MRS Logística S.A.

Financial statements
December 31, 2020 and
Independent Auditor's Report

2020 Highlights

Financial and Operational Results	2018	2019	2020	2020 x 2019
Transported Volume (thousands tons)	174.6	146.9	159.8	8.8%
Gross Revenues (R$ million)	4,083.6	3,483.7	3,890.2	11.7%
Net Revenues (R$ million)	3,726.4	3,200.8	3,605.0	12.6%
EBITDA (R$ million)	1,543.2	1,963.9	2,012.9	2.5%
EBITDA Margin [1] (%)	41.4%	61.4%	55.8%	-5.6pp
Net Income [1] (R$ million)	521.6	503.4	430.3	-14.5%
Gross Debt (R$ million)	2,474.9	3,006.9	2,872.8	-4.5%
Net Debt (R$ million)	2,128.9	2,336.6	1,666.4	-28.7%
Net Debt/EBITDA [1] (x)	1.38x	1.19x	0.83x	-0.36x

In a year with significant challenges as 2020, due to the effects caused by the COVID-19 pandemic, MRS maintained its growth trajectory.

In view of the sustainability strategy of its business, MRS ended 2020 having transported 159.8 million tons, an increase of 8.8% compared to the previous year. This increase is mainly due to the growth in ore transport to the foreign market, a recovery of the domestic market and the Unmanned Train (TNT), as an important lever for meeting the demand for ore.

With the new circulation model at the Scaffolding terminal through the operation of the Unmanned Train (TNT), the Transit Time of iron ore, an indicator that calculates the transport time (from origin to destination) of the Company's main cargo, has reached 20.07 hours, an increase if compared to 2019.

Reinforcing the importance of a good performance in safety indicators, the accident prevention goal agreed with the National Land Transport Agency – ANTT - was met. The indicator (accidents/million.train.km) was 3.75% below the rate that had been set out for 2020. This result reflects the constant investments made over the years in operational safety and awareness campaigns.

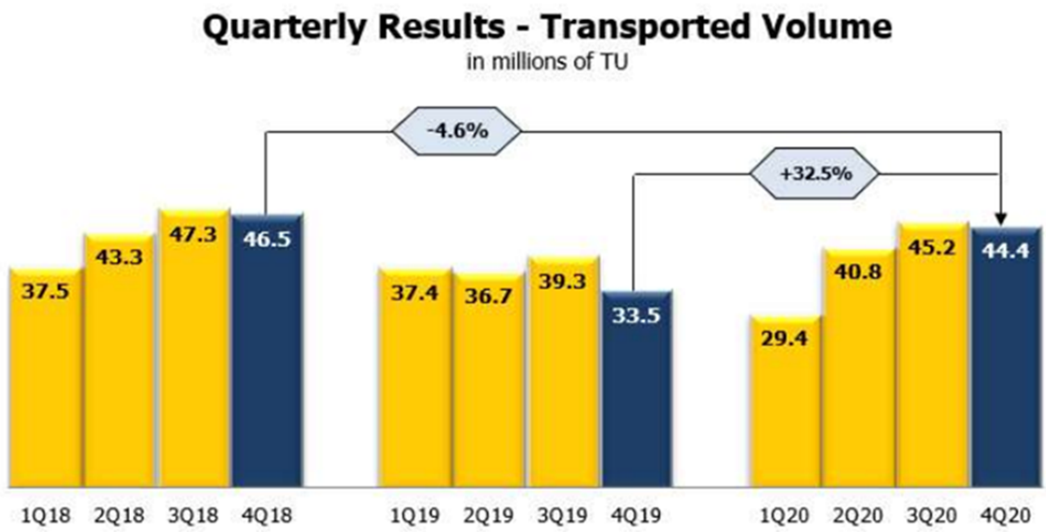
The EBITDA in the period grew by 2.5% when compared to the 2019 result, reaching a result of R$2.0 billion, with a margin of 55.8%.

Business and Operating Results

MRS Logística operates mainly in the transport of inputs and products related to the steel industry, such as iron ore, coal and coke, for the domestic market and exports, and in General Cargo transport, which includes agricultural commodities, steel products, containers, among others, in a railway network with more than 1,643 km that crosses the states of Minas Gerais, Rio de Janeiro and São Paulo.

Transported Volume Thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Mining	**28,630**	**18,448**	**55.2%**	**27,908**	**2.6%**	**98,167**	**87,464**	**12.2%**
Iron One	28,103	17,957	56.5%	27,354	2.7%	95,674	85,164	12.3%
Export	25,266	15,081	67.5%	24,683	2.4%	84,129	74,130	13.5%
Domestic Market	2,837	2,876	-1.3%	2,671	6.2%	11,545	11,034	4.6%
Coal and Coke	528	492	7.3%	554	-4.7%	2,493	2,301	8.3%
General Cargo	**15,765**	**15,059**	**4.7%**	**17,257**	**-8.6%**	**61,651**	**59,402**	**3.8%**
Agricultural Products	10,186	9,686	5.2%	11,916	-14.5%	40,960	38,538	6.3%
Steel Products	1,680	1,631	3.0%	1,485	13.1%	6,097	7,089	-14.0%
Container	620	631	-1.8%	528	17.4%	2,226	2,406	-7.5%
Construction	488	513	-4.8%	566	-13.8%	2,025	2,049	-1.2%
Others	2,791	2,598	7.4%	2,761	1.1%	10,343	9,320	11.0%
Total	**44,395**	**33,508**	**32.5%**	**45,165**	**-1.7%**	**159,817**	**146,866**	**8.8%**

In 2020, the total volume transported by the Company was 159.8Mt, an increase of 8.8% when compared to 2019. When analyzing the 4Q20x3Q20, the volume was 1.7% lower, mainly affected by the drop in the transport of agricultural products.



For another year, MRS presented an annual record in the volume of General Cargo transport, reaching 61.7Mt, an increase of 3.8% when compared to the last record, registered in 2019. The numbers achieved by this group in the 4Q20 are also the best for a fourth quarter, reaching 15.8 Mt, a 4.7% growth when compared to the same period in the previous year.

Regarding the Mix of Transported Products, the General Cargo Group maintains a large share, accounting for 38.6% of the outcome in 2020, despite the impacts suffered by several segments due to the COVID-19 pandemic. *The Mining Group share grew compared to the previous year, mainly due to the consolidation of operations with the Unmanned Train (Scaffolding Terminal-MG), the maintained high demand for iron ore in the foreign market and the continuous increase in the price of this* commodity in the international market.

Mining

The transport of iron ore, coal and coke experienced an 12.2% increase in 2020 compared to the 2019 results, as well as an improvement in performance of 55.2% when comparing the 4Q20 and 4Q19 and, 2, 6% comparing the 4Q20 with the immediately previous quarter.

