



# Management Report 2019

## B3:MILS3



The financial and operational information presented in this release, except when otherwise indicated, is in accordance with accounting policies adopted in Brazil, which are in accordance with international accounting standards (International Financial Reporting Standards - IFRS).



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# 1. Message from the CEO

Rio de Janeiro, March 18, 2020 - Mills Estruturas e Serviços de Engenharia S.A. (Mills) announces its results for the fourth quarter of 2019 (4Q19).

We are pleased to present Mills' results for the fourth quarter of 2019 (4Q19) and for the year. For a better understanding of this report, the mention of "combined" information, refers to the sum of Mills and Solaris results for the specified period. When not mentioned or when the term "consolidated" is used, it refers to the effects of Solaris on Mills only as from May 2019, when the business combination was carried out.

2019 was full of achievements and transformations for the Company, mainly due to the incorporation of Solaris by Mills in May, consolidating our leadership in the rental of aerial platforms, forms and shoring in Brazil. We made progress in creating value for the new Company through initiatives such as: (i) increased focus and consolidation in the rental market, which is still a market with low penetration; (ii) teams' efforts to integration in order to capture synergies and (iii) strengthening the Company by developing a new organizational culture, taking advantage of the best practices of both companies.

From the closing of the operation up to 2019 year-end, we have unified 11 of the 17 branches planned to be unified by the end of 2020, we have integrated 100% of the commercial teams and processes, our People and Management area, HSE and others; the adaptation of processes, infrastructure, systems and the development of a new organizational culture are in progress, in line with the schedule set.

Even with positive indicators and economic activity in Brazil showing improvements in 2019, this is still gradual and slow process. Even so, the Rental business unit reached a combined Adjusted EBITDA of R\$ 147.2 million in the year, 37% higher versus 2018. This year, we made progress in our commercial strategy for recovering prices and increasing market coverage.

In the Construction business unit, the main goal remains the breakeven of proxy cash Ebitda in its recurring activities, which was unfeasible in 2019, as the resumption of activity in the infrastructure sector was lower than expected. We expect a resumption in 2020, but the scale will be gradual along the year. Federal Government's PPI (Investment Partnership Program) has already announced nine new highway projects (five of which include re-auctions) and three privatizations of airport groups. There is the potential to unlock interrupted projects in the country involving funds in the amount of R\$ 144 billion.

Among the main challenges in 2020, we can highlight: (i) the completion of the integration of branches and capture of synergies; (ii) the beginning of the adjustment of the Rental unit's fleet; (iii) people development and a new organizational culture; (iv) resumption of investments in technology and innovation and (v) the preparation of a new Strategic Planning for the Company.

We thank our employees for their dedication and commitment, as well as the support of our customers, suppliers, shareholders, directors and other stakeholders and partners.

**Sergio Kariya**  
Mills CEO

## 2. Business Overview

We have over 66 years of history and we are the pioneer in solutions for work at heights, being the largest rental company of aerial platforms in Latin America and the largest provider of engineering solutions operating in highly complex constructions in Brazil.

In 2017, we were internationally recognized for our commitment in offering the best quality in training for aerial work platform operators in Brazil.

We are present throughout the country, providing a closer relationship with the customer and faster service to provide the most appropriate solution for each type of challenge. The differentiated quality of the training of our team, combined with the diversified experience and international partnerships with leading companies in the market, allows us to deliver customized solutions with the most advanced technology.

In the Rental business unit, we have a wide range of equipment such as aerial work platforms, telescopic handlers, generators, air compressors and lighting towers. We operate in the trade, rental and distribution of equipment, as well as its parts and components, and in technical assistance for various market segments, such as industry, construction, services and entertainment, always maximizing benefits and reducing risks.

Our Construction business unit basically operates in the rental and sales of forms and shoring for civil construction, with the supply of related engineering projects, supervision and assembly option.

We have a strong reputation of providing services in a consistent, reliable and quality manner, and compliance with all technical safety standards. We maintain our commitment to being a complete, agile and reliable company.

## 3. Business combination between Mills and Solaris

On May 10, 2019, the business combination with Solaris was completed and the Shareholders' Agreement was executed among the Nacht Family, Southern Cross Group and Sullair Argentina.

The business combination consolidates Mills leading role in the Brazilian aerial work platforms rental market and results in a more attractive mix of products, with a total fleet of approximately 9,000 equipment. This also implies increased capacity to serve its more than 6,000 active customers and potential customers from the most diverse sectors of the economy and Brazilian regions.

On the same date, as a result of the Business Combination, 76,056,038 new common, registered and book-entry new shares, with no par value, were issued by the Company in favor of Solaris' shareholders, who then received 0.4927615448 Mills' shares for each 1 common share issued by Solaris.

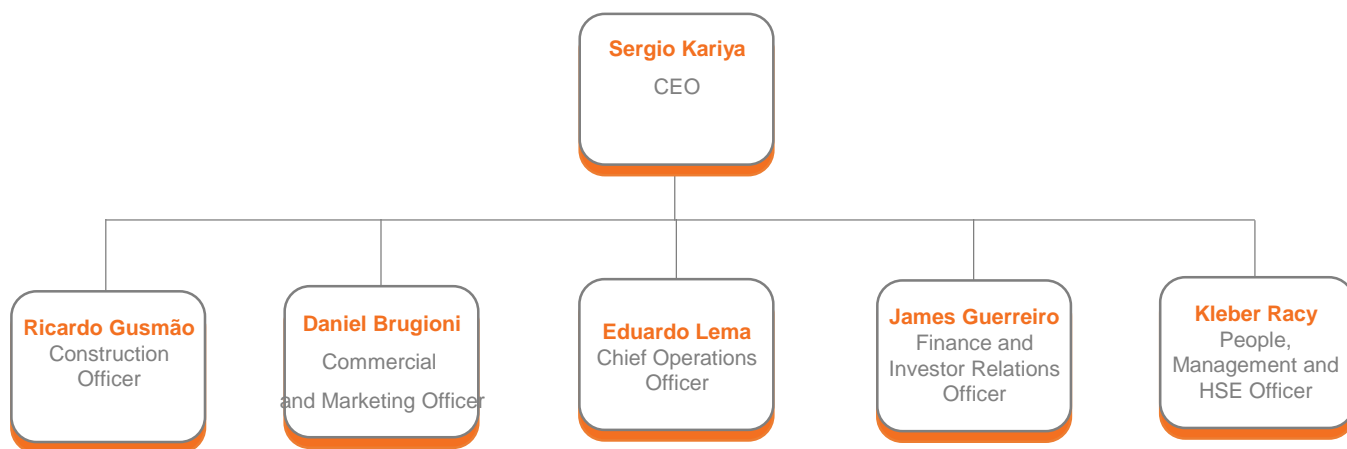
With the optimization of operations, the best practices of both companies and the absorption of synergies, the Company will have better prospects for growth and profitability, generating value for its shareholders.

## 4. New Organizational Structure

With the business combination, the organizational structure was adapted to the new Company, aiming at customer focus and agility in the provision of services.

In this sense, in Rental business unit, Daniel Brugioni continued as Commercial & Marketing Officer and Eduardo Lema, from Solaris, as Operations Officer. Kleber Racy, also from Solaris, took over the new People, Management and HSE Department.

Construction Officer, Administrative & Financial and Investor Relations Officer and the Company's CEO remained unchanged.



As announced to the market on February 6, 2020, the Administrative & Financial and Investor Relations Department will undergo changes soon. James Guerreiro announced his resignation due to personal reasons and will continue in the position until the choice and election of his successor, as well as supporting the Company in order to ensure a proper transition, with no discontinuity in the work in progress.

## 5. Consolidated Operating and Financial Performance

R\$ million	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
Net revenue from sales and services	304,2	439,5	44,5%	135,3
Cost of products sold and services rendered	(272,0)	(282,5)	3,9%	(10,5)
<b>Gross Profit</b>	<b>32,2</b>	<b>157,0</b>	<b>387,7%</b>	<b>124,8</b>
Selling, general and administrative expenses	(156,6)	(200,0)	27,7%	(43,4)
Reversal (provision) for impairment and fair value	(2,0)	(0,8)	-62,5%	1,3
Other revenues	-	0,8		0,8
<b>Loss before Financial Result</b>	<b>(126,4)</b>	<b>(43,0)</b>	<b>66,0%</b>	<b>83,4</b>
Financial result	(12,8)	(14,1)	9,6%	(1,2)
<b>Loss before taxes</b>	<b>(139,2)</b>	<b>(57,1)</b>	<b>59,0%</b>	<b>82,2</b>
Income tax and social contribution	44,3	12,1	-72,8%	(32,2)
<b>Results of Operations</b>	<b>(95,0)</b>	<b>(45,0)</b>	<b>52,6%</b>	<b>50,0</b>
CVM EBITDA	0,3	119,3	43769,7%	119,0
CVM EBITDA margin (%)	0,1%	27,1%		-
<b>EBITDA ex. non-recurring items</b>	<b>43,8</b>	<b>110,2</b>	<b>151,7%</b>	<b>66,4</b>
EBITDA ex. non-recurring items margin	16,0%	26,3%		-
<b>Adjusted Operating Cash Flow<sup>1</sup></b>	<b>63,3</b>	<b>100,1</b>	<b>58,1%</b>	<b>36,8</b>
<b>Adjusted Operating Free Cash Flow to the Firm<sup>2</sup></b>	<b>59,8</b>	<b>88,6</b>	<b>48,0%</b>	<b>28,7</b>
Cash balance (including restricted accounts)	149,4	124,9	-16,4%	(24,5)
Gross Debt	181,2	91,6	-49,5%	(89,6)
Gross Capex (accrual basis)	(4,5)	(11,5)	153,5%	(7,0)

\*Due to the acquisition of the controlling interest in Solaris (subsidiary) as of May 2019, the consolidated amounts include twelve months of the parent company (Mills) and only eight months (May to December 2019) of the subsidiary.

### IFRS 16

As of January 2019, accounting standard IFRS 16/CPC 06 (R2) came into force. Under this standard, rights to use (such as real estate and vehicle rental agreements, for example) are now recognized in assets and leases are now recognized in liabilities, similar to financial leases.

Thus, upon the adoption of IFRS 16, the Company no longer recognizes real estate and vehicle rental as costs and expenses in the income for the year and also starts to recognize: (i) the effects of the depreciation of the rights to use the leased assets; and (ii) the financial expense and exchange variation calculated based on the financial liabilities of the lease agreements.

In order to simplify the comparative analysis with previous periods, we present in this report some tables excluding IFRS 16 effects, whenever indicated.

<sup>1</sup>Excluding IFRS 16 effect and non-recurring items (Construction unit restructuring expenses, liabilities from Industrial Services business unit and expenses related to Solaris business combination project)

<sup>2</sup>For adjusted operating cash flow, interest on debentures and Finame, investment in lease and interest, and net active and passive inflation adjustments (cash) are not included. For adjusted free cash flow to the firm, interest on debentures and Finame, interest, and net active and passive inflation adjustments (cash) are not included.

## 6. Rental

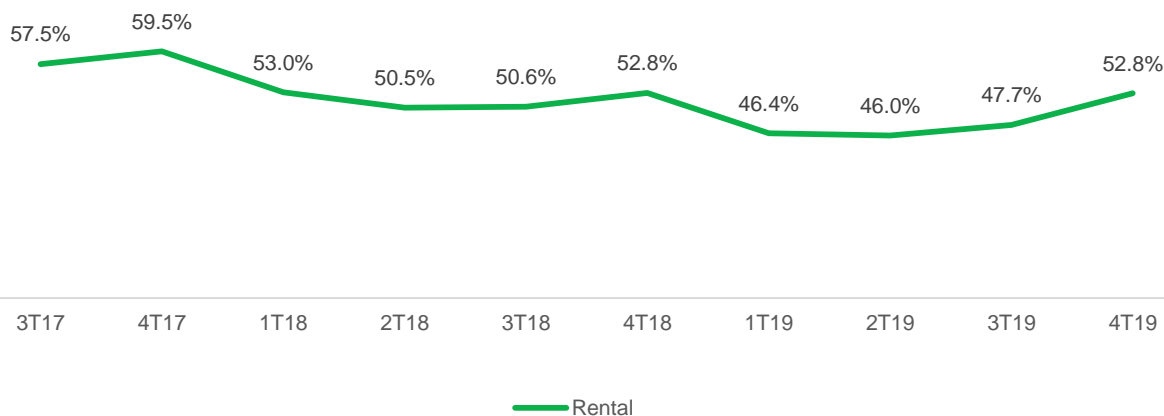
### 6.1 Consolidated Net Revenue

Rental business unit net revenue amounted to R\$ 357.5 million in 2019, a 75.6% increase versus the previous year, as a result of the business combination with Solaris in May 2019, the commercial strategy of customer diversification, gradual price increase and evolution of the Go-to-Market strategy.

Net Revenue by type	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
<b>Total Net Revenue</b>	<b>304.2</b>	<b>439.5</b>	<b>44.5%</b>	<b>135.3</b>
Rental	236.4	365.5	54.6%	129.1
Sales of new equipment	8.6	19.0	121.0%	10.4
Sales of semi new equipment	26.6	16.6	-37.7%	(10.0)
Technical Assistance	5.4	6.5	21.8%	1.2
Indemnity and Expenses Recovery	12.4	19.9	60.8%	7.5
Scrap Sale	14.9	12.0	-19.4%	(2.9)

### 6.2 Utilization Rate (Physical)

Evolution of the Quarterly Physical Utilization Rate



### 6.3 Consolidated Costs and Expenses

Rental business unit costs, excluding depreciation, increased 48.6% over the previous year, due to the business combination between Mills and Solaris. The impact of IFRS 16 in 2019 was R\$ 2.5 million.

General and administrative expenses, excluding depreciation and PCE, amounted to R\$ 110.8 million, a 62.5% increase as compared to the previous year. R\$ 37.7 million of this amount refers to personnel (administrative and commercial team). Non-recurring items are addressed later in this report. The impact of IFRS 16 in 2019 was R\$ 9.3 million.

In 2019, Rental's PCE amounted to R\$ 6.6 million, representing 1.8% of this business unit's net revenue.

	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
<b>COGS Total, ex-depreciation</b>	<b>76,4</b>	<b>113,5</b>	<b>48,6%</b>	<b>37,1</b>
<b>Job execution, warehouse and projects</b>	62,3	99,3	59,5%	37,1
Cost of sales of new equipment	6,5	13,7	111,9%	7,2
Cost of sales of semi new equipment	9,0	0,4	-96,0%	(8,6)
Cost of assets write-offs	-1,4	0,1	-108,0%	1,5
Cost of scrap sale	0,0	0,0	-25,5%	(0,0)
<b>G&amp;A, ex-depreciation and ECL</b>	<b>68,2</b>	<b>110,8</b>	<b>62,6%</b>	<b>42,7</b>
Commercial, Operational and Administrative	37,3	63,1	69,1%	25,8
General Services	17,4	18,1	3,9%	0,7
Other expenses	13,5	29,7	120,1%	16,2
<b>ECL</b>	<b>-0,9</b>	<b>6,6</b>	<b>-826,6%</b>	<b>7,5</b>
<b>COGS + Total SG&amp;A</b>	<b>143,7</b>	<b>230,9</b>	<b>60,7%</b>	<b>87,3</b>

### 6.4 EBITDA and EBITDA margin

	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
Net Revenue	203.6	357.5	75.6%	153.9
CVM EBITDA	60.0	126.6	111.2%	66.7
CVM EBITDA margin (%)	29.4%	35.4%		
Adjusted EBITDA*	66.4	128.8	94.0%	62.4
Adjusted EBITDA* margin (%)	32.6%	36.0%		
EBIT	-8.5	17.4	304.9%	25.9
EBIT margin (%)	-4.2%	4.9%		

\*Excluding the effect of IFRS 16 and non-recurring items and expenses related to the business combination project with Solaris

## 7. Construction

### 7.1 Net Revenue

Construction business unit's net revenue amounted to R\$ 81.9 million in 2019, a 18.5% decrease versus the previous year, mainly due to the low economic activity in the civil construction sector and the lower revenue from used cars and scrap sales, reflecting the evolution of this unit's resizing plan during the year.

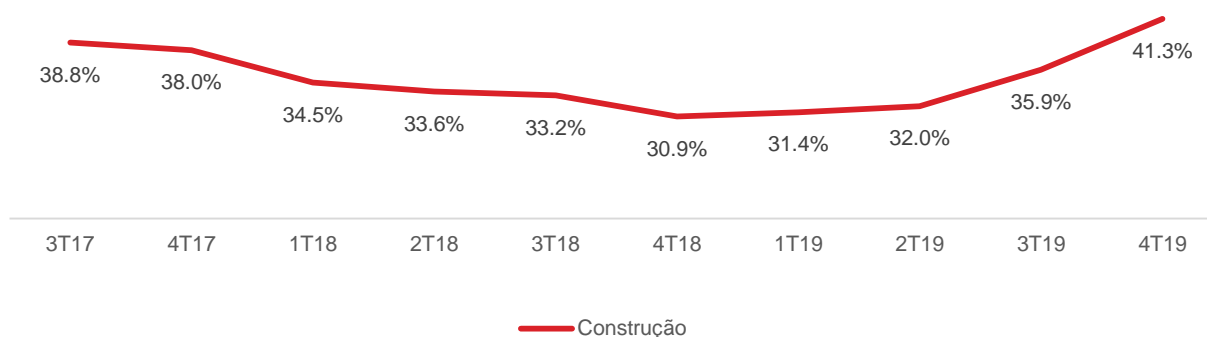
The Company has been reducing its equipment capacity as a result of the postponement of the recovery of the infrastructure sector, the low utilization rate and the need to open physical area at the branches in order to absorb the rental equipment coming from Solaris. Even with this adjustment, which will result in a capacity of approximately 50 thousand tons of equipment, the Company will still be able to meet the construction pipeline expected for the coming years.

The current main goal of this business unit continues to be the search for proxy cash Ebitda breakeven in its recurring activities.

Net Revenue by type	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
<b>Total Net Revenue</b>	<b>100.6</b>	<b>81.9</b>	<b>-18.5%</b>	<b>(18.6)</b>
Rental	59.1	48.9	-17.2%	(10.1)
Sales of new equipment	0.6	0.5	-14.2%	(0.1)
Sales of semi new equipment	15.5	8.0	-48.5%	(7.5)
Technical Assistance	3.4	2.6	-24.6%	(0.8)
Indemnity and Expenses Recovery	7.1	9.9	40.6%	2.9
Scrap Sale	14.9	12.0	-19.4%	(2.9)

#### Evolution of the Quarterly Physical Utilization Rate

### 7.2 Utilization Rate (Physical)



## 7. Construction

### 7.3 Costs and Expenses

Construction business unit's costs, excluding depreciation, showed a 49.5% fall in 2019 as compared to the previous year, reflecting the lower sales of semi new equipment and scrap. The impact of IFRS 16 in 2019 was R\$ 0.4 million.

General and administrative expenses, excluding the Provision for Expected Credit Losses (ECL), amounted to R\$ 41.6 million, a 39.4% reduction when compared to the previous year. Non-recurring items are addressed later in this report. The impact of IFRS 16 in 2019 was R\$ 5.8 million.

In 2019, ECL amounted to R\$ 4.9 million, representing 6.0% of this business unit's net revenue.

	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
<b>COGS Total, ex-depreciation</b>	<b>82.3</b>	<b>41.5</b>	<b>-49.5%</b>	<b>(40.7)</b>
<b>Job execution, warehouse and projects</b>	34.7	29.5	-14.9%	(5.2)
Cost of sales of new equipment	0.9	0.4	-57.5%	(0.5)
Cost of sales of semi new equipment	10.4	2.7	-73.7%	(7.7)
Cost of assets write-offs	4.9	3.0	-39.7%	(2.0)
Cost of scrap sale	31.2	5.9	-81.2%	(25.4)
<b>G&amp;A, ex-depreciation and ECL</b>	<b>68.7</b>	<b>41.6</b>	<b>-39.4%</b>	<b>(27.1)</b>
Commercial, Operational and Administrative	30.0	23.5	-21.9%	(6.6)
General Services	13.8	5.7	-58.3%	(8.0)
Other expenses	24.9	12.4	-50.2%	(12.5)
<b>ECL</b>	<b>3.2</b>	<b>4.9</b>	<b>54.8%</b>	<b>1.7</b>
<b>COGS + Total SG&amp;A</b>	<b>154.2</b>	<b>88.1</b>	<b>-42.9%</b>	<b>(66.1)</b>

### 7.4 EBITDA and EBITDA margin

	2018 (A)	2019 (B)	(B)/(A)	(B)-(A)
Net Revenue	100.6	81.9	-18.5%	(18.6)
CVM EBITDA	-53.6	-6.1	88.6%	47.5
CVM EBITDA margin (%)	-53.3%	-7.5%		
Adjusted EBITDA*	-22.6	-18.6	17.7%	4.0
Adjusted EBITDA* margin (%)	-32.2%	-28.1%		
EBIT	-111.8	-59.2	47.1%	52.6
EBIT margin (%)	-111.2%	-72.2%		

## 8. Operating and Financial Performance

### 8.1 Non-recurring Items

In 2019, we recorded R\$ 8.9 million as costs and expenses related to non-recurring items, 79.6% less than the previous year, mainly comprising expenses related to capturing synergies with Solaris and other development expenses, as follows:

IFRS 16 and non-recurring items - in R\$ million	2018 (A)	2019 (B)	(B)/(A)
<b>Total non-recurring expenses</b>	<b>-43.5</b>	<b>-8.9</b>	<b>-79.6%</b>
<b>Resizing expenses</b>	<b>-32.1</b>	<b>6.3</b>	<b>-119.7%</b>
Branches demobilization	-20.9	-5.0	-75.9%
Result of sale of semi new equipment	15.5	8.0	-48.5%
Cost of sale of semi new equipment	-10.4	-2.7	-73.7%
Revenue of scrap sale	14.9	12.0	-19.4%
Cost of scrap sale	-31.2	-5.9	-81.2%
<b>Business combination between Mills and Solaris</b>	<b>-5.3</b>	<b>-14.0</b>	<b>163.4%</b>
Expenses to capture synergies	0.0	-8.8	
Other incorporation expenses	-5.3	-5.2	-1.6%
<b>Other non-recurring expenses</b>	<b>-6.1</b>	<b>-1.2</b>	<b>-80.0%</b>
Mills SI Expenses	-6.1	-1.2	-80.0%

### 8.2 EBITDA and EBITDA Margin

	2018	2019	(B)/(A)	(B)-(A)
<b>CVM EBITDA</b>	<b>0.3</b>	<b>119.3</b>	<b>43769.7%</b>	<b>119.0</b>
Resizing of Construction business unit	-32.1	6.3	-119.7%	38.5
Expenses of Industrial Services business unit	-6.1	-1.2	-80.0%	4.9
Business combination between Mills and Solaris	-5.3	-14.0	163.4%	(8.7)
<b>EBITDA ex. non-recurring items</b>	<b>43.8</b>	<b>110.2</b>	<b>151.6%</b>	<b>66.4</b>

As above mentioned, CVM EBITDA was a positive R\$ 119.3 million in 2019, reflecting an important evolution compared to the previous year.

# 8. Operating and Financial Performance

(continued)

## 8.2 EBITDA and EBITDA Margin

	2018 (A)	2019 (B)	(B)/(A)
<b>Results of Operations</b>	<b>-95.0</b>	<b>-45.0</b>	<b>-52.6%</b>
Income tax and social contribution expenses	44.3	12.1	-72.8%
<b>Loss Earnings before Income tax and social contribution</b>	<b>-139.2</b>	<b>-57.0</b>	<b>-59.0%</b>
Financial Result	-12.8	-14.0	9.5%
Depreciation	-126.7	-162.3	28.1%
<b>CVM EBITDA</b>	<b>0.3</b>	<b>119.3</b>	<b>43931.4%</b>
IFRS 16 Impact	0.0	-18.0	
<b>EBITDA*</b>	<b>0.3</b>	<b>137.3</b>	
Non-recurring - Expenses Mills SI	-6.1	-1.2	-80.0%
Non-recurring - Restructuring Expenses	-31.0	6.3	-120.4%
Non-recurring - Business combination with Solaris	-6.4	-14.0	116.9%
<b>Adjusted EBITDA</b>	<b>43.8</b>	<b>110.1</b>	<b>151.5%</b>

\* Excluding IFRS 16 effect.

<sup>1</sup> According to CVM Instruction 527

### Reconciliation of CVM EBITDA with Adjusted Operating Cash Flow R\$ million

	2019
<b>EBITDA CVM</b>	<b>119,3</b>
<b>Non cash items</b>	<b>52,4</b>
Provision for tax, civil and labor risks	3,2
Accrued expenses on stock options	4,2
Post Employment Benefits	1,2
Residual value of property, plant and equipment and intangible assets sold and written off	15,5
Provision (reversal) for impairment loss on trade receivables	11,5
Provision (reversal) for impairment	0,8
Provision (reversal) for slow-moving inventories	5,1
IFRS 9/CPC 48 Adjustment	0,0
Provision for Profit Sharing	9,2
Other provisions	1,7
<b>EBITDA ex-non cash provisions</b>	<b>171,7</b>
<b>Cash</b>	<b>(85,8)</b>
Interest and monetary and exchange gains and losses (cash)	5,4
Trade receivables	(44,6)
Acquisitions of rental equipment	(6,1)
Inventories	(8,8)
Taxes recoverable	1,1
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax)	(1,9)
Judicial deposits	5,1
Other assets	(0,8)
Suppliers	6,0
Payroll and related taxes	5,8
Taxes payable	(5,1)
Other liabilities	0,5
Profit participation to pay	(3,7)
Law suits settled	(7,6)
Interest paid	(31,0)
<b>Cash flows from operating activities according to the financial statements</b>	<b>85,9</b>
Interest and monetary and exchange gains and losses (cash)	(5,4)
Acquisitions of rental equipment	6,1
Interest paid	31,0
Leasing IFRS16	(17,4)
<b>Adjusted Operating Cash Flow</b>	<b>100,1</b>

## 8. Consolidated Operating and Financial Performance (cont.)

### 8.3 Financial Result

Financial result was R\$ 14.0 million negative in 2019, versus a negative amount of R\$ 12.8 million in 2018. IFRS16 application as of 2019 resulted in an increase of approximately R\$ 4.5 million. Excluding this amount, financial result would be R\$ 9.5 million negative, a 25.6% improvement compared to 2018, as a result of the better liquidity of the Company.

