Prumo Participações e Investimentos S.A.

Financial statements at December 31, 2019 and 2018

Contents

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Independent Auditor's Report on the Financial Statements

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

To the Shareholders and Board of Directors of

Prumo Participações em Investimentos S.A

Rio de Janeiro – RJ

Opinion

We have audited the financial statements of Prumo Participações em Investimentos S.A ("the Company"), which comprise the balance sheet as of December 31, 2019, and the statements of income and statements of comprehensive income, statements of 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, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the individual and consolidated Financial Statements section of our report. We are independent of the Company and its subsidiary in accordance with the relevant ethical requirements included in Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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

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 27, 2020

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

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

Prumo Participações e Investimentos S.A.

Balance sheets as of December 31, 2019 and 2018

(In thousands of reais)

Assets	**Note**	**2019**	**2018**
Current			
Cash and cash equivalents	6	1,184	3,232
Escrow deposits	10	100,956	375
Recoverable taxes	7	16,929	3,641
Income taxes and contributions recoverable	7	1,480	6,899
Related parties	8	68,188	57,601
Other receivables		-	2
Total current assets		**188,737**	**71,750**
Non-current			
Recoverable taxes	7	-	20,594
Deferred taxes	11	223	-
Related party	8	578,245	733,884
Investment	9	537,965	329,148
Intangible assets		16	16
Total non-current assets		**1,116,449**	**1,083,642**
Total assets		**1,305,186**	**1,155,392**

The notes are an integral part of the financial statements

Prumo Participações e Investimentos S.A.

Balance sheets as of December 31, 2019 and 2018

(In thousands of reais)

Liabilities	Note	2019	2018
Current			
Trade accounts payable		2,674	210
Loans and borrowings	10	17,597	54,778
Taxes payable	12	172	248
Income and social contribution taxes payable	12	-	3,447
Related parties		18	-
Other accounts payable		656	-
Total current liabilities		**21,117**	**58,683**
Noncurrent			
Loans and borrowings	10	1,247,647	295,961
Deferred taxes	11	-	13,045
Total non-current liabilities		**1,247,647**	**309,006**
Equity	13		
Share capital		10	788,559
Capital reserve		-	14,285
Reserves		36,412	-
Accumulated losses		-	(15,141)
Total equity		**36,422**	**787,703**
Total liabilities and equity		**1,305,186**	**1,155,392**

The notes are an integral part of the financial statements.

Prumo Participações e Investimentos S.A.

Statements of income

Years ended December 31, 2019 and 2018

(In thousands of reais)

	Note	2019	2018
Operating expenses			
Administrative expenses		(934)	(297)
Reversal of (provision for) asset impairment		(10)	-
Finance income (costs)	**14**		
Finance income		217,522	124,141
Finance costs		(343,014)	(171,182)
		(125,492)	**(47,041)**
Share of profit (loss) of equity-accounted investees	9	208,817	(4,438)
Profit (loss) before taxes		**81,381**	**(51,776)**
Current income and social contribution tax	12	-	(3,447)
Deferred income and social contribution tax	12	13,268	19,566
Net income (loss) for the year		**95,649**	**(35,657)**

The notes are an integral part of the financial statements

Prumo Participações e Investimentos S.A.

Statements of comprehensive income

Years ended December 31, 2019 and 2018

(In thousands of reais)

	2019	2018
Net income (loss) for the year	**95,649**	**(35,657)**
Other comprehensive income	-	288
Total comprehensive income for the year	**95,649**	**(35,369)**

The notes are an integral part of the financial statements

Prumo Participações e Investimentos S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2019 and 2018

(In thousands of reais)