Transported Volume Thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Mining	**28,630**	**18,448**	**55.2%**	**27,908**	**2.6%**	**98,167**	**87,464**	**12.2%**
Iron One	28,103	17,957	56.5%	27,354	2.7%	95,674	85,164	12.3%
Export	25,266	15,081	67.5%	24,683	2.4%	84,129	74,130	13.5%
Domestic Market (A)	2,837	2,876	-1.3%	2,671	6.2%	11,545	11,034	4.6%
Coal and Coke (B)	528	492	7.3%	554	-4.7%	2,493	2,301	8.3%
Subtotal Domestic Market (A) + (B)	3,365	3,367	-0.1%	3,225	4.3%	14,038	13,335	5.3%

Iron Ore - Export

The 4Q20 was the best quarter of 2020 in terms of results, pointing to an a 2.4% growth when compared to the 3Q20. In line with the observed advance, the annual volume grew by 13.5% when compared to the previous year, mainly due to: (i) a recovery of part of the volume from mines which were interdicted after the Brumadinho tragedy; (ii) good market conditions, with the high demand and appreciation of the commodity in the international market; and (iii) a lower rainfall rate compared to the 1Q20, which contributed to the increased demand for transport by main customers and improved operating conditions related to iron ore production in MG, as well as port operations.

The total volume transported in this segment in 2020 was 84.1Mt, which accounts for 85.7% of the Mining Group and 52.6% of the total volume transported by MRS.

Iron Ore, Coal and Coke – Domestic Market

The transport of iron ore, coal and coke in the domestic market grew by 5.3%, with a volume of 14.0Mt transported over the year when compared to 2019, which reached 13.3Mt. Although the year was marked by the crisis, in addition to the shutdown of the blast furnace of an important client (Jun-Nov/20), full operations returned in mid-November/20, due to the market recovery. As a result, MRS ended the year with a positive balance. It should be noted that, in 2019, this same customer stopped its largest blast furnace for maintenance purposes, a fact that also impacted 2019 volumes.

General Cargo

The transport of General Cargo, which comprehends agricultural commodities, steel products, containers, among others, increased 3.8% in 2020, compared to the volume of 61.7Mt transported in 2019. This increase was mainly impacted by the Agricultural Products and Other Cargo segments, detailed below.

Agricultural Products

Transported Volume Thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Agricultural Products	**10,186**	**9,686**	**5.2%**	**11,916**	**-14.5%**	**40,960**	**38,538**	**6.3%**
Corn	4,962	5,393	-8.0%	6,455	-23.1%	12,161	14,511	-16.2%
Sugar	4,025	2,417	66.5%	3,636	10.7%	12,008	8,405	42.9%
Soy	-	590	-	466	-	12,053	10,733	12.3%
Soybean Meal	1,198	1,286	-6.8%	1,358	-11.8%	4,738	4,888	-3.1%

MRS transports the following Agricultural products: sugar, soybean meal, soy and corn. Growing results in this segment have been a constant over the last few years. Comparing the 2020 and 2019 results, there was an increase of 6.3%, representing 66.4% of the total volume transported in the General Cargo Group in 2020, mostly driven by other railways.

ugar transport grew by 42.9% in 2020, mainly due to the inversion of the sugarcane destination matrix for sugar and ethanol production. In recent years, the sugarcane crop was used in greater quantities for ethanol production, but this changed in 2020, due to the social isolation measures, which led to a dramatic drop in fuel consumption. Add to that, the devaluation of the Real, which made the price of sugar on the international market very competitive for the Brazilian producer.

The favorable soybean performance is mainly a result of the commodity's record harvest and the devaluation of the Real against other currencies, which made production attractive, in addition to a high external demand (China) for the grain, in view of its food security strategy in the face of the potential risks of global shortages due to the pandemic.

Steel Products

Transported Volume TU thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Steel Products	1,680	1,631	3.0%	1,485	13.1%	6,097	7,089	-14.0%

The transport of steel products fell by 14.0% in 2020 (6.1Mt) compared to 2019 (7.1Mt). Impacted by the COVID-19 pandemic, this sector remained inactive, with large equipment being shut down and reduction of working hours, driven by the social isolation measures.

In the 4Q20, the transport of steel products grew by 3% and 13% compared to 4Q19 and 3Q20, respectively, due to the recovery in the civil construction sector, increased demand for white goods, as well as the sales improvement the automobile industry, by the end of 2020 and, with less restrictive measures for social isolation, the resumption of activities/operations of a large part of MRS' customers.

Containers

Transported Volume TU thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Container	620	631	-1.7%	528	17.4%	2,226	2,406	-7.5%

Still in the General Cargo transport group, the container transport segment includes cargo transported by MRS and cargo from other railways (compensated by the right of way). This transport segment decreased by 7.5% in 2020 compared to 2019, due to market conditions resulting from the pandemic, and recovered by 17.4% between 4Q20x3Q20, reflecting the economic upturn.

The division regarding the transport volume of own cargo containers was maintained in each quarter of 2020, exceeding the results from 2019 and ending the year with a growth of 4.1%, driven by the main initiatives: (i) a 65.4% increase in volumes on the Santos-Vale do Paraíba route along with the development of the RJ-Vale do Paraíba route, which further consolidate the investments made by MRS in the application of multi-modal solutions for the RJ and Santos ports; (ii) an expressive growth of 88.2% the RJ-RJ route, as a result of the negotiation of new volumes to serve the industrial park of the Porto Real and Resende-RJ regions; and (iii) by the service to new customers through the consolidation of multi-modality both in the ports of RJ and Itaguaí.

Construction

Transported Volume Thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Construction	488	513	-4.9%	566	-13.8%	2,025	2,049	-1.2%

The civil construction transport segment showed a decrease of -1.2% between 2020 and 2019, affected by the drop in sales in the first months of the pandemic and instabilities in cement production. This reduction was mitigated by the efforts made by MRS to prospect new customers, renegotiate inoperative routes, improve operational performance and increase its share of current customers.

Others

Transported Volume Thousand tons	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Others	2,791	2,598	7.4%	2,761	1.1%	10,343	9,320	11.0%

In 2020, MRS transported 10.3Mt in the Other segment, an increase of 11.0% compared to 2019. This result was mainly supported by: (i) the transport of pig iron for export, which grew by 30.8%, reaching 1.9Mt transported. This growth is explained by MRS's commercial and operational efforts to attract new customers, by expanding terminal capacity, developing new terminals, increasing the railway fleet and the unloading capacity in the Port of Rio de Janeiro and by allowing the negotiation of extra ships by customers; (ii) the market conditions regarding price, exchange rate and low consumption in the domestic market favored the export market, currently largely destined to the Chinese market; (iii) the 71.3% growth in the transport of fertilizers by other railways and; (iv) the 29.9% increase in sulfur transport by MRS and other railways.

Operational Results

MRS monitors its energy efficiency indicator by measuring the liters consumed in transporting 1,000 actual gross tons in one kilometer (liters per thousand TKB). The global indicator shows the combined efficiency of the three main load groups, which have different service characteristics: Ore, Agricultural and Other General Cargo.