### 8.4 Net Result

Net loss amounted to R\$ 45.0 million in 2019 (R\$ 95.0 million in 2018).

### 8.5 Indebtedness

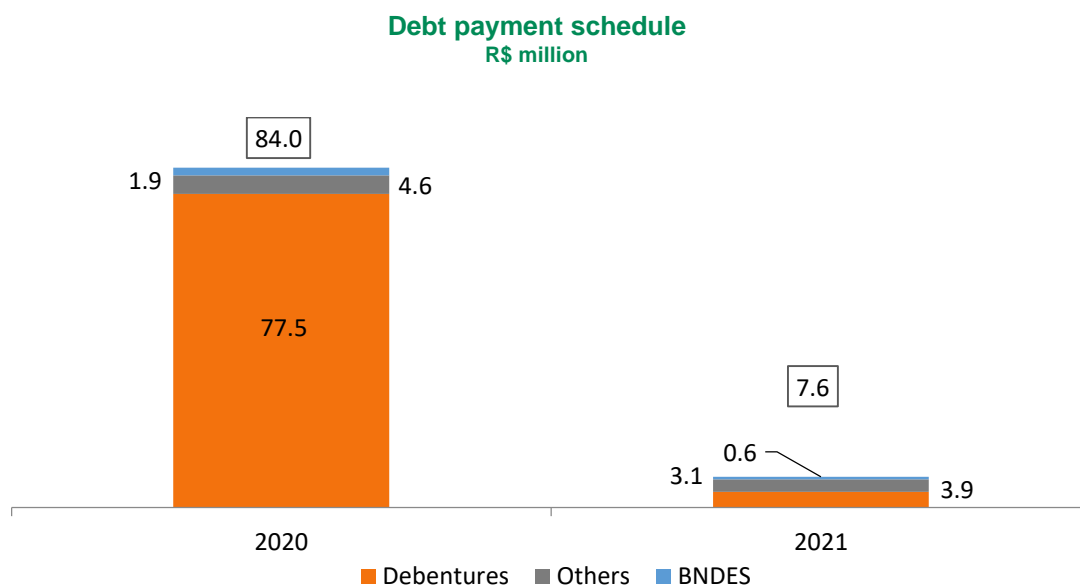
Mills gross debt closed 2019 at R\$ 91.6 million.

The Company remains as operating cash generator, closing the year with R\$ 124.9 million in (free) cash and, therefore, with a net cash in the amount of R\$ 33.4 million.

As of December 31, 2019, Mills has met the original covenants of debentures, linked to Adjusted Ebitda, with a Net Debt/Adjusted EBITDA ratio at -0.3x and Adjusted EBITDA/Financial Result ratio at 11.9x.

The average maturity for paying total indebtedness is 0.8 year, with average cost of CDI + 5.83% p.a.

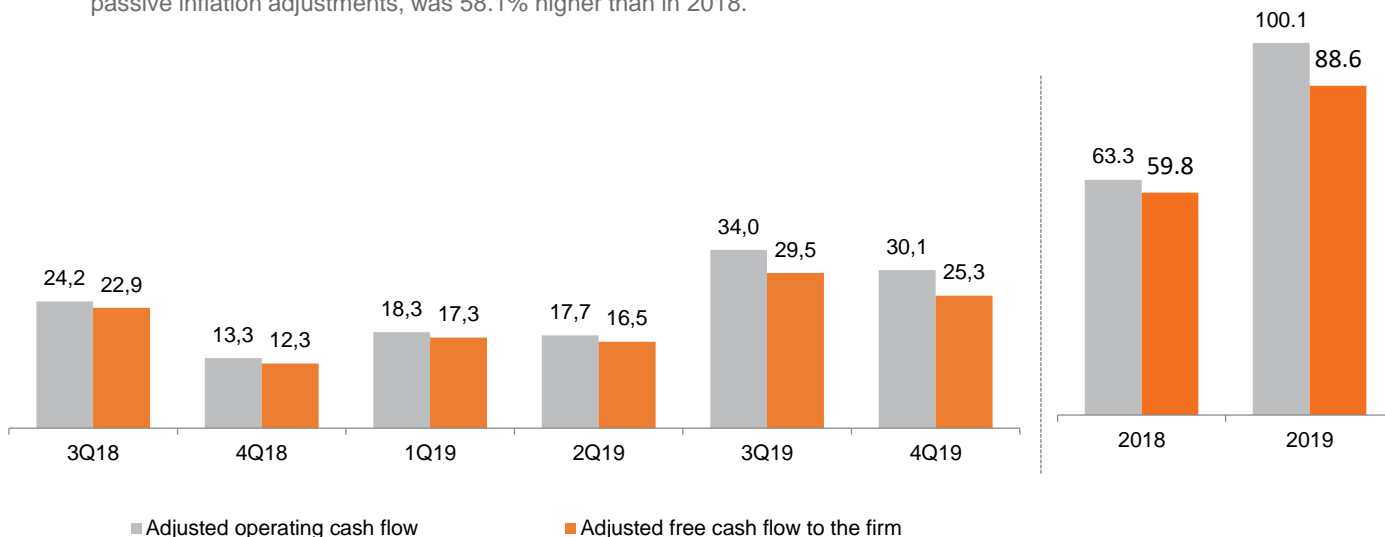
The chart below shows the debt payment schedule.



## 8. Consolidated Operating and Financial Performance (cont.)

### 8.6 Adjusted Cash Flow<sup>1</sup>

Adjusted operating cash flow, before interest paid, acquisition of lease assets and interest and net active and passive inflation adjustments, was 58.1% higher than in 2018.



### 8.7 Investments

The Company invested R\$ 10.0 million in 2019, of which R\$ 5.4 million was allocated mainly to improvements and adaptations of branches and R\$ 4.6 million to lease assets.

	2018 (A)	2019 (B)	(B)/(A)
<b>Total Capex</b>	<b>-3,5</b>	<b>-11,5</b>	<b>229,3%</b>
<b>Rental equipment</b>	<b>-0,6</b>	<b>-6,1</b>	<b>946,9%</b>
Construction	-0,4	-0,1	-66,7%
Rental	-0,2	-6,0	2666,5%
<b>Corporate and use goods</b>	<b>-2,9</b>	<b>-5,4</b>	<b>86,5%</b>

<sup>1</sup>For adjusted operating cash flow, interest on debentures and Finame, investment in lease and interest, and net active and passive inflation adjustments are not included. For adjusted free cash flow, interest paid, interest, and net active and passive inflation adjustments are not included.

## 9. Combined Amounts

### 9.1 Financial Performance

In order to complement the information provided so far, and considering the relevance of the business combination with Solaris for Mills, we show below some combined information of the two companies:

Combined Mills Solaris* in R\$ million	2018 (A)	2019 (B)	(B)/(A)
<b>Total Net Revenue</b>	<b>474.9</b>	<b>498.2</b>	<b>4.9%</b>
Rental	375.3	416.5	11.0%
Others	69.1	61.7	-10.8%
Non-recurring	30.4	20.0	-34.3%
<b>COGS (ex. depreciation and IFRS16)</b>	<b>-224.1</b>	<b>-177.8</b>	<b>-20.6%</b>
Rental costs (personnel, warehouse, etc.)	-151.4	-149.6	-1.2%
Others	-31.0	-19.6	-36.9%
Non-recurring items	-41.7	-8.6	-79.3%
<b>SG&amp;A (ex. depreciation, IFRS16 and ECL)</b>	<b>-213.7</b>	<b>-188.2</b>	<b>-11.9%</b>
Commercial, Operational and Administrative	-111.4	-101.7	-8.7%
General Services	-44.5	-41.4	-6.9%
Other expenses	-17.0	-23.9	41.2%
Non-recurring items	-40.8	-21.2	-48.1%
<b>ECL</b>	<b>-4.6</b>	<b>-13.4</b>	<b>188.8%</b>
<b>Non-recurring items</b>	<b>-52.1</b>	<b>-9.8</b>	<b>-81.1%</b>
<b>Depreciation</b>	<b>-166.1</b>	<b>-160.9</b>	<b>-3.2%</b>
<b>Adjusted EBITDA</b>	<b>84.6</b>	<b>128.6</b>	<b>52.0%</b>
Adjusted EBITDA margin (%)	19.0%	26.9%	
<b>Loss for the year</b>	<b>-104.2</b>	<b>-44.5</b>	<b>57.3%</b>
Final Balance	145.6	124.9	-14.2%

**Net Revenue:** Comparing 2019 to 2018, total net revenue increased 4.8% due to the better rental revenue from Rental, which showed a R\$ 40.5 million increase mainly as a result of the Go To Market strategy of this unit, through the diversification of the customer portfolio, a gradual increase in the prices of new leases and the renegotiation of long-term agreements in 2019.

**Costs:** In the comparison between 2019 and 2018, costs were 20.6% lower, mainly due to: (i) R\$ 33.0 million reduction in non-recurring costs (sales of used cars and construction scrap); and (ii) a R\$ 12.3 million reduction sales costs of used cars in Rental.

**Expenses:** Comparing 2019 to 2018, expenses were lower, mainly due to: (i) the reduction in expenses with the resizing of Construction; and (ii) the reduction in administrative and general service expenses due to the capture of synergies throughout 2019.

## 9. Combined Amounts

### 9.1 Financial Performance (continued)

Combined Rental business unit	2018 (A)	2019 (B)	(B)/(A)
<b>Total Net Revenue</b>	<b>374.3</b>	<b>416.3</b>	<b>11.2%</b>
Rental	316.3	367.6	16.2%
Others	58.1	48.7	-16.2%
<b>COGS (ex. depreciation and IFRS16)</b>	<b>-141.8</b>	<b>-135.9</b>	<b>-4.2%</b>
Rental costs (personnel, warehouse, etc.)	-116.7	-119.7	2.6%
Others	-25.1	-16.2	-35.5%
<b>SG&amp;A (ex. depreciation, IFRS16 and ECL)</b>	<b>-138.9</b>	<b>-139.7</b>	<b>0.6%</b>
Commercial, Operational and Administrative	-81.4	-78.2	-3.9%
General Services	-30.7	-29.9	-2.5%
Other expenses	-11.8	-16.6	40.6%
Non-recurring items	-15.0	-14.9	-0.3%
<b>ECL</b>	<b>-1.5</b>	<b>-8.5</b>	<b>481.7%</b>
<b>Non-recurring</b>	<b>-15.0</b>	<b>-14.9</b>	<b>-0.3%</b>
<b>Depreciation</b>	<b>-107.9</b>	<b>-112.2</b>	<b>4.0%</b>
<b>EBITDA ex. non-recurring items</b>	<b>107.2</b>	<b>147.2</b>	<b>37.3%</b>
Adjusted EBITDA margin (%)	28.6%	35.4%	
<b>Loss for the year</b>	<b>-19.4</b>	<b>6.5</b>	<b>133.8%</b>

### 9.2 Synergy

	1Q19	2Q19	3Q19	4Q19	2019	Annualized Run rate
Personnel	0.6	1.3	1.4	1.7	5.1	6.8
Parts	0.1	0.8	0.8	1.2	3.0	4.8
Branches	-	-	0.2	0.9	1.1	3.6
Financial (Consulting, travels, insurance)	0.1	0.1	0.2	0.6	1.0	2.5
<b>Total</b>	<b>0.8</b>	<b>2.2</b>	<b>2.7</b>	<b>4.4</b>	<b>10.2</b>	<b>17.8</b>

As of 3Q19, we started to disclose the synergies captured with the business combination with Solaris.

Following are the assumptions used to calculate net synergies:

**Personnel:** Considers the wage bill and respective charges/benefits, including reduction of structure and open positions, as well as some merits and promotions of professionals who took over new responsibilities and/or expanded their scope of action in the Company.

**Parts and Services:** Considers the unification of the supplier base and the impact generated by using the best existing conditions in Solaris or Mills for the combined volume.

**Branches:** Corresponds to the savings generated by the physical unification of Mills and Solaris branches in regions where there is overlap. The costs related to branch rent, Real Estate Tax, security service, cleaning and other expenses of the closed branch are considered.

**Finance:** Considers the savings generated by the unification of travel policies, cost reduction due to economies of scale with insurance and a reduction in consultancy redundancy between companies.

### 9.3 Investments to capture synergies

	1Q19	2Q19	3Q19	4Q19	2019
CAPEX	-	0.5	0.8	3.7	5.1
OPEX	0.1	4.2	2.7	1.9	8.8
<b>Total</b>	<b>0.1</b>	<b>4.7</b>	<b>3.6</b>	<b>5.6</b>	<b>13.9</b>

## 10. Share Performance (B3: MILS3)

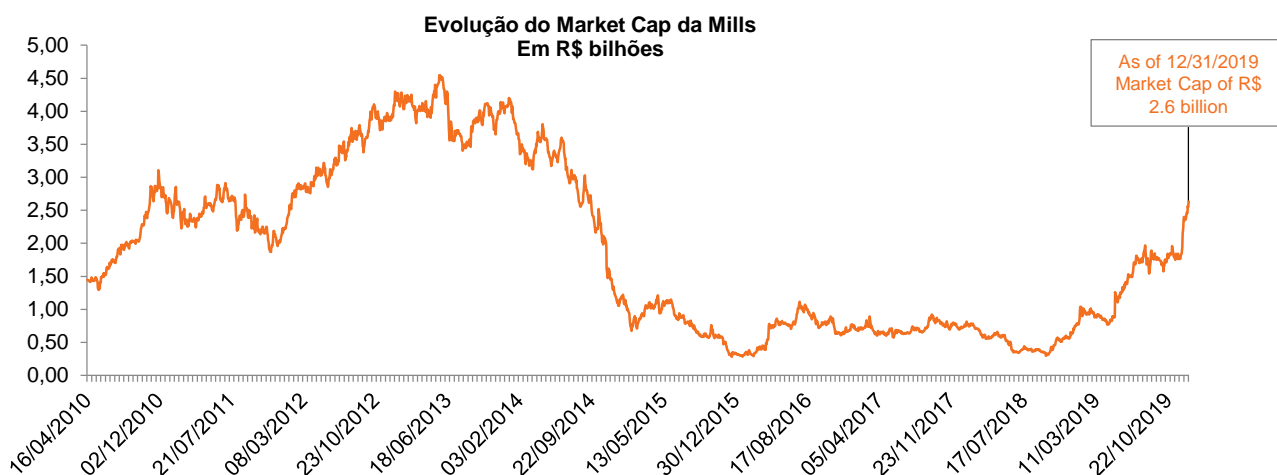
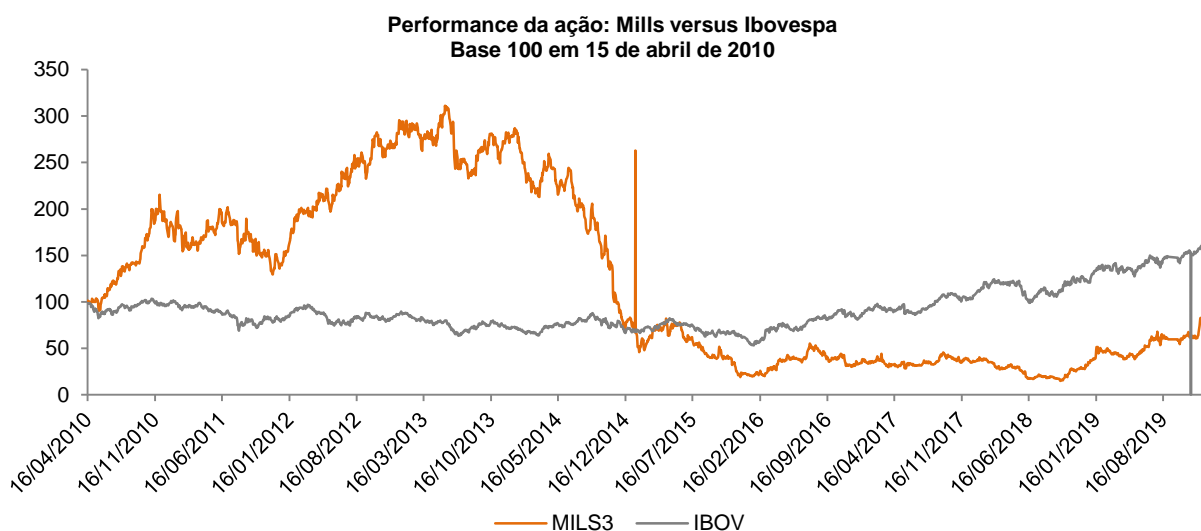
As of December 31, 2019, Mills' voting and total share capital comprised 251,866,230 common shares, in which the controlling shareholders jointly held 34.5% of the voting and total share capital. In the same period, the Company held 2,278,422 treasury shares. O free float was 45.5%.

The closing price of Mills' share on B3, as of December 31, 2019, was R\$ 10.45, with a 244.2% increase versus 2018 closing price, while IBOVESPA index had a 131.58% positive variation in the same period. At 2019 year-end, Mills market cap amounted to R\$ 2.6 billion.

Since its IPO on April 15, 2010, up to the end of 2019, MILS3 share price has declined 9.13%, versus a 63.98% increase in IBOVESPA Index.

The average daily financial volume of Mills shares traded in B3 in 2019 amounted to R\$ 6.6 million, 321.3% higher than recorded in the previous year.

Due to the results achieved in 2019, there was no payment of dividends or interest on equity.



## 11. Corporate Governance

The Company seeks to implement the highest corporate governance practices to add value to shareholders and the market in general. Since its IPO, the Company has adhered to the Novo Mercado, highest Governance level of B3.

As of December 31, 2019, the Board of Directors comprises eight members, where four members are appointed by the Nacht Family, one member appointed by Sullair Argentina, one member appointed by the Southern Cross Group and two independent members, one being appointed by minority shareholders .

In line with good corporate governance practices, Mills has two advisory committees to the Board of Directors. The purpose of such committees is bringing more efficiency to the Board of Directors, enhancing the pertinent discussions with grounded recommendations, and assisting in the performance of its legal and statutory duties.

Such committees are non-permanent and can be freely created or terminated by the Board of Directors, namely: (i) Audit, Finance and Risk Committee: comprising three effective members; and (ii) People and Management Committee: also comprising three effective members.

The Company still has a Supervisory Board in operation since 2011, comprising three effective members, one appointed by minority shareholders.

Mills' Executive Board is composed of six members, as previously discussed, including the Chief Executive Officer.

In the constant search for the improvement of initiatives aimed at ensuring the alignment and uniformity of the Company's ethical and moral standards, in January 2020 the Compliance, Risk and Internal Audit Department was created. The Company also has an active reporting channel, managed by a specialized company, that may be used by all employees to report unethical and/or illegal situations, in a confidential and anonymous manner. All reports are ascertained and referred in compliance with internal policies and current legislation. We also have a communication channel available to the external public on the Company's website.

## 12. People Management

The Company's Human Resources practices are based on the meritocracy and recognition of its staff.

Mills has an Internship Program aimed at attracting, developing and retaining talents who want to grow and acquire expertise, contributing to the Company's growth. At 2019 year-end, 102 interns were included in the Program, of which 68% were engineering and technical students. 18 interns in 2018 and 35 interns in 2019 have been hired as Mills regular employees.

Monthly turnover was 2.05% in 2019, versus 3.57% in 2018. As a result of the merger process between Mills and Solaris in 2019, we had changes in the Company's organizational structure, where the number of active Mills employees increased from 847 at the end of 2018 to 1205 at the end of 2019; in 2019, the Company invested R\$ 996 thousand in training (amounting to 21,123 hours).

The Profit Sharing Program, targeted to all the Company's employees, was based on the usual market model, in which individual award salary multiples are defined at the beginning of the cycle based on the compensation strategy. Target multiple are linked to performance indicators and goals. In addition, triggers and locks are used to ensure that payments only occur if necessary funds are generated. In 2020, profits will be shared referring to 2019 result.

In 2016, a new discretionary stock option plan was approved for the Company's managers and key people, aiming at encouraging our employees to successfully conduct the Company's business and stimulate an entrepreneurial and results-oriented culture, aligning the interests of managers with those of shareholders. The strike price of the options is R\$ 2.63, adjusted by IPCA inflation index, with the possibility of exercising 25% every 12 months as from 2019.

In addition, in 2018, the Company developed a Long-Term Incentive Program based on restricted shares, aimed at all executives and some key positions. The main objective of this program is to make the compensation package competitive versus the market, align expectations, motivate employees and leverage the business's operational performance. Each program will initially have three-year cycles, linking long-term goals to all those eligible, where such goals will be bound to the creation of value for the company. The grants made under the plan may grant, during the entire term of the plan, a number of shares not exceeding 8,779,322, corresponding to 5% of the Company's share capital on the date of its approval. In order to meet the granting of restricted shares granted under the Restricted Shares Plan, the Company will mandatorily use treasury shares, since there will be no issuance of new shares to be subscribed.

## 13. Relationship with Independent Auditors

According to CVM Instruction 381/2003, services contracted on June 25, 2019 from our independent auditors KPMG (concluded on July 31, 2019), referring to 2019 fiscal year, other than the auditing of the financial statements usually provided by it, involved disbursements with fees in the amount of R\$ 32 thousand, equivalent to 5.06% of the expenses with auditing the financial statements in the same period, and refer to the review of the Company's accounting and tax bookkeeping for the purpose of supporting the audit work itself.

It should be noted that the hiring of external auditors requires prior approval by our Board of Directors and follows the rules established by law. According to KPMG itself, the service described above does not affect the independence or objectivity in conducting the external audit analyzes carried out on Mills.

# Mills Estruturas e Serviços de Engenharia S.A.

**Individual and consolidated financial  
statements as of  
December 31, 2019**

*(A free translation of the original report in  
Portuguese, as filed with the Brazilian  
Securities and Exchange Commission (CVM),  
prepared in accordance with the accounting  
practices adopted in Brazil, rules of the CVM  
and of the International Financial Reporting  
Standards - IFRS)*

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# Mills Estruturas e Serviços de Engenharia S.A.

## Balance sheet as of December 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

	Notes	<u>Parent Company</u>		<u>Consolidated</u>
		12/31/2019	12/31/2018	12/31/2019
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents	6	73,656	60,635	124,910
Restricted bank deposits	7	-	62,000	-
Account Receivables from third parties	8	68,005	56,491	116,803
Account Receivables from related parties	21	1,451	-	-
Inventories	9	22,006	15,297	36,337
Inventories - other assets held for sale	10	-	58	-
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax) recoverable	11	2,376	400	7,367
Taxes recoverable	11	3,205	4,110	6,643
Advances to suppliers		797	169	3,670
Other assets		4,173	5,228	6,050
Assets held for sale	12	4,224	4,989	4,224
		<u>179,893</u>	<u>209,377</u>	<u>306,004</u>
<b>Noncurrent</b>				
Restricted bank deposits	4	-	26,810	-
Deferred taxes - IRPJ and CSLL	23	233,619	205,299	309,429
Judicial deposits	24.a	12,182	17,194	12,463
Other assets		38	80	81
		<u>245,839</u>	<u>249,383</u>	<u>321,974</u>
Financial asset at fair value through other comprehensive income	13	50,579	54,451	50,579
Investments	14	406,529	-	-
Property, plant and equipment	15	397,791	467,444	576,575
Intangible assets	16	32,181	33,993	120,763
		<u>887,080</u>	<u>555,888</u>	<u>747,917</u>
<b>Total assets</b>		<u>1,312,812</u>	<u>1,014,648</u>	<u>1,375,895</u>

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Balance sheet as of December 31, 2019 and 2018

(In thousands of Brazilian Reals - R\$)

	Notes	Parent Company		Consolidated
		12/31/2019	12/31/2018	12/31/2019
<b>Liabilities</b>				
<b>Current</b>				
Account Payables to third parties	17	16,389	15,703	26,670
Account Payables to related parties	21	2,893	-	-
Borrowings and financing	18	1,940	3,177	6,543
Debentures	19	56,367	122,552	77,417
Leases payable	20	12,053	-	15,171
Payroll and related taxes		21,244	12,730	27,908
Tax debt refinancing program (REFIS)	26	1,434	1,391	1,434
Taxes payable	25	7,290	2,493	9,397
Provision for profit sharing	22.b	5,986	8,000	8,840
Dividends and interest on equity payable		3	3	3
Other liabilities		263	311	849
		<u>125,862</u>	<u>166,360</u>	<u>174,232</u>
<b>Noncurrent</b>				
Borrowings and financing	18	605	2,535	3,671
Debentures	19	-	52,921	3,926
Leases payable	20	41,123	-	43,484
Provision for tax, civil and labor risks	24	19,569	25,142	23,648
Tax debt refinancing program (REFIS)	26	5,122	6,358	5,122
Taxes payable	25	-	-	641
Provision for post-employment benefits	22	12,646	10,441	12,646
Other liabilities		512	582	1,152
		<u>79,577</u>	<u>97,979</u>	<u>94,290</u>
<b>Total liabilities</b>		<u>205,439</u>	<u>264,339</u>	<u>268,535</u>
<b>Equity</b>				
Share capital	27	1,089,379	688,319	1,089,379
Capital reserves	27	37,909	33,714	37,909
Earnings reserves	27	10,295	55,275	10,295
Treasury shares	27	(20,287)	(20,287)	(20,287)
Equity adjustments	27	(9,923)	(6,712)	(9,923)
Total equity		<u>1,107,373</u>	<u>750,309</u>	<u>1,107,373</u>
<b>Total liabilities and equity</b>		<u>1,312,812</u>	<u>1,014,648</u>	<u>1,375,895</u>

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of operations

Years ended December 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

		Parent Company		Consolidated *
	Notes	2019	2018	2019
Net revenue from sales and services	29	305,530	304,189	439,465
Cost of sales and services	30	(219,999)	(272,002)	(282,493)
Gross profit		<u>85,531</u>	<u>32,187</u>	<u>156,972</u>
Selling, general and administrative expenses	30	(138,684)	(161,126)	(188,475)
Allowance for expected credit losses		(8,799)	(2,274)	(11,474)
Reversal (provision) for impairment and fair value	13	(765)	(2,039)	(765)
Share of profit in subsidiaries	14	9,434	-	-
Other operating income (expenses), net		1,595	6,839	754
Loss before finance income (costs) and taxes		<u>(51,689)</u>	<u>(126,413)</u>	<u>(42,988)</u>
Finance income	31	9,584	14,451	13,917
Finance costs	31	<u>(22,250)</u>	<u>(27,278)</u>	<u>(27,973)</u>
Finance income (costs), net		(12,666)	(12,827)	(14,056)
Loss before taxes		(64,355)	(139,240)	(57,044)
Current income and social contribution taxes	23	(7,290)	-	(7,354)
Deferred income and social contribution taxes	23	<u>26,665</u>	<u>44,271</u>	<u>19,418</u>
Loss for the year		<u>(44,980)</u>	<u>(94,969)</u>	<u>(44,980)</u>
Basic and diluted loss per share - R\$	28	(0.23)	(0.59)	(0.23)

(\*) Due to the acquisition of control of the subsidiary in May 2019, the consolidated amounts comprise twelve months of the Parent Company and only eight months (May to December 2019) of the subsidiary.

