

# **Financial Statements Individual and Consolidated**

**Porto Sudeste do Brasil S.A.**

December 31, 2019  
with Independent Auditor Report

# **Porto Sudeste do Brasil S.A.**

Individual and consolidated financial statements

December 31, 2019

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# 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, 2019. Should you need any further clarifications, please do not hesitate to contact us. In closing 2019, 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 income securities

### Variable-income 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 variable income securities MMXM11, issued in 2011 in connection with Porto Sudeste's acquisition by MMX. In order to make the transfer of such obligation feasible, the Corporation issued variable income 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 income security, mirror of MMXM11 Security ("PSVM11 Securities"), and such security listed for trading on B3 (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 income 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 follows:

$$R = [(TMMF \times VpTMF) + (TMOC \times VpTDC)] * FP$$

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)

FP = Proportional Factor

For iron ore loads: the royalties related to iron ore loads shipped on Port in a certain calendar quarter shall be calculated, considering 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”):

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Tm	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:

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Tm	-	-	-	7,1	9,5	10,7	16,4

All volumes operated in the year of 2019 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, 2019, 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.

<b>Cash available for payment of royalties</b>	<b>1<sup>st</sup> quarter 2019</b>	<b>2<sup>st</sup> quarter 2019</b>	<b>3<sup>st</sup> quarter 2019</b>	<b>4<sup>st</sup> quarter 2019</b>
Revenues	92,745	133,247	188,925	144,826
Dividends	-	-	-	-
Applicable taxes	(13,216)	(18,988)	(26,922)	(20,638)
Operating costs	(24,290)	(21,613)	(30,214)	(40,474)
Maintenance investment	(5,344)	(7,205)	(3,208)	(9,978)
Operating expenses	(16,659)	(16,330)	(16,323)	(20,241)
Interests and repayment of the senior debt	(31,925)	(58,065)	(123,544)	(54,241)
Senior debt service reserve account	-	-	-	-
Interests and repayment of the working capital senior debt	(7,632)	(12,989)	(3,938)	-
New cash provisions	-	-	-	-
<b>Total cash available for payment of royalties</b>	<b>(6,052)</b>	<b>(1,942)</b>	<b>(15,224)</b>	<b>(745)</b>

  

<b>Cash available for payment of accumulated royalties</b>	<b>1<sup>st</sup> quarter 2019</b>	<b>2<sup>st</sup> quarter 2019</b>	<b>3<sup>st</sup> quarter 2019</b>	<b>4<sup>st</sup> quarter 2019</b>
Net cash or bank accounts	25,618	45,499	30,467	24,395
Contributions by the stockholders	(25,618)	(45,499)	(30,467)	(24,395)
Senior debt service reserve account	-	-	-	-
Allocated cash values	-	-	-	-
<b>Total cash available for payment of accumulated royalties</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Reconciliation between quantity shipped and amounts paid as royalties (accumulated)	Shipped	Shipped	Shipped	Shipped	Take-or-pay/Shipped
	1 <sup>st</sup> quarter 2019	2 <sup>st</sup> quarter 2019	3 <sup>st</sup> quarter 2019	4 <sup>st</sup> quarter 2019	Accumulated
Volume (M/TONS)	3,376	3,951	5,215	3,899	155,730
Price per Ton	5	5	5	5	5
PPI, accumulated	0.61	0.61	0.61	0.73	0.46
Price per TON (USD)	<b>5.61</b>	<b>5.61</b>	<b>5.61</b>	<b>5.73</b>	<b>5.46</b>
<b>Royalty (Porto Sudeste) USD</b>	<b>18,932</b>	<b>22,158</b>	<b>29,245</b>	<b>22,347</b>	<b>850,709</b>
<b>PSVM11 securities issued by Porto Sudeste V.M. S.A. as a percentage of Port11 securities</b>	<b>0.43%</b>	<b>0.43%</b>	<b>0.43%</b>	<b>0.43%</b>	<b>0.43%</b>
<b>Royalties (Porto VM) calculated (KUSD)</b>	<b>81</b>	<b>95</b>	<b>126</b>	<b>96</b>	<b>3,658</b>
<b>Cash available for payment of Royalties</b>	-	-	-	-	-
<b>Royalties payable</b>	-	-	-	-	-

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 11.10%. These projections are based on the Company's Business Plan and the assumptions related to the growth of iron exports in the Quadrilátero Ferrífero of Minas Gerais and assumptions about the growth of the market share of Porto Sudeste. The Company is aware that this growth will be achieved based on the closing of long-term contracts, as well as on acquisitions of iron ore mines in the region carried out by its shareholders. On December 31, 2019, the present value of discounted future cash flow amounted to US\$ 2,123,289, which converted into Brazilian reais totaled R\$ 8,558,342 (US\$ 2,246,512, which converted into Brazilian reais totaled R\$ 8,704,784 at December 31, 2018). Of those totals, the amounts corresponding to PSVM11 securities are represented at the base date of December 31, 2019 at US\$ 9,043, which converted into reais totaled R\$ 36,452 (US \$ 9,569, which converted into reais totaled R\$ 37,076 on December 31, 2018).

#### Transaction costs

Debt issue costs of variable income securities amounts to R\$10,872 at December 31, 2019 (R\$10.453 at December 31, 2018, referring to outside legal counsel fees and commissions of guarantee is recorded as reduction of liabilities.

Itaguaí, April 16, 2019.

The Management.

**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)**

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## **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 individual and consolidated financial statements of Porto Sudeste do Brasil S.A. (“Company”), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019, and the statement of profit or loss, 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 accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Porto Sudeste do Brasil S.A. as at December 31, 2019, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the 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 in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the 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 opinion.

### **Relevant uncertainty related to operational continuity**

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which shows that as at December 31, 2019, the Company's consolidated current liabilities exceeded the consolidated current assets by R\$394,265 thousand, it incurred consolidated accumulated losses of R\$2,226,429 thousand. This note also states that the Company and its subsidiaries started their operations in January 2016, but they still depend on the financial support from their shareholders and/or third-party funds until their operations generate sufficient cash to maintain its operating activities. These financial statements were prepared on the assumption that the Company will continue to operate as a going concern and does not include any adjustment that would be required in the event that its plans do not achieve the expected results.

### **Other information accompanying the individual and consolidated financial statements and the auditor's report**

Management is responsible for such other information, which comprise 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 our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **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 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 of 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's 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 a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, 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 to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Rio de Janeiro, April 16, 2020.

