MRS Logística S.A.

Financial statements
December 31, 2019 and
Independent Auditor's Report

2019 Highlights

Financial and Operational Results	2017	2018	2019	2019 x 2018
Transported Volume (thousands tons)	171.0	174.6	146.9	-15.9%
Gross Revenues (R$ million)	3,870.3	4,083.6	3,483.7	-14.7%
Net Revenues (R$ million)	3,492.8	3,726.4	3,200.8	-14.1%
EBITDA (R$ million)	1,429,0[1]	1,543.2	1,963.9	27.3%
EBITDA Margin [1] (%)	40.9%	41.4%	61.4%	20.0pp
Net Income [1] (R$ million)	434.5	521.6	503.4	-3.5%
Gross Debt (R$ million)	2,695.9	2,474.9	3,006.9	21.5%
Net Debt (R$ million)	2,209.2	2,128.9	2,336.6	9.8%
Net Debt/EBITDA [1] (x)	1.50x	1.38x	1.19x	-0.19x

1 In the adjusted results, two non-recurring events, which were the sale of assets in 1Q17

2 Last 12 months (unadjusted result, that is, considering the non-recurring events).

The year of 2019, as presented in the quarterly reports, was consolidated as a unique period for the Company.

MRS ended 2019with 146.9 million tons transported, registering a 15.9% decrease in relation to the previous year. This decrease can be explained by the collapse of the dam in Brumadinho (MG) at the beginning of the year, and its consequences as well. However, there was a 6.9% increase in the volume of General Cargo (a group composed of agricultural commodities, steel products, cement, containers, among others), which, for the first time in a year, reached 40.4% of share of the transported mix, slightly offsetting the decrease in iron ore transportation, in line with the Company's strategy of diversifying the cargo transported.

The iron ore Transit Time, indicator that estimates the transportation time (from origin to destination) of the Company's main cargo, also improved, reaching 19.08 hours, the best result in the entire historical series.

Reinforcing the importance of a good performance in safety indicators, the accident prevention goal agreed with the National Land Transport Agency – ANTT - was met. The indicator (accidents/million.train.km) stood at 5.91%, below the level that had been set out for 2019. This result reflects the constant investments made over the years in operational safety and awareness campaigns.

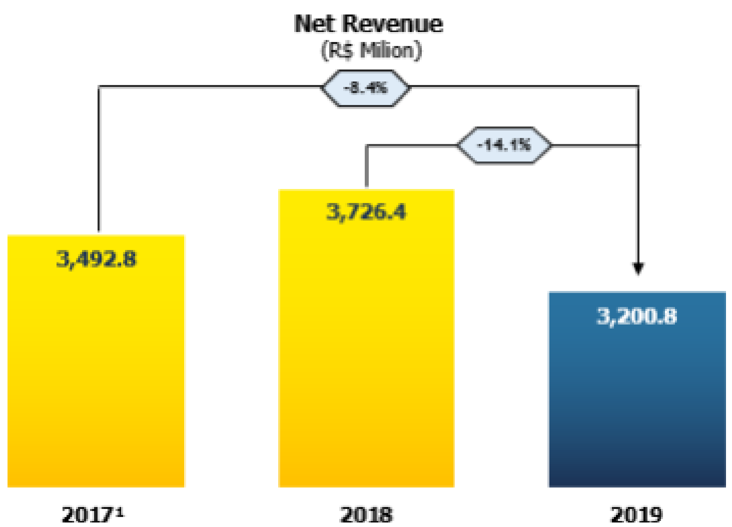
The EBITDA in the period grew by 27.3% when compared to 2018, reaching a result of R$1.9 billion, with a margin of 61.4%.

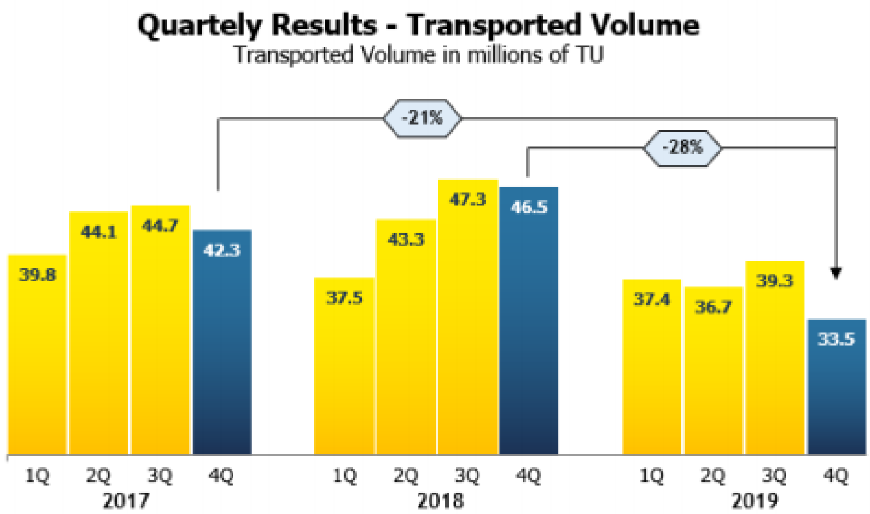
Business and operating results

Business Results

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Mining	**18,448**	**31,934**	**-42.2%**	**22,580**	**-18.3%**	**87,464**	**118,993**	**-26.5%**
Iron One	17,957	31,206	-42.6%	22,092	-18.7%	85,164	115,948	-26.6%
Export	15,081	27,480	-45.1%	19,918	-24.3%	74,130	101,342	-26.9%
Domestic Market	2,876	3,779	-23.9%	2,174	32.3%	11,034	14,605	-24.5%
Coal and Coke	492	675	-27.2%	488	0.8%	2,301	3,045	-24.4%
General Cargo	**15,059**	**14,586**	**3.2%**	**16,708**	**-9.9%**	**59,402**	**55,570**	**6.9%**
Agricultural Products	9,686	9,477	2.2%	11,371	-14.8%	38,538	37,180	3.7%
Steel Products	1,631	1,822	-10.5%	1,845	-11.6%	7,089	6,812	4.1%
Container	631	564	12,0%	634	-0.4%	2,406	1,983	21.3%
Cement	513	458	11.8%	563	-8.9%	2,049	1,689	21.4%
Others	2,598	2,267	14.6%	2,296	13.2%	9,320	7,906	17.9%
Total	**33,508**	**46,520**	**-28,0%**	**39,288**	**-14.7%**	**146,866**	**174,563**	**-15.9%**

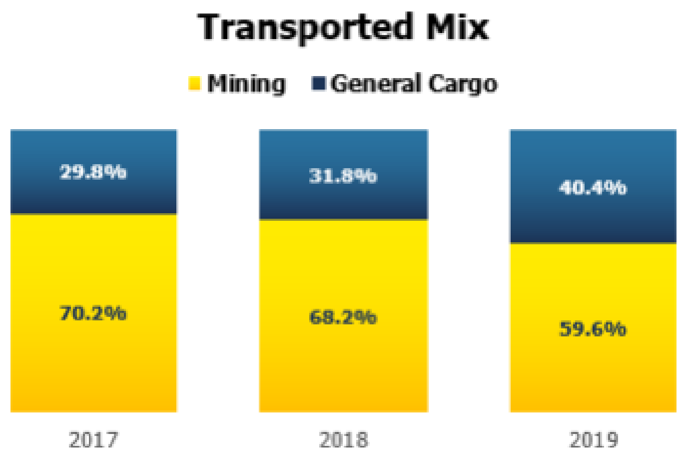
The year of 2019 was atypical for the Company, due to the collapse of the tailings dam in Brumadinho (MG). The Córrego do Feijão iron ore loading terminal was covered by the dam's waste, suspending the operation at that terminal. In addition, as a result, other mines were also paralyzed by court order, with direct impacts for MRS.
Due to this event, the total volume transported by the Company in 2019 decreased by 15.9% compared to 2018, reaching 146.9Mt. In the 4Q19, it was 33.5 million tons (Mt), a reduction of 14.7% compared to the third quarter of 2019.





The result of volume transported in General Cargo represented an annual record in 2019, totaling 59.4 million tons, an increase of 6.9% compared to 2018. The numbers achieved by this group in the 4Q19 are also the best for a fourth quarter, reaching 15.1 Mt, an increase of 3.2% when compared to the 4Q18.

The General Cargo Group, in the accumulated volume in 2019, reached 40.4% share in the total volume transported, representing the highest percentage ever recorded in the segment. This increase shows the strengthening of the group in the total volume transported, in line with the strategy adopted by the Company. The Mining group ended the period with a 59.6% share of the total volume transported.



Mining

The Mining group (which includes ore, coal, and coke) totaled 18.5 Mt in the 4Q19, a reduction of 18.3% compared to the 3Q19.

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Mining	**18,448**	**31,935**	**-42.2%**	**22,579**	**-18.3%**	**87,464**	**118,993**	**-26.5%**
Export	15,081	27,480	-45.1%	19,918	-24.3%	74,130	101,342	-26.9%
Domestic Market	2,876	3,779	-23.9%	2,174	32.3%	11,034	14,605	-24.5%
Coal and Coke	492	675	-27.2%	488	0.8%	2,301	3,045	-24.4%
Subtotal Mining	17,957	31,260	-42.6%	22,092	-18.7%	85,164	115,948	-26.6%
Subtotal Domestic Market	3,367	4,455	-24.4%	2,662	26.5%	13,334	17,650	-24.5%

Iron Ore - Export

In the fourth quarter of 2019, the volume of Iron Ore for export decreased by 24.3%, when compared to the immediately previous quarter. This reduction is due to operational problems in production faced by key customers in the segment and the increased product quality requirements imposed by the transoceanic market, which resulted in restrictions on the supply of iron ore from small and medium-sized miners. Thus, the segment totaled 15.1Mt transported in the 4Q19.
The Company recorded 74.1Mt transported in 2019, a decline of 26.9% compared to the same period of the previous year, which is explained by the impediments in the operation of some mines of key customers of the Company as a result of the occurrence in Brumadinho (MG).

Iron Ore, Coal and Coke – Domestic Market

The result achieved in the Mining Group to supply the domestic market in the 4Q19 totaled 3.4Mt, an increase of 26.5% compared to the 3Q19. The positive result can be explained by the resumption of blast furnace activities by an important customer. In 2019, considering the volumes of ore, coal, and coke, the group retreated 24.5% when compared to 2018, closing at 13.3 Mt.

The steel industry has been maintaining a strategy of replacing iron ore as the main raw material in the production process, directly impacting the domestic market. The reductions in volume transported in 2019 are also related to occurrences in the mining market, due to the aforementioned events.

General Cargo

In 2019, the volume transported of General Cargo (other products not covered by the Mining group), which includes transportation by MRS itself and by other railways, through paid right of way, grew by 6.9% compared to 2018, reaching 59.4Mt. When comparing 4Q19 with 4Q18, there was an increase of 3.2%.

The Group's growth is a reflection of the Company's efforts to boost the volumes of General Cargo transported, with increased handling, both to the ports of Rio de Janeiro and of Santos, consequence of the extension in the service to traditional clients, new partnerships, and new customers. Thus, we achieved the best performance in this segment in recent years, surpassing the historical record in General Cargo transportation.

Agricultural Products

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Agricultural Products	**9,686**	**9,477**	**2.2%**	**11,371**	**-14.8%**	**38,538**	**37,180**	**3.7%**
Corn	5,393	5,351	0.8%	7,232	-25.4%	14,511	11,245	29,0%
Sugar	2,417	2,319	4.2%	2,491	-3.0%	8,405	9,049	-7.1%
Soy	590	784	-24.7%	495	19.3%	10,733	12,733	-15.7%
Soybean Meal	1,286	1,023	25.7%	1,153	11.5%	4,888	4,152	17.7%

In the 4Q19, the volume of agricultural products transported by the Company and third parties (through the paid right of way) totaled 9.7 Mt, 2.2% higher than in the 4Q18. This is a favorable result, which reflects the consolidation of the railway modal in the transportation of products to the Santos port region and the good performance in the cargoes transported across the Company's rail network through paid right of way.

In the second half of 2019, the shutdown of an important Cargo Terminal impaired the total volume transported, especially of soybean. Despite this, the segment managed to end the year with growth. Corn stands out among the agricultural commodities transported, with a significant increase of 29% compared to 2018, corresponding to a total of 14.5 Mt transported in the accumulated volume for 2019.

The favorable scenario of the record corn harvest and an improvement in the international price of the commodity boosted the growth in production flow, compared to previous years. In 2019, the share of transported volume between domestic consumption and exports was 14.1% and 85.9%, respectively, considering own cargo and other railways. Despite the lower share of the domestic market when compared to exports, a significant growth has been recorded in recent years.

Steel Products

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Steel Products	**1,631**	**1,822**	**-10.5%**	**1,845**	**-11.6%**	**7,089**	**6,812**	**4.1%**

Contrary to the Brazilian crude steel production, which decreased by 9%, the transport of steel products in MRS grew 4.1% in the comparison between 2019 and 2018.

This result is the second best volume transported during the period of one year for the segment, close to the historical record. The increase in the number of plates transported to meet the operations of some customers, volume leverage on new routes, and the development of inter-plant transport for specific customers are some of the main factors responsible for the number reached. The export volume in the last two years declined, making up an increasingly smaller number in the category as a whole. On the other hand, the Company constantly seeks strategies to compensate for the imbalance in relation to the domestic market volume, which can be seen in the favorable results of the segment, namely in 2017 (4.9 Mt), 2018 (5.7 Mt), and 2019 (6.2 Mt).

Containers

Transported Volume TU thousand tons	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Container	631	564	12.0%	634	-0.4%	2,406	1,983	21.3%

The Container segment continues to record positive results, totaling 0.6 million tons in the fourth quarter of 2019, 12.0% higher than in the 4Q18, considering other railroads that exercise paid right of way.

The railway mode provides great operational predictability and optimization of resources for customers. In this regard, MRS is consolidated, through negotiations with new customers and routes, which are supported by an efficient operational model and service to several demand flows in the main economic centers of the Southeast region of the country.

The Container segment also recorded the best annual performance in 2019, totaling 2.4 Mt. Contributed to this result: (i) the flow of Other Railroads; (ii) the leveraging of new volumes/clients, through the Santos - Jundiaí route, which corresponded to a growth of 22.2%, and consequently represented 70.5 thousand tons; (iii) the increase on the RJ-BH route, mainly related to the increase in volume transported with partner shipowners and logistics operators, in addition to the start of operations at the new cargo terminal in Itutinga (MG), which corresponded to a gain of 6.7%, equivalent to 23.1 thousand tons; and (iv) the positive results achieved in the other routes, due to improvements in the planning with customers, which increases productivity without the need for new investments in already consolidated routes.

Construction

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Construction	**513**	**458**	**11.8%**	**563**	**-8.9%**	**2,049**	**1,689**	**21.4%**

The results of Construction-related products (sand, cement, blast furnace slag) remain positive and ended 2019 with a total of 2.0 Mt transported, an increase of 21.4% in relation to 2018.
The good performance is due to the Company's strategy of prospecting new customers, renegotiating inoperative routes, improving operational performance, and increasing the share of current customers, and the positive growth trend for the sector.

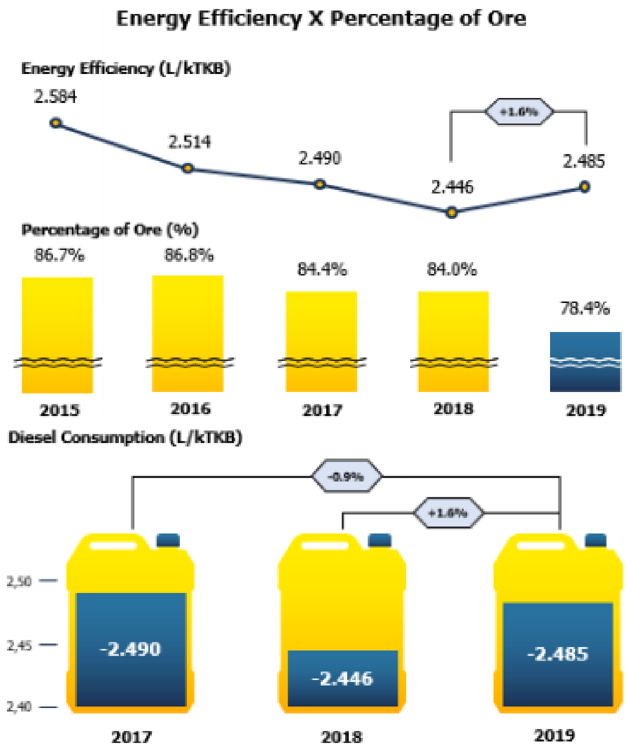
Others

Transported Volume TU Million	4Q19	4Q18	4Q19 X 4Q18	3Q19	4Q19 X 3Q19	2019	2018	2019 X 2018
Others	2,598	2,267	14.6%	2,296	13.2%	9,32	7,906	17.9%

MRS transported a total 9.3Mt in 2019 in the group of other products (pig iron, chemicals, fertilizers, cellulose, among others), an increase of 17.9% in relation to 2018.
Contributed to this result: (i) the transport of pig iron for export, which grew by 88.8%. This growth can be explained by the price of pig iron in the foreign market and favorable exchange rate, associated with the reduction in sales of the product in the domestic market; (ii) the transportation of chemicals, coming from other railroads, to serve the domestic market; and (iii) the transportation of fertilizers, also coming from other railroads, with significant growth.

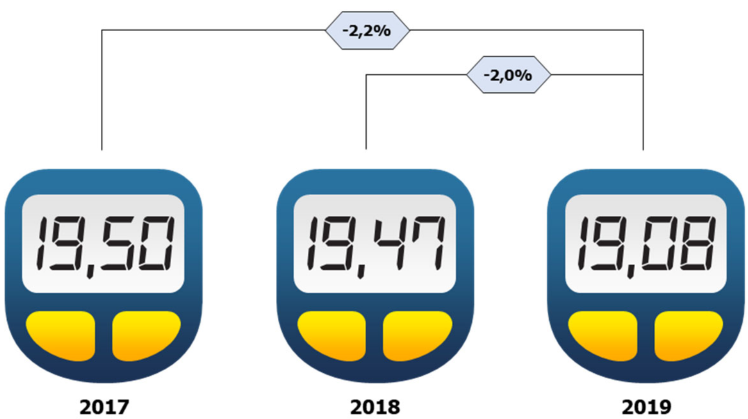
Operational Results

In 2019, the energy efficiency indicator, which measures the fuel consumption of locomotives, reached 2.485 L/kTKB (Liter/Thousand Gross Tons per Kilometer). Although Ore and General Cargo showed an isolated improvement, the overall energy efficiency indicator for 2019 decreased in relation to 2018. This variation is due to the reduction in the volume of ore in 2019, which historically has a greater share in the cargo mix.
Despite the small increase of 1.6% in fuel consumption, the result remains within the scenario estimated by the Company, considering the exceptional year of 2019. MRS remains focused on better cost and production management, ranging from the use of more efficient locomotives to the adoption of operational improvements and technologies, such as the AESS (Automatic Engine Start Stop), which automatically controls the starting and stopping of the diesel engine. In addition, the increase in the length and weight of General Cargo trains allowed for a better use of the most efficient locomotives (AC-44 model), which brought relevant gains in efficiency for this group.
The graph below allows comparing the evolution of global efficiency with the difference in the percentage of ore in annual production in TKB.



Iron ore Transit Time, which calculates the time it takes to transport cargo from origin to destination, improved in 2019 and ended the period at 19.08 hours (best result in the entire historical series). This 2.0% evolution reflected the investments made by the company over the years - such as the acquisition of GE AC-44 locomotives and the CBTC (Communication Based Train Control) system - which make the operation more productive and safer, as well as the reduction in the flow of trains due to the occurrence in Brumadinho (MG).

Transit Time (h)



Economic and Financial Results

Results	4Q19	4Q18	4Q19 x 4Q18	3Q19	4Q19 x 3Q19	2019	2018	2019 x 2018
Gross Revenues (R$ million)	772.4	1,086.0	-28.9%	927.0	-16.7%	3,483.7	4,083.6	-14.7%
Gross Average Tariff (R$/ton)	23.1	23.3	-0.9%	23.6	-2.1%	23.7	23.4	1.3%
Net Revenues (R$ million)	701.7	992.7	-29.3%	856.5	-18.1%	3,200.8	3,726.4	-14.1%
Net Average Tariff (R$/ton)	20.9	21.3	-1.9%	21.8	-4.1%	21.8	21.3	2.3%
Adjusted EBITDA[1] (R$ million)	409.2	396.0	3.3%	597.5	-31.5%	1,963.9	1,543.2	27.3%
Adjusted EBITDA Margin [1] (%)	58.3%	39.9%	18.4pp	69.8%	-11.5pp	61.4%	41.4%	20,0pp
Adjusted Net Income[1] (R$ millio	87.1	144.6	-39.8%	181.1	-51.9%	503.4	521.6	-3.5%
Net Debt/EBITDA [1] (x)	1.19x	1.38x	-0.19x	1.06x	0.13x	1.19x	1.38x	-0.19x

[1]EBITDA accumulated over the past 12 months.The covenant adopted towards some creditors was detailed in the debt chapter of this release

To better reflect the Company's operational cash generation and the net income, the nonrecurring event of 2017 regarding the sale of the Company's obsolete assets was adjusted. In the table below, the settlement of this adjustment from accounting outcomes can be checked:

Reconciliation EBITDA (R$ million)	2017	2018	2019
Net Income for the Year	**461.2**	**521.6**	**503.4**
(+) Taxes on Profit	254.0	262.8	254.4
(+) Depreciation and Amortization	566.9	604.6	921.2
(+) Net Financial Result	187.3	154.3	284.9
(=) EBITDA	**1,469.5**	**1,543.2**	**1,963.9**
(-) Non-recurring Events[1]	40.5	-	-
(=) Adjusted EBITDA	**1,429.0**	**1,543.2**	**1,963.9**

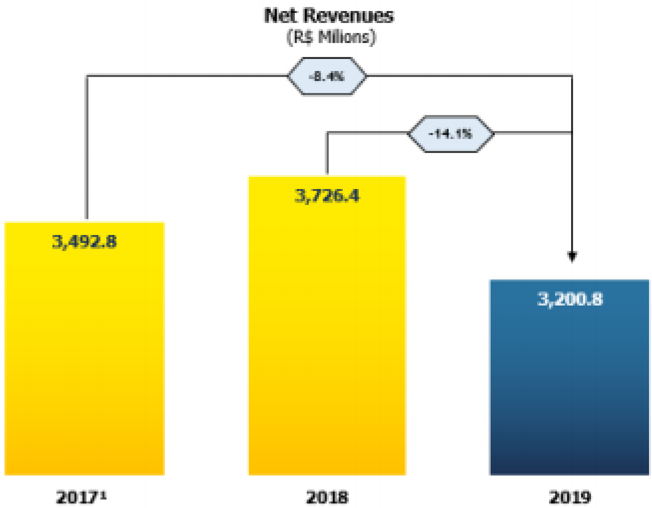
[1] Net of taxes (PIS and COFINS, when incidents)

Reconciliation of Net Income (R$ million)	2017	2018	2019
Net Income for the Year	**461.2**	**521.6**	**503.4%**
(-) Non-recurring Events[2]	26.7	-	-
(=) Adjusted Net Income	**434.5**	**521.6**	**503.4**

[2]Net of taxes (PIS, COFINS, IRPJ and CSLL, when incidents)

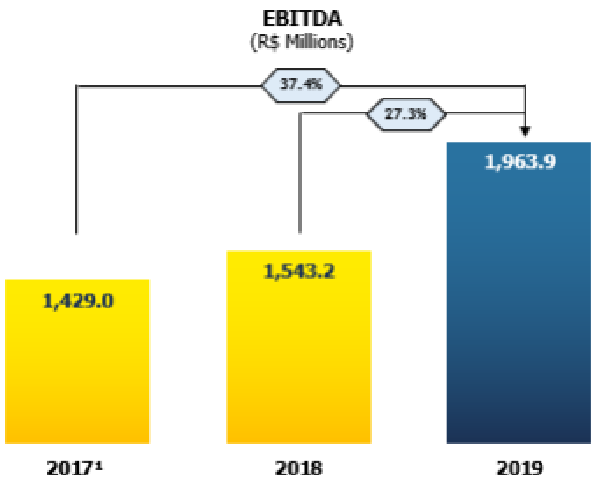
Net Revenues

In 2019, MRS recorded R$3.2 billion of net sales, with emphasis on the 11.3% increase in revenue from the General Cargo segment in relation to 2018. This growth, among other factors, is justified by the 6.9% increase in the volume transported of the referred Group.



In relation to 2019, there was a decline of 14.1% in net revenue accompanied by a 28.0% drop in TU transported in the period when compared to 2018. This reduction can be explained by the collapse of the dam in Brumadinho (MG) and its consequences.

EBITDA



[1] In the adjusted results, two non-recurring events, which were the sale of assets in 1Q17

The EBITDA in 2019 grew by 27.3% in comparison with 2018, reaching R$ 1.9 billion, with EBITDA Margin of 61.4%, 20 p.p. above the recorded in 2018.

I. Net Revenue: Reduction of R$525.6 million, mainly due to the impacts of the occurrence in Brumadinho (MG).

II. Costs and Expenditure: Reduction of 21.5% or R$406.2 million, compared to 2018. The favorable result can be explained by the adoption of accounting rule CPC06-R2/IFRS16, reallocating the costs of some operating lease agreements to depreciation and financial expense lines, resulting in R$ 429.9 million, by the reduction in fuel consumption as a result of the lower transported volume, and by the Company's efforts to resize and reduce its operating expenses;

III. Other Revenues and Other Operational Expenses: The positive impact on EBITDA of R$540.1 million is due, essentially, to the provision for indemnity provided for in the Company's long-term agreements (take-or-pay), as a result of the reduction in volume of ore transportation. The result was partially reduced by legal provisions of labor nature.

Debt

In R$ Million	4Q19	4Q18	3Q19	4Q19 x 4Q18	4Q19 x 3Q19
Gross Debt[1]	**3,006.9**	**2,474.9**	**3,072.0**	**21.5%**	**-2.1%**
Gross Debt in Reais	2,445.1	1,855.3	2,513.3	**31.8%**	**-2.7%**
Gross Debt in US$ [2]	561.8	619.6	558.7	**-9.3%**	**0.6%**
Cash[3]	**670.3**	**495.7**	**1,023.8**	**35.2%**	**-34.5%**
Net Debt	**2,336.6**	**1,958.9**	**2,066.1**	**19.3%**	**13.1%**
EBITDA 4	**1,963.9**	**1,445.6**	**1,950.7**	**35.9%**	**0.7%**
Net Debt/EBITDA (x) 4	**1.19x**	**1.38x**	**1.06x**	**-0.19x**	**0.13x**

[1] The difference in relation to the sum of the Lines of Loans and Financing (Balance Sheet) corresponds to the Transaction Costs.
[2] Incorportes the fair value of derivative instruments.
[3] Includes restricted cash.
4 EBITDA accumulated in the last 12 months (unadjusted result, that is, considering non-recurring events)

The Company raised approximately R$ 930.5 million in 2019. With this, the Gross Debt was 23.1% higher than in 2018 and closed 2019 at R$3.0 billion. This result can be explained by the high volume of funding in the period, taking advantage of the good market moment associated with uncertainties in the mining sector. Among the main funding sources are: i) 9th issue of debentures, in the amount of R$ 650 million; ii) Finem with BNDES, in the amount of R$ 140 million; and iii) Financing with Banco MUFG, in the amount of R$ 95 million.

