Prumo Participações e Investimentos S.A.

Financial statements
December 31, 2020 and 2019

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 Brasil)

To Directors of

Prumo Participações e Investimentos S.A.

Rio de Janeiro – RJ

Opinion

We have audited the financial statements of Prumo Participações e Investimentos S.A. ("the Company") , which comprise the balance sheet as of December 31, 2020, and the statements of operations, comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including 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, 2020, and 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 International and Brazilian Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the 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 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 audit 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 policies 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.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that the examination performed in accordance with Brazilian and international standards on auditing will always detect possible existing material misstatements. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the examination performed in accordance with Brazilian and international standards on auditing, we exercised professional judgment and maintained 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 material misstatement resulting from fraud is greater than the one deriving from error, as fraud may involve the act of circumventing internal control, collusion, forgery, omission or deliberate false representations.

- 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's internal controls.

- 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's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are substantiated by the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a compatible manner with the objective of a true and 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 financial statements. We are responsible for the direction, supervision and performanceof the group audit. We remains 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 03, 2021

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

Original in Portuguese signed by

Juliana Ribeiro de Oliveira

Contador CRC RJ – 095335/O-0

Prumo Participações e Investimentos S.A.

Statements of financial position as of December 31, 2020 and 2019

(In thousands of reais)

Assets	**Note**	**2020**	**2019**
Current			
Cash and cash equivalents	6	65,281	1,184
Escrow deposits	10	60,955	100,956
Recoverable taxes	7	13,010	18,409
Loan with related parties	8	71,000	68,188
Other accounts receivable		11	-
Total current assets		**210,257**	**188,737**
Noncurrent			
Deferred tax	11	180	223
Related-party loan	8	229,379	578,245
Investments	9	749,919	537,965
Intangible assets		16	16
Total non-current assets		**979,494**	**1,116,449**
Total assets		**1,189,751**	**1,305,186**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of financial position as of December 31, 2020 and 2019

(In thousands of reais)

Liabilities	Note	2020	2019
Current			
Trade payables		163	2,674
Loans and borrowings	10	55,520	17,597
Taxes payable	12	806	172
Accounts payable to related parties	8	1,733	18
Derivative	10 and 15	530	656
Total current liabilities		**58,752**	**21,117**
Noncurrent			
Loans and borrowings	10	1,435,614	1,247,647
Total non-current liabilities		**1,435,614**	**1,247,647**
Equity	13		
Share capital		10	10
Profit reserve		2	36,412
Accumulated losses		(304,615)	-
Total equity		**(304,615)**	**36,422**
Total liabilities and equity		**1,189,751**	**1,305,186**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of profit or loss

Years ended December 31, 2020 and 2019

(In thousands of reais)

	Note	2020	2019
Operating expenses			
Administrative expenses		(780)	(934)
Provision for asset impairment		(2)	(10)
		(782)	**(944)**
Finance income (costs)	**14**		
Finance revenue		374,905	217,522
Finance costs		(890,661)	(343,014)
		(515,756)	**(125,492)**
Share of profit (loss) of equity-accounted investees	9	211,954	208,817
Net income before taxes		**(304,584)**	**82,381**
Current income and social contribution tax	12	-	-
Deferred income and social contribution taxes	12	(43)	13,268
Net income (loss) for the year		**(304,627)**	**95,649**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of comprehensive income

Years ended December 31, 2020 and 2019

(In thousands of reais)

	2020	2019
Net income (loss) for the year	**(304,627)**	**95,649**
Total comprehensive income for the year	**(304,627)**	**95,649**

The notes are an integral part of these financial statements.

Prumo Participações e Investimentos S.A.

