

# **Financial Statements**

**Porto Sudeste V.M. S.A.**

December 31, 2017

with Independent Auditor Report on Financial Statements

## **Porto Sudeste V.M. S.A.**

### Financial statements

December 31, 2017

### Contents

Management report.....	1
Independent auditor report on financial statements .....	7
Financial statements	
Balance sheets.....	12
Statements of operations .....	13
Statements of other comprehensive income.....	14
Statements of changes in equity .....	15
Statements of cash flows .....	16
Statements of value added.....	17
Notes to financial statements .....	18

## **Management Report**

### **1. Message from Management**

Management of Porto Sudeste V.M S.A. - Porto V.M. 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 report for the year ended December 31, 2017. Should you need any further clarifications, please do not hesitate to contact us. At the end of 2017, Management expresses their acknowledgement to suppliers, employees and all other co-workers for their dedication and commitment.

### **2. Relationship with independent auditors**

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

When contracting services not related to independent audit, the Company adopts procedures that are based on applicable law and on principles internationally accepted that preserve the auditor 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 the 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-yield securities, issued in March 3, 2015 in connection with Porto Sudeste's acquisition by MMX. In order to make the transfer of such obligation feasible, the Corporation issued variable-yield securities (mirror securities of MMXM11) in similar terms to MMXM11, by means of two vehicles:

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

- Porto Sudeste V.M S.A.: A stock corporation registered with CVM under category 'B'. Said corporation issued a new royalty-based variable-yield security, mirror of MMXM11 Security ("PSVM11 Securities"), and such security listed for trading with BM&FBOVESPA (contrary to Port11 Securities which are not accepted for trading in 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 (PSVM11).

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

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

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

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)

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

For other loads: the royalties related to other loads, other than iron ores (excluding non-dry loads, such as supply activities) conducted at the Port Terminal will be calculated based on the load margin (as defined below) ("value per ton for other loads"). "Load margin" (a) means the difference between the average cost per ton (excluding all non-cash items) incurred in relation to the services rendered by Porto Sudeste relating to the applicable load and the average value per ton effectively charged by Porto Sudeste for the services rendered in relation to such load; and (b) must be limited under any circumstance to USD 5.00 per shipped ton.

The adjusted limit value of USD 5.00 per ton for load margin will be (i) adjusted annually at the variation in US PPI calculated from September 2010; and (ii) converted into reais, based on the exchange rate at the ending of the business day immediately prior to the actual payment date.

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

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

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

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

	2013	2014	2015	2016	2017
Metric tons	-	-	-	7,1	9,5

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

If, in a certain calendar quarter by the payment of current royalties the cash of issuer and Porto Sudeste is jointly higher than (a) USD 25,000 for the fiscal years between 2013 and 2017, or (b) USD10,000 for the fiscal years subsequent, in both cases converted into reais at the exchange rate (“minimum cash reserve”), the issuer will use the values that exceed the minimum cash reserve (“available cash”) to pay the effectively accumulated royalties to the holders of securities until the last day of said calendar quarter. It is agreed and understood that issuer is not required to pay such additional values established herein, unless an available cash is held by issuer in the last day of such calendar quarter and until the available cash limit, “available cash” means the value corresponding to (i) the addition of (a) all available cash values of Porto Sudeste and (b) the positive balances on all bank accounts of issuer and Porto Sudeste (with any financial institution), less (ii) the addition of (a) any values contributed by stockholders of Porto Sudeste through capital increase or stockholder loan, to the extent that such values remain as available cash of Porto Sudeste, (b) BNDES senior debt service reserve account and CESCE senior debt service reserve account, and (c) the values of cash allocated jointly by Porto Sudeste to the IRPJ – Corporate Income Tax, CSLL – Social Contribution on Net Income, and other obligations for which Porto Sudeste’s independent auditors require a joint allocation by Porto Sudeste.

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

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

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

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

Reconciliation of quantities shipped and amounts paid as Royalties	Shipped 2017	Take-or-pay/Shipped Accumulated
Volume (M/TONs)	9,528	128,628
Price per Ton	5,00	5,00
PPI, accumulated	0,47	0,47
Price per TON (USD)	<b>5,47</b>	<b>5,47</b>
<b>Royalty (Porto Sudeste) USD</b>	<b>52,118</b>	<b>703,595</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>Royalties (Porto VM) calculated (KUSD)</b>	<b>224</b>	<b>3.025</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 12.50%. On December 31, 2017, the present value of discounted future cash flow amounted to US\$ 2,242,111, which converted into Brazilian reais totaled R\$ 7,416,903 (US\$ 2,354,198, which converted into Brazilian reais totaled R\$ 7,672,567 at December 31, 2016). Of these totals, the amounts corresponding to PSVM11 securities are represented at the base date of December 31, 2017 at US\$ 9,54,771, which converted into reais totaled R\$ 31,590,642 (US\$ 10,027,178, which converted into reais totaled R\$ 32,679,578 on December 31, 2016).