Net Debt/EBITDA (x)

The leverage indicator, measured by the Net Debt/EBITDA ratio, decreased from 1.38x at the end of 2018 to 1.19x at the end of 2019. The good performance of this indicator reflects the sustainable focus on resource management, low leverage and good operational performance.

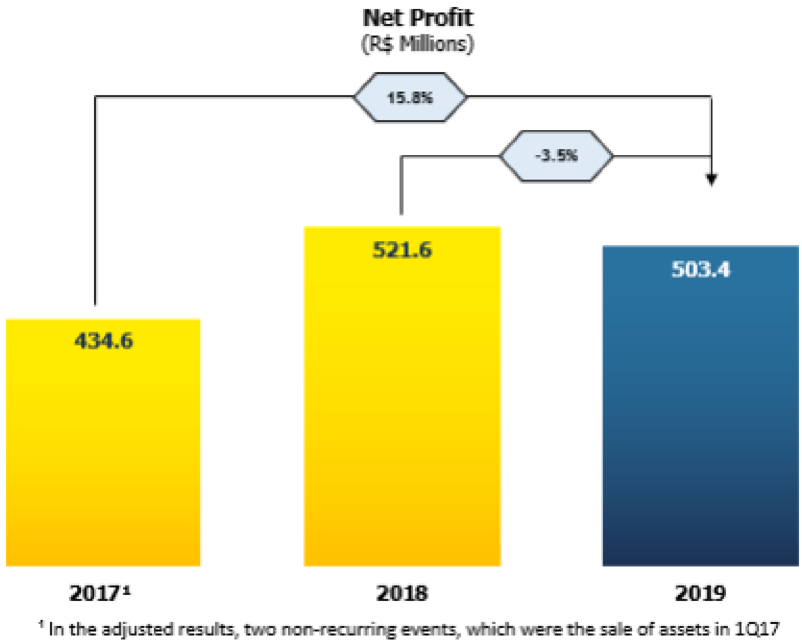
The table below indicates Recurring EBITDA reconciliations used in covenants calculation.

Reconciliation EBITDA (R$ million)	4Q19	4Q18	4Q19 x 4Q18	2019	2018	2019 x 2018
Net Income for the Year	**87.1**	**144.6**	**-39.8%**	**503.4**	**521.6**	**-3.5%**
(+) Taxes on Profit	38.8	67.4	-	254.4	262.8	-
(+) Depreciation and Amortization	236.5	155.6	-	921.2	604.6	-
(-) Depreciation - Right of Use (lease agreements)	(69.6)	-	-	(269.9)	-	-
(+) Net Financial Result	46.8	28.4	-	284.9	154.3	-
(-) Financial Charges AVP (lease contracts)	(39.3)	-	-	(160.0)	-	-
(=) EBITDA [1]	**300.2**	**396.0**	**-24.2%**	**1,534.9**	**1,543.2**	**-0.8%**

[1] More restrictive condition assumed with creditors

Net Profit

The final result for 2019 was a Net Proft of R$503.4 million, which represented a small decrease of 3.5% compared to 2018.



The graph above shows the evolution of Net Profit, adjusted for the year 2017 due to the non-recurring event, which was the sale of assets in the 1Q17. The result achieved in 2019 reflected the policy of constant search for cost efficiency, in addition to the improved performance in General Cargo and the provision for contractual clauses contained in the Company's long-term agreements – Take-or-Pay.

Cash Flow Statement

Cash flow in 2019 was R$391.6 million. The cash balance at the end of 2019 was R$668.3 million, above the result verified in the end of 2018, of R$276.6 million, This change was influenced by the increase in funding in the period from bilateral agreements, Debentures, and BNDES. There was, in the period, the redemption of investments that were linked to some financing contracts with BNDES, when compared to 2018, naturally influencing the performance.

Statement of Cash Flow - R$ Million	2019	2018
Cash at beginning of period	**276.7**	**422.8**
Net Income before IR and CSLL	**757.7**	**784.4**
Depreciation and Amortization	921.2	604.6
Monetary/Foreign Exchange Variation and Financial Charges	382.9	187.0
Residual Value of Fixed Assets / Downloaded Invest. Perm.	56.5	18.1
Provision (Reversal)	121.3	41.9
Others	13.7	5.3
Net Income cash basis	**2,253.3**	**1,641.3**
Changes is assets and liabilities	**(1,147.4)**	**(505.7)**
Accounts Receivable and Related Parties	(591.8)	(60.0)
Stocks	(10.0)	(21.6)
Restricted Cash	67.9	(2.0)
Taxes Recoverable	25.6	(4.9)
Providers	(19.3)	(36.5)
Tax liabilities	67.2	(16.7)
Taxes on profit	280.0	(303.3)
Social and Labor Obligations	(2.0)	10.2
Payment of interest on loans and financing	(144.1)	(137.1)
Payment of interest on rights of use	(160.0)	-
Others	49.7	66.2
Net Cash provided by operating activities	**1,105.9**	**1,135.6**
Immobilized	(645.7)	(688.0)
Intangible	(13.3)	(11.5)
Proceeds from the sale of property, plant and equipment	2.2	0.4
Investment activities	**(656.8)**	**(699.1)**
Borrowing and financing	280.5	307.1
Debentures	650.0	-
Payments	(521.8)	(670.8)
Rights of use	(218.5)	-
Dividends paid	(247.7)	(219.0)
Financing activities	**(57.5)**	**(582.7)**
Cash at end of period	**668.3**	**276.6**
Cash Flow	**391.6**	**(146.2)**

Projects & Investments

In 2019, MRS invested R$747.5 million, focusing on investment initiatives essential to maintain the business production and sustainability.

Investiments 2019	R$ Million
Permanent Way[1]	391.9
Undercarriage[2]	301.6
Eletronic System	16.1
SMS Program[3]	6.4
Others	31.5
Total	**747.5**

1 Infraestructure expansion, reliability and modernization of permanent tracks

2 Acquisition, reliability and modernization of rolling stock;

3 Investments in Health, Environment and Safety

Please find below the major investment groups held in 2019:
Key investments are as follows:

- Expansion of permanent way sections and yards: In 2019, as in previous years, investments were prioritized and linked to the transportation flows of the General Cargo group, with investments being initiated to service new container cargoes; to start the installation of permanent signalling in TIPLAM (general cargo - Port of Santos); and to pay investments made by RUMO, related to signaling in 5 yards of the Pederneiras section.

- Infrastructure reliability: Continuing the multiannual program of preventive interventions in order to minimize the risks related to the permanent track reliability, 29 containment works, works on 3 tunnels, and 11 interventions in bridges were performed, in addition to the building of new drains.

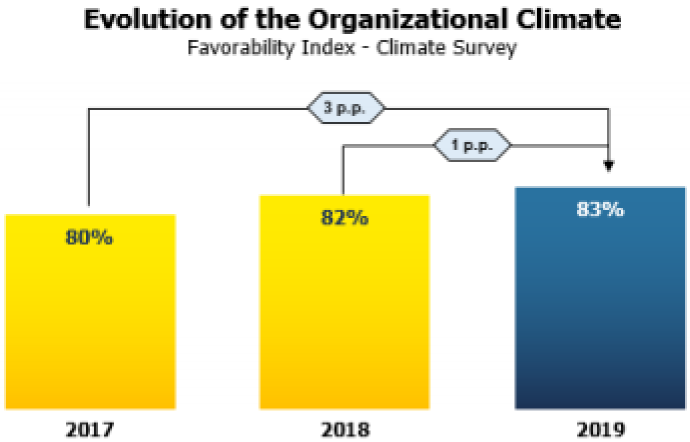
- Rolling stock: Still following the General Cargo fleet modernization plan, last year 247 HPT wagons (suitable for grain transportation) and 74 FLT wagons (for cellulose transportation) were added to the fleet.

- Asset modernization: Interventions in locomotives, wagons and railway network were maintained, which provided higher levels of reliability and, consequently, availability of assets, thus allowing greater efficiency and optimization of railway operations.

- Technological projects: (i) Completion of equipment replacement for improvement in the MPLS (Multi Protocol Label Switching)/Wifi data telecommunication system. (ii) IT systems focused on improvements in the company's operational processes, with the development of a program for circulation planning, with operational decisions.

Human Resources

Regarding the Organizational Climate Management process, the Company remains with continued efforts in building improvements in the work environment, providing good results in the “Environment Favorability” category, scoring 83% in 2019.



The Climate Survey is carried out with all employees, who answer 64 questions on the subjects: Identity, Leadership, Satisfaction/Motivation and Learning/Development.

MRS, at the end of 2019, with a total of 5,741 employees, 86% working on railway operations. 55% of these employees were located in the State of Minas Gerais, 24% in Rio de Janeiro and 21% in São Paulo. The average age of employees is 35 years old and the share of women has been growing, currently accounting for 11.4% of the Company’s total workforce. In 2019, there was an increase of 21% in the number of people with special needs in the Company. Along the year, 442 people were promoted, representing 86% of the total number of vacancies, thus reinforcing the policy of valuing employees.

HR Development

MRS is still investing in training, education, improvement, and specialization of its employees. In 2019, operational and personal safety trainings were administered by Academy MRS, in addition to courses for education and improvement of activities performed in all the several positions. These trainings were available to most employees, with an average course load of 35.3 hours/class for each student/employee.
MRS’s employees have also the Education Incentive Program, in which MRS pays part of the monthly fees of training and improvement courses, such as undergraduate, graduate, technical education and language courses. In 2019, 332 employees completed their studies or continued them through this program.
Reassuring the commitment to professional development of employees, MRS trained, in 2019, 51 employees in the Leadership Training Program in partnership with the FIA Business School, qualifying employees to make fast decisions in line with the Company business strategies. Furthermore, Academia MRS, in partnership with other institutions, also ministered the Railway Operation Training courses for 137 participants, along with the SENAI system of Industrial Learning and Teaching, which offered 163 new opportunities, in the MG/RJ/SP, at FIEMG/FIRJAN/FIESP.

Occupational Health

MRS is always concerned about iys human potential and continuously support its employees in the search for comprehensive health care. It has initiatives to promote health, physical and emotional well-being, and disease prevention of its employees. And the dependent relatives are not forgotten.
With that in mind, during 2019, MRS developed several actions, including:
• **Life Quality Campaigns:** These are monthly actions, directed to all MRS employees, that aim to improve their quality of life. There were 145 actions in 2019, carried out by the occupational health and nursing team of each of the 07 MRS Health Centers, located in MG, RJ, and SP, sometimes reinforced with the participation of experts in the topic addressed. For example: "Healthy eating habits"; "Dengue"; "Measles"; "Heart disease"; "Fighting cholesterol"; "Diabetes mellitus"; "Prevention of Sexually Transmitted Diseases"; "Yellow September –Suicide Prevention"; "Pink October – Breast Cancer Prevention"; "Blue November – Prostate Cancer Prevention"; "Red December"; "Skin cancer"; "Renal Nutrition"; "Care for your voice"; "Women's Health"; "Blood donation"; "Eye Care"; "Workplace Exercise" among others.

• **Flu Vaccination Campaign for Employees and Lega Dependents:** Last year, the company made available the quadrivalent flu vaccine (updated vaccine with greater potential) to 5,190 people, including employees and their legal dependents.

• **Prevention of cardiovascular diseases and its consequences:** The "Perfil Saúde" (Health Profile), through complementary exams, identified employees that were prone to develop cardiovascular diseases and/or diabetes mellitus and promoted, under the guidance of a multidisciplinary team (doctors, nutritionists, physical educators, and nurses), the sensitization, encouragement, and support for them to seek healthy habits and lifestyles, changing the natural course of disease.

• **Prevention Program against Abuse of Alcohol and Other Drugs - PPAD:** Safety in the work environment is a reality in MRS's routine and, in order to assure it, the Program brings guidelines for raising awareness about the harmful effects of the improper use of alcohol and other drugs in the performance of routine and usual activities.

• **PCA - Hearing Conservation Program:** The entire population of employees exposed to noise is continuously monitored by a multidisciplinary team (doctors and speech therapists) which, in addition to providing guidance to avoid impairment of hearing capacity, at the first sign of any impairment, mobilize to provide the best treatment.

• **"Mamãe MRS" (MRS Mom):** The pregnant employees and pregnant wives of our employees have the opportunity to participate in biannual meetings with trained professionals who work in the area of obstetrics, breastfeeding, vaccination, and childcare.

• **Periodic occupational exams** The annual meeting between the occupational physician and the MRS employee (100% of our employees, regardless of occupational risk or age, are examined annually) is a moment intended for the full evaluation of the individual, expanding the horizon of occupational health. A total of 5,924 periodic exams were performed in 2019.

Seeking to innovate and thinking about the safety and comfort of the employees, in this last year, MRS took a mobile team to several points away from major health centers, to perform complementary, eye, and clinical periodic exams in-company.

• **Other occupational exams:** In addition to the periodical exams, a total of 2,064 other exams were performed.

In addition to all actions mentioned, in 2019, MRS railway workers were graced with an important work to encourage a change in mentality focused on quality of life and well-being. In addition to the routine support, periodic actions, and all the messages transmitted during the year with a focus on health and well-being, the Quality of Life Month brought an even more important proposal. Lectures, plays, and workplace exercises were given to employees in operational and administrative areas.

MRS also provides benefits that encourage prevention and health treatments, specifically:

- **Health Plan:** The benefit includes hospital medical care for employees and their legal dependents;
- **Dental Plan:** The service is offered to employees and their legal dependents through the accredited network; and
- **Agreements:** Agreements are available for MRS employees, with discounts on medicines and products in pharmacies across the country.

Institutional Relations

Relationship with the Public Government and People

In 2019, MRS expanded its relationship actions with the communities around the railway, through partnerships with leaders and Municipal Governments. In order to deal with possible impacts of the railway in the communities, as well as for the development of partnerships, the Company has regional teams working in a systemic way, in a process called "Dialogue Methodology". This process has formal and informal structures that work at various levels of management, with the purpose of promoting solutions for the most diverse demands of the community and the Public Administration. In 2019, these actions led to the building and revitalization of leisure areas, urban mobility actions, and installation of lighting in public areas around the railway, in several cities of the States of Minas Gerais, São Paulo, and Rio de Janeiro, among other initiatives.
MRS annually holds the event "Espaço Aberto: MRS e Comunidade" (Open Space: MRS and the Community), in which it presents a set of actions and investments to the main regional leaders aiming to minimize impacts of the railway operation, in addition to improving the coexistence with the railway. In 2019, this event was held in five locations, bringing together approximately 180 community leaders and representatives of the Public Administration and the City Council. In addition to these events and the meetings held with managers to deal with demands, specific meetings are held to strengthen the relationship, stimulate dialogue and seek shared solutions. In this case, 68 meetings were held with the aforementioned leaders.

Actions for Accident Prevention

In 2019, MRS expanded its actions with the Communities to raise public awareness about the risks of railway accidents, seeking to involve its partners in socio-cultural and sports projects and actions, significantly expanding its reach.
The actions focused on the communities with the highest incidence of accidents added up to the participation of almost 36,000 people, among adults, children and teenagers, and covered 34 cities. Among the topics addressed in these actions, the following stand out: risks related to crossing the railway, recklessness as the cause of accidents, the risks of the illegal waste disposal in the right of way area for health, and the dissemination of the relationship and communication channels with the company.

Social, Cultural and Sport Projects

Using the Childhood and Adolescence Fund (FIA), MRS supported 16 Municipal Councils for the Rights of Children and Adolescents, benefiting a number of projects, in addition to 12 Municipal Councils for the Rights of the Elderly. The Company also sponsored 13 cultural projects through the Rouanet Law and 4 sports projects through the Sports Incentive Law. In 2019, MRS continued to use the resources encouraged by the PRONON (National Oncology Care Support Program) and PRONAS (National Program to Support Health Care for People with Disabilities), which were directed to 5 projects. Sociocultural and sports investments accounted for R$8.9 million in 2019.

Regulatory Goals

The accident prevention goal agreed with the National Land Transport Agency – ANTT - was duly fulfilled by MRS and ended the year 5.91% below the rate defined for 2019 (8.28 accidents/million.train.km against a goal of 8.80). This result is due, mainly, to investments in operational safety and continuous work of public prevention and awareness campaigns, developed by the Company to reduce the number and severity of rail accidents.

The accident prevention goal was also met in 2018, having achieved a rate of 7.39 for an agreed target of 9.0 (17.89% below the limit).

The production goal results for 2018 and 2019 are still being determined by ANTT, and MRS has not yet received the analysis data for verification and possible interface with the Agency.

In any case, MRS informs it agreed the production and safety goals with ANTT for the period from 2018 to 2022, with adjustment to the production goals approved for the years 2019 and 2020 (Deliberations No. 728, of June 25, 2019, and No. 974, of November 5, 2019), due to the extraordinary events that took place in Brumadinho-MG in January 2019, which impacted the rail transport of iron ore in the Iron Quadrangle region, in Minas Gerais, under the terms of the Concession Agreement signed with the Federal Government and ANTT Resolution No. 5.831/2018.

Health, Environment, and Safety

Safety

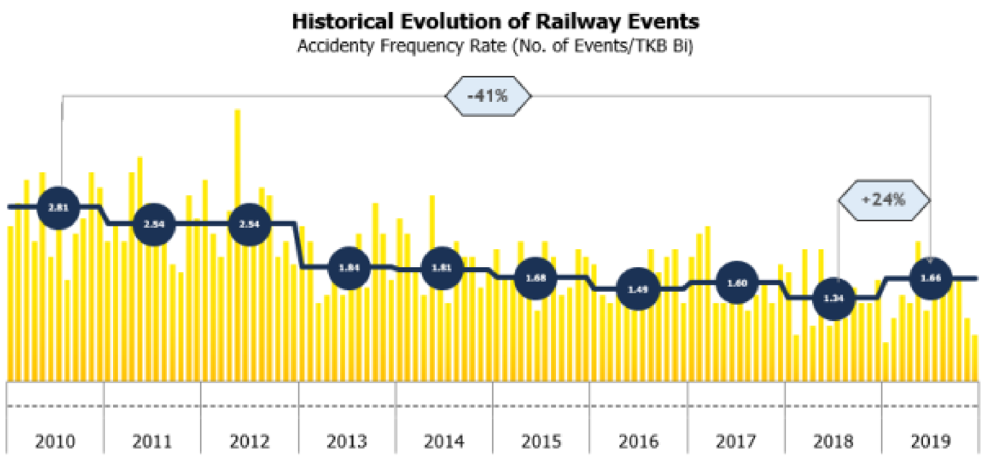
Occupational Safety

From 2010 to 2019, there was a 41% reduction in the rate of incidents per billion TKB (ton x km gross), as a result of the Company's efforts aimed at railroad operation safety. This number

includes those accidents with direct MRS participation (related to operational and maintenance failures) or those involving other railways and communities (mainly run-overs and collisions).
In 2019, we recorded the lowest historical number of railway incidents, but since there was a reduction in TKB, our rate increased by 24% compared to the previous year, which does not discredit the result, because:
• This was the 2nd consecutive year without accidents with a high impact on the business;

• This shows the reliability of the railway network in a running section, where accidents with direct MRS participation practically zeroed in 2019 (only 1 recorded case); and

• This is the best historical result in number of accidents involving the community (run-overs and collisions), with 99 incidents recorded.



Occupational safety programs:

In 2019, we continued several actions aimed at strengthening the safety at MRS, customers, and surrounding communities:

• **Task Observation Program:** Behavior audit program for control of risks due to operating failures. It is a prevention tool with emphasis in identifying conduct deviations of safety when performing procedure activities and in improving through feedbacks of the pointed deviations. The purposes of the program are to mitigate risks when performing operating activities, verify the improvement need, prevent accidents and incidents that threaten the physical integrity of the employees and assets of the company.

• **Safety Program in Terminals (PST):** Audit program with emphasis on operating routines and permanent road condition in client terminals where MRS works. In 2019, nearly 1,500 inspections were performed in more than 100 terminals.

• **Network Safety Program:** Audit program that aims at ensuring optimal conservation conditions of permanent track, assisting in removal planning and control of anomalies found in MRS's critical yards. In 2019, about 3,400 inspections were carried out in nearly 100 yards.

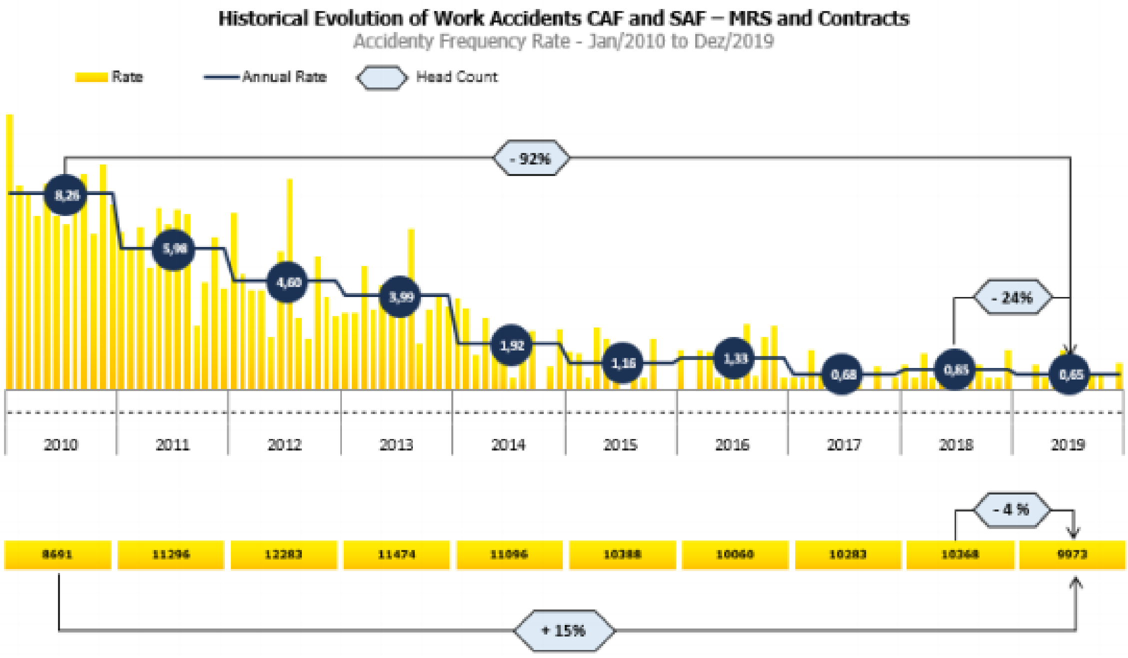
• **Communities Committee:** It is a group consisted of professionals of several areas of MRS, whose work is to fight run overs and collisions involving the community. In the 2019 cycle, we began planning next year's investments of about R$10 million, focused on the preservation of sections of the railway right-of-way which have served as a clandestine pathway for neighboring communities and drug use. This scenario accounts for approximately 67% of the accidents recorded during the year.

• **Cameras at Public Level Crossings:** Used to record images of recklessness of walkers and drivers, these cameras in the level crossings generate images that are recorded and used in run-over and collision investigations, as well as disclosed in the media as a manner of community awareness.

Occupational Safety

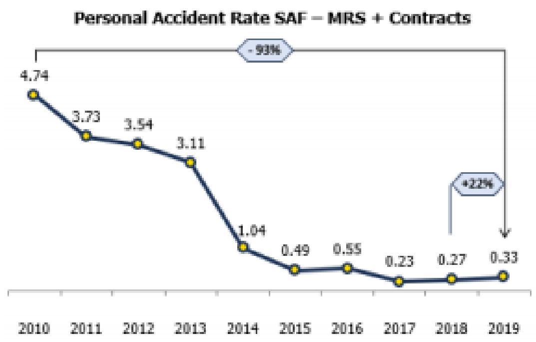
The accident frequency rate with and without lost time, including internal employees and contractors, ended 2019 at 0.65, the best historical result for MRS. Compared to the previous year, there were 5 fewer occupational accidents, representing a 24% reduction in the personal accident frequency rate.

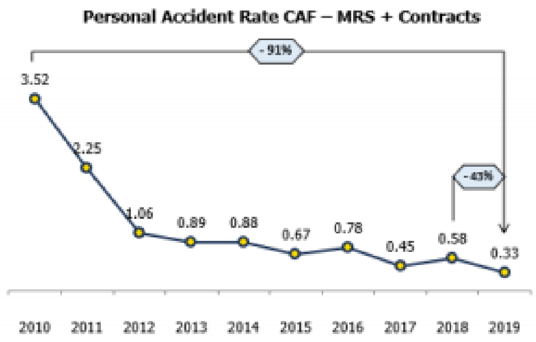
In 2019, we totaled 88 consecutive days without recording an accident - whether of low or high severity -, which is a new record for days without accidents for the Company. Additionally, it is worth highlighting the 92% reduction in the typical personal accident rate between 2010 and 2019.



When assessing only lost time accidents, considering internal employees and contractors, the reduction was also significant over the years, from 3.52 in 2010 to 0.33 in 2019, the latter also being the best historical result for MRS.

Also, the rate of non-lost time accidents significantly improved over the years, going from 4.74 in 2010 to 0.33 in 2019, a decrease of 93%.





Occupational safety programs:
As in previous years, in 2019 we continued several actions aimed at strengthening the safety of our internal employees and contractors:

• **Notice of Risks and Losses (CRP):** This is a prevention tool based on the identification, reporting, and handling of potential loss risks related to processes, people, or the environment, which allows solving different problems and adopting appropriate measures, thus creating a favorable work environment and helping to reduce incidents and accidents. Over 13,000 CRPs were recorded in 2019.

• **Safety Workshops:** Their aim is to emphasize behavioral safety with our employees through practical and theoretical approaches, contributing to the promotion of a safety culture in the organizational environment. In 2019, more than 3,200 employees were made aware of safety interventions.

• **Preliminary Risk Assessment (PRA):** This is a tool that aims to analyze the risks before the start of an activity, identifying and signaling the control measures that should be taken during the entire activity to ensure safety.

• **Practical Daily Safety Dialog (DSD):** Simulation of a certain activity that poses risks to employees. The doubts are clarified at the time of the presentation, making the communication clearer and more direct. Among 802 DDSs held along 2019, 291 were practical DDS.

• **Planned Inspections:** Audits aiming to evaluate the environment and workspace conditions and documents related to safety processes. In 2019, about 2,250 inspections were conducted, resulting in 2,500 improvement actions.

• **Meetings with contractors:** The objective is to present the indicators, the results of audits, investigations of accidents and best practices of critical service providers of MRS. In 2019, a conformity rate of 86.8% was obtained for audited contracts.