Statements of changes in equity

Years ended December 31, 2020 and 2019

(In thousands of reais)

		Capital Reserve	Profit Reserves				
	Share capital	**Capital contribution**	**Legal reserve**	**Profit reserve**	**Advance for future capital increase**	**Retained earnings**	**Total equity**
Balance at January 01, 2019	**788,559**	**14,285**	**-**	**-**	**-**	**(15,141)**	**787,703**
Net income 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)**
Making of reserve	-	-	-	36,412	-	(36,412)	-
Minimum mandatory dividends	-	-	-	-	-	(20,126)	**(20,126)**
Advanced dividends	-	-	-	-	-	(23,970)	**(23,970)**
Balance as of December 31, 2019	**10**	**-**		**36,412**	**-**	**-**	**36,422**
Loss for the year	-	-	-	-	-	(304,627)	**(304,627)**
Dividends	-	-	-	(36,410)	-	-	**(36,410)**
Balance as of December 31, 2020	**10**	**-**		**2**	**-**	**(304,627)**	**(304,615)**

See the accompanying notes to the financial statements.

Prumo Participações e Investimentos S.A.

Statements of cash flows

Years ended December 31, 2020 and 2019

(In thousands of reais)

	2020	2019
Cash flows from operating activities		
Net income (loss) before tax	(304,584)	82,381
Expenses (income) not affecting cash:		
Share of profit (loss) of equity-accounted investees	(211,954)	(208,817)
Tax offset	10,689	-
Monetary variance and interest	481,883	13,846
Amortization of transaction costs	16,949	53,416
	(7,016)	**(59,174)**
(Increase) decrease in assets and increase (decrease) in liabilities:		
Income tax on loan	(3,557)	15,305
Recoverable taxes	5,622	(2,580)
Trade payables	(2,511)	2,466
Taxes payable	634	(3,523)
Related-party transactions	1,715	-
Other assets and liabilities	(137)	674
Net cash provided by (used in) operating activities	**(5,250)**	**(46,832)**
Cash flows produced by investment activities		
Loans received from related parties - interest	20,163	86,727
Loans received from related parties - Principal	345,030	107,454
Net cash from investing activities	**365,193**	**194,181**
Cash flows from financing activities		
Net capital increase	-	26,385
Dividends	(36,410)	(44,096)
Financial Hedging	(5,592)	-
Capital decrease, net	-	(814,934)
Escrow account	73,658	(100,581)
Transaction costs	(2,647)	(132,552)
Loans obtained	-	2,727,915
Loans settled with third parties	(195,829)	(1,760,138)
Interest paid	(129,026)	(51,396)
Net cash used in financing activities	**(295,846)**	**(149,397)**
Increase (decrease) in cash and cash equivalents	**64,097**	**(2,048)**
Cash and cash equivalents at beginning of year	1,184	3,232
Cash and cash equivalents at end of year	65,281	1,184
Increase (decrease) in cash and cash equivalents	**64,097**	**(2,048)**

The notes are an integral part of these 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 operating 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 2020 Ferroport shipped a total of 23,849 thousand tonnes of iron ore, in 150 Capesize ships.

Over the course of 2020 the Company made debt repayments in the amounts stipulated in the target curve and also amortized the TARA, paying 10.32% of the total debt, complying with all debt contract provisions and all covenants. The negative economic effects are substantially due to the devaluation of the Brazilian currency against the US dollar, which did not produce a negative cash result, as there is a natural hedge between Prumo Participações’ debt in US dollars and Ferroport's earnings which is impacted by its revenue, in the same currency.

The risks and impacts of the COVID-19 pandemic on Prumo Participações’ financial statements as of December 31, 2020 primarily refer to Ferroport.

Ferroport Management implemented suitable measures to mitigate the impacts of the outbreak on its operations and these financial statements. The following main measures had been taken by the date the issuance of these financial statements was authorized:

• Formation of a Crisis Committee;
• Virtual meetings, suspension of events and travel;
• Setting up home offices for office workers whenever possible;
• Weekly rotations in the workplace;
- At the port, the Ministry of Health's regulatory agency will not authorize any ships to moor until the National Health Surveillance Agency (Anvisa) has approved the report issued by the ship’s captain regarding sanitary conditions on the vessel and amongst the crew.