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

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

## Porto Sudeste do Brasil S.A.

Balance sheet  
December 31, 2019 and 2018  
(In thousands of reais)

	Note	Parent Company		Consolidated	
		2019	2018	2019	2018
Assets					
Current assets					
Cash and cash equivalents	4	<b>30,625</b>	26,350	<b>74,129</b>	41,330
Trade accounts receivable	5	<b>37,879</b>	28,291	<b>37,879</b>	28,291
Accounts receivable from related parties	14	<b>33,735</b>	18,549	<b>157,998</b>	1,769
Inventories	6	<b>44,639</b>	32,224	<b>105,669</b>	90,447
Taxes recoverable		<b>6,122</b>	5,326	<b>8,339</b>	6,739
Advances		<b>3,594</b>	820	<b>13,935</b>	820
Other		<b>1,593</b>	6,104	<b>1,802</b>	6,267
		<b>158,187</b>	117,664	<b>399,751</b>	175,663
Noncurrent assets					
Restricted deposits	7	<b>10,480</b>	10,113	<b>10,480</b>	10,113
Accounts receivable from related parties	14	-	2,244	-	-
Taxes recoverable		<b>69</b>	69	<b>69</b>	69
Investments	8	<b>20,563</b>	33,995	-	-
Property and equipment	9	<b>5,776,482</b>	5,687,034	<b>5,805,667</b>	5,707,626
Intangible assets	10	<b>9,085,678</b>	8,805,278	<b>9,085,678</b>	8,805,278
Other		<b>18,863</b>	10,845	<b>20,189</b>	12,137
Total noncurrent assets		<b>14,912,135</b>	14,549,579	<b>14,922,083</b>	14,535,223
Total assets		<b>15,070,322</b>	14,667,242	<b>15,321,834</b>	14,710,886

	Note	Parent Company		Consolidated	
		2019	2018	2019	2018
Liabilities and equity					
Current liabilities					
Trade accounts payable		27,025	25,555	120,916	48,741
Loans and financing	11	496,083	185,253	652,011	185,253
Taxes and contributions payable	13	6,775	9,894	7,297	10,790
Related parties	14	2,363	7,841	659	569
Customer advances		59	54	59	54
Customer advances related parties	14	-	-	-	26,744
Other		10,209	7,004	13,074	7,004
Total current liabilities		542,514	235,601	794,016	279,155
Noncurrent liabilities					
Loans and financing	11	5,198,172	5,230,596	5,198,172	5,230,596
Variable income securities	12	8,547,470	8,694,332	8,547,470	8,694,332
Provision for contingencies		10,955	1,519	10,965	1,609
Total noncurrent liabilities		13,756,597	13,926,447	13,756,607	13,926,537
Equity	16				
Capital		2,911,944	2,749,411	2,911,944	2,749,411
Future capital contribution		-	99,463	-	99,463
Cumulative translation adjustments (CTA)		85,696	(152,670)	85,696	(152,670)
Accumulated losses		(2,226,429)	(2,191,010)	(2,226,429)	(2,191,010)
Total equity		771,211	505,194	771,211	505,194
Total liabilities and equity		15,070,322	14,667,242	15,321,834	14,710,886

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Statement of operations  
 Years ended December 31, 2019 and 2018  
 (In thousands of reais)

	Note	Parent Company		Consolidated	
		2019	2018	2019	2018
Revenue, net of sale of assets	17	<b>493,528</b>	243,129	<b>1,923,996</b>	898,042
Costs of sales and services	18	<b>(134,448)</b>	(100,319)	<b>(1,556,642)</b>	(748,981)
Gross profit		<b>359,080</b>	142,810	<b>367,354</b>	149,061
Operating income (expenses)					
General and Administrative	19	<b>(262,694)</b>	(206,849)	<b>(267,045)</b>	(208,037)
Equity pickup	8	<b>4,313</b>	7,393	-	-
Other operating income (expenses)	12	<b>192,579</b>	44,591	<b>192,570</b>	44,721
		<b>(65,802)</b>	(154,865)	<b>(74,475)</b>	(163,316)
Income before financial income (expense) and taxes		<b>293,278</b>	(12,055)	<b>292,879</b>	(14,255)
Financial income (expenses)	20				
Financial income		<b>149,277</b>	364,460	<b>151,120</b>	366,823
Financial expenses		<b>(477,974)</b>	(482,045)	<b>(479,418)</b>	(709,492)
		<b>(328,697)</b>	(117,585)	<b>(328,298)</b>	(342,669)
Income before income taxes		<b>(35,419)</b>	(129,640)	<b>(35,419)</b>	(129,640)
Income and social contribution taxes	15	-	-	-	-
Income (loss) for the year		<b>(35,419)</b>	(129,640)	<b>(35,419)</b>	(129,640)

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Statement of comprehensive income (loss)  
Years ended December 31, 2019 and 2018  
(In thousands of reais)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Loss for the year	<b>(35,419)</b>	(129,640)	<b>(35,419)</b>	(129,640)
Exchange differences related to conversion into reporting currency	<b>237,764</b>	39,210	<b>238,366</b>	39,210
Total comprehensive income (loss)	<b>202,947</b>	(90,430)	<b>202,947</b>	(90,430)

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Statement of changes in equity  
 Years ended December 31, 2019 and 2018  
 (In thousands of reais)

	<b>Company</b>				
	<b>Capital</b>	<b>Future capital contribution</b>	<b>Cumulative translation adjustment</b>	<b>Accumulated losses</b>	<b>Total</b>
Balances at December 31, 2017	2,424,170	325,241	(191,880)	(2,061,370)	496,161
Capital payment	325,241	(325,241)	-	-	-
Capital increase through capitalization of future capital contribution	-	99,463	-	-	99,463
Cumulative translation adjustments (CTA)	-	-	39,210	-	39,210
Loss for the year	-	-	-	(129,640)	(129,640)
Balances at December 31, 2018	2,749,411	99,463	(152,670)	(2,191,010)	505,194
Capital payment	<b>162,533</b>	<b>(162,533)</b>	-	-	-
Advance for future capital increase	-	<b>63,070</b>	-	-	<b>63,070</b>
Cumulative translation adjustments (CTA)	-	-	<b>238,366</b>	-	<b>238,366</b>
Loss for the year	-	-	-	<b>(35,419)</b>	<b>(35,419)</b>
Balances at December 31, 2019	<b>2,911,944</b>	-	<b>85,696</b>	<b>(2,226,429)</b>	<b>771,211</b>

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Statements of changes in equity (Continued)  
 Years ended December 31, 2019 and 2018  
 (In thousands of reais)

	<b>Consolidated</b>				
	<b>Capital</b>	<b>Future capital contribution</b>	<b>Cumulative translation adjustment</b>	<b>Accumulated losses</b>	<b>Total</b>
Balances at December 31, 2017	2,424,170	325,241	(191,880)	(2,061,370)	496,161
Capital payment	325,241	(325,241)	-	-	-
Capital increase through capitalization of future capital contribution	-	99,463	-	-	99,463
Cumulative translation adjustments (CTA)	-	-	39,210	-	39,210
Loss for the year	-	-	-	(129,640)	(129,640)
Balances at December 31, 2018	2,749,411	99,463	(152,670)	(2,191,010)	505,194
Capital payment	<b>162,533</b>	<b>(162,533)</b>	-	-	-
Advance for future capital increase	-	<b>63,070</b>	-	-	<b>63,070</b>
Cumulative translation adjustments (CTA)	-	-	<b>238,366</b>	-	<b>238,366</b>
Loss for the year	-	-	-	<b>(35,419)</b>	<b>(35,419)</b>
Balances at December 31, 2019	<b>2,911,944</b>	-	<b>85,696</b>	<b>(2,226,429)</b>	<b>771,211</b>

