Financial Statements
(Individual and Consolidated)

Porto Sudeste do Brasil S.A.

December 31, 2017
with Independent Auditor Report on
Financial Statements

Porto Sudeste do Brasil S.A.

Individual and consolidated financial statements

December 31, 2017

Contents

Financial statements

Management Report

1. Message from Management

Management of Porto Sudeste do Brasil S.A. - Porto Sudeste or Company, in compliance with the legal requirements and in accordance with the prevailing corporate legislation, hereby submits for your appreciation the Financial Statements accompanied by the respective explanatory notes and the independent auditor's report for the year ended December 31, 2017. Should you need any further clarifications, please do not hesitate to contact us. In closing 2017, Management expresses their acknowledgement to suppliers, employees and all other co-workers for their dedication and commitment.

2. Relationship with independent auditors

Pursuant to CVM Rule No. 381/2003, we hereby inform that Ernst & Young Auditores Independentes S/S ("EY") renders external audit services relating to the audit of the Company's financial statements.

When contracting services not related to independent audit, the Company adopts procedures that are based on applicable law and on principles internationally accepted that preserve the auditor's independence and objectivity. These principles are as follows: (i) the auditor must not review its own work, and (ii) the auditor must not act as a manager for his/her client neither promote this client's interest.

EY represented to the Company that there is no relationship or factual situation that represents conflict of interests, preventing the exercise of their activity on an independent basis.

3. Management's explanations with respect to variable-yield securities

Variable-yield securities

By virtue of the conclusion of the Company's parent Porto Sudeste do Brasil S.A. acquisition in February 2014, as described in Note 1, the Company assumed the obligations related to the variable-yield securities, issued in March 3, 2015 in connection with Porto Sudeste's acquisition by MMX. In order to make the transfer of such obligation feasible, the Corporation issued variable-yield securities (mirror securities of MMXM11) in similar terms to MMXM11, by means of two vehicles:

- FIP-IE Porto Sudeste Royalties: An infrastructure equity investment fund to hold in its portfolio exclusively Port11 Securities - and for each Port11 Security held by FIP-IE would be entitled to a Unit. FIP-IE's units were offered to the holders of MMXM11 Securities that would fit as qualified investors pursuant to CVM regulation, and would not have restrictions to hold FIP-IE units.

- Porto Sudeste V.M S.A.: A stock corporation registered with CVM under category ‘B’. Said corporation issued a new royalty-based variable-yield security, mirror of MMXM11 Security (“PSVM11 Securities”), and such security listed for trading on BM&FBOVESPA (contrary to Port11 Securities which are not accepted for trading on the stock exchange). The PSVM11 Securities were offered to holders of MMXM11 Securities that (i) would not fit as qualified investors, or (ii) would have regulatory restrictions to hold units of a FIP-IE.

Such security exchange operation did not generate impacts on the Corporation’s financial statements, once the obligation of payment had already been recognized based on contractual clauses with the final holders of the original securities (MMXM11).

Through conclusion of security exchange, the Company has an obligation of payment to the carriers above, which in turn have an obligation of payment to the holders of units/securities exchanged.

The holders of securities mentioned are entitled to quarterly variable-yield determined since January 1st, 2013, calculated based on metric ton of iron ore (defined below) or the value per ton of other loads (defined below), as the case may be, as follows:

R = [(TMMF x VpTMF) + (TMOC x VpTDC)]*FP

where:

R = royalties payable in relation to each quarter of the fiscal year
TMMF = Ton of Iron Ore shipped on Port for the respective quarter
TMOC = Ton of Other Loads shipped on Port for the respective quarter
VpTMF = Value per Ton of Iron Ore (as defined below)
VpTDC = Value per Ton of Other Loads (as defined below)

For iron ore loads: the royalties related to iron ore loads shipped on Port in a certain calendar quarter shall be calculated, taking into account the amount of USD 5.00 per ton of iron ore (“value per ton of iron ore”). This value will be (i) adjusted annually at the variation in US PPI calculated from September 2010; and (ii) converted into reais, based on the exchange rate at the ending of the business day immediately prior to the actual payment date.

For other loads: the royalties related to other loads, other than iron ores (excluding non-dry loads, such as supply activities) conducted at the Port Terminal will be calculated based on the load margin (as defined below) (“value per ton for other loads”). “Load margin” (a) means the difference between the average cost per ton (excluding all non-cash items) incurred in relation to the services rendered by Porto Sudeste relating to the applicable load and the average value per ton effectively charged by Porto Sudeste for the services rendered in relation to such load; and (b) must be limited under any circumstance to USD 5.00 per shipped ton.
The adjusted limit value of USD 5.00 per ton for load margin will be (i) adjusted annually at the variation in US PPI calculated from September 2010; and (ii) converted into reais, based on the exchange rate at the ending of the business day immediately prior to the actual payment date.

Annually, in the fourth quarter of each fiscal year, the amount of the metric tons effectively shipped on Port during the respective year ("measured tons") will be compared to: (a) the years between 2013 and 2016, the take-or-pay volumes indicated in chart below; and (b) the years subsequent, the quantity of metric tons to be shipped on Port in the respective year under all take-or-pay contracts entered into between Porto Sudeste or its subsidiaries in force in the respective fiscal year ("take-or-pay ton"):

	2013	2014	2015	2016
Metric tons	13,6	31,9	36,8	36,8

If the take-or-pay ton value, less the measured ton value is a positive figure, the values of royalties payable in relation to the fourth quarter of each fiscal year will be added to the amount corresponding to the multiplication of such number by the value per ton for iron ore, or the value per ton for other loads, as the case may be.

In the chart below, it is possible to verify the tons measured and to compare with take or pay tons for purpose of calculation described above, considering the year of 2016 as the beginning of the company's commercial operations after the commissioning held in 2015:

	2013	2014	2015	2016	2017
Tm	-	-	-	7,1	9,5

All volumes operated in the year of 2017 are related to iron ore, and there are no other quantities shipped.

If, in a certain calendar quarter by the payment of current royalties the cash of issuer and Porto Sudeste is jointly higher than (a) USD 25,000 for the fiscal years between 2013 and 2017, or (b) USD 10,000 for the fiscal years subsequent, in both cases converted into reais at the exchange rate ("minimum cash reserve"), the issuer will use the values that exceed the minimum cash reserve ("available cash") to pay the effectively accumulated royalties to the holders of securities until the last day of said calendar quarter. It is agreed and understood that issuer is not required to pay such additional values established herein, unless an available cash is held by issuer in the last day of such calendar quarter and until the available cash limit, "available cash" means the value corresponding to (i) the addition of (a) all available cash values of Porto Sudeste and (b) the positive balances on all bank accounts of issuer and Porto Sudeste (with any financial institution), less (ii) the addition of (a) any values contributed by stockholders of Porto Sudeste through capital increase or stockholder loan, to the extent that such values remain as available cash of Porto Sudeste, (b) BNDES senior debt service reserve account and CESCE senior debt service reserve account, and (c) the values of cash allocated jointly by Porto Sudeste to the IRPJ - Corporate Income Tax, CSLL - Social Contribution on Net Income, and other obligations for which Porto Sudeste's independent auditors require a joint allocation by Porto Sudeste.

The royalties shall be cumulative, i.e., if in a certain calendar quarter the available cash for royalties computed by issuer is not sufficient for the total or partial payment of royalties until then computed, said royalties unpaid shall be added to the amount of royalties for the next calendar quarter. The royalties shall only be deemed due and payable when Porto Sudeste has determined that there is sufficient Cash Available for the payment of royalties.

On December 31, 2017, the Company's parent carried out the financial calculations to identify the existence of available net cash and concluded that there is no Cash Available for the payment of royalties on this date.

Cash available for payment of royalties	1st quarter 2017	2st quarter 2017	3st quarter 2017	4st quarter 2017
Revenues	68,301	64,659	56,456	52,156
Dividends				
Applicable Taxes	(9,733)	(9,214)	(8,045)	(7,432)
Operating Costs	(15,452)	(25,593)	(21,400)	(16,654)
Maintenance Investment	(3,623)	(6,839)	(4,544)	(4,326)
Operating Expenses	(15,463)	(14,196)	(20,058)	(19,756)
Interests and Repayment of the Senior Debt	(25,145)	(68,289)	(14,746)	(12,889)
Senior Debt Service Reserve Account				
Interests and Repayment of the Working Capital Senior Debt	(371)	(42,169)	(254)	(1,651)
New Provisions for Existing Cash	-	-	-	-
Total Cash Available for Payment of Royalties	**(1,486)**	**(101,641)**	**(12,592)**	**(10,553)**

Cash available for payment of accumulated royalties	1st quarter 2017	2st quarter 2017	3st quarter 2017	4st quarter 2017
Net Cash or Bank Accounts	43,931	49,758	21,107	30,409
Contributions by the stockholders	(43,931)	(49,758)	(21,107)	(30,409)
Senior debt service reserve account	-	-	-	-
Allocated cash values	-	-	-	-
Total Cash Available for Payment of Accumulated Royalties	**-**	**-**	**-**	**-**

Reconciliation between quantity shipped and amounts paid as royalties	Shipped	Take-or-pay/Shipped
	2017	Accumulated
Volume (M/TONs)	9,528	128,628
Price per Ton	5,00	5,00
PPI, accumulated	0,47	0,47
Price per TON (USD)	**5,47**	**5,47**
Royalty (Porto Sudeste) USD	**52,118**	**703,595**
PSVM11 securities issued by Porto Sudeste V.M. S.A. as a percentage of Port11 securities	**0.43%**	**0.43%**
Royalties (Porto VM) calculated (KUSD)	**224**	**3.025**
Cash available for payment of Royalties	**-**	**-**
Royalties payable	**-**	**-**

Securities are measured in accordance with IAS 37 - Provisions, Contingent Assets and Contingent Liabilities based on projected cash flows from future security related payments discounted at an annual rate of 12.50%. On December 31, 2017, the present value of discounted future cash flow amounted to US$ 2,242,111, which converted into Brazilian reais totaled R$ 7,416,903 (US$ 2,354,198, which converted into Brazilian reais totaled R$ 7,672,567 at December 31, 2016).

Transaction costs

Debt issue costs of variable-yield securities totaling R$8,922 at December 31, 2017 (R$8.791 em 31 at December 31, 2016), referring to outside legal counsel fees and commissions of guarantee were recorded as reduction of liabilities.

Itaguai, March 13, 2018.

The Management.

Centro Empresarial PB 370
Praia de Botafogo, 370
6º ao 10º andar - Botafogo
22250-040 - Rio de Janeiro - RJ - Brasil
Tel: +55 21 3263-7000
ey.com.br

A free translation from Portuguese into English of Independent Auditor Report on Individual and Consolidated Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS), issued by International Accounting Standards Board (IASB)

Independent auditor report on individual and consolidated financial statements

The Shareholders, Board of Directors and Officers
Porto Sudeste do Brasil S.A.
Itaguaí, RJ

Opinion

We have audited the accompanying individual and consolidated financial statements of Porto Sudeste do Brasil S.A. ("Company"), identified as Parent Company and Consolidated, respectively, which comprise the balance sheets as at December 31, 2017, and the related statements of operations, of comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Porto Sudeste do Brasil S.A. as at December 31, 2017, its individual and consolidated financial performance and its respective cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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 subsidiaries and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC") 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 audit opinion.