Environment

In 2019, MRS conducted its activities ensuring compliance with legislation, applicable regulations and other requirements, in order to preserve the environment, in full compliance with all environmental programs relating to the conditions of its Operating License for the railway network and the determinants of the Operating Licenses for the workshops, such as:

- **Air quality management program;**
- **Erosion management program;**
- **Noise management program;**
- **Risk management program and emergency action plan;**
- **Flora management program;**
- **Fauna management program;**
- **Environmental education program;**
- **Social communication program;**
- **Right-of-way management program;**
- **Liquid waste management program;**
- **Solid waste management program;**
- **Works environmental management program.**

The main environmental programs administered in 2019 are mentioned below:

• **Solid waste management program;** This program intends to ensure the proper final disposal of the waste generated by MRS' activities, minimizing the impacts caused by its operation. In 2019, approximately 2,459 tons of waste were generated, of which 69% were classified as non-hazardous (class II) and 31% as hazardous (class I) waste. In 2019, 61% of the waste was disposed of with more sustainable methods, such as co-processing, recycling, and incineration, reducing final disposal in landfills.

• **Liquid waste management program:** This program aims at the proper management of industrial effluents from locomotive maintenance activities carried out in the workshops. For this purpose, MRS has 6 Industrial Effluent Treatment Plants (ETPs). During 2019, the ETPs reached 96% global efficiency in removing pollutants and treated 7509.161 m^3 of industrial effluent, which corresponds to approximately 3 Olympic-sized pools of treated effluent.

• **Air quality management program:** MRS is committed to the mitigation measures aimed at the air quality along the network arising from rail transport. As a result, in 2019, the Environmental Management restructured the methodology of this program which will lead to the implementation of new polymer sprinkler systems in the coming years. This effective measure will reduce problems in the communities surrounding the railroad.

• **Noise management program:** In line with the air quality program, the noise program is being restructured to minimize the nuisance that railroad activities, both in the rail transportation and workshop activities, cause in the communities surrounding the railroad.

• **Risk management program and environmental emergency plan:** In 2019, drills were conducted at MRS units and on the network.

• **Environmental education program (PEA):** The Environmental Education Program (PEA) aims to educate the communities surrounding the railway network, covering social groups in a situation of socio-environmental vulnerability that are affected.

In 2019, the program was conducted in 13 municipalities around the railway network, including Barra do Piraí/RJ, Barra Mansa/RJ, Belo Horizonte/MG, Congonhas/MG, Conselheiro Lafaiete/MG, Juiz de Fora/MG, Santos/SP, and Suzano/SP.

The campaigns at each location were aimed at mitigating or offsetting the environmental impact of the railway activity. The PEA carried out "door-to-door" activities, in which the professionals who are part of the team, with training and qualification consistent with the conduction and approach of the proposed themes, talked with the community about the railway operation, environmental licensing and environmental controls, and the sustainability of the railway operation. In addition to verbal approaches, flyers were handed out containing information about the theme presented in a ludic manner.

Overall, the PEA has reached approximately 2,800 people throughout the mobilizations made by the program in the 13 municipalities covered.

The Environmental Education Program for Workers (PEAT) consists in training and sensitizing MRS' employees and contractors. This action aims at raising awareness about the negative impacts arising from the activities developed by them. This way, the target audience acts in the prevention of possible environmental damages caused by the activities of the railway operation, as well as assumes the role of multiplying agents of knowledge and environmentally friendly attitudes. Thus, every year the Environmental Education technical team analyzes which target audience will be included in the PEAT's actions for the current year.

The following campaigns were developed that way:

Workshops: The central theme was "effluent" where, during the three campaigns, the aim was to relate the daily situations in the work environments involving the proposed theme with environmental issues involving good practices in the management of water resources.

Permanent Track Maintenance: The central theme was "social and environmental responsibility". The theme was necessary due to the target audience in question carrying out a wide variety of activities related to railway maintenance in a network spread across several cities.

Overall, the PEAT reached about 3,786 employees in 119 activities during 2019.

The "Internal Week for the Prevention of Work Accidents and Environment" (SIPATMA), was held throughout from April 15 to May 3, 2019. It should be noted that the event was held in compliance with Regulatory Standard number 5, "NR-5" (SIPAT - Internal Week for Prevention of Work Accidents), and as usual, in addition to various activities in the area of occupational safety and health, environmental issues were also emphasized.

About 2,900 people, from 27 cities, were connected through activities and dynamics focused on the specific themes. Safety, environmental, and health messages were transmitted during three weeks with different approaches and sought to build conscious mindsets and behaviors. The word "prevention" was presented to MRS' employees and contractors at all times.

In addition to the activities mentioned, there were good practice actions, such as:

At Conselheiro Lafaiete's Wagon Workshop, a wooden train was made with the waste generated on the site, such as wood and metal scrap.

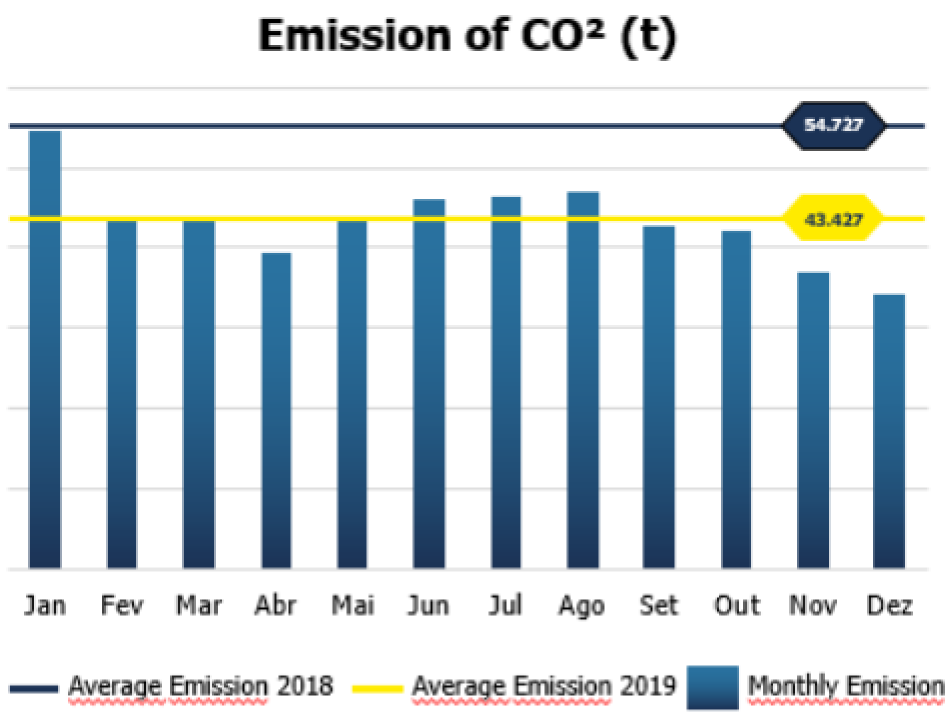
At the Horto Florestal Workshop Complex, the Conselheiro Lafaiete Wagon Workshop, and the Jeceaba Locomotive Workshop, the Environment Week was marked by dynamics aimed at the conscious generation and proper disposal of waste. In addition to interactive activities, we carried out, together with contractors, the revitalization of the garden of three MRS units, located in Conselheiro Lafaiete/MG, and of the Locomotive Workshop, located in Jeceaba/MG, contributing to the improvement of social and environmental well-being.

In the socio-environmental campaign, donations were given to Lar do Menor Amparado – LARMENA, and fruit trees were planted with the children assisted, promoting environmental education.

• **Flora management (Caminhos Verdes) program:** In 2019, 12,500 native seedlings from the Atlantic Forest biome were planted in Parque Municipal da Lajinha, located in Juiz de Fora (MG), corresponding to an area of7.5 hectares of planting, which is equivalent to a planted area of approximately 7.5 official-sized soccer fields.

Atmospheric Emissions

MRS has been looking for ways to increase energy efficiency so as to reduce the consumption of diesel oil and, consequently, the emissions of carbon dioxide ("CO_2"). The reduction of CO_2 emissions generates a positive and global environmental impact, as it contributes to mitigate the worsening of the global warming due to the increased carbon dioxide emissions.
In 2018, about 241 million liters of diesel were consumed and approximately 657 thousand tons of CO_2 were emitted. In 2019, 190 million liters of diesel were consumed and approximately 519 thousand tons of CO_2 were emitted. Thus, 2019 had a reduction of approximately 27% in atmospheric CO_2 emissions compared to 2018, a reduction partially driven by the drop in the volume transported as a result of the occurrence in Brumadinho (MG).



In 2019, the Company published the CO_2 calculator in its unprecedented form in Brazil. The instrument was officially launched by MRS on June 5, 2019, the World Environment Day.
This internationally accepted calculation methodology quantifies the CO_2 emissions of the road transport alone and the intermodal emissions (rail + road). This tool enables to estimate the percentage of CO^2 emission reduction in the transport of cargoes by rail in relation to the road transport.
An ebook was also launched, showing the gains obtained with the reduction of CO_2 emissions, for example, in financial market perception, such as credit gains in the financial market, carbon credit market, and green marketing for those involved.

Strategies & Perspectives

The country's economic situation in 2019 showed small growth, still under the effect of the new government and economic policy. Additionally, we had a totally atypical year internally in the transport of iron ore due to the event in Brumadinho (MG) and its consequences, which can be seen to this day. Despite this scenario, MRS ended the year with better leverage indicators than 2018, as a result of our operational flexibility, financial health, and long-term contractual instruments with our clients.
In this context, it is important to highlight a more optimistic recovery in ore production than the scenario initially forecast and the positive prospect of recovery in the coming years. In this sense, MRS is increasing its focus on cost efficiency, optimization of asset utilization, and maximization of investments, without compromising our sustainability in the short, medium, and long terms and, specially, maintaining the highest safety standards.
In the general cargo segment, the Company maintains its growth and increase of its relative share in the overall results. This becomes clear in the results of the main segments, such as construction, steel, and containers, in addition to the interchange flows with other railroads.
The process of early renewal of the current concession opens the perspective for new structuring investments in the Company. We held several Public Hearings throughout 2019, a necessary step that precedes the signing of agreements. The expectation for 2020 is that the project will advance as scheduled by government agencies.

Independent Auditors & Other Topics

Independent Auditors

Along the fiscal year of 2019, the KPMG Independent Auditors provided audit services on annual financial statements and quarterly information reviews.

In addition to auditing services, KPMG Consultoria Ltda. was hired in September 2019, for a period of 4 months, for the provision of additional services related to technical analysis in the selection and negotiation process of a new management system for the Company - ERP (Enterprise Resource Planning) - which represents approximately 12% of the contracted amount in relation to the auditing services. Such services do not affect the autonomy of the independent auditors.

In compliance with CVM Instruction 381/2003, which addresses the provision of other services by the independent auditors, the Company informs that there are no other services provided by this audit except those mentioned above.

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Independent auditor's report on the financial Statements

To the Board of Directors and Stockholders of
MRS Logística S.A.
Rio de Janeiro - RJ

Opinion

We have reviewed the financial statements of MRS Logística S.A. (the "Company"), which comprising statament financial position as at December 31, 2019, the related statements of income, comprehensive income, change in shareholders' equity, and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly reflect, in all material respects, the financial position of MRS Logística S.A. as at December 31, 2019, and its financial performance and its cash flows for the year then ended, in accordance with the generally accepted accounting standards adopted in Brazil and with 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 Auditing Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the relevant ethical principles provided for in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities under these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key auditing matters

Key auditing matters are those matters that, in our professional judgment, were the most significant in our audit of the current period. 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 provided a separate opinion on these matters.

Financial leasing

See Notes 43, 4.15, and 23 to the financial statements

Key auditing matters	How the audit addressed this matter
The Company initially applied accounting pronouncement CPC 06 (R2)/ IFRS 16 - Leasing Operations, starting on January 1, 2019. Previously, the Company determined at the inception of an agreement whether it was or contained a lease under ICPC 03/IFRIC 04 Supplementary Leasing Aspects. The Company assesses whether an agreement is or contains a lease based on the definition of a lease. The Company has significant commitments under lease agreements, especially the lease agreement with the Granting Authority related to the concession for public rail freight transportation services. At the time of transition to this agreement, the lease liabilities were measured at the current value of the remaining lease payments, less the Company's incremental borrowing rate. Due to uncertainties related to assumptions and estimates of lease discount rates that have a significant risk of resulting in an adjustment to the accounting balances in the next fiscal year, this matter was considered material to our audit.	We assessed the design and implementation of the Company's internal controls to ensure the integrity and accuracy of the recognition of accounting balances related to CPC 06 (R2) and IFRS 16 - Leasing Operations. We assessed the transition approach and practical actions applied by the Company for leases previously classified as operating leases under CPC 06(R1)/IAS 17. With the help of internal specialists in corporate finance, we assessed the assumptions adopted by the Company in determining the discount rates and the sensitivity analysis on the model adopted by the Company in measuring the lease liability. We assessed the assumptions adopted in the calculation of the lease liabilities, based on the terms and conditions of the agreements. We also recalculated the measured and recorded amount of the right of use of the assets under concession, as well as the lease liability recognized at the time of transition to CPC 06 (R2)/IFRS 16. We assessed the completeness, accuracy, and relevance of the transition disclosures required by CPC 06 (R2) and IFRS 16. Based on the evidence obtained through the procedures summarized above, we consider that the amounts recognized in the initial adoption of CPC 06(R2) – Leasing Operations and the respective disclosures are acceptable in the context of the financial statements.

Property, Plant and Equipment

See Notes 4.9 and 16 to the financial statements

Key auditing matters	How the audit addressed this matter
The Company's business requires significant investments in cargo carrying capacity expansion/optimization projects. Due to the judgment exercised by the Company in assessing: (i) whether it is likely that a cargo carrying capacity expansion/optimization project will provide future economic benefits to the Company, and (ii) when the cargo carrying capacity expansion/optimization project will be available for	We assessed the design and implementation of internal controls related to the recognition and classification of cargo carrying capacity expansion/optimization projects. Based on a sample of additions made during the year, we assessed the supporting analysis of the Company (i) that the cargo carrying capacity expansion/optimization projects will generate future economic benefits for the Company, and (ii)

use (classification of property, plant and equipment in progress for final asset accounts), we consider this matter to be significant to our audit.	of the moment when the cargo carrying capacity expansion/optimization projects are in working order, as intended by the Company, for proper classification in property, plant and equipment classes and start of depreciation (availability for use). Based on the evidence obtained through the procedures summarized above, we consider that the balance of property, plant and equipment and related disclosures are acceptable in the context of the financial statements taken as a whole.

Other information

Statement of added value

The statement of value added (DVA) for the year ended on December 31, 2019, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purpose forming our opinion, we evaluation whether these statement is reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria as defined in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, this statement of added value was properly prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and is consistent with the financial statements taken as a whole.

Other information accompanying the financial statements and the auditors' report

Management is responsible for the other information, which comprises the Management Report.

Our opinion on the financial statements does cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements 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 our work, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. However, we have nothing to report in this regard.

Responsibility of management for the financial statements

Management is responsible for preparing and properly presenting 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 controls 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 going concern, disclosing, as applicable, matters related to going concern and using he going concern basis of accounting basis unless management either intends to liquidate the Company or cease its operations, or hasrealistic but to do so.

Those in charge of governance are responsible for overseeing the financial statement preparation process.

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Brazilian and International Auditing Standards will always detect material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material when, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on them made based on these financial statements.

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

- Identify and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and performed audit procedures in responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide 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, or intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate for the circumstances, but not for the expressing an opinion on the effectiveness of the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether there is material uncertainty exists related to events or conditions that may cast significant doubts on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we must draw attention in our auditors’ report to the related disclosures in the financial statements or include a change in our opinion if the disclosures are inadequate. Our conclusions are based on audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease continue as a going concern.
- Evaluatethe overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management, among other matters, the planned scope and timing of the audit, and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, regarding independence and 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 responsible for governance, we determined those that were considered as the most significant in the audit of the current year's financial statements and that, as such, constitute the key auditing matters. We described these matters in our auditors' report, unless the public disclosure of the matter is prohibited by law or regulation, or when, in extremely rare circumstances, we determined that the matter should not be disclosed in our report because the adverse consequences of such disclosure could, within a reasonable perspective, outweigh the benefits of the public disclosure.

Rio de Janeiro, March 25, 2020

KPMG Auditores Independentes

CRC SP-014428/O-2 F-RJ

(Original report in Portuguese signed by)

Marcelo Luiz Ferreira

Accountant CRC RJ-087095/O-7

MRS Logística S.A.

Balance sheet
on December 31
In thousands of reais

ASSETS	Accompanying note	2019	2018
CURRENT			
Cash and cash equivalents	**7**	668,264	276,653
Restricted cash	**8**	2,033	69,309
Trade accounts receivable	**9**	899,682	247,203
Other receivables	**11**	8,379	15,984
Inventories	**12**	119,478	107,563
Taxes recoverable	**13**	90,863	108,375
Prepaid expenses	**14**	18,049	24,025
Derivative financial instruments	**24**	51,645	34,648
Other current assets	**15**	20,100	17,750
Total current assets		1,878,493	901,510
NON-CURRENT			
Trade accounts receivable	**9**	175,222	224,007
Other receivables	**11**	85,155	52,115
Taxes recoverable	**13**	92,843	40,772
Prepaid expenses	**14**	4,848	155,924
Derivative financial instruments	**24**	44,699	48,383
Other non-current assets	**15**	126,913	114,237
Fixed assets	**16**	6,417,564	6,437,733
Leasing Right of Use	**16**	1,852,618	-
Intangible assets	**17**	45,844	44,494
Total non-current assets		8,845,706	7,117,665
TOTAL ASSETS		10,724,199	8,019,175

(continued)

MRS Logística S.A.

Balance sheet
on December 31
In thousands of reais

LIABILITIES AND EQUITY	Accompanying note	2019	2018
CURRENT			
Suppliers	**18**	197,349	269,935
Labor and social security obligations	**19**	178,209	180,182
Income tax and social contribution	**20**	209,035	112,317
Other tax liabilities	**21**	106,371	24,449
Loans and funding	**22**	714,499	419,477
Derivative financial instruments	**24**	12,277	20,214
Payable dividends	**10 and 25.**	119,698	123,997
Payable concessions and lease	**26**	3,812	74,120
Customer advances		383	2,502
Reserves	**28**	39,835	40,840
Financial leasing	**23**	256,034	11,124
Other covenants	**29**	31,362	33,695
Total current liabilities		1,868,864	1,312,852
NON-CURRENT			
Suppliers	**18**	36,954	34,861
Loans and funding	**22**	2,351,023	2,057,649
Derivative financial instruments	**24**	-	4,177
Payable concessions and lease	**26**	2,662	59,424
Customer advances		19	18
Deferred taxes	**27**	63,615	201,095
Reserves	**28**	581,392	406,701
Financial leasing	**23**	1,650,758	18,604
Other covenants	**29**	66,385	79,587
Total long term liabilities		4,752,808	2,862,116
TOTAL LIABILITIES		6,621,672	4,174,968
EQUITY			
Share capital	**30.a**	1,917,306	1,718,440
Reserve for capital increase	**39**	129,962	198,866
Revenue reserves		2,047,268	1,917,306
Statutory reserve	**30.c**	320,533	295,365
Investment reserves	**30.d and 39**	1,726,735	1,621,941
Equity adjustments	**30.f**	7,991	9,595
Total equity		4,102,527	3,844,207
TOTAL LIABILITIES AND EQUITY		10,724,199	8,019,175

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Profit & Loss Statement
Years ended on December 31
In thousands of reais

	Accompanying note	2019	2018
SERVICES NET REVENUE	**32**	3,200,809	3,726,448
Cost of services rendered	**33**	(2,377,782)	(2,476,486)
GROSS PROFIT		823,027	1,249,962
OPERATIONAL REVENUES (EXPENSES)			
Sales expenses	**33**	(14,036)	(14,510)
General and administrative expenses	**33**	(222,454)	(212,810)
Other operational revenues	**34**	832,281	99,824
Other operational expenses	**34**	(376,174)	(183,834)
OPERATIONAL PROFIT		1,042,644	938,632
FINANCIAL RESULT			
Financial Income	**35**	312,489	270,735
Financial Expenses	**35**	(597,400)	(424,991)
		(284,911)	(154,256)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		757,733	784,376
INCOME TAX AND SOCIAL CONTRIBUTION			
Current	**36**	(391,521)	(296,896)
Deferred	**36**	137,143	34,136
NET PROFIT FOR THE YEAR		503,355	521,616
AMOUNT OF SHARES AT THE END OF THE YEAR - THOUSANDS	**30.a**	340,000	340,000
PROFIT FOR A THOUSAND SHARES AT THE END OF THE YEAR - R$		1,480.46	1,534.16
BASIC EARNINGS PER COMMON			
SHARE	**31**	1.42	1.47
PREFERENTIAL	**31**	1.56	1.62
DILUTED EARNINGS PER COMMON			
SHARE	**31**	1.45	1.50
PREFERENTIAL	**31**	1.59	1.65

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Comprehensive Profit & Loss Statement
Years ended on December 31
In thousands of reais

	Explanatory note	2019	2018
NET PROFIT FOR THE YEAR		503,355	521,616
Items that shall not be classified against statement of income			
Post-employment benefits	**30.f**	(1,941)	402
Income tax and social contribution on other comprehensive income	**30.f**	337	338
COMPREHENSIVE RESULTS FOR THE YEAR		501,751	522,356

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Statement of Stockholders’ Equity

In thousands of reais

	Explanatory note	Share capital	Share capital increase	Equity adjustments	Revenue reserves				Accrued profits	Total
					Legal	Retention for investments	Proposed dividends	Total		
ON JANUARY 1, 2015		1,597,362	121,078	8,855	269,285	1,449,155	109,546	1,827,986	-	3,555,281
Comprehensive results for the year									-	-
Net income for the year									521,616	521,616
Covenants measurements of post-employment benefits				740					-	740
Total comprehensive results for the year		-	-	740	-	-	-	-	521,616	522,356
Stockholder contributions and distributions to stockholder										
Capital increase - RCA 3/21/2018		121,078	(121,078)			-		-		-
Distribution of additional proposed dividends of 2017 - approved at the AGM of 04/26/2018							(109,546)	(109,546)	-	(109,546)
Destination of net income for the year										
Board of directors' proposal for reserve allocation for capital increase			198,866			(198,866)		(198,866)		-
Dividends and interest on net equity								-		-
Minimum mandatory dividends								-	(123,884)	(123,884)
Transfer among reservations										-
. Statutory reserve					26,080			26,080	(26,080)	-
. Retention for investments						371,652		371,652	(371,652)	-
Total of stockholder contributions and distributions to stockholder		121,078	77,788	-	26,080	172,786	(109,546)	89,320	(521,616)	(233,430)
BALANCES ON DECEMBER 31, 2018		1,718,440	198,866	9,595	295,365	1,621,941	-	1,917,306	-	3,844,207
Comprehensive results for the year									-	-
Net income for the year									503,355	503,355
Covenants measurements of post-employment benefits	**30.f**			(1,604)					-	(1,604)
Total comprehensive results for the year		-	-	(1,604)	-	-	-	-	503,355	501,751
Stockholder contributions and distributions to stockholder										
Capital increase - RCA 3/20/2019	**30.a**	198,866	(198,866)			-		-		-
Additional dividends - approved at the EGM of 11/25/2019	**25**					(123,884)	-	(123,884)	-	(123,884)
Destination of net income for the year										
Board of directors' proposal for reserve allocation for capital increase	**39**		129,962			(129,962)		(129,962)		-
Dividends and interest on net equity								-		-
Minimum mandatory dividends	**25**							-	(119,547)	(119,547)
Transfer among reservations										-
. Statutory reserve	**30.c**				25,168			25,168	(25,168)	-
. Retention for investments	**30.d**					358,640		358,640	(358,640)	-
Total of stockholder contributions and distributions to stockholder		198,866	(68,904)	-	25,168	104,794	-	129,962	(503,355)	(243,431)
BALANCES ON DECEMBER 31, 2019		1,917,306	129,962	7,991	320,533	1,726,735	-	2,047,268	-	4,102,527

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Cash Flow Statement
Years ended on December 31
In thousands of reais

	Accompanying note	2019	2018
CASH FLOW OF OPERATING ACTIVITIES			
Net profit before income tax and social contribution		757,733	784,376
Adjustments to reconcile net income for the year with cash generated by operating activities:			
Fixed asset sale results	**37.1**	(2,128)	(407)
Depreciation and amortization	**33**	921,226	604,586
Monetary/Exchange rate variation and assets and liabilities financial charges		382,915	186,969
Amortization, advance payment, concession and leasing	**14 and 17.**	444	9,261
Residual value of write-off fixed assets	**16 and 17.**	56,461	18,075
Reserves	**28**	121,333	41,876
Prepaid expenses amortization	**14**	15,500	3,737
Provision/(reversal) for asset losses	**34**	(445)	(8,404)
Provision/(reversal) for estimated losses in doubtful debt	**9 and 11.**	372	1,311
Others		(13)	(35)
Net cash from operations		1,495,665	856,969
(Increase) reduction in business assets:			
Trade accounts receivable/Other accounts receivable	**9 and 11.**	(591,761)	(59,961)
Stock	**12**	(9,998)	(21,632)
Recoverable taxes	**13**	(25,559)	(4,893)
Prepaid expenses	**14**	(21,841)	(22,937)
Other assets		(7,796)	(13,870)
Restricted cash		67,884	(1,977)
(Increase) reduction in business liabilities:			
Payable concessions and lease	**26**	(580)	5,660
Suppliers		(19,305)	(36,518)
Tax obligations	**20 and 21.**	67,163	(16,695)
Labor and social security obligations	**19**	(1,973)	10,240
(Provisions)/Reversals	**30.f**	(1,941)	402
Payment of taxes on profit		(280,044)	(303,271)
Payment of interests on loans and financings	**37.3**	(144,125)	(137,124)
Customer advances		(2,118)	(1,389)
Other covenants		(15,535)	98,324
Payment of interests on right-of-use	**37.3**	(159,961)	-
Net cash from operational activities		1,105,908	1,135,704

(continued)

MRS Logística S.A.