The Company has introduced internal measures to respond to the COVID-19 threat. Ferroport's operating activities are ongoing and the Take-or-Pay agreement with Anglo American remains in place without any interruption. Ferroport has consequently continued making all loan repayments to Prumo Participações, which have not been affected by the COVID-19 outbreak in any way, shape or form.

As the Company learns of relevant additional information/developments that affect Ferroport's operations, a notice will be issued to all securities holders as required by the reporting obligations under the terms of the Senior Secured Securities contract.

2 List of Investees

	Country	Equity interest 2020	Equity interest 2019
Direct joint subsidiary:			
Ferroport	Brazil	50.00%	50.00%

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

a. Statement of compliance

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

Authorization for the conclusion of the preparation of these financial statements was given by Management on March 01, 2021. 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 balances have been rounded off to the nearest thousand, except where specified otherwise.

d. Cash and cash equivalents

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

The Company had Cash and cash equivalents of R$ 65,281 as of December 31, 2020 (R$ 1,184 as of December 31, 2019). 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

The financial instruments used by Management are those mentioned in note 3 - Basis of preparation and presentation of the financial statements and the significant accounting practices adopted in the financial year ended December 31, 2019.

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 and social contribution taxes

Current income and social contribution taxes are calculated based on net income, adjusted to taxable income by the additions and exclusions stipulated in the existing tax legislation. The Company records deferred income and social contribution tax assets 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 deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values and to tax losses carryforward and negative basis of social contribution.

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. Investments

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.

The Company reviews its estimates and assumptions at least annually. There are no significant items subject to these estimates.

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

4 Description of significant accounting policies

The accounting practices used to produce these financial statements are consistent with those used to prepare the Financial Statements as of December 31, 2019, dated March 27, 2020.

5 New standards and interpretations issued but not yet effective

Of the new standards in force, there are no new CPC / IFRS standards having a material impact on the Company's financial statements.

(i) New standards and interpretations issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020. Prumo Par has not adopted these standards in the preparation of the financial statements.

Amending the referential interest rate – Phase 2 (alterations to CPC 48/IFRS 9, CPC 38/IAS 39, CPC 40/IFRS 7, CPC 11/IFRS 4 and CPC 06/IFRS16)

The alterations consist of issues that could affect the financial statements as a result of the amendment to the referential interest rate, including the effects of changes on contractual cash flows or hedge ratios resulting from replacing the referential interest rate by an alternative referential rate. The alterations provide a practical expedient for certain requirements of CPC 48/IFRS 9, CPC 38/IAS 39, CPC 40/IFRS 7, CPC 11/IFRS 4 and CPC 06/IFRS 16 related to:

- changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities; and

- hedge accounting.

(ii) Other standards

The following new or amended standards are not expected to have a significant impact on the consolidated financial statements:

- Rental concessions related to COVID-19 (alteration of CPC 06/IFRS 16) 60
- Property, plant and equipment: Revenue before intended use (alterations to CPC 27/IAS 16).
- Reference to Conceptual Framework (Alterations to CPC 15/IFRS 3).
- Classification of Liabilities as Current or Noncurrent (Alterations to CPC 26/IAS 1).
- IFRS 17 Insurance Contracts.

6 Cash and cash equivalents

	2020	2019
Cash and banks	1,003	1,047
Cash equivalents		
Investment Fund	64,285	147
	65,288	**1,194**
Estimated impairment loss allowance	(7)	(10)
	65,281	**1,184**

The balance of cash and banks as of December 31, 2020 and 2019 consists of current accounts and investment fund holdings at Banco Santander S/A and Citibank, that are promptly convertible into a known cash amount and are subject to an insignificant risk of impairment. The increase in the balance is due to the accumulation of cash funds at Ferroport for semi-annual amortization of the debt.