In 2020, the energy efficiency indicator of locomotives reached the mark of 2.468 L/kTKB, an improvement of 0.7% compared to 2019, mainly due to:

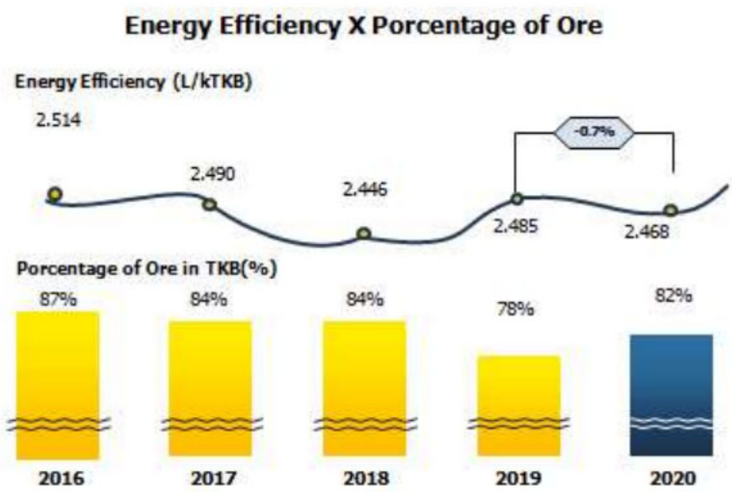
- the reduction in fuel consumption by ore trains, as a result of the increase in train speed at key points of the railway (reducing the train's energy supplementation through combustion) and an improvement in the driving technique of train drivers, making it more standardized;
- improvements implemented in general cargo trains, increasing the weight of agricultural product trains by using more efficient locomotives (model AC-44) and reducing diesel consumption in other trains by combining ore and general cargo compositions, enabling a more cost-effective operation of the locomotives.

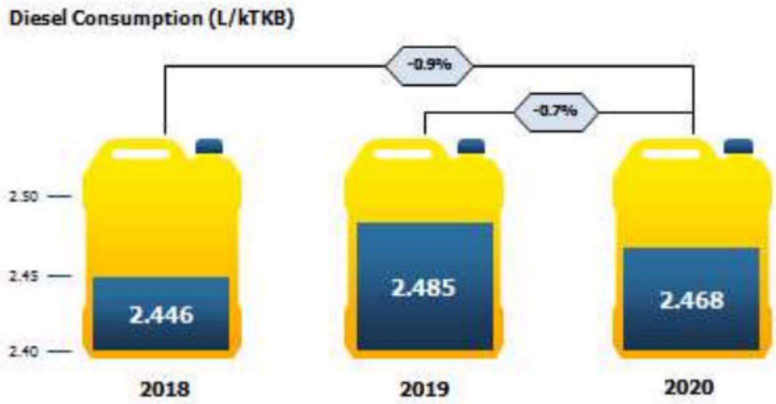
Despite the improvement in the indicator, some events occurred which limited a better performance:

- increase in diesel consumption for the resumption of operations at the Scaffolding terminal, which had been inaccessible since the Brumadinho event, in 2019. The resumption of circulation of trains to the Scaffold Terminal requires a different operation with the circulation of the Unmanned Train in a region with a risk of dam failure.

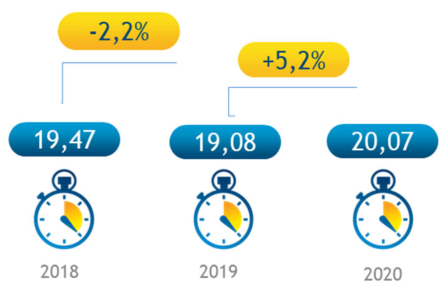
- a lower share of the ore volume in 2020 (compared to 2018, previous to the Brumadinho event, which reached record energy efficiency) also adds to the indicator, since the Ore Cargo is the group with the best energy efficiency.

The chart below shows the global efficiency evolution:





The Transit Time for iron ore – which calculates the time it takes to transport cargo from origin to destination – presented an increase in the 2020 result, mainly due to the impact of the new circulation model to serve the Scaffold Terminal with the operation of the Unmanned Train. In this new model, to cross the Self-Rescue Zone (ZAS) of the Forquilha III Dam, the unmanned train is required to comply with a technical and safety protocol which reduces its average speed.



Economic and Financial Results

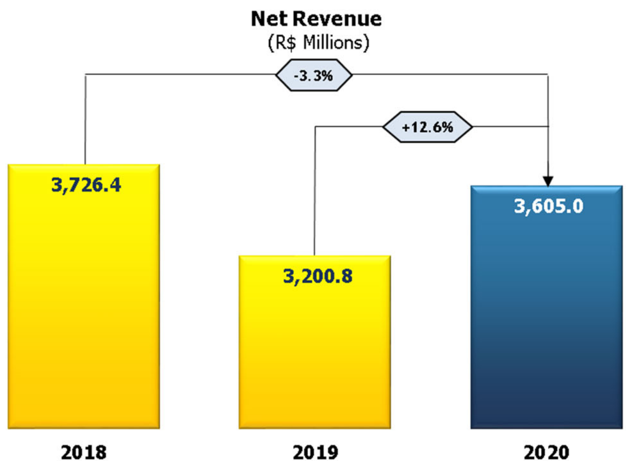
Results	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Gross Revenues (R$ million)	1,064.1	772.4	37.8%	1,081.8	-1.6%	3,890.2	3,483,7	11.7%
Gross Average Tariff (R$/ton)	24.0	23.1	3.8%	23.9	0.2%	24.0	23,7	1.1%
Net Revenues (R$ million)	990.4	701.7	41.1%	1,011.4	-2.1%	3,605.0	3,200,8	12.6%
Net Avarage Tariff (R$/ton)	22.3	20.9	6.7%	22.4	-0.4%	22.6	21,8	3.5%
EBITDA (R$ million)	680,0	409.2	66.2%	552.7	23.0%	2,012.9	1,963,9	2.5%
EBTIDA Margin (%)	68.7%	58.3%	10.4pp	54.6%	14.1pp	55.8%	61.4%	-5.6pp
Net Income (R$ million)	226.8	87.1	160.4%	148.6	52.7%	430.3	503,4	-14.5%
Net Debt/EBITDA[1] (x)	0.83x	1.19x	-0,36x	1.01x	-0.18x	0.83x	1.19x	-0.36x

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

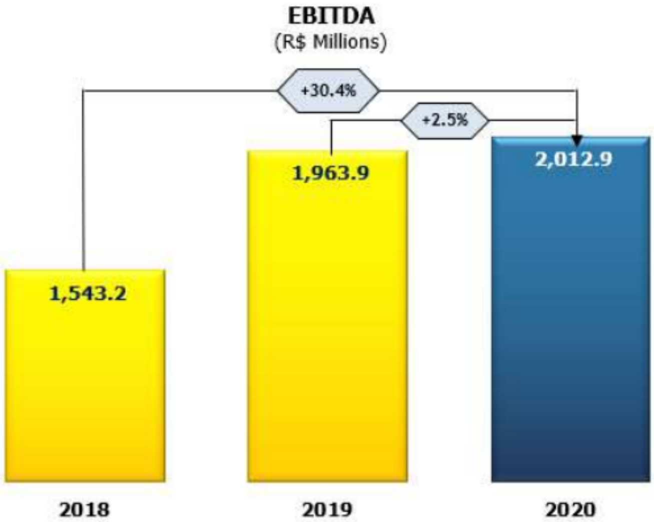
I. Net Revenue: Increase of R$ 404.2 million, mainly reflecting the recovery in volume, especially in the segment of mining for exports, a 13.5% growth compared to the volume of 2019.