Cash Flow Statement
Years ended on December 31
In thousands of reais

	Accompanying note	2019	2018
CASH FLOW OF INVESTMENT ACTIVITIES			
Additions to fixed assets	**16**	(645,653)	(687,967)
Additions of intangible	**17**	(13,289)	(11,531)
Resources from disposition of fixed assets	**37.1**	2,163	411
Net cash in application activities		(656,779)	(699,087)
CASH FLOW OF FINANCING ACTIVITIES			
Collection of loans and financings	**37.3**	280,500	307,063
Payment of loans and financing/derivative financial instruments		(512,390)	(561,353)
Resources from the issue of debentures	**37.3**	650,000	-
Payment of Debentures	**37.3**	(9,402)	(109,419)
Lease payment	**37.3**	(218,510)	
Dividends paid	**25**	(247,716)	(219,041)
Cash generated by financing activities		(57,518)	(582,750)
INCREASE (REDUCTION) OF CASH BALANCE AND EQUIVALENT		391,611	(146,133)
Cash and cash equivalents			
Opening balance		276,653	422,786
Closing balance		668,264	276,653

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Statement of value added
Years ended on December 31
In thousands of reais

	Explanatory note	2019	2018
REVENUES			
Sales of freight services	**32**	3,483,747	4,083,553
Other revenue		832,281	99,823
Revenue from construction of own assets		4,205	5,569
Provision/ (reversal) for doubtful accounts	**9 and 11.**	(564)	(1,311)
		4,319,669	4,187,634
INPUTS ACQUIRED FROM THIRD PARTIES			
Cost of products, goods and services sold		(1,158,118)	(1,267,827)
Materials, energy, third-party services, and others		(87,004)	(80,127)
Others		(255,130)	(123,876)
		(1,500,252)	(1,471,830)
GROSS ADDED VALUE		2,819,417	2,715,804
WITHHOLDINGS			
Depreciation, amortization, and depletion	**33**	(921,226)	(604,586)
NET ADDED VALUE PRODUCED BY THE COMPANY		1,898,191	2,111,218
ADDED VALUE (RECEIVED) IN TRANSFER			
Financial Income	**35**	312,489	270,735
TOTAL ADDED VALUE (RECEIVED) TO BE DISTRIBUTED		2,210,680	2,381,953
DISTRIBUTION OF ADDED VALUE (RECEIVED)			
Personnel and charges		542,743	559,589
Taxes, fees and contributions		564,540	860,502
Remuneration of third party capital		600,042	440,246
Remuneration of own capital		503,355	521,616
Proposed	**25**	119,547	123,884
Retained earnings	**30.c and 30.d**	383,808	397,732
		2,210,680	2,381,953

The accompanying notes are integral part of the financial statements.

1. Operational context

MRS Logística S.A. ("MRS" or "Company") is a public-held limited liability company with unlimited duration, incorporated on August 30, 1996, with the purpose of exploring, by onerous concession, the public service of goods transportation in the domain tracks of Southeast Network, located in Rio de Janeiro, São Paulo and Minas Gerais axis, of the former Rede Ferroviária Federal S.A. - RFFSA, privatized on September 20, 1996.

The Company may also explore the modal transportation services related to the railway transportation and participate in projects aiming at the expansion of rail services granted.

For the provision of the rail transportation services, subject of the concession obtained for a 30-year period, from December 1, 1996, which may be extended, in case of demonstrated interest of both parties, to the maximum limit of 30 years at the sole discretion of the Government, the Company leased from RFFSA, for the same period of the concession, the required assets to operate and maintain railway cargo shipping activities.

In April 2017, MRS filed its Business Plan with the Government to begin negotiations regarding the early renewal of the concession, and since then these negotiations have been conducted with the National Land Transport Agency - ANTT. On June 6, 2019, embodied in Deliberation No. 614, of June 4, 2019, ANTT published the Notice of Public Hearing No. 007/2019, communicating the holding of a Public Hearing to gather subsidies, with a view to improving the studies for the extension of the contractual term of the MRS concessionaire. On September 13, 2019, at 6:00 pm, the deadline for contributions to Public Hearing no. 007/2019 ended, set by SEI Official Letter No. 7414/2019/SUFER/DIR-ANTT, issued on July 5, 2019. Based on the information obtained from ANTT, within the scope of the MRS process, three hundred and fifteen (315) contributions were submitted, as follows: (i) 90 oral contributions, according to manifestations in the 4 public sessions held in the states of MG, SP, RJ, and Brasília; (ii) 42 written contributions; and (iii) 183 contributions sent by the ANTT website, 50% of which refer to contributions submitted by MRS itself.

Currently, we are waiting for the analysis of the contributions by ANTT's technical area and for possible adjustments to be made to contemplate the contributions accepted by the Agency. After the issuance of the Final Report of the Public Hearing of MRS, its approval by the ANTT Board of Directors, and in the absence of any manifestation to the contrary, the process will be forwarded to the Ministry of Infrastructure, which will evaluate its conformity with the Public Policy guidelines, and, in sequence, will send it for analysis and approval by the Federal Audit Court.

The concession agreement sets forth goals to be met by the Company, related to the increase in production in cargo transportation and the reduction in the number of accidents on the railway lines. If these goals are not met, the Federal Government may determine, by federal decree, the intervention in the Company for a maximum period of 180 days, after which the concession may be canceled or returned to the Company. The concession may be terminated in the following legal situations: (i) end of the contract term; (ii) expropriation; (iii) expiration; (iv) termination; (v) annulment of the tender; (vi) bankruptcy or dissolution of the Company. In any case of termination of the concession, the Company shall be indemnified by the Federal Government for the not depreciated balance of investments carried out and declared reversible by the Granting Authority. As of December 31, 2019, MRS was up to date with its contractual obligations and duly compliant with ANTT.

2. Foundations

2.1 Declaration of conformity

The financial statements have been prepared and are being presented according to the accounting practices adopted in Brazil, which include (i) the corporate law, (ii) the Pronouncements, Guidelines and Interpretations issued by the Accounting Pronouncements Committee - CPC, (iii) the rules issued by the Securities Commission (CVM), according to the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The accounting statements for the year ended on December 31, 2019 were approved by the Company's Board of Directors on March 25, 2020.

All relevant information specific to the financial statements, and only them, are being evidenced, and correspond to those used by Management in its management.

This is the first set of annual financial statements in which the Company has applied CPC 06 (R2)/ IFRS 16 – Leasing Operations. The changes to the main accounting policies are described in note 3.

Details on the Company's accounting policies are presented in Note 4.

2.2 Measurement basis

The statements were prepared based on historical cost and adjusted to reflect (i) the fair value of financial instruments measured at fair value through profit or loss, and (ii) impairment losses.

2.3 Functional currency and presentation currency

The financial statements are presented in Reais, which is the Company's functional currency.

2.4 Presentation of information in pieces

Provided that only cargo shipping services are offered by the Company, for accounting and management purposes, it is organized into a sole business unit. The Company's operations fully are controlled, managed, and monitored by the management.

3. Changes in key accounting policies and publications

The Company adopted CPC 06 (R2)/ IFRS 16 – Leasing Operations as of January 1, 2019. A number of other new standards also took effect as of January 1, 2019. Except as described below, the other new standards have not materially affected the Company's financial statements.

CPC 06 (R2)/ IFRS 16 – Leasing Operations

The Company adopted CPC 06 (R2)/ IFRS 16 – Leasing Operations as of January 1, 2019.

CPC 06 (R2) supersedes the existing lease standards, including CPC 06/IAS 17 Leasing Operations, and ICPC 03/IFRIC 4 Supplementary Leasing Aspects.

CPC 06 (R2) introduced a single lease accounting model on the balance sheet for lessees beginning on January 1, 2019. A lessee recognizes a right-of-use asset that represents its right to use the leased asset and a lease liability that represents its obligation to make lease payments. Exemptions are available for short-term leases or low value items. The lessor's accounting remains similar to the previous standard, i.e., lessors continue to classify leases into finance and operating leases.

The Company adopted CPC 06 (R2)/ IFRS 16 as of January 1, 2019, using the modified retrospective approach, to all agreements entered into before January 1, 2019 and still in force after that date. The disclosure requirements of CPC 06 (R2)/ IFRS 16 were not applied to comparative information. Therefore, the comparative information is not presented again and continues to be presented in accordance with CPC 06 (R1)/IAS 17 and ICPC 03/IFRIC 4. The changes to the accounting policies are described below.

(a) Lease definition

Until December 31, 2018, the Company classified its agreements as operating or finance leases under CPC 06 (R1)/ IAS 17 and ICPC 03/IFRIC 4 Supplementary Leasing Aspects. As of January 1, 2019, the Company assesses whether an agreement is or contains a lease based on the definition of lease, as described in note 4.15.

The Company applied exemption from recognition for short-term leases and for which the underlying assets are of low value. These leases continue to be recognized as a cost or expense in the income statement.

(b) As lessee

The Company has significant commitments under lease agreements previously classified as operational, especially the lease agreement with the Granting Authority linked to the Concession. The agreements in force were assessed based on the requirements of the standard to identify whether the agreement is or contains a lease, its initial recognition, and measurement.

Leases classified as finance leases as per the prerogatives of CPC 06/IAS17 had the book value of the lease assets and liabilities immediately before the initial application reclassified to the headings "Right of use" and "Lease".

In thousands of reais, unless otherwise stated

(c) As lessor

The Company has receivables from third parties related to lease agreements for areas and commercial properties owned by the Granting Authority and leased to MRS through a lease agreement. These agreements were classified as sub-leases and recognized as accounts receivable using the same discount rate considered for the main lease agreement.

(d) Impact on the financial statements

Upon initial adoption, the lease liability was measured at the current amount of the remaining payments, less the incremental rate, and adjusted by the balance already recognized in the balance sheet immediately before the date of initial adoption. The right of use asset, for leases previously classified as operating leases, was recognized at the amount equivalent to the lease liability, adjusted by the amount of early payments and net investment related to subleases.

For all agreements, nominal incremental rates were used, according to the criteria described in Note 4.15.

The impact of the initial application of this standard is shown below:

	Asset		Liability
	Right of use	Sub-leasing	
Initial Recognition	**1,912,066**		**1,912,066**
Amount recorded before initial recognition	-	-	126,867
Reclassification of the amount previously recorded as finance lease as per CPC 06 (R1)/IAS 17	31,522	-	29,728
Reclassification of expenses paid in advance	163,392	-	-
Sublease recognition	(73,014)	73,014	-
Balance on January 1st	**2,033,966**	**73,014**	**2,068,661**

(e) Potential right to recoverable PIS/COFINS

The Company has potential right to recoverable PIS/COFINS embedded in the lease considerations related to real estate, machinery, and equipment. The Company continues to recognize PIS/COFINS tax credits based on the payment of the consideration.

When measuring the cash flows of the leases, the PIS/COFINS tax credits were not highlighted, and thus the lease liability presented in the balance sheet is gross of these taxes.

(f) Additional information

The Company adopted as an accounting policy the requirements of CPC 06 (R2) in measuring and re-measuring its right of use, using the discounted cash flow technique without considering inflation and using a nominal incremental discount rate. The Management assessed the use of nominal flows and concluded that they do not present relevant and material misstatements in the information presented.

In order to comply with Circular Letter/CVM/SNC/SEP No. 02/2019, of 12/18/2019, and the guidelines of the technical areas of CVM, the Company provides below the necessary information to calculate the "nominal flow x nominal rate".

(i) Lease with the Granting Authority: Agreement readjusted annually, in October, by the IGPD-I index, with nominal discount rate of 8.47%, payment flows shown in note 23, and maturity in July 2026.
(ii) Real estate lease agreement: Agreements readjusted annually, mostly by the IPCA index, with discount rate of 7.89% per year, payment flows shown in note 23, and maturities between March 2020 and December 2026.
(iii) Agreement for the leasing of vehicles, machinery, equipment, and others: Agreements readjusted annually, mostly by the IPCA index, with discount rate of 8.88% per year, payment flows shown in note 23, and maturities between January 2020 and October 2022.

4. Summary of the main accounting policies

The significant accounting policies relevant to understanding the basis of recognition and measurement applied in the preparation of the financial statements are described in the following items and comply with accounting policies consistent with those used when preparing the financial statements of December 31, 2018, published in the Government Printing Office on March 20, 2019, unless otherwise noted.

4.1 In foreign currency

Operations with foreign currency are translated to the functional currency by using the effective exchange rates on the operation or evaluation dates, when items are measured again.

The gains or losses in translation from these operations and translation by the exchange rates in the year-end, referring to monetary assets and liabilities in foreign currency, are acknowledged in the income statement.

The gains or losses in translation regarding loans, cash and cash equivalent, as well as other exchange gains or losses, are presented in the income statement as income or financial expense.

4.2 Cash and Cash Equivalents

The Company considers as cash and cash equivalents the amounts in cash, the bank deposits and the financial investments of immediate convertibility, redeemable within 90 days, in a known cash amount and subject to an insignificant risk of change in value.

4.3 Financial instruments

(i) Initial recognition and measurement

The amounts of accounts receivable from customers and debt securities issued are initially recognized on the date they were originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless they are accounts receivable from customers without a significant financing component) or liability is initially measured at fair value, plus, for an item not measured at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Accounts receivable from customers without a significant component are initially measured at the transaction price.

(ii) Classification and subsequent measurement

Upon initial recognition, a financial asset is classified as measured: at amortized cost; at fair value through other comprehensive income; or at fair value through profit or loss.

Financial assets are not reclassified subsequent to initial recognition, unless the Company changes the business model for managing financial assets, and in this case all affected financial assets are reclassified on the first day of the reporting period following the change in business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- is maintained within a business model whose objective is to hold financial assets to receive contractual cash flows; and
- its contractual terms generate, on specific dates, cash flows that are related only to the payment of principal and interest on the outstanding principal amount.

A debt instrument is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- it is maintained within a business model whose objective is achieved both by receiving contractual cash flows and by selling financial assets; and

- its contractual terms generate, on specific dates, cash flows that are solely payments of principal and interest on the outstanding principal amount.

All financial assets not classified as measured at amortized cost or at fair value through other comprehensive income, as described above, are classified at fair value through profit or loss. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or fair value through other comprehensive income as at fair value through profit or loss if this eliminates or significantly reduces an accounting mismatch that would otherwise arise.

On initial recognition of an investment in an equity instrument that is not held for trading, the Company may irrevocably choose to present subsequent changes in the fair value of the investment in other comprehensive income. This choice is made investment by investment.

Financial assets: business model assessment

The Company performs an assessment of the objective of the business model in which a financial asset is held, taking into account the way in which the business is managed and the information provided to management.

The objective of the Company's business model is to maintain financial assets to receive contractual cash flows.

The Company performs financial risk management to limit the adverse impacts caused by financial instruments on its income and cash flow.

Financial assets: assessment of whether contractual cash flows are principal and interest payments only

For this assessment, the "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a given period and for other basic borrowing risks and costs (for example, liquidity risk and administrative costs), as well as a profit margin.

The Company considers the contractual terms of the instrument to assess whether the contractual cash flows are only payments of principal and interest. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flow so that it would not meet this condition.

Financial assets: subsequent measurement and gain and loss

Financial assets at fair value through profit and loss	These assets are subsequently measured at fair value. Net income, including interest or dividend income, is recognized in income.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in income. Any gain or loss on derecognition is recognized in profit or loss.

The Company does not have financial assets measured at fair value through other comprehensive income.

Financial liabilities: classification, subsequent measurement and gain and loss

Financial liabilities were classified as measured at amortized cost or at fair value through profit or loss. A financial liability is classified as measured at fair value through profit or loss if it is held for trading, is a derivative or is designated as such upon initial recognition. Financial liabilities measured at fair value through profit or loss are measured at fair value and net income, including interest, is recognized in income. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense, foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

General and specific loans costs that are directly assigned to the acquisition, building or production of an eligible asset are capitalized as part of the asset cost when it is likely that they shall result in future economic benefits for the entity and that such costs can be measured with confidence. Further loan costs are recognized as a financial expense in the year they are incurred.

(iii) Derecognition

Financial Assets

The Company does not recognize a financial asset when contractual rights to the asset's cash flows expire, or when it transfers contractual rights to receive contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor substantially maintains all the risks and rewards of ownership of the financial asset, nor does it retain control over the financial asset.

Financial Liabilities

The Company does not recognize a financial liability when its contractual obligation is withdrawn, canceled, or expires. The Company also does not recognize a financial liability when the terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Upon derecognition of a financial liability, the difference between the extinguished book value and the consideration paid (including assets transferred that do not carry over into cash or liabilities assumed) is recognized in profit or loss.

(iv) Compensation

Financial assets and liabilities are offset and the net amount is presented in the financial statement when there is a legal right to offset the recognized amounts and the intention to settle them on a net basis, or simultaneously dispose the assets and settle the liabilities.

(v) Derivative financial instruments and hedge accounting

The Company maintains derivative financial instruments to protect its exposure to foreign currency and interest rate variation risks.

Derivatives are measured at fair value at the initial moment and on subsequent measurements. After initial recognition, variations are recorded in income.

The Company contracts certain instruments such as hedge instruments to manage exposures resulting from specific risks that could affect the result, that is, the variability of cash flows associated with transactions in the result.

By implementing the hedge accounting model at the Company, the objective of risk management and the strategy for acquiring the hedge instrument were documented. The Company assesses and documents whether the hedging relationship meets the hedge effectiveness requirements on a monthly basis.

The Company has designated certain swaps that hedge a dollar-denominated debt with fixed interest as a fair value hedge instrument. The gain or loss on the hedging instrument is recognized in the financial result, at the same time the change in the fair value of the risk attributable to the hedged object is verified, which is recorded in liabilities with a corresponding entry in the financial result.

Financial liabilities designated as hedging instruments are shown in Note 24.

4.4 Non-derivative financial liabilities impairment

The Company recognizes provisions for expected credit losses on financial assets measured at amortized cost. The provision for expected credit losses is made for all trade receivables, according to the established methodology, even if there is no objective evidence of non-receipt.

The Company uses the simplified approach for trade receivables, a practical expedient of the provision matrix, to measure expected credit losses.

Trade receivables are grouped into four categories, according to the loss history and nature of the charge. The expected loss of credit for each category is made as.

- Individual lease: all billing documents referring to individual lease contracts are provisioned as a loss, due to the high level of default.
- Legal proceedings: all billing documents to customers that are being collected in court are provisioned as a loss, due to the high level of uncertainty.
- Freight: the provision for expected credit losses will be measured by the percentage of historical losses in the last two years, applied to the balance of accounts receivable of this grouping, on the date of analysis.

- Other revenue: the provision for loan losses will be calculated by the percentage of historical loss, based on defaults in the last two years, on the balance of accounts receivable of this grouping, on the date of analysis.
- Related parties: considering that we have long-term contracts, protection mechanisms and historically there has been no financial loss with the companies involved, we do not have provisions for losses constituted for this group.

4.5 Trade accounts receivable and Related companies

Accounts receivable from customers and related parties mainly correspond to amounts receivable for the provision of cargo transportation services in the normal course of business. If the term of receipt is one year or less, the accounts receivable are classified in current assets. Otherwise, they are presented in non-current assets.

Long-term receivables were brought to present value on the transaction date based on the estimated rate of the Company's weighted average cost of capital. The adjustment to present value is offset against the interest to be appropriated, reducing the customer account, and its realization is recorded as financial income according to the contractual term.

The discount rate used involves the analysis of the capital structure and the uncertainties of the macroeconomic context and was estimated at 14.25% p.a. and 15.91% a.a.

4.6 Inventories

The inventories are shown to the weight average cost that does not exceed the net realizable value. Provisions for losses on low turnover or obsolete inventories are set up when deemed necessary by Management.

4.7 Intangible asset

Intangible assets severally acquired are measured at the cost at the time of their initial recognition. After the initial recognition, they are presented to the cost, less the accrued amortization and accrued losses of retrievable value. The expenses with the development of assets generated internally are also capitalized and their values shall be part of the intangible asset cost.

Intangible assets with defined term are amortized throughout their economic life and evaluated regarding the loss by reducing them to the retrievable value, whenever there is a loss of the asset economic value. The amortization method and term for an intangible asset with a defined life are reviewed at least at the end of each fiscal year. Changes in the estimated life or expected consumption of future economic benefits of these assets are posted by changing the amortization term or method, as applicable, and treated as accounting estimated changes. The amortization of intangible assets with defined life is recognized in the income statement at the expense section consistent with the use of intangible assets.

The intangible assets depreciation rate, excluding concession fee, was estimated at 20% per year. The part that refers to the advance payment of the concession is appropriate to the cost of the services rendered for the validity term of the concession agreement (360 months).

Gains or losses resulting from the write-off of an intangible asset are measured as the difference between the net value obtained from the sale and the carrying value of the asset, and are recognized in the income statement when the asset is written off.

4.8 Fixed assets

Fixed assets are stated at cost, net of accumulated depreciation and/or any accumulated impairment losses, if applicable. The referred cost includes the replacement cost of a share of the fixed assets and loan costs of long-term building projects, when the recognition criteria are met. When a renovation or improvement is carried out, its cost is recognized in the book value of property, plant and equipment, if the recognition criteria are met. All the other repairs and maintenance costs are recognized in the income statement, when incurred.

A fixed asset item is written-off when sold or when no future economic benefit is expected from its use or sale. Any gain or loss resulting from asset write-off is included in the financial statement for the year the asset is written-off.

By the end of the granting term, the concessionaire assets and those resulting from investments in leased assets, necessary for railway shipping service provision and linked to the grant can, upon declaration of reversibility and due compensation of the investments performed by the Granting Authority, now be part of the Government equity, as provided in Clause 16 of the Concession Agreement.

The fixed asset items are depreciated from the date they are available for use, or if the assets are built internally, from the day the building ends and the asset is available for use.

Depreciation is calculated using the linear method based on assets estimated service life.

Land is not depreciated.

In thousands of reais, unless otherwise stated

The annual fees for depreciation and service life of the main assets groups are:

Asset groups	%	Average life (in years)
Fixed assets		
Improvements in permanent road	10.00	10
Improvements on leased property	4.00	25
Specific works (Tunnel, Viaduct and Bridge)	2.85	35
Locomotives		
Diesel locomotives	3.33	30
Electric locomotives	4.17	24
Used locomotives	10.00	10
Useful improvements on locomotives	12.50	8
Average service life of the main components	12.50	8
Wagons		
Wagons	3.33	30
Useful improvements on wagons	10.00	10
Average service life of the main components	16.67	6
Others		
Grinder, control car, equipment and tools	10.00	10
Data processing equipment	20.00	5
Furniture and utensils	10.00	10

The residual value, asset service life, and depreciation methods are reviewed at the end of each year and adjusted prospectively, when applicable.

4.9 Nonfinancial assets impairment

Management annually reviews the carrying value of nonfinancial assets with the purpose to evaluate events or changes under economical, operating or technological circumstances that might indicate impairment or loss of its retrievable value.

For the valuation of non-financial assets, Management uses the future profitability methodology for individual assets. When it is not possible to estimate the value for the individual asset, the recoverable value of the cash-generating unit to which the asset belongs is determined. Thus, the value in use of the Company's assets is determined. If the book value of property, plant and equipment does not bear the value in use, a provision is made for devaluation, adjusting the net book value to the value in use.

4.10 Trade accounts payable

They are obligations to pay for goods or services that were acquired in the ordinary course of business and are classified as current liabilities if the payment is due in the period of up to 1 year. Otherwise, they are presented as non-current liabilities.

4.11 Provisions

The provisions for litigation (labor, civil, tax and environmental) actions and other provisions are recognized when: (i) the Company has a constructive obligation as a result of events already occurred; (ii) it is likely that an outflow is necessary to settle the obligation; and (iii) it is possible to safely assume the value. Provisions do not include future operational losses.

When a series of similar obligations happen, the likelihood to settle them is determined by taking into account the class of obligations as a whole. A provision is recognized even if the liquidation likelihood related to any individual item, included in the same obligation class is low.

Provisions are measured by the value of expenses needed to settle the obligation using a tax before the tax effects, in which states the current market evaluations of the money value in time and the risks specific to the obligation. The increase of the obligation as a result of the passing of time is recognized as financial expense.

4.12 Income tax and social contribution on current and deferred net income

Income tax and social contribution expenses on net income for the year comprise current and deferred taxes, which are calculated based on rates of 15%, plus an additional 10% on taxable income in excess of BRL 240 for income tax and 9% on taxable income for social contribution on net income.

Income taxes are recognized in the income statement, except to the extent that they relate to items recognized directly in equity or in other comprehensive income. In the latter case, the tax is also recognized in equity.

The expense with current tax is the estimated tax payable or receivable on the taxable profit or loss for the year, plus any adjustments from prior years, if any. The amount of current taxes payable or receivable is recognized in the balance sheet as a tax asset or liability based on the best estimate of the expected amount of taxes to be paid or received that reflects the uncertainties related to their calculation, if any. It is measured based on the tax rates prescribed by law at the balance sheet date.

Income tax and social contribution on current net income are net in liabilities when there are amounts payable or in assets when the amounts paid in advance exceed the total due at the balance sheet date.

Deferred tax assets and liabilities are calculated on temporary differences existing between the book values of assets and liabilities for financial statement purposes and used for tax purposes. Changes in deferred tax assets and liabilities in the year are recognized as deferred income tax and social contribution on net income expense.

Income tax and social contribution on deferred net income assets are recognized only in proportion to the probability that future taxable income is available against which the temporary differences can be used. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that their realization is no longer probable.

Assets and liabilities deferred taxes are presented by the net value in the statement when there is the legal right and intention to set them off when checking the current taxes, usually related to the same legal entity and tax authority.

4.13 Employee benefits

Pension benefits and other benefits after employment

Company sponsors a defined contribution welfare plan, in which requires that the contributions are done to funds separated from Company own funds. Company has no further payment obligation after the contribution is performed. Contributions are recognized as benefits expenses to employees, when due. Contributions in advance are recognized as an asset when a reimbursement in cash or reduction in future payments is available.

Company also grants post-retirement medical assistance to its employees. The right to such benefits is usually conditioned to the employee staying at the job until retirement and completion of a minimum employment time. The expected costs of these benefits are accrued during the time in the job, using the same accounting methodology used in defined benefit pension plans. Actuarial gains and losses from adjustments based on experience and change in actuarial assumptions are debited or credited to net equity, in other figures of the comprehensive result. These obligations are valued annually by qualified independent actuaries using the projected unit credit method.

Past service costs of the health insurance plan are linearly recognized as expenses throughout the average term in which the right to the benefits is acquired. If the right to the benefits has already been acquired, past service costs are immediately recognized after their introduction or after changes in health plan.

Short-term benefits – variable remuneration

Company recognizes a liability and an expense for profit sharing based on its own methodology, approved by the Board of Directors. Company recognizes a provision when it is contractually obligated or when there is a previous practice that has generated a non-formalized obligation and can be reliably estimated.

4.14 Leases/Right of Use

The Company applied CPC 06(R2)/IFRS 16 using the modified retrospective approach and, therefore, comparative information was not restated and continues to be submitted in accordance with CPC 06(R1)/IAS 17 and ICPC 03/IFRIC 4.

Policy applicable as of January 1, 2019

At the start of an agreement, the Company assesses whether a contract is or contains a lease. A contract is, or contains a lease, if the contract transfers the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract transfers the right to control the use of an identified asset, the Company uses the definition of lease in CPC 06(R2)/IFRS 16.

Leases in which the Company is a lessee

The Company recognizes a right-of-use asset and a lease liability on the lease start date. The right-of-use asset is initially measured at cost, which comprises the initial measurement value of the lease liability, adjusted for any lease payments made up to the start date, plus any initial direct costs incurred by the lessee and an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the location in which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the start date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the lessee at the end of the lease term, or if the cost of the right-of-use asset reflects that the lessee will exercise the call option. In this case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as the property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially recognized at the present value of lease payments that are not made on the start date, discounted at the interest rate implicit in the lease or, if that rate cannot be determined immediately, by the incremental lending rate built by the Company.