	Share capital	Capital contribution (*)	Legal reserve	Profit reserve	Advance for future capital increase	Asset and liability valuation adjustments	Accumulated losses	Total equity
Balance at January 1, 2018	**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)	-	-	**-**
Absorption of loss for the year in Reserve	-	-	(11,218)	(9,298)		-	20,516	**-**
Financial instrument - Ferroport hedge	-	-	-	-	-	288	-	**288**
Balance as of December 31, 2018	**788,559**	**14,285**	**-**	**-**	**-**	**-**	**(15,141)**	**787,703**
Loss for the year	-	-	-	-	-	-	95,649	**95,649**
Advance for future capital increase	-	-	-	-	12,100	-	-	**12,100**
Capital increase	26,385	(14,285)	-	-	(12,100)	-	-	**-**
Capital reduction	(814,934)	-	-	-	-	-	-	**(814,934)**
Creation of the profit reserve	-	-	-	36,412	-	-	(36.412)	**-**
Minimum mandatory dividends	-	-	-	-	-	-	(20.126)	**(23,126)**
Advanced dividends	-	-	-	-	-	-	(23.970)	**(23,970)**
Balance at December 31, 2019	**10**	**-**	**-**	**36,412**	**-**	**-**	**-**	**36,422**

The notes are an integral part of the financial statements

Prumo Participações e Investimentos S.A.

Statements of cash flows

Years ended December 31, 2019 and 2018

(In thousands of reais)

	2019	2018
Cash flows from operating activities		
Net income (loss) before tax	82,381	(51,776)
Expenses (income) not affecting cash:		
Share of profit (loss) of equity-accounted investees	(208,817)	4,438
Monetary variance and interest	13,846	38,142
Amortization of transaction costs	53,416	10,318
	(59,174)	**1,122**
(Increase) decrease in assets and increase (decrease) in liabilities:		
Income tax on loan	15,305	3,165
Recoverable taxes	(2,580)	1,565
Trade accounts payable	2,466	204
Taxes payable	(3,523)	(8,475)
Other assets and liabilities	674	(18)
Net cash used in operating activities	**(46,832)**	**(2,437)**
Cash flows produced by investment activities		
Acquisition of intangible assets	-	(16)
Loans received from related parties	194,181	62,510
Net cash from investing activities	**194,181**	**62,494**
Cash flows from financing activities		
Net capital increase	26,385	35,395
Dividends	(44,096)	-
Capital decrease, net	(814,934)	-
Escrow account	(100,581)	(375)
Transaction costs	(132,552)	-
Loans obtained	2,727,915	-
Loans settled with third parties	(1,760,138)	(59,550)
Interest paid	(51,396)	(34,441)
Net cash used in financing activities	**(149,397)**	**(57,469)**
Increase in cash and cash equivalents	**(2,048)**	**1,086**
Cash and cash equivalents at beginning of year	3,232	2,146
Cash and cash equivalents at end of year	1,184	3,232
Increase in cash and cash equivalents	**(2,048)**	**1,086**

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of Reais, except when indicated 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 was incorporated in 2015 as a wholly owned subsidiary of Prumo Logística S.A. ("Prumo") in order to acquire interests in other companies as a shareholder. 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 in October 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 2019 Ferroport shipped a total of 23,042 thousand tonnes of iron ore, in 137 Capesize ships.

Between April and December 2018 Ferroport's operations were suspended due to leaks from the slurry pipeline of Anglo American Minério de Ferro Brasil SA ("AAMFB"), with the latter claiming that the closure of the slurry pipeline was a force majeure event under the contracts between AAMFB and Ferroport.

2 List of Investees

	Country	Ownership interest 2019	Ownership interest 2018
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").

This is the Company's first set of annual financial statements to which CPC 06 (R2) Leases has been applied. Changes in significant accounting policies can be seen in Note 5. Authorization for the conclusion of the preparation of these financial statements was given by Management on March 27, 2020. 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 currency and reporting currency

These financial statements are presented in real, which is the Company’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

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.

The Company had Cash and cash equivalents of R$ 1,184 as of December 31, 2019 (R$ 3,232 as of December 31, 2018). Cash and cash equivalents are maintained with banks and financial institutions with AA to AAA ratings assigned by the leading rating agencies.

The estimated impairment on cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. Cash and cash equivalents have a low-credit risk based on the counterparties’ independent credit ratings.

e. Financial instruments

Upon initial recognition a financial asset is classified as measured: at amortized cost; at FVOCI (Fair Value through other comprehensive income) - debt instrument; at FVOCI - equity instrument; or at FVTPL (Fair Value of net income).

