

Prumo  
Participações e  
Investimentos S.A.

**Condensed interim financial  
information  
as of September 30, 2019**

# Contents

<b>Independent Auditors' review report on condensed interim financial information</b>	<b>3</b>
<b>Condensed balance sheet</b>	<b>5</b>
<b>Condensed statements of operations</b>	<b>7</b>
<b>Condensed statements of comprehensive income (loss)</b>	<b>8</b>
<b>Condensed statements of changes in shareholders' equity</b>	<b>9</b>
<b>Statements of cash flows</b>	<b>10</b>
<b>Notes to the condensed interim financial information</b>	<b>11</b>



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

# Independent auditors' review report on condensed 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 condensed balance sheet of Prumo Participações e Investimentos S.A. ("Company"), as of September 30, 2019, and the related condensed statements of operations, comprehensive income (loss) for the three and nine-month periods ended at that date, and changes in shareholders' equity and cash flows for the nine-month period then ended, including the explanatory notes.

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

## Scope of review

We conducted our review in accordance with Brazilian and International Interim Financial 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 condensed 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 condensed interim financial information

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

Rio de Janeiro, November 12, 2019

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



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

## Prumo Participações e Investimentos S.A.

### Condensed balance sheet as of September 30, 2019 and December 31, 2018

*(In thousands of reais)*

<b>Assets</b>	<b>Note</b>	<b>9/30/2019</b>	<b>12/31/2018</b>
<b>Current</b>			
Cash and cash equivalents	6	6,822	3,232
Escrow deposits		-	375
Income taxes and social contributions recoverable	7	17,365	10,540
Accounts receivable from related parties	8	67,162	57,601
Other receivables		-	2
<b>Total current assets</b>		<b><u>91,349</u></b>	<b><u>71,750</u></b>
<b>Non-current</b>			
Income taxes and social contributions recoverable	7	12,963	20,594
Accounts receivable from related parties	8	629,670	733,884
Equity investments	9	426,180	329,148
Intangible assets		16	16
<b>Total non-current assets</b>		<b><u>1,068,829</u></b>	<b><u>1,083,642</u></b>
<b>Total assets</b>		<b><u>1,160,178</u></b>	<b><u>1,155,392</u></b>

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

# Prumo Participações e Investimentos S.A.

## Condensed balance sheet as of September 30, 2019 and December 31, 2018

*(In thousands of reais)*

<b>Liabilities</b>	<b>Note</b>	<b>9/30/2019</b>	<b>12/31/2018</b>
<b>Current</b>			
Trade accounts payable		30	210
Loans and financing	10	49,346	54,778
Taxes payable	12	217	248
Accounts payable from related parties		60	-
Income and social contribution taxes payable	12	-	3,447
<b>Total current liabilities</b>		<b><u>49,653</u></b>	<b><u>58,683</u></b>
<b>Non-current</b>			
Loans and financing	10	449,903	295,961
Deferred income tax and social contribution	11	2,766	13,045
<b>Total non-current liabilities</b>		<b><u>452,669</u></b>	<b><u>309,006</u></b>
<b>Shareholders' Equity</b>	13		
Share capital		573,967	788,559
Advance for future capital increase		12,100	-
Capital reserves		14,285	14,285
Retained earnings (Accumulated losses)		57,504	(15,141)
<b>Total equity</b>		<b><u>657,856</u></b>	<b><u>787,703</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>1,160,178</u></b>	<b><u>1,155,392</u></b>

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

# Prumo Participações e Investimentos S.A.

## Condensed statements of operations

Three and nine-month periods ended September 30, 2019 and 2018

(In thousands of reais)