Emphasis - significant uncertainty as to the Company's ability to continue as a going concern

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which shows that as at December 31, 2017, the Company's consolidated current liabilities exceeded the consolidated current assets by R$265,388 thousand, it incurred consolidated accumulated losses of R$2,061,370 thousand. This note also states that the Company and its subsidiaries started up in January 2016, but they may still depend on the financial support from their shareholders and/ or third-party funds until their operations generate sufficient cash to continue operating as a going concern. These individual and consolidated financial statements were prepared on the assumption of going concern and do not include any adjustments that would be required in case Management's plans do not achieve the expected results.

Other information accompanying the individual and consolidated financial statements and the auditor report

Company management is responsible for such other information that is included in the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or, otherwise, whether this report appears to be materially misstated. If, based on our work we conclude that there is material misstatement in the Management Report, we are required to report this fact. We have nothing to report on this matter.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), 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 individual and consolidated 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 and its subsidiaries or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and its subsidiaries’ financial reporting process.

Auditor responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated 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 material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they can influence, within a reasonable perspective, the economic decisions of users made on the basis of these financial statements.

As part of the audit conducted 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 risks of material misstatements of the individual and consolidated 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 one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.

- 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 and its subsidiaries’ internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Building a better
working world

- 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 substantial doubt as to the Company’s and its subsidiaries’ 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 individual and consolidated 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 subsidiaries 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 individual and consolidated financial statements represent the corresponding 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 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 those charged with governance 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 13, 2018.

ERNST & YOUNG
Auditores independentes S.S.
CRC-2SP015199/O-6

Daniel Peixoto

Daniel de Araujo Peixoto
Accountant CRC-1BA025348/O-9

Porto Sudeste do Brasil S.A.

Balance Sheet
December 31, 2017 and 2016
In thousands of reais

		Parent Company		Consolidated	
	Note	**2017**	**2016**	**2017**	**2016**
Assets					
Current assets					
Cash and cash equivalents	**4**	**24,345**	4,622	**30,409**	18,496
Marketable securities	**4**	**-**	34,060	**-**	34,060
Trade accounts receivable	**5**	**13,259**	166	**13,259**	186
Accounts receivable from related parties	**14**	**-**	19,173	**-**	-
Inventories	**6**	**22,611**	17,456	**65,472**	94,299
Taxes recoverable		**4,235**	8,907	**5,613**	9,082
Advances		**1,268**	-	**1,269**	16,308
Other		**8,620**	9,363	**8,630**	9,282
		74,338	93,748	**124,652**	181,713
Noncurrent assets					
Restricted deposits	**7**	**10,107**	13,532	**10,107**	13,532
Taxes recoverable		**2,244**	-	**-**	-
Deferred income and social contribution taxes		**366**	365	**366**	365
Investments	**8**	**33,837**	28,969	**-**	-
Property and equipment	**9**	**4,952,597**	4,976,444	**4,970,369**	4,994,144
Intangible assets	**10**	**7,554,461**	7,475,391	**7,554,461**	7,475,391
Other		**6,825**	1,232	**6,891**	1,310
Total noncurrent assets		**12,560,437**	12,495,933	**12,542,194**	12,484,742
Total assets		**12,634,775**	12,589,680	**12,666,846**	12,666,455

	Note	Parent Company 2017	Parent Company 2016	Consolidated 2017	Consolidated 2016
Liabilities and equity					
Current liabilities					
Trade accounts payable		**18,466**	27,966	**55,338**	89,633
Loans and financing	**11**	**314,301**	408,538	**314,301**	408,538
Taxes and contributions payable	**13**	**6,824**	8,239	**6,944**	8,048
Related parties	**14**	**10,478**	13,098	**1,107**	3,090
Contractual obligations	**14**	**-**	-	**5,717**	
Provision for investments considering capital deficiency	**15**	**-**	510,735	**-**	510,735
Other		**6,630**	4,984	**6,624**	32,925
Total current liabilities		**356,699**	973,560	**390,040**	1,052,969
Noncurrent liabilities					
Loans and financing	**11**	**4,370,737**	4,049,044	**4,370,737**	4,049,044
Variable income securities	**12**	**7,407,981**	7,663,777	**7,407,981**	7,663,777
Provision for contingencies		**1,774**	1,639	**1,927**	1,870
Total noncurrent liabilities		**11,780,492**	11,714,460	**11,780,645**	11,714,691
Equity	**17**				
Capital		**2,424,170**	2,254,296	**2,424,170**	2,254,296
Future capital contribution		**325,241**	169,874	**325,241**	169,874
Cumulative translation adjustments (CTA)		**(189,467)**	(127,354)	**(191,880)**	(129,714)
Accumulated losses		**(2,062,360)**	(2,395,156)	**(2,061,370)**	(2,395,661)
Total equity		**497,584**	(98,340)	**496,161**	(101,205)
Total liabilities and equity		**12,634,775**	12,589,680	**12,666,846**	12,666,455

See accompanying notes.

Porto Sudeste do Brasil S.A.

Statement of operations
Years ended December 31, 2017 and 2016
In thousands of reais

	Note	Parent Company		Consolidated	
		2017	2016	2017	2016
Revenue, net of sale of assets	18	207,783	143,387	1,004,365	687,211
Costs of sales and services	19	(95,006)	(72,521)	(883,432)	(602,474)
Gross profit		112,777	70,866	120,933	84,737
Operating income (expenses)					
Administrative expenses	20	(28,513)	(29,377)	(32,333)	(32,877)
Depreciation and amortization		(192,490)	(161,900)	(192,717)	(162,128)
Equity pickup	8	1,702	228	-	-
Other operating income (expenses)	15	446,483	(2,933)	446,078	(3,017)
		227,182	(193,982)	221,028	(198,022)
Income before financial income (expense) and taxes		339,959	(123,116)	341,961	(113,285)
Financial income (expenses)	21				
Financial income		384,955	8,286	385,529	9,176
Financial expenses		(392,119)	(488,707)	(393,095)	(495,145)
		(7,164)	(480,421)	(7,566)	(485,969)
Income before income taxes		332,795	(603,537)	334,935	(599,254)
Income and social contribution taxes	16	-	(581,721)	(104)	(586,488)
Income (loss) for the year		332,795	(1,185,258)	334,291	(1,185,742)

See accompanying notes.

Porto Sudeste do Brasil S.A.

Statement of comprehensive income (loss)
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Profit (Loss) for the year	**332,795**	(1,185,258)	**334,291**	(1,185,742)
Exchange differences related to conversion into reporting currency	**(189,467)**	(127,354)	**(191,880)**	(129,714)
Total comprehensive income (loss)	**143,328**	(1,312,612)	**142,411**	(1,315,456)

See accompanying notes.

Porto Sudeste do Brasil S.A.

Statement of changes in equity
Years ended December 31, 2017 and 2016
In thousands of reais

Company					
	Capital	**Future capital contribution**	**Cumulative translation adjustment**	**Accumulated losses**	**Total**
Balances at December 31, 2015	2,254,296	-	-	(1,209,898)	1,044,398
Capital increase through capitalization of future capital contribution	-	169,874	-	-	169,874
Cumulative translation adjustments (CTA)	-	-	(127,354)	-	(127,354)
Loss for the year	-	-	-	(1,185,258)	(1,185,742)
Balances at December 31, 2016	2,254,296	169,874	(127,354)	(2,395,156)	(98,340)
Capital payment	**169,874**	**-**	**-**	**-**	**169,874**
Advance for future capital increase	**-**	**155,367**	**-**	**-**	**155,367**
Cumulative translation adjustments (CTA)	**-**	**-**	**(62,113)**	**-**	**(62,113)**
Income for the year	**-**	**-**	**-**	**332,795**	**332,795**
Balances at December 31, 2017	**2,424,170**	**325,241**	**(189,467)**	**(2,062,361)**	**497,583**

Porto Sudeste do Brasil S.A.

Statements of changes in equity
Years ended December 31, 2017 and 2016
In thousands of reais

Consolidated					
	Capital	**Future capital contribution**	**Cumulative translation adjustment**	**Accumulate d losses**	**Total**
Balances at December 31, 2015	2,254,296	-	-	(1,209,919)	1,044,377
Capital increase through capitalization of future capital contribution	-	169,874	-	-	169,874
Cumulative translation adjustments (CTA)	-	-	(129,714)	-	(129,714)
Loss for the year	-	-	-	(1,185,742)	(1,185,742)
Balances at December 31, 2016	2,254,296	169,874	(129,714)	(2,395,661)	(101,205)
Capital payment	**169,874**	**-**	**-**	**-**	**169,874**
Advance for future capital increase	**-**	**155,367**	**-**	**-**	**155,367**
Cumulative translation adjustments (CTA)	**-**	**-**	**(62,166)**	**-**	**(62,166)**
Income for the year	**-**	**-**	**-**	**334,291**	**334,291**
Balances at December 31, 2017	**2,424,170**	**325,241**	**(191,880)**	**(2,061,370)**	**496,161**

See accompanying notes.

Porto Sudeste do Brasil S.A.