II. Costs and Expenditure: Increase of R$ 35.4 million, compared to 2019. This result is mainly due to: (i) the increased the transport volume; (ii) the measures to address COVID-19; (iii) as well as the expenses with the different operation of the Unmanned Train in the self-rescue zone; however, that was mitigated by the drop in the price of diesel, due to the drop in the demand for fuel caused by the global pandemic.

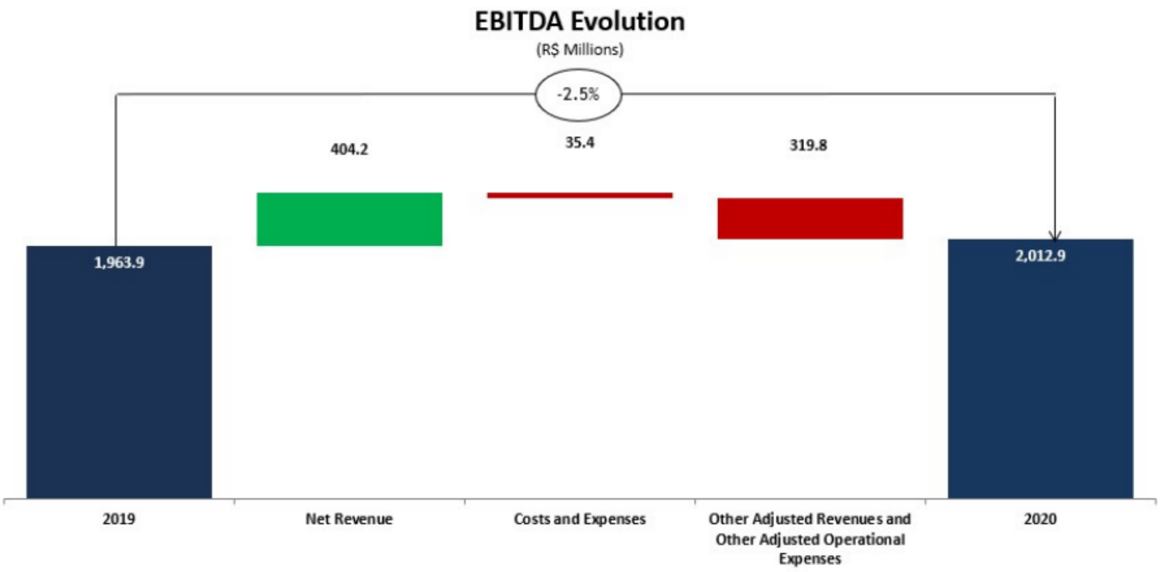
III. Other Revenues and Other Operational Expenses: The decrease of R$319.8 million in 2020 is mainly due to the reduction in the revenue related to the clauses provided for in the Company's long-term agreements (take-or-pay) compared to 2019, as well as lower court provisions of labor nature.



EBITDA



2020 EBITDA grew by 2.5% when compared to 2019, reaching R$ R$ 2,012.8 billion, with EBITDA Margin of 55.8%, 5 p.p. below the previous year.
The EBITDA history is presented below in detail:



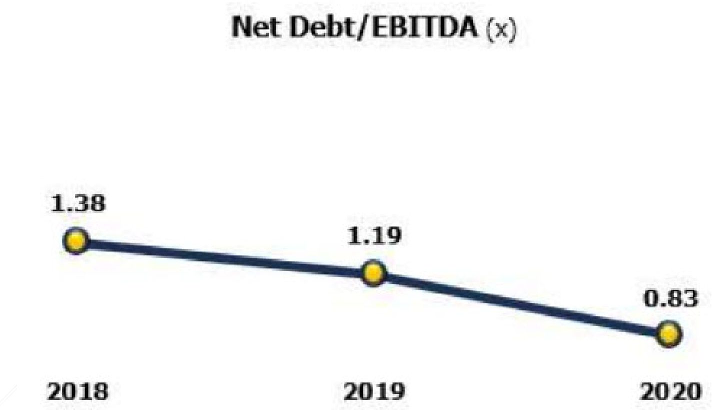
Debt

In R$ million	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20
Gross Debt[1]	**2,873.5**	**3,006.9**	**-4.4%**	**3,038.8**	**-5.4%**
Gross Debt in Reais	2,297.4	2,445.1	-6.0%	2,463.3	-6.7%
Gross Debt in US$ [2]	576.1	561.8	2.6%	575.5	0.1%
Cash[3]	**1,206.4**	**670.3**	**80.0%**	**1,492.7**	**-19.2%**
Net Debt	**1,667.0**	**2,336.6**	**-28.7%**	**1,758.3**	**-5.2%**
EBITDA[4]	**2,012.9**	**1,963.8**	**2.5%**	**1,742.1**	**15.5%**
Net Debt/EBITDA (x)[4]	**0.83x**	**1.19x**	**-0.36x**	**1.01x**	**-0,18x**

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

The Company's Gross Debt in 2020 showed a slight decrease compared to 2019, ending the year at R$ 2,873.5 million. This may be explained by the lower volume of funding in 2020.

In 2020, the Company raised R$ 511.7 million in total, through: (i) the issuance of a Bank Credit Bill (CCB) in the amount of R$150.0 million; (ii) a 4131 loan of R$ 350.0 million; and (iii) a financing with BNDES of R$11.7 millions. These funds were raised to reinforce the Company's cash and to lengthen its debt profile. On the other hand, two operations with Banco MUFG were settled in the period, totaling R$335.5 million.



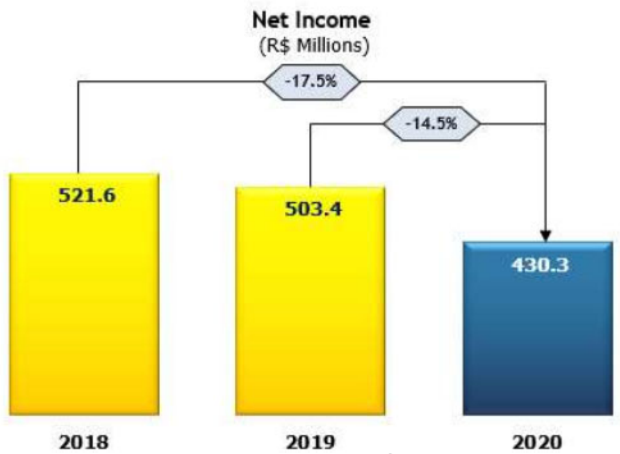
The leverage indicator, measured by the Net Debt/EBITDA ratio, decreased from 0.36x in relation to 2019, ending 2020 at 0.83x. The good performance of this indicator reflects the sustainable focus on resource management, low leverage and good operational performance.