		<u>Nine months</u>		<u>Three months</u>	
	Note	<u>1/1/2019 to 9/30/2019</u>	<u>1/1/2018 to 9/30/2018</u>	<u>7/1/2019 to 9/30/2019</u>	<u>7/1/2018 to 9/30/2018</u>
<b>Operating expenses</b>					
Administrative expenses		(841)	(192)	(85)	(44)
Provision for loss		(1)	-	-	-
		<b>(842)</b>	<b>(192)</b>	<b>(85)</b>	<b>(44)</b>
<b>Finance income (expense)</b>	14				
Finance income		93,166	94,237	23,951	41,918
Finance expenses		(126,989)	(155,914)	(71,596)	(54,060)
		<b>(33,823)</b>	<b>(61,677)</b>	<b>(47,645)</b>	<b>(12,142)</b>
Equity in income (loss) of joint venture	9	97,032	(1,745)	35,993	(10,308)
<b>Net income (loss) before taxes</b>		<b>62,367</b>	<b>(63,614)</b>	<b>(11,737)</b>	<b>(22,494)</b>
Current income and social contribution tax	12	-	-	654	2,155
Deferred income and social contribution taxes	12	10,278	5,003	14,054	(14,056)
<b>Net income (loss) for the period</b>		<b>72,645</b>	<b>(58,611)</b>	<b>2,971</b>	<b>(34,395)</b>

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

# Prumo Participações e Investimentos S.A.

## Condensed statements of comprehensive income (loss)

Three and nine-month periods ended September 30, 2019 and 2018

*(In thousands of reais)*

	<u>Nine months</u>		<u>Three months</u>	
	<u>1/1/2019 to 9/30/2019</u>	<u>1/1/2018 to 9/30/2018</u>	<u>7/1/2019 to 9/30/2019</u>	<u>7/1/2018 to 9/30/2018</u>
Net income (loss) for the period	72,645	(58,611)	2.971	(34,395)
<b>Items that may be reclassified subsequently to profit or loss</b>				
Hedge Instrument, net of tax	-	288	-	-
<b>Total comprehensive income (loss) for the period</b>	<u>72,645</u>	<u>(58,323)</u>	<u>2.971</u>	<u>(34,395)</u>

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



# Prumo Participações e Investimentos S.A.

## Condensed statements of changes in shareholders' equity

Nine-month period ended September 30, 2019 and 2018

(In thousands of reais)

	Capital Reserve					Other comprehensive income (loss)	Retained earnings (Accumulated losses)	Total equity
	Share capital	Advance for future capital increase	Capital reserves(*)	Legal reserve	Profit reserves			
<b>Balance at December 31, 2017</b>	<u>753,164</u>	-	<u>14,285</u>	<u>11,218</u>	<u>9,298</u>	<u>(288)</u>	-	<u>787,677</u>
Loss for the period	-	-	-	-	-	-	(58,611)	(58,611)
Advance for future capital increase	-	17,765	-	-	-	-	-	17,765
Financial instrument - Ferroport hedge	-	-	-	-	-	288	-	288
<b>Balance at September 30, 2018</b>	<u>753,164</u>	<u>17,765</u>	<u>14,285</u>	<u>11,218</u>	<u>9,298</u>	-	<u>(58,611)</u>	<u>747,119</u>
<b>Balance at December 31, 2018</b>	<u>788,559</u>	-	<u>14,285</u>	-	-	-	<u>(15,141)</u>	<u>787,703</u>
Net income for the period	-	-	-	-	-	-	72,645	72,645
Capital reduction	(214,592)	-	-	-	-	-	-	(214,592)
Advance for future capital increase	-	12,100	-	-	-	-	-	12,100
<b>Balance at September 30, 2019</b>	<u>573,967</u>	<u>12,100</u>	<u>14,285</u>	-	-	-	<u>57,504</u>	<u>657,856</u>