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of comprehensive loss

Years ended December 31, 2019 and 2018

*(In thousands of Brazilian Reais - R\$)*

	Notes	Parent Company		Consolidated
		2019	2018	2019
Loss for the year		(44,980)	(94,969)	(44,980)
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Fair value adjustment Investment Rohr, net of taxes	13	(2,556)	(517)	(2,556)
<b>Items that may be reclassified subsequently to profit or loss</b>				
Provision for post-employment benefits, net of taxes	22	(655)	(320)	(655)
Total comprehensive income (loss) for the year		<u>(48,191)</u>	<u>(95,806)</u>	<u>(48,191)</u>

(\*) Due to the acquisition of control of the subsidiary in May 2019, the consolidated amounts comprise twelve months of the Parent Company and only eight months (May to December 2019) of the subsidiary.

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of changes in shareholders' equity

Years ended December 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

	<u>Capital reserves</u>			<u>Earnings reserves</u>			Equity adjustments	Accumulated losses	Total Consolidated/ Parent Company
	Subscribed capital	Stock options premium	Share premium	Legal	Retained earnings	Treasury shares			
<b>At December 31, 2017</b>	<u>688,319</u>	<u>51,412</u>	<u>(18,448)</u>	<u>32,611</u>	<u>118,848</u>	<u>(20,287)</u>	<u>(5,875)</u>	<u>-</u>	<u>846,580</u>
Adjustment on first time adoption of CPC 48 / IFRS 9	-	-	-	-	-	-	-	(1,215)	(1,215)
<b>At January 1, 2018</b>	<u>688,319</u>	<u>51,412</u>	<u>(18,448)</u>	<u>32,611</u>	<u>118,848</u>	<u>(20,287)</u>	<u>(5,875)</u>	<u>(1,215)</u>	<u>845,365</u>
Stock option premium	-	750	-	-	-	-	-	-	750
Fair value adjustment - Investment in Rohr	-	-	-	-	-	-	(517)	-	(517)
Post-employment benefits	-	-	-	-	-	-	(320)	-	(320)
Loss for the year	-	-	-	-	-	-	-	(94,969)	(94,969)
Absorption of loss for the year	-	-	-	-	(96,184)	-	-	96,184	-
<b>At December 31, 2018</b>	<u>688,319</u>	<u>52,162</u>	<u>(18,448)</u>	<u>32,611</u>	<u>22,664</u>	<u>(20,287)</u>	<u>(6,712)</u>	<u>-</u>	<u>750,309</u>
Capital increase - Issuance of shares (acquisition of Solaris Participações)	400,405	-	-	-	-	-	-	-	400,405
Stock option premium	655	4,195	-	-	-	-	-	-	4,850
Fair value adjustment - Investment in Rohr	-	-	-	-	-	-	(2,556)	-	(2,556)
Post-employment benefits	-	-	-	-	-	-	(655)	-	(655)
Loss for the year	-	-	-	-	-	-	-	(44,980)	(44,980)
Absorption of loss for the year	-	-	-	(22,316)	(22,664)	-	-	44,980	-
<b>At December 31, 2019</b>	<u>1,089,379</u>	<u>56,357</u>	<u>(18,448)</u>	<u>10,295</u>	<u>-</u>	<u>(20,287)</u>	<u>(9,923)</u>	<u>-</u>	<u>1,107,373</u>

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of cash flows

Years ended December 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

	Parent Company		Consolidated*
	12/31/2019	12/31/2018	12/31/2019
Cash flows from operating activities			
Loss for the year	(44,980)	(94,969)	(44,980)
Adjustments:			
Depreciation and amortization	127,135	126,684	162,267
Deferred income and social contribution taxes	(26,665)	(44,271)	(19,418)
Provision (reversal) for tax, civil and labor risks	2,076	6,994	3,174
Accrued expenses on stock options	4,195	750	4,195
Post-employment benefits	1,211	1,056	1,211
Residual value of property, plant and equipment and intangible assets sold and written off	15,226	59,338	15,515
Interest and monetary exchange gains and losses, net	18,920	25,443	19,492
Allowance for expected credit losses	8,799	2,274	11,474
Provision (reversal) for impairment loss on inventories held for sale	-	(1,619)	-
Provision for impairment and fair value	765	2,039	765
Provision (reversal) for slow-moving inventories	2,002	339	5,136
Adjustment CPC 48 / IFRS 9	44	46	44
Provision for profit sharing	4,555	8,000	9,183
Share of profit in subsidiaries	(9,434)	-	-
Other provisions (reversals)	282	1,888	1,750
(Increase)/ decrease in assets and increase /(decrease) in liabilities:			
Trade receivables	(21,986)	(3,739)	(44,646)
Acquisitions of rental equipment	(417)	(581)	(6,086)
Inventories	(8,473)	452	(8,807)
Taxes recoverable	904	2,873	1,063
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax)	(1,975)	6,131	(1,937)
Judicial deposits	5,012	(5,914)	5,067
Other assets	523	(1,843)	(760)
Suppliers	3,785	(4,356)	6,031
Payroll and related taxes	8,513	(1,455)	5,759
Provision for profit sharing	(6,568)	-	(3,714)
Taxes payable	3,603	(4,046)	2,247
Other liabilities	(116)	(1,090)	508
Lawsuits settled	(7,649)	(5,074)	(7,649)
Interest paid	(28,178)	(35,160)	(30,990)
Net cash generated by operating activities	51,110	40,190	85,894
Cash flows from investing activities:			
Acquisition of cash resulting from the merger of subsidiary	-	-	33,685
Acquisition of PP&E for own use and intangible assets	(5,008)	(2,920)	(5,445)

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of cash flows

Years ended December 31, 2019 and 2018

*(In thousands of Brazilian Reais - R\$)*

	<u>Parent Company</u>		<u>Consolidated*</u>
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>
Net cash generated by (used in) investing activities	<u>(5,008)</u>	<u>(2,920)</u>	<u>28,894</u>
Cash flows from financing activities			
Capital increase	655	-	655
Restricted bank deposits	88,811	61,708	88,811
Amortization of borrowings and debentures	(106,193)	(106,169)	(118,861)
Leases paid	<u>(16,354)</u>	<u>-</u>	<u>(20,463)</u>
Net cash generated by (used in) financing activities	<u>(33,081)</u>	<u>(44,461)</u>	<u>(49,858)</u>
Net increase (decrease) in cash and cash equivalents	<u>13,021</u>	<u>(7,191)</u>	<u>64,275</u>
Cash and cash equivalents at the beginning of the year	<u>60,635</u>	<u>67,826</u>	<u>60,635</u>
Cash and cash equivalents at the end of the year	<u>73,656</u>	<u>60,635</u>	<u>124,910</u>
Net increase (decrease) in cash and cash equivalents	<u>13,021</u>	<u>(7,191)</u>	<u>64,275</u>

Until December 31, 2019 the Company wrote off bills that were past due up to five years, totaling R\$ 23,034, which are not recognized in the statement of cash flows because they do not reflect cash movements.

(\*) Due to the acquisition of control of the subsidiary in May 2019, the consolidated amounts comprise twelve months of the Parent Company and only eight months (May to December 2019) of the subsidiary.

The accompanying notes are an integral part of these individual and consolidated financial statements.

# Mills Estruturas e Serviços de Engenharia S.A.

## Statements of added value

Years ended December 31, 2019 and 2018

(In thousands of Brazilian Reais - R\$)

	Parent Company		Consolidated*
	12/31/2019	12/31/2018	12/31/2019
<b>Revenues:</b>			
Sales of products and services	354,439	353,166	510,376
Cancelations and discounts	(17,586)	(20,004)	(23,956)
Other revenues	1,821	6,839	979
Recognition of impairment loss on trade receivables	(8,799)	(2,274)	(11,474)
	329,875	337,727	475,925
<b>Inputs purchased from third parties:</b>			
Cost of sales and services	(8,488)	(7,404)	(20,872)
Materials, energy, outside services and others	(101,289)	(90,833)	(128,213)
Provision for impairment	(765)	(2,039)	(765)
Write-off of assets	(15,212)	(57,719)	(15,501)
<b>Gross added value</b>	204,121	179,732	310,574
Depreciation, amortization and depletion	(127,135)	(126,684)	(162,267)
<b>Net added value generated by the Company</b>	76,986	53,048	148,307
<b>Added value received in transfer</b>			
Finance income	9,584	14,451	13,917
Share of profit (loss) of subsidiaries	9,434	-	-
Total added value for distribution	96,004	67,499	162,224
Distribution of added value:			
<b>Personnel and payroll taxes</b>	<b>81,752</b>	<b>112,119</b>	<b>110,355</b>
Salaries	62,886	90,535	84,783
Benefits	14,675	16,407	19,866
Unemployment benefits	4,190	5,176	5,707
<b>Taxes and contributions</b>	<b>32,529</b>	<b>5,273</b>	<b>61,744</b>
Federal	29,108	1,339	55,813
State	2,005	2,428	4,018
Municipal	1,416	1,506	1,914
<b>Remuneration on third party capital</b>	<b>26,704</b>	<b>45,076</b>	<b>35,104</b>
Interest and exchange gains (losses)	21,793	26,586	27,374
Rentals	4,911	18,490	7,730
<b>Remuneration of shareholders</b>	<b>(44,980)</b>	<b>(94,969)</b>	<b>(44,980)</b>
Loss for the year	(44,980)	(94,969)	(44,980)
Added value distributed	96,004	67,499	162,224

(\*) Due to the acquisition of control of the subsidiary in May 2019, the consolidated amounts comprise twelve months of the Parent Company and only eight months (May to December 2019) of the subsidiary.

The accompanying notes are an integral part of these individual and consolidated financial statements.

## **Notes to the financial statements**

*(In thousands of Brazilian Reais - R\$, unless otherwise stated)*

### **1 Operations**

Mills Estruturas e Serviços de Engenharia S.A. (“Mills” or “Company”) is a publicly-traded corporation with registered offices in the City of Rio de Janeiro - Brazil. The Company operates basically in the infrastructure, construction and manufacturing industries, engaging in the following main activities:

- (a) Rental and sale, including import and export, of steel and aluminum tubular structures, shoring and access equipment for construction works, as well as reusable concrete formworks, along with the development of related engineering projects, and the provision of supervisory and optional assembly services.
- (b) Sale, rental and distribution of aerial work platforms and telescopic handlers, as well as parts and components, and technical assistance and maintenance services for such equipment.
- (c) Holding of ownership interests in other companies, as partner or shareholder.

The Company’s bylaws also establish the following activities:

- (a) Rental, assembly, and disassembling of access tubular scaffolding in industrial areas.
- (b) Performance of industrial painting, sandblasting, heat insulation, boilermaker and refractory services, as well as other services inherent in such activities.

The Company’s operations are segmented according to the new organization and management model approved by Management, divided into the following business units: Construction and Rental. The descriptions of the business unit are included in note 32

#### **1.1 Merger of Solaris Participações, Equipamentos e Serviços S.A.**

At the Extraordinary General Meeting held on April 3, 2019, the shareholders of Solaris Participações, Equipamentos e Serviços S.A. (“Solaris Participações”) approved the Company's capital increase through the issuance of 154,346,537 (one hundred and fifty-four million, three hundred and forty-six thousand and five hundred and thirty-seven) common shares, in the total amount of R\$ 271,803,000 (two hundred and seventy-one million, eight hundred and three thousand reais). These new shares were subscribed and paid up on this date based on book net assets as of December 31, 2018 of Solaris Equipamentos e Serviços S.A. (“Solaris Equipamentos”), in accordance with the appraisal report issued by an independent appraisal company and distributed as follows:

<b>Shareholders</b>	<b>Number of subscribed and paid up shares</b>	<b>(%)</b>
SCG III Fundo de Investimento em Participações Multiestratégia	104,627,677	67.79%
Sullair Argentina S.A	44,840,433	29.05%
Ricardo Vantini	4,878,427	3.16%
Total	154,346,537	100%

As from April 3, 2019, the shareholders presented in the table above became the holders of 100% of the shares of Solaris Participações that now holds 100% equity interest in Solaris Equipamentos.

At the Extraordinary General Meeting held on May 10, 2019, the shareholders approved, in accordance with Article 256, Paragraph 1 of the Brazilian Corporate Law and CVM Instruction 358/02 the merger of Solaris Participações into the Company and all other actions required for the completion of the business combination between Mills and Solaris Equipamentos (“Business Combination”).

This merger resulted in a business combination since the Company obtained equity interest in Solaris Equipamentos for the first time, as well as its control. In conformity with CPC 15 (R1) - Business Combination, business acquisitions are accounted under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated by the sum of the fair value of the assets transferred, the liabilities assumed on the acquisition date with the former owners of the acquiree, and the equity interests issued in exchange for the control of the acquiree.

The merger of Solaris Participações was approved at the General Extraordinary Meeting held on May 10, 2019. The effects of this acquisition affected the Company’s consolidated results of operations as from that date, with Solaris Equipamentos equity being appraised at its fair value as of April 30, 2019 based on a preliminary economic and financial report issued by an independent appraisal company.

The business combination consolidates the leading role of the two companies in the Brazilian rental market of aerial work platforms and results in a more attractive mix of products, with a total fleet of approximately 9 thousand equipment, which also generates a greater capacity to serve its more than 6 thousand active customers and potential customers from the most varied sectors of the economy and regions of Brazil.

Since May 10, 2019, Company holds the direct control of Solaris Equipamentos and all of its shares.

**a. Consideration transferred**

On May 10, 2019, as a result of the Business Combination, the Company issued 76,056,038 new registered ordinary shares without par value for Solaris Equipamentos’ shareholders, who received 0.4927615448 shares of Mills for each 1 (one) ordinary share of Solaris Equipamentos, whose fair value is described below in item (c) – (ii).

**b. Acquisition costs**

The Company incurred costs of approximately R\$ 1,183 in 2019 (R\$ 5,165 in 2018) mainly with attorney fees and due diligence costs in connection with the acquisition. The attorney fees and due diligence costs were recorded as “Administrative expenses” in the statement of operations.

**c. Identifiable assets acquired and liabilities assumed**

The table below summarizes the amounts of assets acquired and liabilities assumed from Solaris Equipamentos on the acquisition date:

Assets	Carrying amount 4/30/2019	Adjustments	Fair value
<b>Current</b>			
Cash and cash equivalents	33,767	-	33,767
Trade receivables	31,719	-	31,719
Inventories	17,370	-	17,370
Taxes recoverable	8,626	-	8,626
Other assets	3,391	-	3,391
<b>Noncurrent</b>			
Judicial deposits	337	-	337
Deferred taxes	83,058	-	83,058
Property, plant and equipment	175,677	39,257 (i)	214,934
Intangible assets	632	-	632
<b>Assets acquired</b>	<u>354,577</u>	<u>-</u>	<u>393,834</u>
<b>Liabilities</b>			
<b>Current</b>			
Suppliers	9,499	-	9,499
Borrowings and financing	12,818	-	12,818
Debentures	24,311	-	24,311
Taxes payable	2,305	-	2,305
Payroll and related taxes	9,578	-	9,578
Derivatives	229	-	229
Other liabilities	596	-	596
<b>Noncurrent</b>			
Borrowings and financing	9,480	-	9,480
Debentures	6,186	-	6,186
Taxes payable	1,488	-	1,488
Provision for contingencies	4,794	-	4,794
Other liabilities	156	-	156
<b>Liabilities assumed</b>	<u>81,440</u>	<u>-</u>	<u>81,440</u>
<b>Net assets acquired</b>	<u>273,137</u>	<u>39,257</u>	<u>312,394</u>
<b>Distribution of fair value of assets acquired:</b>			
Carrying amount of net assets	-	-	273,137
Surplus value of property, plant and equipment (i)	-	-	39,257
Goodwill (iii)	-	-	88,011
<b>Consideration transferred through capital increase (see note 27) - (ii)</b>	-	-	<b>(400,405)</b>

No material movements were identified from the base date April 30,2019 to May 10, 2019 (date of acquisition).

- (i) The appraisal report on Solaris Equipamentos' net assets issued by an independent appraisal company stated a fair value adjustment of R\$ 39,257, related to the surplus value of machinery and equipment. Such surplus value of the net assets acquired is due to the operational life and residual value of the assets. In the individual financial statements, this amount is presented in the line item of investments. In the consolidated financial statements, this amount is presented as property, plant and equipment (see note 15).
- (ii) The fair value of the equity instruments issued (ordinary shares), with average price of R\$ 5.2646081101 per Company share, was calculated based on the volume of Mill shares traded on B3 - Brasil, Bolsa, Balcão on the trading sessions held from February 14 to March 29, 2019. As mentioned above, with the issuance of 76,056,038 new registered ordinary shares without par value for Solaris Equipamentos shareholders, the total amount of the consideration transferred on the acquisition of the subsidiary was R\$ 400,405.

(iii) The goodwill recorded as the result of the acquisition was determined as follows:

<b>Consideration transferred</b>	<b>400,405</b>
( - ) Carrying amount of net assets	(273,137)
( - ) Surplus value of net assets and liabilities	(39,257)
( = ) Goodwill	<b>88,011</b>

**d. Fair value measurement**

The initial accounting for the acquisition considering the allocation of the price paid was preliminarily determined in the quarter ended June 30, 2019, based on the Company's best estimate, considering assumptions and methodology appropriate for the allocation of the purchase price and completed within the year 2019. This accounting considered the fair value measurement of the assets and liabilities, carried out by independent specialists hired by the Company, and is subject to any changes arising from facts existing on the acquisition date and which may come to Management's knowledge during the adjustment period of up to one year as from the acquisition date, as provided for in accounting pronouncement CPC 15 (R1).

The valuation technique used to measure the fair value of identifiable assets acquired was as follows:

Assets acquired	Valuation method
Machinery and equipment	For calculation of depreciation, the useful lives, residual values, and state of conservation and obsolescence of the asset are considered. The calculation is made on the variation of the probable curve of useful life. The fair value of the used equipment is determined based on the value of the new equipment, taking into account the operational life and residual value, indexed to a curve, which is limited to the useful life of the asset.

## 2 Summary of significant accounting policies

### 2.1 Basis of presentation

(i) **Statement of compliance**

The Company's individual and consolidated financial statements have been prepared and are being presented in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

The accounting practices adopted in Brazil comprise those included in the Brazilian Corporate Law, the standards of the Brazilian Securities Commission (CVM), and the pronouncements, guidance and interpretations of the Accounting Pronouncements Committee (CPC).

Management states that all information material to the financial statements is being evidenced and corresponds to the information used by it in its management.

The accounting information contained in these financial statements was approved by the Company's Board of Directors and authorized for issue on March 12, 2020.

The Company's individual and consolidated financial statements have been prepared on the historical cost basis, except for the following items recognized in the balance sheets:

- Financial instruments measured at amortized cost, fair value through profit or loss and fair value through other comprehensive income (Notes 4, 6, 7, 8, 13 and 33).

**(ii) *Functional and presentation currency***

These financial statements are presented in Brazilian reais (R\$), which is the Company's functional currency. All financial information is presented in thousands of reais, except when otherwise indicated.

**(iii) *Segment information***

Segment information is presented consistently with the internal report provided to the Company's chief operating decision maker. The chief operating decision maker, responsible for resource allocation and assessment of segment performance, is the Board of Executive Officers, responsible for implementing the Company's strategic decisions made by the Board of Directors.

**(iv) *Statements of added value***

The purpose of this statement is to evidence the wealth created by the Company and its distribution during a certain period and is presented by the Company as required by the Brazilian corporate law, and as supplemental information to the information required by the IFRS.

The statement of added value has been prepared based on information obtained from the accounting records used as a basis for the preparation of the financial statements and following the requirements of CPC 09 - Demonstração do Valor Adicionado (Statement of Added Value).

## **2.2 Significant accounting policies**

**(i) *Cash and cash equivalents***

Cash and cash equivalents are held to meet short-term cash commitments and other purposes. Cash and cash equivalents include bank deposits and highly liquid short-term investments with original maturity of three months or less, readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

(ii) **Restricted bank deposits**

Restricted bank deposits are held to meet the commitments of settlement or replacement of guarantees of certain short and long-term borrowings or financing. These deposits are blocked or have restricted movement due to a contractual clause.

(iii) **Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are recognized immediately in profit or loss.

(iii.1) **Financial assets**

Financial assets are generally classified as subsequently measured at amortized cost, at fair value through other comprehensive income or fair value through profit or loss, based on both: the entity's business model for managing financial assets and the contractual cash flows characteristics of the financial asset.

The classification depends on the purpose of the financial assets and is determined at the time of initial recognition. All regular way acquisition or sales of financial assets are recognized and derecognized on a trade date basis. Income is recognized on an effective interest basis for instruments other than those financial assets classified as at fair value through profit or loss.

Financial assets and liabilities are set off and the net amount presented in the balance sheet when there is a legally enforceable right to set off the recognized amounts or the intention either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**a. Financial assets at fair value through profit or loss**

This category includes financial assets held for trading. These financial assets are carried at fair value, with any gains or losses recognized in profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling it in the near term; or (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

**b. Amortized cost**

Financial asset (debt security) whose contractual cash flow results solely from the payment of principal and interest on the principal amount outstanding on specific dates and that are held within a business model whose objective is achieved by collecting contractual cash flows.

**c. Fair value through other comprehensive income**

Financial asset (debt security) whose contractual cash flow results solely from the collection of principal and interest on the principal amount outstanding on specific dates and that are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities, as well as investments in equity instruments not held for trading nor considered as contingent consideration, for which upon initial recognition the Company irrevocably elected to present subsequent changes in fair value in other comprehensive income.

*(iii.2) Financial liabilities*

A financial liability is recognized when the entity becomes a party to the contractual provisions of the instrument and is initially measured at fair value. If it is not classified as measured at fair value through profit or loss, the transaction costs that are directly attributable to its acquisition or issuance decrease or increase this amount.

**a. Other financial liabilities**

Other financial liabilities (including borrowings and debentures) are measured at amortized cost.

When financial liabilities measured at amortized cost have their contractual terms modified and such modification is not material, their carrying amounts will reflect the present value of their cash flows under the new terms, using the original effective interest rate. The difference between the carrying amount of the instrument remeasured on the immaterial modification of its terms and the carrying amount immediately prior to such modification is recorded as a gain or loss in profit or loss for the year.

*(iv) Trade receivables*

Trade receivables are recognized on an accrual basis when services are rendered or goods are sold to customers. All trade receivables arise from services rendered or goods sold by the Company's business units.

Trade receivables are carried at fair value at the time of sale, adjusted by a provision for impairment (allowance for expected credit losses). The allowance for expected credit losses is recognized when there is objective evidence that the Company will not receive the total amount according to the original terms of the receivables.

The Company adopted the simplified approach for the calculation of allowance for expected credit losses (ECL) on trade receivables, based on a matrix provision, using historical default rates on the expected cash flows of trade receivables. It was identified that the Company's trade receivables have common risk characteristics in a same business segment.

In this approach, the key concepts used in the calculation of the Company's allowance for expected credit losses (ECL) were defined:

- Definition of aging by business segment;
- Calculation of expected loss and the historical period considered (January to December 2019).
- The calculation is a result of the average historical default in the last 12 months applied on the trade receivables balances of each aging for each Business Unit; and
- All aging of outstanding invoices issued is considered in the calculation.

(v) ***Inventories***

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined under the average cost method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The provision for slow-moving inventories is calculated and recognized monthly. A provision should be recognized for all inventory items without movement for more than one year.

(v.1) ***Inventories - Other assets held for sale***

Refer to assets previously included in the Company's property, plant and equipment and currently separate from rental assets due to the purpose of their sale. Such assets are measured in conformity with the requirements of CPC 16 (R1).