The Company determines its nominal incremental rate, using the following criteria:

(i) Lease with the Granting Authority: 8.47% per year. Obtained considering the representativeness and the weighted cost of the Company's debts;

(ii) Real estate lease agreement: 7.89% per year. Rate quoted with financial institutions related to the Company;

(iii) Agreement for the leasing of machinery, equipment and others: 8.88% per year. BNDES financing rate (specific line for this purpose that considers TLP plus bank *spread*).

The lease payments included in the measurement of the lease liability comprise the following:

(i) fixed payments, including fixed payments in essence;

(ii) amounts expected to be paid under the residual value guarantees; and

(iii) the strike price of the call option if the Company is reasonably certain to exercise that option, and payments of fines for termination of the lease, if the lease term reflects the Company exercising the option to terminate the lease.

Lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments resulting from a change in index or rate, if there is a change in the amounts expected to be paid under the residual value guarantee, if the Company changes its valuation whether it will exercise a call, extension or termination option or if there is an essentially fixed revised lease payment.

When the lease liability is remeasured, an adjustment corresponding to the book value of the right-of-use asset is made or it is recorded in the result if the book value of the right-of-use asset has been reduced to zero.

The Company submits assets and liabilities for its operating leases for real estate, machinery and equipment, vehicles, IT equipment and containers. In addition to these, the lease agreement, linked to the concession agreement, for the assets required for the operation and maintenance of the activities of cargo railway transport was registered.

Low value asset leases

The Company applies exemption from recognition for short-term leases and for which the underlying assets are of low value. Payments associated with these leases continue to be recognized as an expense in the income statement.

Leases in which the Company is a lessor

In cases where the Company appears as an intermediary lessor (subleases) of contracts in which it is the lessee, an assessment is made to classify the sublease based on the right-of-use asset resulting from the main lease and not based on the underlying asset.

The amount receivable referring to these contracts is fully recorded as accounts receivable in current and non-current assets and is amortized with the due receipts.

The discount rate used to calculate the present value of accounts receivable from sub-lease agreements was the same as for the main lease agreement, 8.47% p.y.

Policy applicable before January 1, 2019

The Company classified its contracts, before January 1, 2019, as operational or financial lease based on the contracted operation, which considered who are responsible for inherent risks and benefits to the ownership of the assets, purpose of the agreement, throughout its life or along the contract.

Finance leases were registered as a financed purchase, recognized at first a property and a financing liability (leasing).

The leased assets were depreciated over their useful life. However, when there was no reasonable certainty that the Company would opt for ownership at the end of the lease term, the asset was depreciated over its estimated useful life or in its lease term, whichever was shorter.

Assets classified as operating leases were recognized as a cost or expense in the income statement on a straight-line basis over the lease term.

For situations in which the Company was an intermediary lessor, receipts arising from operating leases were recognized as "other operating income" on the straight-line method over the lease term.

4.15 Concessions

The Company has a onerous public service concession arising from the concession agreement. Although the Company operates under a granting system, its activity is not covered by ICPC 01/IFRIC 12 01 Technical Interpretation requirements - Concession Agreements, since the Granting Authority cannot control to whom the services should be rendered nor the price charged. The commercial relationship between Company and its clients prevails.

Concession obligations are recorded on a straight-line basis, on the accrual basis and in accordance with the terms of the contract (360 months) in current liabilities, against the cost of services provided. The recorded amount in non-current liabilities refers to the grace period which was recognized according to the accrual basis and is being paid in each of the installments paid quarterly.

The amounts paid in advance by the Company were recorded in assets and are allocated on a straight-line basis to income as cost of services provided over the term of the agreement.

4.16 Share capital

The subscribed and paid-up share capital is divided into book-entry, ordinary, and preferred shares, with no face value.

4.17 Revenue recognition

Revenue is recognized to the extent it is likely that economic benefits are generated by the Company and when it can be reliably measured. Revenue is measured based on the fair value of the received consideration, except discounts, deductions and taxes or charges on sales. The following specific criteria should also be met before revenue recognition:

Provision of transportation services

Revenue from cargo transportation services is recognized when the cargoes are delivered to customers at the point of destination, according to the service agreement. Service revenue fair value is reliably calculated based on fees previously agreed between the parties.

Financial Income

Financial income comprises interest income, monetary and exchange variations on financial assets and liabilities and net gains on financial assets measured at fair value through profit or loss. Interest revenue is recognized by the linear method based on time and effective rate of interest on the main amount.

Other operational revenues

Other revenues are recognized to the extent that there is a contractual right, the performance obligation is fulfilled and it is probable that future economic benefits will be generated for the Company and the amount of revenue can be reliably measured.

4.18 Distribution of dividends

The distribution of dividends for Company stockholders is recognized as a liability in the accounts at the end of the year. Based on the Company's Bylaws, the distribution of dividends will not be less than 25% of the net income for the year, adjusted pursuant to article 202 of the Companies Act. Any value above the set as minimum by the Companies Act should only be provided on the date it is approved by the stockholders at a General Meeting.

5. Estimates and critical accounting judgments

Management made use of judgments and estimates in the preparation of the financial statements, which affect the application of the Company's accounting policies and the amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are continually revised.

Reviews to estimates are recognized prospectively.

(a) Income tax, social contribution on net income and other tax credit provisions

There are uncertainties regarding the interpretation of tax regulations and value and time of future taxable results. Differences between the actual results and adopted assumptions, or future changes in these assumptions, may demand future adjustments in the earned income and tax expenses already registered. Company has provisions, based on appropriate estimates, for possible monitoring consequences by the tax authorities of the jurisdiction it operates. The value of these provisions is based on several factors, such as experience of previous tax audits and different interpretation of tax regulations by the taxable entity and by the responsible tax authority. These differences of interpretation may arise in a broad variety of subjects, depending on the effective conditions in Company respective domicile.

(b) Post-employment benefits

The costs of the medical assistant benefit plan post-employment are determined using actuarial evaluation methods. The actuarial evaluation involves the use of assumptions about discount rates, expected asset return rates, future wage increases, mortality rates, turnover rates and rates of permanence in the plan after dismissal/retirement. The obligation of this benefit is sensitive to changes in these assumptions. All assumptions are revised at each base date.

(c) Fair value of derivatives and other financial instruments

The fair value of financial liability and assets is obtained by means of active markets. However, when this is not feasible, the fair value is determined by using assessment techniques that require levels of judgment. The judgment includes considerations on the data used as e.g. liquidity risk, credit risk and volatility. Changes in the assumptions on these factors could affect the presented fair value of financial instruments.

(d) Provisions for tax, civil, labor and environmental risks

Provisions are made for all contingencies regarding lawsuits whose possibility of loss is considered probable by legal counsel.

The Company periodically reviews the accrued amounts and if it identifies procedural changes, such as a change of prognosis, applicable limitation period, end of tax inspections or additional exposures identified based on new facts or court decisions, and they are adjusted.

(e) Rate of Impairment depreciation, amortization and evaluation of fixed and intangible assets

Depreciation and amortization rates for fixed and intangible assets include estimates of the lives of the Company's main assets, which are periodically reviewed by the Company's specialists and if the need to change the useful life rate of any group of assets is identified , an external consulting is hired to measure and issue a report according to ANTT Resolution 5090/2016.

The Company performs an annual assessment of impairment evaluation of fixed and intangible assets. If the fixed or intangible asset carrying value does not bear the value in use, it is necessary to make the provision for devaluation, setting the net carrying value to the retrievable value.

6. New standards and interpretations not yet effective

A series of new standards will be effective for the years starting after January 1, 2019.

The Company has not adopted these standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the
Company's financial statements:

- Changes in references to the concept framework in IFRS standards.
- Definition of a business (changes to CPC 15/IFRS 3).
- Definition of materiality (amendments to CPC 26/IAS 1 and CPC 23/IAS 8).
- IFRS 17 Insurance Agreements.

In thousands of reais, unless otherwise stated

7. Cash and cash equivalents

	2019	2018
Current		
Availability		
Cash and banks	3,077	2,416
	3,077	**2,416**
Financial investments in the country		
CDB	665,187	274,237
	665,187	**274,237**
Cash and cash equivalents	**668,264**	**276,653**

Financial investments are granted in deeds issued by banks in Brazil and have an average liquidity of 46 days. They can be redeemed before maturity, without changes or significant adjustment in the yield previously agreed with the financial institution.

These investments are in CDB, with remuneration based on the variation of Interbank Deposit Certificates - CDI, currently in the range between 98.25% and 104.0% (99.5% and 101.00% as of December 31, 2018).

The increase of R$391,611 in the balance and cash equivalents is basically due to the higher volume of funding in the first half of 2019, as mentioned in note 22.

The risk rating of financial investments according to the business model is described in note 24.

8. Restricted cash

	2019	2018
Financial investments in the country		
CDB	2,033	11,139
Repurchase transactions	-	58,170
	2,033	**69,309**

Restricted cash is composed of financial investments constituted as form of guarantee to the following agreements: (i) financing contracts with the National Economic and Social Development Bank (BNDES), in the lines "FINEM" and "DULC", whose guarantee is constituted to cover short-term maturities; (ii) provision of bank guarantee; and (iii) commercial agreement for purchase and sale of electricity.

In the 1st quarter of 2019, the Company changed with BNDES some guarantees of the loans in force, classified in the lines “FINEM” and “DULC”, according to DEC No. DIR.403-2018, keeping in the restricted cash only the investments in CDB, referring to the commercial agreement for the purchase and sale of electricity in the free market.

In thousands of reais, unless otherwise stated

These investments are backed by securities in Brazil, and have a maximum liquidity of 360 days and remuneration based on the variation of Interbank Deposit Certificates - CDI, in the range between 98.25% and 99.00% (94.00% and 100.00 % on December 31, 2018).

The risk rating of financial investments in restricted cash according to the business model is described in note 24.

9. Trade accounts receivable

		2019	**2018**
Accounts receivable of related parties	**10**	1,035,480	440,970
Customers in the country	**(a)**	40,531	31,347
Expected credit losses	**(b)**	(1,107)	(1,107)
		1,074,904	**471,210**
Current		899,682	247,203
Non-current		175,222	224,007

(a) They basically refer to the receivables related to railway freight services rendered, including mutual traffic and right receiving clients that are not related parties.

(b) The amount provisioned for expected credit losses was measured considering the financial difficulty of the issuer, breach of contract with late payment, probability of bankruptcy of the debtor and debtors in legal proceedings for collection, in addition to the application of a percentage calculated in the losses of the last two years on the amounts outstanding at the date of the statements.

10. Related parties

The assets and liabilities balances on December 31, 2019, and December 31, 2018, informed in this note, are related to operations with related parties arising from Company transactions with its shareholders, related companies and key professionals from management.

Transactions with related parties are associated especially to the provision of public service of rail cargo transportation. They are conducted on terms and conditions negotiated with each of the contracting customers, observing the tariff ceilings established by the Granting Authority, which apply to all concessionaires customers, whether they are related parties or not. By the Company's Corporate Governance, values negotiated with the related parties are approved by shareholders and follow a tariff model that aims at compensating for the costs for rail transportation services provision, added by margins that are not compatible with those established in their business plan. There are no transactions with negative margins, as set forth in the concession agreement. Furthermore, contracts with related parties are long-term and have annual revenue and volume guarantee clauses, as is the case with other captive customers.

In thousands of reais, unless otherwise stated

In addition to railway cargo shipping service agreements, Company has other agreements with its related parties regarding maintenance services and improvements in terminals, scrap sales, rents and maintenance in rolling stock and permanent road.

Accounts payable to related parties, shown in liabilities to related parties, except dividends payable, arise from purchases, use of the railroad, shared investments inherent to the Company's business and other contractual obligations.

The campaign has the following balances regarding transactions with related parties:

- Asset

		Receivables	
		2019	**2018**
Mineração Usiminas S.A.	**(a)**	157,457	166,202
Vale S.A.	**(b)**	651,892	74,879
CSN Mineração S.A.	**(c)**	158,610	144,392
Companhia Siderúrgica Nacional		58,709	43,570
Usinas Siderúrgicas de Minas Gerais S.A.		1,597	3,826
Gerdau Açominas S.A.		3,648	4,070
Ferrovia Centro Atlântica		1,751	2,152
Gerdau Aços Longos S.A.		529	452
Confab Industrial S.A.		1	170
Gerdau S.A.		342	184
Ternium Brasil Ltda.		31	1,073
Vallourec Soluções Tubulares do Brasil S.A.		913	-
		1,035,480	**440,970**
Current		860,258	216,963
Non-current		175,222	224,007

(a) On January 22, 2016, the addendum to the agreement among MRS and Mineração Usiminas S.A. "MUSA" and Usiminas was celebrated where the parties suspended indefinitely the execution of iron ore shipping agreements. MUSA assumed the obligation to indemnify MRS regarding the investments performed for the expansion for the capacity to meet the hired demand in order to grant the economic-financial balance of the agreements then signed. The amount shall be paid in 10 yearly installments of R$31,546, maturing in January of each year. The current value of the payment stream is R$ R$153,385 on Tuesday, December 31, 2019, R$31,546 in the current and R$121,839 in the non-current. In January 2020, the Company received R$ 31,546 referring to the fourth installment of the amendment.
(b) The significant increase in accounts receivable is basically due to the provision for a revenue protection mechanism carried out in the 4 quarters of 2019, in the amount of R$632,257, according to the 3rd Amendment signed in accordance with the provisions of the Securities Commission. In February 2020, the Company received this amount.
(c) In January 2019, the Company received the 1st installment of the contractual amendment signed between MRS and CSN Mineração, on November 1, 2018, as mentioned in note 10 (c) of the financial statements of December 31, 2018, in the amount of R$ 23,547.

The Company has a receivables agreement with related parties given as guarantee for loans.

In thousands of reais, unless otherwise stated

Except for accounts receivable referring to revenue protection mechanisms and contractual amendments, the average term for receipt of accounts receivable from related parties is less than 20 days.

- Liability

		Accounts payable / other liabilities		Advances		Payable dividends	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**
Vale S.A.	(d)	8,298	94	-	-	12,493	12,947
Mineração Brasileiras Reunidas S.A.		-	-	-	-	40,189	41,647
CSN Mineração S.A.	(e)	76,968	89,753	1	1	22,583	23,402
Companhia Siderúrgica Nacional		864	425	-	46	22,570	23,389
Usiminas Participações e Logística S.A.		-	-	-	-	12,754	13,216
Usinas Siderúrgicas de Minas Gerais S.A.		-	-	-	24	320	331
Gerdau Açominas S.A.		-	934	-	-	-	-
Ferrovia Centro Atlântica		16,580	18,003	-	61	-	-
Gerdau Aços Longos S.A.		131	115	5	-	-	-
Gerdau S.A.		-	-	-	-	1,501	1,556
Railvest Investments Inc		-	-	-	-	4,964	5,144
Mitsui & Co. Ltda.	(f)	23,939	44,540	-	-	-	-
Sepetiba Tecon S.A.		-	10	-	-	-	-
Others		-	-	-	-	2,324	2,365
		126,780	**153,874**	**6**	**132**	**119,698**	**123,997**
Current		51,055	63,848	6	132	119,698	123,997
Non-current		75,725	90,026	-	-	-	-

(d) The amount of R$8,298 of accounts payable in 2019 (94 in 2018) refers to the triggering provision as a protection mechanism for Vale S.A..

(e) Conversely to the amount recognized in the indemnity accounts receivable with the amendment signed between MRS and CSN Mineração, on November 1, 2018, as mentioned in that same note, item (c), the Company registered other liabilities in the amount of R$76,931 (R$89,753 in 2018), in compliance with CPC 47 - Revenue from customer agreement.

(f) The amount of R$23,939 (R$44,540 in December 31, 2018) refers to the purchase of 8 thousand tons of rails, according to agreement No. 48800 /MRS/2017, acquired in December 2018. Payment will be made in June 2020.

In thousands of reais, unless otherwise stated

- Result

		Services income		Other revenue		Financial Income	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**
Vale S.A.	**(g)**	804,493	1,673,933	632,283	170	193	610
Companhia Siderúrgica Nacional	**(h)**	322,072	338,333	22,672	1,714	176	153
Mineração Usiminas S.A.		143,549	92,875	-	-	19,186	20,685
CSN Mineração S.A.		742,514	655,036	15,944	25,213	10,830	11,547
Usinas Siderúrgicas de Minas Gerais S.A.		119,777	142,593	6	312	5	31
Gerdau S.A.		2,945	5,475	1,030	973	155	171
Gerdau Açominas S.A.		116,350	139,320	2,760	2,936	27	133
Gerdau Aços Longos S.A.		18,082	17,964	14,438	6,951	14	43
Ferrovia Centro Atlântica		55,130	54,040	3,550	3,304	-	-
Companhia Metalúrgica Prada		-	70	-	-	-	-
Ternium Brasil Ltda.		7,392	3,322	56	129	30	6
Usiminas Mecânica S.A.		-	-	3	-	-	-
Mitsui & Co. Ltda.		-	-	-	-	980	-
Vallourec Soluções Tubulares do Brasil S.A		32,986	-	-	-	-	-
Confab Industrial S.A.		2,017	8,216	-	-	4	6
		2,367,307	**3,131,177**	**692,742**	**41,702**	**31,600**	**33,385**

(g) The decrease in service revenue in the amount of R$ 869,440 refers to the decrease in ore transport due to the rupture of the Brumadinho dam, which occurred on 01/2019. On the other hand, there was an increase in other revenues due to the protection mechanism already mentioned in item (b) of herein.

(h) The amount of R$22,672 of other income (R$1,714 in 2018) refers to the provision of a protection mechanism.

	Other operational/financial expenses	
	2019	**2018**
Ferrovia Centro Atlântica	11,886	9,875
Gerdau Aços Longos S.A.	2,770	3,997
Mitsui & Co. Ltda.	980	7,139
Vale S.A.	901	537
Sepetiba Tecon S.A.	218	1,803
Companhia Siderúrgica Nacional	187	5
Confab Industrial S.A.	3	-
Ternium do Brasil Ltda.	1	-
	16,945	**23,356**

In thousands of reais, unless otherwise stated

Management key personnel

The fixed and variable compensations of the Company's key management personnel, which includes its Chairman and Officers, are recorded in the income statement for the year as follows:

	Result	
	2019	**2018**
Short-term benefits	16,635	16,807
Post-employment benefits	366	389
Other long-term benefits	3,060	8,061
	20,061	**25,257**

Key personnel benefits include fixed compensation, profit sharing program, variable compensation program, pension plan and others.

11. Other receivables

		2019	2018
Concession and lease receivable amounts	**(a)**	53,127	51,464
Indemnity amounts receivable	**(b)**	-	11,501
Receivables - other sales	**(c)**	5,092	4,912
Subleasing amounts receivable	**(d)**	35,348	-
Other receivables		3,644	3,335
Expected credit losses	**(e)**	(3,677)	(3,113)
		93,534	**68,099**
Current		8,379	15,984
Non-current		85,155	52,115

(a) Amounts receivable from concession and lease posted in the non-current assets correspond to the registration resulting from a favorable decision in process involving the Granting Authority over amounts paid in the quarterly concession and lease installments updates from October 1997 to April 2001.
The details of the process, up to December 2018, can be seen in note 11 (a) of the 2018 financial statements.
On March 20, 2019, it was declared, as voted by the majority, that the IPCA-E should be applied from the effective date of the standard declared unconstitutional, that is, since 2009. At the end of the trial session, the score was 6 votes versus 2 concerning the modulation rejection of the effects of the unconstitutionality declaration, and the trial was not concluded at that time, due to a new request for a review.
Subsequently, in June 2019, MRS filed a petition requesting the rejection of the Federal Government's request for reconsideration and repeating its clarification of resources. The Federal Government, on the other hand, presented reasons against the clarification of resources by MRS, repeating its previous statement. On July 29, 2019, a decision was issued rejecting the Federal Government's clarification of resources and determining the referral of the case to the calculation sector. In view of this decision, the Federal Government filed a grievance through which it intended to apply the Reference Rate - TR as criteria for monetary correction until the Supreme Federal Court concluded the decision of modulation of effects under RE No. 870.947/SE . In view of this scenario, the lower court, on September 18, 2019,

determined the suspension, *ad cautelam*, of the process until the final decision on the remedy. On September 30, 2019, MRS requested the revocation of the suspension of the grievance of the Federal Government, in order to enable the continuation of the decision.

On October 3, 2019, the trial was completed, with the STF, by majority, rejecting all clarifications of resources with pending decisions, having decided not to modulate the effects of the previous decision, applying the IPCA - And since the effective date of the standard declared unconstitutional, that is, since 2009. Thus, in the case in question, as expressly determined by the court, the installments paid in excess by MRS can be offset, and must be subject to monetary restatement by the Manual of Calculations of the Federal Court, which provides the following indexes: (a) UFIR, from January 1992 to December 2000; and (b) IPCA-E, as of January 2001. Thus, despite the STF decision that determined that the IPCA-E must be applied from the effective date of the standard declared unconstitutional, that is, since 2009, the debts that need to be updated by the Manual of Calculations of the Federal Court, as in the specific case, will be updated by the IPCA-E from January 2001 and by the UFIR from January 1992 to December 2000.

On October 31, 2019, petitions were filed by the Federal Government, both in the Lower Court and Court of Appeals, informing the withdrawal of the grievance, in view of the STF understanding of inappropriate modulation of the decision effects based on the Extraordinary Appeal No. 870.947/SE. In November 2019, the records were sent to the Judicial Accountant.

In this new context, the Company understands the criterion of monetary correction for debts of the Treasury should be maintained by the Federal Court Chart (UFIR and IPCA_E) and the divergence in this case, between the Government and MRS, should be settled, prevailing the parameters adopted by MRS.

(b) The amount of R$11,501 in 2018, refers to the amount receivable as indemnity and other reimbursement of costs according to the pending issues agreement and settlement term No. 002/2018, signed on December 21, 2018 between MRS and Rumo Malha Norte/Paulista/Oeste e Sul. The balance was fully paid during 2019.

(c) The amounts receivable were due to the sale of scrap, maintenance service, rents and other amounts not related to the rail freight service.

(d) Sub-leasing: Subleases refer to real estate rental agreements in which the Company is the intermediary lessor of a main lease classified as a Right of Use Asset.

In thousands of reais, unless otherwise stated

The use of subleases in the period was as follows:

Sub-leasing	
On January 1	**99,281**
Additions to agreements	4,288
Agreement derecognition (*)	(46,886)
Amortizations	(10,362)
On December 31	**46,321**
Interest to accrue	
On January 1	**(26,267)**
Additions to agreements	(1,023)
Agreement derecognition (*)	11,612
Interest accrued	4,705
On December 31	**(10,973)**
Net balance	**35,348**

(*) The derecognition of contracts is mainly due to the termination with the customer Libra Terminal Valongo S.A. in October 2019.

The flow of future receipts from subleases, disregarding the interest to be incurred, is as follows:

	2020	**In up to 5 years**	**More than 5 years**	**Total**
Sub-leasing	6,697	33,485	6,139	46,321

(e) The amount provisioned for expected credit losses was measured considering the financial difficulty of the issuer, breach of contract with late payment, probability of bankruptcy of the debtor and debtors in legal proceedings for collection, in addition to the application of a percentage calculated in the losses of the last two years on the amounts outstanding at the date of the statements.

12. Inventories

		2019	**2018**
Maintenance materials	**(a)**	97,306	91,404
Material under retrieval progress		7,603	7,121
Ongoing imports		1,020	1,172
Fuels		8,292	7,570
Others		9,872	6,828
Provision for loss by obsolescence	**(b)**	(4,615)	(6,532)
		119,478	**107,563**

(a) Refer to the materials that shall be used in their own maintenance services, especially in locomotives, wagons and permanent tracks.

(b) Refer to the provision for loss of some maintenance materials considered obsolete or of low turnover.

In thousands of reais, unless otherwise stated

13. Taxes recoverable

		2019	2018
Tax on movement of goods and services – ICMS	(a)	71,112	87,468
(-) Provision for loss of ICMS	(a)	(17,100)	(26,100)
PIS/COFINS recoverable	(b)	65,267	56,334
Withholding income tax	(c)	58,813	31,235
INSS to be recovered	(d)	5,390	28
Others		224	182
		183,706	**149,147**
Current		90,863	108,375
Non-current		92,843	40,772

(a) Mainly refer to credits arising from acquisitions of assets for the fixed assets and purchases of inputs, net of provision for loss of non-retrievable credits.

(b) They mainly refer to fixed assets property credits. The increase in the 2019 balance is mainly due to a final favorable court decision in case No. 0107165-83.2013.4.02.5101, which determined the exclusion of ICMS collected on customs clearance and the contributions from the PIS/COFINS calculation basis due on import.

(c) Refers to withholding income tax on financial investments and to gains on derivative transactions - swap. As income is taxed only on the redemption of investments and winding-up of swaps, this amount includes the provision for source IT from these operations. The increase in the 2019 balance is mainly due to a favorable court decision in case No. 0006873-32.2009.4.02.5101, which recognized the right to deduct expenses with the Worker's Food Program (PAT) without the limitations imposed by Interministerial Ordinance No. 326, Normative Instruction No. 267/02 and other infra-legal standards.

(d) The 2019 balance mainly refers to tax credits recoverable from Social Security Contribution (company) arising from a final favorable court decision in case No. 0092045-52.2014.4.01.3400, which ruled out the requirement of this contribution on the amounts paid to cooperatives.

The composition of ICMS credits in the states of Rio de Janeiro and São Paulo, posted on the current assets, is shown below:

	2019	2018
ICMS credit composition - current		
ICMS - RJ	23,689	36,695
ICMS - SP	21,416	25,778
Current total	**45,105**	**62,473**

In thousands of reais, unless otherwise stated

14. Prepaid expenses

		2019	2018
Advance leasing	**(a)**	-	163,393
Insurance	**(b)**	13,121	9,617
Prepaid personnel expenses		7,089	5,253
Prepaid services expenses		2,687	1,689
		22,897	**179,949**
Current		18,049	24,025
Non-current		4,848	155,924

(a) The leasing advances were appropriate to the cost of the services provided linearly for the validity term of the leasing contract (360 months). As mentioned in note 3, due to the adoption of CPC 06 (R2), the balance of this prepaid expense was reclassified to the Right of Use Asset. Details of the operation are described in note 16.2.

(b) They refer to insurance payments in advance. The variation is mainly due to the renewal, in 2019, of the operational risk insurance policy, effective until March 1, 2021. The amount in 2019 refers to the balance not yet amortized.

15. Other current and non-current assets

The group of other current and non-current assets is composed as follow:

		2019	2018
Court deposits	**(a)**	126,907	114,174
Advance to third parties	**(b)**	20,100	17,748
Others		6	65
		147,013	**131,987**
Current		20,100	17,750
Non-current		126,913	114,237

(a) It refers to The Company has appellate court deposits and to ensure the execution at the disposal of the court to allow for an appeal under the law. They are monetarily restated and recorded in the non-current asset until there is a court decision. The distribution is described in note 28.1.