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Cash flow statement  
Years ended December 31, 2019 and 2018  
(In thousands of reais)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Cash flows from operating activities				
Loss before income taxes	(35,419)	(129,640)	(35,419)	(129,640)
Non-cash P&L items				
Depreciation and amortization	228,091	172,243	228,153	172,469
Transaction cost	36,747	28,521	36,920	28,521
Other amortization	6,426	8,653	6,760	9,115
Fixed asset write-off	4	71	4	71
Equity pickup	(4,313)	(7,393)	-	-
Monetary variation and interest	363,345	395,580	364,203	395,344
Other provisions/reversals	(495,181)	2,282	(495,262)	2,220
Changes in assets and liabilities				
Accounts receivable	(56,931)	(36,086)	(56,930)	(36,087)
Accounts receivable with related parties	(12,942)	(18,549)	(172,045)	(1,769)
Advances	(3,628)	(13,543)	(14,600)	(14,044)
Inventories	(12,305)	(6,236)	(15,563)	(21,159)
Restricted deposits	119	603	119	603
Judicial deposits	(7,749)	(3,738)	(7,736)	(4,958)
Taxes recoverable	(26,687)	(11,413)	(27,052)	(11,500)
Advances from customers	47,348	226	47,348	226
Advances from customers related parties	-	-	-	25,833
Trade accounts payable	1,470	30,838	72,171	17,167
Taxes and contributions payable	22,872	13,233	22,076	14,163
Obligation to third parties	(76)	1,987	(76)	1,987
Transactions with related parties	(5,478)	(2,690)	90	(591)
Other assets	9,673	2,236	(685)	2,092
Salaries and compensations	129	(1,991)	129	(1,994)
Interest paid	(248,571)	(50,383)	(248,571)	(50,383)
Net cash used in operating activities	(193,056)	374,811	(295,966)	397,686
Cash flow from investing activities				
Acquisition of property and equipment	(25,811)	(14,180)	(30,477)	(14,180)
Dividends	-	4,931	-	-
Advance for future capital increase subsidiaries	(250)	(1,070)	-	-
Net cash used in investing activities	(25,811)	(14,180)	(30,477)	(14,180)
Cash flows from financing activities				
Advance for future capital increase	63,070	99,463	63,070	99,463
Loan Drawdown	-	-	157,726	-
Transaction cost	(40,770)	(34,300)	(41,000)	(34,300)
Borrowings settled	(21,903)	(81,090)	(21,903)	(81,090)
Net cash provided by financing activities	397	(15,927)	157,893	(15,927)
Exchange differences, net				
Foreign exchange differences	222,995	(346,560)	201,349	(356,657)
Increase in cash and cash equivalents	4,275	2,005	32,799	10,922
Statement of increase (decrease) in cash and cash equivalents				
At beginning of year	26,350	24,345	41,330	30,408
At end of year	30,625	26,350	74,129	41,330
Increase in cash and cash equivalents	4,275	2,005	32,799	10,922

See accompanying notes.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 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 Contêineres Sepetiba Ltda. (“TCS”), Porto Sudeste VM S.A. (“Porto VM”) and Porto Sudeste Exportação e Comércio S.A.

Porto Sudeste Exportação e Comércio Ltda. was transformed into a society organized by stocks on October 2, 2017, when began to be called Porto Sudeste Exportação e Comércio S.A. The transformation occurred.

#### 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\$400,000. 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.

#### 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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 1. Operations (Continued)

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%.

In May 2018, the amount of US\$ 100,000 equivalent to R\$ 325,241 received as an advance for future capital increase in May, July and November of 2017, through the PSA Fundo de Investimento e Participações. After this capital increase, MMX was diluted to a 0.93% interest in the Company, 0.13% interest in the Company held by Gaboard and the controllers now hold 98.94%.

In April 2019, the amount of US\$ 44,700 equivalent to R\$ 162,533 received as an advance for future capital increase in May of 2018 and February of 2019, through the PSA Fundo de Investimento e Participações. After this capital increase, MMX was diluted to a 0.65% interest in the Company.

#### Company's financial position

At December 31, 2019, the Company records a consolidated working capital deficit of R\$ 394,265 including the forecasted debt interest and principal amortization under the "Cash Sweep" concept of R\$ 496,083. Without considering the cash sweep, the working capital would be R\$ 101,818. See also Footnote 11 for a description of the debt refinancing.

The Company also has a consolidated accumulated loss of R\$ 2,226,429 for the year then ended. The Company closed the year of 2019 with a cash position consolidated of R\$ 74,129.

The Company started operations in January 2016 and has a positive operating cash flow. However, for the next 12 months and according to senior debt contracts will still depend on financial support from its shareholders and/or third-party funds to support certain obligations that cannot be settled from the operating cash flow (such as guarantees, non-maintenance investments). According to the Company's business model, there is an additional cash requirement of approximately US\$26,316 to meet the future commitments that will be made available by the shareholders.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### **1. Operations (Continued)**

#### 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 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 N°11/2015, 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 Tax Authority, the areas of yard 06, tunnel, pier and yard 32 are within an export 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.

### **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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### a) Individual and consolidated financial statements (Continued)

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.

On April 16, 2020, Company management authorized the completion and disclosure of the individual and consolidated financial statements for the year ended December 31, 2019.

#### 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 the commencement of operations 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".

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### d) Consolidation

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

	Interest - %				Location of Headquarters	Main activity
	Capital		Voting capital			
	2019	2018	2019	2018		
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 of other shareholders are disclosed in the statement of financial position and P&L;
- (v) Changes in the percentage interest in subsidiaries that do not result in loss and/or gain of control are recorded in equity.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 3. Summary of significant accounting practices and estimates

#### 3.1. Financial instruments

##### a) Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. Apart from trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs.

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Company's cash and cash equivalents balance are classified as financial assets measured at fair value through profit or loss.

##### b) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and receivables, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value, plus or less, in the case of a financial liability other than at fair value through profit or loss, transaction costs that are directly attributable to the issue of a financial liability.

The Company's financial liabilities include trade payables and loans.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### **3.1. Financial instruments (Continued)**

##### **c) Offsetting (net presentation) of financial instruments**

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

#### **3.2. Cash and cash equivalents**

Cash equivalents are held for 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.

#### **3.4. 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.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### **3.4. Investments (Continued)**

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 include 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 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.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### **3.6. Impairment of nonfinancial assets**

The carrying amounts of the Company's nonfinancial assets are reviewed every reporting date 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.

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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

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

The book value of deferred tax assets is revised at each Balance Sheet date, 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.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### **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.