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

Reconciliation EBITDA (R$ million)	4Q20	4Q19	4Q20 x 4Q19	3Q20	4Q20 x 3Q20	2020	2019	2020 x 2019
Net Income	**226.8**	**87.1**	**160.3%**	**148.6**	**52.6%**	**430.3**	**503.4**	**-14.5%**
(+) Taxes on Profit	108.2	38.8	178.9%	76.1	42.1%	216.3	254.4	-15.0%
(+) Depreciation and Amortization	248.0	236.5	4.9%	246.7	0.5%	1,049.9	921.2	14.0%
(-) Depreciation Right of Use (lease agreements)[2]	(74.4)	(69.6)	6.8%	(69.8)	6.5%	(281.6)	(265.3)	6.1%
(+) Net Financial Result	96.9	46.8	107.1%	81.3	19.1%	316.4	284.9	11.1%
(-) AVP Financial Charges (lease contracts)	(40.9)	(39.3)	4.0%	(36.0)	13.6%	(152.0)	(167.6)	-9.3%
(=) Adjusted EBITDA [1]	**564.7**	**300.2**	**88.1%**	**446.9**	**26.4%**	**1,579.3**	**1,531.0**	**3.2%**

1 More restrictive condition assumed with creditors

Net Profit



In addition to the EBITDA, the Net Profit was also impacted by the change in the economic life of the Company's main groups of assets. With this change in 2020, the depreciation cost had an increase of R$129 million.

Cash Flow Statement

Cash flow in 2020 was of R$ 538.2 million. The cash balance at the end of 2020 was R$ 1,206.5 million, above the result verified in the end of 2019, of R$ 668.3 million, This variation was influenced by the receipt of a contractual protection mechanism (take-or-pay) with related parties.

Statement of Cash Flow - R$ Million	2020	2019
Cash at beginning of period	**668.3**	**276.7**
Net Income before IR and CSLL	**646.6**	**757.7**
Depreciation and Amortization	1,049.9	921.2
Monetary/Foreign Exchange Variation and Financial Charges	363.7	382.9
Residual Value of Fixed Assets / Downloaded Invest. Perm.	41.4	56.5
Provision (Reversal)	47.6	121.3
Others	19.4	13.7
Net Income cash basis	**2,168.6**	**2,253.3**

Changes is assets and liabilities	(166.6)	(1,147.4)
Accounts Receivable and Related Parties	460.0	(591.8)
Stocks	(18.1)	(10.0)
Restricted Cash	2.1	67.9
Taxes Recoverable	28.5	(25.6)
Providers	(34.2)	(19.3)
Tax liabilities	(109.2)	67.2
Taxes on profit	(288.9)	(280.0)
Social and Labor Obligations	(14.1)	(2.0)
Payment of interest on loans and financing	(135.0)	(144.1)
Payment of interest on rights of use	(152.0)	(160.0)
Others	94.3	(49.7)
Net Cash provided by operating activities	**2,002.0**	**1,105.9**
Investment activities	**(822.4)**	**(656.8)**
Immobilized	(795.3)	(645.7)
Intangible	(27.1)	(13.3)
Proceeds from the sale of property, plant and equipment	-	2.2
Financing activities	**(641.4)**	**(57.5)**
Borrowing and financing	511.7	280.5
Debentures	-	650.0
Payments	(667.0)	(521.8)
Rights of use	(247.1)	(218.5)
Dividends paid	(239.0)	(247.7)
Cash at end of period	**1,206.5**	**668.3**
Cash Flow	**538.2**	**391.6**

Projects & Investments

In 2020, MRS invested R$ 785.0 million, focusing on investment initiatives essential to maintain the business production and sustainability.

Investments 2020	R$ Millions
Permanent Way[1]	433.0
Undercarriage[2]	253.5
Eletronic System	15.8
SMS Program[3]	16.1
Others	66.7
Total	**785.0**

1 Infraestructure expansion, reliability and modernization of permanent tracks

2 Acquisition, reliability and modernization of rolling stock

3 Investments in Healthy, Environment and Safety

The main investments carried out in 2020 are presented below:

- **Expansion of permanent way sections and yards:** The strategy of prioritizing investments on General Cargo flows was maintained, highlighting the conclusion of the definitive signaling at TIPLAM and the beginning of signaling installation at the Left Bank of the Port of Santos. Investments in the refurbishment of the permanent tracks both in Baixada and in the Itirapina-Pederneiras stretch and advance of initiatives to service new general cargo loads, with emphasis on works started for a new cargo terminal in Pederneiras.

- **Infrastructure reliability:** maintenance of the plan for preventive interventions along the track, with 23 containment works, 11 bridge interventions/replacements and recovery of 1 tunnel, aiming at minimizing the risks associated with the reliability of the stretch.
- **Rolling stock:** in 2020, studies and investigations were carried out about the asset models available on the market and purchase (with delivery scheduled for 2021) of GDT, PCT and other wagon models for prototypes have started. We also highlight the purchase of 5 locomotives from Progress Rail to meet the volume of 2021 and carry out tests with this new locomotive model. In addition to these fronts, adjustments have started in HAT wagons, aiming at increasing the volume per wagon (171 wagons adapted).
- **Asset modernization:** interventions in locomotives, wagons and railway network, to increase reliability levels and the availability of assets, allowing greater efficiency and optimization of railway operations.

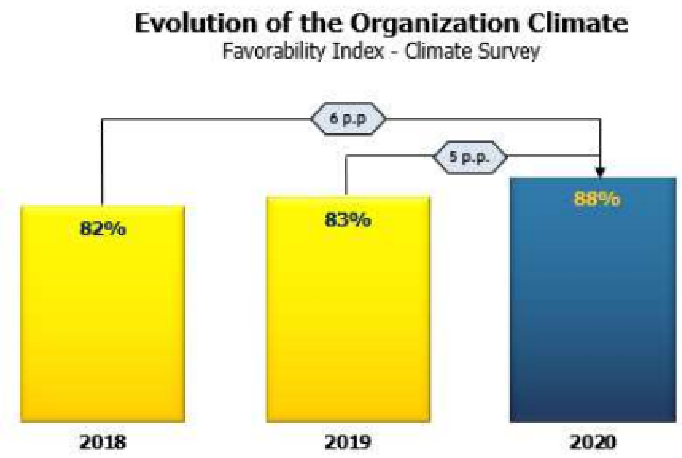
- **Technological projects**: emphasis on (i) the start of the project to implement the new ERP system (SAP) and development of IT systems focused on the Company's operating processes; (ii) investment in technology to improve operation and maintenance in the self-rescue zone, in Minas (near dams with risk of failure); and (iii) the beginning of the development of remote control for maneuvering locomotives in yards.

Human Resources

Organizational Environment

Regarding the Organizational Climate Management process, MRS remains with continued efforts in building improvements in the work environment, providing good results in the "Environment Favorability" category, scoring 87.6% in 2020.

In 2020, a fifth factor was included, named "Contemporary Scenario", consisting of 9 extra questions that assess the perception of employees regarding the attitudes of the Company and its managers, on topics such as harassment, diversity and inclusion and the current scenario with the COVID-19 pandemic.



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

The Climate Survey involves every employee, who answers to 64 questions on the subjects: Identity, Leadership, Satisfaction/Motivation and Learning/Development.