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

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

# Prumo Participações e Investimentos S.A.

## Condensed statements of cash flows

Nine-month period ended September 30, 2019 and 2018

*(In thousands of reais)*

	9/30/2019	9/30/2018
<b>Cash flows from operating activities</b>		
Profit (loss) before taxes	62,367	(63,614)
<b>Items not affecting cash</b>		
Share of profit (loss) of equity-accounted investees	(97,033)	1,745
Interest	11,149	55,768
Amortization of transaction costs	8,835	7,738
	<u>(14,682)</u>	<u>1,637</u>
<b>(Increase) decrease in assets and increase (decrease) in liabilities:</b>		
Income tax on loan	806	338
Recoverable taxes	3,201	2,414
Trade payables	(180)	(5)
Escrow account	2,771	874
Taxes payable	6,800	(8,494)
Other assets and liabilities	62	9
	<u>(1,222)</u>	<u>(3,227)</u>
<b>Net cash used in operating activities</b>		
<b>Cash flows from investment activities</b>		
Acquisition of intangible assets	-	(16)
Interest received on related-party loans	-	(288)
Loans received from related parties	133,857	63,260
	<u>133,857</u>	<u>62,956</u>
<b>Net cash from investing activities</b>		
<b>Cash flows from financing activities</b>		
Capital decrease, net	(214,592)	-
Advance for future capital increase	12,100	17,765
Transaction costs	(11,638)	-
Loans from third parties	226,358	-
Loans settled with third parties	(117,646)	(51,607)
Interest paid	(23,627)	(25,979)
	<u>(129,045)</u>	<u>(59,821)</u>
<b>Net cash used in financing activities</b>		
<b>Increase (decrease) in cash and cash equivalents</b>	<u>3,590</u>	<u>(92)</u>
Cash and cash equivalents at beginning of period	3,232	2,146
Cash and cash equivalents at end of period	<u>6,822</u>	<u>2,054</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>3,590</u>	<u>(92)</u>

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

## Notes to the condensed 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° floor, Glória, Rio de Janeiro, was incorporated in 2015 in order to acquire interests in other companies. 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 (unaudited) 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 (unaudited) 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 4<sup>th</sup> 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 Equity accounted investee

	Ownership interest	Ownership interest
Country	9/30/2019	12/31/2018
<b>Direct joint venture:</b>		
Ferroport	Brazil 50.00%	50.00%

### 3 Basis of preparation and presentation of the Condensed interim financial information

#### a. Statement of compliance

The condensed interim financial information has been prepared in accordance with CPC 21 (R1) - Interim Statements issued by the Accounting Pronouncements Committee (“CPC”).

The condensed 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 condensed interim financial information was given by Management on 12, 2019.

**b. Basis of preparation**

The condensed 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 condensed 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 condensed interim financial information 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) had no impact on the Company's condensed interim financial information in the period of initial application.

**6 Cash and cash equivalents**

	<b>9/30/2019</b>	<b>12/31/2018</b>
Cash and bank deposits	5,574	1,975
<b>Cash equivalents</b>		
Investment Fund	1,249	1,257
	<b>6,823</b>	<b>3,232</b>
Estimated loss allowance (CPC 48)	(1)	-
	<b>6,822</b>	<b>3,232</b>

The balance of cash and cash equivalents at September 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 Recoverable taxes

The recoverable taxes break down as follows:

	9/30/2019	12/31/2018
Income tax and social contribution (“IRPJ/CSLL”)	1,481	20,594
Income tax withheld at source (“IRRF”)	28509	3,641
Income tax on loan (“IRPJ”)	338	6,899
	<u>30,328</u>	<u>31,134</u>
Current	17,365	10,540
Non-current	12,963	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 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 September 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>	
	9/30/2019	12/31/2018
<b>Loan with related parties</b>		
Ferroport	<u>696,832</u>	<u>791,485</u>
	<u>696,832</u>	<u>791,485</u>
Current	67,162	57,601
Non-current	629,670	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 9/30/2019	1/1/2018 to 9/30/2018
<b>Loan interest</b>		
Ferroport	<u>46,123</u>	<u>47,738</u>
	<u>46,123</u>	<u>47,738</u>

**a. Management Compensation**

Company Management is compensated by the parent company Prumo Logística.

**b. 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.

Ferroport shall repay all amounts outstanding, including any outstanding interest thereon no later than December 31, 2030.

**9 Investments**

**a. Equity interests**

9/30/2019									
Direct joint venture	% interest	Number of shares/quotas (thousand)	Assets	Liabilities	Equity	Capital	Capital reserve	Profit reserve	Retained earnings
Ferroport	50%	1,080	2,741,751	1,889,392	852,359	414,397	94,589	116,877	226,496

12/31/2018									
Direct joint venture	% 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. Movements on investees**

Direct joint venture	12/31/2018	Equity in net income of joint venture	Other comprehensive income	9/30/2019
Ferroport	329,148	97,032	-	426,180
	<b>329,148</b>	<b>97,032</b>	<b>-</b>	<b>426,180</b>

Direct joint venture	12/31/2017	Equity in net income of joint venture	Other comprehensive income	12/31/2018
Ferroport	333,297	(4,438)	288	329,148
	<b>333,297</b>	<b>(4,438)</b>	<b>288</b>	<b>329,148</b>

**c. Joint venture**

See below summary financial information as of September 30, 2019 and December 31, 2018 and the Statement of operations for the years then ended, without practice adjustments, of the joint venture Ferroport.