Cash flow statement
Years ended December 31, 2017 and 2016
In thousands of reais

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Cash flows from operating activities				
Income (loss) before income taxes	**332,795**	(603,537)	**334,395**	(599,254)
Non-cash P&L items				
Depreciation and amortization	**192,490**	194,246	**192,717**	194,474
Transaction cost	**52,088**	-	**52,088**	-
Other amortization	**4,488**	-	**4,488**	-
Equity pickup	**(1,702)**	(228)	**-**	-
Monetary variation and interest	**119,244**	145,193	**126,418**	145,193
Other provisions/reversals	**(509,241)**	13,740	**(509,321)**	13,689
Changes in assets and liabilities				
Accounts receivable	**6,056**	(15,837)	**(8,943)**	3,319
Sundry advances	**(27,953)**	(1,245)	**(11,645)**	(17,555)
Inventories	**(4,955)**	13,648	**(24,719)**	(55,387)
Restricted deposits	**4,191**	3,092	**4,192**	3,092
Judicial deposits	**(5,153)**	(396)	**(5,135)**	(431)
Taxes recoverable	**(17,420)**	(7,554)	**(17,652)**	(13,219)
Accounts receivable with related parties	**(2,244)**	-	**-**	-
Advances from customers	**36**	-	**36**	32,737
Trade accounts payable	**(11,140)**	(22,336)	**(13,902)**	26,223
Taxes and contributions payable	**14,375**	7,342	**13,656**	8,018
Obligation to third parties	**38**	(7,305)	**38**	(7,305)
Transactions with related parties	**(2,639)**	(10,513)	**(2,000)**	(8,797)
Other assets	**(2,977)**	(1)	**(2,978)**	-
Salaries and compensations	**267**	(1,276)	**268**	(1,276)
Interest paid	**(61,308)**	(117,106)	**(61,308)**	(117,106)
Net cash used in operating activities	**79,336**	(410,073)	**70,693**	(393,585)
Cash flow from investing activities				
Acquisition of property and equipment	**(30,708)**	(91,719)	**(30,708)**	(91,766)
Marketable securities	**34,060**	16,914	**34,060**	16,914
Advance for future capital increase	**(730)**	(785)	**-**	-
Net cash used in investing activities	**2,622**	(75,590)	**3,352**	(74,852)
Cash flows from financing activities				
Advance for future capital increase	**325,241**	169,874	**325,241**	169,874
Transaction cost	**(50,591)**	(33,368)	**(50,591)**	(33,368)
Borrowings settled	**(50,311)**	(89,730)	**(50,311)**	(89,730)
Net cash provided by financing activities	**224,339**	46,776	**224,339**	46,776
Exchange differences, net		-		-
Foreign exchange differences	**(286,574)**	306,382	**(286,472)**	301,844
Decrease in cash and cash equivalents	**19,723**	(132,505)	**11,912**	(119,817)
Statement of increase (decrease) in cash and cash equivalents				
At beginning of year	**4,622**	137,127	**18,496**	138,313
At end of year	**24,345**	4,622	**30,408**	18,496
Increase (decrease) in cash and cash equivalents	**19,723**	(132,505)	**11,912**	(119,817)

See accompanying notes.

1. Operations

Porto Sudeste do Brasil S.A. (“Porto Sudeste” or the “Company”) was established on November 7, 2007, to develop the logistics and integrated operations in the port sector, notably the implementation and operation of a Port Terminal named Porto Sudeste (“Terminal” or “Porto Sudeste”).

The Company is composed of its parent company and its subsidiaries Pedreira Sepetiba Ltda. (“Pedreira”), Terminal de Conteineres Sepetiba Ltda. (“TCS”), Porto Sudeste VM S.A. (“Porto VM”) and Porto Sudeste Exportação e Comércio Ltda.

Porto Sudeste Exportação e Comércio Ltda. was transformed into a society organized by stocks and now will be called Porto Sudeste Exportação e Comércios S.A.. The transformation occurred on October 2, 2017.

Restructuring and change of controlling shareholder

In February 2014 a transaction was completed between the Company’s former parent company, MMX Mineração e Metálicos (“MMX”), and Trafigura Pte. Ltd. (“Trafigura”) and Mubadala Development Company PJSC (“Mubadala”), through investees in Brazil, by which Trafigura and Mubadala acquired shared control over the Company. On the transaction completion date, Trafigura and Mubadala made a capital contribution to the Company amounting to US$400 million. In addition, as part of the agreement Porto Sudeste assumed: (i) all bank debt of MMX Sudeste Mineração S.A. (an MMX subsidiary), amounting to R$1.3 billion; and (ii) the obligations stemming from royalty-based floating rate securities under the terms described in Note 12.

As a result of this restructuring and assumption of debt by the Company, the port operation license that had been recorded to MMX was also transferred to Porto Sudeste.

Upon completion of these transactions, Trafigura and Mubadala became joint holders of 65% ownership interest in the Company, through PSA Fundo de Investimento e Participações.

In February 2014, the controlling shareholders Trafigura and Mubadala executed the Shareholders’ Agreement which provides for the rights and obligations of each controlling shareholder, and MMX right to appoint a member to the Company’s Board of Directors while it holds at least 10% of the capital.

1. Operations (Continued)

Additional acquisition of interest by controlling shareholders

On August 13, 2015, by means of a capital increase, which entailed the issue of 11,241,101,754 new common registered no-par-value shares, fully subscribed by the investment fund *PSA Fundo de Investimento em Participações* (a Trafigura and Mubadala investment vehicle in Brazil). Accordingly, MMX was diluted and the controlling shareholders hold 94.58% interest.

In March 2017, the amount of US$ 50,000 equivalent to R$ 169,874 received as an advance for future capital increase in May and July of 2016, through the PSA Fundo de Investimento e Participações. After this capital increase, MMX was diluted to a 1.54% interest in the Company and the controllers now hold 98.24%.

Company's financial position

At December, 2017, the Company records a consolidated working capital deficit of R$ 265,388 thousand including the forecasted debt interest and principal amortization under the "Cash Sweep" concept of R$ 213,705. Without considering the cash sweep, which is only a payment obligation in 2018 in the event that cash is available the working capital deficit would be R $ 51,683. See also Footnote 11 for a description of the debt refinancing.

The Company also has a consolidated accumulated loss of R$ 2,061,370 and a consolidated shareholder's equity of R$ 496,161 for the year then ended. The Company closed the year of 2017 with a cash position consolidated of R$ 30,409.

The Company started operations on a technical commission basis in August 2015 and commercially in January 2016. It will still depend on financial support from its shareholders and/or third-party funds, until the operations generate sufficient cash to continue operating as a going concern. Based on its business model, the Company has an additional need for cash in order to fund working capital of its operations over 2018, to meet future commitments, including debt service (payment of loans and interest in the short term).

Licenses

On July 15, 2010, the Company obtained from the Brazil's Water Transportation Regulatory Agency (ANTAQ) authorization for construction and implementation of the Maritime Terminal with capacity for shipping 50mt/a, located in Ilha da Madeira, Itaguaí, Rio de Janeiro. This concession is valid for 25 years, renewable for another 25 years. In 2014, after completing the first phase of the implementation works of the Terminal and obtaining the respective environmental operation license, the Company received from ANTAQ the Operating Release Term (TLO) and the Qualification for International Maritime Traffic (HTMI), whereupon the Company has been fully authorized by this regulatory agency to operate the first phase of the

1. Operations (Continued)

Licenses (Continued)

Terminal. In addition to the release from the regulatory agency, the first phase of the terminal is properly bonded and able to receive goods intended for export. Regarding the offshore access, the dredging and submerged rocks blasting of the access channel to the Terminal and the mooring basin were completed in early 2015.

As to the second phase of the terminal (50mt/a), the Company completed the assembly of equipment in the mid of 2015 and on November 12, 2015 was granted by ANTAQ TLO Nº11/2015, authorizing the Company to move on with the partial operation of the Private Use Terminal, in accordance with ANTAQ standards and regulations, considering the adjustments of the New Ports Law.

As regards the Brazilian IRS, the areas of yard 06, tunnel, pier and yard 32 are within a customs area. This is an important milestone in the technical commissioning and completion process and enables the Company to achieve its full capacity of 50MT/year.

The Company obtained approval regarding extension of the Customs of yard 32 on April 22, 2016. This is an important milestone in the technical commissioning and completion process and enables the Company to achieve its full capacity of 50MT/year.

Arbitration process of Mineração Usiminas S.A. (“MUSA”)

On June 6, 2017 the Company entered with Mineração Usiminas S.A. (“MUSA”) into a Transaction Instrument agreeing on conditions to end the subject matter of the arbitration initiated at the Arbitration and Mediation Center of Brazil-Canada Chamber of Commerce, discussing the extension of the obligations taken on by the parties to the Port Service Agreement and Other Provisions entered into on February 11, 2011 (“Agreement”), subject matter of the Material News released by the Company on June 19, 2015.

The Transaction Instrument establishes, among other provisions, that: (i) the approval of the agreement by the Arbitration Court and the compliance with the obligations taken on will result in the dissolution of the Agreement and in the Parties’ waiving the rights that might keep in relation to the Agreement; (ii) Porto Sudeste will pay MUSA after the approval by the Arbitration Court, the equivalent in Brazilian reais of US$62,500,000.00 (sixty-two million, five hundred thousand U.S. dollars).

Additionally, the Parties also then agreed to enter into a new Port Operations Service Agreement (“New Agreement”), which will govern the port service provision by Porto Sudeste to MUSA, after complying with the obligations of the Transaction Instrument. The New Agreement establishes that MUSA will be entitled, but not required, to operate in the upcoming

1. **Operations** (Continued)

Arbitration process of Mineração Usiminas S.A. ("MUSA") (Continued)

years a total volume of up to 17.5 million tons of iron ore by Terminal Portuário da Porto Sudeste, located in the municipality Itaguaí - RJ.

On June 23, 2017, the Arbitral Tribunal issued an order (i) determining that Porto Sudeste complied with the payment agreed in the transaction agreement entered into with MUSA; and

(ii) clarifying that after such payment it would issue a decision approving the agreement between the parties, Porto Sudeste and MUSA. In a joint petition, they reported the payment to the Tribunal on July 12, 2017.

On September 12, 2017, the Chamber of Arbitration sent the parties the final decision that approved the agreement entered into between MUSA and Porto Sudeste, extinguishing the arbitration, with finalizing the resolution of the matter.

2. Basis of preparation and presentation of financial statements

a) Individual and consolidated financial statements

The consolidated financial statements were prepared under various measurement bases used in accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on objective and subjective factors, and in line with management's judgment for determining the adequate amounts to be recorded in the financial statements.

The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to uncertainties inherent in the estimation process. The Company reviews its estimates at least on an annual basis.

The individual and consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) implemented in Brazil by means of the Brazilian Financial Accounting Standards Board - FASB ("CPC"), and its accounting interpretations ("ICPC") and guidance ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

In addition, the Company considered the guidance provided for in Accounting Guidance OCPC 07, issued by the Brazilian FASB ("CPC") in November 2014, in preparing its financial statements. Accordingly, significant information of the financial statements themselves is being disclosed and corresponds to that used by management over its administration.

(In thousands of reais, unless otherwise stated)

On March 13 2018, Company management authorized the completion and disclosure of the individual and consolidated financial statements for the year ended December 31, 2017.

b) Basis of preparation and measurement

The individual and consolidated financial statements were prepared considering the historical cost, except for financial instruments measured at fair value.

c) Functional currency

With its startup on January 1, 2016, the Company and its subsidiaries began to earn revenues denominated in US dollars. Therefore, the functional currency was changed from Brazilian real to US dollar. Pursuant to Brazilian legislation and Accounting Pronouncement CPC 2 - Effects of changes in exchange rates and translation of financial statements, these financial statements are presented in Brazilian reais (R$), converting the functional currency (US dollars) to the reporting currency (Brazilian reais). Assets and liabilities are translated to the closing exchange rate in the period; P&L accounts are stated at the exchange rate on the date of the event; and equity at historical buildup cost. The effect of conversion into reporting currency is stated in equity under “Cumulative translation adjustments”.

d) Consolidation

The consolidated financial statements include the Company and the following subsidiaries:

	Interest - %					
	Capital		Voting capital		Location of	
	2016	2015	head office	2015	da sede	Main activity
Direct subsidiaries						
Pedreira	99.98%	99.98%	99.98%	99.98%	Brazil	Extraction and crushing of stones
TCS	99.98%	99.98%	99.98%	99.98%	Brazil	Logistics
Porto VM	100%	100%	100%	100%	Brazil	Currently inoperative
Porto Sudeste Exportação	100%	100%	100%	100%	Brazil	Purchase and sale of ore

Significant consolidation procedures are :

(i) Elimination of asset and liability balances between consolidated companies;

(ii) Elimination of balances of investment accounts and corresponding interests in capital and retained earnings (accumulated losses) of subsidiaries;

(iii) Elimination of balances of revenues and expenses as well as unrealized profits arising from intercompany transactions. Unrealized losses are also eliminated, but only to the extent that there is no evidence of impairment of the related assets;

(iv) Balances of intercompany transactions of shared control are eliminated and interests

2. Basis of preparation and presentation of financial statements (Continued)

d) Consolidation

(v) of other shareholders are disclosed in the statement of financial position and P&L;

(vi) Changes in the percentage interest in subsidiaries that do not result in loss and/or gain of control are recorded in equity.