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:

- it is maintained within a business model with the objective of maintaining financial assets in order to receive contractual cash flows;
- 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:

- it 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 realization 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

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
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

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 are recognized in profit or loss. Any gain or loss resulting from derecognition is recognized in profit or loss.
Equity 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.

(i) 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.

(ii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Company transfers the rights to receive the contractual cash flows of a financial asset in a transaction where essentially all the risks and rewards of ownership of financial assets 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 derecognized.

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.

(iii) Offset

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable 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 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 tax and social contribution

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 realization 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. Investment

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

k. Use of estimates and judgments

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 Significant accounting policies

The accounting practices used to produce these financial statements are consistent with those used to prepare the Financial Statements as of December 31, 2018, dated March 20, 2019.

5 Standards and interpretations issued but not yet effective

Of the new standards in force, CPC 06 (R2)16 did not have a material impact on the Company's financial statements in the initial application period.

l. Standards and interpretations issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019.

The following amended standards and interpretations are not expected to have a significant impact financial statement:

- Amendments to references to the conceptual framework of financial standards.
- Defining a business (amendments to CPC 15).
- Defining materiality (amendments to CPC 26 and CPC 23).

6 Cash and cash equivalents

	2019	**2018**
Cash and banks	1,047	1,975
Cash equivalents		
Investment Fund	147	1,257
	1,194	**3,232**
Estimated impairment loss allowance	(10)	-
	1,184	**3,232**

The balance of cash and banks as of December 31, 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:

	2019	**2018**
Income tax and social contribution (“IRPJ/CSLL”)	1,480	20,594
Income tax withheld at source (“IRRF”)	16,665	3,641
Income tax on loan (“IRPJ”)	264	6,899
	18,409	**31,134**
Current	18,409	10,540
Noncurrent	-	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 December 31, 2019 and 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 subsidiary, as follows:

	Trade and other receivables	
	2019	**2018**
Loan with related parties		
Ferroport	646,433	791,485
	646,433	**791,485**
Current	68,188	57,601
Noncurrent	578,245	733,884

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

	Finance income	
	2019	**2018**
Loan interest		
Ferroport	57,799	63,652
	57,799	**63,652**

Management Compensation

Company Management is compensated by the parent company Prumo Logística.

9 Investment

a. Equity interests

	2019								
Direct investee	**% interest**	**Number of shares/quotas (thousand)**	**Assets**	**Liabilities**	**Equity**	**Capital**	**Capital reserve**	**Profit reserves**	**Retained earnings**
Ferroport	50%	1,080	2,745,880	1.889363	1,075,929	803,404	94,589	137,350	40,586

	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

b. Changes

Direct investee	**2018**	**Equity income**	**2019**
Ferroport	329,148	208,817	537,965
	329,148	**208,817**	**537,965**

Direct investee	**2017**	**Equity income**	**Asset and liability valuation adjustments**	**2018**
Ferroport	333,297	(4,438)	288	329,148
	333,297	**(4,438)**	**288**	**329,148**

10 Loans and borrowings

	2019					2018
Institution	**Due date**	**Rates in %**	**Principal**	**Interest and restatement**	**Total**	**Total**
Senior Secured Bonds	12/31/2031	Dollar + 7.50% p.a	1,383,936	-	1,383,936	-
(-) Transaction cost			(118,692)	-	(118,692)	-
Brookfield Asset Management	9/30/2022	Dollar + 8.50% p.a	-	-	-	390,294
(-) Transaction cost			-	-	-	(39,555)
			1,265,244	**-**	**1,265,244**	**350,739**
Current			17,597	-	17,597	54.778
Noncurrent			1,247,647	-	1,247,647	295.961

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

On October 8, 2019, Prumo Participações issued debentures for USD 270M, 100% subscribed by Goldman Sachs, in the form of a bridge loan related to the senior debt previously closed, maturing in three months. The issuance proceeds were used to:

(i) pay the notes issued in 2015 in the amount of R$ 298,361, with principal of R$ 289,141, interest of R$ 546 and prepayment cost of R$ 8,674;
(ii) pay the notes issued in 2019 in the amount of R$ 243,779, with principal of R$ 238,963, interest of R$ 2,426 and prepayment cost of R$ 2,389;
(iii) payment of transaction costs; and
(iv) distribution to Prumo Logística. The settled debt's transaction costs were fully written off in 2019.