#### **3.10. Revenue from Contracts with Customers**

IFRS 15, equivalent to CPC 47, replaces CPC 17 (R1) - Construction Contracts (equivalent to international standard IAS 11), CPC 30 - Revenue (equivalent to international standard IAS 18) and related interpretations and limited exceptions, to all revenues arising from a customer agreement. IFRS 15 establishes a five-step model for accounting for customer contract revenue and requires revenue to be recognized at a value that reflects the consideration that the entity expects to receive in return for the transfer of goods or services to a customer.

IFRS 15 requires entities to exercise judgment, considering all relevant facts and circumstances when applying each step of the model to contracts with their clients. The standard also specifies the accounting for the incremental costs of obtaining a contract and costs directly related to compliance with a contract. The Company considers whether there are other promises in the contract that are distinct performance obligations, to which a portion of the transaction price needs to be allocated. In determining the transaction price for the rendering of services, the Company considers the existence of a variable consideration, significant financing components, non-monetary consideration and the consideration due to the customer (if any).

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### **3.10. Revenue from Contracts with Customers (Continued)**

i) Sale of goods

For contracts with customers in which the sale of goods is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have a significant impact on the Group's revenue and profit or loss. The Company expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

ii) Rendering of services

Revenue from services rendered is recognized based on the fulfillment of the performance obligations specified in the contracts with customers. The Company provides port services and based on the contracts the performance obligation is fulfilled with the completion of loading of vessels.

The revenue from the sale of ore is recognized when the significant risks and benefits of the property are transferred, which for sale in the foreign market occurs when the vessels are loaded for transport.

#### **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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### 3.13. New or revised pronouncements applied for the first time in 2019

##### CPC 06 (R2) – Leases

CPC 06 (R2) came into effect as of January 1, 2019 and establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the balance sheet. At the start date of a lease, the lessee recognizes a liability for lease payments and an asset that represents the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The lessees separately recognize the interest expense on the liability during the lease period to produce a constant periodic interest rate, and the amortization expense on the right-of-use asset.

The lessees must also reevaluate the lease liability in the moment of certain events occur (for example, a change in the lease term, a change in the lease future payments as a result of a change in an index or rate used to determine such payments). In general, the lessee recognizes the reevaluation value of the lease liability as an adjustment on the right-of-use asset.

The Company has no lease agreements for the year ended December 31, 2019, so there was no effect from the adoption of CPC 06 (R2) on the Company's financial statements.

##### CPC 22 - Uncertainty over income tax treatments

The Interpretation (equivalent to the IFRIC 23 interpretation) that came into effect as of January 1, 2019, and deals with the accounting of taxes on profit in cases where tax treatments involve uncertainty that affects the application of IAS 12 (CPC 32) and does not apply to taxes outside the scope of IAS 12 nor does it specifically include the requirements regarding interest and fines associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether the entity considers uncertain tax treatments separately.
- The assumptions that the entity makes regarding the examination of tax treatments by tax authorities.
- How the entity determines taxable income (tax loss), tax bases, unused tax losses, out of time tax credits and tax rates.
- How the entity considers changes in facts and circumstances.

The Company's Management understands that the application of this interpretation did not impact the Company's information, since the Company does not have uncertain tax positions.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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

#### 3.13. New or revised pronouncements applied for the first time in 2019-- Continued

##### Amendments to CPC 26 (R1) and IAS 8: Definition of material omission

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, these changes being reflected in the revision 14 of the CPC, amending CPC 26 (R1) and CPC 23 to align the definition of “material omission” or “material distorted disclosure” in all standards and to clarify certain aspects of the definition. The new definition states that: “information is material if its omission, distortion or obscuration can reasonably influence decisions that the main users of the financial statements are based on these financial statements, which provide financial information on the entity's specific report.”

These changes are not expected to have a significant impact on the Company's financial statements.

### 4. Cash and cash equivalents and marketable securities

	Parent Company		Consolidated	
	2019	2018	2019	2018
Cash and cash equivalents				
Cash	6,225	2,694	6,510	3,427
Cash equivalents	24,400	23,656	67,619	37,903
	<b>30,625</b>	<b>26,350</b>	<b>74,129</b>	<b>41,330</b>

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 in 2019 at 67.8% of the Interbank Deposit Certificate (CDI) variation (77.58% of the variation of the Interbank Deposit Certificate in 2018).

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 5. Accounts receivable

	Parent Company		Consolidated	
	2019	2018	2019	2018
Port fee	<b>37,879</b>	28,291	<b>37,879</b>	28,291
	<b>37,879</b>	28,291	<b>37,879</b>	28,291

The breakdown of the balances by maturity:

	Parent Company	Consolidated
	2019	2019
Due in 30 days	<b>13,770</b>	<b>13,770</b>
Due up to 30 days	<b>8,954</b>	<b>8,954</b>
Overdue more than 60 days	<b>10,770</b>	<b>10,770</b>
Overdue more than 120 days	<b>4,365</b>	<b>4,365</b>
Overdue more than 180 days	<b>20</b>	<b>20</b>
	<b>37,879</b>	<b>37,879</b>

The Management does not expect losses on accounts receivable, therefore no provision of loss has been constituted. The overdue accounts receivable are from related parties and the payment is scheduled for the end of April 2020, without interest and currency adjustment.

### 6. Inventories

	Parent Company		Consolidated	
	2019	2018	2019	2018
Gravel	-	-	<b>2,036</b>	1,961
Iron ore	-	-	<b>58,994</b>	56,262
Storeroom	<b>44,639</b>	32,224	<b>44,639</b>	32,224
	<b>44,639</b>	32,224	<b>105,669</b>	90,447

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 7. Restricted deposits

	Parent Company		Consolidated	
	2019	2018	2019	2018
Trustee ACC Itaú BBA (*)	10,480	10,113	10,480	10,113
	10,480	10,113	10,480	10,113

(\*) Temporary blocking 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

#### **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 no controlling 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 do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 8. Investments (Continued)

#### Porto Sudeste Exportação e Comércio S.A.

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

#### Changes in investments

	Parent Company				2019
	2018	Equity pickup	Future capital contribution	Effect of conversion into Brazilian reais	
Pedreira	7,423	(870)	-	254	6,811
TCS	21,969	(330)	880	34	22,553
Porto VM	197	(280)	200	(5)	382
Porto Sudeste Exportação	4,406	5,793	-	(19,108)	8,913
	<u>33,995</u>	<u>4,313</u>	<u>(1,080)</u>	<u>(18,825)</u>	<u>20,563</u>

	Parent Company				2018
	2017	Equity pickup	Future capital contribution	Effect of conversion into Brazilian reais	
Pedreira	8,547	(981)	-	(143)	7,423
TCS	18,528	(324)	600	3,165	21,969
Porto VM	92	(359)	470	(2)	197
Porto Sudeste Exportação	9,870	9,057	-	(13,794)	4,402
	<u>34,870</u>	<u>366</u>	<u>1,070</u>	<u>(10,744)</u>	<u>33,995</u>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 8. Investments (Continued)