(b) It corresponds to advances granted to suppliers and employees such as vacation advance, vacation loan and further advances.

In thousands of reais, unless otherwise stated

16. Fixed assets

16.1 Fixed assets in operation and in progress

By their nature, fixed assets are comprised as follows:

	2019							2018
	Fixed assets in operation							
	Improvements on third parties properties	Locomotives	Wagons	Others	Total	Fixed assets in progress	Total	Total
Cost								
On January 1	**4,583,820**	**2,856,111**	**2,610,899**	**627,374**	**10,678,204**	**519,048**	**11,197,252**	**10,425,010**
Addition	-	-	-	-	**-**	720,669	**720,669**	**815,783**
Transfers / Reclassifications	518,115	100,724	196,877	37,276	**852,992**	(852,992)	**-**	**-**
Reversal (provision) of impairment losses	529	(570)	(10,431)	-	**(10,472)**	-	**(10,472)**	**3,366**
Right of Use Reclassification	-	-	-	(31,077)	**(31,077)**	-	**(31,077)**	**-**
Write-Off	(1,068)	(20,896)	(53,773)	(14,297)	**(90,034)**	(14,053)	**(104,087)**	**(46,907)**
On December 31	**5,101,396**	**2,935,369**	**2,743,572**	**619,276**	**11,399,613**	**372,672**	**11,772,285**	**11,197,252**
Depreciation								
On January 1	**(1,908,215)**	**(1,336,553)**	**(1,117,200)**	**(397,551)**	**(4,759,519)**	**-**	**(4,759,519)**	**(4,190,552)**
Addition	(320,359)	(136,677)	(146,012)	(42,323)	**(645,371)**	-	**(645,371)**	**(597,970)**
Right of Use Reclassification	-	-	-	2,391	**2,391**	-	**2,391**	**-**
Write-Off	644	4,763	28,335	14,036	**47,778**	-	**47,778**	**29,003**
On December 31	**(2,227,930)**	**(1,468,467)**	**(1,234,877)**	**(423,447)**	**(5,354,721)**	**-**	**(5,354,721)**	**(4,759,519)**
Net residual value				-				
On December 31	**2,873,466**	**1,466,902**	**1,508,695**	**195,829**	**6,044,892**	**372,672**	**6,417,564**	**6,437,733**

The use of fixed assets for 2018 is published in the explanatory note 16 of the 2018 financial statements.

Reversal (provision) of impairment losses
Wagons
The amount of R$10,431 refers to the constitution of a provision for cutting off wagons.

Right of Use Reclassification
The amounts reported under this line, both in cost and depreciation, refer to leases previously recognized as finance leases in accordance with CPC 06/IAS17, which were reclassified to the “Right of Use” line as reported in note 3.

Write-Off
Locomotives and Wagons
The net amounts of R$16,133 and R$25,438, shown in the groups of locomotives and wagons, respectively, are mainly due to the write-off of assets that resulted in total loss with the rupture of the Córrego do Feijão dam in Brumadinho. Additionally, a small portion of these amounts arises from the replacement of wagons approved by the DNIT/ANTT and from component write-offs.

Fixed assets in progress
The write-off of R$14,037 of fixed assets in progress basically refers to investment projects that, as they are not viable, will no longer be carried out.

In thousands of reais, unless otherwise stated

Capitalized loans costs
The amount of capitalized loans costs in the year ended December 31, 2019 was R$187 (R$219 in 2018). The rate used to determine the cost amount of financing subject to capitalization was 6.94% per year (7.37% in 2018), which represents the Company's average financing rate.

Fixed assets in progress
Fixed assets in progress are substantially represented by expenses incurred in the expansion, recovery and modernization of the permanent track, locomotives, wagons and signaling systems.

16.2 Leasing Right of Use

The transaction and balance of the Right of Use assets is shown below:

	2019						
	Assets associated to the concession	**Machinery and equipment**	**Vehicles**	**Real Estate**	**Computing Equipment**	**Others**	**Total**
Right of Use Cost							
Initial Recognition	**1,890,825**	**54**	**15,088**	**6,028**	**34,622**	71	**1,946,688**
Previously expenses paid	163,392	-	-	-	-	-	**163,392**
Sub-leasing	(41,004)	-	-	-	-	-	**(41,004)**
Addition	53,893	433	-	354	1,705	**180**	**56,565**
On December 31	**2,067,106**	**487**	**15,088**	**6,382**	**36,327**	**251**	**2,125,641**
Right of Use Depreciation							
Initial Recognition	-	-	-	-	**(3,100)**	-	**(3,100)**
Addition	(252,397)	(285)	(9,766)	(1,357)	(6,078)	(40)	**(269,923)**
On December 31	**(252,397)**	**(285)**	**(9,766)**	**(1,357)**	**(9,178)**	**(40)**	**(273,023)**
Net residual value							
On December 31	**1,814,709**	**202**	**5,322**	**5,025**	**27,149**	**211**	**1,852,618**

In thousands of reais, unless otherwise stated

17. Intangible assets

Intangible assets are comprised as follows:

a) Acquisition/development of computerized systems and software

	2019			2018
	Computer systems and *software*	**Ongoing projects**	**Total**	**Total**
Cost				
On January 1	**225,996**	**7,348**	**233,344**	**222,492**
Addition	-	13,289	**13,289**	**10,854**
Transfers	8,415	(8,415)	**-**	**-**
Right of Use Reclassification	(3,545)	-	**(3,545)**	-
Write-Off	(10,775)	-	**(10,775)**	**(2)**
On December 31	**220,091**	**12,222**	**232,313**	**233,344**
Amortization				
On January 1	**(197,257)**	**-**	**(197,257)**	**(187,821)**
Addition	(8,832)	-	**(8,832)**	**(9,438)**
Right of Use Reclassification	709	-	**709**	**-**
Write-Off	10,572	-	**10,572**	**2**
On December 31	**(194,808)**	**-**	**(194,808)**	**(197,257)**
On December 31	**25,283**	**12,222**	**37,505**	**36,087**

The use of intangible assets for 2018 is published in the explanatory note 17 of the 2018 financial statements.

The intangible assets depreciation rate, excluding concession fee, was estimated at 20% per year.

Right of Use Reclassification
The amounts reported under this line, both in cost and depreciation, refer to leases previously classified as finance leases in accordance with CPC 06 (R1)/IAS 17, which were reclassified to the "Right of Use" line as reported in note 3.

b) Concession Advance Payment

Intangible assets also comprise the portion referring to the concession advance payment (granting right) in the amount of R$8,339 on December 31, 2019 (R$8,407 in 2018).

In thousands of reais, unless otherwise stated

18. Suppliers

		2019	2018
Amounts payable to related parties	10	49,849	64,121
In local currency		184,264	215,548
In foreign currency		190	25,127
		234,303	**304,796**
Current		197,349	269,935
Non-current		36,954	34,861

19. Labor and social security obligations

	2019	2018
PSP – Profit Sharing Plan / Bonus	81,450	77,470
Vacation and Christmas bonus allowance	30,367	31,653
Wages payable	29,683	27,958
Social Security	17,842	18,313
FGTS	5,365	6,066
IRRF payable	4,280	4,370
Others	9,222	14,352
	178,209	**180,182**

20. Income tax and social contribution on net income

	2019	2018
Income tax	170,743	102,561
Social contribution on net income	38,292	9,756
	209,035	**112,317**

The increase in income tax and social contribution on net income payable is due to the recognition of the provision for revenue protection mechanisms mentioned in Note 10 (b).

In thousands of reais, unless otherwise stated

21. Other tax liabilities

	2019	2018
COFINS (*)	68,546	11,997
PIS (*)	13,941	2,016
ICMS	13,089	5,963
Others	10,795	4,473
	106,371	**24,449**

(*) The increase in PIS and COFINS taxes is due to the recognition of revenue arising from the revenue protection mechanisms mentioned in Note 10 (b).

22. Loans and funding

Loans and funding are comprised as follows:

		2019	2018
Local currency			
FINEM	**(a)**	551,361	566,662
DULC	**(b)**	101,355	160,096
FINAME and BNDES Automático	**(c)**	17,231	57,750
		669,947	784,508
Transaction costs		(1,993)	(2,492)
		667,954	**782,016**
Foreign currency			
MUFG Bank	**(d)**	607,008	583,007
Fair value *hedge* adjustment - MUFG Bank		10,100	3,851
Ex-In	**(e)**	-	8,384
		617,108	595,242
Transaction costs		(29)	(27)
		617,079	**595,215**
Debentures	**(f)**		
6th Issue		-	9,449
7th Issue		744,376	718,055
8th Issue		397,620	396,554
9th Issue		661,929	-
		1,803,925	1,124,058
Transaction costs		(23,436)	(24,163)
		1,780,489	**1,099,895**
Total funding and loan + transaction cost		**3,065,522**	**2,477,126**
Current		714,499	419,477
Non-current		2,351,023	2,057,649

(a) FINEM's operations, directly or not directly contracted with BNDES, have a nominal rate equal to the effective rate and are subject to TJLP charges plus spread of up to 3.41% per year or a fixed rate of 2.50% per year up to 5.50% per year. These funds shall be used to cover expenses aimed at reducing the number of accidents, improve the operational cycle and the purchase of rolling stock, as well as building bridges, viaducts, underpasses and social projects. The final amortization period of these contracts is June 15, 2024. These operations are secured by receivables from commercial agreements that make up at least 130% of the debt service, chattel mortgage of financed assets and emerging rights. In March 2019, a total amount of R$140,000 thousand was raised, at a nominal rate of TLP +3.00% per year.

(b) DULC's direct operations with BNDES have a nominal rate equal to the effective rate and are subject to TJLP charges plus spread of up to 2.06% per year or fixed rate of 4.50% per year. The purpose of this operation is to finance logistical projects, expansion of the permanent track, modernization and recovery of assets, infrastructure reliability, and locomotive purchases and social projects. The final amortization period of these contracts is June 15, 2023. The security of this contract consists of receivables from commercial agreements that make up at least 130% of the debt service and rights emerging from the concession. In 2019 there were no new funding for this line.

(c) FINAME and BNDES Automatico are financing systems with BNDES funds, transferred to the Company indirectly through financial institutions, with nominal rate equal to the effective rate. FINAMEs had the purpose of acquiring new wagons and locomotives while BNDES automático financed a technological innovation project that provides for the reduction of fuel consumption in locomotives. These fundings are subject to TJLP charges plus a spread equivalent to a TIR of 9.70% per year or a fixed rate of 4.50% per year. The final amortization period of these contracts is January 15, 2022. These operations have as security the chattel mortgage of the financed goods. During 2019 there were no funding of these credit modalities.

(d) Financings with MUFG Bank has a fixed nominal rate equal to the effective rate. On December 31, 2019, the Company had three (3) active fundings, the first of which, contracted and disbursed in May 2017, with interest rate of 2.49% per year in the first year and 2.59% per year, in the following years until the end of the contract, and the second contracted and disbursed in August 2018, with interest rate of 4.82% per year, in the first year and 4.59% per year for the following years, with the third of them, contracted and disbursed in April 2019, with interest rate of 3.37% per year, in the first six months, and 3.49% per year, for the following six months. These fundings in dollars were intended to reinforce the Company's cash position for the investments made. The Company did not provide securities for these contracts and the final amortization period is May 2020 for the one signed in 2017, August 2023 for the one disbursed in 2018 and April 2020 for the one disbursed in 2019. In March 2019, the financing was settled in full with MUFG Bank, contracted in September 2013, and the balance on December 31, 2019 refers to the contracts of 2017, 2018 and 2019.

(e) The financing with the *US Export-Import Bank (Ex-Im)* was subject to a nominal fixed rate of 3.30% per year. This operation, agreed in March 2009 and disbursed in April of the same year, had the purpose of purchasing 38 new locomotives, which constitute the security of the contract itself. In March 2019, the last installment of the financing from the *Export-Import Bank of the United States* (Ex-Im), contracted in March 2009 was repaid.

(f) Debentures:

- *6th Issue*

The General Meeting of Debenture Holders of MRS 6th Issuance of Debentures resolved for the early maturity of the Debentures, by changing the current item "XVII" of clause 7.1 Deed of Issue to the following: "XIII - downgrade in the Issuer's risk rating, during the term of effectiveness of Debentures, to "A-" (national scale) rating or lower, assigned by the Risk Rating Agency, unless approved by Debenture Holders representing 2/3 (two-thirds) of the Outstanding Debentures, gathered in at the General Meeting of Debenture Holders;" and CDI variation interest rate repricing + 0.90% for CDI variation + 0.90% , from April 20, 2016 to the issue expiration date. The contract amortization final period is December 10, 2019.

On December 27, 2017, the Company acquired approximately 90.6% of the 6th issue debentures, totaling R$ 182,040 thousand, through a Tender Offer operation (public tender offer for repurchase of papers on the market). In December 2019, the last installment of the 6th issue of debentures was repaid.

- *7th Issue*

On February 15, 2015, the Company issued R$ 550,726 in debentures, of which R$ 336,340 related to the 1st issue series and R$ 214,386 related to the 2nd issue series. Due to the issue value correction provided in the deed, between the issue date and the settlement date, the total disbursed was R$ 555,003.

The issuance occurred pursuant to CVM Instruction # 400, and 550,726 simple, non-convertible in shares, unsecured debentures with a unit value of R$ 1 were issued. The earnings obtained from the issuance were used in full to finance the revitalization projects of the permanent track and expansion of the approved Communication-Based Train Control (CBTC) project, and considered priority by the Ministry of Transport, which is why the debentures count as tax exemption benefit according to Law No. 12,431.

The first series of this issue has a term of 7 years, with amortization in the 6th and 7th years and is subject to a IPCA rate + 5.9828% per year. The second series of the issue has a term of 10 years, with amortization in the 8th, 9th and 10th years, and is subject to a IPCA rate + 6.4277% per year. Interest payments for the two series are annual.

On April 6, 2016, the General Meeting of Debenture Holders of MRS 7th issue of Debentures resolved no acceleration of the Debentures, due to the waiver the Debentures having their risk rating lowered by two notches, in relation to the Debenture risk classification on the issue date, until February 15, 2024 and payment of premium (flat), incising on the unit nominal value duly updated, equivalent to 4.35% for the 1st Series of Debentures and 5.35% for the 2nd Series of debentures. The premiums were paid on April 15, 2016, based on the unit nominal value updated on April 14, 2016.

- *8th Issue*

On December 13, 2017, the Company carried out its 8th issue of simple, non-convertible debentures of unsecured kind, via CVM 476 Instruction. A total of 40,000 debentures were issued in two series, which are 2nd and 3rd, totaling a funding of R$ 400,000 thousand, of which R$ 182,040 was allocated in the 2nd series and R$ 182,040 in the 3rd. The issue could have been made in up to 3 series, but, after bookbuilding procedure, it was determined the emission of the 2nd and 3rd series only, canceling the 1st series.

The second series of this issue was placed on the market, with interest of 108.30% of CDI per year, defined after bookbuilding procedure, paid semiannually, with a 5 year term and amortization in the 4th and 5th year.

The 3rd series was exclusively intended to debenture holders of the 6th issue of the Company's debentures, within the scope of the Tender Offer operation. The 6th issue debenture holders who joined the Tender Offer sold their debentures to the Company for the value at the curve

In thousands of reais, unless otherwise stated

and acquired the 8th issue papers | 3rd series, exclusively for these investors. The 3rd series of the 8th issue was placed with a fixed rate of 109.50% of CDI per year, paid semiannually, with a 5 year term and amortization in the 3rd, 4th and 5th year.
The net resources obtained by the Company with this issuance were used to strengthen its working capital and to extend the debt profile.

- 9*th Issue*

On April 15, 2019, the Company carried out its 9th issue of simple, non-convertible debentures of unsecured kind, via CVM 476 Instruction. A total of 65 thousand debentures were issued in two series, being the 1st and 2nd, totaling a funding of R$650,000 thousand, of which R$367,150 was allocated in the 1st series and R$282,850 in the 2nd series.
The 1st series of this issue was placed on the market, with interest of IPCA+4.095% p.y., defined after a *bookbuilding* procedure, paid semiannually, with a term of 5 years and amortization in the last year.
The 2nd series of this issue was placed on the market, bearing interest of 106.4% of the CDI p.y., defined after a *bookbuilding* procedure, paid semiannually, with a 5 year term and amortization in the 4th and 5th years.
The net proceeds obtained by the Company with this issuance were used for investment projects, reinforcement of its working capital and to extend the debt profile.

Non-current financing depreciation flow is as follows:

	2021	2022	2023	After 2023	Total
FINAME	5,938	2,743	256	-	8,937
DULC	33,159	25,658	9,078	-	67,895
FINEM	125,301	92,612	23,472	148,268	389,653
Debentures	382,805	384,821	233,107	697,663	1,698,396
MUFG Bank	67,178	67,178	69,726	-	204,082
	614,381	**573,012**	**335,639**	**845,931**	**2,368,963**

In thousands of reais, unless otherwise stated

On December 31, 2019, transaction costs of fund raising were represented as follows:

	Current	Non-current					Total
	2020	2021	2022	2023	After 2023	Total	CP + LP
DULC	139	132	109	44	-	285	424
FINEM	364	285	188	119	611	1,203	1,567
FINAME	2	1	-	-	-	1	3
Debentures	6,984	5,365	3,115	2,881	5,090	16,451	23,435
MUFG Bank	29	-	-	-	-	-	29
	7,518	5,783	3,412	3,044	5,701	17,940	25,458

On December 31, 2019 and 2018, the amount of transaction costs incurred in each fund raising process was as of:

	2019	2018
FINEM	140,000	101,063
(-) fund raising costs	(1,232)	(1,232)
% costs/Funded amount	-0.88%	-1.22%
MUFG Bank	95,500	-
(-) fund raising costs	(29)	-
% costs/Funded amount	-0.03%	-
Debentures 9th issue	650,000	-
(-) fund raising costs	(5,890)	-
% costs/Funded amount	-0.91%	-

For MUFG Bank's funding, in 2018 there was no funding cost.

Financial restrictive conditions (covenants)

Loan and financing agreements have restrictive covenants related to the maintenance of financial indexes. All *covenants* have been met on December 31, 2019. The debentures issued by the Company also have restrictive covenants related to the maintenance of financial indexes, which were complied with on December 31, 2019. The 7th issue debentures have minimum risk *rating* maintenance clauses attributable by *Standard and Poor's*, which were also complied with in the reporting period. The 8th and 9th issue debentures do not have minimum risk rating maintenance clauses.

For the purpose of complying with the financial restrictions (covenants), the Company uses the most restrictive clauses of the contracts in force, being 2.5x for the Net Debt/EBITDA ratio and 4.0x for the EBITDA/Net Financial Expense ratio.

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23. Financial leasing

The financial leasing referring to the Company's rights of use were grouped according to their nature into:

Assets associated to the concession: agreement entered into with the Federal Government referring to the assets necessary for the operation and maintenance of cargo rail transport activities.

Machinery and equipment, vehicles: rental of aerial platform, forklift, vehicles and others.

Real Estate: leasing of areas, commercial rooms, garages, buildings and others.

Computer equipment: computer equipment, electronics and software.

Others: container and others.

The use and balance of financial leasing is shown below:

	2019						
	Assets associated to the concession	Machinery and equipment	Vehicles	Real Estate	Computing Equipment	Others	Total
Lease payable							
Initial Recognition	**2,709,836**	**58**	**16,609**	**7,545**	**32,994**	**80**	**2,767,122**
Addition	70,437	517	-	957	3,290	204	**75,405**
Payments	(352,262)	(273)	(10,424)	(1,692)	(13,794)	(26)	**(378,471)**
On December 31	**2,428,011**	**302**	**6,185**	**6,810**	**22,490**	**258**	**2,464,056**
Interest to accrue							
Initial Recognition	**(692,144)**	**(4)**	**(1,521)**	**(1,517)**	**(3,266)**	**(9)**	**(698,461)**
Addition	(16,545)	(38)	-	(160)	(1,996)	(25)	**(18,764)**
Interest accrued	155,589	27	921	434	2,985	5	**159,961**
On December 31	**(553,100)**	**(15)**	**(600)**	**(1,243)**	**(2,277)**	**(29)**	**(557,264)**
Net residual value							
On December 31	**1,874,911**	**287**	**5,585**	**5,567**	**20,213**	**229**	**1,906,792**
Current	**239,428**	**245**	**2,524**	**1,289**	**12,453**	**95**	**256,034**
Non-current	**1,635,483**	**42**	**3,061**	**4,278**	**7,760**	**134**	**1,650,758**

In thousands of reais, unless otherwise stated

The flow of future financial leasing payments is as follows:

	2020	In up to 5 years	More than 5 years	Total
Assets associated to the concession	381,941	1,798,527	247,543	2,428,011
Machinery and equipment	257	45	-	302
Vehicles	2,875	3,310	-	6,185
Real Estate	1,677	4,513	620	6,810
Computing Equipment	14,206	8,284	-	22,490
Others	115	147	-	258
	401,066	1,814,183	248,163	2,464,056

24. Derivative Financial Instruments

Operations with financial instruments

The calculation of the fair value of investments (Cash and cash Equivalents, and Restricted Cash) is carried out as follows: for applications with deferral period less than or equal to 60 days, the fair value is considered as the original value itself. If the grace period exceeds 60 days, the profitability is calculated by the interest rate agreed until the end of the grace period, following to discounting by a higher fee equivalent to 110% of contracted rate, representing a penalty for any investment output at the non-liquidity period.

For loans and funding that have public market quotation for reference interest rate, flow is calculated to maturity based on contractual rate and then deducted by the current rate from the public source. For loans and funding without public interest rate source, after the flow is calculated to maturity date with contractual rate, it is deducted by the interest rate from transactions similar in terms of risk and time. In case of any difficulties to identify comparable financing, the discount rate may be determined by consulting with financial institutions.

The following table shows book amounts of all transactions with financial instruments conducted by the Company that differ from their fair value:

	2019		2018	
	Book value	Fair value	Book value	Fair value
Assets				
Trade accounts receivable	1,074,904	1,041,496	471,210	463,688
Liabilities				
Loan and funding in foreign currency	617,108	617,452	595,242	599,345

The calculation of the fair value of the loans considers the market quotation of the respective operations, with the exception of those that: (i) do not have a reference net market or (ii) whose liquidation (exit value) can be made without penalty. For these cases, the fair value is equal to the value in the curve.

In thousands of reais, unless otherwise stated

Classification of financial instruments

The following table shows book amounts of all transactions with financial instruments conducted by the Company and their respective classification:

	2019				2018			
	Amortized cost	VJR	VJR/operations used for *hedge*	Total	Amortized cost	VJR	VJR/operations used for *hedge*	Total
Assets								
Cash and cash equivalents	-	668,264	-	668,264	-	276,653	-	276,653
Restricted cash	-	2,033	-	2,033	-	69,309	-	69,309
Accounts receivable and other accounts receivable	1,168,438	-	-	1,168,438	539,309	-	-	539,309
Gains on transactions with derivative financial instruments – *swap*/NDF	-	-	96,344	96,344	-	-	83,031	83,031
Total	**1,168,438**	**670,297**	**96,344**	**1,935,079**	**539,309**	**345,962**	**83,031**	**968,302**

	2019				2018			
	Amortized cost	VJR	VJR/operations used for *hedge*	Total	Amortized cost	VJR	VJR/operations used for *hedge*	Total
Liabilities								
Suppliers	234,303	-	-	234,303	304,796	-	-	304,796
Loan and funding in R$	669,947	-	-	669,947	784,508	-	-	784,508
Loan and funding in USD	607,008	-	-	607,008	591,391	-	-	591,391
Debentures	1,803,925	-	-	1,803,925	1,124,058	-	-	1,124,058
Losses on transactions with derivative financial instruments – swap/NDF	-	-	12,277	12,277	-	-	24,391	24,391
Fair Value Hedge Adjustment - MUFG Bank	-	-	10,100	10,100	-	-	3,851	3,851
Total	**3,315,183**	**-**	**22,377**	**3,347,560**	**2,804,753**	**-**	**28,242**	**2,832,995**

Derivative financial instruments

Company has derivative financial instruments to protect itself from risks related to foreign currency and interest rate.

The accounting policy for recording transactions with derivative financial instruments is described in the explanatory note 4.3 (v) to these statements.

The derivative financial instruments are initially recognized at the fair value on the date the derivatives contract is signed, and revalued thereafter also to the fair value. The derivatives are presented as financial assets when the instrument fair value is positive, and as financial liabilities when the fair value is negative.

Thus, *swap* transactions that on December 31, 2019 showed a receivable net balance in the amount of R$84.067 (R$58.640 on December 31, 2018), had their variations accounted as income.

Company documented such hedge as Hedge Fair Value after the tests prove that is expected that

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Hedge is strongly effective when compensating the fair value subjected to hedge. Effectiveness is measured based on prospective effectiveness tests, evaluated by the statistical method of reducing volatility. The hedge is considered effective when the prospective test's effectiveness quotient results in a value equal to or greater than 80%.

From the swap assignment for the Hedge Fair Value, the variation of the hedge fair value is still registered in the financial statements, but at the same time the variation of the assigned risk fair value, subject of the assigned hedge, is checked and registered in the liability as a balancing item in the financial result.

	Fair Value Hedge Object	
	2019	**2018**
Debt	607,008	583,007
Fair Value Hedge Adjustment	10,100	3,851

	Impact on financial result	
	2019	**2018**
Financial income		
Fair Value Hedge Adjustment	626	3,840
Financial expense		
Fair Value Hedge Adjustment	(6,875)	(8,659)
Net Financial Income	**(6,249)**	**(4,819)**

In thousands of reais, unless otherwise stated

Derivative designed for Fair Value Hedge	Reference amount (notional)		Fair value	
Contract type	**2019**	**2018**	**2019**	**2018**
Swap contracts (fixed Dollar for CDI real)				
Asset position				
Fixed Dollar	546,405	620,585	617,451	587,513
Liability position				
Real CDI	546,405	620,585	(551,924)	(515,683)
Total Swap Contracts			65,527	71,830
Income tax allowance on swap gains			(10,185)	(13,153)
Total income net swap contracts			55,342	58,677
Rated				
In the current asset			51,645	34,096
In the non-current asset			4,702	48,383
In current liabilities			(1,005)	(19,625)
In non-current liabilities			-	(4,177)
			55,342	**58,677**

In thousands of reais, unless otherwise stated

Unassigned Derivatives	**Reference amount (notional)**		**Fair value**	
Contract type	**2019**	**2018**	**2019**	**2018**
Hedge contracts				
Asset position				
Fixed Dollar (fixed Dollar for CDI real)	-	8,278	-	16,647
IPCA (IPCA for CDI)	367,150	-	407,335	
Variable euro to fixed dollar	-	23,738	-	20,974
Variable dollar to fixed real	-	7,449	-	8,878
Liability position				
CDI Real (fixed Dollar for CDI real)	-	8,278	-	(17,236)
CDI (IPCA for CDI)	367,150	-	(371,429)	
Variable euro to fixed dollar	-	23,738	-	(20,672)
Variable dollar to fixed real	-	7,449	-	(8,531)
Total hedge contracts			35,906	60
Income tax allowance on *swap*/NDF			(7,181)	(97)
Total *swap*/NDF contracts Net income tax			28,725	(37)
Rated				
In the current asset			-	552
In the non-current asset			39,997	-
In current liabilities			(11,272)	(589)
			28,725	**(37)**

The Company has *swap* derivative instruments. As for the swap asset leg , tied to a fixed rate plus dollar/euro exchange variation, the amount is calculated by the agreed rate up to the maturity date then deducted by the exchange slip rate corresponding to the remaining term between maturity and present date. Finally, the amount resulting from this calculation is converted by the current exchange rate.