3. Summary of significant accounting practices and estimates

3.1. Financial instruments

a) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. After initial measurement, these financial assets are stated at amortized cost, using effective interest rate method, less impairment loss. Amortized cost is calculated taking into consideration any discount or “premium” upon acquisition and charges or costs incurred. Amortization under the effective interest rate method is included as “Financial income”, in the statement of operations. Impairment losses are recognized as financial expenses in P&L.

The Company did not record financial assets held to maturity, held for trading or held for sale in the years ended December 31, 2017 and 2016.

The Company and its subsidiaries initially tests whether there is clear evidence of impairment for each financial asset individually. When there is clear evidence of impairment loss, the loss amount is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (less estimated future credit losses not yet incurred). The present value of estimated future cash flows is discounted at the original effective interest rate for the financial asset. When applicable, the asset carrying amount is decreased by a provision and the loss amount is recognized in the statement of operations. If in a subsequent year the estimated impairment loss increase or decrease due to an event occurred after the impairment loss recognition, the loss previously recognized is increased or decreased, by means of an adjustment to the provision.

A financial asset is written off when the rights to receive cash flows from the asset expire and/or when the Company transfers its rights to receive cash flows of the asset or assumes an obligation to fully pay cash flows received, without significant delay, to a third party under a “pass-through” arrangement, and has transferred substantially all the risks and rewards related to the asset.

3. Summary of significant accounting practices and estimates (Continued)

3.1. Financial instruments (Continued)

b) Financial liabilities

Financial liabilities are classified as financial liabilities measured at fair value through profit or loss, loans and financing or derivatives classified as hedging instruments, as the case may be. The Company determines classification of its financial liabilities upon their initial recognition.

Financial liabilities are initially recognized at fair value plus, in the case of loans and financing, transaction cost directly attributable thereto.

In 2017 and 2016, the Company only states financial liabilities classified as Loans and Financing, which after initial recognition are measured at amortized cost, using the effective interest rate method. Gains or losses are recognized in the statement of operations.

c) Offsetting (net presentation) of financial instruments

Financial assets and liabilities are presented net in the statement of financial position if, and only if, there is a current enforceable legal right of offsetting the amounts recognized and if there is the intention to offset or realize the asset and settle the liability simultaneously.

3.2. 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 considers that cash equivalents correspond to a financial investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Accordingly, an investment normally qualifies as cash equivalent when it is redeemable in the short term, e.g. three months or less from the investment date.

3.3. Inventories

Inventories are valued at the average acquisition or production cost, reduced by a provision for loss of market value, when applicable. The cost of these items includes expenses incurred on acquisition, transportation and storage of related assets. In the case of finished inventories, the cost includes overall manufacturing expenses based on normal operating capacity.

3. Summary of significant accounting practices and estimates (Continued)

3.4. Investments

The Company's investments in its subsidiaries are accounted for using the equity method in its individual financial statements. Therefore, these investments are recorded in the Parent Company's statement of financial position at cost, increased by changes after acquisition of ownership interest in the subsidiary or affiliate. Goodwill, if any, is included in the investment's book value, and is not amortized. Goodwill is reclassified in the consolidated financial statements as an intangible asset.

The statement of operations reflects the portion of P&L from operations of the subsidiaries, and changes directly recognized in equity are reflected, when applicable, in the Parent Company's statement of changes in equity.

The Company decides whether it is necessary to recognize any additional impairment losses in investment in its investees. If applicable, the Company calculates the amount of impairment loss as the difference between the investment's recoverable amount and the carrying amount and recognizes this sum in P&L.

3.5. Property and equipment

Property and equipment items are recorded at acquisition, buildup or construction cost, including interest, foreign exchange gains (losses) and other financial charges incurred over project construction or development, less accumulated depreciation and/or accumulated impairment losses, if any.

An item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses, if any, arising from derecognition are classified in the statement of operations for the year in which the asset is derecognized.

Property and equipment includes prepayments for the rendering of services or the acquisition of property and equipment items carried out based on contracts in force and are reclassified for the respective group of accounts when the services or installed equipment are ready to be used and provide cash.

Repair and maintenance expenses are recorded directly in the statement of operations when incurred.

Depreciation is calculated over the depreciable value, which is the cost of an asset, or another substitute for the cost, deducted from the residual value. Depreciation of property and equipment items is calculated by the straight-line method for civil construction, facilities and administrative equipment, and by a method for operated unit

3. Summary of significant accounting practices and estimates (Continued)

3.5. Property and equipment (Continued)

for operational equipment, taking into consideration the economic useful lives of these assets.

Borrowing costs attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to be completed for its intended use or sale are capitalized as part of the cost of the respective asset, until the limit allowed by the standard. The excess amount, if any, will be recognized in the statements of operations.

3.6. Impairment of nonfinancial assets

The carrying amounts of the Company's nonfinancial assets are reviewed every reporting date in order to determine whether there is any indication of impairment loss. If such indication exists, the asset recoverable amount is determined. In the case of goodwill and intangible assets with indefinite useful life or intangible assets under development that are not yet available for use, the recoverable amount is estimated every year.

The recoverable amount of an asset or a Cash-Generating Unit (CGU) is defined as the higher of value in use and fair value less costs to sell. In evaluating value in use, the estimated future cash flows are discounted to present value through the discount rate before taxes that reflects the conditions prevailing in the market in relation to the capital recoverability period and specific risks of the asset.

Impairment loss is recognized in P&L for the year if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses related to CGUs are initially allocated to reduce the carrying amount of any goodwill allocated to the CGUs and then, if there is any remaining loss, to reduce the carrying amount of the other assets.

Impairment loss related to goodwill is not reversed. In relation to other assets, impairment losses recognized in prior years are evaluated every reporting date in relation to any indication that the loss has increased, decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, with the reversal being limited to the carrying amount, net of depreciation or amortization, if the loss of value had not been recognized.

3.7. Other current and noncurrent assets and liabilities

An asset is recognized in the statement of financial position when its future economic benefits are likely to flow to the Company, and its cost or value can be reliably measured.

3. Summary of significant accounting practices and estimates (Continued)

3.7. Other current and noncurrent assets and liabilities (Continued)

A liability is recognized in the statement of financial position when the Company has a legal obligation or obligation resulting from a past event, which will probably require an economic resource to settle it. Provisions are recorded based on the best estimates of the risk involved.

Noncurrent monetary assets and liabilities are adjusted to present value and so are current monetary assets and liabilities whenever the effects are considered significant to the overall financial statements. The present value adjustment is calculated using contractual cash flows and the explicit, and sometimes implicit, interest rates of the respective assets and liabilities.

3.8. Taxes

Taxes on sales and services

Sales and service revenues are subject to the following taxes and contribution taxes, at the following statutory rates:

- Contribution Tax on Gross Revenue for Social Integration Program (PIS) - 0.65% and 1.65;
- Contribution Tax on Gross Revenue for Social Security Financing (COFINS) - 3.0% and 7.6%;
- Service Tax (ISS) - 5%.

These charges are presented as sales deductions in the statement of operations.

Income and social contribution taxes

Taxation on income includes income and social contribution taxes, which are calculated on taxable income at the rate of 15%, plus 10% surtax for income exceeding R$240 during a period of 12 months, and 9% for social contribution tax. Therefore, additions to book profit deriving from temporarily nondeductible expenses or exclusions from temporarily non-taxable income to determine current taxable profit generate deferred tax assets or liabilities. Prepaid or recoverable taxes are stated in current or noncurrent assets, based on their estimated realization.

Deferred taxes arise from temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their book values and tax loss balances. Deferred tax assets are recognized for all deductible temporary differences, credits and unused tax losses, to the extent that it is probable that taxable profit will be available so that deductible temporary differences may be realized and credits and tax losses may be

3. Summary of significant accounting practices and estimates (Continued)

3.8. Taxes (Continued)

Income and social contribution taxes (Continued)

used. Deferred tax liabilities are recognized for all taxable temporary differences.

The book value of deferred tax assets is revised at each Balance Sheet sdate, and the balance is maintained to the extent that its recovery is likely, based on future taxable profits.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled.

Deferred tax assets and liabilities are shown net when related to the same entity taxed and when subject to the same tax authority.

3.9. Provisions (including contingencies)

Provisions are recognized when the Company has a present obligation (legal or constructive) arising from a past event, the settlement of which is likely to result in an outflow of economic benefits, and for which a reliable estimate can be made. When the Company expects that the amount of a provision will be refunded, whether in full or in part, the refund is recognized as a separate asset, but only when the refund is virtually certain.

The Company recognizes provisions for tax, civil and labor contingencies. Assessment of the likelihood of loss includes analysis of available evidence, hierarchy of laws, available case law, recent court decisions and their relevance in the legal system, as well as the opinion of the Company's external legal advisors. The provisions are reviewed and adjusted to take into consideration changes in circumstances such as applicable statutes of limitation, conclusions of tax audits or additional exposures identified based on new matters or court decisions.

Settlement of transactions involving these estimates may result in amounts materially different from those recorded in the financial statements due to inaccuracies inherent to their determination process. The Company reviews its estimates and assumptions at least on an annual basis.

3. Summary of significant accounting practices and estimates (Continued)

3.10. Revenue recognition

Revenue is stated net of taxes, returns, rebates, deductions and freight. Its recognition is based on the fair value of the consideration received or receivable to the extent that it is probable that future economic benefits will flow to the entity, and revenues and costs can be reliably measured.

The Company measures revenue transactions in accordance with specific criteria to determine whether it is operating as an agent or a principal and eventually concluded that it has been operating as a principal in all its revenue agreements. The following specific criteria should also be satisfied before revenue recognition:

Revenue from sale of iron ore is recognized when the material risks and rewards of ownership are transferred, which in relation to sales in the domestic market occurs at the moment of loading the vessels for transportation.