7 Recoverable taxes

The recoverable taxes break down as follows:

	2020	2019
Income tax and social contribution (“IRPJ/CSLL”)	2,641	1,480
Income tax withheld at source (“IRRF”)	10,286	16,665
Income tax on loan (“IRPJ”)	83	264
	13,010	**18,409**

8 Related-party transactions

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

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

The main balances of related-party assets and liabilities as of December 31, 2020 and 2019, 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:

	Accounts receivable	
	2020	**2019**
Loan with related parties		
Ferroport	300,379	646,433
	300,379	**646,433**
Current	71,000	68,188
Noncurrent	229,379	578,245

	Accounts payable	
	2020	**2019**
Accounts payable - debit notes		
Prumo Logistica	1,733	18
	1,733	**18**

The table below demonstrates the effect on profit or loss:

	Finance revenue	
	2020	**2019**
Loan interest		
Ferroport	22,516	57,799
	22,516	**57,799**

Management Compensation

Company Management is compensated by the parent company Prumo Logística.

Maturity and interest

Intercompany loans incur annual interest of 100% of the CDI rate plus 2% p.a. Intercompany loans are not subject to covenants or security.

Ferroport should reimburse all pending amounts, including any pending interest, by December 31, 2030.

		Cash effect		Noncash effect		
	2019	Secured / (settled)	Interest received (financing activities)	Interest and exchange variance	Income tax withheld at source	2020
Loans with related parties	**646,433**	(345,030)	(20,162)	22,516	(3,378)	**300,379**
	646,433	**(345,030)**	**(20,162)**	**22,516**	**(3,378)**	**300,379**

9 Investments

a. Equity interests

					2020				
Direct investee	**% interest**	**Number of shares/ (thousand)**	**Assets**	**Liabilities**	**Equity**	**Capital**	**Capital reserve**	**Profit reserve**	**Retained earnings**
Ferroport	50%	1,080	2,858,806	1,358,969	1,499,837	1,197,152	94,589	158,066	50,030

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

b. Changes

Direct investee	2019	Share of profit (loss) of equity-accounted investees	2020
Ferroport	537,965	211,954	749,919
	537,965	211,954	**749,919**

Direct investee	2018	Share of profit (loss) of equity-accounted investees	2019
Ferroport	329,148	208,817	537,965
	329,148	**208,817**	**537,965**

10 Loans and borrowings

	2020			2019
Institution	**Expiry date**	**Rates in %**	**Total**	**Total**
Senior Secured Bonds	12/31/2031	Dollar + 7.50% p.a	1,596,552	1,383,936
(-) Transaction cost			(105,418)	(118,692)
			1,491,135	**1,265,244**
Current			55,520	17,597
Noncurrent			1,435,614	1,247,647

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

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.

In 2019 Ferroport recorded the revenue based on the settlement reached on March 16, 2020 to end the Arbitration proceeding. Ferroport received compensation of R$ 241,806 (USD 60,000) on April 20, 2020 and used this amount net of taxes and arbitration expenses to repay loans taken out from its shareholders. After receiving this extraordinary payment, the Company used R$ 93,456 to finance the TARA “Target Payment Reserve Account” to the maximum amount, as required in the financing documents. The cash surplus of R$ 30,409 between the amount the company received from Ferroport and the amount allocated to TARA was paid out as dividends to Prumo Logística, pursuant to the financing documents.

On April 27, 2020 the Company delivered a notification to the Deed Trustee that the TARA payment had been triggered, which is a Mandatory Redemption Event in the financing documents. The TARA payment was triggered because of a discount in the Port Access Fees paid by ships accessing the T-Oil Channel. The Company was consequently obliged to use the total TARA amount to partially redeem Series 2019-1. On June 30, 2020, the Company amortized R$ 159,815. The redemption was applied to reduce the opening balance of the securities, and the payment curve will be adjusted proportionally for the remaining years of the contract. In conjunction with the TARA payment trigger, the Company paid principal amortization of R$ 6,959 and interest of R$ 68,452.
On December 31, 2020 the Company amortized R$ 29,072 of the total principal and paid interest of R$ 60,573.

