u>	<u>(49,535)</u>	<u>12,735</u>	<u>(51,492)</u>

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. The Company does 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 the respective fair values of the financial instruments and segregation of the hierarchal level, included in the balance sheet:

	6/30/2019			12/31/2018		
	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	6,894	-	-	3,232	-	-
Loan with related parties	742,128	-	-	791,485	-	-
Other accounts receivable	-	-	-	2	-	-
	749,022	-	-	794,719	-	-
Liabilities						
Trade payables	157	-	-	210	-	-
Loans and borrowings	496,381	-	-	350,739	-	-
	496,538	-	-	350,949	-	-

- **(Level 1)** - Quoted prices (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 June 30, 2019 loans and financing are measured at amortized cost. The fair value calculated by Management for reference purposes only is R\$ 544,295.

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 joint venture 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.

In the case of Ferroport, 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 debt amount in millions of Reais, with a sensitivity scenario in the exchange rates (USD) suffering oscillations of 10% and 20%.

6/30/2019	Real	USD +10%	USD +20%
Institution			
Brookfield	542,424	596,666	650,909
Total	542,424	596,666	650,909
12/31/2018	Real	USD +10%	USD +20%
Institution			
Brookfield	390,294	429,323	468,353
Total	390,294	429,323	468,353

(ii) Liquidity risk

The table below denotes the main financial liabilities of the Company as of June 30, 2019. These amounts are gross and are not discounted, and include payments of estimated interest.

	6/30/2019						Total
	No maturity	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Financial liabilities							
Trade payable	-	157	-	-	-	-	157
Loans and borrowings	-	45,515	38,839	93,215	518,718	-	696,287
Total by time range	-	45,672	38,839	93,215	518,718	-	696,444

	12/31/2018						
	No maturity	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total
Financial liabilities							
Trade payables	-	-	210	-	-	-	210
Loans and borrowings	-	48,790	47,407	80,160	300,995	-	477,351
Total by time range	<u>-</u>	<u>48,790</u>	<u>47,617</u>	<u>80,160</u>	<u>300,995</u>	<u>-</u>	<u>477,561</u>

(iii) Credit risk

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

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:

Financial instruments	6/30/2019	12/31/2018
Cash and bank deposits	6,894	2,054
Related-party loan	742,128	777,957
	<u>749,022</u>	<u>780,011</u>

Cash and cash equivalents are held at banking and financial institutions grouped into 5 levels ranging from AAA to BB, according to their rating provided by the “Risk Bank” Rating System.

The expected 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.

(iv) Capital management

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

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Eugenio Leite de Figueiredo
CEO and CFO

Eduardo Quartarone Campos
Officer with no specific title

Candice Frankel Feferkorn
Accountant
 CRC-RJ 125.841/O-1