On October 22, 2019, the Company priced senior debt in the amount of R$ 1,352,504 under regulation 144A/RegS, with a coupon of 7.5% p.a., semi-annual payments and final maturity in December 2031. On December 30, 2019 the company made the first debt payment of R$ 45,031, with a principal of R$ 26,809 and interest of R$ 18,222.

Escrow Deposits

Prumo Participações has two reserve accounts for the financing contract: The Debt Service Reserve Account ("DSRA"), which contains 6 months of the minimum principal payment plus interest payable in the period; and the Target Payment Reserve Account ("TARA"), which holds the amount exceeding the amount due on each payment date. This second account is funded until it reaches 8.5% of the outstanding principal and once full, no further amounts will be paid into this account. As of December 31, 2019 DSRA had R$ 53,073 and TARA R$ 47,883, totaling R$ 100,956.

Guarantees provided

The Company submitted the following security for the senior debt contracts: (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 the loan between Prumo Participações and Ferroport (iv) Accounts contract; and (v) Statutory Lien of credit receivables and accounts.

Transactions not involving cash or cash equivalents

		Cash Flow			**Noncash effect**		
	2018	**Secured / (settled)**	**Interest paid (financing)**	**Addition of transaction costs**	**Interest and exchange variance**	**Amortization of transaction costs**	**2019**
Loans and borrowings	**350,739**	967,777	(51,396)	(132,552)	77,260	53,416	**1,265,244**
	350,739	**967,777**	**(51,396)**	**(132,552)**	**78,260**	**53,416**	**1,265,244**

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:

	2019	2018
Deferred tax liability		
Provision for hedge settlements	223	-
Temporary difference - Exchange variance	-	(13,045)
Total deferred taxes	**223**	**(13,045)**

12 Taxes and social contributions payable

	2019	2018
PIS/COFINS	170	246
IRRF	-	-
PIS/COFINS/CSLL - Withheld	2	2
IRPJ/CSLL	-	3,447
	172	**3,695**

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:

	2019	2018
Profit (loss) before income and social contribution taxes	82,381	(51,776)
Income and social contribution taxes at the rate (34%)	(28,009)	17,604
Adjustment to determine the effective rate		
Equity income and Exchange Variance	79,658	(1,509)
Tax credits are not recognized	(38,381)	24
Total income and social contribution taxes	**13,268**	**16,119**
Effective rate	16.11%	(31.13%)
Current	-	(3,447)
Deferred charges	13,268	19,566
Total income and social contribution taxes	**13,268**	**16,119**

13 Equity

a. Capital

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

	2019		2018	
Shareholders	**Quantity of common shares (thousand)**	**%**	**Quantity of common shares (thousand)**	**%**
Prumo	820,362	100.00	788,559	100.00
	820,362	**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. On October 8, 2019 Company Management approved the proposal to reduce its share capital from R$ 600,352 to R$ 202,964, an effective decrease of R$ 397,388 in local currency. On October 31, 2019 Company Management approved the proposal to reduce its share capital from R$ 202,964 to R$ 10, an effective decrease of R$ 202,954 in local currency. The shareholder’s interest in the Company’s share capital remained unchanged during the three events.