In respect of the loan received from Ferroport, the port operator is positively impacted by the devaluation of the Brazilian real against the US dollar, which eases the loan payments. The cash inflow from Prumo Participações is substantially due to the reais-denominated loan amortized by Ferroport and is passed through to the Company on a monthly basis.

Escrow Deposits

Prumo Participações has two reserve accounts for the financing contract: The Debt Service Reserve Account (“DSRA”), which has a 6-month minimum principal payment plus interest payable in the period; and the Target Payment Reserve Account (“TARA”), which will no longer be financed following the triggering of the TARA payment. In December 2020 the DSRA had R$ 60,955 deposited and TARA had R$ 0, due to the mandatory redemption event.

Non-deliverable forward (NDF)

The cash inflows from Prumo Participações are substantially due to the reais-denominated loan of Ferroport and are passed through to the Company on a monthly basis. Via the issuance of senior debt contracts, the Company contracted a Hedging Program that determines the Company shall enter into NDFs (non-deliverable forwards) every month to buy US dollars and sell reais in an amount equal to 1/6 of the semi-annual payment to hedge the debt payments and funding in reserve accounts maturing in June and December.

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 and (iv) Statutory Lien of credit receivables and accounts.

Transactions not involving cash or cash equivalents

		Cash Flow			Noncash effect		
	2019	**Secured / (settled)**	**Interest paid (financing)**	**Addition of transaction costs**	**Interest and exchange variance**	**Amortization of transaction costs**	**2020**
Loans and borrowings	**1,265,244**	(195,829)	(129,026)	(3,676)	537,472	16,949	**1,491,134**
	1,265,244	(195,829)	(129,026)	(3,676)	537,472	16,949	**1,491,134**

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.

As of December 31, 2020 and 2019 the balance of deferred income and social contribution tax asset not recognized due to a lack of impairment projections was R$ 112,884 and R$ 170,349 respectively.

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

	2020	2019
Deferred tax assets (liabilities)		
Provision for hedge settlements	180	223
Total deferred taxes	**180**	**223**

12 Taxes and social contributions payable

	2020	2019
PIS/COFINS	806	170
PIS/COFINS/CSLL - Withheld	-	2
	806	**172**

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:

	2020	2019
Profit (loss) before income and social contribution taxes	(304,584)	82,381
Income and social contribution taxes at the rate (34%)	103,559	(28,009)
Adjustment to determine the effective rate		
Equity income and Exchange Variance	72,064	79,658
Tax credits are not recognized – Temporary differences	(56,894)	(38,381)
Tax credits are not recognized – Tax loss	(118,772)	-
Total income and social contribution taxes	**(43)**	**13,268**
Effective rate	0.01%	16.11%
Current	-	-
Deferred	(43)	13,268
Total income and social contribution taxes	**(43)**	**13,268**

13 Equity

a. Share capital

The Company's ownership structure as of December 31, 2020 and 2019 is as follows:

	2020		2019	
Shareholders	**Quantity of common shares (thousand)**	**%**	**Quantity of common shares (thousand)**	**%**
Prumo	820,362	100.00	820,362	100.00
	820,362	**100.00**	**820,362**	**100.00**

b. Reserves

In 2019 the Executive Board presented 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.

No dividends were paid out in FY 2020 because of the loss made.

c. Dividends

	2020	**2019**
Net income for the year	-	95,649
Prior-year income	-	(15,141)
Total accumulated	-	80,508
Legal Reserve	-	(2)
Dividend calculation basis	**-**	**80,506**
Advanced dividends	-	23,970
Minimum mandatory dividend	-	20,126
Additional dividends proposed (profit reserve)	-	36,410

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)

	2020	2019
Finance revenue		
Loan interest	22,516	57,799
Interest on short-term investments	1,358	567
Interest earned	469	793
Exchange variance	330,620	158,353
Hedge	19,940	-
Other	2	10
	374,905	**217,522**
Finance costs		
Interest on loans	(128,722)	(58,597)
Exchange variance	(702,378)	(171,383)
Commission and brokerage fees	(16,949)	(71,429)
Face value discount	-	(20,614)
Hedge	(16,255)	-
Tax	(23,838)	(20,204)
Other	(2,519)	(787)
	(890,661)	**(343,014)**
	(515,756)	**(125,492)**