MRS, at the end of 2020, with a total of 5,851 employees, approximately 86% of them working on railway operations. 56% of these employees were located in the State of Minas Gerais, 22% in Rio de Janeiro and 22% in São Paulo. The average age of employees is 37 years old and the share of women has been growing, currently accounting for 11.6% of the Company's total workforce. In 2020, there was an increase of 16.7% in the number of people with special needs in the Company. Along the year, 896 people were promoted, representing an increase of 81% in relation to 2019, reinforcing the policy of valuing employees.

HR Development

MRS continues to invest in the training, qualification, improvement and specialization of its employees, with operational and personal safety training, as well as courses for qualification and improvement of activities carried out for several positions and in 2020, which reached an average of 36.6 hours/class for each student/employee.

MRS's employees have also the Education Incentive Program, in which MRS pays part of the monthly fees of training and improvement courses, such as undergraduate, graduate, technical education and language courses. In 2020, 444 employees completed their studies or continued them through this program.

Reassuring the commitment to professional development of employees, MRS trained 89 employees in the Leadership Training Program in partnership with the FIA Business School in 2020, qualifying employees to make fast decisions in line with the Company business strategies. Furthermore, Academia MRS, in partnership with other institutions, also ministered the Railway Operation Training courses for 98 participants, along with the SENAI system of Industrial Learning and Teaching, which offered 89 new opportunities, in the MG/RJ/SP, at FIEMG/FIRJAN/FIESP.

OCCUPATIONAL HEALTH

MRS is constantly concerned with its human potential and continuously supports it in the pursuit of an integral health, with actions to foster health, physical and emotional well-being and illness prevention, for themselves as well as for dependent relatives. And the COVID-19 pandemic reinforced this care.

With that in mind, during 2020, MRS developed several actions, including: Campaigns for Quality of Life; Initiatives to fight COVID-19; Flu Vaccination Campaign for Employees and Dependents; Prevention of cardiovascular diseases and their consequences; Prevention Program against Abuse of Alcohol and Other Drugs – PPAD; PCA - Hearing Conservation Program; "Mamãe MRS" (Mommy MRS); Periodic occupational medical examinations, in addition to periodic check-ups.

In addition to the actions mentioned, in 2020, MRS employees remotely participated in an important remote work to encourage a mindset change aimed at quality of life and well-being, especially with regard to the adjustment to the New Normal and working from home model.

MRS also provides benefits that encourage prevention and health treatments, specifically: Health Plan; Dental Plan; Partnerships.

Institutional Relations

Relationship with the Public Government and People

In an atypical year such as 2020, due to the COVID-19 pandemic, MRS maintained its relationship actions with the communities surrounding the railway, through partnerships formed with leaders and Local Governments, respecting the social distancing recommendations.

Therefore, the processes for dealing with the potential impacts of the railway on communities and developing partnerships were remotely carried out by regional teams, who work in a systemic manner, in a process called "Dialogue Methodology", which aims at promoting solutions for the most diverse demands of the community and Public Government. These actions led to the building and revitalization of leisure areas, urban mobility actions, lighting of public areas around the railway and installation of several waste containers in several cities in the States of Minas Gerais, São Paulo, and Rio de Janeiro, among other initiatives.

MRS annually holds the event “Espaço Aberto: MRS e Comunidade” (Open Space: MRS and the Community), in which it presents a set of actions and investments to the main regional leaders aiming to minimize impacts of the railway operation and enrich the relationship. In 2020, this event was not held due to the COVID-19 pandemic. However, the main community leaders and representatives of the Public Government had direct access (by phone, e-mail and messaging application) to the relevant Institutional Relations teams.

The meetings with the managers to address demands and occasional meetings with the purpose of strengthening the relationship, stimulating dialogue and seeking shared solutions were held on-line or in person, observing all safety recommendations. In 2020, 118 meetings were held with community leaders, representatives of the Public Administration and the City Council of Minas Gerais, São Paulo and Rio de Janeiro.

Actions for Accident Prevention

Actions for accident prevention in 2020 carried out directly with communities, in face-to-face activities, were deeply compromised by the pandemic scenario and the need for social distancing. The main strategy adopted by MRS during this period was to carry out digital campaigns and newsletters, through social media and messaging applications. The actions focused on the communities with the highest incidence of accidents counted on the participation of 6,200 people, among adults, children and teenagers, and covered 20 cities.

Also, as an alternative strategy to address the safety recommendations in communities, ensuring social distance, MRS delivered educational materials for children, along with Christmas donations. The action directly benefited 3,790 children and adolescents, and potentially more than 16,000 people, considering all family members.

Social, Cultural and Sport Projects

Using the Childhood and Adolescence Fund (FIA), MRS supported 12 Municipal Councils for the Rights of Children and Adolescents, benefiting a number of projects, in addition to 6 Municipal Councils for the Rights of the Elderly. The Company also sponsored 17 cultural projects through the Culture Incentive Law and 3 sports projects through the Sports Incentive Law. In 2020, MRS continued to use the resources encouraged by the PRONON (National Oncology Care Support Program) and PRONAS (National Program to Support Health Care for People with Disabilities), which were directed to 2 projects. Sociocultural and sports investments accounted for R$ 7.8 million in 2020.

COVID-19

To support the cities around the railway in addressing the social impacts of the pandemic, MRS donated 15 thousand basic food baskets and 15 thousand hygiene kits to 39 cities in the states of Minas Gerais, Rio de Janeiro and São Paulo, between April and June 2020, in a solidarity action to assist people in vulnerable situations. All donations, which distributed 720,000 items, including food, personal care and sanitation products, were planned with City Governments and Social Institutions, and deliveries were personally monitored by the MRS teams.

Regulatory Goals

The accident prevention goal agreed with the National Land Transport Agency – ANTT - was duly fulfilled by MRS and ended the year 3.75% below the rate defined for 2020 (8.22

accidents/million.train.km against a goal of 8.54). This result is due, mainly, to investments in operational safety and continuous work of public prevention and awareness campaigns, developed by the Company to reduce the number and severity of rail accidents.

The accident prevention goal was also met in 2019, having achieved a rate of 8.28 for an agreed target of 8.76 (5.48% below the limit).

Production goal results for 2018, 2019 and 2020 were met in all the stretches covered by the agreed goals.

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

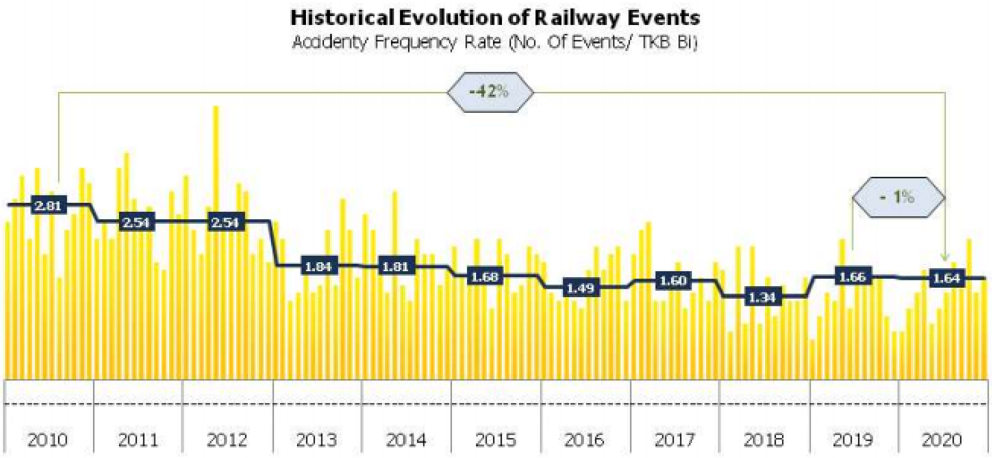
Health, Environment, and Safety

Safety

Operational Safety

The result of the continuous search in Rail Operation Safety carried out by MRS is reflected in the decrease in the accident rate. Between 2010 and 2020, the Company presented a reduction of 42% in the rate of incidents per billion TKB (ton x gross km). This rate comprehends accidents with direct participation of MRS (related to operational and maintenance failures) or those involving other railways and communities (mostly run overs and collisions between train compositions and vehicles).