On October 3, 2019 Company Management approved and subscribed 31,773 new registered common shares with no par value, at an issuance price of R$ 0.8304 per share. The total capital increase was approved via the capitalization of R$ 12,100 of credits deriving from the advance for future capital increase by Prumo Logística and R$ 14,285 from converting the amount recorded in the Company's capital reserve.

b. Reserves

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; and

iii. Remaining amount of dividends to be paid.

c. Dividends

	2019	2018
Net income for the year	95,649	-
Prior-year income	(15,141)	
Total accumulated	80,507	
Dividend calculation basis	**80,507**	**-**
Dividends	23,970	-
Additional dividends proposed	20,126	-
Profit reserve	36,409	

The EGM held October 31, 2019 resolved to distribute interim dividends pursuant to article 22 of the Company's Bylaws amounting to R$ 44,096, calculated based on the retained earnings, as stated in the Company's Financial Statements dated June 30, 2019.

14 Finance income (costs)

	2019	2018
Finance income		
Loan interest	57,799	63,652
Interest on investments	567	84
Interest earned	793	988
Exchange variance	158,353	59,392
Other	10	25
	217,522	**124,141**
Finance costs		
Interest on loans	(58,597)	(33,658)
Exchange variance	(171,383)	(116,940)
Commission and brokerage fees	(71,429)	(10,598)
Face value discount	(20,614)	-
Fine and interest	-	(53)
Taxes on financial revenue	(20,204)	(9,134)
Other	(787)	(799)
	(343,014)	**(171,182)**
	(125,549)	**(47,041)**

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.

In compliance with senior debt contracts, the company is taking out currency hedges every month to cover the debt service.

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:

	2019			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	1,184	-	-	3,232	-	-
Escrow account	100,956	-	-	-	-	-
Loan with related parties	646,433	-	-	791,485	-	-
Other accounts receivable	-	-	-	2	-	-
	748,573	**-**	**-**	**794,719**	**-**	**-**
Liabilities						
Trade accounts payable	2,674	-	-	210	-	-
Loans and borrowings	1,265,244	-	-	350,739	-	-
	1,267,918	**-**	**-**	**350,949**	**-**	**-**

	2019			2018		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Liabilities						
Supplier	2,674	-	-	210	-	-
Loans and borrowings	1,265,244	-	-	350,739	-	-
	1,267,918	**-**	**-**	**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 December 31, 2019 loans and financing are measured at amortized cost. The fair value calculated by Management for reference purposes only is
R$ 1,441,286

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%.

2019	**Real**	**USD +10%**	**USD +20%**
Institution			
Senior Secured Bonds	1,383,936	1,522,329	1,660,723
Total	**1,383,936**	**1,522,329**	**1,660,723**

2018	**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, 2019. 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							
Supplier	-	2,703	-	-	-	-	2,703
Loans and borrowings	-	57,174	79,380	158,098	579,453	1,311,946	2,186,051
Total by time range	-	59,877	79,380	158,098	579,453	1,311,946	2,188,754

(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:

Financial instruments	**2019**	**2018**
Cash and banks	1,184	3,232
Escrow account	100,956	375
Related-party loan	646,433	791,498
Other accounts receivable	-	2
	748,573	**795,107**

(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

Arbitration agreement between Anglo, Ferroport and Prumo Participações

Ferroport received a notification from its client Anglo American Minério de Ferro Brasil S.A. - AAMFB, invoking force majeure due to the occurrence of two leakages at its slurry pipeline on March 12 and 29, 2018 and the fact that the local authorities suspended the pipeline's license until a detailed inspection could be carried out on its entire length and its safety confirmed by an independent expert. AAMFB consequently suspended the take-or-pay payments. A dispute between the parties arose from the Shareholders' Agreement. And Framework Agreement (the "Disputes"). Ferroport and its shareholders signed the agreement on March 16, 2020 to permanently and irrevocably settle all claims made in respect of the Disputes and to bring the Arbitration proceedings to a conclusion. This reconciliation process began in 2019, with arbitration being stayed on September 13, 2019. The agreement was officially approved by the parties on December 9, 2019 with compensation of USD 60 million, and substantial and significant evidence that changed the probability of receiving this revenue, requiring the revenue be recognized in 2019, in accordance with CPC 24 (subsequent events).

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Members of the Executive Board

Eugenio Leite de Figueiredo
CEO and CFO

Eduardo Quartarone Campos
Officer with no specific title

Candice Frankel Feferkorn
Accountant
CRC-RJ 125841/O-1