3.11. Significant accounting judgments, estimates and assumptions

Preparing the Company’s financial statements requires that management make judgment and estimates and adopt assumptions that affect those figures reported as revenues, expenses, assets and liabilities, as well as contingent liability disclosures, as of the financial statement reporting date. However, uncertainty associated with those estimates and assumptions could lead to results that would require significant adjustment to the book value of assets or liabilities affected in future periods. Significant items subject to judgments and estimates are as follows: measurement of floating rate securities, recognition and analysis of recoverability of tax credits, useful lives of property and equipment and intangible assets, impairment losses and provisions for contingencies.

3.12. Cash flow statements

The cash flow statements were prepared and are presented by the indirect method.

3.13. Pronouncements issued, but not yet effective at December 31, 2017

The main standards issued by the IASB that are not yet effective and have not been early adopted by the Company at December 31, 2017 are as follows:

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices and estimates (Continued)

3.13. Pronouncements issued, but not yet effective at December 31, 2017 (Continued)

Standard	Key-requirements	Effective date
IFRS 15 - Revenue from Contracts with Customers	Establishes new principles for the recognition, measurement and disclosure of revenues from contracts with customers. IFRS 15 requirements establish that the revenue be recognized when the customer obtains control over the goods or services sold, which alters the current model based on the transfer of risks and rewards. Additionally, the new standard sheds more light on the recognition of revenues in more complex cases.	January 1, 2018
IFRS 9 - Financial Instruments	Establishes a new model for the classification of financial assets based on the characteristics of cash flows and the business model used to manage the asset. Alters the principles for the recognition of impairment losses incurred to a new model based on expected losses. Establishes new requirements related to hedge accounting.	January 1, 2018
IFRS 16 - Leases	Contains principles for the identification, recognition, measurement, presentation and disclosure of leases, both for lessees and lessors. Among the changes for lessees, IFRS 16 will eliminate the classification between finance and operating leases required by IAS 17. Thus, there will be a single model under which finance leases will result in the recognition of assets related to the rights of use of the leased assets. If expected finance lease payments are due over time, financial liabilities should also be recognized. For lessors, IFRS 16 will keep the classification between finance and operating leases required by IAS 17. Thus, IFRS 17 should not substantially alter the way leases are accounted for by lessors when compared to IAS 17.	January 1, 2019

Management performed the appropriate analyzes and understands that these standards will not impact its financial statements.

(In thousands of reais, unless otherwise stated)

4. Cash and cash equivalents and marketable securities

	Parent Company		Consolidated	
	2017	2016	2017	2016
Cash and cash equivalents				
Cash and banks	**15,856**	4,009	**16,050**	4,341
Cash equivalents	**8,489**	613	**14,359**	14,155
	24,345	4,622	**30,409**	18,496
Marketable securities				
Bank deposit certificates	**-**	34,060	**-**	34,060
	-	34,060	**-**	34,060

The Company invests in funds administered by Banco Bradesco S.A., on which investments are made in corporate bonds (Bank Deposit Certificates - CDB) issued by top-tier companies and financial institutions, all subject to floating rates, with an average remuneration pegged to the DI CETIP rate (Interbank Deposit Certificate - CDI), without grace period and readily convertible to cash.

The Bank Deposit Certificates (CDBs) are issued by top-tier financial institutions and are mostly remunerated at 63.75% of the Interbank Deposit Certificate (CDI) variation.

5. Accounts receivable

	Parent Company		Consolidated	
	2017	2016	2017	2016
Port fee	**13,259**	166	**13,259**	166
Sales of gravel	**-**	-	**-**	20
	13,259	166	**13,259**	186

The amount outstanding as of December 31, 2017 was fully received during January 2018, without the need to record a provision for estimated losses in doubtful accounts.

(In thousands of reais, unless otherwise stated)

6. Inventories

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gravel	**-**	-	**1,403**	1,386
Iron ore	**-**	-	**41,187**	75,191
Storeroom	**22,611**	17,456	**22,882**	17,722
	22,611	17,456	**65,472**	94,299

7. Restricted deposits

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Trustee ACC Itaú BBA (*)	**10,107**	13,532	**10,107**	13,532
	10,107	13,532	**10,107**	13,532

(*)Temporary freezing of part of short-term investments (Trustee Account) related to the acquisition of land for Porto Sudeste expansion. This amount will be realized upon execution of the land definitive deed.

8. Investments

The Company has the following investments:

Pedreira Sepetiba Ltda.

Incorporated on June 21, 1989, this company is engaged in the exploration and utilization of mineral deposits in Brazil and consequent sale of their by-products; sale of construction materials in general; and the provision of cargo transportation, civil engineering, development and construction services.

TCS - Terminal de Contêineres Sepetiba Ltda.

Incorporated on January 31, 1989, this company is engaged in the rendering of all services related to a container terminal, intended for cargo concentration and distribution and the respective handling of loading, unloading and shipment to their final destinations; rendering of transportation services of containers of ships; the charter or rent of ships, barges and national or foreign equipment; as well as the rendering of services inherent in the customs area to be implemented in the terminal area through concession from tax authorities

(In thousands of reais, unless otherwise stated)

8. Investments (Continued)

Porto Sudeste V.M S.A.

Incorporated on July 16, 2013, this company is engaged in holding interest in capital of other companies, both in Brazil or abroad, as an owner, shareholder or member, either permanently or temporarily, as a parent company or noncontrolling interest. Porto V.M. was created with the main purpose of receiving part of royalty-based securities as part of the purchase transaction of the Port by its current shareholders, as described in Note 12.

Porto Sudeste Exportação e Comércio S.A. (previously denominated Porto Sudeste Exportação e Comércio Ltda.)

Is engaged in the export and import of iron ore, iron pellets, pig iron and by-products.

Changes in investments

	Parent Company				
	2016	Equity pickup	Future capital contribution	Effect of conversion into Brazilian reais	2017
Pedreira	9,401	(1,065)	-	211	8,547
TCS	18,264	(339)	330	273	18,528
Porto VM	-	(279)	400	(29)	92
Porto Sudeste Exportação	1,304	3,385	-	1,981	6,670
	28,969	1,702	730	2,436	33,837

	Parent Company				
	2015	Equity pickup	Future capital contribution	Effect of conversion into Brazilian reais	2016
Pedreira	12,326	(745)	-	(2,180)	9,401
TCS	21,885	(403)	450	(3,668)	18,264
Porto VM	13	(245)	232	-	-
Porto Sudeste Exportação	1,043	1,621	-	(1,360)	1,304
	35,267	228	682	(7,208)	28,969

(In thousands of reais, unless otherwise stated)

8. **Investments** (Continued)

Ownership interest and summary of investees

	2017						
	Ownership interest	**Number of shares/ units of interest (thousand)**	**Assets**	**Liabilities**	**Equity**	**Net revenue**	**P&L for the year**
Pedreira	**99.98%**	**49.001**	**11.603**	**14.913**	**11.395**	**6**	**(1.169)**
TCS	**99.98%**	**3.447**	**1.480**	**2.126**	**1.480**	**-**	**(339)**
Porto VM	**100.00%**	**-**	**31.707**	**32.000**	**108**	**-**	**(279)**
Porto Sudeste Exportação	**100.00%**	**-**	**58.235**	**57.716**	**5.754**	**932.943**	**3.325**

	2016						
	Ownership interest	**Number of shares/ units of interest (thousand)**	**Assets**	**Liabilities**	**Equity**	**Net revenue**	**P&L for the year**
Pedreira	99.98%	49,001	12,635	241	12,394	12	1,142
TCS	99.98%	3,447	1,468	-	1,468	-	(353)
Porto VM	100.00%	-	97,880	97,893	(13)	-	(244)
Porto Sudeste Exportação	100.00%	-	114,589	114,188	401	679,719	4,191

(In thousands of reais, unless otherwise stated)

9. Property and equipment

	Consolidated							
	Facilities	Machinery and equipment	Land	Advance to suppliers	Construction in progress	Other	Buildings and improvements	Total
Net balance at December 31, 2015	**1,584**	**4,152**	**117,922**	**412,333**	**5,457,233**	**-**	**2,721**	**5,995,945**
Additions	88	1,638	-	1,063	86,702	20,299	-	109,790
Transfers	90,557	765,031	-	(375,040)	(4,708,125)	695	4,226,882	-
Depreciation for the year	(4,592)	(8,662)	-	-	-	(719)	(118,652)	(132,625)
Effect of conversion into Brazilian reais	**(14,415)**	**(125,762)**	**(19,500)**	**(6,369)**	**(130,298)**	**(3,150)**	**(679,472)**	**(978,966)**
Net balance at December 31, 2016	73,222	636,397	98,422	31,987	705,512	**17,125**	3,431,479	4,994,144
Additions	**-**	**-**	**-**	**-**	**12,856**	**3,033**	**15,764**	**31,653**
Transfers	**69,623**	**360,820**	**-**	**(38,356)**	**(839,759)**	**(976)**	**448,648**	**-**
Depreciation for the year	**(7,735)**	**(15,880)**	**-**	**-**	**-**	**(723)**	**(129,748)**	**(154,086)**
Effect of conversion into Brazilian reais	**(7,147)**	**(42,528)**	**1,476**	**6,369**	**130,328**	**2,353**	**7,807**	**98,658**
Net balance at December 31, 2017	**127,963**	**938,809**	**99,898**	**-**	**8,937**	**20,812**	**3,773,950**	**4,970,369**
Accumulated balances								
Cost	92,229	770,821	117,922	38,356	835,810	20,994	4,229,603	6,105,735
Accumulated depreciation	(4,592)	(8,662)	-	-	-	(719)	(118,652)	(132,625)
Effect of conversion into Brazilian reais	(14,415)	(125,762)	(19,500)	(6,369)	(130,298)	(3,150)	(679,472)	(978,966)
Net balance at December 31, 2016	73,222	636,397	98,422	31,987	705,512	17,125	3,431,479	4,994,144
Cost	**161,852**	**1,131,641**	**117,922**	**-**	**8,907**	**23,051**	**4,694,015**	**6,137,388**
Accumulated depreciation	**(12,327)**	**(24,542)**	**-**	**-**	**-**	**(1,442)**	**(248,400)**	**(286,711)**
Effect of conversion into Brazilian reais	**(21,562)**	**(168,290)**	**(18,024)**	**-**	**30**	**(797)**	**(671,665)**	**(880,308)**
Net balance at December 31, 2017	**127,963**	**938,809**	**99,898**	**-**	**8,937**	**20,812**	**3,773,950**	**4,970,369**

9. Property and equipment (Continued)

Advances to Suppliers

The advances recorded by the Company basically refer to the construction of Porto Sudeste.

	Parent Company and Consolidated	
	2017	2016
Services	-	15,380
Equipment	-	14,483
Other	-	8,493
Effect of conversion into Brazilian reais	-	(6,369)
	-	31,987

Impairment test for property and equipment

Throughout the year ended of 2017, the Company assessed whether there were indications that any asset could be recorded above its recoverable amount, and after tests carried out it did not verify the need to recognize any provision for impairment of its assets.