In 2020, MRS had its third best year in the historical number of railway incidents, with a drop of 1% compared to the accident rate/billions of TKB of 2019.



• **Occupational safety programs**: In order to strengthen its own internal safety, as well as the safety of its customers and surrounding communities, MRS carries out several actions, as described below:

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

• **Safety Program in Terminals (PST):** Audit program with emphasis on operating routines and permanent road condition in client terminals where MRS works. In 2020, nearly 1,300 inspections were performed in more than 130 terminals.

• **Network Safety Program:** Audit program that aims at ensuring optimal conservation conditions of permanent track, assisting in removal planning and control of anomalies found in MRS's critical yards. In 2020, 3,345 inspections were carried out in nearly 100 yards.

• **Communities Committee:** A group formed by professionals of several areas of MRS, whose work is to fight run overs and collisions involving the community. In 2020, approximately R$ 5 million were invested in 22 work fronts to preserve the railway's right of way, fencing, active signaling and revitalization of the Public Level Crossing (PN) and Pedestrian Crossing (PP).

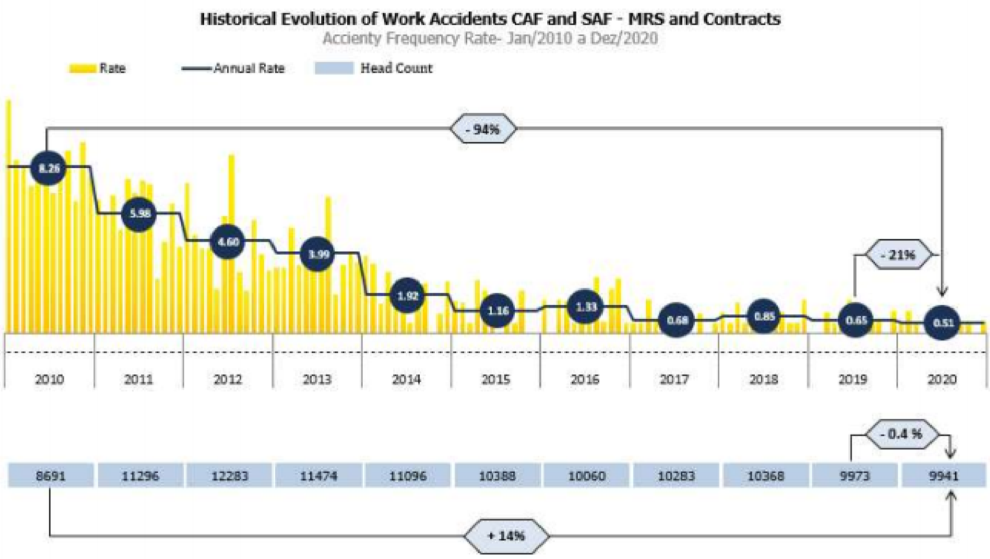
• **Cameras at the Public Level Crossing:** Used to record images of recklessness of walkers and drivers, these cameras in the level walkways generate images that are recorded and used in run over and collision investigations, as well as disclosed in the media as a manner of community awareness.

Occupational Safety

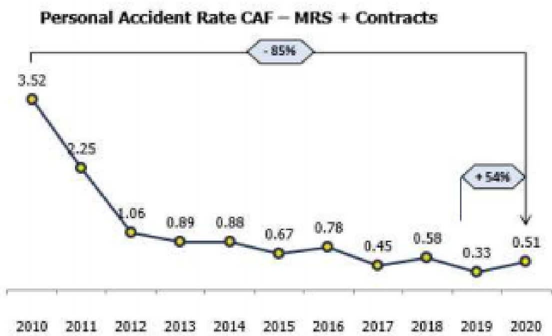
Safety is a value to MRS and, over the years, the company has been obtaining increasingly better results. MRS has practices that identify, assess and control risks inherent to the duties of its employees, with the purpose of promoting health and safety of all by reducing deviations, incidents, accidents and occupational illnesses.

The accident frequency rate with and without lost time, including internal employees and contractors, ended 2020 at 0.51, the best historical result for MRS. The previous record had occurred in 2019, with a rate of 0.65. In 2020, 3 fewer personal accidents were recorded compared to 2019, representing a 21% reduction in the personal accident frequency rate.

MRS emphasizes that: (i) the months of April, June and November of 2020 had no accidents; and (ii) a 94% drop was observed in the typical personal accident rate between 2010 and 2020.



The Safety actions carried out by MRS translate into the reduction of accidents over the years. In 2020, the annual personal accident rate was 0.51, while in 2010, it was 3.52, as shown below. In 2020, all accidents recorded, considering internal employees and contractors, were with lost-time (CAF), but none of them resulted in serious injuries and 64% of the incidents were classified with "non-critical" potential, i.e., with no chance of resulting in permanent injury or death. Throughout 2020, no work accident without lost time (SAF) was recorded.



Occupational safety programs:

Constantly seeking to ensure the safety of its employees, MRS carries out several occupational safety actions: Notice of Risk and Loss; Safety Workshops; Preliminary Hazard Analysis (PHA); Practical Daily Safety Dialogues (DDS); Planned Inspections; Meetings with contractors to present indicators, audit results, accident investigations and good practices of critical companies that provide services to MRS. In 2020, a conformity rate of 93% was obtained for audited contracts.

Environment

In 2020, MRS conducted its activities ensuring compliance with legislation, applicable regulations and other requirements, in order to preserve the environment, in full compliance with all environmental programs relating to the conditions of its Operating License for the railway network and the determinants of the Operating Licenses for the workshops, such as:

- Risk Assessment Study Management, Risk Management Program and Emergency Action Plan
- Social and Environmental Impact Mitigation Management
- Air Quality Management
- Erosion Management
- Noise Management
- Flora Management
- Wildlife Runover Management
- Waste Management
- Effluent Management
- Right of Way Diagnosis, Monitoring and Regularization Management
- Legal Compliance Management
- Environmental Management of Works
- Contaminated Area Management
- Water Resource Management
- Environmental Licensing Management

The Company uses the Environmental Management System (EMS), which allows de adoption of best management practices for environmental programs promoted by MRS, control of environmental risks and optimization of operating costs. Acting in a preventive way, the EMS aims to report the environmental performance of the processes, eliminate and minimize possible environmental impacts, reduce occurrences, prepare employees for appropriately respond to emergencies, as well as obtain a more assertive conduction of the environmental strategy and the commitments undertaken with the competent bodies. Therefore, to fulfill its environmental obligations and commitments, MRS has procedures and human resources to plan, implement, control and improve the Company's actions.