#### Ownership interest and summary of investees

2019							
	Ownership interest	Number of shares/ units of interest (thousand)	Assets	Liabilities	Equity	Net Revenue	P&L for the year
Pedreira	99.98%	49,001	13,175	2,877	11,158	-	(860)
TCS	99.98%	3,447	1,781	-	2,109	-	(328)
Porto VM	100.00%	-	36,664	36,533	411	-	(280)
Porto Sudeste Exportação	100.00%	-	417,209	428,399	(16,983)	1,655,214	5,793
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

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 9. Property and equipment

	Consolidated							Total
	Facilities	Machinery and equipment	Land	Advance to suppliers	Construction in progress	Other	Buildings and improvements	
<b>Net balance at December 31, 2017</b>	<b>127,963</b>	<b>938,809</b>	<b>99,898</b>	<b>-</b>	<b>8,937</b>	<b>20,812</b>	<b>3,773,950</b>	<b>4,970,369</b>
Additions	22	456	-	191	11,397	2,754	-	14,820
Write-off	-	-	-	-	-	(71)	-	(71)
Transfers	(441)	1,613	-	26	(4,222)	(496)	3,520	-
Depreciation for the year	(6,972)	(17,539)	-	-	-	(703)	(103,337)	(128,551)
Effect of conversion into Brazilian reais	21,947	161,287	17,117	10	1,072	3,416	646,210	851,059
<b>Net balance at December 31, 2018</b>	<b>142,519</b>	<b>1,084,626</b>	<b>117,015</b>	<b>227</b>	<b>17,184</b>	<b>25,712</b>	<b>4,320,343</b>	<b>5,707,626</b>
Additions	10	4,939	7,497	(84)	15,562	5,101	-	33,025
Write-off	-	-	-	-	-	(4)	-	(4)
Transfers	(503)	(1,064)	-	-	(3,154)	2,482	2,239	-
Depreciation for the year	(12,652)	(44,731)	-	-	-	(956)	(98,244)	(156,583)
Effect of conversion into Brazilian reais	4,126	41,637	5,056	-	708	517	169,559	221,603
<b>Net balance at December 31, 2019</b>	<b>133,500</b>	<b>1,085,407</b>	<b>129,568</b>	<b>143</b>	<b>30,300</b>	<b>32,852</b>	<b>4,393,897</b>	<b>5,805,667</b>
Accumulated balances								
Cost	161,433	1,133,710	117,922	217	16,082	25,238	4,697,535	6,152,137
Accumulated depreciation	(19,299)	(42,081)	-	-	-	(2,145)	(351,737)	(415,262)
Effect of conversion into Brazilian reais	385	(7,003)	(907)	10	1,102	2,619	(25,455)	(29,249)
<b>Net balance at December 31, 2018</b>	<b>142,519</b>	<b>1,084,626</b>	<b>117,015</b>	<b>227</b>	<b>17,184</b>	<b>25,712</b>	<b>4,320,343</b>	<b>5,707,626</b>
<b>Cost</b>	<b>160,940</b>	<b>1,137,585</b>	<b>125,419</b>	<b>133</b>	<b>28,490</b>	<b>32,818</b>	<b>4,699,774</b>	<b>6,185,159</b>
<b>Accumulated depreciation</b>	<b>(31,951)</b>	<b>(86,812)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,101)</b>	<b>(449,981)</b>	<b>(571,845)</b>
<b>Effect of conversion into Brazilian reais</b>	<b>4,511</b>	<b>34,634</b>	<b>4,149</b>	<b>10</b>	<b>1,810</b>	<b>3,135</b>	<b>144,104</b>	<b>192,353</b>
<b>Net balance at December 31, 2019</b>	<b>133,500</b>	<b>1,085,407</b>	<b>129,568</b>	<b>143</b>	<b>30,300</b>	<b>32,852</b>	<b>4,393,897</b>	<b>5,805,667</b>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 9. Property and equipment (Continued)

#### Advances to Suppliers

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

	Parent Company and Consolidated	
	2019	2018
Services	107	191
Other	26	26
Effect of conversion into Brazilian reais	10	10
	<u>143</u>	<u>227</u>

#### Impairment test for property and equipment

Throughout the year ended of 2019, 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 (WACC) used in the Company's financial model was 7.2%.

### 10. Intangible assets

	Port license
Balance at December 31, 2017	7,554,461
Amortization	(43,918)
Effect of conversion into Brazilian reais	1,294,735
Balance at December 31, 2018	<u>8,805,278</u>
<b>Amortization</b>	<b>(71,567)</b>
<b>Effect of conversion into Brazilian reais</b>	<b>351,967</b>
<b>Balance at December 31, 2019</b>	<b><u>9,085,678</u></b>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 10. Intangible assets (Continued)

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 2019, 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 (WACC) used in the Company's financial model was 7.2%.

### 11. Loans and financing

#### Loans per currency

	Parent Company and Consolidated			
	Current liabilities		Noncurrent liabilities	
	2019	2018	2019	2018
Taken out in US dollars				
Principal	78,165	12,453	2,573,263	2,673,361
Interests	232,076	36,974	363,216	377,345
	<u>310,241</u>	<u>49,427</u>	<u>2,936,479</u>	<u>3,050,706</u>
Taken out in Brazilian reais				
Principal	24,637	9,791	1,978,160	2,055,109
Interests	317,133	126,034	283,533	294,563
	<u>341,770</u>	<u>135,826</u>	<u>2,261,693</u>	<u>2,349,672</u>
	<u>652,011</u>	<u>185,253</u>	<u>5,198,172</u>	<u>5,400,378</u>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 11. Loans and financing (Continued)

#### Loans per financial institution

Bank	Index/interest	Maturity	Balance at	
			2019	2018
BNDES - FINAME Nº 09.2.1353.1	4.5% p.a.	15/01/2020	756	9,823
BNDES FINEM - Nº 10.2.0265.1	3.18% + 2.18% p.a. + TJLP	15/06/2029	1,021,954	1,002,544
BNDES FINEM - Nº12.2.1174.1 - Subcrédito A, B.	3.40% + 2.40% p.a. + TJLP	15/06/2029	551,961	540,582
BNDES FINEM - Nº12.2.1174.1 - Subcrédito C.	3.40% p.a. + 2.40% + Cesta de Moedas	15/06/2029	215,538	203,444
BNDES FINEM - Nº 4.003.109-P - Repasse AB	3.40% + 4.40% p.a. + TJLP	15/06/2029	537,234	529,122
BNDES FINEM - Nº 4.003.109-P - Repasse C	4.40% p.a. + 3.40% + Cesta de Moedas	15/06/2029	209,047	199,983
Deutsche Bank	4% p.a. + libor 6 meses	15/11/2023	792,633	775,756
Panamericano	4.85% p.a.	03/06/2019	-	12,660
Bradesco/Itaú	2.00% a.a. 7.00% p.a. + libor	15/06/2029	2,541,533	2,311,718
Santander	1.90% p.a. + libor		155,982	-
			<b>6,026,638</b>	<b>5,585,631</b>
Transaction costs			(176,455)	(169,782)
			<b>5,850,183</b>	<b>5,415,849</b>

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

	Consolidated	
	2019	2018
Year of maturity		
1 to 5 years	<b>1,430,436</b>	1,486,079
Over 5 years	<b>3,767,736</b>	3,914,299
	<b>5,198,172</b>	5,400,378

At December 31, 2019, the annual interest rates on debts are as follows:

	Consolidated
Debts in US\$ up to 5.0%	3,490,148
Debts in R\$ up to 6%	756
Debts in R\$ from 6.1% to 9.3%	2,111,149
Debts in R\$ above 9.3%	424,585
	<b>6,026,638</b>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 11. Loans and financing (Continued)

#### Collateral

The Company's' loans are guaranteed by first-tier financial institutions, as well as by controlling shareholders.