	<u>Consolidated</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	95,183	31,925
Accounts receivable from related parties	74,254	30,264
Inventories	23,000	21,618
Recoverable taxes	76,019	89,345
Income taxes and social contribution recoverable	787	787
Prepaid expenses	1,625	1,844
Other	1,531	939
<b>Total current assets</b>	<b><u>272,399</u></b>	<b><u>176,722</u></b>
Noncurrent assets		
Judicial deposits	36,987	35,974
Related parties - asset to be transferred	210,102	210,102
Deferred income tax and social contribution	-	57,709
Investments in subsidiary	-	-
Right of use assets	2,089	-
Property, plant and equipment	2,094,450	2,113,754
Intangible assets	754	1,541
Deferred charges	3,288	3,781
<b>Total noncurrent assets</b>	<b><u>2,347,670</u></b>	<b><u>2,422,861</u></b>
<b>Total assets</b>	<b><u>2,620,069</u></b>	<b><u>2,599,583</u></b>
Liabilities and equity		
Trade accounts payable	18,355	18,509
Payroll and related charges	11,828	11,352
Taxes payable	7,237	3,200
Lease liabilities	773	-
Income taxes and social contribution payable	42,731	16,663
Related parties - accounts payable	9,269	30,898
Related parties – loans	135,000	129,000
<b>Total current liabilities</b>	<b><u>225,193</u></b>	<b><u>209,622</u></b>
Noncurrent liabilities		
Income taxes and social contribution payable	35,238	34,485
Lease liabilities	1,366	-
Deferred income tax and social contribution	21,856	-
Related parties - accounts payable	210,102	210,102
Related parties – loans	1,215,547	1,426,545
Deferred revenue with related party	51,190	52,835
Provision for contingencies	17,904	15,613
Taxes payable	7,529	3,984
Other	20,332	20,534
<b>Total noncurrent liabilities</b>	<b><u>1,581,064</u></b>	<b><u>1,764,098</u></b>
Shareholders' equity		
Capital	414,397	414,397
Capital reserve	94,589	94,589
Contingencies reserve	109,595	109,595
Legal reserve	7,282	7,282
Accumulated Profit / Loss	187,949	-
Total shareholders' equity	<b><u>813,812</u></b>	<b><u>625,863</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>2,620,069</u></b>	<b><u>2,599,583</u></b>

	<u>Nine month period ended</u>	
	<u>September 30,2019</u>	<u>September 30,2018</u>
Net revenue of services	515,525	159,105
Costs of services	<u>(115,700)</u>	<u>(101,069)</u>
<b>Gross profit</b>	<b><u>399,825</u></b>	<b><u>58,036</u></b>
<b>Operating income (expenses)</b>		
General and administrative expenses	(28,903)	(33,461)
Expected Credit Loss	1,584	(4,379)
Other operating income (expenses), net	<u>10,367</u>	<u>16,586</u>
	<u>(16,952)</u>	<u>(21,254)</u>
<b>Income before financial income (expenses) and taxes</b>	<b><u>382,873</u></b>	<b><u>36,782</u></b>
<b>Equity income (loss), net</b>	<u>328</u>	<u>148</u>
<b>Financial income (expenses)</b>		
Financial income	7,372	3,846
Financial expenses	<u>(90,725)</u>	<u>(95,141)</u>
<b>Income (loss) before taxes</b>	<b><u>299,848</u></b>	<b><u>(54,365)</u></b>
<b>Income and social contribution taxes</b>		
Current	(39,555)	-
Deferred	<u>(72,344)</u>	<u>41,788</u>
<b>Total income and social contribution taxes</b>		
<b>Net income (loss) for the period</b>	<b><u>187,949</u></b>	<b><u>(12,577)</u></b>