Rio de Janeiro, March 13, 2018.

The Management.



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

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

---

## **Independent auditor report on financial statements**

The Shareholders, Board of Directors and Officers  
**Porto Sudeste V.M. S.A.**  
Itaguaí - RJ

### **Opinion**

We have audited the accompanying financial statements of Porto Sudeste V.M S.A. (“Company”), which comprise the statement of financial position as at December 31, 2017, and the related statements of operations, comprehensive income (loss), of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Porto Sudeste V.M S.A. as at December 31, 2017, its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and 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 Responsibilities for the audit of the financial statements” section of our report. We are independent of the Company and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil’s National Association of State Boards of Accountancy (“CFC”) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Emphasis of matter - Relevant uncertainty related to operational continuity**

Without qualifying our opinion, we draw attention to Notes 1 and 6 to the financial statements that state the measurement of floating rate securities is directly related to the flow of future payments to holders of those securities, estimated based on volumes to be shipped in accordance with the business plan of Porto Sudeste do Brasil S.A. (the Company's parent company). This note also states that Porto Sudeste do Brasil S.A. began its operations on a commission basis in August 2015, but still may depend on the financial support from its shareholders and/ or funds from third parties until its operations generate sufficient cash to maintain its operating activities. This financial statements were prepared on the assumption that the Company will continue as a going concern and do not include any adjustments that would be required in the event that the plans of parent company Porto Sudeste do Brasil S.A. do not achieve the expected results.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the subject matter described in "Relevant uncertainty related operational continuity", we determine that the subject matter described below is the principal audit subject to be reported in our report.

#### *Measurement of variable income securities*

As disclosed in Note 1 and 6, on March 3, 2015, the Company recorded its obligation to pay the holders of the variable income securities and the respective amount receivable from its parent company Porto Sudeste S.A..

The measurement of these variable income securities was deemed an area of focus on audit due to their significance in the context of the financial statements, as well as the complexity inherent in the measurement process, which is based on the Company's business model and, therefore, involves critical assumptions with high degree of judgment, such as, among others, the projections of volumes to be shipped, estimated future operating costs, future prices of commodities and determination of discount rate.

Supported by our experts in financial modelling, we understood the calculation methodologies for measurement of these securities and analyzed the reasonability of assumptions used by Management. We consider that the criteria and assumptions adopted by Management in measuring these variable income securities are reasonable in all material respects in the context of the financial statements, as well as the evaluation of the adequacy of the disclosures in the explanatory notes related to this matter as disclosed.



## **Other matters**

### *Statements of value added*

The Statements of Value Added (SVA) for the year ended December 31, 2017, prepared under the responsibility of Company Management and presented as supplementary information for IFRS purposes, were submitted to the same audit procedures performed in accordance with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria provided for in Accounting Pronouncement CPC 09 and are consistent with the overall individual and consolidated financial statements.

## **Other information accompanying the financial statements and the auditor report**

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

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

## **Responsibilities of Management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless Management either intends to liquidate the Company or to cease operations, or has no other realistic alternative but to do so



Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor responsibilities for the audit of financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they can influence, within a reasonable perspective, the economic decisions of users made on the basis of these financial statements.

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

- Identify and assess risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We are required to describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, March 13, 2018.

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

A handwritten signature in blue ink, appearing to read 'Wilson J. O. Moraes', is written over the printed name and title below.