#### Effect of conversion into Brazilian reais

The Brazilian real devalued 44.02% in the year against the US dollar, from R\$ 3.8748 at December 31, 2018 to R\$ 4.0307 at December 31, 2019 influencing the balance of foreign currency debt that, at December 31, 2019 accounted for 55,5% 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

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 12. Variable income securities (Continued)

Securities”), listed on B3 (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:

$$R = [(TMMF \times VpTMF) + (TMOOC \times VpTDC)] * FP$$

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

TMOOC = 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

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 based on 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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 12. Variable income securities (Continued)

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	2018	2019
Tm	13,6	31,9	36,8	36,8	-	-	-

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.

“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.

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### **12. Variable income securities (Continued)**

On December 31, 2019, 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 11.10%. These projections are based on the Company's Business Plan and the assumptions related to the growth of iron exports in the Quadrilátero Ferrífero of Minas Gerais and assumptions about the growth of the market share of Porto Sudeste. The Company is aware that this growth will be achieved based on the closing of long-term contracts, as well as on acquisitions of iron ore mines in the region carried out by its shareholders. On December 31, 2019, the present value of discounted future cash flow amounted to US\$ 2,123,289, which converted into Brazilian reais totaled R\$ 8,558,342 (US\$ 2,246,512, which converted into Brazilian reais totaled R\$ 8,704,784 at December 31, 2018). Of those totals, the amounts corresponding to PSVM11 securities are represented at the base date of December 31, 2019 at US\$ 9,004, which converted into reais totaled R\$ 36,452 (US \$ 9,569, which converted into reais totaled R\$ 37,076 on December 31, 2018). The amounts corresponding to the revision of assumptions recognized under other operating expenses totaled US\$ 106,955, which converted into reais totaled R\$ 200,727, this amount, which added to the amount of R\$ 8,148 relating to other operating expenses and revenues such as the sale of surplus energy and taxation on these sales, totals the balance of R\$ 192,579 of other operating income (expenses) recorded in the Income Statement.

#### **Transaction costs**

Debt issue costs of variable income securities totaling R\$10,872 at December 31, 2019 (R\$10,452 at December 31, 2018), referring to outside legal counsel fees and commissions of guarantee were recorded as reduction of liabilities. The amount recorded of variable income securities as of December 31, 2019 is R\$ 8,547,470 (R\$8,694,332 on December 31, 2018), netted of transaction costs.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 13. Taxes and contributions payable

	Parent Company		Consolidated	
	2019	2018	2019	2018
Service Tax (ISS)	1,732	5,100	2,247	5,987
Social Security Tax (INSS) - third parties	150	75	150	74
State Value-Added Tax (ICMS)	596	123	597	123
Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL)	1,091	766	1,092	768
Social Contribution Tax for Intervention in the Economic Order (CIDE) on import	66	57	66	57
Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS) on import	3,117	3,750	3,122	3,758
Other	23	23	23	23
	<b>6,775</b>	<b>9,894</b>	<b>7,297</b>	<b>10,790</b>

### 14. Related parties

At December 31, 2019, the Company's shared control was exercised by Trafigura and Mubadala through PSA Fundo de Investimento e Participações, and those companies held 99.99% interest.

The Company maintains agreements for sharing operational and financial costs entered with 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			
	2019		2018	
Debit note	Accounts receivable	Debit note	Accounts receivable	
Trafigura Brasil	-	3,904	-	1,769
Porto Exportação	-	29,831	2,244	16,780
	-	<b>33,735</b>	2,244	18,549

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 14. Related parties (Continued)

	Parent Company					
	Liabilities					
	2019			2018		
Debit note	Accounts payable	Total	Debit note	Accounts payable	Total	
Pedreira		3,904	3,904	-	1,769	1,769
Impala Terminals (shared costs)	-	154,094	154,904	-	-	-
	-	157,998	157,998	-	1,769	1,769

Liabilities with related parties are summarized as follows:

	Consolidated and Parent Company					
	Liabilities					
	2019			2018		
Debit Notes	Accounts payable	Total	Debit Notes	Accounts payable	Total	
Pedreira		(1,704)	(1,704)	-	(7,272)	(7,272)
Impala Terminals (shared cost)	(659)	-	(659)	(569)	-	(569)
	(659)	(1,704)	(2,363)	(569)	(7,272)	(7,841)

	Consolidated	
	Liabilities – Advances	
	2019	2018
Trafigura PTE	-	(26,744)
	-	(26,744)

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

	P&L (Revenue)			
	Parent Company		Consolidated	
	2019	2018	2019	2018
Trafigura PTE	-	-	1,706,351	769,574
Impala Terminals	97,852	74,203	97,852	74,203
Porto Exportação	224,745	109,500	-	-
Trafigura (Brasil)	39,093	7,705	39,093	7,705
	361,690	191,408	1,843,296	851,482

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 14. Related parties (Continued)

	P&L (Expense)			
	Parent Company		Consolidated	
	2019	2018	2019	2018
Impala Terminals	(3,548)	(2,076)	(3,548)	(2,076)
	<b>(3,548)</b>	<b>(2,076)</b>	<b>(3,548)</b>	<b>(2,076)</b>

#### Key management personnel compensation

The amount of R\$ 3,911 (R\$ 5,515 at December 31, 2018), refers to key management personnel compensation paid in 2019.