The discounted cash flow method employed by the Company is based on concepts that consider financial resources which will be generated in the future by the cash-generating unit, discounted to present value, to reflect the time, opportunity cost and associated risks. The discount rate used in the Company's financial models was 12.50%.

(In thousands of reais, unless otherwise stated)

10. Intangible assets

	Port license
Balance at December 31, 2015	8,986,802
Amortização	(30,368)
Effect of conversion into Brazilian reais	(1,481,043)
Balance at December 31, 2016	**7,475,391**
Amortization	**(39,064)**
Effect of conversion into Brazilian reais	**118,134**
Balance at December 31, 2017	**7,554,461**

The license is amortized over the port concession period, for a period of 50 years, taking into consideration the expected volume.

The cost of the license was calculated based on the cost of acquisition, and the Variable income securities (royalties) is the main component of the purchase price, as described in Note 12.

Impairment test for intangible assets

Throughout the year ended of 2017, the Company assessed whether there were any indicators that the license could be above its recoverable amount. After the tests conducted as mentioned in Note 9, the Company did not identify the need to recognize any provision for impairment of its intangible assets.

The discount rate used in the Company's financial models was 12.50%.

(In thousands of reais, unless otherwise stated)

11. Loans and financing

Loans per currency

	Parent Company and Consolidated			
	Current liabilities		Noncurrent liabilities	
	2017	**2016**	**2017**	**2016**
Taken out in US dollars				
Indexed to Libor	**103,990**	82,682	**2,395,780**	2,322,907
Charges	**11,228**	79,156	**69,400**	6,199
	115,218	161,838	**2,465,180**	2,329,106
Taken out in Brazilian reais				
Indexed to TJLP	**182,343**	215,438	**2,013,856**	1,804,586
Charges	**16,740**	31,262	**32,442**	18,858
	199,083	246,700	**2,046,298**	1,823,444
	314,301	408,538	**4,511,478**	4,152,550

Loans per financial institution

Bank	Index/interest	Currency	Maturity	Balance at 2017	Balance at 2016
BNDES - FINAME Nº 09.2.1353.1	4.5% p.a.	BRL	2020	**18,894**	27,963
BNDES FINEM - Nº 10.2.0265.1	2.18% p.a. + TJLP	BRL	2029	**924,489**	850,879
BNDES FINEM - Nº12.2.1174.1 - Subcrédito A, B.	2.40% p.a. + TJLP	BRL	2029	**497,102**	456,744
BNDES FINEM - Nº12.2.1174.1 - Subcrédito C.	2.40% p.a. + 4.15% + Basket of currencies	BRL	2029	**163,612**	151,427
BNDES FINEM - Nº 4.003.109-P - Repasse AB	3.40% p.a. + TJLP	BRL	2029	**483,141**	438,689
BNDES FINEM - Nº 4.003.109-P - Repasse C	3.40% p.a. + 4.15% + Basket of currencies	BRL	2029	**158,142**	144,441
Deutsche Bank	4% p.a. + LIBOR 6 months	USD	2023	**633,882**	605,951
Banco do Brasil	3.4% p.a. + Libor	USD	2018	**57,249**	98,639
Panamenricano	4.85% p.a.	BRL	2019	**21,622**	31,953
Bradesco/Itaú	2.00% to 7.5% p.a.	USD	2029	**1,867,645**	1,754,402
				4,825,779	4,561,088
Transaction costs				**(146,282)**	(103,506)
				4,679,497	4,457,582

(In thousands of reais, unless otherwise stated)

11. Loans and financing(Continued)

The portions classified in noncurrent liabilities have the following payment schedule:

	Consolidated	
	2017	**2016**
Year of maturity		
2018	**341,493**	318,000
2019	**335,726**	301,242
2020 onwards	**3,834,259**	3,533,308
	4,511,478	4,152,550

At December 31, 2017, the annual interest rates on debts are as follows:

	Consolidated
Debts in US$ up to 5.0%	**2,580,398**
Debts in R$ up to 6%	**18,894**
Debts in R$ from 6.1% to 9.3%	**1,904,732**
Debts in R$ above 9.3%	**321,755**
	2,245,381
	4,825,779

Effect of conversion into Brazilian reais

The Brazilian real apreciated 2.8% in the period against the US dollar, from R$ 3.2591 at December 31, 2016 to R$ 3.3080 at December 31, 2017 influencing the balance of foreign currency debt that, at December 31, 2017 accounted for 54% of total indebtedness.

Transaction costs

The debt issue costs refer to outside counsel fees and commissions of financial guarantees and were recorded as reduction of liabilities.

Refinancing of the Senior Debt

In June 2017, the company completed the refinancing of its senior debt. The refinancing includes, among others, (a) until May 2020, the deferral of principal and interest payments on the refinanced debt until the following quarter if Porto Sudeste does not have cash available to pay the debt service; (b) a quarterly cash sweep mechanism through May 2020 through which any available cash will be used to pay off the debt owed by the respective date (including that portion of Senior Debt deferred up to that date); and (c) an adjustment to interest rates for Brazilian senior creditors.

12. Variable income securities

As a consequence of the completion of the Company's acquisition in February 2014, as described in Note 1, the Company assumed the obligations relating to floating rate MMXM11 securities issued in 2011 in connection with the acquisition of Porto Sudeste by MMX. To enable the transfer of that obligation, the Company issued floating rate securities (similar to MMXM11 securities), under similar terms as those for MMXM11 securities through two different vehicles:

· FIP-IE Porto Sudeste Royalties: an infrastructure investment fund, the portfolio of which would comprise solely Port11 Securities, and each Security Port11 held by FIP-IE would correspond to one share. The FIP-IE shares would be offered to holders of MMXM11 Securities not falling under the classification of qualified investors under the terms of the CVM regulation and not having any restrictions to hold FIP-IE shares.

· Porto Sudeste V.M. S.A.: a joint-stock corporation registered with CVM under category 'B', which issued a new royalty-based floating rate security similar to Security MMXM11 ("PSVM11 Securities"), listed on BM&FBOVESPA (in contrast with Port11 Securities, which are not allowed for trading on the stock exchange). PSVM11 Securities were offered to the holders of MMXM11 Securities (i) not falling under the classification of qualified investors, or (ii) not having any regulatory restrictions to hold FIP-IE shares.

This security barter transaction did not generate any impacts on the Company's financial statements given that the payment obligation had already been recognized in the covenants with the end holders of the original securities (MMXM11).

Given the conclusion of the security barter transaction, the Company has a payment obligation with those investment vehicles which, in turn, have the obligation to pay the holders of shares/securities exchanged.

The aforementioned holders of these securities are entitled to quarterly floating rate remuneration, calculated since January 1, 2013, based on the iron ore metric tonnage or on the value per ton for other cargo, as the case may be, as follows:

R = [(TMMF x VpTMF) + (TMOC x VpTDC)]*FP

Where:

R = royalties due in relation to each quarter of the fiscal year
TMMF = Iron Ore Measured Tonnage shipped in the Port in the respective quarter
TMOC = Measured Tonnage of Other Cargo shipped in the Port in the respective quarter
VpTMF = Value per Ton for Iron Ore (as defined below)
VpTDC = Value per Ton of Other Cargo (as defined below)
FP = Proportional Factor

(In thousands of reais, unless otherwise stated)

12. Variable income securities (Continued)

The royalties relating to iron ore cargo shipped in the Port in a given quarter will be calculated considering the value of US$5.00 per iron ore ton (“value per ton for iron ore”). This amount will be (i) annually restated by reference to US PPI variation calculated since September 2010; and (ii) converted into Brazilian reais based on the exchange rate closed at the end of the business day immediately prior to its effective payment date.

Royalties relating to cargo other than iron ore (excluding non-dry cargo such as supply activities) conducted at the Port Terminal will be calculated on the basis of the cargo margin (“value per ton for other cargo”). “Cargo margin”: (a) means the difference between the average cost per ton (excluding all non-cash items) incurred in relation to the services rendered by Porto Sudeste related to the applicable cargo and the average value per ton effectively charged by Porto Sudeste for the services rendered in relation to such cargo; and (b) will be limited, under any circumstances, to US$5.00 per ton shipped.

The adjusted limit amount of US$5.00 per ton for the cargo margin will be (i) annually restated by reference to US PPI variation calculated since September 2010; and (ii) converted into Brazilian reais based on the exchange rate closed at the end of the business day immediately prior to its effective payment date.

Every year, in the fourth quarter of each fiscal year, the amount of metric tons effectively shipped in the Port over the respective year (“measured tonnage”) will be compared to: (a) in relation to years between 2013 and 2016, the take-or-pay volumes indicated in the table below; and (b) in relation to subsequent years, the number of metric tons to be shipped through the Port in the respective year in accordance with all take-or-pay agreements entered into between Porto Sudeste or its subsidiaries effective in the respective fiscal year (“take-or-pay tonnage”):

	2013	**2014**	**2015**	**2016**	**2017**
Tm	13,6	31,9	36,8	36,8	9,5

If the value of the take-or-pay tonnage less the value of the measured tonnage is positive, the royalties due in relation to the fourth quarter of each fiscal year will be increased by the amount corresponding to the multiplication of such number by the value per ton for iron ore or for the value per ton for other cargo, as the case may be.

If in a given quarter, upon payment of the then current royalties, the sum of free cash held by the issuer and that held by Porto Sudeste exceeds (a) US$25,000 in fiscal years between 2013 and 2017, or (b) US$10,000 (“minimum cash reserve”), the issuer should use the amounts that exceed the minimum cash reserve (“available free cash”) to pay royalties effectively accumulated to the holders of securities until the last day of such calendar quarter.

12. Variable income securities (Continued)

"Free cash" means the amount corresponding to (i) the sum of (a) all amounts available in cash of Porto Sudeste as a whole, and (b) positive balances of all bank accounts of the issuer and of Porto Sudeste as a whole less (ii) the sum of (a) any amounts contributed by the shareholders of Porto Sudeste through capital increase or loan from shareholders, to the extent that such amounts remain as available cash of Porto Sudeste, (b) reserve account of Senior debt service of BNDES and reserve account of senior debt service of CESCE, and (c) the cash amounts provisioned by Porto Sudeste for income and social contribution taxes and other obligations that require provisioning.

Royalties will be cumulative, i.e. if in a given quarter the cash available for royalties determined by the issuer is not sufficient to enable payment, fully or partially, of royalties until then determined, these unpaid royalties will be added to the amount of the royalties for the subsequent quarter.

On November 24, 2016, 8,351,200 royalty securities were transferred through the exchange of Port11 by PSVM11 securities. These securities were transferred to the FIP-IE Porto Sudeste Royalties. After this transfer, the Company currently holds a total of 4,188,602 securities.

On December 31, 2017, the Company's parent carried out the financial calculations with the purpose of identify the existence of available net cash and concluded that the available cash is a creditor on this date and therefore does not require the settlement of the royalties.