Wilson J. O. Moraes  
Accountant CRC-1RJ107211/O-1

A free translation from Portuguese into English of 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)

## Porto Sudeste V.M. S.A.

Statements of financial position  
December 31, 2017 and 2016  
In reais

	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	5	115,379	43,814
Taxes recoverable		938	93
Total current assets		<u>116,317</u>	<u>43,907</u>
Noncurrent assets			
Variable income securities – Port 11	6	31,590,642	32,679,579
Total noncurrent assets		<u>31,590,642</u>	<u>32,679,579</u>
Total assets		<u><u>31,706,959</u></u>	<u><u>32,723,486</u></u>
Liabilities and equity			
Current liabilities			
Trade accounts payable		3,827	55,741
Taxes and contributions payable		4,202	525
Total current liabilities		<u>8,029</u>	<u>56,266</u>
Noncurrent liabilities			
Variable income securities – PSVM 11	6	31,590,642	32,679,579
Total noncurrent liabilities		<u>31,590,642</u>	<u>32,679,579</u>
Equity			
Capital	7	606,040	100
Future capital contribution		200,000	405,940
Accumulated losses		(683,704)	(404,463)
Cumulative translation adjustments (CTA)		(14,048)	(13,936)
Total equity		<u>108,288</u>	<u>(12,359)</u>
Total liabilities and equity		<u><u>31,706,959</u></u>	<u><u>32,723,486</u></u>

See accompanying notes.

## Porto Sudeste V.M. S.A.

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

	<u>Note</u>	<u>2017</u>	<u>2016</u>
General and administrative expenses	<b>8</b>	<b>(234,385)</b>	(193,903)
Other operating expenses		-	(18,000)
Loss before financial income and expenses		<u><b>(234,385)</b></u>	<u>(211,903)</u>
Financial income (expenses)	<b>8</b>		-
Financial income		<b>5,544</b>	1,093
Foreign exchange gains (losses)		<b>112</b>	13,936
Financial expenses		<b>(50,512)</b>	(46,919)
Income (loss) before taxes		<u><b>(44,856)</b></u>	<u>(31,890)</u>
Income and social contribution taxes		-	-
Loss for the year		<u><b>(279,241)</b></u>	<u>(243,793)</u>

See accompanying notes.

## Porto Sudeste V.M. S.A.

Statements of comprehensive income  
Years ended December 31, 2017 and 2016  
In reais

	<u>2017</u>	<u>2016</u>
Loss for the year	<b>(279,241)</b>	(243,793)
Other comprehensive income (loss)		
Cumulative translation adjustments (CTA)	<b>(112)</b>	(13,936)
Total other comprehensive income (loss)	<b><u>(279,353)</u></b>	<b><u>(257,729)</u></b>

See accompanying notes.

## Porto Sudeste V.M. S.A.

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

	Capital reserve	Unpaid capital	Future capital contribution	Cumulative translation adjustments (CTA)	Accumulated losses	Total
Balances at December 31, 2015	1,000	(900)	173,935	-	(160,670)	13,365
Advance for future capital increase	-	-	232,005	-	-	232,005
Loss for the year	-	-	-	-	(243,793)	(243,793)
Accumulated currency translation adjustments	-	-	-	(13,936)	-	(13,936)
Balances at December 31, 2016	1,000	(900)	405,940	(13,936)	(404,463)	(12,359)
Paid-in capital	<b>605,940</b>	-	<b>(605,940)</b>	-	-	-
Advance for future capital increase	-	-	<b>400,000</b>	-	-	<b>400,000</b>
Loss for the year	-	-	-	-	<b>(279,241)</b>	<b>(279,241)</b>
Accumulated currency translation adjustments	-	-	-	<b>(112)</b>	-	<b>(112)</b>
Balances at December 31, 2017	<b>606,940</b>	<b>(900)</b>	<b>200,000</b>	<b>(14,048)</b>	<b>(683,704)</b>	<b>108,288</b>

See accompanying notes.

## Porto Sudeste V.M. S.A.

Statements of cash flows  
Years ended December 31, 2017 and 2016  
In reais

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Loss for the year before taxes	<b>(279,241)</b>	(243,793)
Foreign exchange gains (losses)	<b>(112)</b>	(13,936)
Changes in assets and liabilities		
Trade accounts payable	<b>(51,915)</b>	47,265
Taxes and contributions payable	<b>2,833</b>	(99)
Net cash used in operating activities	<b>(328,323)</b>	(210,563)
Cash flows from financing activities		
Future capital contribution	<b>400,000</b>	232,005
Net cash provided by financing activities	<b>400,000</b>	232,005
Increase in cash and cash equivalents	<b>71,565</b>	21,442
Statement of increase in cash and cash equivalents		
At beginning of year	<b>43,814</b>	22,372
At end of year	<b>115,379</b>	43,814
Increase in cash and banks	<b>71,565</b>	21,442

See accompanying notes.