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. 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, 2019 is broken down as follows:

	Parent Company		Consolidated	
	2019	2018	2019	2018
Deferred tax assets (liabilities)				
Tax losses	<b>497,156</b>	378,572	<b>497,536</b>	378,954
Social contribution tax losses	<b>178,976</b>	136,287	<b>179,113</b>	136,423
Pre-operating expenses treated as deferred assets for tax purposes	<b>244,437</b>	285,092	<b>244,437</b>	285,092
Amortization of license	<b>42,999</b>	26,682	<b>42,999</b>	26,682
Present value adjustment of royalties	<b>(238,603)</b>	(106,329)	<b>(238,603)</b>	(106,329)
Effect on property and equipment and intangible assets arising from change of functional currency (a)	<b>162,096</b>	32,679	<b>162,269</b>	32,558
Exchange gains/losses on royalties and loans for 2016 (b)	<b>35,102</b>	(43,247)	<b>34,770</b>	(42,817)
Other	<b>5,473</b>	1,430	<b>5,681</b>	1,430
Valuation Allowance DTA (a)	<b>(927,636)</b>	(711,166)	<b>(928,202)</b>	(711,993)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## **Porto Sudeste do Brasil S.A.**

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### **15. Income and social contribution taxes (Continued)**

- (a) Considering the fact that the Company changed its functional currency to the US Dollar and the valuation of the US Dollar against the Brazilian real in 2019, 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\$ 162,096 (R\$32,679 at December 31, 2018) and the amount of R\$162,269 on the parent company (R\$32,558 at December 31, 2018). Management considered that the port is still in the ramp-up period, and conservatively elected to recognize due to the lack of consistent perspectives regarding its realization, the deferred tax asset at the limit of the deferred tax liability. Thus, the total value of consolidated credit is R\$ 765,933 (R\$ 679,435 at December 31, 2018) and of the parent company the amount of R\$ 765,541 (R\$ 678,487 at December 31, 2018) were recognized as of December 31, 2019.
- (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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 15. Income and social contribution taxes (Continued)

#### b) P&L for the year

The reconciliation of the expense calculated by the application of the nominal rates versus the expense recorded in the years is shown as follows:

	Parent Company		Parent Company	
	2019	2018	2019	2018
Gain (Loss) before income and social contribution taxes	<b>(35,419)</b>	(129,640)	<b>(35,419)</b>	(126,640)
Income and social contribution tax assets at statutory rate (34%)	<b>12,042</b>	44,078	<b>12,042</b>	44,078
	<b>(23,377)</b>	(85,562)	<b>(23,377)</b>	(82,562)
Adjustments for reconciliation of the statutory rate to the effective rate:				
Adjustments due to the conversion of balances into the functional currency	<b>(406,220)</b>	(2,134,942)	<b>(334,774)</b>	(2,136,375)
(Exclusions / Additions) net assets	<b>114,756</b>	76,763	<b>115,787</b>	77,494
(Exclusions / Additions) net temporary	<b>(218,292)</b>	1,676,504	<b>(219,920)</b>	1,671,039
Temporary additions	<b>290,322</b>	1,808,335	<b>290,935</b>	1,808,335
(+) Amortization of licenses	<b>47,992</b>	43,918	<b>47,992</b>	43,918
(+) Exchange variation not realized	<b>230,438</b>	1,764,418	<b>230,438</b>	1,764,418
(+) Gratification	<b>2,457</b>	-	<b>2,456</b>	-
(+) Others	<b>9,435</b>	-	<b>10,049</b>	-
Temporary exclusions	<b>(508,614)</b>	(131,831)	<b>(510,855)</b>	(137,551)
(-) Amortization of pre-operating expenses	<b>(119,572)</b>	(119,786)	<b>(119,572)</b>	(119,786)
(-) Gratification	-	(690)	-	(690)
(-) Exchange variation not realized	-	-	<b>(2,241)</b>	(5,720)
(-) Provision for payment of royalties	<b>(389,042)</b>	(11,100)	<b>(389,042)</b>	(11,100)
(-) Others	-	(255)	-	(255)
Basis for calculating deferred income tax and social contribution - Tax loss / negative basis	<b>(468,586)</b>	(511,315)	<b>(474,327)</b>	(517,482)
Basis for calculating deferred income tax and social contribution - temporary differences	<b>218,292</b>	(1,676,504)	<b>219,920</b>	(1,671,039)
Current income and social contribution taxes				
Income tax and social contribution - negative basis	<b>(185,360)</b>	(173,847)	<b>(161,271)</b>	(175,944)
Deferred income tax and social contribution - temporary differences	<b>74,219</b>	(570,011)	<b>74,773</b>	(568,153)
	<b>(111,141)</b>	743,858	<b>(86,498)</b>	744,097
Effective rate	<b>313.79%</b>	573.79%	<b>244.21%</b>	573.97%

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 16. Equity

#### a) Capital

Porto Sudeste's capital is broken down as follows:

Shareholders	Number of shares	R\$	%
PSA Fundo de Investimentos e Participações	974,268,518	2,890,544	99.26%
Porto Sudeste Participações S.A. ("Grupo MMX")	6,336,766	18,800	0.65%
Gaboard Participações Ltda.	876,275	2,600	0.09%
Total	981,481,559	2,911,944	100%

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 its parent company, 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.

In May 2018, the amount of US\$ 100,000 equivalent to R\$ 325,241 received as an advance for future capital increase in May, July and November of 2017, through the PSA Fundo de Investimento e Participações. After this capital increase, MMX was diluted to a 0.93%.

In April 29, 2019, the amount of US\$ 44,700 equivalent to R\$ 162,533 received as an advance for future capital increase in May of 2018 and February of 2019, through the PSA

Fundo de Investimento e Participações. After this capital increase, MMX was diluted to a 0.65%.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 16. Equity (Continued)

#### 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\$85,696 in the Parent Company and R\$85,696 in the Consolidated were recorded at December 31, 2019, in compliance with Accounting Pronouncement CPC 02.

### 17. Service revenue, net

	Parent Company		Consolidated	
	2019	2018	2019	2018
Gross revenue	<b>572,703</b>	283,532	<b>2,054,309</b>	943,607
(-) Sales deductions				
ISS	<b>(28,634)</b>	(14,177)	<b>(28,635)</b>	(14,177)
PIS	<b>(9,015)</b>	(4,678)	<b>(9,015)</b>	(4,678)
COFINS	<b>(41,526)</b>	(21,548)	<b>(41,526)</b>	(21,548)
Others	-	-	<b>(51,137)</b>	(5,162)
Net revenue	<b>493,528</b>	243,129	<b>1,923,996</b>	898,042

### 18. Costs of sales and services

	Parent Company		Consolidated	
	2019	2018	2019	2018
Costs of sales (*)	-	-	<b>(1,414,029)</b>	(645,153)
Cost of materials	<b>(19,503)</b>	(12,707)	<b>(19,495)</b>	(12,707)
Utilities	<b>(20,693)</b>	(13,739)	<b>(20,693)</b>	(13,739)
Maintenance	<b>(3,028)</b>	(3,708)	<b>(2,985)</b>	(3,708)
Rent of equipment	<b>(19,928)</b>	(8,582)	<b>(19,940)</b>	(9,080)
Insurance	<b>(8,549)</b>	(8,066)	<b>(8,654)</b>	(8,320)
External services	<b>(18,357)</b>	(14,762)	<b>(21,919)</b>	(16,977)
Salaries	<b>(40,932)</b>	(36,595)	<b>(43,816)</b>	(36,640)
Other	<b>(3,458)</b>	(2,160)	<b>(5,111)</b>	(2,657)
	<b>(134,448)</b>	(100,319)	<b>(1,556,642)</b>	(748,981)