To the liability leg, which is tied to a given CDI percent, the value is calculated up to maturity date by applying such percentage. Then this value is deducted to the CDI by 100% rate up to present date.

In thousands of reais, unless otherwise stated

Description	2019			2018		
	Notional Value	Fair Value	Salaries	Notional Value	Fair Value	Salaries
Swap contracts						
Asset position						
Foreign currency	546,405	617,451	Apr/20	628,863	604,160	Mar/19
IPCA	367,150	407,335	To	-	-	To
Liability position			Apr/24			Aug/23
Rates (post)	913,555	923,353		628,863	532,919	
"NDF" contracts						
Asset position						
Foreign currency	-	-		31,187	29,852	Dec/18
Liability position			-			To
Foreign currency	-	-		31,187	29,203	May/20

The Company's derivative financial instruments are allocated on the following counterparts:

Entity	MRS Receives	MRS Payable	Start Date	Maturity Date	Contracted Notional Value	Fair Value 2019 (R$) Asset Leg	Fair Value 2019 (R$) Liability Leg	Gross Income (R$) Asset - Liability (*)
Swap contracts								
MUFG Bank	USD + 3.10%p.y.	102.8 to 106.5% of CDI	4/12/2019	4/9/2020	$25,000	101,404	96,524	4,880
MUFG Bank			5/24/2017	5/17/2020	$75,000	302,753	246,587	56,166
MUFG Bank			8/27/2018	8/23/2023	$50,000	213,294	208,812	4,482
Mizuho BanK	IPCA	CDI	4/30/2019	4/15/2024	R$100,000	110,945	101,166	9,779
JP Morgan Bank	IPCA	CDI	4/30/2019	4/15/2024	R$267,150	296,390	270,264	26,126
Total						**1,024,786**	**923,353**	**101,433**

(*) Gross amounts of Withholding Income Tax as of R$17,366, totaling a net derivative position of R$84,067.

In thousands of reais, unless otherwise stated

Non-derivative financial instruments

When measuring the fair value of its financial instruments, the Company assesses the credit risk of its counterparties and its own credit risk.

24.1. Fair value hierarchy

The Company uses the following hierarchy to determine and disclose the financial instrument fair value:

- Level 1: Financial instruments that have data from active market (not adjusted quoted price) so as to be able to be daily accessible, including at the fair value measurement date.

- Level 2: Financial instruments that have different data arising from an active market (not adjusted quoted price) included on Level 1, extracted from a pricing model based on observable market data.

- Level 3: The Instruments classified as being Level 3 are those whose data are extracted from a pricing model based on non-observable market data.

The Company's derivative financial instruments, having a receivable net balance as of R$84,067 on December 31, 2019, as well as the financial instruments linked to cash (including cash, cash equivalents and restricted cash) have been classified as Level 2 in the fair value hierarchy. There are no financial instruments rated as Level 3 or Level 1 in the Company.

In the year ended on December 31, 2019 there were no transfers between levels.

	2019		2018	
	Fair value	**Level**	**Fair value**	**Level**
Assets (Liabilities)				
Derivative financial instruments assets	96,344	2	83,031	2
Derivative Financial Instruments Liabilities	(12,277)	2	(24,391)	2
Cash and cash equivalents	668,264	2	276,653	2
Restricted cash	2,033	2	69,309	2

24.2. Targets and policies for the financial risk management

The Company's main financial liabilities, other than derivatives, refer to loans, suppliers and other accounts payable. These financial liabilities are mostly intended to raise funds to the Company's transactions. The Company has loans and other credits, trade accounts receivable and other accounts receivables and cash deposits and short-term deposits that result directly from their operations. The Company also contracts transactions with derivatives.

The Company is exposed to market risk, credit risk and liquidity risk.

Senior management oversees the management of these risks, supported by a finance committee from the Board of Directors, thus contributing to maintain a financial risk governance structure suitable to the Company.

The financial committee recommends actions to the Company's senior management so that the activities in which financial risks are assumed are governed by appropriate policies and procedures approved by the Board of Directors. All activities involving derivatives are aimed at managing risks, and there are no derivative transactions for speculative purposes. The financial risk management policy is reviewed and approved by the Board of Directors in an annual basis.

The finance committee reviews and establishes a management policy to each risk, intended mainly to reduce any unexpected financial or economic difference that may impact the Company's results for its planned cash flow. As a second purpose, we seek to minimize the likelihood of: (i) unforeseen requirement of additional fund raising; and (ii) the MRS metrics breach financial covenants previously assumed.

As a key risk management mechanism, the internal controls used by the Company's Management are focused on monitoring the percentage of debt indexed to foreign currency that is protected by derivative financial instruments. For this reason, most of the Company's exposure to foreign exchange risk has been covered by swap contracts.

Additionally, the Company not only monitors the results of these transactions by their fair value, but also outlines deterioration scenarios for relevant market variables, evaluating stressing scenarios and their respective financial impact.

24.3. Derivative financial instruments use policy

The Company's policy is to mitigate their exposure to market risks, trying to reduce the financial impact of exchange rate and interest rate fluctuation. This policy is implemented by strategically monitoring their assets and liabilities exposure to such variables, along with hiring derivative operations that allow controlling involved risks.

Derivative transactions basically occur through an exchange rate swap versus CDI percentage, all of them relying on first-class bank as a counterpart and involving fixed rates in foreign currency, with no margin deposit as collateral. It is noteworthy that all the derivative contracts are intended to reduce risk exposure and have no speculative stands.

24.4. Market Risk

Market risk is the risk that the future cash flow fair value of a financial instrument has of fluctuating due to market price variations. Market prices comprise three types of risk: interest rate risk, exchange rate risk, and price risk, which may be of commodities or shares, among others, which will be detailed as follows. Financial instruments affected by market risk include loans payable, deposits, financial instruments available for sale and measured at fair value through profit or loss, and derivative financial instruments.

(a) Interest Rate Risk

The interest rate risk arises from the possibility of the Company being subject to financial losses caused by changes on interest rates to which they are exposed.

The Company has significant liabilities pegged to local fixed interest rates such as CDI, TJLP - Long-Term Interest Rate, TLP and IPCA.

The risks associated with the CDI, TJLP, TLP and IPCA are assessed by sensitivity analysis, in which the rates are increased by 25% (scenario I) and 50% (scenario II) against the rates of likely scenario listed by Company, based on the IPCA price index and the Over Selic rate target made available in the Market Expectations System of the Central Bank of Brazil on December 31, 2019, in addition to the TJLP and TLP published by the Central Bank of Brazil therein date.

In the table below, it is possible to note that, on the base date of December 31, 2019, the 50% increase in both the CDI and the TJLP and TLP (scenario II) represents a loss lower than 5% in the increase in the net liability position, approximately R$25,744 (R$47,055 as of December 31, 2018), when compared to the likely scenario, which is why the Company decided not to use derivative instruments to minimize such exposure.

In millions of reais

	2019 Base	Likely	Scenario I	Scenario II
CDI	6.40%	7.25%	9.06%	10.88%
TJLP	5.57%	7.03%	8.79%	10.55%
TLP	6.76%	6.79%	8.49%	10.19%
IPCA	4.23%	3.95%	4.94%	5.93%
Liability	**2,210.1**	**2.331.2**	**2.351.0**	**2,381.2**
TJLP Debt	171.0	183.0	175.5	178.4
TLP Debt	235.3	251.2	255.2	259.2
CDI Debt	661.8	709.9	721.9	733.9
IPCA Debt	1,142.0	1,187.1	1,198.4	1,209.7
Asset	**667.2**	**715.6**	**727.7**	**739.8**
Applications	667.2	715.6	727.7	739.8
Net Uncovered Position	**1,542.9**	**1.615.6**	**1.623.3**	**1.641.4**

	Book value	
	2019	**2018**
Fixed rate instruments		
Financial Liabilities	880,834	1,035,181
Post fixed rate instruments		
Financial Assets	670,297	345,962
Financial Liabilities	2,210,146	1,468,627

(b) Exchange Rate Risk

The Company's results are subject to significant variations due to the volatility effects of exchange rate on liabilities indexed on a currency other than its functional currency.

Especially, the exposure to currency risk (exchange rate risk) focuses on purchases and loans made primarily in US Dollar, which ended year ended on December 31, 2019 with positive growth of 8.42% (17.12% negative on December 31, 2016).

	2019	2018
Foreign Currency Assets		
Ongoing imports	1,769	1,474

In thousands of reais, unless otherwise stated

Advances to suppliers	132	-
Swap/NDF financial instruments	617,451	634,012
	619,352	**635,486**
Foreign Currency Liabilities		
Suppliers	(190)	(25,127)
Loans and funding	(617,108)	(595,242)
	(617,298)	**(620,369)**
Net Exposure	**(2,054)**	**15,117**

As follows, you can see the Company's assets and liabilities variations linked to exchange rate arising from applying stress scenarios. It was decided to keep the swap's active end separate, in order to make the derivative's effect more evident.

Sensitivity analysis in the following sections refer to the position on December 31, 2019, and try to simulate how stressing risk variables can affect the Company. The first step was to identify the key factors that may potentially generate losses to results, which is comprised of the exchange rate. The analysis started from a base scenario represented by the booking amount of operations i.e. taking into account the selling rate of December 31, 2019, and interest accrued in the period. Moreover, three scenarios were drawn up, I, II and III, representing, respectively, the likely scenario and potential 25% and 50% deterioration scenarios on risk variable.

To conduct this analysis, the Company uses as a premise for probable scenario the exchange rate at the end of 2019, disclosed in the last Focus – Bacen Report prior to year-end. Based on the likely exchange rate, the 25% and 50% risk deterioration scenarios are produced.

The following table represents the sensitivity analysis involving the net effect resulting from these shocks in exchange rates for the year 2019

In thousands of reais, unless otherwise stated

Dollar Appreciation Risk – 2019

R$ Millions

Transaction	Likely Scenario I	Scenario II	Scenario III
Hedge – Swap Asset Leg	2.957	155.102	310.204
Debt in USD	(2.955)	(155.016)	(310.032)
Net operation increased risk US$	**0.002**	**0.086**	**0.172**

	Exposure (R$ Millions)	Likely Exposure (R$ Millions)	Real	Expected Rate	Impact	
					25%	50%
Swap Asset Leg	617.5	620.4	4.03	4.05	5.06	6.08
Debt in Dollars	(617.1)	(620.1)	4.03	4.05	5.06	6.08

These transactions are primarily made in Real and Dollar.

(c) Credit Risk

It refers to the possibility of the Company incurring losses due to default by any counterparts or financial institutions which deposit resources or financial investments. In order to mitigate these risks, the Company adopts as a practice the analysis of their counterparts' financial and property situation, as well as by defining the credit limits and constantly monitoring outstanding accounts.

	2019	2018
Cash and cash equivalents	668,264	276,653
Restricted cash	2,033	69,309
Receivables	1,168,438	539,309
Derivative financial instruments – *swap/NDF*	84,067	83,031
Total	**1,922,802**	**968,302**

Receivables

The Company has accounts receivable focused on some big customers, which are also its related parties (note 10), representing, on December 31, 2019, 88.62% of the total accounts receivable (81.77% on December 31, 2018).

Such customers demand transportation of cargo considered "captive" and that have the same credit policy, determined in their agreements for services provision. For such customers, the credit risk is relatively low due to the mitigating procedures defined in the agreement of services provision.

For customers with non-captive cargo transportation, the Company is subject to the credit policies established by its Management, which aim to minimize any problems arising from default by its customers. In these cases, the Company performs a daily management of credit and collection. In case of default, the collection is carried out with the direct involvement of managers responsible for commercial agreements and may even result in the temporary suspension of service provision.

In thousands of reais, unless otherwise stated

Financial instruments and cash deposits

The Company is subject to credit risk associated to financial investments that it performs, in view of the risk of insolvency of the institutions in which the Company keeps its investments, which may result in a total or partial loss of the invested funds. On December 31, 2019, the value in cash exposure and cash equivalents of the Company was R$668,264 (R$276,653 on December 31, 2018), which were allocated to bank account or in applications in the CDB or in operations that had formal commitment of repurchase by financial institutions.

Credit risk on cash and cash equivalents is determined by rating instruments widely accepted by the market and are arranged as follows:

	2019
AAA+	236,691
AA+	266,099
AA	134,528
A or A+	30,946
Total	**668,264**

(d) Risk of liquidity

The Company's operations are capital intensive and part of this investment is financed by loans and financing. This leverage, as shown in the table below, generates a demand for cash, it being understood that Company's investment is highly resilient i.e. it is possible to be adjusted throughout the year as the business evolves.

Company's current cash position is considered robust and, throughout 2019, was reinforced both from strong cash generation and new long-term funding via financial market and BNDES, which are already internally directed and strategically distributed both in the first and second semester of 2019. These resources shall cover part of the estimated amount of investments for the next year.

The Company currently has long-term financing lines already approved by the relevant financial institutions. However, due to the cash position considered comfortable and resilient cash generation, Management internally assesses the best time for such funding.

The table below summarizes the Company's maturity profile of financial liabilities on December 31, 2019, based on not discounted contractual payments.

In thousands of reais, unless otherwise stated

	Non-Deducted Cash Flow – 2019				
	Up to 6 months	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial liabilities					
Loans, financing and debentures (R$)	550,429	245,337	741,002	953,861	851,355
Related parties	36,361	14,700	15,233	47,259	13,233
Suppliers	158,928	188	25,338	-	-
Derivative financial liabilities					
Swaps used for hedge (USD)	61,041	(216)	(101)	4,803	-

	Non-Deducted Cash Flow – 2018				
	Up to 6 months	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial liabilities					
Loans, financing and debentures (R$)	374,178	170,957	772,360	1,223,602	476,561
Related parties	29,744	35,388	13,398	54,743	20,733
Suppliers	218,909	-	21,766	-	-
Derivative financial liabilities					
Swaps used for *hedge* (USD)	28,039	(6,431)	27,614	7,467	-

It is worth mentioning that the non derivative financial liabilities that have some sort of collateral are detailed in management note 22. Derivative financial liabilities do not have any type of warranty.

Capital management

The administration's policy is to maintain a solid capital base to maintain investor, creditor and market trust and to ensure the future development of business. The administration monitors the invested capital return considering the results of economic activities in operational segments. The aim is to achieve a return compatible with its capital cost annually reviewed through the concept of Weighted Average Cost of Capital. The administration also monitors the level of dividends to common and preferred shareholders.

The capital debt at the end of the period is presented below:

In thousands of reais, unless otherwise stated

	2019	2018
Total liabilities	6,621,672	4,174,969
(-) Cash and cash equivalents	668,264	276,653
(-) Restricted cash	2,033	69,309
Net obligations	5,951,375	3,829,007
Total equity	4,102,527	3,844,206
Ratio of net obligations on equity	**1.451**	**0.996**

25. Payable dividends

Company's By-Laws ensures a minimum annual dividend consisting of 25% of the net profit, according to corporate legislation.

	2019	2018
Net income for the year	503,355	521,616
Appropriation for statutory reserve	(25,168)	(26,080)
Base net profit for determining dividends	**478,187**	**495,536**
Minimum mandatory dividends – 25%	119,547	123,884
Dividends payable from previous years	151	113
Total dividends payable	**119,698**	**123,997**

On December 10, 2019, R$247,768 of dividends (2018 – R$219,094) was paid, of which R$123,884 were mandatory minimum dividends and R$123,884 were related to additional dividends approved at the Extraordinary General Meeting held on November 25, 2019.

26. Payable concessions and lease

		2019	2018
Concession payable		6,474	6,677
Lease payable	**(a)**	-	126,867
		6,474	**133,544**
Current		3,812	74,120
Non-current		2,662	59,424

(a) Due to the adoption of CPC 06 (R2)/IFRS 16, the balance of this line was remeasured and reclassified to leasing. Details of the operation are described in note 3.

The balance of concession payable refers to the recognition of obligations payable incurred up to this date. The current liabilities obligations are recorded linearly on an accrual basis, and according to the agreement terms (360 months) with costs of services provided as an offsetting.

In thousands of reais, unless otherwise stated

The recorded amount in non-current liabilities refers to the grace period which was recognized according to the accrual basis and is being paid in each of the installments paid quarterly.

The concession agreement provides that for the operation of railway transport services, the Company will pay the total amount in 116 quarterly installments, maturing in the months of January, April, July and October of each year. On December 31, 2019, 26 quarterly installments of R$4,756, totaling R$123,656 remained. These amounts include the capitalization of contractual interest of 10.99% pa and monetary restatement up to December 31, 2019, based on the latest contractual index, the IGP-DI - General Price Index - Internal Availability.

The flow of future concession payments is as follows:

	2020	**In up to 5 years**	**More than 5 years**	**Total**
Concession	19,029	95,938	8,689	123,656

In January 2020, the Company paid the 91st installment of the concession, in the amount of R$4,756.

In thousands of reais, unless otherwise stated

27. Deferred taxes

Deferred tax balances recorded in assets and liabilities were calculated on temporary differences and are as follows:

	2019	2018
Asset		
Contingency provisions	180,512	120,424
Various provisions	80,216	36,703
Asset loss provisions	8,464	5,741
ICMS loss provisions	5,814	8,874
Health insurance provisions	1,304	1,278
Total asset	**276,310**	**173,020**
Liability		
Depreciation	114,148	114,058
RTT adjustments amortization (a)	140,219	160,443
Wagons and locomotives accelerated depreciation	52,956	74,282
Interest capitalization	105	105
Derivative financial instruments – swap	29,667	21,081
Accelerated R&D Depreciation 2008 / 2009 / 2012 Act 11.196/05	2,830	4,146
Total liabilities	**339,925**	**374,115**
Net total	**63,614**	**201,095**

Income tax and deferred social contribution on temporary differences are expected to be offset to the extent of settlement of contingencies and other deductible temporary additions.

(a) The amount of R$ 339,924 (R$ 374,115 in December 31, 2018) referring to the deferred liability Contemplates the deconstitution (amortization) of adjustment from RTT – Transitory Tax System. Due to such adjustments, the Company recorded IRPJ/CSLL deferred from differences between corporate and tax result, in the amount of R$241,001, which is being deconstituted for the remaining term of the concession agreement as the rules provided for in Articles 69 of Act No. 12.793/14 and 174 of Normative Instruction RFB No. 1515/14. The amount amortized in 2019 was R$20,224 (R$20,224 in 2018), making a balance of R$140,219 on December 31, 2019 (R$160,443 in 2018) .

In thousands of reais, unless otherwise stated

The net movement of the deferred tax account is as follow:

	2019	2018
On January 1	**201,095**	**235,569**
Contingency allowances	(60,088)	(7,843)
Various allowances	(43,513)	(2,131)
Health insurance allowance	(26)	(103)
Asset loss allowances	(2,723)	1,157
ICMS loss allowances	3,060	1,700
Depreciation	90	19,139
Wagons and locomotives accelerated depreciation	(21,326)	(21,141)
Derivative financial instruments – swap	8,586	(3,504)
Accelerated R&D Depreciation 2008/2009/2012 Act 11.196/05	(1,316)	(1,519)
RTT adjustments amortization	(20,224)	(20,224)
Others	-	(5)
On December 31	**63,615**	**201,095**

28. Reserves

Allowances consisted of the following:

		2019	2018
Allowances for contingencies	**28.1**	526,458	349,730
Allowances for post-employment benefits	**28.2**	6,190	4,174
ILP Allowance (Long-term incentives)		12,568	16,894
Provision for indemnity/fines to the Power Authority	**28.3**	42,553	43,094
Other allowances		33,458	33,649
		621,227	**447,541**
Current		39,835	40,840
Non-current		581,392	406,701

In thousands of reais, unless otherwise stated

28.1 Allowances for contingencies

Allowances for contingent liabilities, classified as having a probable loss risk, are recorded as non-current liabilities and are composed as follows:

	Social security and labor lawsuits (*)	Civil	Tax	Environmental	Total accrued liability
On December 31, 2017	**133,806**	**64,973**	**127,883**	**-**	**326,662**
Addition	54,407	4,952	1,511	-	60,870
Updates	5,306	5,090	2,213	-	12,609
Write-offs for reversals or payments	(37,935)	(6,137)	(6,339)	-	(50,411)
On December 31, 2018	**155,584**	**68,878**	**125,268**	**-**	**349,730**
Addition	194,214	13,013	202	2,073	209,502
Updates	44,667	3,479	3,806	575	52,527
Write-offs for reversals or payments	(74,964)	(9,233)	-	(1,104)	(85,301)
On December 31, 2019	**319,501**	**76,137**	**129,276**	**1,544**	**526,458**

(*) R$313,465 (R$149,724 in 2018) related to labor lawsuits and R$6,036 (R$5,860 in 2018) related to the provision for Tax Debt Assessment Notices ("NFLD") for social contributions payable to the INSS, concerning the SAT surcharge.

Considering the deposits and blockages made during the process and that still are pending, expected future impact in cash is consisted as follows:

		2019				
		No. of shares (*)	Implied value	Allowance (**)	Deposits	Net value
Social security and labor lawsuits	(a)	1,680	758,427	319,501	(62,281)	257,220
Civil	(b)	1,056	539,784	76,137	(24,953)	51,184
Tax	(c)	176	611,184	129,276	(38,287)	90,989
Environmental	(d)	48	32,264	1,544	(1,386)	158
Others	(e)	9	-	-	-	-
		2,969	**1,941,659**	**526,458**	**(126,907)**	**399,551**

(*) Number of lawsuits related to lawsuits classified with estimated possible and probable loss.
(**) This amount does not include the contingencies for which RFFSA is responsible, as the Company is only responsible for paying labor debts arising after privatization, as per the Privatization Notice, item 7.2.

(a) Social security and labor lawsuits

Most social security and labor lawsuit claim the charging of overtimes, indemnity installments, night additional, interval intra-day, salary equalization, and risk and hazard premium.

As of December 31, 2019, the total amount of labor claims, classified as probable or possible loss, was 758,427 (R$438,797 as of December 31, 2018). Based on the opinion of its legal advisors, the

Company has accrued R$319,501 for 1,014 lawsuits (R$155,584 as of December 31, 2018), considering the prospect of probable loss in those lawsuits.

The increase of R$194,214 is mainly due to changes in the prognosis, to the results of calculations from convictions or modifications made during the period and to the increase in the number of labor claims.

In the same way, the write-offs of provisions in the period are worth R$74,964, of which R$74,347 refers to reductions due to changes in the forecast and the amount of R$617 to the write-off of provisions.

Furthermore, based on the assessment of its legal advisors, the Company has a contingency of R$212,706 for 666 suits with an estimated possible loss, which do not have amounts recorded as a provision.

(b) Civil

Currently, in the civil law, the Company is part of 1,056 lawsuits, which it acts as the defendant in 962 and as author/confrontational/interested in 94.

The lawsuits in which the Company is the defendant, mostly concern civil liability for railway accidents, legality of charging for third-party interference in right-of-way areas, concession and lease agreements, maintenance of the health care insurance and adjustment index of the health care insurance monthly fee after the dismissal of the Company's employees, equivalence of the private pension plan to the RFFSA plan and Public Civil Lawsuits. The total amount involved in said lawsuits, as of December 31, 2019, was R$487,146 (R$516,864 as of December 31, 2018). Following the opinion of its legal advisors, the Company recorded an allowance of R$68,677, (R$68,470 in December 2018), referring to the estimated amount of cases with the probability of probable loss.

In the lawsuits in which Company operates as plaintiff/abutter/interested party, are mostly on contractual liability, collection actions when using the right of way, adverse possession and repossession. The total amount involved in said lawsuits, as of December 31, 2019, was R$52,638 (R$57,353 as of December 31, 2018). According to the constructions of its legal advisors, the Company has a provision of R$7,460, (R$408 in December 2018) for a probable loss probability cause in which, although MRS is the plaintiff, it is also the defendant/counterrespondent or was convicted of loss of suit.

The addition in the amount of R$13,013 is mainly due to changing convictions of the amount originally accrued during the period. The biggest addition in the amount of R$2,185, due to the change in prognosis.

Write-offs of provisions were made in the period, totaling R$9,233, arising from the realization of the provisioned expenses. The highest write-off was in the amount of R$2,185.

The Company is a party to 973 lawsuits for which, based on the assessment of its legal advisors, it has no provision, since the loss prognosis was classified as possible. The amount of contingencies with a possible loss prognosis is R$459,833 as of December 31, 2019 (R$503,178 as of December 31, 2018) and refers mainly to indemnity claims arising from railway accidents.

The Company has insurance coverage for personal, property and moral injury and damages caused to third parties, whose deductible is currently R$ 750 per claim.

(c) Tax

The Company is a party to 176 legal and administrative proceedings of a tax nature, 18 of which are lawsuits for recovery of taxes and 158 lawsuits with a possible or probable risk of funds outflow.

As of December 31, 2019, the total amount involved of these 158 lawsuits was R$611,184 (R$578,929 as of December 31, 2018). Based on the opinion of its legal advisors, the Company has provisioned the amount of R$129,276 (R$125,268 as of December 31, 2018), referring to 10 lawsuits considering the prospect of probable loss.

The composition of tax provisions with a probable loss prognosis is made up as follows:

- ICMS – The amounts of R$73,749 and R$52,614 refer to lawsuits in which the use of ICMS credits is being discussed, in the states of Rio de Janeiro and São Paulo, respectively, for the acquisition of goods classified by the Company as inputs or components of the permanent asset, mentioned by the state inspection.
- Tax execution for the collection of IRPJ debts in the amount of R$892, extinguished by offsetting.
- Tax execution for the collection of COFINS debts in the amount of R$398, extinguished by offsetting.
- Action for annulment of debts included ex officio by the tax authority in the Crisis REFIS instituted by Law No. 11,941/09, in the modality of " Payment in installments of remaining balances of the REFIS, PAES, PAEX programs and Ordinary Installments ", in the amount of R$1,623.