(vi) ***Current and deferred income and social contribution taxes***

Income tax and social contribution expense for the year represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

The current income tax and social contribution expense is calculated based on tax rates prevailing in Brazil at the end of the reporting period, which are 15% for income tax, plus a 10% surtax on taxable profit exceeding R\$240, and 9% on taxable profit for social contribution.

Management periodically reviews positions taken in respect of tax matters that are subject to interpretation and recognizes a provision when the payment of income tax and social contribution according to the tax bases is expected.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The tax rates currently defined are 25% for income tax and 9% for social contribution.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized, based on projections of future results prepared on the basis of internal assumptions and future economic scenarios that are, therefore, subject to changes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(vii) ***Assets held for sale***

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognized in profit or loss.

(viii) **Judicial deposits**

Judicial deposits are presented in noncurrent assets, at amounts adjusted for inflation (note 22.a).

(ix) **Property, plant and equipment: own use and rental and operational use**

Most of the Company's revenues derive from property, plant and equipment for rental and operational use, either through rental only, or rental combined with assembly and disassembly.

Property, plant and equipment for own use comprise mainly facilities to store equipment, office, improvements, furniture and equipment necessary for the operation of these facilities.

Property, plant and equipment are measured at historical cost, less accumulated depreciation. Historical cost includes costs directly attributable to the acquisition of items.

Subsequent costs are added to the residual value of property, plant and equipment or recognized as a specific item, as appropriate, only if the future economic benefits associated to these items are probable and the amounts can be reliably measured. The residual value of the replaced item is derecognized. Other repairs and maintenance are recognized immediately in profit or loss as incurred.

Depreciation is calculated using the straight-line method, at the rates shown in note 14, which take into consideration the estimated economic useful lives of assets. Land is not depreciated.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The residual values and estimated useful lives of assets are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

(x) **Intangible assets**

*Software licenses*

Carried at cost less accumulated amortization and accumulated impairment losses, where applicable.

Costs associated to the development and maintenance of such software licenses are expensed as incurred.

Software licenses have finite useful lives and are amortized over ten years (note 15). The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(xi) **Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to cash-generating units (CGUs). Goodwill is allocated to each of the Company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination and is

identified according to the operating segment.

(xii) ***Impairment of assets***

At the end of each reporting period, the Company reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use, and the latter is the method used by the Company in testing the impairment of the goodwill recognized in the cash-generating unit "Construction". In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(xiii) ***Trade payables***

Trade payables are obligations to pay for goods or services acquired in the normal course of business and are classified as current liabilities if the payment is due within one year. Otherwise, they are classified as noncurrent liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. In practice, they are usually recognized at the amount of the corresponding invoice.

(xiv) ***Provisions***

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The provisions for tax, civil and labor claims are recognized at the amount of probable losses, according to the nature of each provision (note 22). Based on the opinion of its legal counsel, management believes that the recognized provisions are sufficient to cover any losses on ongoing lawsuits. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as expense.

(xv) ***Employee benefits***

*Provision for profit sharing*

The profit sharing agreement was structured aimed at rewarding employees with at least 90 days worked in the base year (2019, according to Mills' overall performance and their individual competences in the contributions made to the business, within their respective field of work and position.

The 2019 Profit Sharing Program is based on the achievement of Adjusted EBITDA and the captures of synergies arising from the business combination with Solaris Equipamentos and corporate and individual targets.

The recognition of profit sharing, when applicable, is made during the year and the payment, when due, up to April of the subsequent year (note 20.a).

*Stock option plans*

The Company offers stock option plans to certain employees and executives.

The fair value of the options granted is recognized as an expense during the period over which the right is vested, that is, period during which specific vesting conditions should be met. At the end of the reporting period, the Company reviews its estimates of the number of options whose rights must be vested based on the conditions (note 20.c).

The Company recognizes the impact of the revision of the initial estimates, if any, in the statement of operations, as a balancing item to the capital reserve in equity.

The amounts received, net of any directly attributable transaction costs, are credited to capital when options are exercised.

*Restricted shares incentive program*

The Company offers a restricted shares incentive program to certain employees and executives. The grants performed under the plan may assign, over the effective period of the plan, a number of shares not exceeding 8,779,322, corresponding to 5% of the Company's share capital on the approval date.

In order to satisfy the delivery of restricted shares granted under the Restricted Shares Plan, the Company will mandatorily use treasury shares, since there will not be new issuance of shares to be subscribed.

The fair value of shares is recorded as expense. At the end of the reporting period, the Company reviews its estimates of the number of shares whose rights must be vested based on the terms of the plan (note 20.d).

The Company recognizes the impact of the revision of the initial estimates, if any, in the statement of operations, as a balancing item to the capital reserve in equity.

*Post-employment benefits*

The post-employment benefits granted and to be granted to former employees are provisioned based on an actuarial calculation prepared by an independent actuary using future projections related to several parameters of the benefits assessed, such as inflation and interest, among other aspects. The actuarial assumptions adopted for the calculation were determined considering the long term of the projections to which they refer (see note 20.b). Actuarial gains and losses are recognized in other comprehensive income in the "Equity adjustments" account and presented in equity.

(xvi) ***Borrowings and financing***

Borrowings are initially recognized at fair value and subsequently carried at amortized cost. The calculation methodology for each borrowing follows the specific conditions of each contract, using the effective interest method.

Fees and taxes paid for contracting borrowings are recognized as transaction costs of the borrowings and are also recognized as finance expenses at the effective interest rate.

Management controls monthly the balances of each debt through managerial controls in which it updates the financial indicators (interest rates) as agreed in each agreement.

Borrowings are classified as current liabilities, except for installments that can be unconditionally settled 12 months after the end of the reporting period.

(xvii) ***Translation into foreign currency***

Transactions in foreign currency are translated into Brazilian reais using the exchange rates prevailing at the dates of the transactions. The balances of assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period. Exchange gains and losses arising from the settlement of these transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in the statement of operations.

Exchange gains and losses arising from the settlement of these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the statement of operations.

(xviii) **Share capital**

The Company's capital comprises common shares without par value.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

(xix) **Share buyback (treasury shares)**

Repurchased shares are classified as treasury shares and are presented as a deduction from equity until the shares are canceled or reissued. When treasury shares are subsequently sold or reissued, the value received is recognized as an increase in equity, and the resulting surplus or deficit is recognized as capital reserve.

(xx) **Payment of dividends and interest on capital**

The payment of dividends and interest on capital to shareholders is recognized as a liability in the financial statements at the end of the reporting period based on the Company's bylaws. Any amount above the minimum mandatory dividend is provided for at the date it is approved by the shareholders at the General Meeting.

The tax benefit of interest on capital is recognized in the statement of operations.

(xxi) **Revenue recognition**

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract at the end of the reporting period.

Revenue is measured based on the consideration described in the contract with the customer. The Company recognizes the revenue when it transfers the control over the goods or services to the customer and when it is probable that it will receive the consideration to which it is entitled in exchange for the goods or services, that are transferred to the customer.

Performance obligations are the promises to transfer to the customer a good or service (or group of goods and services) that are different, or a series of different goods or services that are substantially the same and that have the same pattern of transfer to the customer.

No exceptions to the recognition of performance obligations were identified within the scope of the adoption of IFRS 15 / CPC 47. The Company identified that its revenues have a single performance obligation, according to the contracts with customers.

The rental income is recognized in profit or loss monthly on a straight-line basis according to the equipment rental agreements, classified as operating lease, and there are no contingent or noncancelable receipts recognized as revenue during the effective period.

The Company separates the identifiable components of a single contract or a group of contracts to reflect the substance of the contract or group of contracts, recognizing the revenue of each of the elements proportionally to its fair value. Therefore, the Company's revenue is divided into rental, technical assistance, sales, sales of semi-new goods and expense recoveries.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate through maturity, when it is determined whether such income will accrue to the Company.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

Income, expenses and assets are recognized net of taxes on sales.

(xxii) ***Earnings per share***

Basic earnings per share are calculated based on the Company's profit for the year and the weighted average of common shares outstanding in the respective year. Diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments potentially convertible into shares, with a diluting effect, in the years presented, in accordance with CPC 41 and IAS 33.

**2.3 Basis of preparation**

The accounting policies, calculation methods, significant accounting judgments, estimates and assumptions used in this interim accounting information are the same used in the financial statements for the year ended December 31, 2018, disclosed in notes 2 and 3. These financial statements were filed with CVM on March 14, 2019 and published on the newspaper Valor Econômico and the Official Gazette of the State of Rio de Janeiro on March 21, 2018.

**2.4 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Control is achieved when the Company obtains, direct or indirectly, most of the voting rights or is exposed or has rights to variable returns based on its involvement with the investee and has the ability to affect these returns through the power over the investee.

**a. *Investments in entities accounted for under the equity method of accounting***

The Company's investments in entities accounted for under the equity method of accounting comprise its interests in subsidiaries.

The details of the Company's subsidiaries at the end of each reporting period are as follows:

Subsidiary	Core business	Interests - %	
		12/31/2019	12/31/2018
Solaris Equipamentos e Serviços S.A.	Equipment sale and rental and provision of maintenance and technical assistance services.	100%	-

In the process of consolidation of financial statements, the following eliminations are included:

- (i) Parent's interests in capital, reserves and retained earnings (accumulated losses) of entities included in consolidation;
- (ii) Asset and liability accounts between entities included in consolidation; and
- (iii) Intragroup revenues and expenses arising from transactions between entities included in consolidation.

The amounts presented in the consolidated financial statements were prepared taking into consideration the amounts calculated from the date of acquisition and merger of Solaris Participações, in May 2019, as mentioned in note 1.1 through December 31, 2019.

## 2.5 Standards effective in 2019

In the preparation of these financial statements, the Company's management considered, when applicable, new revisions and interpretations of the International Financial Reporting Standards ("IFRS") and the technical pronouncements issued by IASB and CPC, respectively, which became mandatory on January 1, 2019.

### (i) **CPC 06 (R2)/IFRS 16 - Leases**

IFRS 16 introduces a single model of lease accounting in the balance sheet for lessees. A lessee recognizes a right-of-use asset which represents its right to use the leased asset and a lease liability which represents its obligation to make lease payments. Optional exceptions are available for short-term leases and leases of low-value assets. The lessor accounting remains similar to the current standard, that is, lessors continue to classify leases as finance or operating. The new standard replaced the existing lease standards, including CPC 06 (IAS 17) - Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) - Additional Aspects of Lease Transactions.

With the adoption of IFRS 16, the Company no longer recognizes operating costs and expenses arising from operating leases and now recognizes in its statement of operations: (i) the effects of the depreciation of the rights-of-use of the leased assets; and (ii) the finance costs and exchange variation determined based on the financial liabilities of the lease agreements.

All lease contracts of the Company with a term of more than one year and with unit values of the leased assets above the limit established by the standard were analyzed. For the purposes of initial adoption, the modified retrospective modeling was adopted, and the lease agreements of the properties and vehicles used by the Company for its Construction and Rental business units were analyzed. The discount rate used to determine the net present value of the contracts is in accordance with the term of each agreement.

In the transition to CPC 06(R2)/IFRS 16 right-of-use assets and leases liabilities were recorded in the opening balance sheet of 2019, see note 20 and the table below:

	<b>Parent Company</b>		
	<b>Balance as at December 31, 2018</b>	<b>Adjustments on the adoption of CPC06 (R2) / IFRS 16</b>	<b>Adjusted opening balance at January 1, 2019</b>
<b>January 1, 2019</b>			
Property, plant and equipment (assets)	467,444	57,786	525,230
Lease (liabilities)	-	(57,786)	(57,786)

The table below shows the effects of the initial adoption of CPC 06 (R2)/IFRS 16 recognized on the subsidiary Solaris' balance sheet as of April 30, 2019, the last balance sheet before the merger on May 10, 2019, which had as at that date the following amounts recorded in the line items property, plant and equipment (right of use) - R\$ 8,470 and lease - R\$ 8,572.

	<b>Subsidiary</b>		
	<b>Balance as at December 31, 2018</b>	<b>Adjustments on the adoption of CPC06 (R2) / IFRS 16</b>	<b>Adjusted opening balance at January 1, 2019</b>
<b>January 1, 2019</b>			
Property, plant and equipment (assets)	179,281	8,882	188,163
Lease (liabilities)	(4,240)	(8,882)	(13,122)

The Brazilian Securities and Exchange Commission (CVM) issued Circular Letter 02/2019 on December 18, 2019, providing guidance on material aspects in the preparation of financial statements of lessees on the adoption of the discount rate and the treatment of PIS and COFINS on the lease liability.

**(ii) ICPC 22 (IFRIC 23) - Uncertainty over Income Tax Treatments**

Also on January 1, 2019, a new standard was issued regarding the requirements for recognition and measurement of technical pronouncement CPC 32 when there is uncertainty over income tax treatments. The Company assessed the standard and did not identify significant impacts as a result of such interpretation, since all procedures adopted by the Company and its subsidiaries for calculation and payment of income taxes are supported by the prevailing law.

### **3 Critical accounting judgments and key estimates and assumptions**

In the preparation of the Company's individual and consolidated financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent liabilities at the end of the reporting period. However, the uncertainty related to these assumptions and estimates might lead to results that require a significant adjustment to the carrying amount of the affected asset or liability in future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next fiscal year.

#### **3.1 Impairment of nonfinancial assets and investment recognized at fair value**

An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The value in use calculation is based on the discounted cash flow model. Cash flows derive from the budget and the Company's expectations for the next five years and do not include reorganization activities to which the Company has not yet committed or significant future investments that will improve the asset base of the cash-generating unit or investment subject to testing. The recoverable amount is sensitive to the discount rate used in the discounted cash flow method, as well as to the expected future cash receipts and to the growth rate used for extrapolation purposes. See notes 13 and 15.

#### **3.2 Share-based payment transactions**

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value of share-based payments requires the determination of the most appropriate valuation model for the granting of equity instruments, which depends on the terms and conditions of the grant. This also requires the determination of the most appropriate valuation model, including the expected life of the option, volatility and dividend yield and related assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in note 20.

#### **3.3. Taxes**

There are uncertainties regarding the interpretation of complex tax regulations, as well as the amount and timing of future taxable profits. Differences between actual results and the assumptions adopted, or future changes in these assumptions, may require future adjustments in tax income and expenses already recorded. The Company recognizes provisions based on applicable estimates, for potential consequences of audits by tax authorities. The amount of these provisions is based on several factors, such as experience of prior tax audits and interpretations diverging from the tax regulations by the taxable entity and by the responsible Tax Authority. These diverging interpretations may arise in a wide variety of matters, depending on the conditions prevailing at the Company's domicile. Deferred tax assets are recognized for all temporary differences to the extent that it is probable that sufficient taxable profits will be

available to allow their utilization.

Significant judgment by management is required to determine the amount of deferred tax assets that can be recognized, based on the probable term and level of future taxable profits, with strategies for future tax planning.

#### **3.4. Fair value of financial instruments**

When the fair value of financial assets and liabilities, such as stock options, securities and hedging instruments presented in the balance sheet, cannot be obtained from active markets, it is determined by using valuation techniques, including the discounted cash flow method. Inputs for these methods are based on market inputs, when possible; however, when this is not feasible, a certain level of judgment is required to establish the fair value. Judgment includes considerations on the inputs used, such as liquidity risk, credit risk and volatility. Changes in assumptions on these factors could affect the reported fair value of the financial instruments. Note 4 provides detailed information on the main assumptions used in the determination of the fair value of financial instruments, as well as a sensitivity analysis of these assumptions.

#### **3.5. Allowance for expected credit losses**

The Company recognized an allowance for expected losses for all its receivables that meet the detailed criteria in note 2.2 (iv). The need to recognize such allowance involves an analysis of the available evidence as regards the Company's ability to pay customers, including in a manner so as to classify some of them as preferred customers and base others for sending them to legal collection. Significant judgment by Management is required in classifying its customers, in defining the criteria applied, and in assessing its accuracy.

#### **3.6. Provision for tax, civil and labor claims**

The Company recognizes a provision for tax, civil and labor risks. The assessment of the likelihood of loss includes examining available evidence, the hierarchy of laws, former court decisions, the most recent court decisions and their relevance in the legal system, and the assessment of the outside legal counsel. The provision is reviewed and adjusted to take into account any changes in circumstances, such as the applicable prescriptive periods, conclusions of tax audits or additional exposures identified based on new matters or court decisions.

#### **3.7. Useful lives of property, plant and equipment**

As described in note 14, the Company reviews the estimated useful lives of its property, plant and equipment annually at the end of each reporting period. During the year the Company assessed the useful lives of its assets and concluded that the ten-year period adopted in prior years reasonably represents the average useful life of the Company's assets and should be maintained for its equipment in 2019.

#### **3.8. Revenue recognition**

Service revenue is recognized in profit or loss based on the stage of completion of the services at the end of the reporting period.

## **4 Financial risk management**

### **4.1. Financial risk factors**

The Company's operations are exposed to various financial risks: market risk (including currency risk, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The risk management program concentrates on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to protect certain risk exposures and does not enter into any derivative transactions for speculative purposes.

Risk management is carried out by the Chief Financial Officer, in accordance with policies approved by the Board of Directors, where applicable. The Chief Financial Officer identifies, assesses and protects the Company against potential financial risks in cooperation with the Company's operating units.

The Chief Financial Officer establishes principles for global risk management, as well as for specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investment of cash surpluses.

### **4.2. Market risk**

#### **(i) Foreign exchange risk**

The Company adopts the policy of reducing the cash risk relating to foreign exchange variation since a large part of the revenues from its operations are denominated in Brazilian reais.

#### **(ii) Interest rate risk and adjustment for inflation**

The Company's debt is denominated in Brazilian reais and subject to floating interest rates, especially the CDI, IPCA and TJLP rates. There is the risk of the Company incurring losses due to fluctuations in interest rates, which would increase finance expenses related to borrowings and debentures raised in the market.

As a management policy, the Company does not use any instrument to mitigate its exposure to interest rate fluctuations because it considers this a market risk inherent to all companies operating in Brazil.

The Company analyzes its exposure to interest rates in a dynamic way. Various scenarios are simulated, taking into consideration refinancing, financing and hedging. Based on these scenarios, the Company determines a reasonable change in the interest rate. The scenarios are prepared only for liabilities that represent the main interest positions. See the sensitivity analysis of possible fluctuations in interest rates in note 4.2 (iii).

#### **(iii) Sensitivity analysis**

The following table shows a sensitivity analysis of the financial instruments, including derivatives, describing the risks that could generate material losses to the Company, with the most probable scenario (scenario I) according to management's assessment, considering a one-year time horizon. Additionally, other two scenarios are presented, pursuant to CVM Instruction 475/2008, in order to show a 25% and 50% deterioration in the risk variable considered, respectively (scenarios II and III):

*Mills Estruturas e Serviços  
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December 31, 2019 and 2018*

			<u>Parent Company</u>		
			<u>Profit (loss) effect</u>		
<b>Short-term investments</b>	<b>Indicator</b>	<b>Accounting</b>	<b>Probable</b>	<b>25%</b>	<b>50%</b>
Short-term investments	CDI	73,656	3,308	2,481	1,654

			<u>Parent Company</u>		
			<u>Profit (loss) effect</u>		
<b>Debt</b>	<b>Indicator</b>	<b>Accounting</b>	<b>Probable</b>	<b>25%</b>	<b>50%</b>
BNDES	TJLP	2,545	151	183	216
2nd issue of debentures 2nd series	IPCA	56,367	6,214	6,780	7,346
	Total	58,912	6,365	6,963	7,562

			<u>Consolidated</u>		
			<u>Profit (loss) effect</u>		
<b>Short-term investments</b>	<b>Indicator</b>	<b>Accounting</b>	<b>Probable</b>	<b>25%</b>	<b>50%</b>
Short-term investments	CDI	124,797	5,845	4,383	2,922

			<u>Consolidated</u>		
			<u>Profit (loss) effect</u>		
<b>Debt</b>	<b>Indicator</b>	<b>Accounting</b>	<b>Probable</b>	<b>25%</b>	<b>50%</b>
1st issue of debentures - Solaris Equipamentos	CDI	24,976	2,622	3,028	3,434
Working capital	CDI	7,670	940	1,074	1,208
BNDES	TJLP	2,545	151	183	216
2nd issue of debentures 2nd series	IPCA	56,367	6,214	6,780	7,346
	Total	91,558	9,927	11,065	12,204

The sensitivity analysis presented above takes into account changes in a certain risk, keeping steady the other variables, associated with other risks.

<u>12/31/2019</u>			
<b>Scenarios</b>	<b>Probable I</b>	<b>Scenario II 25%</b>	<b>Scenario III 50%</b>
Rates			
CDI (%) (i)	4.18%	3.14%	2.09%
TJLP (%) (ii)	5.09%	6.36%	5.09%
IPCA (%) (iii)	3.75%	4.69%	3.75%

- (i) As regards the interest rate risk, the Company's management considered as probable assumption (scenario I) for its financial instruments a rate of 6.75%, information extracted from the FOCUS report released by the Brazilian Central Bank on January 31, 2020, considering an increase in the CDI rate in line with the expected increase in the SELIC rate as there is a direct relation between the rates, and an increase in the rate as the assumption for the other two scenarios, according to the stress scenario.
- (ii) For financial liabilities relating to borrowings - BNDES, the Company's management used as probable assumption (scenario I) the maintenance of the TJLP rate since there is no evidence of change in rate in the near term, and an increase in rate as the assumption for the other two scenarios.
- (iii) For financial liabilities relating to the 2nd series debentures, the Company's management used as probable assumption (scenario I) the IPCA rate estimated for 2020 according to the FOCUS report released by the Central Bank of Brazil on January 31, 2020 since there is no evidence of change in rate in the near term, and an increase in rate as the assumption for the other two scenarios.

### **4.3. Credit risk**

Credit risk is the risk of financial loss for the Company should a customer or counterparty in a financial instrument fail to fulfill its contractual obligations arising in its operating (mainly relating to trade receivables) and financing activities, including deposits with banks and financial institutions.

#### **(i) Trade receivables**

The Company periodically bills amounts for rentals and services due by its customers, for past due periods normally ranging from 30 to 60 days, the average collection period in 2019 was 61 days. Therefore, the Company is subject to the risk of default on trade receivables. The Company's commercial credit portfolio is mainly concentrated on domestic customers. The Company establishes a provision for impairment when it understands there is the risk of amounts due not being received, according to the expected loss model defined by CPC 48.

The customer credit risk is managed by the Company's financial management, who evaluates the customers' financial ability to pay. This analysis is performed before the commercial agreement is entered into by the parties, and each customer is analyzed individually taking into consideration mainly the following information: (i) personal data record; (ii) financial information and indicators; (iii) risk ratings (methodology of credit bureau SERASA) and (iv) pending issues and protests at Serasa.

#### **(ii) Financial instruments and cash deposits**

The credit risk for balances with banks and financial institutions is managed by the Company's treasury in accordance with the policy established by that department. Surplus funds are invested only with approved counterparties.

The Company uses only large financial institutions that are among the ten banks with the largest assets in Brazil. Management does not expect any counterparty to fail to fulfill its obligations.

**(iii) Cash and cash equivalents and restricted bank deposits**

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Bank account			
Bank (i)	18	121	113
Short-term investments			
Bank (i)	73,638	60,514	124,797
Restricted bank deposits (i)	-	88,810	-
Total cash and cash equivalents and restricted bank deposits	73,656	149,445	124,910

- (i) Major financial institutions widely operating in Brazil, among the ten banks with the largest total assets in Brazil.

**4.4. Liquidity risk**

Liquidity risk is the risk of the Company facing difficulties in fulfilling its obligations associated with its financial liabilities that are settled with cash payments or with another financial asset. The Company's approach to manage liquidity is to ensure, to the maximum extent possible, that it always has sufficient liquidity to fulfill its obligations as they fall due, under normal and stress conditions, without causing unacceptable losses or risk of damaging the Company's reputation.

The financial department monitors rolling forecasts of the Company's liquidity requirements to ensure that it has sufficient cash to meet operating needs. Monthly forecasts take into account the Company's debt financing plans, the fulfillment of contractual clauses, and the achievement of internal targets according to the Company's strategic plan. In addition, the Company maintains credit facilities with the major financial institutions operating in Brazil.

The table below analyzes the main financial liabilities by maturity bracket, corresponding to the remaining period in the balance sheet through the contractual maturity date, when the Company expects to make the payment.

The interest rates (CDI and TJLP) estimated for future commitments reflect the market rates in each period.

	Past due	Up to one month	More than one month and less than three months	More than three months and less than one year	Between one and two years	Between two and five years	Total Parent Company
At December 31, 2019							
Borrowings and financing	-	279	450	1,324	-	618	2,671
Debtentures	-	-	-	60,423	-	-	60,423
Leases - properties	-	1,047	2,078	7012	21,518	30,563	62,218
Leases - vehicles	-	196	392	1,049	141	-	1,778
Suppliers	7,185	10,207	1,918	29	-	-	19,339
Related parties	-	-	-	2,893	-	-	2,893

At December 31, 2018							
Borrowings and financing	-	294	872	2,294	-	2,674	6,134
Debtentures	-	-	-	130,813	-	60,220	191,033
Suppliers	1,272	12,354	1,697	370	10	-	15,703

	Past due	Up to one month	More than one month and less than three months	More than three months and less than one year	Between one and two years	Between two and five years	Total Consolidated
At December 31, 2019							
Working capital	-	112	1,778	2,466	-	3,876	8,232
Borrowings and financing	-	279	450	1,324	-	618	2,671
Debtentures	-	842	2,975	78,890	-	3,949	86,656
Leases - properties	-	1,344	2,625	8,842	22,498	30,563	65,872
Leases - vehicles	-	338	676	2,328	523	-	3,865
Suppliers	1,685	19,511	4,977	309	-	-	26,482

## 5 Capital management

The purpose of managing the Company's desirable capital structure is to protect its equity, allow for business continuity, offer good conditions for its employees and stakeholders and a satisfactory return for shareholders. The Company's general strategy has remained unchanged since 2010.