Securities are measured in accordance with IAS 37 - Provisions, Contingent Assets and Contingent Liabilities based on projected cash flows from future security related payments discounted at an annual rate of 12.50%. At December 31, 2017, o the present value of discounted future cash flow amounted to US$ 2,242,111, which converted into Brazilian reais totaled R$ 7,416,903 (US$ 2,354,198, which converted into Brazilian reais totaled R$ 7,672,567 at December 31, 2016).

Transaction costs

Debt issue costs of variable-yield securities totaling R$8,922 at December 31, 2017 (R$8,791 at December 31, 2016), referring to outside legal counsel fees and commissions of guarantee were recorded as reduction of liabilities.

(In thousands of reais, unless otherwise stated)

13. Taxes and contributions payable

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Service Tax (ISS)	**3,960**	4,200	**3,965**	4,847
Social Security Tax (INSS) - third parties	**125**	400	**127**	400
State Value-Added Tax (ICMS)	**79**	298	**81**	298
Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL)	**726**	-	**833**	**4,783**
Social Contribution Tax for Intervention in the Economic Order (CIDE) on import	**161**	321	**161**	321
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) on import	**1,746**	1,823	**1,751**	**1,838**
Other	**27**	1,197	**26**	**1,204**
	6,824	8,239	**6,944**	**13,691**

14. Related parties

At December 31, 2017, the Company's shared control was exercised by Trafigura and Mubadala through PSA Fundo de Investimento e Participações, and those companies held 98.24% interest.

The Company maintains agreements for sharing operational and financial costs entered into with Impala Terminals Group B.V. (a subsidiary of Trafigura Pte. Ltd.). The costs of activities subject to sharing are measured based on time sheets, which are charged through debt notes, whose payments are made as agreed upon by the parties.

Assets with related parties are summarized as follows:

	Parent Company			
	Assets			
	2017		2016	
	Debit note	Accounts receivable	Debit note	Accounts receivable
Porto Exportação	**2,244**	**-**	-	19,173
	2,244	**-**	-	19,173

(In thousands of reais, unless otherwise stated)

14. Related parties (Continued)

Liabilities with related parties are summarized as follows:

	Parent Company			
	Liabilities			
	2017		2016	
	Debt notes	Accounts payable	Debt notes	Accounts payable
Pedreira		**(9,371)**	-	(10,008)
Impala Terminals (shared costs)	**(1,107)**		(3,090)	-
	(1,107)	**(9,371)**	(3,090)	(10,008)

	Consolidated	
	Liabilities – Debit notes	
	2017	2016
Impala Terminals	**(1,107)**	(3,090)
	(1,107)	(3,090)

	Consolidated	
	Liabilities – Advances	
	2017	2016
Trafigura PTE	**(5,717)**	-
	(5,717)	-

The effect on P&L from transactions with related parties is as follows:

	P&L			
	Parent Company		Consolidated	
	2017	2016	2017	2016
Impala Terminals	**272**	2,127	**272**	2,127
Trafigura PTE	**-**	-	**(932,943)**	(679,719)
	272	2,127	**(932,671)**	(677,592)

14. Related parties (Continued)

Key management personnel compensation

The amount of R$ 3,162 (R$ 4,308 at December 31, 2016), refers to key management personnel compensation paid in 2017.

The Company and its subsidiaries do not grant post-employment benefits, benefits of employment contract termination or other long-term benefits for their Management members.

15. Contractual obligations

According to Note 1, on June 6, 2017 the Company entered with Mineração Usiminas S.A. (“MUSA”) into a Transaction Instrument agreeing on conditions to end the subject matter of the arbitration initiated at the Arbitration and Mediation Center of Brazil-Canada Chamber of Commerce, discussing the extension of the obligations taken on by the parties to the Port Service Agreement and Other Provisions entered into on February 11, 2011 (“Agreement”), subject matter of the Material News released by the Company on June 19, 2015.

The Transaction Instrument establishes, among other provisions, that: (i) the approval of the agreement by the Arbitration Court and the compliance with the obligations taken on will result in the dissolution of the Agreement and in the Parties’ waiving the rights that might keep in relation to the Agreement; (ii) Porto Sudeste will make MUSA a payment, after the approval by the Arbitration Court, for the equivalent in Brazilian reais of US$62,500,000 (sixty-two million, five hundred thousand U.S. dollars).

At December 31, 2016 the Company had recognized a provision for R$510,735 corresponding to shipments not carried out, including interest, based on the penalty clauses of the agreement. Based on the agreement entered into, the Company adjusted its contractual obligation in the condensed statement of financial position for R$206.763 and recognized the respective gain as ‘Other operating income (expenses)’ in the statement of profit or loss.

On June 23, 2017, the Arbitral Tribunal issued an order (i) determining that Porto Sudeste complied with the payment agreed in the transaction agreement entered into with MUSA; and (ii) clarifying that after such payment it would issue a decision approving the agreement between the parties, Porto Sudeste and MUSA. In a joint petition, they reported the payment to the Tribunal on July 12, 2017.

On September 12, 2017, the Chamber of Arbitration sent the parties the final decision that approved the agreement entered into between MUSA and Porto Sudeste, extinguishing the arbitration, with resolution of the matter.

(In thousands of reais, unless otherwise stated)

16. Income and social contribution taxes

a) Deferred income and social contribution taxes

Deferred income and social contribution tax assets were calculated at the rate of 34%. Brazilian tax legislation allows tax losses to be offset against future taxable income for an indefinite term, however, such offset is limited to 30% of the taxable income for each reporting period.

The balance at December 31, 2017 is broken down as follows:

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Deferred tax assets (liabilities)				
Tax losses	**246,768**	94,961	**246,768**	94,961
Social contribution tax losses	**88,836**	34,186	**88,836**	34,186
Provision - take-or-pay contract	**-**	173,650	**-**	173,650
Pre-operating expenses treated as deferred assets for tax purposes	**325,819**	366,547	**325,819**	366,547
Amortization of license	**16,669**	10,325	**16,669**	10,325
Present value adjustment of royalties	**(102,821)**	(12,555)	**(102,821)**	(12,555)
Effect on property and equipment and intangible assets arising from change of functional currency (a)	**762,311**	839,842	**763,487**	839,842
Exchange gains/losses on royalties and loans for 2016 (b)	**(643,148)**	(701,893)	**(640,774)**	(701,893)
Other	**1,742**	1,043	**1,742**	1,043
Provision of unrecognized DTA (a)	**(696,176)**	(806,106)	**(699,726)**	(806,106)
	-	-	**-**	-

(a) Considering the fact that the Company changed its functional currency to the US Dollar and the devaluation of the US Dollar against the Brazilian real in June 30, 2017 and January 01, 2016 (date of change of functional currency), the tax base of property and equipment and intangible assets was significantly higher than the respective accounting base, thus generating a deferred consolidated tax credit in the total amount of R$ 763,487 (R$839,842 at December 31, 2016) and the amount of R$762,311 on the parent company (R$839,842 at December 31, 2016Considering that the port is still in the beginning of operations and expects to start the ramp-up period, management conservatively elected to recognize the deferred tax asset at the limit of the deferred tax liability . Thus, the total value of consolidated credit is R$ 63,760 (R$ 33,736 at December 31, 2016) and of the parent company the amount of R$ 66,135 (R$ 33,736 at December 31, 2016) were recognized as of December 31, 2017.

(b) This refers to the difference between the accounting and tax base of variable income securities. Although the Company's functional currency is the US Dollar, for tax purposes, the Company recognizes the corresponding foreign exchange differences, whose income, or deductible expense, will be taxed upon settlement of the obligation.

(In thousands of reais, unless otherwise stated)

16. Income and social contribution taxes(Continued)

b) P&L for the year

A conciliação da despesa calculada pela aplicação das alíquotas nominais versus a despesa registrada nos exercícios é demonstrada como segue:

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gain (Loss) before income and social contribution taxes	**332,794**	(603,537)	**334,395**	(599,254)
Income and social contribution tax assets at statutory rate (34%)	**(113,150)**	205,203	**(113,694)**	203,746
Adjustments for reconciliation of the statutory rate to the effective rate				
Equity pickup	**579**	73	**-**	-
Thin capitalization (limit for deductibility of interest on loans taken out abroad)	**(17,213)**	(21,850)	**(17,213)**	(17,524)
Difference between the tax and accounting bases of property, plant and equipment and intangible assets	**97,435**	(806,105)	**97,397**	(806,105)
Other	**(48)**	40,958	**(495)**	37,648
Provision for loss due to non-realization	**(32,398)**	-	**(34,005)**	-
Income and social contribution tax credit (expense) for the year	**-**	(581,721)	**-**	(586,488)
Current	**-**	-	**(104)**	4,767
Deferred	**-**	581,721	**-**	581,721

17. Equity

a) Capital

Porto Sudeste's capital is broken down as follows:

Shareholders	**Number of shares**	**R$**	**%**
PSA Fundo de Investimentos e Participações	**402,931,047**	**2,381,537**	**98.24%**
Porto Sudeste Participações S.A. ("Grupo MMX")	**6,335,110**	**37,444**	**1.54%**
Gaboard Participações Ltda.	**877,930**	**5,189**	**0.22%**
Total	**410,144,087**	**2,424,170**	**100%**

17. Equity(Continued)

a) Capital (Continued)

In February 2014, as part of the restructuring described in Note 1, a loan of R$103,334, and future capital contributions amounting to R$348,381 were capitalized. On that same date, the Company merged it parent compay, generating a capital increase of R$1,442,530, and immediately after the merger, canceled the shares corresponding to its equity amounting to R$1,074,801. In addition, in August 2014, shareholders Trafigura and Mubadala made a capital contribution in the amount of R$45,508, of which R$29,580 was paid by PSA Fundo de Investimentos e Participações, and R$15,928 through investee Gaboard Participações Ltda. After these capital increases, the MMX Group was diluted to 30.75%.

In August 2015, shareholders Trafigura and Mubadala made a capital contribution through PSA Fundo de Investimentos e Participações amounting to R$408,029. After this capital increase, MMX Group was diluted to then hold to 4.76% interest in the Company.

In March 2017 the Company paid up US$50,000 equivalent to R$169,874 received as a future capital contribution in May and July 2016 through PSA Fundo de Investimento e Participações. After such capital increase, the MMX Group was diluted and began holding a 1.54% interest in the Company.

b) Advance for future capital increase

In May 2017, shareholders Trafigura and Mubadala made a capital contribution through PSA Fundo de Investimentos e Participações, amounting to R$95,541.

In July 2017 it was received as an advance for a future capital increase in the equivalent amount in Reais of US$ 62,500 for the settlement of the transaction instrument entered into between the Company and Mineração Usiminas S.A. ("MUSA") as described in Note 1.

In November 2017, shareholders Trafigura and Mubadala made a capital contribution through the PSA Fundo de Investimentos e Participações, in the amount of R$ 24,593.

During 2017, the Company received as an advance for future capital increase the total amount of R$ 325,241.

c) Cumulative Translation Adjustments (CTA)

Represented by the accounting record of the foreign exchange differences of the Company and its subsidiaries, the amounts of R$189,467 in the Parent Company and R$191,880 in the Consolidated were recorded at December 31, 2017, in compliance with

(In thousands of reais, unless otherwise stated)

Accounting Pronouncement CPC 02.