## 10 Loans and Financing

	<u>9/30/2019</u>		<u>12/31/2018</u>			
<b>Institution</b>	<b>Maturity</b>	<b>Rates in %</b>	<b>Principal</b>	<b>Interest and exchange variation</b>	<b>Total</b>	<b>Total</b>
Brookfield Asset Management (i)	9/30/2022	Dollar + 8,50% p.a	296,503	-	296,503	390,294
(-) Transaction cost			(32,218)	-	(32,218)	(39,555)
Brookfield Asset Management (ii)	9/30/2022	Dollar + 8,50% p.a	245,105	-	245,105	-
(-) Transaction cost			(10,141)	-	(10,141)	-
			<u>499,249</u>	<u>-</u>	<u>499,249</u>	<u>350,739</u>
Current			49,346	-	49,346	54,778
Non-current			449,903	-	449,903	295,961

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

(1) 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 of interest. Additionally, on June 28, 2019 a payment of R\$ 56.203 was made, with R\$



16,095 related to principal amortization, R\$ 7,861 to interest and R\$ 32,248 through Cash Sweep mechanism. On September 2019, the Company paid the amount of R\$ 60,362 composed by R\$ 17,490 of principal, R\$ 7,426 of interest and R\$ 35,447 of Cash Sweep.

- (2) On May 14, 2019 the Company issued debt securities overseas for R\$ 226,358, fully subscribed and paid by 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.

**a. 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.

**b. Transactions not involving cash or cash equivalents**

	Cash Flow			Noncash effect				
12/31/2018	Secured / (settled)	Interest paid (financing)	Addition of transaction costs	Interest exchange variation	Amortization and of transaction costs	9/30/2019		
Loans and borrowings	350,739	108,712	(23,627)	(11,638)	66,228	8,835	499,249	
	<b>350,739</b>	<b>108,712</b>	<b>(23,627)</b>	<b>(11,638)</b>	<b>66,228</b>	<b>8,835</b>	<b>499,249</b>	

**11 Deferred income tax and social contribution**

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.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

	9/30/2019	12/31/2018
<b>Deferred tax liability</b>		
Temporary difference - Exchange variation	(2,766)	(13,045)
<b>Total deferred taxes</b>	<b>(2,766)</b>	<b>(13,045)</b>

## 12 Taxes and social contributions payable

	9/30/2019	12/31/2018
PIS/COFINS	210	246
IRRF	2	-
PIS/COFINS/CSLL - Withheld	5	2
IRPJ/CSLL	-	3,447
	<u>217</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:

	Nine months		Three months	
	1/1/2019 to 9/30/2019	1/1/2018 to 9/30/2018	7/1/2019 to 9/30/2019	7/1/2018 to 9/30/2018
Profit (loss) before income and social contribution taxes	62,267	(63,614)	(11,837)	(22,495)
Income and social contribution taxes at the rate (34%)	(21,205)	21,629	3,990	7,649
<b>Adjustment to determine the effective rate</b>				
Equity income of joint venture	32,991	(593)	12,238	(3,504)
Tax credits not recognized	(1,508)	(16,033)	(1,520)	(16,046)
<b>Total income and social contribution taxes</b>	<u>10,278</u>	<u>5,003</u>	<u>14,708</u>	<u>(11,901)</u>
Effective rate	16,48%	(7,86%)	22,46%	(33,25%)
Current	-	-	654	2,155
Deferred charges	10,278	5,003	14,054	(14,056)
<b>Total income and social contribution taxes</b>	<u>10,278</u>	<u>5,003</u>	<u>14,708</u>	<u>(11,901)</u>

## 13 Shareholders' Equity

### a. Capital

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

	9/30/2019 and 12/31/2018	
	Quantity of common shares (thousand)	%
Shareholders		
Prumo Logística S.A.	788,559	100.00
	<u>788,559</u>	<u>100.00</u>

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 advance is irrevocable and irreversible, and convertible into the predefined corresponding number of shares, based on 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**