In order to maintain or adjust the capital structure, the Company may, for example, in accordance with its bylaws, increase its capital, issue new shares, and approve the issue of debtentures and the buyback of its shares.

The Company uses as the main performance indicator to assess its gearing ratio between the total net debt ratio (total bank debt less total cash and cash equivalents) and the Operating Cash Flow accumulated in the last 12 months.

	<u>Parent Company</u>		<u>Consolidated</u>
	<b>2019</b>	<b>2018</b>	<b>2019</b>
Total bank debt	58,911	181,401	91,557
Borrowings and financing	2,545	5,712	10,215
Gross debentures (see note 16)	56,367	175,689	81,342
Cash and cash equivalents	73,656	60,635	124,910
Restricted bank deposits	-	88,810	-
Net debt	14,745	31,956	33,353
Equity	1,107,373	750,309	1,107,373
Net debt to Equity	0.01	0.04	0.03

The Company is not subject to any external capital requirement.

### **Credit lines available**

	<u>Parent Company</u>	
	<b>2019</b>	<b>2018</b>
Unsecured bank credit lines, reviewed annually and with payment upon request:		
Used	14,843	5,713
Not used	203,200	9,600
Secured bank credit lines with varying maturity dates that can be extended by common agreement:		
Used	14,843	5,713
Not used	-	-

## **6 Cash and cash equivalents**

	<u>Parent Company</u>		<u>Consolidated</u>
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Cash and banks	18	121	113
Short-term investments	73,638	60,514	124,797
	<u>73,656</u>	<u>60,635</u>	<u>124,910</u>

Cash and cash equivalents consist basically of deposits and highly liquid short-term investments, which are readily convertible into a known amount of cash and subject to an insignificant risk of change in value.

As at December 31, 2019, short-term investments consist of repurchase agreements and bank deposit certificates – CDB, bearing average interest of 94.80% of the interbank deposit certificate – CDI (99.29% as at December 31, 2018).

## 7 Restricted bank deposits

On May 19, 2017, debenture holders approved at their general meeting held on March 22, 2017, due to the renegotiation of the terms of the debenture indenture, related to covenants, the pledging of collateral consisting of a fiduciary transfer made by opening a restricted account, held by the Company on behalf of the debenture holders, in an amount equivalent to 50% of the outstanding balance, measured monthly as mentioned in note 16. The segregation between current and non-current was made using the same segregation of the debenture liabilities.

	<b>Parent Company and Consolidated*</b>	
	12/31/2019	12/31/2018
Current	-	62,000
Noncurrent	-	26,810
	-	88,810

(\*) The balances presented at December 31, 2018 fully refer to the parent company.

On May 17, 2019, the amounts held in restricted accounts related to the 2nd and 3rd Issuances of the Company's Debentures were transferred to its bank accounts for fulfillment of the conditions included in Clause 6.10.4 of the 3rd Amendment to the Indentures, that is, the achievement of the original covenants of Debentures ( $\text{Net Debt/ Adjusted Ebitda} \leq 3$  and  $\text{Adjusted Ebitda/ Net Finance Costs} \geq 2$ ) for the second consecutive quarter.

## 8 Account Receivables from third parties

	Parent Company						Consolidated			
	12/31/2019			12/31/2018			12/31/2019			
Business unit	Gross receivables	ECL	Net receivables	Gross receivables	ECL	Net receivables	Gross receivables	ECL	Net receivables	
Construction	88,304	(66,841)	21,463	98,667	(75,017)	23,650	88,304	(66,841)	21,463	
Rental	89,088	(42,546)	46,542	82,213	(49,372)	32,841	163,823	(68,483)	95,340	
	177,393	(109,387)	68,005	180,880	(124,389)	56,491	252,127	(135,323)	116,803	
Current	86,948	(18,942)	68,005	84,164	(27,673)	56,491	141,903	(25,100)	116,803	
Noncurrent	90,445	(90,445)	-	96,716	(96,716)	-	110,223	(110,223)	-	

The aging of outstanding invoices issued is considered in the calculation.

The movements in the allowance for expected credit losses of trade receivables of the Company and its subsidiaries are as follows:

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Balance at the beginning of the year	(124,389)	(133,801)	(124,389)
Solaris acquisition adjustment through April/2019	-	-	(24,685)
Effect of first-time adoption of CPC 48 / IFRS 9	-	(1,731)	-
Net impact of ECL on P&L (i)	(8,799)	(2,274)	(11,474)
Write-offs	23,801	13,417	25,225
Balance at the end of the year	(109,387)	(124,389)	(135,323)

- (i) In the year ended December 31, 2019, the allowance for expected credit losses amounted to R\$ 11,145 (at December 31, 2018 - R\$ 42,779) and the reversal of the allowance for expected credit losses amounted to R\$ 6,401 (at December 31, 2018 - R\$ 40,505), generating a net P&L positive effect of R\$ 8,799 (at December 31, 2018, net P&L negative effect of R\$ 2,274).

Aging schedule of gross receivables:

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Not yet due	57,680	49,463	96,798
Not yet due (bills with original due dates extended)	1,709	1,781	1,709
1-60 days past due (*)	13,360	11,056	20,714
61-120 days past due (*)	4,086	4,001	7,860
121-180 days past due (*)	3,285	5,161	4,722
180-360 days past due (*)	6,828	12,702	10,114
Over 360 days past due (*)	90,445	96,716	110,223
	177,393	180,880	252,140

- (\*) The analysis above was performed considering the extended due dates of the bills.

## 9 Inventories

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Goods for resale	2,252	1,963	2,268
Spare parts and supplies	23,631	15,209	44,701
Provision for slow-moving inventories	(3,877)	(1,875)	(10,632)
	22,006	15,297	36,337

- (\*) Inventory items without movement for more than one year.

Inventories of spare parts consist mainly of access equipment. All inventories are stated at average cost.

## 10 Inventories - Other assets held for sale

The following contract in US Dollars was signed to sell cargo handling equipment:

Contract date	Type	Number	Delivery schedule	Acquisition cost	Accumulated depreciation
3/15/2017	Telescopic handlers	170	Apr 2017 to May 2019	24,690	14,038

The acquisition cost and accumulated depreciation mentioned above were transferred from rental equipment (property, plant and equipment) to inventories - other assets held for sale. With the transfer, the depreciation of such equipment was ceased and the proceeds from the sale transaction is recognized only when the item is delivered.

In accordance with technical pronouncement CPC 16, inventories shall be measured at their cost value or net realizable value, whichever is lower. The realizable value was calculated based on the total sales value, less the residual value of the assets transferred to inventories, including expenses on maintenance and internal freight to be incurred.

	<u>Parent Company and Consolidated*</u>	
	12/31/2019	12/31/2018
Inventories - Other assets held for sale	-	58

(\*) The balances presented at December 31, 2018 fully refer to the parent company.

## 11 Taxes recoverable

	<u>Parent Company</u>		<u>Consolidated</u>
	12/31/2019	12/31/2018	12/31/2019
IRPJ (Corporate Income Tax) and CSLL (Social Contribution Tax) (*)	2,376	400	7,367
PIS and COFINS (taxes on revenue) (**)	2,522	3,186	4,981
ICMS (State VAT) (***)	320	540	988
Others	363	384	674
	<u>5,581</u>	<u>4,510</u>	<u>14,010</u>

(\*) Refers to negative balance of income tax, arising from the withholding income tax on redemption of investments in 2019, which will be adjusted for inflation monthly according to the SELIC rate and offset against taxes of the same nature during 2020.

(\*\*) PIS and COFINS credits refer basically to amounts recoverable on acquisition of property, plant and equipment offset at the rate of 1/48 per month against non-cumulative PIS and COFINS federal tax obligations.

(\*\*\*) Refers to ICMS (State VAT) levied on the Company's operations, arising from the purchase of goods for resale.

## 12 Assets held for sale

In April 2017, the Company signed contracts consisting of the exchange of receivables for properties which will not be used in its operations. These properties were put up for sale.

In accordance with Technical Pronouncement CPC 31, an asset shall be classified as asset held for sale if its carrying amount will be recovered through a sales transaction instead of continuous use. Consequently, the Company classified these assets received through exchange in the assets held for sale account.

	<b>Parent Company and Consolidated*</b>	
	<b>12/31/2019</b>	<b>12/31/2018</b>
Assets held for sale	7,028	7,028
Asset impairment loss (i)	(2,804)	(2,039)
	4,224	4,989

(\*) The balances presented at December 31, 2019 and 2018 fully refer to the parent company.

(i) The provision for impairment, which is evaluated annually, is the result of the difference between the book value and the market value of the assets as at December 31, 2019, according to appraisal reports by specialists.

## 13 Financial asset at fair value through other comprehensive income

### a. Non-controlling interest

On February 8, 2011, the Company acquired 25% of the capital of Rohr S.A. Estruturas Tubulares (“Rohr”) for R\$ 90,000. Rohr is a privately-held company specialized in access engineering and civil construction solutions, which operates mainly in the heavy construction and industrial maintenance sectors.

In the fourth quarter of 2011, the stake in Rohr was increased from 25% to 27.47%, resulting from a buyback by Rohr of 9% of its shares, which are currently in its treasury and will be canceled or proportionally distributed to its shareholders.

The Company assessed that, as at December 31, 2019, it does not have significant influence in conformity with CPC 18 (R2) and there is no change in relation to the assessment as at December 31, 2018.

### b. Fair value and impairment loss

In 2019, the Company reviewed the fair value of the financial instrument related to the investment in Rohr S.A. based on an internal study. The fair value of this asset was determined according to economic estimates made under the income approach by forecasting discounted cash flows over a ten-year term plus perpetuity, for evidencing the amount stated in the accounting records considering the long-term maturation of infrastructure and civil construction investments. The revenue was projected based on the Gross Domestic Product (GDP) plus the Broad Consumer Price Index (IPCA), considering multipliers. Costs were projected based on a gross margin target, set at 65%. Expenses were projected based on the variation of the IGP-M. The study also considered the need for working capital and investments for maintenance of the tested asset. The related flows were discounted at an discount rate of 16.1% from 2020 to 2023

and 14.5% onward, including perpetuity. The rate obtained through the methodology used by the market, the weighted average cost of capital (WACC) including premium for size of 4.2%. No real growth rate in perpetuity was considered.

Based on this study, Management estimates that the fair value of the investment in Rohr at December 31, 2019 is R\$ 50,579 (R\$ 54,451 at December 31, 2018). At December 31, 2019, the gross change in fair value was R\$ 3,872 (R\$ 783 at December 31, 2018), and the net change at December 31, 2019 was R\$ 2,556 (R\$ 517 at December 31, 2018), considering the effect of deferred income and social contribution taxes, and recognized in the Company's equity.

## **14 Investments**

### **a. Assets accounted for under the equity method**

As disclosed in note 1.1, Solaris Participações was the parent company of Solaris Equipamentos. On May 10, 2019, the acquisition of Solaris Participações by the Company was approved, and as a result of this Business Combination, the Company obtained control of 100% of Solaris Equipamentos.

Solaris Equipamentos is a close corporation engaged in the sale, rental and distribution of aerial work platforms, telescopic handlers, generators, soil handling equipment, lightning tower, air compressors and other equipment, spare parts and components and provision of technical assistance and maintenance services.

<b>Information on subsidiary</b>	<b>Solaris Equipamentos</b>
	<b>12/31/2019</b>
Interests - %	100%
Current assets	130,470
Noncurrent assets	223,279
Current liabilities	52,728
Noncurrent liabilities	14,713
Equity	286,307
Revenues	144,261
Expenses	(120,469)
Profit before taxes	23,791
Current and deferred income and social contribution taxes	(7,312)
Profit for the year	16,479

<b>Movement of investments in subsidiaries</b>	<b>Parent Company</b>
Balance at the beginning of the period (4/30/2019)	273,137
Identifiable assets measured at fair value on business combination	39,257
Goodwill	88,011
Decrease in investment (iii)	(3,309)
Realization of assets measured at fair value (ii)	(7,046)
Profit for the period (i)	16,479
Balance at the end of the year (12/31/2019)	406,529

- (i) The equity accounting method calculation considers only eight months, as it was acquired on May 10, 2019, as mentioned in Note 1.1.
- (ii) On October 15, 2019, the Extraordinary General Meeting approved the first capital reduction of the subsidiary, at the São Luis branch, through rental equipment (R\$ 3,061), inventories (R\$ 236) and furniture / utensils (R\$ 12).
- (iii) Balance referring to eight months (May to December 2019) of realization of the surplus value of assets determined in the business combination process.

## 15 Property, plant and equipment

	Equipment for rental and operational use	Rental equipment in progress	Total equipment for rental and operational use	Leasehold improvements	Buildings and land	Computers and peripherals	Vehicles	Facilities	Furniture and fixtures	Right-of- use Properties	Right- of-use Vehicles	Construction in progress	Total assets in use	Total Parent Company
<b>Cost of PP&amp;E, gross</b>														
Balances at December 31, 2017	1,259,154	73	1,259,227	22,622	24,138	14,934	1,386	9,863	11,058	-	-	231	84,232	1,343,459
Acquisition	1,809	-	1,809	256	-	7	173	60	64	-	-	689	1,249	3,058
Write-offs/disposals and transfer to inventories held for sale	(179,605)	-	(179,605)	(4,821)	(1,179)	(138)	(316)	(237)	(119)	-	-	-	(6,810)	(186,415)
Adjustment for PIS and COFINS credits	(152)	-	(152)	-	-	-	-	-	-	-	-	-	-	(152)
Transfer	-	-	-	788	-	-	-	(43)	-	-	-	(745)	-	-
Reclassification	73	(73)	-	71	-	-	-	262	-	-	-	-	333	333
Balances at December 31, 2018	1,081,279	-	1,081,279	18,916	22,959	14,803	1,243	9,905	11,003	-	-	175	79,004	1,160,283
Acquisition	229	3,356	3,585	213	-	182	154	-	283	-	-	867	1,699	5,284
Right of use	-	-	-	-	-	-	-	-	-	60,107	4,074	-	64,181	64,181
Write-offs/disposals and transfer to inventories held for sale	(61,774)	-	(61,774)	(765)	-	(231)	-	-	(45)	-	-	-	(1,041)	(62,815)
Adjustment for PIS and COFINS credits	(21)	-	(21)	-	-	-	-	-	-	-	-	-	-	(21)
Reclassification	-	-	-	330	-	-	-	3	-	-	-	-	333	333
Transfer	13,302	(3,073)	10,229	936	-	2	-	38	(77)	-	-	(974)	(75)	10,154
Balances at December 31, 2019	1,033,015	283	1,033,298	19,630	22,959	14,756	1,397	9,946	11,164	60,107	4,074	68	144,101	1,177,399

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	Equipment for rental and operational use	Rental equipment in progress	Total equipment for rental and operational use	Leasehold improvements	Buildings and land	Computers and peripherals	Vehicles	Facilities	Furniture and fixtures	Right of use Properties	Right of use Vehicles	Construction in progress	Total assets in use	Total Parent Company
Balances at December 31, 2017	(665,942)	(39)	(665,981)	(8,590)	(4,166)	(13,508)	(1,102)	(3,780)	(6,643)	-	-	-	(37,789)	(703,770)
Depreciation	(116,173)	-	(116,173)	(2,320)	(670)	(1,066)	(94)	(862)	(833)	-	-	-	(5,845)	(122,018)
Write-offs/disposals and transfer to inventories held for sale	128,409	-	128,409	3,327	834	138	260	219	86	-	-	-	4,864	133,273
Adjustment for PIS and COFINS credits	-	-	-	(236)	-	-	-	(88)	-	-	-	-	(324)	(324)
Reclassification	(39)	39	-	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	(42)	-	-	-	42	-	-	-	-	-	-
Balances at December 31, 2018	(653,745)	-	(653,745)	(7,861)	(4,002)	(14,436)	(936)	(4,469)	(7,390)	-	-	-	(39,094)	(692,839)
Depreciation	(106,290)	-	(106,290)	(1,875)	(617)	(323)	(98)	(871)	(807)	(10,857)	(2,243)	-	(17,691)	(123,981)
Write-offs/disposals and transfer to inventories held for sale	46,746	-	46,746	637	-	231	-	-	33	-	-	-	900	47,646
Adjustment for PIS and COFINS credits	-	-	-	(191)	-	-	-	(89)	-	-	-	-	(280)	(280)
Transfer	(10,200)	-	(10,200)	-	-	-	-	-	46	-	-	-	46	(10,154)
Balances at December 31, 2019	(723,489)	-	(723,489)	(9,290)	(4,619)	(14,529)	(1,034)	(5,429)	(8,118)	(10,857)	(2,243)	-	(56,119)	(779,608)
Annual depreciation rates - %	10	10	-	10	4	20	20	10	10	20	33.3	-	-	-
<b>Property, plant and equipment, net</b>														
Balance at December 31, 2018	427,534	-	427,534	11,055	18,957	367	307	5,436	3,613	-	-	175	39,910	467,444
Balance at December 31, 2019	309,526	283	309,809	10,340	18,340	227	363	4,517	3,046	49,250	1,831	68	87,982	397,791

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	Equipment for rental and operational use	Rental equipment in progress	Total equipment for rental and operational use	Leasehold improvements	Buildings and land	Computers and peripherals	Vehicles	Facilities	Furniture and fixtures	Right of use Properties	Right of use Vehicles	Construction in progress	Total assets in use	Total Consolidated
<b>Cost of PP&amp;E, gross</b>														
Balances at December 31, 2018	1,081,279	-	1,081,279	18,916	22,959	14,803	1,243	9,905	11,003	-	-	175	79,004	1,160,283
Addition due to acquisition of subsidiary	428,030	5,957	433,987	7,083	-	2,302	896	569	2,954	6,320	2,562	-	22,686	456,673
Surplus value of property, plant and equipment	39,091	-	39,091	-	-	-	166	-	-	-	-	-	166	39,257
Acquisition	1,350	4,843	6,193	213	-	413	154	33	351	-	-	867	2,030	8,223
Right of use	-	-	-	-	-	-	-	-	-	61,626	4,987	-	66,613	66,613
Write-offs/disposals and transfer to inventories held for sale	(83,515)	-	(83,515)	(932)	-	(271)	-	-	(68)	-	-	-	(1,271)	(84,786)
Adjustment for PIS and COFINS credits	(507)	-	(507)	-	-	-	-	-	-	-	-	-	-	(507)
Reclassification	-	-	-	330	-	-	-	3	-	-	-	-	333	333
Transfer	14,413	(4,196)	10,217	936	-	2	-	38	(77)	-	-	(974)	(75)	10,142
Balances at December 31, 2019	1,480,141	6,604	1,486,745	26,546	22,959	17,247	2,459	10,548	14,163	67,946	7,549	68	169,485	1,656,232

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<b>Accumulated depreciation</b>	<b>Equipment for rental and operational use</b>	<b>Rental equipment in progress</b>	<b>Total equipment for rental and operational use</b>	<b>Leasehold improvements</b>	<b>Buildings and land</b>	<b>Computers and peripherals</b>	<b>Vehicles</b>	<b>Facilities</b>	<b>Furniture and fixtures</b>	<b>Right of use Properties</b>	<b>Right of use Vehicles</b>	<b>Construction in progress</b>	<b>Total assets in use</b>	<b>Total Consolidated</b>
Balances at December 31, 2018	(653,745)	-	(653,745)	(7,861)	(4,002)	(14,436)	(936)	(4,469)	(7,390)	-	-	-	(39,094)	(692,839)
Addition due to acquisition of subsidiary	(270,061)	-	(270,061)	(4,470)	-	(1,348)	(879)	(337)	(2,078)	(1,326)	(486)	-	(10,924)	(280,985)
Surplus value of property, plant and equipment	(7,046)	-	(7,046)	-	-	-	-	-	-	-	-	-	-	(7,046)
Depreciation	(131,211)	-	(131,211)	(2,445)	(617)	(549)	(102)	(898)	(939)	(13,751)	(3,105)	-	(22,406)	(153,617)
Write-offs/disposals and transfer to inventories held for sale	64,226	-	64,226	761	-	231	-	-	41	-	-	-	1,033	65,259
Adjustment for PIS and COFINS credits	-	-	-	(191)	-	-	-	(89)	-	-	-	-	(280)	(280)
Reclassification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer	(10,200)	-	(10,200)	-	-	2	-	-	46	-	-	-	47	(10,152)
Balance at December 31, 2019	<u>(1,008,036)</u>	<u>-</u>	<u>(1,008,036)</u>	<u>(14,206)</u>	<u>(4,619)</u>	<u>(16,100)</u>	<u>(1,917)</u>	<u>(5,794)</u>	<u>(10,329)</u>	<u>(15,077)</u>	<u>(3,591)</u>	<u>-</u>	<u>(71,633)</u>	<u>(1,079,669)</u>
Annual depreciation rates - %	10	-	-	10	4	20	20	10	10	20	33.3	-	-	-
<b>Property, plant and equipment, net</b>														
Balance at December 31, 2018	427,534	-	427,534	11,055	18,957	367	307	5,436	3,613	-	-	175	39,910	467,444
Balance at December 31, 2019	472,106	6,605	478,711	12,340	18,340	1,147	542	4,754	3,845	52,869	3,958	68	97,863	576,575

Rental equipment can be summarized as follows: access scaffolding, formworks, shoring, aerial work platforms and telescopic handlers.

We present below the main acquisitions and reclassifications accumulated through December 31, 2019, by group of assets:

	<b>Parent Company</b>	<b>Consolidated</b>
Shoring	134	134
Aerial work platforms and telescopic handlers	3,345	4,175
Machinery and equipment	95	166
Facilities	41	88
Furniture and fittings	293	365
Leasehold improvements	594	594
Computers and peripherals	184	574
	4,686	6,096

The depreciation for the year, allocated to cost of services and general and administrative expenses, amounts to R\$ 127,443 and R\$ 34,802 as at December 31, 2019 (R\$ 113,359 and R\$ 8,659 as at December 31, 2018), respectively.

Certain items of property, plant and equipment are pledged as collateral for borrowings (note 18).

The purchase and sale of rental equipment are being presented in the statement of cash flows as operating activity.

**a. Review of estimated useful life**

There was no change in the remaining estimated useful lives of fixed assets, and, thus, there was no change in the depreciation rate for the year ended December 31, 2019.

**b. Provision for impairment of assets**

Management did not identify any indications of impairment for the Rental Business Unit (UGC) during 2019, based on CPC 01. As a result, it did not perform tests nor apply impairment adjustments since it believes that there are no adjustments to the provision for impairment of the assets of this Business Unit to be set up. For the Construction Business Unit, Management believes that there are indications of impairment and performed an impairment test at December 31, 2019. The recoverable amount of this group of Construction assets was determined based on economic market projections, made under the income approach, by forecasting discounted cash flow for a period of ten years plus perpetuity, for the purpose of substantiating the amount recorded in the accounts, given the long-term maturity of investments in infrastructure and civil construction. Revenue was projected based on the Gross Domestic Product (GDP) plus the Extended Consumer Price Index (IPCA), considering multipliers. Costs were projected based on a gross margin target, which stabilizes at 65%. The expenses were projected according to the IGPM variation. The need for working capital and investments to maintain the asset tested was also considered. The respective flows were discounted at a discount rate of 12.5% for the period 2020 and 2021 and 11.8% for the other years, plus perpetuity. A growth rate of 1% in actual terms in perpetuity was considered.

## 16 Intangible assets

	Software	Trademarks and patents	Intangible assets in progress	Goodwill on investments	Total Parent Company
Balances at December 31, 2017	52,203	3,156	43	13,376	68,778
Acquisition	926	-	565	-	1,491
Disposals	-	-	-	-	-
Transfer	92	-	(92)	-	-
Reclassification	-	-	(333)	-	(333)
Balances at December 31, 2018	53,221	3,156	183	13,376	69,936
Acquisition	922	-	2,294	-	3,216
Reclassification	-	-	(333)	-	(333)
Balances at December 31, 2019	54,143	3,156	2,145	13,376	72,820
<b>Accumulated amortization</b>					
Balances at December 31, 2017	(25,692)	(878)	-	(4,232)	(30,802)
Amortization	(4,666)	-	-	-	(4,666)
Adjustment for PIS and COFINS credits	(476)	-	-	-	(476)
Balances at December 31, 2018	(30,833)	(878)	-	(4,232)	(35,943)
Amortization	(4,260)	-	-	-	(4,260)
Adjustment for PIS and COFINS credits	(436)	-	-	-	(436)
Balances at December 31, 2019	(35,528)	(878)	-	(4,232)	(40,639)
Annual amortization rates - %	20	10	-	-	-
<b>Intangible assets, net</b>					
Balances at December 31, 2018	22,388	2,278	183	9,144	33,993
Balances at December 31, 2019	18,615	2,278	2,145	9,144	32,181
	<b>Software</b>	<b>Trademarks and patents</b>	<b>Intangible assets in progress</b>	<b>Goodwill on investments</b>	<b>Total Consolidated</b>
Balances at December 31, 2018	53,221	3,156	184	13,376	69,937
Addition due to acquisition of subsidiary	1,741	8	-	-	1,749
Goodwill due to acquisition of subsidiary	-	-	-	88,011	88,011
Acquisition	1,016	-	2,294	-	3,310
Reclassification	-	-	(334)	-	(334)
Balances at December 31, 2019	55,977	3,164	2,145	101,387	162,673
<b>Accumulated amortization</b>					
Balances at December 31, 2018	(30,833)	(878)	-	(4,232)	(35,943)
Addition due to acquisition of subsidiary	(1,116)	-	-	-	(1,116)
Amortization	(4,415)	-	-	-	(4,415)
Adjustment for PIS and COFINS credits	(436)	-	-	-	(436)
Balances at December 31, 2019	(36,798)	(878)	-	(4,232)	(41,910)
Annual amortization rates - %	20	10	-	-	-
<b>Intangible assets, net</b>					
Balances at December 31, 2018	22,338	2,278	184	9,144	33,993
Balances at December 31, 2019	19,179	2,286	2,145	97,155	120,763

### a. Impairment loss on goodwill

Goodwill recognized in the Parent Company arose on the acquisition of Jahu in 2008 and the acquisition of GP Sul in 2011, and is being considered as contribution of the Construction

business unit, which represents a Cash-Generating Unit (CGU) to which the goodwill is allocated.