18. Service revenue, net

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Gross revenue	**242,249**	167,273	**1,038,832**	711,099
(-) Sales deductions				
ISS	**39**	(36)	**39**	(36)
ICMS	**(12,107)**	(8,364)	**(12,107)**	(8,364)
PIS	**(3,995)**	(2,762)	**(3,995)**	(2,762)
COFINS	**(18,403)**	(12,724)	**(18,404)**	(12,726)
Net revenue	**207,783**	143,387	**1,004,365**	687,211

19. Costs of sales and services

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Costs of sales (*)	**-**	-	**(785,616)**	(530,333)
Cost of materials	**(10,220)**	(4,578)	**(10,213)**	(4,578)
Utilities	**(16,926)**	(13,678)	**(16,927)**	(13,685)
Maintenance	**(3,687)**	(3,372)	**(3,807)**	(3,518)
Rent of equipment	**(7,807)**	(3,980)	**(7,787)**	(3,980)
Insurance	**(8,380)**	(6,583)	**(8,380)**	(6,583)
External services	**(17,142)**	(13,768)	**(16,604)**	(13,768)
Payroll	**(29,932)**	(23,724)	**(31,387)**	(23,724)
Other	**(912)**	(2,838)	**(2,711)**	(2,305)
	(95,006)	(72,521)	**(883,432)**	(602,474)

(*)This substantially refers to iron ore purchased for resale plus direct costs such as freight.

20. Administrative expenses by nature

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Third-party services	**(13,197)**	(10,861)	**(15,835)**	(13,310)
Payroll	**(11,772)**	(12,886)	**(12,607)**	(12,886)
Maintenance	**(1,410)**	(2,655)	**(1,493)**	(2,738)
Materials	**(417)**	(394)	**(424)**	(402)
Rent and lease	**(350)**	(331)	**(370)**	(352)
Taxes and fees	**-**	(614)	**-**	(687)
Other	**(1,367)**	(1,636)	**(1,604)**	(2,502)
	(28,513)	(29,377)	**(32,333)**	(32,877)

(In thousands of reais, unless otherwise stated)

21. Finance income (costs)

	Parent Company		Consolidated	
	2017	**2016**	**2017**	**2016**
Financial costs				
Interest	**(390,006)**	(201,003)	**(390,380)**	(201,378)
Foreign exchange differences (*)	**-**	(284,957)	**-**	(290,795)
Tax on Financial Transactions (IOF)	**(716)**	(1,419)	**(942)**	(1,546)
Taxes on finance income	**(408)**	(401)	**(408)**	(443)
Other	**(989)**	(927)	**(1,365)**	(983)
	(392,119)	(488,707)	**(393,095)**	(495,145)
Finance income				
Short-term investment yield	**3,092**	7,817	**4,159**	8,707
Interest	**112,959**	-	**112,464**	-
Foreign exchange differences (*)	**268,895**	469	**268,895**	469
Other	**9**	-	**11**	-
	384,955	8,286	**385,529**	9,176
Finance income (costs), net	**(7.164)**	(480,421)	**(7.566)**	(485,969)

(*)The effect of foreign exchange differences on P&L refers to the debt denominated in Brazilian reais, considering that the Company's functional currency was changed to the US Dollar in January 2016.

22. Commitments assumed

The Company and its subsidiaries entered into contracts with suppliers of goods and services of projects and operating bases in the approximate amount of R$ 32,000, mainly represented by contracts for acquisition of equipment and civil construction works related to current investment projects.

23. Financial instruments and risk management

The Company performs the risk management of its companies within the Company's consolidated level, taking advantage of the possible synergy between the business to reduce the risk.

The "fair value" concept embodies the valuation of assets and liabilities by reference to market prices when this involves liquid assets or otherwise using mathematical pricing methodologies. The level of fair value hierarchy gives priority to unadjusted quoted prices in an active market.

These instruments are managed through operational strategies and internal control intended for liquidity, profitability and safety. Control policy consists of permanent monitoring of contracted rates *versus* market rates in effect. The Company does not make speculative investments in derivative financial instruments or any other risky assets, as determined in the risk management policy.

(In thousands of reais, unless otherwise stated)

23. Financial instruments and risk management

The Company and its subsidiaries had no derivative or hedging instruments at December 31, 2017 and 2016.

The main financial assets are classified and measured into the following categories:

Financial assets	Consolidated 2017 Receivables	Consolidated 2017 Assets at fair value through profit or loss	Consolidated 2017 Total	Consolidated 2016 Receivables	Consolidated 2016 Assets at fair value through profit or loss	Consolidated 2016 Total
Cash and cash equivalents and marketable securities	**-**	**30,409**	**30,409**	-	52,556	52,556
Trade accounts receivable	**13,259**	**-**	**13,259**	186	-	186
Accounts receivable from related parties	**7.588**	**-**	**7,588**	-	-	-
	20,847	**30,409**	**51,255**	186	52,556	52,742

The main financial liabilities, except for financial instruments, are classified and measured at amortized cost, as follows:

Financial liabilities	Consolidated 2017	Consolidated 2016
Trade accounts payable	**(55,339)**	(89,633)
Loans and financing	**(4,825,779)**	(4,457,582)
Accounts payable to related parties	**(1.107)**	(3,090)
	(4,882,225)	(4,550,305)

Risk management objectives and strategies

The Company has a formal policy for managing financial risk. The financial instruments for equity hedging purposes is contracted by analyzing the risk exposure (foreign exchange risk, interest rate risk and other risks), following the strategy approved by Management.

The guidelines for hedging are implemented according to the type of exposure. Risk factors related to foreign currencies are required to be neutralized in the short term (within 1 year); the hedge may be extended to a larger period. The decision making against interest rates and inflation risk arising from liabilities acquired will be evaluated within the economic and operational scenario and will be made when Management considers them significant risks.

Market and financial risk

The Company understands that there is no significant risk considering the variables to which loans and financing are exposed at year-end. Risk variables, taking into consideration the projected term of twelve months are: i) the exposure to the US dollar and to interest rate fluctuations, LIBOR and TJLP (the Long-Term Interest Rate). The Company understands that

23. Financial instruments and risk management (Continued)

Market and financial risk (Continued)

the financial expenses from the fluctuation of the US dollars will be naturally hedged by the Company's revenues that will also be denominated in the same currency. In accordance with management's assessment, TJLP does not represent a significant risk.

The global iron ore prices appreciated more than 31% in 2017, , basically due to the increase in Chinese demand. Management understands that the iron ore price for 2018 is a risk that may impact the volumes and rates projected in the business plan. However, in the long term demand is expected to rise.

Currency risk

The Company is subject to exchange gains/losses due to the volatility of the exchange rate on transactions pegged to foreign currencies, mainly loans and financing and floating rate securities. Since the iron ore shipment contracts are traded in US dollars, the Company has a natural hedge, reason why, with the beginning of its operations, management changed the functional currency to US dollar. With the change of functional currency, the Company is exposed, on an accounting basis, to debt denominated in Brazilian reais. Exchange rate fluctuations may generate adverse effects on the financial statements.

Interest rate risk

Risk of shift in interest structures that may be associated with payment flows of the debt principal and interest. Porto Sudeste's debt is indexed to floating rates. However 39.4% of the credit facilities are pegged to the Long-Term Interest Rate (TJLP), 53.5% to Libor, 6.7% to UMBNDES (basket of currencies) and 0.4% pegged to a fixed rate. In addition, management monitors the risk associated with uncertainty of medium and long-term cash flows arising from the indexation of floating rates and, if necessary, it sets the debt remuneration through hedging transactions.

Liquidity risk

The Company monitors its liquidity level considering the expected cash flows in contrast to the amount available in cash and cash equivalents. The liquidity risk management implies maintaining sufficient cash and marketable securities, in addition to gain market share in the respective maturities.

Cash and cash equivalents are sufficient to honor the expenses throughout the next 90 days. In addition, cash flow arising from rendering of port services and the outstanding credit facilities with banks for Trade Finance or transactions are guaranteed by the iron ore supply agreements in force.

(In thousands of reais, unless otherwise stated)

23. Financial instruments and risk management (Continued)

The projection for the settlement of liabilities at December 31, 2017 is as follows.

	Future flows projected for maturity					
	Within 6 months	**From 6 to 12 months**	**From 1 to 2 years**	**From 2 to 5 years**	**Above 5 years**	**Total**
Financial liabilities						
Trade accounts payable	55,339	-	-	-	-	**55,339**
Transactions with related parties	1,107	-	-	-	-	**1,107**
Loans and financing	135,276	147,552	620,595	1,481,990	6,169,127	**8,554,540**
Royalties	-	-	-	1,371,970	66,323,944	**67,695,914**
Total by maturity range	**191,722**	**147,552**	**620,595**	**2,853,960**	**72,493,071**	**76,306,900**

Credit risk

This risk arises from the Company and subsidiaries' likelihood to record losses due to the default of their counterparties or of financial institutions depositary of funds or investments. This risk factor could come either from trade transactions or cash management.

In order to mitigate these risks, the Company makes it a practice to review the financial position of its counterparties and monitor, on an ongoing basis, the outstanding positions. The Company has a Financial Investment Policy, which establishes investment limits for each financial institution and considers the *credit rating* as a reference for limiting the investment amount. The average terms are continually assessed, as are the indexes underlying the investments, in order to diversify the portfolio.

The Company's transactions are subject to the following credit risks:

	Consolidated	
Positions that represent credit risk	**2017**	**2016**
Cash and cash equivalents and marketable securities	**30,409**	52,556
Trade accounts receivable	**13,259**	186
Restricted deposit	**10,107**	13,532
	53,774	66,274

24. Insurance coverage

The Company and its subsidiaries take out insurance coverage for assets subject to risks at amounts deemed sufficient by management to cover losses, if any, considering the nature of their activity.

Insurance covers civil liability, automobile, fire, and operating risks. There is also a group life insurance policy the Company's employees.

Insured risk	Maximum coverage limit
Engineering risk	R$ 17,725
Civil liability	R$ 30,000
Directors' Liability	R$20,000
Nacional Transportation	US$7,000
Port operator policy - civil liability	US$ 200,000
Port operator policy - personal injury	US$ 200,000

The Company considers that the policy coverage is consistent with that used in its segment and is in line with the Company's objectives, pursuant to the best corporate risk management practices.

Board of Directors	Executive Board
Oscar Pekka Fahlgren - Vice Chairman (and Acting Chairman)	Eugênio Mamede - Chief Operations Officer
Nicolas Konialidis - Member	Nicolau Gaeta - Chief Financial and Investor Relations Officer
Edward Wygand - Member	
Hani Barhoush - Member	
Jesús Fernandez Lopez - Member	
Matthew John Hurn - Member	

Alexandre Carvalho de Andrade
Accountant
CRC-RJ 114354/O-4