Company is part of other 148 lawsuits in which, based on the assessment of its legal counsel, it has no provision once the loss expectations were considered as likely. The amount of R$196,597 refers to actions that relate, in their majority, to:

- IPTU reciprocal immunity. R$48,613, refer to administrative and legal proceedings related to the improper collection of IPTU on operating real estate, object of the concession agreement, assigned to the Company by the Federal Government to provide the transport service.
- PIS and COFINS mutual traffic: R$17,384 refer to the PIS and COFINS requirement on the entry of amounts as mutual traffic into the Company's cash and, continuously, transferred to third parties (revenue from another concessionaire).
- PIS and COFINS exchange variation: R$31,122 refer to the exclusion of amounts arising from exchange variation of PIS and COFINS calculation basis.
- Non-approval of compensations and disregard for payments: R$45,683
- Isolated fine for non-approval of compensations: R$4,817

(d) Environmental

The Company is a party to 13 legal proceedings and 35 administrative proceedings whose object is on environmental matters. As of December 31, 2019, the total amount involved in these lawsuits was R$32,264 (R$16,548 as of December 31, 2018). Based on the understanding of its legal advisors, the Company has provisioned the amount of R$1,544 referring to 1 lawsuit considering the prospect of probable loss in that action, the others remaining as 'possible' loss.

(e) Others

The Company has 9 Conduct Adjustment Agreements (TACs) signed and in force, 2 due to labor issues and 7 from civil issues. TACs of labor matter aim to (i) guarantee union leaders of full exercise of activities intended to defend collective or individual rights and interests of the occupational category; and (ii) fill the percentage of employees with disabilities required by art. 93, Act 8.213/91. In the civil area, there are 7 TACs: (i) in the municipality of Guarujá, dealing with improvements in safety signage, regularization of the right-of-way area and availability of waste dumpsters; (ii) in the municipality of Santos Dumont, for the installation of acoustic windows in the local Forum; (iii) in the municipality of Santo André, for the renovation of properties within the Paranapiacaba railway yard; (iv) in the municipality of Congonhas, for the construction of 1 overpass and 2 walkways in Bairro do Pires; (v) in the municipality of Resende, for the renovation of the shed at the Engenheiro Passos Railway Station and; (vi) in the municipality of Conselheiro Lafaiete, for the donation of a vehicle to the Military Police and contracting a company for the production of films topresent the cultural heritage of cities that are part of the Conselheiro Lafaiete and Piranga District and (vii) in the municipality of Itabirito, to refrain from clearing forests and vegetation without prior authorization from the local environmental agencies and to pay fines and fees for expert examinations carried out by the Public Prosecutor's Office in the Public Civil Inquiry.

In thousands of reais, unless otherwise stated

28.2 Allowances for post-employment benefits

	2019	2018
Complementary pension plans	-	18
Medical care plan	6,190	4,156
	6,190	**4,174**

Complementary pension plans

The Company sponsors complementary pension plan to employees through a pension plan managed by Bradesco Vida e Previdência. The complementary pension plan, created on July 1, 1999, is eligible for all employees of MRS from the date of the plan creation. The plan is a defined contribution plan, and the Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all benefits owed. The cost is shared so that the portion of the Company amounts to 100% of that the employee's contribution according to a contribution scale based on salary band.

The plan requires contributions to be made to funds managed separately from the Company's own funds. The plan assets are held by an open complementary pension fund, and are not available to the Company's creditors and cannot be paid directly to the Company.

The Company's contributions account for R$6,394 in the fiscal year ended on December 31, 2019 (R$7,110 in 2018), which were entered as year expenses.

As of December 31, 2019, there were no liabilities on behalf of the Company arising from the supplementary pension plan (R$18 in 2018).

Medical care plan

The Company has a plan for post-employment medical care for a group of former employees and their spouses administered by Bradesco Saúde Insurance. The plan has a policy of partial participation of each employee (fixed monthly contribution) through post-payment model. Due to the adoption of this policy, the extent of this benefit is guaranteed for employees and their family group after the resignation and retirement (post-employment period) as the articles No. 30 and 31 of Law 9.656/98, respectively, and Normative Resolution RN No. 279 of November 24, 2011.

In thousands of reais, unless otherwise stated

The Company also offers a post-payment plan managed by Unimed Juiz de Fora. However, there are no retired or dismissed users during the post-employment period and the expected adhesion of future retired employees is zero.

On December 31, 2019, the plan had 15,953 lives in Bradesco Saúde and 622 in Unimed Juiz de Fora, amounting 16,575 lives.

Actuarial gains and losses are recognized in Equity as Equity Adjustment and Comprehensive Income Statement, as required by CPC 33 (R1) - Employee Benefits.

The Company's contributions to medical care plan managed by Bradesco Saúde S.A and Unimed account for R$41,025 on December 31, 2019 (R$39,290 on December 31, 2018).

On December 31, 2019, there were actuarial liabilities of the Company arising from the health plan in the amount of R$6,190 (R$4,156 in 2018), which were duly provided in the non-current liability.

a. Reconciliation of net actuarial liabilities accounted in balance sheet:

	2019	**2018**
Net actuarial liabilities in January 1	4,156	4,234
Expense accounted in the year	413	583
Gains in obligations	1,621	(661)
Actuarial liabilities on December 31	**6,190**	**4,156**

b. Actuarial liabilities transactions:

	2019	**2018**
Actuarial liabilities at the end of the year	4,156	4,234
Current service cost	45	146
Interests over actuarial liabilities	368	438
Benefits paid directly to plan	(320)	(259)
(Gain)/Loss – cost rescaling included in other comprehensive income	1,941	(403)
Actuarial liabilities on December 31	**6,190**	**4,156**

In thousands of reais, unless otherwise stated

c. Expenses to be recognized in the income statement of the next year:

	2020
Current service cost	83
Interests over actuarial liabilities	423
Total expenses to be accounted	**506**

d. Assumptions adopted by the independent actuary in actuarial liability calculations:

Discount rate	3.29% p.a.
Long-term inflation	3.60% p.a.
Medical inflation (HCCTR)	3.92% p.a. (1)
Aging factor	(2)
Overall mortality table	AT-2000

1) Medical inflation is used to calculate the current amount of healthcare costs. However, it should be noted that, in the calculations for 2019, the current amount of the healthcare cost of MRS Logística beneficiaries was lower than the current amount of the respective contributions, therefore, the final obligation was calculated based on the administrative cost, whose amount does not reflect the actual growth resulting from medical inflation and the aging of people.
2) Regarding the aging factor, also used in the calculation of the current amount of healthcare costs, this consulting does not adopt an annual linear percentage, for all ages, as it considers healthcare costs per capita increasing by age group and which, therefore, already reflects the effects of aging on the beneficiaries.

Life insurance

Employees participate in a collective life insurance guaranteed by SulAmérica Seguros. In 2019, the Company contributed with R$813 (R$694 in 2018) for its employees' life insurance policies.

28.3 Provision for indemnity/fines to the Power Authority

The amount of R$42,553 (R$43,094 in 2018) registered in non-current liabilities refers to the provision for ongoing lawsuits with the Granting Authority, arising from the sanitation and regularization of the real property, in addition to some ongoing administrative proceedings and penalties with ANTT, with a prognosis of probable loss.

29. Other covenants

		2019	2018
Contractual obligation with related parties	10 (e)	76,931	89,753
Deferred revenue		6,409	11,190
Consigned fuel		8,292	7,529
Other payables		6,115	4,810
		97,747	**113,282**
Current		31,362	33,695
Non-current		66,385	79,587

In thousands of reais, unless otherwise stated

30. Equity

(a) *Subscribed and paid-up capital*

The subscribed and paid-up capital, amounting to R$1,917,306 (R$1,718,440 in 2018), is divided into 340,000,000 shares with no face value, divided in ordinary and preferable class "A" and "B".

According to the Company's Bylaws, the authorized capital is R$ 2,500,000.
According to the Notice of Privatization and the Bylaws of MRS, no shareholder may hold equity interest greater than 20% of the voting capital. If this limit is exceeded, as determined by ANTT, shareholders waive the right to vote and veto inherent to the shares that exceed this limit.

The Board of Directors' Meeting held on March 20, 2019 approved capital stock increase in the amount of R$198,866 using part of investment reserves constituted in previous years.

On December 31, 2019, participation in the Company's share capital was as follows:

	Common Shares		Preferred Shares		Total Capital	
Shareholders	**No. of shares**	**%**	**No. of shares**	**%**	**No. of shares**	**%**
Minerações Brasileiras Reunidas S.A.	37,666,526	20.00%	74,301,916	48.99%	111,968,442	32.93%
Companhia Siderúrgica Nacional	26,611,282	14.13%	36,765,916	24.24%	63,377,198	18.64%
CSN Mineração S.A.	25,802,872	13.70%	37,536,000	24.75%	63,338,872	18.63%
Usiminas Participações e Logística S.A.	37,513,650	19.92%	342,805	0.23%	37,856,455	11.13%
Vale S.A.	36,270,703	19.26%	769,304	0.51%	37,040,007	10.89%
Gerdau S.A.	4,460,128	2.37%	-	-	4,460,128	1.31%
Railvest Investments	14,747,620	7.83%	-	-	14,747,620	4.34%
Minority Shareholders	5,259,906	2.79%	1,951,372	1.28%	7,211,278	2.13%
	188,332,687	**100.00%**	**151,667,313**	**100.00%**	**340,000,000**	**100.00%**

(b) *Stock rights*

Holders of common shares shall have the right to vote in the resolutions of general meetings; the preferred shares holders (classes A and B) will have the right to dividends 10% higher than those assigned to common shares, shall have no right to vote and priority in receiving the capital, without premium, upon winding-up of the Company.

The Class B preferred shares are, at the initiative of the shareholder that holds it, convertible into common shares at a ratio of one for each common share. Such conversion may be made at any time, subject to the conditions provided for in the Bylaws.

Although not entitled to vote, the class B preferred shares will have the right to elect, in a separate vote, a member of the Board of Directors as long as they represent a minimum of 25% of total capital stock.

In thousands of reais, unless otherwise stated

(c) *Revenue reserves - legal reserve*

Recorded at 5% of the net income before profit sharing and reversal of interest on shareholders' equity, as required by the legislation and limited to 20% of the share capital. On December 31, 2019, after registering R$25,168 on accrued profits for the year, the balance of the Legal Reserve was changed to R$320,533 (R$295,365 in 2018).

(d) *Profit reserves - investment reserve*

Management proposed retaining the remaining retained income for expansion in the amount of R$358,640, aiming to supply the required resources for fulfilling the Company's capital investment budget. On December 31, 2019, the Investment Reserve balance was R$1,726,735 (R$1,621,941 in 2018).

(e) Proposed additional dividend

There was no amount declared as exceeding the mandatory minimum dividend on December 31, 2019 and 2018.

(f) *Equity adjustments*

The equity adjustment relates to actuarial gains of health plan, determined in accordance with CPC 33 (R1).

	Actuarial earnings	IRPJ/CSLL	Total
2018	**12,267**	**(2,672)**	**9,595**
Write-Off	(1,941)	337	(1,604)
2019	**10,326**	**(2,335)**	**7,991**

31. Result per share

The following table sets forth the calculation of earnings per share for the years ended on December 31, 2019 and 2018 (in thousands of Reais, except per share amounts):

	2019	2018
Numerator		
Net income for the year	503,355	521,616
Denominator		
Common shares weighted average	188,333	188,333
Preferred shares weighted average - A	82,076	82,076
Preferred shares weighted average - B	69,591	69,591
10% - Preferred shares	1.1	1.1
Weighted average of adjusted preferred shares (basic earnings)	166,834	166,834
Weighted average of adjusted preferred shares (diluted earnings)	90,284	90,284
Denominator for basic earnings per share	355,167	355,167
Denominator for diluted earnings per share	348,208	348,208
Basic earnings per common share	1.42	1.47
10% - Preferred shares	1.1	1.1
Basic earnings per preferred share - A	1.56	1.62
Basic earnings per preferred share - B	1.56	1.62
Diluted earnings per common share	1.45	1.50
10% - Preferred shares	1.1	1.1
Diluted earnings per preferred share - A	1.59	1.65
Diluted earnings per preferred share - B	1.59	1.65

In thousands of reais, unless otherwise stated

32. Services net revenue

	2019	2018
Services gross revenue	3,483,747	4,083,553
Tax on Sales	(282,938)	(357,105)
Services net revenue	**3,200,809**	**3,726,448**

The Company provides services in the Brazilian domestic market to private entities.

Service provision agreements with customers establish prices and forecasts for the tons to be transported during the effective period. Revenue is recognized as mentioned in note 4.17.

33. Expenses by kind

		2019	2018
Depreciation and amortization	**(a)**	(921,226)	(604,586)
Labor and social charges		(624,619)	(647,554)
Fuel/Lubricants		(476,943)	(582,781)
Outsourced services		(257,282)	(253,571)
Inputs/other materials		(146,417)	(152,383)
Shares of freight		(107,035)	(102,358)
Others		(75,812)	(51,243)
Additional transportation costs		(25,411)	(25,594)
Concession/lease cost	**(a)**	(18,550)	(322,417)
Insurance expenses		(10,501)	(9,956)
Operational vehicles and equipment rent	**(a)**	(6,656)	(15,247)
Management fees		(4,591)	(4,680)
Provision for expected losses on doubtful debts		(564)	(1,311)
Presumed ICMS MG credit		61,335	69,875
		(2,614,272)	**(2,703,806)**
Cost of services rendered		(2,377,782)	(2,476,486)
Sales expenses		(14,036)	(14,510)
General and administrative expenses		(222,454)	(212,810)
		(2,614,272)	**(2,703,806)**

(a) The variation in the balance for 2019 compared to 2018 is due to the impact of the adoption of CPC 06 (R2)/IFRS 16, as shown in notes 3 and 16.2.

In thousands of reais, unless otherwise stated

34. Other revenues and other operational expenses

		2019	2018
Other operational revenues			
Alternative Revenues		32,068	26,948
Material Sales (scrap/exceeding stock)		33,354	24,804
Contractual penalties **(a)**		671,110	17,823
Insurance **(b)**		41,793	4,174
Revenue from sales of fixed assets	**37.1**	2,163	411
Reversal of provision for loss of current and non-current assets	**12 and 16.**	4,233	8,404
Reversal of fines/indemnities provisions of the Granting Authority	**28.3**	541	-
Reversal of other liability provisions		1,880	-
Reversal of provision for loss of ICMS credits	**13**	9,000	-
Indemnity amounts receivable	**11 (b)**	-	10,028
Other revenue		36,139	7,232
		832,281	**99,824**
Other operational expenses			
Allowance for non-circulating asset loss	**16.1**	(12,216)	-
Allowances for contingencies		(124,376)	(10,647)
Provisions fines/indemnity Granting Authority	**28.3**	-	(11,006)
Other liability allowances		-	(7,563)
Loss of tax credits		(28,537)	(35,769)
Taxes on sales and other revenues **(a)**		(72,830)	(8,440)
Other tax expenses		(14,680)	(14,961)
Procedural Loss Enforcement		(55,830)	(36,378)
Alternative revenues cost		(9,257)	(5,123)
Agreements with Municipalities		(5,806)	(5,489)
Cost on Material Sales (scrap/exceeding stock)		(3,320)	(6,335)
Donations		2,207	(137)
Fixed Asset Write-Off	**16**	(16,740)	(13,554)
Inventory Adjustment/Write-Off		-	(4,200)
Sponsorship expenses (Tax incentives)		(8,894)	(11,562)
Compensation to Granting Authority		(326)	(2,247)
Write-off of investment projects	**16.1**	(14,053)	(4,351)
Other expenses		(11,516)	(6,072)
		(376,174)	**(183,834)**
Other net operational incomes (expenses)		**456,107**	**(84,010)**

(a) The amounts of R$671,100 and R$72,830 in 2019 are mainly due to the recognition of revenue related to the revenue protection mechanism and its respective tax effects mentioned in note 10 (b).

(b) Of the amount of R$41,793 in 2019, R$38,815 is due to the provision for receiving reimbursement of assets damaged by the rupture of the dam belonging to Vale S.A. at Mina do Feijão, in Brumadinho, Minas Gerais, which occurred on January 25, 2019.

In thousands of reais, unless otherwise stated

35. Financial revenues and expenses

		2019	2018
Financial Income			
Exchange and Monetary Variation		145,461	146,109
Derivative financial instruments – swap		54,421	64,059
Incomes w/o Financial Investments		44,686	25,778
Interest		2,184	146
Present value adjustment of accounts receivable and subleasing		34,562	31,405
Other financial revenues		31,175	3,238
		312,489	**270,735**
Financial Expenses			
Exchange and Monetary Variation		(213,613)	(250,503)
Interest		(192,363)	(146,319)
Adjustment to present amount of leases	**23**	(159,961)	-
Marking-to-market adjustment - hedge accounting	**24**	(6,249)	(4,819)
Other financial expenses		(25,214)	(23,350)
		(597,400)	**(424,991)**
Net Financial Income		**(284,911)**	**(154,256)**

In thousands of reais, unless otherwise stated

36. Taxes on profit

	2019	2018
Profit before the income tax and social contribution	**757,733**	**784,376**
Nominal aliquot	34%	34%
IRPJ/CSLL by rated aliquot:	**257,629**	**266,810**
Adjustments to reflect actual aliquot:	**(3,251)**	**(4,050)**
Inventory adjustment	576	2,159
Donation expenses	278	(5)
Loss on visual investment	20	59
Citizen Company Project Expenses	318	307
Tax incentives	(16,139)	(18,015)
Write-off of investment projects	4,778	1,479
Others	6,918	9,966
IRPJ/CSLL at the results for the year	**254,378**	**262,760**
Current	391,521	296,896
Deferred	(137,143)	(34,136)
IRPJ/CSLL at the results for the year	**254,378**	**262,760**
Total effective tax rate	33.57%	33.48%
Total effective tax rate – current	51.67%	37.83%
Total effective tax rate – deferred	-18.10%	-4.35%

In thousands of reais, unless otherwise stated

37. Other reports on cash flows

37.1 Sale of fixed assets

In the statement of cash flows, the sale result of fixed assets comprises:

	2019	2018
Net book value	35	4
Profit (loss) from fixed assets disposal	2,128	407
Amounts received in fixed assets disposal	**2,163**	**411**

37.2 Investment and financing activities not involving cash

	2019	2018
Acquisition of fixed assets without cash disbursement	**(51,188)**	**29,041**
Financial lease for acquisition of fixed assets	**-**	**20,151**
	(51,188)	**49,192**

In thousands of reais, unless otherwise stated

37.3 Settlement of liabilities resulting from financing activities

	2019					
	Bank loans	**Debentures**	**Finance Lease**	**Total**	**Derivative Financial Instruments**	**Total debt**
Loans and Funding 12/31/2018	**1,377,230**	**1,099,895**	**29,729**	**2,506,854**	**(58,640)**	**2,448,214**
Operations that have affected cash flow	**(184,527)**	**550,158**	**(378,471)**	**(12,840)**	**23,713**	**10,872**
New fundings	280,500	650,000	-	930,500	-	930,500
Payment from main	(405,413)	(9,402)	(218,510)	(633,325)	23,713	(609,613)
Interest payment	(59,585)	(84,541)	(159,961)	(304,086)	-	(304,086)
Transaction cost	(29)	(5,900)	-	(5,929)	-	(5,929)
Operations that have not affected cash flow	**92,329**	**130,437**	**2,255,534**	**2,478,300**	**(49,140)**	**2,429,160**
Initial Recognition	-	-	2,038,932	2,038,932	-	2,038,932
Acquisition/new leasings	-	-	56,641	56,641	-	56,641
Amortizations	525	8,055	-	8,580	-	8,580
Exchange variation	91,804	122,382	159,961	374,147	(49,140)	325,008
Loans and Funding 12/31/2019	**1,285,032**	**1,780,490**	**1,906,792**	**4,972,314**	**(84,067)**	**4,888,247**

In thousands of reais, unless otherwise stated

	2018					
	Bank loans	Debentures	Finance Lease	Total	Derivative Financial Instruments	Total debt
Loans and Funding 12/31/2017	1,535,294	1,178,902	14,633	2,728,829	(65,387)	2,663,442
Operations that have affected cash flow	(294,139)	(187,661)	(6,694)	(488,494)	65,136	(423,358)
New fundings	307,063	-	-	307,063	-	307,063
Payment from main	(542,068)	(109,419)	(5,798)	(657,285)	65,136	(592,149)
Interest payment	(57,904)	(78,324)	(896)	(137,124)	-	(137,124)
Transaction cost	(1,230)	82	-	(1,149)	-	(1,149)
Operations that have not affected cash flow	136,075	108,654	21,789	266,519	(58,389)	208,130
Acquisition/new leasings	-	-	20,151	20,151	-	20,151
Transfers for short-term	75,605	-	-	75,605	-	75,605
Exchange variation	60,470	108,654	-	169,124	(58,389)	110,735
Fair value change	-	-	1,639	1,639	-	1,639
Loans and Funding 12/31/2018	**1,377,230**	**1,099,895**	**29,729**	**2,506,854**	**(58,640)**	**2,448,214**

In thousands of reais, unless otherwise stated

38. Insurance

The Company has the following insurance policies for their operations:

Coverage	Purpose	Expiration Date	Maximum Coverage	Deductible Credits
Operational Risk	Coverage of the company's operational property or a property under their responsibility.	March 1, 2021	250,000	5,000
Liability	Coverage against damages caused by third-parties	August 9, 2021	40,000	750
Cargo Shipping	Coverage of occurrences on shipping cargo	October 31, 2020	60,000	200

Notes:

The Company has as a policy hiring insurance coverage to assets subject to risks and civil liability for amounts considered as sufficient to cover any possible losses, considering the nature of the activity. The adopted risk assumptions, given their nature, are not part of the scope of our accounting statement audit, therefore, were not reviews by independent auditors.

39. Subsequent events

Boards of Administration Meeting
In accordance to Law 6.404/76 (Corporate Law), item 199, the balance of profit reserves, apart from contingencies, of tax incentives and unrealized profits should not exceed the capital stock. The Company has reached this cap on December 31, 2019, and the Board of Directors' Meeting held on March 25, 2020, approved capital stock increase in the amount of R$129,962 using part of investment reserves constituted in previous years.

Effects of Coronavirus on Financial Statements
The Company's management, considering the current information on the COVID-19 (Coronavirus) outbreak in the country, understands that there is no evidence that its operations are at risk so far and, consequently, that its economic and financial results, can be significantly affected and is taking the required measures to cooperate with the Ministry of Health guidelines to contain the outbreak spread.

The Company will continue to monitor the development of the situation to assess any future effects.

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Management: Advisors and Directors

Board of Directors

Claudio de Oliveira Alves
CEO

Alejandro Daniel Laiño
Carlos Hector Rezzonico
Elder Rapachi
Enéas Garcia Diniz
Fátima Aparecida Chaves de Aleixo
Luis Fernando Barbosa Martinez
Marcelo Leite Barros
Pedro Gutemberg Quariguasi Netto
Sonia Zagury

Executive Board Members

Guilherme Segalla de Mello
CEO, CCO, and COO

Alexandre Claro Fleischhauer
Chief Engineer and CMO

Félix Lopez Cid
CHRO

Fabrícia Gomes de Souza
Chief Finance, Development & Investor Relations Officer

Other Directors not part of the Board

Daniel Dias Olivio
Henrique Rocha Martins
Luiz Gustavo Bambini de Assis

Statement by the Officers on the Financial Statements

By this instrument, the Chief Executive Officer, Operations and Commercial Officer, Executive Board and other Officers of MRS Logística SA, a publicly-held limited liability company, for the purposes of the provisions of items V and VI of article 25 of CVM Instruction No. 480, of 07 of December 2009 ("INSTRUCTION"), declare that they have reviewed, discussed and agreed with the financial statements of MRS Logística SA for the fiscal year ended December 31, 2019.

Rio de Janeiro, March 25, 2020

Guilherme Segalla de Mello CEO, CCO, and COO	Alexandre Fleischhauer Chief Engineer and Maintenance Officer
Félix Lopez Cid CHRO	Fabrícia Gomes de Souza Chief Finance, Development & Investor Relations Officer

Other Directors not part of the Board

Daniel Dias Olivio	Henrique Rocha Martins
Luiz Gustavo Bambini de Assis	

MRS Logística S.A.

Statement by the Officers on the Independent Auditors' Report

By this instrument, the Chief Executive Officer, Operations and Commercial Officer, Executive Board and other Directors of MRS Logística SA, a publicly-held limited liability company, for the purposes of the provisions of items V and VI of article 25 of CVM Instruction No. 480, of 07 of December 2009 ("INSTRUCTION"), declare that they have reviewed, discussed and agree with the opinions expressed in the Independent Auditor's Report of KPMG Auditores Independentes, regarding the financial statements of MRS Logística SA for the fiscal year ended December 31, 2019.

Rio de Janeiro, March 25, 2020

Guilherme Segalla de Mello
CEO, CCO, and COO

Alexandre Fleischhauer
Chief Engineer and Maintenance Officer

Félix Lopez Cid
CHRO

Fabrícia Gomes de Souza
Chief Finance, Development & Investor Relations Officer

Other Directors not part of the Board

Daniel Dias Olivio

Henrique Rocha Martins

Luiz Gustavo Bambini de Assis

To
shareholders of
MRS Logística S/A

We submit below the proposal for the Capital Budget for the year 2020, approved at a meeting of the Board of Directors on March 25, 2020, as well as the realization of the Capital Budget for 2019.

Income retention:

Management proposed the retention of the remaining profits in an expansion/investment reserve in the amount of R$358,640, aiming at the supply of resources required to comply with the Company's capital investment budget.

Capital budget:

The capital budget will be financed by the retained profits in the 2019 fiscal year and by the funds arising from the 2020 financing activity.

With regard to the projects included in the Capital Budget for the year ended 2019, 84.31% of the estimated amounts were realized, as shown in the table below:

In thousands of Reais

Investments	Budget 2019	Accomplished 2019	Accomplished (-) Budgeted
Rolling stock (locomotives and wagons) [1]	369,367	301,598	-67,769
Permanent tracks [2]	430,399	391,877	-38,522
Electronic systems	28,687	16,134	-12,553
SMS Program [3]	10,078	6,374	-3,704
Miscellaneous	48,124	31,512	-16,612
Total	**886,655**	**747,495**	**-139,160**

1. Investments in acquisition, reliability and modernization of rolling stock
2. Investments in expansion, infrastructure reliability and modernization of permanent tracks
3. Health, Environment and Occupational Safety

At the Board of Directors' Meeting held on March 25, 2020, the Officers resolved to propose at the General Shareholders' Meeting, the retention of R$358,640 corresponding to 75% of the profits for the year 2019, after the constitution of the legal reserve, to fund part of the investments foreseen in the 2020 capital budget.

The capital budget for fiscal year 2020 is composed of the following sources of funds:

MRS Logística S.A.

Capital budget

Year 2020

Funds sources	In thousands of Reais
Cash:	668,264
Net operating generation	192,037
Fund raising in 2020	76,961
Total of funding sources	**937,262**

The summary of the Capital Budget applications for fiscal year 2020 is presented below:

Investments	**Budget 2020**
Permanent Tracks [1]	522,144
Rolling stock (locomotives and wagons) [2]	281,619
Electronic systems	19,567
SMS Program [3]	31,864
Miscellaneous	82,068
	937,262

1. Investments in expansion, infrastructure reliability and modernization of permanent tracks
2. Investments in acquisition, reliability and modernization of rolling stock
3. Health, Environment and Occupational Safety

Rio de Janeiro, March 25, 2020

The Board