	Nine months		Three months	
	1/1/2019 to 9/30/2019	1/1/2018 to 9/30/2018	7/1/2019 to 9/30/2019	7/1/2018 to 9/30/2018
<b>Finance income</b>				
Loan interest	46,123	47,738	14,783	16,077
Interest on investments	61	63	29	22
Interest earned	758	756	234	376
Exchange variation	46,224	45,680	8,905	25,443
	<b>93,166</b>	<b>94,237</b>	<b>23,951</b>	<b>41,918</b>
<b>Finance costs</b>				
Interest on loans	(30,613)	(25,318)	(12,099)	(8,832)
Exchange variation on loans	(79,578)	(116,870)	(53,390)	(40,158)
Commission and brokerage fees	(8,906)	(7,779)	(3,473)	(2,581)
Fine and interest	-	(53)	-	-
Taxes on financial revenue	(6,367)	(5,273)	(2,005)	(2,310)
IOF	(1,524)	-	(630)	-
Other	(1)	(621)	1	(179)
	<b>(126,989)</b>	<b>(155,914)</b>	<b>(71,596)</b>	<b>(54,060)</b>
	<b>(33,823)</b>	<b>(61,677)</b>	<b>(47,645)</b>	<b>(12,142)</b>

## 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:

	9/30/2019			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
<b>Assets</b>						
Cash and cash equivalents	6,822	-	-	3,232	-	-
Loan with related parties	696,832	-	-	791,485	-	-
Other accounts receivable	-	-	-	2	-	-
	<b>703,654</b>	-	-	<b>794,719</b>	-	-
<b>Liabilities</b>						
Trade payables	30	-	-	210	-	-
Loans and borrowings	499,249	-	-	350,739	-	-
	<b>499,279</b>	-	-	<b>350,949</b>	-	-

- **(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 September 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 valuation technique used by the Company consider discounted cash flows. The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate.

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:

**a. Market risk**

**(i) 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, 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 variation 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 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 changes of 10% and 20%.

<b>9/30/2019</b>	<b>Real</b>	<b>USD +10%</b>	<b>USD +20%</b>
<b>Institution</b>			
Brookfield	541,608	595,769	649,930
<b>Total</b>	<b>541,608</b>	<b>595,769</b>	<b>649,930</b>
<b>12/31/2018</b>	<b>Real</b>	<b>USD +10%</b>	<b>USD +20%</b>
<b>Institution</b>			
Brookfield	390,294	429,323	468,353
<b>Total</b>	<b>390,294</b>	<b>429,323</b>	<b>468,353</b>

**(ii) Liquidity risk**

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

	<u>9/30/2019</u>						<u>Total</u>
	No maturity	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
<b>Financial liabilities</b>							
Trade payable	-	30	-	-	-	-	30
Loans and borrowings	-	44,296	40,080	107,012	495,856	-	687,244
<b>Total by time range</b>	<u>-</u>	<u>44,326</u>	<u>40,080</u>	<u>107,012</u>	<u>495,856</u>	<u>-</u>	<u>687,274</u>
							<u>12/31/2018</u>
	No maturity	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	<u>Total</u>
<b>Financial liabilities</b>							
Trade payables	-	-	210	-	-	-	210
Loans and borrowings	-	48,790	47,407	80,160	300,995	-	477,352
<b>Total by time range</b>	<u>-</u>	<u>48,790</u>	<u>47,617</u>	<u>80,160</u>	<u>300,995</u>	<u>-</u>	<u>477,562</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:

<b>Financial instruments</b>	<b>9/30/2019</b>	<b>12/31/2018</b>
Cash and bank deposits	6,822	2,054
Related-party loan	696,832	777,957
	<u>703,654</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.

## **16 Subsequent events**

On October 8, 2019, Prumo Participações e Investimentos S.A. issued a US\$270 million debenture, 100% underwritten by Goldman Sachs, as a bridge loan facility with a 3 months maturity. The issuance's proceeds were used to repay the existing notes and a portion of the transaction costs related to the US\$350 million long-term senior secured bonds under regulation 144A / RegS that Prumo Participações e Investimentos S.A. further issued. The remaining proceeds of this bridge loan of R\$ 397.387.570,09 were transferred to Prumo Logística through capital reduction.

On October 22, 2019, Prumo Participações e Investimentos S.A. successfully priced a US\$350 million senior secured bonds under regulation 144A / RegS, with a coupon of 7.5% per year, semi-annual payments and a maturity date of December 2031. The net proceeds were used to repay the Bridge Loan and the remaining transaction costs of the operation. Prumo Participações transferred to Prumo Logística, on October 30, 2019, R\$202.954.231,68 as capital reduction and R\$29.818.296,77 as dividends.

\* \* \*

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