The recoverable amount of this asset was determined according to the same assumptions described in note 15 and Management concluded that no provision for impairment of this asset is required.

**b. Goodwill**

The goodwill arising from the merger of Solaris Participações presented in the consolidated financial statements is initially measured as the excess of the consideration transferred over the net assets acquired (net identifiable assets acquired and liabilities assumed). Subsequent to initial recognition, in the amount of R\$ 88,011, goodwill, which has indefinite useful life, is measured at cost, less any accumulated impairment losses.

In the consolidated financial statements, the goodwill is classified in intangible assets, while in the Parent Company balance sheet, it is included in investments.

As this goodwill arises from a recent market transaction, which best represents the recoverable amount of this asset, Management has not identified any fact or event that would justify a provision for impairment of goodwill during the acquisition period, May 10, 2019, until the end of the year 2019.

**17 Suppliers**

	<b>Parent Company</b>		<b>Consolidated</b>
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Domestic suppliers - Third parties	15,885	15,219	23,329
Foreign suppliers - Third parties	504	484	3,341
	16,389	15,703	26,670

As at December 31, 2019 and 2018, suppliers balances refer basically to installment purchase of spare parts and supplies, services and PP&E.

**18 Borrowings and financing**

Borrowings were used for financing the expansion of the Company's investments and for its general use and expenses. They bear interest at the TJLP (Long-term Interest Rate) and CDI (Interbank Deposit Certificate).

The Company entered into rental equipment financing agreements that bear interest at the TJLP rate plus interest of 0.2% to 0.90% per year and CDI plus 3.10% to 5% per year, with monthly amortization through October 2022.

	<b>Parent Company</b>	<b>Consolidated</b>
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	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Current	1,940	3,177	6,543
Noncurrent	605	2,535	3,671
Total - Borrowings and financing	<u>2,545</u>	<u>5,712</u>	<u>10,214</u>

The financial institutions with which the Company has borrowing and financing agreements as at December 31, 2019 are as follows:

<b>Company</b>	<b>Financial institutions</b>
Mills	Banco do Brasil
Mills	Itaú BBA
Solaris Equipamentos	Banco do Brasil
Solaris Equipamentos	Banco ABC

The table below shows the pledged guarantees outstanding at the financial reporting dates:

	<b>Parent Company</b>		<b>Consolidated</b>
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Guarantees provided:			
Collateral assignment (*)	<u>26,993</u>	<u>26,993</u>	<u>78,506</u>

(\*) Refers to equipment purchased under the Federal Equipment Financing Program (FINAME), leasing and working capital.

The installments to fall due at the end of the year ended December 31, 2019 are shown below:

	<b>Parent Company</b>	<b>Consolidated</b>
2020	1,940	6,543
2021	605	3,670
	<u>2,545</u>	<u>10,214</u>

The Company's loan related to FINAME and related to Itaú BBA has restrictive clauses of covenants with the following pre-established relationships:

1. Financial ratio from quotient of division of the net debt (iii) by EBITDA (i), shall be equal to or lower than three (3); and
2. Financial ratio from quotient of division of the EBITDA by net financial expenses (iv), shall be equal to or higher than two (2).
3. "EBITDA" means, based on the Company's four immediately preceding Consolidated Financial Statements, profit or loss before income and social contribution, less income and plus expenses generated by finance income and costs and nonoperating income and expenses, depreciation and amortization, and nonrecurring income and expenses.

The definitions of items (iii) and (iv) are already presented in note 19.

As at December 31, 2019, the Company achieved the covenants indexes defined above.

## 19 Debentures

Description	Series	Issued amount	Beginning	Maturity	Finance charges	Parent Company		Consolidated
						12/31/2019	12/31/2018	12/31/2019
1st issuance – Solaris Equipamentos (i)	Single	80,000	March 2014	February 2021	100% of CDI + 4%	-	-	24,976
2nd issuance - Mills (ii)	2nd series	109,060	August 2021	August 2020	IPCA + 7.00 p.a.	56,428	108,627	56,428
Issue cost						(61)	(152)	(61)
						56,367	108,475	56,367
3rd issuance - Mills (iii)	Single	200,000	May 2014	May 2019	116.00% CDI	-	67,062	-
Issue cost						-	(64)	-
						-	66,998	-
Total Parent Company						56,367	175,473	-
Total Consolidated						-	-	81,343
Current						56,367	122,552	77,417
Noncurrent						-	52,921	3,926

### a. 1st issue of debentures (subsidiary – Solaris Equipamentos)

On March 20, 2014, the subsidiary Solaris Equipamentos approved its first issue of simple, nonconvertible, registered, unsecured debentures, in a single series, totaling R\$80,000 and unit face value of R\$10 totaling 8,000 units issued. These debentures have final maturity on March 20, 2019 and bear interest equivalent to DI plus spread of 2.4% p.a. , with monthly payments of interest and amortized in 49 monthly consecutive installments, commencing on March 20, 2015.

On June 3, 2017, the debenture holders approved the first amendment to the Private Indenture of Debentures, which includes the following main changes:

- (a) Change of the initial maturity of debentures, from March 20, 2019 to March 20, 2020.
- (b) Change of the amortization date of debentures and amortization percentages, in order to grant a 9-month grace period on the balance payment, that is, the installments of principal amortization from June 20, 2017 to January 20, 2018, became due beginning on February 20, 2018.

- (c) Change of the spread from 2.40% to 4.50%, beginning on June 20, 2017.
- (d) Change of the percentage of premium applicable to the total early redemption and extraordinary optional amortization of debentures.

On March 14, 2018, the debenture holders approved the second amendment to the Private Indenture of Debentures, which includes the following main changes:

- (a) Change of the maturity of debentures, from March 20, 2020 to February 20, 2021.
- (b) Change of the amortization of the nominal unit value of debentures, which started to be amortized on March 20, 2015 and will have a total of 63 monthly installments, with final maturity on February 20, 2021.
- (c) Waiver of debenture holders related to the accelerated maturity of debentures in 2017, since the Company presented a ratio obtained by the division of Net Debt by EBITDA greater than 2.5.
- (d) The ratio obtained by the division of Net Debt by EBITDA should not be greater than or equal to 3.0 in the year ended December 31, 2018 and should not be greater than or equal to 2.5 in the year ending December 31, 2019 (including), through the maturity date.
- (e) Change of the spread from 4.50% to 4.00%, beginning on March 21, 2018 through the maturity date.
- (f) Change of the percentage of premium applicable to the total early redemption and extraordinary optional amortization of debentures.
- (g) On March 25, 2019, the debenture holders granted previous approval for certain corporate transactions, among which one in which the Company became a wholly owned subsidiary of Mills as disclosed in the material fact of December 21, 2018.

**(i) Covenants**

The subsidiary's debenture indentures require compliance with debt and interest coverage ratios under preset parameters, as follows:

- (a) Maintenance of the financial ratio within the limit below established on the dates of its respective annual calculation.
- (b) The ratio obtained by the division of Net Debt by EBITDA should not be greater than or equal to 3.0 in the year ended December 31, 2018 and should not be greater than or equal to 2.5 in the year ending December 31, 2019 (including), through the maturity date.

On December 31, 2019, the Subsidiary's net debt totaled R\$ 28,089 (R\$ 28,089 in 2018), and the total Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA was R\$ 32,376 (R\$ 32,376 in 2018), generating a financial ratio (net debt / EBITDA) of 0.87 (0.87 in 2018).

Therefore, for the year ended December 31, 2019 the Parent Company achieved all covenants to which it was subject.

**b. 2nd issue of debentures (Parent Company - Mills)**

The second issue of Company debentures, of a total of 27,000 simple, nonconvertible, registered, unsecured debentures, in two series, was approved on August 3, 2012, totaling R\$270,000 and unit face value of R\$10. The transaction costs associated with this issue, in the amount of R\$ 1,810, are being recognized as borrowing costs, in accordance with the contractual terms of the issue.

The debentures included in the table above have their maturities according to the issue of each series, as follows:

**2nd series** - 10,906 second series debentures, totaling R\$109,060, with maturity on August 15, 2020, subject to adjustment for inflation based on the accumulated variation of the IPCA. The face value of the second series debentures will be amortized in three annual installments as from the sixth year of their issue and interest paid annually will correspond to 5.50% p.a. At a general meeting held on March 22, 2017 debenture holders decided that interest paid annually will correspond to 7.00% per year of the amount adjusted for inflation as described above.

In August 2019, the amount of R\$ 61,832 was paid, related to the second issue of debentures.

**c. 3rd issue of debentures (Parent Company - Mills)**

The third issue of Company debentures, of a total of 20,000 simple, nonconvertible, registered, unsecured debentures, in a single series, was approved on May 30, 2014, totaling R\$200,000 and unit face value of R\$10. These debentures mature on May 30, 2019 and bear interest equivalent to 108.75% of the CDI, payable semiannually, and amortized in three annual, consecutive installments, commencing on May 30, 2017. At a general meeting held on March 22, 2017 debenture holders set the remuneration at 116.00% of the CDI. The transaction costs associated with this issue, in the amount of R\$ 745, are being recognized as borrowing costs, in accordance with the contractual terms of the issue.

In May 2019, the last installment was paid, amounting to R\$ 66,944 related to the third issue of debentures.

As at December 31, 2019, the balances of debentures including transaction costs are R\$ 72,060 in current liabilities and R\$ 9,814 in non-current liabilities and R\$ 71,976 and R\$ 9,814 less transaction costs respectively (as at December 31, 2018, the gross balance of debentures is R\$ 122,707 in current liabilities and R\$ 52,982 in non-current liabilities, and R\$122,552 and R\$ 52,921 less transaction costs).

The main decisions made at the general meeting held by debenture holders on March 22, 2017, were:

- (a) Replacement of EBITDA by Operating Cash Flow - FCO, for the calculation of covenants for the purpose of early maturity;
- (b) Pledge of collateral consisting of a fiduciary transfer made by the Company in up to 60 days as of March 22, 2017 by opening a restricted account, on behalf of debenture holders, in an amount equivalent to 50% of the outstanding balance, measured monthly;
- (c) Keeping of EBITDA in covenants for the purpose of clearance of restricted account and restrictions on dividend distribution and loans between related parties;
- (d) Renegotiation of the interest rates as described above;
- (e) Limitation of dividends above the minimum legal level of 25%;
- (f) Restriction on loans between related parties.

If the original covenants (EBITDA) are met for two consecutive quarters, the clearance of restricted account occurs. These indicators are now assessed as from this date. In the event of non-compliance therewith, the restricted account is reestablished by replacing EBITDA with Operating Cash Flow (OCF (iii)) for the calculation of covenants.

The main decisions made at the general meeting held by debenture holders on February, 22, 2019, were:

- a. Prior consent for the merger, into the Company, of Solaris Participações, Equipamentos e Serviços S.A., in connection with the business combination disclosed in a material news release dated December 21, 2018;
- b. Permission to carry out intercompany loan operations with its subsidiaries or affiliated companies in the amount of up to R\$ 25,000 (twenty-five million reais);
- c. The change in the mechanism of the Debentures restricted account, provided for in the respective fiduciary assignment agreements, in order to allow the use of part of such funds in the repayment of the Debenture installments; and
- d. Other related matters on the meeting agenda, according to the minutes of the debenture holders' meetings available, fully disclosed on the website [www.mills.com.br/ri](http://www.mills.com.br/ri) and on the CVM website.

#### **(ii) Covenants**

The debenture indentures require compliance with debt and interest coverage ratios under preset parameters, as follows:

- (1) Financial ratio obtained by dividing net debt (i) by EBITDA (iv), must be equal to or lower than three (3);

- (2) Financial ratio obtained by dividing EBITDA by net financial expenses (ii), must be equal to or higher than two (2).
- (i) “Net Debt” means, based on the Company’s immediately preceding consolidated financial statements, (a) the sum of the Company’s onerous debts, on a consolidated basis, to companies, including borrowings from third parties and/or related parties and issue of fixed-income securities, whether convertible or not, in the local and/or international capital markets, as well as guarantees provided by the Company, excluding debts arising from tax installment payments; (b) less the sum of the Company’s cash and cash equivalents (cash and short-term investments), on a consolidated basis;
- (ii) “Net Financial Expenses” mean, based on the Company’s four immediately preceding consolidated financial statements, the balance of the difference between the consolidated gross financial income and the consolidated gross financial expenses;
- (iii) “OCF” means, based on the Company’s four immediately preceding consolidated financial statements, net cash generated by operating activities less interest and net inflation gains and losses, acquisitions of rental PP&E items and interest paid; and
- (iv) “EBITDA” means, based on the Company’s four immediately preceding consolidated financial statements, profit or loss before income tax and social contribution, less income and plus expenses generated by financial and non-operating results, depreciation and amortization, and nonrecurring income and expenses.

Considering non-recurring expenses for the purpose of determining adjusted EBITDA, at the end of the year ended December 31, 2019, all original covenants have been met.

## **20 Leases payable**

On initial adoption of CPC 06 (R2), the Company used the modified retrospective approach, since such approach does not require comparative information and the right-of-use asset is measured at the same amount of the lease liability. The standard defines that an arrangement is or contain a lease when it transfers the right to control the use of an identified asset for a certain period, in exchange for a consideration.

The Company also elected to adopt the recognition exemptions provided in the standard for short-term or low-value leases. The impact of the adoption of CPC 06 (R2) on the statement of operations is the replacement of the straight-line cost of leases (operating lease) by the straight-line cost of depreciation of the right-of-use asset included in these arrangements and by the interest expense on the lease liabilities calculated using the effective borrowing rates at the inception of these transactions.

The information on the recognition, measurement, presentation and disclosure of lease transactions used by the Company is presented below:

### **a. Recognition**

The lease liability is initially measured at present value, discounted using the nominal incremental borrowing rate of the group, net of the following effects:

- (a) Variable lease payments based on an index or a rate;
- (b) Amounts paid by the lessee under a residual value guarantee;
- (c) Exercise price under a purchase option if the lessee is reasonably certain to exercise the option;

Right-of-use assets are measured according to the following items:

- (a) Initial amount of the lease liability;
- (b) Any lease payments made at or before the commencement date, less any lease incentives received; and
- (c) Any initial direct costs,

Payments of short-term leases and leases of low-value assets are recognized as cost or expense, since according to the standard they are exempt from the treatment as leases.

**b. Critical judgments on the determination of the lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive for the exercise of an extension or termination option of a lease agreement. Extension options (or periods after termination options) are included in the lease term only when there is reasonable assurance that the lease will be extended (or will not be terminated). This assessment is reviewed whenever there is an event or significant change in circumstances that affects such assessment and is within the lessee's control. During the current year, the financial effect of the review of lease terms in order to reflect the effect of the exercise of extension options are shown below: in January 2019, IFRS 16/ CPC 06 (R2) became effective. The rights of use are recognized in assets, subject to depreciation and leases are recognized in liabilities, as are finance leases, subject to monetary restatement and amortized by the lease payment.

As a result of the initial adoption of the standard, the Company and Subsidiary recorded R\$ 66,354 related to right-of-use assets and lease liabilities at January 1, 2019.

The movement in the right-of-use asset and lease liability during the year ended December 31, 2019 was as follows:

**20.1 Movement in the right-of-use assets**

<b>Right-of-use assets</b>	<b>Parent Company</b>		<b>Consolidated</b>
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
<b>Vehicles</b>			
Initial adoption	3,649	-	6,211
Remeasurement (*)	43	-	(1,158)
Updating of agreements	500	-	2,613
Write-offs	(118)	-	(123)
Accumulated depreciation	(2,242)	-	(3,583)
Net PP&E	1,831	-	3,959

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
<b>Properties</b>			
Initial adoption	54,137	-	60,458
Remeasurement (*)	5,539	-	7,358
Updating of agreements	2,214	-	2,521
Write-offs	(1,783)	-	(2,391)
Accumulated depreciation	(10,858)	-	(15,079)
Net PP&E	49,249	-	52,867

## 20.2 Movement in lease liabilities

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
<b>Lease liabilities</b>			
<b>Vehicles</b>			
Initial adoption	3,649	-	6,211
Remeasurement (*)	43	-	(1,158)
Updating of agreements	500	-	1,914
Write-offs	(118)	-	(118)
Payments	(2,396)	-	(3,946)
Finance charges	212	-	842
Leases payable	1,890	-	3,745
<b>Properties</b>			
Initial adoption	54,137	-	60,458
Remeasurement (*)	5,539	-	7,358
Updating of agreements	2,214	-	2,521
Write-offs	(1,770)	-	2,391
Payments	(13,958)	-	(18,512)
Finance charges	5,123	-	5,474
Leases payable	51,286	-	54,908
Current	12,053	-	15,171
Noncurrent	41,123	-	43,484

(\*) Remeasurement calculated in the 4th quarter based on CVM guidance through Circular Letter CVM/SNC/SEP 02/2019, where the Parent Company and the Subsidiary adjusted the amount of initial recognition, which was net of PIS and COFINS, to be presented gross of such taxes.

### 20.3 Contractual flows by terms and discount rates

The discount rates were calculated based on the nominal basic interest rate readily observable, adjusted by the Company's credit risk, to the lease terms. The table below shows the rates used and the agreement terms.

Agreement terms	Rate p.a.	
	Properties	Vehicles
2020	7.90%	7.94%
2021	8.02%	8.05%
2022	8.62%	-
2023	9.04%	-
2024	9.42%	-
2025	9.63%	-
2026	9.81%	-
2029	10.07%	-

The Company presents in the table below the analysis of the maturity of lease liabilities base on nominal and actual flow during the year ended December 31, 2019:

Payment terms	Projected inflation(*)	Parent Company		Consolidated	
		Properties	Vehicles	Properties	Vehicles
2020	3.04%	13,188	1,804	16,117	3,672
2021	3.44%	12,054	155	13,046	587
2022	4.08%	11,250	-	11,328	-
2023	4.23%	8,405	-	8,405	-
2024	4.43%	7,352	-	7,352	-
2025 to 2027	4.56%	12,961	-	12,961	-
2028 to 2029	4.69%	3,024	-	3,024	-
Nominal rate flow		68,234	1,959	72,233	4,259
Implicit finance charges		(16,947)	(70)	(17,323)	(515)
Actual rate flow		51,287	1,889	54,910	3,744
Current		10,248	1,804	11,935	3,235
Noncurrent		41,039	85	42,975	509

(\*) Rate obtained according to IPCA projection for NTN-Bs.

The Company has the potential for PIS / COFINS rights to recover consideration for real estate and vehicles, with the effects of PIS / COFINS shown in the following table:

	Tax rate	Parent Company		Consolidated	
		Nominal	Present value	Nominal	Present value
Consideration		70,193	53,176	76,492	58,655
Potential PIS/COFINS	9.25%	6,493	4,919	7,076	5,426

## 21 Related parties

### a. Transactions and balances

There were no loans between the Company and its officers during the years ended December 31, 2019 and 2018.

As at December 31, 2019 and 2018, the Company had no consulting service agreements with members of the Board of Directors.

### b. Management compensation

The amounts relating to compensation paid to members of the Company's management are as follows:

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Salaries and payroll charges - officers	6,135	6,381	7,229
Fees paid to Board of Directors members	3,614	2,388	3,614
Provision for profit sharing	1,712	720	1,712
Share-based payments	273	468	273
Total	11,734	9,957	12,828

### c. Related-party transactions

The amounts related to intercompany transactions refer to the sublease of equipment among companies, as shown below:

Company	Nature	12/31/2019			
		Trade receivables	Trade payables	Sublease income	Sublease expense
Solaris Equipamentos	Sublease of equipment	1,451	2,893	1,725	3,446

## 22 Employee benefits

### a. Post-employment benefits

The post-employment benefits granted and to be granted to former employees related to health care are provisioned based on an actuarial calculation prepared by an independent actuary, using future projections related to various parameters of the benefits evaluated, such as inflation and interest, among other aspects. The actuarial assumptions adopted for the calculation were determined considering the long term of the projections to which they refer. Actuarial gains and losses are recognized in other comprehensive income in the "Equity adjustments" account and presented in equity.

The amounts related to these benefits were calculated based on a valuation prepared by an independent actuary as at December 31, 2019, and are recognized in the financial statements in accordance with IAS 19 (CPC 32 R1).

Parent Company and Consolidated (\*)

	12/31/2019	12/31/2018
Post-employment benefit	12,646	10,441

(\*) The balances presented at December 31, 2018 and December 31, 2019 fully refer to the parent company.

The key actuarial assumptions are as follows:

### ***Economic and financial assumptions***

	2019
Discount rate	7.08% p.a. (actual 3.46% p.a.)
Health Care Cost Trend Rate (HCCTR)	6.61% p.a. (actual 3.00% p.a.)
Aging Factor	3.00% p.a.
Long-term inflation rate	3.50% p.a.

### ***Biometric and demographic assumptions***

	2019
Turnover rate (*)	85% / (ST+1)
General mortality table	AT-2000
Disabled mortality table	IAPB-57
Disability table	Álvaro Vindas
Retirement age	100% at age 60
Likelihood of adherence	10%
Family members before retirement / Likelihood of married individuals	90% of participants
Family members before retirement / Different age for active participants	Men 4 years older than women
Family members after retirement	Actual family members

(\*) ST = service time

### **Sensitivity analysis**

The significant actuarial assumptions for determining the provision for post-employment benefits are: healthcare costs and discount rate. The sensitivity analyses as at December 31, 2019 shown below were determined based on reasonably possible changes in the respective assumptions, occurred at the end of the reporting period, with all other assumptions held constant:

Assumption	Change in assumption	Decrease in liability	Change in assumption	Increase in liability
Change in pension benefit obligation (PBO) - HCCTR	increase of 1.0 p.p.	3,367	decrease of 1.0 p.p.	2,542
Change in expense - HCCTR	increase of 1.0 p.p.	414	decrease of 1.0 p.p.	297
Change in pension benefit obligation (PBO) - Discount rate	increase of 0.5 p.p.	1,346	decrease of 0.5 p.p.	1,563
Change in expense - Discount rate	increase of 0.5 p.p.	95	decrease of 0.5 p.p.	110

### **Inherent risks in post-employment benefits**

The inherent risks in post-employment benefits are: (i) Interest rate risk: to calculate the present value of the post-employment plan liability, a long-term interest rate is used. A decrease in this interest rate will increase the related liability; and (ii) Healthcare costs risk: the present value of the liability is calculated using as reference

the healthcare cost by age based on the actual healthcare costs, projected based on the growth rate of healthcare services. An actual increase in the healthcare cost will increase the related liability.

**b. Provision for profit sharing**

The provision for profit sharing is recorded on an accrual basis, as an expense. The determination of the amount, which is paid in the year following the recording of the provision, is made according to the Profit Sharing Agreement negotiated annually with the category union, in accordance with Law 10,101/00, as amended by Law 12,832/13.

The 2019 Profit Sharing Program is based on the achievement of Adjusted EBITDA and the captures of synergies arising from the business combination with Solaris Equipamentos and corporate and individual targets. All Mills and subsidiary employees with at least 90 days worked in 2019 are eligible.

At December 31, 2019, the liability amount was R\$ 8,840.

**c. Stock option and restricted stock plan**

The Company has stock option plans approved by shareholders at their general meeting aimed at integrating its executives in the Company development process in the medium and long terms. These plans are managed by the Company and the grants are approved by the Board of Directors.

Share options in thousands						
Plans	Grant date	Final exercise date	Share options granted	Share options exercised	Share options canceled	Outstanding share options
2010 Program	5/31/2010	5/31/2016	1,475	(1,369)	(106)	-
2011 Program	4/16/2011	4/16/2017	1,184	(597)	(587)	-
2012 Program	6/30/2012	5/31/2018	1,258	(402)	(856)	-
2013 Program	4/30/2013	4/30/2019	768	(91)	(164)	513
2014 Program	4/30/2014	4/30/2020	260	-	(102)	158
2016 Program	4/28/2016	4/28/2024	1,700	(220)	(831)	649

In order to price the cost of the Top Mills Special Plan relating to its equity component, the applicable volatilities were determined at the risk-free rates and stock prices based on valuations of 6.6 times the EBITDA, less net debt, and the Company used the Black-Sholes model to calculate the fair value.

On March 31, 2014, the Company approved at the Board of Directors meeting:

- (i) the creation of the 1/2014 Stock Option program;
- (ii) the definition of the criteria to set the strike price of options and their payment terms;
- (iii) the definition of the terms and conditions of exercise of options;
- and (iv) the authorization for the Executive Officers to grant the stock options to the beneficiaries eligible under the 2014 Program.

At the Board of Directors meeting held on May 21, 2015, the Company decided to sell the Company's shares held in treasury in order to exercise the option to purchase the profit-sharing bonds under the 2010, 2011, 2012, 2013 and 2014 Stock Option Programs (see note 23.b).

On April 28, 2016, the Company decided at the Board of Directors meeting to approve the Company's new stock option plan, according to the 1/26 program.