## Porto Sudeste V.M. S.A.

Statements of value added  
Years ended December 31, 2017 and 2016  
In reais

	<u>2017</u>	<u>2016</u>
Revenues		
Revenues	-	-
Inputs acquired from third parties (including ICMS and IPI)		
Materials, energy, third-party services and other expenses	<b>(234,385)</b>	(193,903)
Other	-	(18,000)
Gross value added	<u><b>(234,385)</b></u>	<u>(211,903)</u>
Value added received in transfer		
Financial income	<b>5,656</b>	15,029
Total value added to be distributed	<u><b>(228,729)</b></u>	<u>(196,874)</u>
Distribution of value added		
Interest	<b>50,512</b>	46,919
Equity remuneration		
Loss for the year	<b>(279,241)</b>	(243,793)
	<u><b>(228,729)</b></u>	<u>(196,874)</u>

See accompanying notes.

## **Porto Sudeste V.M. S.A.**

Notes to financial statements  
December 31, 2017 and 2016  
In reais

### **1. Operations**

Porto Sudeste V.M S.A. (“Company”) was incorporated on July 16, 2013 engaged in holding interest in capital of other companies, both in Brazil or abroad, as an owner, shareholder or member, either permanently or temporarily, as a parent company or noncontrolling interest.

Since February 13, 2014, the Company is a wholly-owned subsidiary of Porto Sudeste do Brasil S.A. (“Port Sudeste”), a privately held company responsible for “Port Sudeste” port terminal, dedicated to the handling of iron ore. Located in Ilha da Madeira in Itaguaí (Rio de Janeiro state), the terminal is strategically placed at the shortest distance between iron ore producers of Minas Gerais state and the sea (“Porto Sudeste”). The venture began construction in July 2010, started operation on a commission basis in August 2015 and commercially in January 2016.

Since Parent Company Porto Sudeste is still in a ramp-up period, it will continue depending on support from controlling shareholders to continue operating as a going concern and/or on third-party funds until it reaches maturation. Parent Company Porto Sudeste understands that shareholders will provide the necessary funds so that it can generate cash to continue operating as a going concern.

At December 31, 2017, the Company records a working capital of R\$ 108,288, accumulated loss of R\$ 683,704 and an equity of R\$ 108,288 for the year then ended. The Company closed 2017 with a cash position of R\$ 115,379.

Porto Sudeste’s former parent company, MMX Mineração e Metálicos S.A. (MMX) holds a floating rate security in the market based on ore handling at Porto Sudeste, known as MMXM11. On the sale of control over Porto Sudeste to the companies, Impala Holding Limited (“Impala”, a division of Trafigura Pte. Ltd. (“Trafigura”) and Mubadala Development Company PJSC (“Mubadala”), through its subsidiaries, agreed on the assumption of the debt related to MMXM11 securities by Porto Sudeste.

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

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

The investment agreement that regulated the acquisition of control of Porto Sudeste by Trafigura and Mubadala contained an obligation of MMX to enter into a barter agreement with all holders of MMXM11 Securities, whereby MMX would acquire MMXM11 Securities and would transfer Port11 Securities or other amounts backed by Port11 Securities in exchange. The Company assumed the portion of outstanding MMXM11 Securities (i) that did not classify as qualifying investors, or (ii) would have had regulatory restrictions impeding the infrastructure investment fund shares (FIP-IE), as is the case with some investment funds.

At the Special General Meeting held on December 31, 2014, shareholders approved the Company's issue of Royalty-Based Floating Rate Securities or "PSVM11" which were fully subscribed by MMX. The realization of that transaction was dependent on the conclusion of the secondary public offering of royalty-based floating rate securities to be performed by MMX.

On March 3, 2015, the secondary public offering was closed with 12,539,802 royalty securities having been distributed, which were all acquired by MMX through the delivery of an equal number of royalty-based floating rate securities issued by Porto Sudeste do Brasil S.A. (Port11).

The holders of the securities mentioned above are entitled, as from January 1, 2013, to quarterly variable compensation, calculated based on the metric tonnage of iron ore and other cargo shipped from Porto Sudeste, amounting to US\$5 (five US Dollars) per ton shipped, restated by reference to the Producer Price Index (PPI), on the understanding that in any quarter, the payments shall be limited to the Company's available cash and other conditions provided in the agreement - all in accordance with the terms set out in the issue deed of those securities available on the Company's website and filed with the Brazilian SEC (CVM).

The measurements of the floating rate securities and accounting impacts are described in Note 6.

### **2. Basis of preparation and presentation of financial statements**

#### **a) Financial statements**

The Company's 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").

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

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

#### a) Financial statements (Continued)

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.