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, market data was used to calculate the fair value. However, it was necessary to interpret 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:

	2020				2019			
	Amortized cost	**Fair value**	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Amortized cost**	Fair Value	**Fair value through other comprehensive income**	**Fair value through profit or loss**
Assets								
Cash and cash equivalents	65,281	-	-	-	1,184	-	-	-
Escrow account	60,955	-	-	-	100,956	-	-	-
Loan with related parties	300,379	-	-	-	646,433	646,433	-	-
	426,626	-	-	-	**748,573**	**646,433**	-	-
Liabilities								
Trade payables	163		-	-	2,674		-	-
derivatives	530		-	-	656		-	-
Loans and borrowings	1,491,134		-	-	1,491,134		-	-
	1,797,066		-	-	**1,443,960**		-	-

	2020			2019		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Liabilities						
Trade payable	163	-	-	2,674	-	-
Loans and borrowings	-	1,491,134	-		1,441,286	-
	163	1,491,134	-	**2,674**	**1,441,286**	-

- **(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, 2020 loans and financing are measured at amortized cost. The fair value calculated by Management for reference purposes only is R$ 1,796,903.

The carrying amounts of other financial instruments measured at amortized cost are classified as loans and receivables (assets) and other liabilities measured at amortized cost. The carrying amount 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 Reais and its monthly revenue is indexed to the US dollar. The joint-venture's operating revenue is therefore exposed to exchange variance risk due to the mismatch between the 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, the company is required to enter into NDFs (Non-Deliverable-Forwards) monthly to hedge against exchange variance, in accordance with the financing documents.

The following table provides details on all derivative transactions within the relevant hedging programs, including information on the type of instrument, the nominal value, the maturity, the fair value including credit risk, and amounts paid/received or provisioned for in the period.

Hedge schedule for Non-deliverable Forwards

	Company	NDF contracted in R$		Mark-to-market (MTM)		Accumulated effect Amount receivable/received or payable/paid
NDF		**12/31/2020**	**Maturity (year)**	**12/31/2020**	**12/31/2019**	**12/31/2020**
Forward USD	Prumo Participações	13,147	2020	-	(656)	-
Forward USD	Prumo Participações	20,603	2021	(530)	-	(530)
Net				**(530)**	**(656)**	**(530)**

The table below summarizes the current value of the debt in millions of reais, with a sensitivity scenario in the exchange rates (USD) suffering positive oscillations of 10%, 20% and 30%.

2020	**Real**	**USD +10%**	**USD +20%**	**USD +30%**
Institution				
Senior Secured Bonds	1,596,551	1,756,207	1,915,862	2,075,518
Total	**1,596,551**	**1,756,207**	**1,915,862**	**2,075,518**

2019	**Real**	**USD +10%**	**USD +20%**	**USD +30%**
Institution				
Senior Secured Bonds	1,383,936	1,522,329	1,660,723	1,799,117
Total	**1,383,936**	**1,522,329**	**1,660,723**	**1,799,117**

(ii) Liquidity risk

The table below denotes the main financial liabilities of the Company as of December 31, 2020. These amounts are gross and are not discounted, and include payments of estimated interest.

	No maturity	Up to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial liabilities							
Trade payable	-	163	-	-	-	-	163
Loans and borrowings	-	59,909	73,274	127,761	457,355	1,710,340	2,428,639
Total by time range	**-**	**60,072**	73,274	127,761	457,355	1,710,340	2,428,802

(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	**2020**	**2019**
Cash and banks	65,281	1,184
Escrow account	60,955	100,956
Related-party loan	300,379	646,433
Other accounts receivable	11	-
	426,626	**748,573**

(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

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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