(\*) Refers substantially to iron ore purchased for resale plus direct costs, such as freight.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 19. Administrative expenses by nature

	Parent Company		Consolidated	
	2019	2018	2019	2018
Depreciation and amortization	<b>(228,091)</b>	(172,241)	<b>(228,153)</b>	(172,466)
Third-party services	<b>(15,447)</b>	(14,772)	<b>(14,837)</b>	(15,720)
Salaries	<b>(13,999)</b>	(16,035)	<b>(18,456)</b>	(16,050)
Maintenance	<b>(620)</b>	(682)	<b>(703)</b>	(682)
Materials	<b>(500)</b>	(492)	<b>(508)</b>	(492)
Rent and lease	<b>(426)</b>	(340)	<b>(447)</b>	(340)
Fuel / Communication	<b>(93)</b>	(211)	<b>(99)</b>	(211)
Other	<b>(3,518)</b>	(2,076)	<b>(3,842)</b>	(2,076)
	<b>(262,694)</b>	(206,849)	<b>(267,045)</b>	(208,037)

### 20. Finance income (costs)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Financial costs				
Interests	<b>(476,549)</b>	(740,366)	<b>(477,831)</b>	(740,427)
Tax on Financial Transactions (IOF)	<b>(522)</b>	(171)	<b>(537)</b>	(181)
Taxes on finance income	<b>(144)</b>	(113)	<b>(211)</b>	(136)
Other	<b>(759)</b>	(741)	<b>(840)</b>	(809)
	<b>(477,974)</b>	(741,391)	<b>(479,418)</b>	(741,553)
Finance income				
Short-term investment income	<b>3,031</b>	1,896	<b>4,472</b>	2,397
Present value adjustment on royalties	<b>63,388</b>	32,062	<b>63,388</b>	32,062
Foreign exchange differences (*)	<b>82,800</b>	362,132	<b>83,142</b>	363,994
Interests	-	432	-	432
Other	<b>58</b>	-	<b>118</b>	-
	<b>149,277</b>	396,522	<b>151,120</b>	398,885
Finance income (costs), net	<b>(328,697)</b>	(344,869)	<b>(328,298)</b>	(342,669)

(\*) 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.

### 21. 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 US\$ 29,270, which converted to the Reais rate at December, 31 2019 of R\$ 117,979, mainly represented by contracts for acquisition of equipment and civil construction works related to current investment projects.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 22. 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 businesses 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.

The Company and its subsidiaries had no derivative or hedging instruments at December 31, 2019 and 2018.

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

Financial assets	Consolidated 2019			Consolidated 2018		
	Assets at amortized cost	Assets at fair value through profit or loss	Total	Assets at amortized cost	Assets at fair value through profit or loss	Total
Cash and cash equivalents and marketable securities	-	74,129	74,129	-	41,330	41,330
Trade accounts receivable	37,879	-	37,879	28,291	-	28,291
Accounts receivable from related parties	157,998	-	157,998	1,769	-	1,769
	<u>195,877</u>	<u>74,129</u>	<u>270,006</u>	<u>30,060</u>	<u>41,330</u>	<u>71,390</u>

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

Financial liabilities	Consolidated	
	2019	2018
Trade accounts payable	(120,916)	(48,741)
Loans and financing	(6,026,638)	(5,585,631)
Accounts payable to related parties	(569)	(659)
	<u>(6,148,213)</u>	<u>(5,634,941)</u>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 22. Financial instruments and risk management (Continued)

#### 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 is: i) the exposure to the US dollar and to interest rate fluctuations, LIBOR and TJLP (the Long-Term Interest Rate). The Company understands that 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 decrease more than 34% in 2019, due to the decrease in Chinese demand. Management understands that the iron ore price for 2020 is a risk that may affect 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.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 22. Financial instruments and risk management (Continued)

#### 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, 35.03% of the credit facilities are pegged to the Long-Term Interest Rate (TJLP), 57.91% to Libor, 7.05% to UMBNDES (basket of currencies) and 0.01% 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.

However, for the next 12 months and according to senior debt contracts will still depend on financial support from its shareholders and/or third-party funds to support certain obligations that cannot be settled from the operating cash flow (such as guarantees, non-maintenance investments) as described in Note 1.

The projection for the settlement of liabilities at December 31, 2019 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	101,456	-	-	-	-	101,456
Transactions with related parties	659	-	-	-	-	659
Loans and financing	288,092	363,919	437,643	992,793	3,767,736	5,850,183
Royalties	-	-	-	958,758	67,760,219	68,718,977
Total by maturity range	<b>390,207</b>	<b>363,919</b>	<b>437,643</b>	<b>1,951,552</b>	<b>71,527,955</b>	<b>74,671,276</b>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 22. Financial instruments and risk management (Continued)

#### 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 depository of funds or investments. This risk factor could either come from trade transactions or cash management.

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:

Positions that represent credit risk	Consolidated	
	2019	2018
Cash and cash equivalents	74,129	41,330
Trade accounts receivable	37,879	28,291
Restricted deposit	10,480	10,113
	<u>122,488</u>	<u>79,734</u>

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

### 23. 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 employee.

<u>Insured risk</u>	<u>Maximum coverage limit</u>
Civil liability	R\$ 20,000
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.

### 24. Subsequent events

The Company's management is monitoring the effects of the new Coronavirus (COVID-19) on its operations, however, even though the majority of operations are carried out between related parties, in addition to port operations being essential activities, it is not possible to state that we will not have any impacts relevant to the business. In view of the fluidity and speed of the development of the pandemic, Management, together with its Shareholders, continues to work on the assessment of mitigation measures to avoid significant impacts on the business in the short, medium and long term. The Company's Management recognizes that the likelihood of weak worldwide demand along with the decrease of iron ore price will ultimately originate negative impacts on the Company's cash generation, which combined with other factors related to the pandemic may directly impact production and the logistics chain of mining companies and consequently impacting port operations.

Therefore, the short-term cash flow is being monitored, preserving a strict discipline on working capital, particularly with regards to the collection of accounts receivable and the supervise of inventory formation, through regular contact with suppliers for identification of any potential risks.

## Porto Sudeste do Brasil S.A.

Notes to individual and consolidated financial statements (Continued)

December 31, 2019

(Amounts expressed in thousands, unless otherwise stated)

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### Board of Directors

Julien Rolland – Chairman  
Oscar Pekka Fahlgren - Vice Chairman  
Carlos Gonzalez - Board Member  
Hani Barhoush – Board Member  
Carlos Bernardo Pons Navazo – Board Member  
Christian Felix Brandtner – Board Member  
Matthew John Hurn – Board Member

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### Executive Board

Guilherme Caiado – Chief Operations Officer  
Nicolau Gaeta – Chief Financial and Investor Relations  
Officer



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

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