The plans granted as from 2010 were classified as equity instruments and the weighted average fair value of the options granted was determined according to the Black-Scholes valuation model, considering the following assumptions:

<b>Program Grant</b>		<b>Weighted average fair value by option - R\$</b>	<b>Weighted average price of the share at the grant date - R\$</b>	<b>Strike price at the grant date - R\$</b>	<b>Volatility at the grant date</b>	<b>Dividend yield at the grant date</b>	<b>Annual risk-free interest rate at the grant date</b>	<b>Maximum strike period at the grant date</b>
2010	First	3.86	11.95	11.50	31.00%	1.52%	6.60%	6 years
2010	Second	5.49	14.10	11.50	31.00%	1.28%	6.37%	6 years
2011	Single	6.57	19.15	19.28	35.79%	1.08%	6.53%	6 years
2012	Basic	21.75	27.60	5.86	37.41%	0.81%	3.92%	6 years
2012	Discretionary	12.57	27.60	19.22	37.41%	0.81%	3.92%	6 years
2013	Basic	24.78	31.72	6.81	35.34%	0.82%	3.37%	6 years
2013	Discretionary	11.92	31.72	26.16	35.34%	0.82%	3.37%	6 years
2014	Basic	22.46	28.12	7.98	33.45%	0.75%	12.47%	6 years
2014	Discretionary	11.16	28.12	30.94	33.45%	0.75%	12.47%	6 years
2016	Discretionary	2.63	4.31	2.63	71.45%	1.51%	14.25%	8 years

The strike price of the shares granted under the Plan is set by the Company's Board of Directors.

The table below presents the accumulated balances of the plans in the balance sheets and the effects on the statement of operations.

	<b>12/31/2019</b>	<b>12/31/2018</b>
2002 Plan:		
Capital reserve	1,446	1,446
Number of shares exercised (thousands)	3,920	3,920
Top Mills, Special CEO and Ex-CEO Plans:		
Capital reserve	1,148	1,148
Number of shares exercised (thousands)	1,055	1,055
Mills Rental Executive Plan:		
Capital reserve	4,007	4,007
Number of shares exercised (thousands)	391	391
2010 Plan:		
Capital reserve	5,693	5,693
Number of exercisable options (thousands)	-	-
Number of shares exercised (thousands)	1,369	1,369
Number of shares canceled (thousands)	106	106
2011 Program (2010 Plan):		
Capital reserve	7,329	7,329
Number of exercisable options (thousands)	-	-
Number of shares exercised (thousands)	597	597
Number of shares canceled (thousands)	587	587
2012 Program (2010 Plan):		
Capital reserve	14,162	14,162
Number of exercisable options (thousands)	-	-
Number of shares exercised (thousands)	402	402
Number of shares canceled (thousands)	856	856
2013 Program (2010 Plan):		
Capital reserve	11,900	11,900
Number of exercisable options (thousands)	513	513
Number of shares exercised (thousands)	91	91
Number of shares canceled (thousands)	164	164
2014 Program (2010 Plan):		
Capital reserve	4,701	4,701
Number of exercisable options (thousands)	158	188
Number of shares canceled (thousands)	102	72
2016 Program:		
Capital reserve	2,111	1,699
Number of exercisable options (thousands)	649	895
Number of shares exercised (thousands)	220	-
Number of shares canceled (thousands)	831	805
Total recognized as equity (accumulated)	52,497	52,086
Profit (loss) effect	412	(673)

**d. Restricted shares incentive program**

The Company has a restricted shares incentive program approved by shareholders at their general meeting aimed at integrating its executives in the Company's development process in the medium and long terms. These plans are managed by the Company and the grants are approved by the Board of Directors.

Plans	Grant date	Final exercise date	Shares in thousands			
			Share options granted	Shares options exercised	Shares options canceled	share options
2018 Program	11/19/2018	11/18/2021	868	-	-	868
2019 Program	8/14/2019	12/31/2021	858	-	-	858

In order to price the cost of the restricted stock plan relating to its equity component, the applicable volatilities were determined at the risk-free rates, the dividend yield and the stock prices, with the Black-Sholes model being used to calculate the fair value.

On June 18, 2018, the Company approved at the Board of Directors meeting the proposal to create a Restricted Stock Incentive Plan of the Company, with the subsequent call to the Company's Extraordinary General Meeting to resolve on its approval.

At the Extraordinary General Meeting held on July 18, 2018, the Company approved the Restricted Stock Incentive Plan, as proposed by the Board of Directors.

On August 18, 2018, the Company decided at a Board of Directors meeting to adopt the Company's Restricted Stock Incentive Program, within the scope of the Company's Restricted Shares Incentive Plan approved by the Extraordinary Shareholders' Meeting held on July 18, 2018.

At the Board of Directors meeting held on November 18, 2018, the Company approved the restricted stock granting to the beneficiaries of the Company's Restricted Stock Incentive Program, approved at the Board of Directors Meeting held on August 3, 2018, within the scope of the Company's Restricted Stock Incentive Plan approved by the Company's Extraordinary Shareholders' Meeting held on July 18, 2018.

At the Board of Directors meeting held on August 14, 2019, the Company approved the restricted stock granting to the beneficiaries of the Company's Restricted Stock Incentive Program, approved at the Board of Directors Meeting held on August 14, 2019, within the scope of the Company's Restricted Stock Incentive Plan approved by the Company's Extraordinary Shareholders' Meeting held on July 18, 2018.

The plans granted were classified as equity instruments and the weighted average fair value of the options granted was determined according to the Black-Scholes valuation model, considering the following assumptions:

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<b>Program</b>	<b>Weighted average fair value by share - R\$</b>	<b>Weighted average price of the share at the grant date - R\$</b>	<b>Strike price at the grant date - R\$</b>	<b>Volatility at the grant date</b>	<b>Dividend yield at the grant date</b>	<b>Annual risk free interest rate at the grant date</b>	<b>Maximum strike period at the grant date</b>
2018	3.17	3.18	0.00	54.56%	0.00%	5.04%	36 months
<b>Program</b>	<b>Weighted average fair value by share - R\$</b>	<b>Weighted average price of the share at the grant date - R\$</b>	<b>Strike price at the grant date - R\$</b>	<b>Volatility at the grant date</b>	<b>Dividend yield at the grant date</b>	<b>Annual risk free interest rate at the grant date</b>	<b>Maximum exercise period at the grant date</b>
2019	7.43	7.44	0.00	55.71%	0.00%	2.36%	29 months
						<b>12/31/2019</b>	<b>12/31/2018</b>
2018 Plan:							
Capital reserve						2,759	77
Number of exercisable options (thousands)						868	868
Number of shares canceled (thousands)						-	-
2019 Plan:							
Capital reserve						1,101	77
Number of exercisable options (thousands)						858	868
Number of shares canceled (thousands)						-	-
Total recognized as equity (accumulated)						3,860	77
Profit (loss) effect						3,783	(77)

## 23 Income tax and social contribution

### a. Reconciliation of the income tax and social contribution benefit (expense)

The reconciliation of income and social contribution tax expense between statutory and effective rates is as follows:

	Parent Company		Consolidated 12/31/2019
	12/31/2019	12/31/2018	
Loss for the year before income and social contribution	(64,355)	(139,240)	(57,044)
Statutory income and social contribution tax rate	34%	34%	34%
Income and social contribution taxes at statutory rate	21,881	47,342	19,395
Nondeductible provisions (*) and permanent differences	(1,177)	(3,071)	(655)
Lease disallowance adjustments (**)	(4,536)	-	(4,536)
Share of profit (loss) of subsidiaries	3,208	-	(2,092)
Others	-	-	(47)
Total current and deferred income and social contribution taxes	<u>19,375</u>	<u>44,271</u>	<u>12,064</u>
Effective rate	30%	32%	21%

(\*) Non-deductible expenses comprise expenses on the accrual of cancellations, gifts, debt waivers, share of profit (loss) of subsidiary and non-compensatory fines.

(\*\*) Non-approval of the credits of the negative balance compensation statements originated from the rectification of the DIPJ for the calendar years 2012 and 2013 and ECF for 2014. At the time of the offset, the credit was recorded as a credit to current income tax and social contribution expenses. The disallowance was then recorded as a debit to profit or loss in the same line item and the corresponding entry was a tax liability whose offset was considered improper, mainly PIS and COFINS and withholding taxes (note 22).

**b. Movement in deferred income and social contribution taxes during the year, not considering the offset of balances:**

Description	Parent Company			Consolidated	
	12/31/2018	Additions	Write-offs	12/31/2019	12/31/2019
GP Andaimes Sul Locadora goodwill	(672)	-	-	(672)	(672)
Jahu goodwill	(2,437)	-	-	(2,437)	(2,437)
Adjustment IFRS 9 – Cash and cash equivalents	(15)	-	(15)	(30)	(30)
Finance leases	(208)	2,543	208	2,543	(11,422)
Adjustment for inflation of judicial deposits	(1,758)	(152)	10	(1,900)	(1,900)
Debentures	(73)	-	52	(21)	(21)
Accelerated depreciation	(3,012)	-	753	(2,259)	(2,585)
Property, plant and equipment hedge	(420)	-	132	(288)	(288)
Exchange gain	(387)	(129)	-	(516)	(516)
SCG III goodwill	-	-	-	-	4,194
Fair value adjustment - Rohr	2,296	1,316	-	3,612	3,612
Adjustment ECL on initial adoption of CPC 48 / IFRS 9	588	-	-	588	1,219
IFRS 16 Leases	-	706	-	706	660
Cash and cash equivalents initial adoption CPC 48/ IFRS 9	36	-	-	36	36
Post-employment benefit	359	412	-	771	771
Post-employment benefit (initial adjustment)	3,191	338	-	3,529	3,529
Bonus payable	735	938	(798)	875	875
Other provisions	-	-	-	-	1,413
Impairment losses	693	260	-	953	953
Tax losses	165,960	22,766	-	188,726	267,436
Impairment allowance - Rohr	8,906	-	-	8,906	8,906
Provision for slow-moving inventories	637	681	-	1,318	3,615
Provision for profit sharing	2,720	-	(685)	2,035	2,310
Allowance for expected credit losses	9,378	-	(1,642)	7,736	8,974
Provision for discounts and cancellations	-	1,176	(483)	693	693
Provision for realization of tax credit	29	-	-	29	29
Provision for costs and expenses	1,247	-	(1,085)	162	162
Provision for tax, civil and labor risks	8,549	2,172	(4,068)	6,653	8,041
Stock options	8,494	2,797	-	11,292	11,292
Exchange loss	463	116	-	579	579
	205,299	35,942	(7,621)	233,619	309,429

**c. Deferred taxes that are recognized directly in shareholders' equity**

The balance of deferred taxes recognized in shareholders' equity at December 31, 2019 is R\$ 5,736, related to the initial adoption of CPC 48 / IFRS 9.

	Consolidated	
	12/31/2019	12/31/2018
ECL first time adoption CPC 48/IFRS 9	588	588
Cash and cash equivalents first time adoption CPC 48/IFRS 9	36	36
Fair value adjustment - Investment in Rohr	1,583	267
Provision for post-employment benefits	3,529	3,191
Total	5,736	4,082

**d. The bases and expectations for realization of the deferred income tax and social contribution are presented below:**

<b>Nature</b>	<b>Bases for realization</b>
<i>Stock option</i>	Exercise of options
Discount to present value	Tax realization of the loss/gain
Property, plant and equipment hedge	Depreciation of the asset
Provision (reversal) for slow-moving inventories	Write-off or sale of the asset
Provision for impairment	Realization of the provision
Fair value adjustment – Rohr	Sale of stake in the investment
Provision for costs and expenses	Payment
Provision for loss on lawsuit Murilo Pessoa	Receipt of the amount
Allowance for expected credit losses	Filing of lawsuits and past-due receivables
Leases	Realization of assets over the straight-line depreciation period
Provision for tax, civil and labor risks	Tax realization of the loss or settlement of the lawsuit
Provision for realization of tax credit	Realization of tax credit
Provision for discounts and cancellations	Reversal/realization of the provision
Taxes with required payment suspended	Payment or reversal of the provision
Accelerated depreciation	Tax depreciation over five years
GP Andaimes Sul Locadora goodwill	Disposal/impairment of the asset
Jahu goodwill	Disposal/impairment of the asset
Adjustment for inflation of judicial deposits	Withdrawal of the deposit
Exchange differences	Payment of the borrowing
Tax losses	Expectation of future taxable profits (i)
Bonus payable	Payment
Debentures	Amortization of the borrowing cost
Impairment	Reversal/realization of the provision
Hedge provision (sale)	Derivative contracting/settlement
Provision for post-employment benefits	Reversal/realization of the provision

- (i) The Company prepared the impairment analysis of the deferred tax asset recognized as at December 31, 2019 and concluded that there are sufficient evidences that taxable profits will be generated against which the recognized tax losses and other temporaries adjustments can be utilized, within a period lower than 10 years. The determination of the amount of future taxable profits is based on projections of revenues, costs and finance income and costs, which reflect the Company's economic and operational environments.

The actions aiming at generating taxable profit are those already in course through the implementation of the commercial strategy focused on the recovery of price, extended market coverage with the diversification of the customer base and increase in profitability, in the Rental business unit, and focus on the adjustment of products and efforts to markets where the Company always had a higher differential: larger and higher complexity works, in the Construction business unit.

The expected realization of the deferred income and social contribution taxes as at December 31, 2019 is as follows:

<b>Deferred IR and CSLL assets</b>	<b>Parent Company</b>	<b>Consolidated</b>
2020	-	5,469
2021	6,583	16,258
2022	22,088	40,560
2023	35,060	58,514
2024	84,823	103,565
2025 to 2026	85,065	85,064
	<hr/>	<hr/>
Total	233,619	309,429
	<hr/> <hr/>	<hr/> <hr/>

## 24 Provisions for tax, civil and labor risks and judicial deposits

The Company is a party to tax, civil and labor proceedings that have arisen in the normal course of business and is discussing the related matters both at the administrative and judicial levels. These proceedings are backed by judicial deposits, when applicable.

Based on the opinion of the Company's outside legal counsel, management understands that the appropriate legal measures already taken in each situation are sufficient to cover potential losses and preserve the Company's equity, being reassessed periodically.

The Company does not have any contingent assets recognized.

Breakdown of the provision for tax, civil and labor risks:

	<u>Parent Company</u>		<u>Consolidated</u>
	12/31/2019	12/31/2018	12/31/2019
Tax (i)	5,030	4,884	5,030
Civil (ii)	1,547	6,457	2,311
Labor (iii)	10,489	10,127	13,804
Success fees (iv)	2,503	2,607	2,503
Legal fees and costs (v)	-	1,067	-
	<hr/>	<hr/>	<hr/>
	19,569	25,142	23,648
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

- (i) Refers to the writ of mandamus filed for by the Company when challenging the increase in the PIS and COFINS rates (established by the non-cumulative regime of these contributions, with the enactment of Laws 10,637/2002 and 10,833/2003). The Company maintains a judicial deposit for this provision, related to the differences in rates;
- (ii) The Company has lawsuits filed against it relating to civil liability and compensation claims. In December 2018 a provision was set up due to a lawsuit seeking compensation for pain and suffering and property damages filed against the company. Due to the unfavorable outcome of this lawsuit, the provision was written off in 2019.
- (iii) The Company is a defendant in various labor lawsuits. Most of the lawsuits involve claims for compensation due to occupational diseases, overtime, hazardous duty premium and equal pay.
- (iv) Contingent fees are generally set at up to 10% of the amount of the claim, payable to outside legal counsel according to the success achieved in each claim. Payment is contingent upon an outcome of the lawsuits favorable to the Company.

- (v) Refers to the provision for legal fees and costs incurred in lawsuits, with probable risk of unfavorable outcome to the Company. In the quarter, the Company was able to reverse the attorney's fees of a tax lawsuit due to expiration.

Movement in the provision for tax, civil and labor risks:

	<u>Parent Company</u>		<u>Consolidated</u>
	12/31/2019	12/31/2018	12/31/2019
Balance at January 1	25,142	21,364	25,142
Solaris Equipamentos acquisition adjustment through April/2019	-	-	4,795
Provision	4,107	9,450	5,599
Adjustment for inflation	1,988	1,859	1,988
Reversals/write-off	(11,668)	(7,531)	(13,876)
Balance at the end of the year	<u>19,569</u>	<u>25,142</u>	<u>23,648</u>

The main movement in 2019 is related to the unfavorable decision to the Company in regard to a civil contingency, as mentioned in item ("ii") above.

**a. Breakdown of judicial deposits**

	<u>Parent Company</u>		<u>Consolidated</u>
	12/31/2019	12/31/2018	12/31/2019
Tax (i)	8,733	8,326	8,771
Labor (ii)	3,448	3,110	3,591
Civil (iii)	-	5,758	101
	<u>12,182</u>	<u>17,194</u>	<u>12,463</u>

- (i) As at December 31, 2019, the composition of judicial deposits of a tax nature totaled R\$ 8,633. The reconciliation of this amount basically refers to challenging the constitutionality of the increase in the PIS and COFINS rates, totaling R\$ 4,590, as stated below in tax contingencies item "i", (subitem "a"), and also judicial deposits made in favor of certain municipalities associated with the interpretation of our legal counsel as regards the levy of Service Tax (ISS) on asset rental income. The balance recognized under this item is R\$ 3,809. Since 2003, with the enactment of Supplementary Law 116 and based on the opinion of its legal counsel, the Company has not made judicial deposits of this nature.
- (ii) Judicial deposits are linked to lawsuits in which the Company is defendant in several labor claims. Most of the lawsuits involve claims for compensation resulting from occupational diseases, overtime, hazardous duty and equal pay.
- (iii) Judicial deposit related to a lawsuit for compensation for property damage and pain and suffering for which the Company is the defendant set up in December 2018. Due to the unfavorable outcome for the Company in the first quarter of 2019, the deposit was withdrawn.

The Company is a party to tax, civil and labor lawsuits involving risks of loss classified by management as possible according to the assessment of its legal counsel, for which no provision was recognized as estimated below:

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Tax (i)	63,929	54,543	76,818
Civil (ii)	13,152	7,593	13,596
Labor (iii)	11,332	10,594	12,480
	88,414	72,730	102,894

**(i) Tax (main items):**

- (a) Tax Assessment Notice of ICMS (State VAT) received by subsidiary Sullair, of approximately R\$59 thousand of principal which amounts to R\$183 thousand including fine and interest. In summary, this tax assessment notice challenges the payment of ICMS levied on the transportation of rental assets in 2012 and 2013. The other lawsuits refer basically to collection proceedings of tax credits overdue, INSS offsets on termination amounts paid and motions against the tax collection proceeding filed by the Federal Government, for the collection of differences of COFINS and tax credits arising from the increase in tax rate from 1% to 3%.
- (b) Disallowance of allegedly nondeductible expenses, included in PIS and COFINS, by the Brazilian Federal Revenue Service, involving former Mills Formas, due to agreements entered into with various customers, under which Mills Formas was responsible for carrying out the services that were previously carried out by the employees of the former Mills do Brasil;
- (c) Assessment of deficiency by the Finance Department of the State of Rio de Janeiro consisting of ICMS and fine allegedly due on transfers of goods without the payment of the related tax.
- (d) Non-recognition by the INSS (National Institute of Social Security) of the possibility of offsetting payments improperly made as social security contribution, based on the method established by Law 9,711/98;
- (e) Imposition by the Brazilian Federal Revenue of fine allegedly due on installment payment of credits derived from voluntary reporting;
- (f) Assessment by the Brazilian Federal Revenue Service of alleged deficiency in Tax on Profit (ILL), judged unconstitutional by the STF (Federal Supreme Court).
- (g) Non-approval of the credits of the negative balance compensation statements originated from the rectification of the DIPJ for the calendar year 2012. The Brazilian Federal Revenue Service considered these compensation statements not declared, according to article 74, paragraph 3, item VI of Law 9,430/96. The Company filed for a writ of mandamus seeking to guarantee its net and certain right to have the compensation statements analyzed, since these do not fit into any of the legal assumptions alleged by the Brazilian Federal Revenue Service.

**(ii) Civil**

Lawsuits filed against the Company relating to compensation for pain and suffering and property damages.

- (a) The change was mainly caused by the change in the likelihood of loss from remote to possible, related to a lawsuit for pain and suffering and property damages.

**(iii) Labor**

The Company is a defendant in various labor lawsuits. Most of the lawsuits involve collection of termination amounts, compensation for pain and suffering, inclusion of premium in the compensation, reinstatement and salary adjustments, and related effects.

## 25 Taxes payable

	<u>Parent Company</u>		<u>Consolidated</u>
	12/31/2019	12/31/2018	12/31/2019
IRPJ/CSLL (income tax and social contribution)	-	-	278
IRRF (withholding income tax) *	943	-	955
PIS and COFINS (taxes on revenue)*	5,564	1,825	7,168
Deferred PIS and COFINS	-	-	588
INSS (Social Security Contribution)	-	42	31
ICMS (State VAT)	198	113	328
ISS (Service Tax)	178	122	234
Others	408	391	457
	<u>7,290</u>	<u>2,493</u>	<u>10,038</u>
Current	7,290	2,493	9,397
Noncurrent	-	-	641

(\*) Non-approval of the credits of the negative balance compensation statements originated from the rectification of the DIPJ for the calendar years 2012 and 2013 and ECF for 2014. At the time of the offset, the credit was recorded as a credit to current income tax and social contribution expenses. The disallowance was then recorded as a debit to profit or loss in the same line item and the corresponding entry was a tax liability whose offset was considered improper, mainly PIS and COFINS and withholding taxes (note 22).

## 26 Tax debt refinancing program (REFIS)

In November 2009 the Company enrolled in the Special Installment Payment Plan established by Law 11,941/2009 and Provisional Act 470/2009, with the purpose of equalizing and regularizing the tax liabilities under this special plan for installment payment of tax and social security obligations.

The general conditions of this installment payment can be summarized as follow:

- (a) The installment payment period was 180 months.
- (b) 60% reduction of voluntary and late payment fines, and 25% reduction of late payment interest.
- (c) Debts included in the installment payment plan were:
  - (i) PIS and COFINS (for the period from April 2002 to May 2004).
  - (ii) IRPJ (for December 2003, January 2004 and April 2004).
  - (iii) CSLL (for November 2003, January 2004 and April 2004).
  - (iv) INSS - Additional Occupational Accident Insurance (SAT) contribution. INSS - Additional Occupational Accident Insurance (SAT) contribution.

The amounts relating to PIS/COFINS, IRPJ and CSLL had been offset against PIS and COFINS credits on rental (from September 1993 to January 1999), referring to rental and assembly of Company-owned leased assets. The origin of these credits was based on a decision by the Federal Supreme Court that does not consider the rental of chattel as provision of services.

In light of the new case law set by the Superior Court of Justice (STJ) (1st Panel of the STJ - trial in September 2009 of Special Appeal No. 929.521), which set the understanding of the levy of COFINS on asset rental income, the Company decided to pay in installments the amount relating to the aforementioned debts.

The debts were consolidated on June 29, 2011, in accordance with Joint Administrative Rule PGFN/RFB 2/2011.

As a result of the enrollment in this special installment payment plan, the Company undertook to pay the installments without late payment exceeding three months, and has paid the REFIS installments of the debt consolidated in June 2011.

- (a) At the preliminary stage of consolidation of debts for installment payment, on June 30, 2010, the Company decided to include an INSS debt considering the change of the likelihood of a favorable outcome from probable to remote, according to the opinion of its outside legal counsel.

Also at the preliminary stage of consolidation of debts for installment payment, PIS and COFINS debts considered expired by the outside legal counsel were excluded.

- (b) Still in the stage of consolidation of debts in June 2011, the Company identified that five debts, two relating to COFINS and three to CSLL, had not been made available at the RFB website for consolidation purposes.

	Balance at December 31, 2018	Write-offs	Additions	Inflation adjustment SELIC	Balance at December 31, 2019
PIS	1,289	(304)	-	115	1,100
COFINS	4,011	(944)	-	357	3,424
IRPJ	1,646	(388)	-	147	1,406
CSLL	155	(37)	-	14	132
INSS	648	(202)	-	49	494
	<u>7,749</u>	<u>(1,874)</u>	<u>-</u>	<u>682</u>	<u>6,556</u>
Current	1,391	-	-	-	1,434
Noncurrent	6,358	-	-	-	5,122

## 27 Equity

### a. Share capital

On May 10, 2019, as a result of the Business Combination, the Company issued 76,056,038 new registered ordinary shares without par value for Solaris Equipamentos shareholders, who received 0.4927615448 shares of Mills for each 1 (one) ordinary share of Solaris Equipamentos (see note 1.1).

On May 20, 2019, the Company's Board of Directors approved a capital increase of R\$ 643, totaling an issue of 219,500 new registered ordinary shares without par value, which will have the same conditions in all benefits, including dividends and any interest on capital that comes to be distributed, related to the Company's 1/2016 Stock Option Program (1/2016 Program).

On September 5, 2019, the Company's Board of Directors approved a capital increase of R\$ 12, totaling an issue of 4,250 new registered ordinary shares without par value, which will have the same conditions in all benefits, including dividends and any interest on capital that comes to be distributed, related to the Company's 1/2016 Stock Option Program (1/2016 Program).

The Company's fully subscribed and paid-in capital as at December 31, 2019 is R\$ 1,089,379 (December 31, 2018 - R\$ 688,319), comprising 251,866 thousand (December 31, 2018 - 175,586 thousand) registered ordinary shares without par value. Each ordinary share entitles to one vote in the shareholders' meetings.