Company Management authorized the completion of these financial statements on March 13, 2018.

#### b) Basis of preparation and measurement

The financial statements were prepared based on historical cost, except for certain financial instruments measured at fair value.

#### c) Functional and reporting currency

On January 1, 2016, as the parent company Porto Sudeste do Brasil S.A. began to earn revenue substantially denominated in US Dollars its functional currency was changed from Brazilian reais to US Dollars. Accordingly, Porto Sudeste V.M. S.A. in line with the change in the functional currency of the controlling shareholder, also changed its functional currency to the US Dollar on January 1, 2016. Therefore, 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 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.

#### d) Statement of value added

The Company prepared the statements of value added (SVA) which are presented as an integral part of these financial statements in accordance with accounting practices adopted in Brazil applicable to publicly-held companies, while under IFRS this represents supplementary information.

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### **2. Base de preparação e apresentação das demonstrações financeiras-- Continuação**

e) Cash flow statement

Cash flow statements were prepared by the indirect method and are presented in accordance with CPC 03 (R2) - Cash Flow Statement.

f) Accounting estimates

As demonstrações financeiras foram elaboradas com apoio em diversas bases de avaliação utilizadas nas estimativas contábeis. As estimativas contábeis envolvidas na preparação das demonstrações financeiras foram apoiadas em fatores objetivos e subjetivos, com base no julgamento da Administração para determinação do valor adequado a ser registrado nas demonstrações financeiras. Itens significativos sujeitos a essas estimativas e premissas incluem a mensuração dos títulos de remuneração variável, assim como a análise dos demais riscos para determinação de outras provisões, inclusive para contingências.

The Company's financial statements were prepared considering different measurement bases used to prepare 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. Significant items subject to these estimates and assumptions include the measurement of the Variable income securities, as well as the analysis of other risks in determining other provisions, including the provision for contingencies.

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

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

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

Upon preparing these financial statements, the accounting practices described below have been applied consistently by the Company to all financial statements for the years presented herein.

#### **3.1. Financial instruments**

##### Financial assets

Currently the Company's financial assets are represented by cash and cash equivalent balances measured at fair value through profit and loss.

A financial asset is classified at fair value through profit or loss if they are classified as held for trading and designated for such purpose upon initial recognition. Transaction costs, after initial recognition, are recognized in P&L when incurred.

Financial assets measured at fair value through profit or loss are stated in the statement of financial position at fair value, and corresponding gains or losses are recognized in the statement of operations for the year.

Classification depends on the purpose for which the financial assets have been acquired and is determined upon initial recognition.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or been transferred, and the Company has transferred substantially all the risks and rewards of ownership of the assets.

##### Financial liabilities

Currently the Company's financial liabilities are represented by trade accounts payable and are initially measured on the trade date when the Company becomes a party to the contractual provisions of the instrument. The Company derecognize a financial liability when its contractual obligations are canceled.

Financial liabilities are initially recognized at fair value plus any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost and adjusted based on monetary variations and exchange rates, bearing interest incurred up to the statement of financial position date, based on contractual terms. Gains and losses are recognized in the statement of operations when the liabilities are derecognized, as well as over the recognition of interest and monetary variations.

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

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

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

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Company considers that cash equivalents correspond to a financial investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Accordingly, an investment normally qualifies as cash equivalent when it is redeemable in the short term, e.g. three months or less from the investment date.

#### **3.3. 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 significantly different from those recorded in the financial statements due to uncertainties inherent in the estimation process. The Company reviews its estimates and assumptions at least on an annual basis.

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 4. New accounting pronouncements and interpretations

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

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

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

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

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 5. Cash and cash equivalents

	2017	2016
Cash and banks	115,379	43,814
	<u>115,379</u>	<u>43,814</u>

### 6. 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-yield securities, issued in March 3, 2015 in connection with Porto Sudeste's acquisition by MMX. In order to make the transfer of such obligation feasible, the Corporation issued variable-yield securities (mirror securities of MMXM11) in similar terms to MMXM11, by means of two vehicles:

- FIP-IE Porto Sudeste Royalties: An infrastructure equity investment fund to hold in its portfolio exclusively Port11 Securities – and for each Port11 Security held by FIP-IE would be entitled to a Unit. FIP-IE's units were offered to the holders of MMXM11 Securities that would fit as qualified investors pursuant to CVM regulation, and would not have restrictions to hold FIP-IE units.
- Porto Sudeste V.M. S.A.: A stock corporation registered with CVM under category 'B'. Said corporation issued a new royalty-based variable-yield security, mirror of MMXM11 Security ("PSVM11 Securities"), and such security listed for trading with BM&FBOVESPA (contrary to Port11 Securities which are not accepted for trading in 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 (PSVM11).

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

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

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 6. Variable income securities (Continued)

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

Where:

R = royalties due in relation to each quarter of the fiscal year

TMMF = Iron Ore Measured Tonnage shipped in the Port in the respective quarter

TMOC = Measured Tonnage of Other Cargo shipped in the Port in the respective quarter

VpTMF = Value per Ton for Iron Ore (as defined below)

VpTDC = Value per Ton of Other Cargo (as defined below)

FP = Proportional Factor

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

For other loads: the royalties related to other loads, other than iron ores (excluding non-dry loads, such as supply activities) conducted at the Port Terminal will be calculated based on the load margin (as defined below) ("value per ton for other loads"). "Load margin" (a) means the difference between the average cost per ton (excluding all non-cash items) incurred in relation to the services rendered by Porto Sudeste relating to the applicable load and the average value per ton effectively charged by Porto Sudeste for the services rendered in relation to such load; and (b) must be limited under any circumstance to USD 5.00 per shipped ton.

The adjusted limit 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.

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"):

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 6. Variable income securities (Continued)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Metric tons	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.

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:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Metric tons	-	-	-	7,1	9,5

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

If, in a certain calendar quarter by the payment of current royalties the cash of issuer and Porto Sudeste is jointly higher than (a) USD 25,000 for the fiscal years between 2013 and 2017, or (b) USD 10,000 for the fiscal years subsequent, in both cases converted into reais at the exchange rate ("minimum cash reserve"), the issuer will use the values that exceed the minimum cash reserve ("available cash") to pay the effectively accumulated royalties to the holders of securities until the last day of said calendar quarter.

"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.

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 6. Variable income securities (Continued)

On December 31, 2017, the Company's parent carried out the financial calculations with the purpose of to determine whether there was Cash Available to pay royalties on this date.

Securities are measured in accordance with IAS 37 - Provisions, Contingent Assets and Contingent Liabilities based on projected cash flows from future security related payments discounted at an annual rate of 12.50%. On December 31, 2017, the present value of discounted future cash flow amounted to US\$ 2,242,111, which converted into Brazilian reais totaled R\$ 7,416,903 (US\$ 2,354,198, which converted into Brazilian reais totaled R\$ 7,672,567 at December 31, 2016). Of these totals, the amounts corresponding to PSVM11 securities are represented at the base date of December 31, 2017 at US\$ 9,54,771, which converted into reais totaled R\$ 31,590,642 (US\$ 10,027,178, which converted into reais totaled R\$ 32,679,578 on December 31, 2016).

### 7. Equity

At December 31, 2017, subscribed capital was represented by 6,051,410 common shares (10,000 common shares at December 31, 2016), registered and with no par value, of which 9,000 shares are to be paid up, fully held by Port Sudeste do Brasil S.A..

The Company has R\$ 14,048 related to the cumulative translation adjustments on December 31, 2017, related to the conversion of the functional currency (dollar) into the Company's (real) presentation currency, in compliance with technical pronouncement CPC 02.

### 8. Expenses by nature

#### 8.1. Administrative expenses by nature:

	<b>2017</b>	<b>2016</b>
Third-party services	<b>(185,046)</b>	(161,400)
Taxes and fees	<b>(47,366)</b>	(13,987)
Others	<b>(1,973)</b>	(18,516)
	<b>(234,385)</b>	(193,903)

## Porto Sudeste V.M. S.A.

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

### 8. Expenses by nature (Continued)

#### 8.2. Financial income (expenses)

	<u>2017</u>	<u>2016</u>
Financial expenses		
Bank charges	(50,512)	(46,919)
Financial income		
Yelds	5,544	1,093
Exchange variation	112	13,936
Net financial income	<u>(44,856)</u>	<u>(31,890)</u>

## **Porto Sudeste V.M. S.A.**

Notes to financial statements (Continued)  
December 31, 2017 and 2016  
In reais

<b>Board of Directors</b>	<b>Executive Board</b>
Oscar Pekka Fahlgren – Vice Chairman (Acting Chairman)	Eugênio Mamede - Chief Operations Officer
Nicolas Konialidis – Board Member	Nicolau Gaeta – Chief Financial and Investor Relations Officer
Mathew Hurn – Board Member	

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