The table below shows the shareholding structure at the reporting dates:

Shareholders	12/31/2019		12/31/2018	
	Number of shares (in thousands)	Percentage	Number of shares (in thousands)	Percentage
Andres Cristian Nacht <sup>1</sup>	13,817	5.49%	13,817	7.87%
Snow Petrel S.L.	23,677	9.40%	23,677	13.48%
Other signatories of the Company shareholders agreement <sup>4</sup>	23,044	9.15%	23,044	13.12%
Nacht Family (total)	60,538	24.04%	60,538	34.47%
SCG III Fundo de Investimento em Participações <sup>7</sup>	51,556	20.47%	-	-
Sullair Argentina S.A. <sup>6</sup>	22,096	8.77%	-	-
Fundo de Investimento em participações Axxon Brazil Private Equity Fund II <sup>2</sup>	12,294	4.88%	12,294	7.00%
Fama Investimentos Ltda. <sup>3</sup>	9,123	3.62%	8,789	5.01%
Brandes Investment Partners <sup>5</sup>	0	0%	17,459	9.94%
Others	96,259	38.22%	76,506	43.58%
	<b>251,866</b>	<b>100.00 %</b>	<b>175,586</b>	<b>100.00 %</b>

- On December 19, 2017, it became the holder of a material ownership interest from 11.79% to 7.87%, divided among Antonia Nacht, Pedro Nacht and Tomas Nacht, resulting in 2,295,736 shares for each of them. On April 13, 2016, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.
- On July 20, 2016, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.

3. On March 25, 2019, it became the holder of a material ownership interest according to information officially received by the Company and disclosed to CVM.
4. Signatories to the Shareholders' Agreement, excluding Andres Cristian Nacht and Snow Petrel S.L. Considers the position on 12/28/2016, already reported to the CVM, in accordance with CVM Instruction 358/02.
5. On March 18, 2019, Brandes Investment Partners, LP became the holder of 4.53% of the total shares according to information officially received by the Company and disclosed to CVM.
6. On May 10, 2019, the Shareholders' Agreement was signed after the Business Combination with Solaris Equipamentos and Sullair Argentina became the holder of 22,096,641 shares of the Company.
7. On May 10, 2019, a Shareholders' Agreement was signed after the Business Combination with Solaris Equipamentos and SCG III Fundo de Investimentos em Participações became the holder of 51,556,496 shares of the Company.

**b. Earnings reserves**

***b.1 Legal reserve***

The legal reserve is set up annually by allocating 5% of the profit for the year until it reaches a ceiling of 20% of share capital. The purpose of the legal reserve is to ensure the integrity of the capital and it can be used only to offset losses and increase capital.

***b.2 Expansion reserve***

The purpose of the expansion reserve is to provide funds to finance additional investments in fixed and working capital and expand corporate activities. Under the Company's bylaws, the ceiling of the expansion reserve is 80% of the Company's subscribed capital.

***b.3 Retained earnings***

Consists of the retention of the remaining balance of retained earnings in order to fund the business growth project set out in the Company's investment plan, according to the capital budget proposed by the Company's management, to be submitted for approval at the General Meeting, pursuant to Article 196 of the Brazilian Corporation Law.

**c. Capital reserve**

The capital reserve includes the transaction costs incurred in capital funding amounting to R\$ 15,069, net of taxes, relating to the primary public offering of shares, the stock option premium reserve amounting to R\$ 56,357, the stock option plans for employees, and the share issue cost in May 2016 of R\$3,379, totaling a capital reserve of R\$ 37,909 as at December 31, 2019 (December 31, 2018 - R\$ 33,714).

**d. Treasury shares**

The balance of treasury shares as at December 31, 2019 and December 31, 2018 is 2,278,422 shares totaling R\$ 20,287 and includes the cost of the canceled shares, amounting to R\$ 557, the amount of the buyback of shares in 2015 of R\$ 19,777, and the amount of the sale of shares of R\$ 47.

## 28 Earnings per share

### a. Basic

Basic earnings (loss) per share are calculated by dividing the profit (loss) attributable to owners of the Company by the weighted average number of ordinary shares issued during the year.

	<b>Parent Company and Consolidated *</b>	
	<b>12/31/2019</b>	<b>12/31/2018</b>
Loss attributable to owners of the Company	(44,980)	(94,969)
Weighted average number of ordinary shares issued (thousands)	198,678	160,540
Basic earnings (loss) per share from continuing operations	(0.23)	(0.59)

(\*) The balances presented at December 31, 2019 and 2018 fully refer to the parent company.

### b. Diluted

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: stock options. For stock options, a calculation is made to determine the number of shares that would be acquired at fair value (determined as the average annual market price of the Company's share), based on the monetary value of the subscription rights linked to the outstanding stock options. The number of shares calculated as described above is compared with the number of shares issued, assuming the exercise of the stock options.

	<b>Parent Company and Consolidated *</b>	
	<b>12/31/2019</b>	<b>12/31/2018</b>
Loss attributable to owners of the Company	(44,980)	(94,969)
Weighted average number of ordinary shares issued (thousands)	198,678	160,540
Basic loss per share from continuing operations	(0.23)	(0.59)

(\*) The balances presented at December 31, 2019 and 2018 fully refer to the parent company.

The stock options did not have an effect on the calculation above as at December 31, 2019 because the potential ordinary shares are antidilutive.

## 29 Net revenue from rental, sales and services

The information on net revenue from sales and services below refers only to the nature of the revenue per type of service:

	Parent Company		Consolidated (*)
	12/31/2019	12/31/2018	12/31/2019
Rentals	291,702	274,400	428,584
Sales of new equipment	14,778	13,456	26,243
Sales of semi new equipment	9,321	29,833	16,917
Sales of semi new equipment (others)	12,178	15,099	12,189
Technical assistance	8,069	6,825	8,052
Indemnities	11,770	7,832	11,770
Others (i)	6,622	5,722	6,622
Total gross revenue	354,440	353,166	510,377
Taxes on sales and services	(31,324)	(28,974)	(46,975)
Cancelations and discounts	(17,586)	(20,004)	(23,937)
	305,530	304,189	439,465

(i) Refers to revenue from recovery of expenses of equipment or machinery damaged by the lessee (customer).

(\*) The consolidated amounts include twelve months of the Parent Company and only eight months of the subsidiary.

### **30 Cost of sales and services and selling, general and administrative expenses (by nature)**

Cost of sales and services consist mainly of expenses on

- (i) personnel for supervising the works, technical assistance, assembly, handling, maintenance of equipment and designers;
- (ii) freight for equipment transportation, when the responsibility lies with the Company, and for equipment transfer;
- (iii) rental of third parties' equipment;
- (iv) expenses directly related to warehouse management, storage, handling and maintenance of rental and resale assets, comprising expenses on personal protective equipment (PPE) used in operating activities (handling, storage and maintenance), inputs (gas of pilers, gases for welding, wood, paints, among others) and maintenance of machinery and equipment (pilers, welding machines, hydroblasting equipment, carving equipment and tools in general);
- (v) provision for slow-moving inventories and provision for impairment;

Selling, general and administrative expenses refer to current expenses, such as, salaries, benefits, travels, representations of various departments, including Sales, Marketing, Engineering and Administrative Backoffice (HR and Investor Relations); and corporate expenses of the head office and the various branches (rents, fees, security, upkeep and cleaning, mainly); provision for stock option programs, provision for contingencies, and some non-permanent disbursements.

**Parent Company**

Nature	2019			2018		
	Direct project and rental costs	General and administrative and other expenses	Total	Direct project and rental costs	General and administrative and other expenses	Total
Personnel	(43,939)	(52,238)	(96,177)	(50,753)	(63,063)	(113,816)
Third parties	(2,399)	(26,559)	(28,958)	(3,046)	(24,456)	(27,502)
Freight	(9,885)	(1,083)	(10,969)	(9,245)	(6,531)	(15,776)
Construction/maintenance and repairs	(36,037)	(3,731)	(39,768)	(32,420)	(4,177)	(36,597)
Equipment rental and others	(3,760)	(1,149)	(4,909)	(3,517)	(14,973)	(18,490)
Travel	(4,028)	(3,294)	(7,322)	(1,923)	(2,987)	(4,910)
Cost of sales	(8,488)	-	(8,488)	(7,404)	-	(7,404)
Depreciation and amortization	(103,967)	(23,168)	(127,135)	(113,359)	(13,325)	(126,684)
Write-off of assets	(5,943)	(3,142)	(9,085)	(23,005)	(2,086)	(25,091)
Cost of sales of used assets - others	(5,892)	-	(5,892)	(31,257)	-	(31,257)
Stock option	-	(4,195)	(4,195)	-	(750)	(750)
Provisions	-	(2,075)	(2,075)	-	(6,994)	(6,994)
Provision for profit sharing	-	(4,555)	(4,555)	-	(8,000)	(8,000)
Others	4,339	(13,494)	(9,155)	3,927	(13,784)	(9,857)
<b>Total</b>	<b>(219,999)</b>	<b>(138,684)</b>	<b>(358,683)</b>	<b>(272,002)</b>	<b>(161,126)</b>	<b>(433,128)</b>

**Consolidated**

Nature	2019		
	Direct project and rental costs	Selling, general and administrative expenses	Total
Personnel	(58,544)	(66,791)	(125,335)
Third parties	(2,889)	(32,721)	(35,610)
Freight	(12,136)	(3,974)	(16,110)
Construction/maintenance and repairs	(53,938)	(5,469)	(59,407)
Equipment rental and others	(580)	(2,064)	(2,644)
Travel	(5,149)	(4,879)	(10,028)
Cost of sales	(14,098)	-	(14,098)
Depreciation and amortization	(127,465)	(34,802)	(162,267)
Write-off of assets	(6,182)	(3,142)	(9,324)
Cost of sales of used assets - others	(5,899)	-	(5,899)
Stock option	-	(4,195)	(4,195)
Provisions	-	(3,175)	(3,175)
Provision for profit sharing	-	(9,183)	(9,183)
Others	4,383	(18,079)	(13,693)
Total	(282,495)	(188,475)	(470,970)

## 31 Finance income and costs

### a. Finance income

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Interest income	2,082	2,033	3,201
Investment income	6,513	11,401	7,906
Discounts obtained	173	52	203
Exchange and inflation gains	816	967	2,399
Others	-	(2)	207
	9,584	14,451	13,917

### b. Finance costs

	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Interest on borrowings	(1,422)	(816)	(2,299)
Foreign exchange and inflation losses	(2,561)	(2,554)	(4,173)
Interest on debentures	(11,634)	(22,335)	(13,438)
Commissions and bank fees	(277)	(270)	(684)
IOF (tax on financial transactions)	(12)	(23)	(31)
Lease charges	(5,062)	-	(4,869)
Others	(1,282)	(1,280)	(2,479)
	(22,250)	(27,278)	(27,973)

## 32 Segment information

Information by operating segment is being presented in accordance with CPC 22 Operating Segments (IFRS 8).

The Company's reportable segments are business units that offer different products and services and are managed separately since each business requires different technologies and market strategies. The main information used by management to assess the performance of each segment is as follows: total property, plant and equipment since these are the assets that generate the Company's revenue and the profit before finance income and costs reported by each segment to evaluate the return on these investments. The information on liabilities by segment is not being reported since it is not used by the Company's chief decision makers to manage the segments. Management does not use analyses by geographic area to manage its businesses.

The Company's segments have completely different activities, as described below, and therefore their assets are specific to each segment. The assets were allocated to each reportable segment according to the nature of each item.

On September 28, 2015, aimed at obtaining synergy gains and greater productivity, the Company consolidated the commercial management of the Heavy Construction and Construction business units. The result of such consolidation was the creation of the new

business unit Construction. From that date, segment information is presented according to this new structure.

**a. Construction business unit**

The Construction business unit operates in the heavy construction market and provides formworks, shoring, nonmechanized access equipment, mast climbing platforms and scaffolds to the residential and office building construction sector, using cutting edge technology in formworks, shoring and special equipment systems to do construction works, and it has the largest product and service portfolio with customized solutions that meet the specific needs of each project and generate efficiency and cut costs. With presence in several states, this business unit draws on a team of engineers and specialized technicians who play an advisory and support role to meet deadlines and optimize costs and safety, providing technical assistance and helping planning works, detailing projects, and overseeing the assembly.

**b. Rental business unit**

The Rental business unit operates in the aerial work platforms and telescopic handlers rental and sales market, for height works in all sectors of the construction, trade, and manufacturing industries. The BU ensures productivity, profitability and safety, has the most advanced product line for lifting people and cargo, and offers its customers operation training certified by the IPAF (world areal access authority). Its presence in several Brazilian cities not only reinforces the agility of its commercial service but it also broadens the technical assistance through certified professionals.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Company assesses the performance by segment based on pretax profit or loss as well as on other operating and financial indicators.

**Statement of operations by business segment**

	<b>Construction</b>		<b>Rental</b>		<b>Others (*)</b>		<b>Parent Company</b>	
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>
Net revenue	81,948	100,566	223,598	203,630	(16)	(7)	305,530	304,189
(-) Costs	(41,541)	(82,252)	(74,491)	(76,391)	-	-	(116,032)	(158,643)
(-) Expenses	(42,484)	(71,865)	(72,523)	(69,845)	(1,275)	(6,091)	(116,282)	(147,801)
(-) Allowance for expected credit losses	(4,915)	(3,175)	(3,884)	904	-	(3)	(8,799)	(2,274)
(-) Depreciation and amortization	(53,060)	(58,222)	(74,075)	(68,462)	-	-	(127,135)	(126,684)
(-) Other revenues	858	4,957	662	1,867	75	15	1,595	6,839
(+) Share of profit (loss) of subsidiaries	-	-	9,434	-	-	-	9,434	-
(-) Reversal of impairment and fair value	-	(1,838)	-	(201)	-	-	-	(2,039)
Profit (Loss) before finance income (costs) and taxes	(59,194)	(111,829)	8,721	(8,498)	(1,216)	(6,086)	(51,689)	(126,413)
Finance income	5,075	7,513	4,415	6,804	94	134	9,584	14,451
Finance costs	(11,129)	(13,722)	(10,651)	(13,144)	(470)	(412)	(22,250)	(27,278)
Profit (loss) before IRPJ/SCL	(65,248)	(118,038)	2,485	(14,838)	(1,592)	(6,364)	(64,355)	(139,240)
(-) IRPJ/CSL	15,449	37,530	3,550	4,718	376	2,023	19,375	44,271
Profit (loss) for the year	(49,799)	(80,508)	6,035	(10,120)	(1,216)	(4,341)	(44,980)	(94,969)

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	<b>Construction</b>	<b>Rental</b>	<b>Others (*)</b>	<b>Consolidated</b>
	<b>12/31/2019</b>	<b>12/31/2019</b>	<b>12/31/2019</b>	<b>12/31/2019</b>
Net revenue	81,948	357,533	(16)	439,465
(-) Costs	(41,541)	(113,509)	-	(155,050)
(-) Expenses	(42,484)	(110,680)	(1,275)	(154,439)
(-) Allowance for expected credit losses	(4,915)	(6,559)	-	(11,474)
(-) Depreciation and amortization	(53,060)	(109,185)	-	(162,245)
(+) Other revenues	858	(179)	75	754
Profit (Loss) before finance income (costs) and taxes	(59,194)	17,414	(1,216)	(42,996)
Finance income	5,075	8,749	94	13,918
Finance costs	(11,129)	(16,367)	(470)	(27,966)
Profit (loss) before IRPJ/SCL	(65,248)	9,796	(1,592)	(57,044)
(-) IRPJ/CSL	15,449	(3,761)	376	12,064
Profit (loss) for the year	(49,799)	6,035	(1,216)	(44,980)

### Assets by business segment

	<b>Construction</b>		<b>Rental</b>		<b>Others (*)</b>		<b>Parent Company</b>	
	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2018</b>
Property, plant and equipment								
Acquisition cost	458,877	495,431	718,522	664,852	-	-	1,177,399	1,160,283
(-) Accumulated depreciation	(308.,60)	(304,775)	(471,348)	(388,064)	-	-	(779,608)	(692,839)
	150,617	190,656	247,174	276,788	-	-	397,791	467,444
Other assets	214,391	176,095	674,178	339,779	26,452	31,330	915,020	547,204
Total assets	365,008	366,751	921,352	616,567	26,542	31,330	1,312,812	1,014,648

**Mills Estruturas e Serviços  
de Engenharia S.A.**  
*Individual and consolidated  
financial statements as of  
December 31, 2019*

	<b>Construction</b>	<b>Rental</b>	<b>Others (*)</b>	<b>Consolidated</b>
	<b>12/31/2019</b>	<b>12/31/2019</b>	<b>12/31/2019</b>	<b>12/31/2019</b>
Property, plant and equipment				
Acquisition cost	458,877	1,197,367	-	1,656,244
(-) Accumulated depreciation	(308,260)	(771,412)	-	(1,079,672)
	<u>150,617</u>	<u>425,955</u>	<u>-</u>	<u>576,572</u>
Other assets	<u>214,391</u>	<u>558,481</u>	<u>26,452</u>	<u>799,323</u>
Total assets	<u><u>365,008</u></u>	<u><u>984,436</u></u>	<u><u>26,452</u></u>	<u><u>1,375,895</u></u>

(\*) Refer to the remaining operations of the former business units Manufacturing Services and Events.

## 33 Financial instruments

### 33.1 Category of financial instruments

The classification of financial instruments, by category, can be summarized as follows:

	Classification	Level	Parent Company carrying amount		Consolidated carrying amount
			12/31/2019	12/31/2018	12/31/2019
<b>Financial assets</b>					
Cash and cash equivalents	Fair value through profit or loss	1	73,656	60,635	124,910
Swap	Fair value through profit or loss	1	-	-	43
Rohr Investment	Fair value through other comprehensive income	3	50,579	54,451	50,579
Trade receivables	Amortized cost	-	68,005	56,491	116,816
Receivables from related parties	Amortized cost	-	1,451	-	-
Restricted bank deposits	Amortized cost	-	-	88,810	-
<b>Financial liabilities</b>					
Borrowings and financing	Amortized cost	-	2,545	5,712	10,215
Debentures	Amortized cost	-	56,367	175,473	81,342
Payables to third parties	Amortized cost	-	16,389	15,703	26,683
Payables to related parties	Amortized cost	-	2,893	-	-
Stock option plans	Amortized cost	-	56,357	52,162	56,357

### 33.2 Fair value of financial instruments

A number of the Company's accounting policies and disclosures require a fair value measurement, for both financial and non-financial assets and liabilities. Fair value for measurement and/or disclosure purposes is determined according to the methods below. When applicable, additional information on the assumptions used to calculate the fair values is disclosed in specific notes applicable to such asset or liability.

The Company applies CPC 40/IFRS 7 for financial instruments measured in the balance sheets at fair value, which requires disclosure of fair value measurements at the level of the following fair value measurement hierarchy:

**Level 1** - quoted (unadjusted) prices in active markets for identical assets and liabilities.

**Level 2** - inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (e.g. as prices) or indirectly (e.g. derived from prices).

**Level 3** - inputs, for the asset or liability, but which are not based on observable market inputs (non-observable inputs).

**a. Fair value of cash and cash equivalents**

Cash and cash equivalents consist of short-term investments with first-tier financial institutions and are indexed to the variation of the Interbank Deposit Certificates (CDI). Considering that the CDI rate already reflects the interbank market position, it is assumed that the carrying amounts of the investments approximate their fair values.

**b. Fair value of Rohr investment**

As at December 31, 2019, the Company has an investment measured at fair value through other comprehensive income - Investment Rohr in the amount of R\$ 50,579 (R\$ 54,451 as at December 31, 2018), as presented in note 10. This financial instrument is classified in level 3.

The fair values of trade receivables and trade payables, considered for applying the discounted cash flow method, are substantially similar to their carrying amounts.

**33.3 Financial instrument at amortized cost**

**a. Borrowings and financing**

Amortized cost of a financial asset or financial liability is the amount by which the financial asset or financial liability is measured at the initial recognition less capital repayments, any changes in amortization or interest and impairment.

The fair values of financial liabilities, considering the discounted cash flow methodology as the calculation criterion, are substantially similar to the respective carrying amounts.

**b. Debentures**

Debt	Indicator	Consolidated carrying amount	
		12/31/2019	12/31/2018
1st issue of debentures - Solaris Equipamentos	CDI	24,976	-
2nd issue of debentures:			
2nd series	IPCA	56,428	108,627
3rd issue of debentures	CDI	-	67,062
	Total	81,403	175,689

**33.4 Derivative financial instruments**

The Subsidiary contracts, in certain situations, derivative financial instruments to manage its exposure to exchange rate risk.

							<u>Consolidated</u>
							12/31/2019
	Reference in 2018	Receivable (long position)	Payable (short position)	Maturity	Long position	Short position	Balance Swap
Banco do Brasil	8,678	Exchange variation + 7.75% p.a.	100% CDI + 3.63%	8/13/2021	5,885	(5,842)	43

### 34 Insurance

The Company and its subsidiaries have insurance contracts taking into account the nature and degree of risks, in amounts considered sufficient to cover any losses on their assets and/or liabilities.

Nature	Parent Company		Consolidated
	12/31/2019	12/31/2018	12/31/2019
Operational risks	1,339,943	1,365,824	2,219,677
Property damages	480,642	523,266	613,678
Civil liability	110,000	110,500	110,500

### 35 Events after the end of the reporting period

- (a) At the Board of Directors' meeting held on August 29, 2019, the Company approved a capital decrease in Solaris Equipamentos e Serviços S.A., a Company subsidiary, of up to R\$ 200,000 thousand, without cancellation of shares, with the Company's equity interest in Solaris remaining unchanged, with reimbursement through delivery of assets to Mills, pursuant to the heading of article 173 of the Brazilian Corporation Law.

Accordingly, on January 30, 2020, the General Extraordinary Meeting approved a capital decrease in Solaris's Serra branch (State of Espírito Santo – ES) by R\$ 2,347, with the capital decreasing from the current R\$ 238,844 to R\$ 236,497.

- (b) The Company's Board of Directors approved on March 3, 2020, the 4th issuance of simple non-convertible, secured, single-series debentures, ("Issuance" and "Debentures, respectively), maturing 60 months as from the issuance date.

The Issuance will be comprised of 100,000 Debentures with the unit value of R\$ 1,000.00, totaling R\$ 100,000, with the respective guarantees provided in the Issuance documents, which will be offered with restricted placement efforts, under the terms of CVM Instruction 476 of January 16, 2009, as effective ("Restricted Offer"). The principal will be amortized quarterly, after a grace period of one year, with interest corresponding to the CDI rate plus 2.35% per year.

The net proceeds raised by the Company through the Restricted Offer and the Issuance will be used in the payment of debts, adjustment and/or renewal of the equipment fleet and improvement of the Company's cash, in the normal course of its business.

- (c) Solaris Equipamentos e Serviços S.A., a Company subsidiary, informed the Debenture holders of the First Public Issuance of unsecured, non-convertible Debentures, , on March 5, 2020, under the terms of Clause 4.10.1.2 of the Private Instrument of Indenture for the First Issuance of simple, non-convertible, single-series, unsecured debentures, with additional guarantees, single-series, that on April 20, 2020 it will carry out the early redemption of all outstanding single-series Debentures, with the consequent cancelation of such Debentures, though the payment of the nominal outstanding value of single-series debentures, plus the respective remuneration and premium of 0.50% pursuant to clause 4.10.1.2 of the 2nd Amendment to the Issuance Indenture, as applicable, with payment of premium, calculated based on the terms of such Indenture.

- (d) On March 10, 2020, The Securities and Exchange Commission - CVM issued CIRCULAR / CVM / SNC / SEP / No. 02/2020 in which it highlights the importance of Publicly-Held Companies carefully considering the impacts of COVID-19 (“Coronavirus”) on their business and report in the financial statements the main risks and uncertainties arising from this analysis, observing the applicable accounting standards. The Company’s management has closely monitored the impacts of Coronavirus on the world capital markets and, especially, the Brazilian market. Accordingly, among the several risks and uncertainties to which the Company is exposed, Management assessed the possible economic events that could impact the Company, such as those related to accounting estimates and the measurement of its assets and liabilities. Although up to the present date it is not possible to accurately measure the possible impacts of Covid-19 on the economic environment, Management believes that there are no impacts that could modify the measurement of its assets and liabilities presented in the individual and consolidated financial statements as at December 31, 2019.

**BOARD OF EXECUTIVE OFFICERS' STATEMENT ON MILLS' FINANCIAL STATEMENTS**

Pursuant to section VI of article 25 of CVM Instruction 480, of December 7, 2009, the Board declares that has reviewed, discussed and agreed with the company's financial statements for the year of 2019.

Rio de Janeiro March 18, 2020.

**BOARD OF EXECUTIVE OFFICERS' STATEMENT ABOUT THE OPINION OF THE INDEPENDENT AUDITOR**

Pursuant to section VI of article 25 of CVM Instruction 480, of December 7, 2009, the Board declares that has reviewed, discussed and agreed with the Independent Auditors' report on the company's financial statements for the financial year 2019.

Rio de Janeiro March 18, 2020.

**MILLS ESTRUTURAS E SERVIÇOS DE ENGENHARIA S.A**

CNPJ/MF No. 27.093.558/0001-15

NIRE No. 33.3.0028974-7

A PUBLICLY HELD COMPANY

MINUTES OF THE MEETING OF THE FISCAL COUNCIL  
HELD ON MARCH 18, 2020

OPINION OF THE FISCAL COUNCIL

The Fiscal Council of Mills Estruturas e Serviços de Engenharia S.A. ("Company"), in the exercise of its legal and statutory functions, in a meeting held on March 18, 2020, examined the Management Report and the Financial Statements of the Company for the fiscal year ended on December 31, 2019, and based on the examination done, and on the auditor's report of the Independent Auditors on the Financial Statements of the Company, without any qualifications, issued on the date hereof, as well as on the information and clarification provided by the representatives of the Company throughout the year, its members decided, unanimously, to opine favorably regarding the above mentioned documents, and, without any restrictions, recommending its remittance to the Annual Shareholders' Meeting for appropriate legal purposes.

Rio de Janeiro, March 18, 2020.

Members of the Fiscal council:

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Rubens Branco da Silva

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Rodrigo Fagundes Rangel

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Peter Edward Cortes  
Mardsen Wilson