The main environmental programs carried out in 2020 were: Solid waste management program; Liquid waste management program; Environmental education program (PEA).

Due to COVID-19, in 2020, all face-to-face meetings with employees and the community were suspended, but some relevant actions were carried out:

- In the city of Pinheiral: railway safety action at Parque Maira with truck drivers through the Letter to the Driver program, which aims to raise awareness among adult drivers through a railway safety message drawn and written by children. In addition, the Company published the MRS magazine with historical, social, and environmental content developed for the city of Pinheiral, with a sound car and accessible by QR code and physical media.

- In the city of Barra do Piraí: railway safety actions with driving instructors in order to encourage replicators of the prevention message. In addition, banners with messages about railroad safety, defensive driving, and vehicle maintenance were made posted at driving schools and clinics accredited by Detran. The Company also ran an itinerant campaign to make drivers aware of the railroad risks in order to avoid collisions, by means of a sound car with messages about railway safety and a winch carrying a crashed car and a banner with a message about preventing railway accidents.

- Caminhos Verdes program: in 2020, approximately 13,000 native seedlings of the Atlantic Forest biome were planted in the Lajinha Municipal Natural Park, located in Juiz de Fora (MG), corresponding to an area of 7.8 hectares of planted area, which is approximately equivalent to 7 official-sized football fields.

STRATEGIES & PERSPECTIVES

The year 2020 was, without a doubt, one of the most surprising years in history, in many respects. The pandemic drastically affected the major institutions: banks, industries, companies, and governments, causing a strong economic downturn around the world.

The consumer market was reconfigured, significantly harming most segments; but, conversely, it leveraged others. In this context, our mining business (HH-Heavy Haul) was positively affected by the growth of apparent steel consumption in the domestic and foreign markets – despite the immediate slowdown in the first months of 2020, due to the pandemic – and by the faster and more intense consumption of the Chinese industry that caused the rise in iron ore prices around the world.

Another positive side effect, which also affected us, was the growth in the volume transported to other ore exporting customers motivated by the high price of the commodity and the favorable exchange ratio of the real against the dollar.

The global expectation for all Heavy Haul customers is positive in 2021. Thus, a faster recovery of the transported volume is expected for the next years. In this regard, MRS has been developing operational solutions for the areas restricted due to the dam collapse in Brumadinho, modernizing its fleet and maintaining its cost optimization strategy, always with the highest safety standards.

An improvement in the economic situation throughout the world is expected, with the consequent resumption of growth due to the return to relative normality after the pandemic. This context is extremely important for the growth in General Cargo.

For 2021, it is also expected, according to the Government's schedule, the completion of the remaining steps for the fulfillment of the entire concession renewal process and the effective signing of the contract and, finally, the beginning of the execution of the planned investment schedule as well.

INDEPENDENT AUDITORS

Independent Auditors

Along the fiscal year of 2020, the KPMG Independent Auditors provided audit services on annual financial statements and quarterly information reviews.

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

CONTENTS

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Independent auditors' report on the financial statements

To the Board of Directors and Stockholders of

MRS Logística S.A.

Rio de Janeiro - RJ

Opinion

We have examined the financial statements of MRS Logística S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2020, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of MRS Logística S.A. as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the generally accepted accounting standards adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements section of our report.. We are independent of the Company in accordance with the relevant ethical principles provided for in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council, and we have fulfilled our other ethical responsibilities under these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key auditing matters

Key auditing matters are those matters that, in our professional judgment, were the most significant in our audit of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and, we do not provide a separate opinion on these matters.

Recognition of Revenue – Take-or-Pay Contract	
See Notes 4, 9, 10, 34, and 36 to the financial statements	
Key auditing matters	**How the audit addressed this matter**
MRS' services net revenue is measured primarily based on a tariff structure of long-term contracts that contain variable components calculated on the main items that make up the cost and conditions for compliance with the annual volume of cargo transported with its main customers ("take-or-pay" clauses). Due to the significance of this revenue to the financial statements as a whole and the complexity in variable measurements, we considered this matter to be significant to our audit.	We assessed the design and implementation of internal controls related to the recognition of revenue. We compared the off-balance sheet information related to revenue and the calculation of variable revenues and contractual fines with the accounting record, and performed a recalculation of the variable amounts and fines recorded in the accounting records, comparing them with the established contractual terms. Additionally, we obtained evidence of the Company's communications with its customers regarding the amounts accounted for as variable revenue. We compared the relevant balances recognized in services revenue referring to the closing of December 31, 2020 with subsequent billing and obtained external confirmation from the main customers, thus confirming the agreement and acceptance of the amounts recognized on that date. We carried out financial settlement procedures following the accounts receivable on December 31, 2020, in order to verify the integrity of the revenue and valuation of the estimates recorded in the accrual period. We also reviewed the disclosures made in the financial statements. Based on the evidence obtained through the procedures summarized above, we consider that the revenue recognition and related disclosures are acceptable in the context of the financial statements taken as a whole for the year ended on December 31, 2020.

Property, Plant and Equipment	
See Notes 4, 9, and 17 to the financial statements	
Key auditing matters	**How the audit addressed this matter**
The Company's business requires significant investments in cargo carrying capacity expansion/optimization projects. Due to the judgment exercised by the Company in assessing: (i) whether it is likely that a cargo carrying capacity expansion/optimization project will provide future economic benefits to the Company, and (ii) when the cargo carrying capacity expansion/optimization project will be available for use (classification of property, plant and equipment in progress for final asset accounts), we consider this matter to be significant to our audit.	We assessed the design and implementation of internal controls related to the recognition and classification of cargo carrying capacity expansion/optimization projects. Based on a sample of additions made during the year, we assessed the supporting analysis of the Company (i) that the cargo carrying capacity expansion/optimization projects will generate future economic benefits for the Company, and (ii) of the moment when the cargo carrying capacity expansion/optimization projects are in working order, as intended by the Company, for proper classification in property, plant and equipment classes and start of depreciation (availability for use). Based on the evidence obtained through the procedures summarized above, we consider that the balance of property, plant and equipment and related disclosures are acceptable in the context of the financial statements taken as a whole.

Other information

Statement of added value

The statement of value added (DVA) for the year ended on December 31, 2020, prepared under the responsibility of the Company's management, and presented as supplementary information for IFRS purposes, has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. For the purposes of forming our opinion, we evaluate whether these statement is reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria as defined in Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, this statement of added value was properly prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement, and is consistent with the financial statements taken as a whole.

Other information accompanying the financial statements and the auditors' report

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

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

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

Responsibility of management for the financial statements

Management is responsible for preparing and far presentation of the financial statements in accordance with accounting practices adopted in Brazil and with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable, matters related to going concern and using he going concern basis of accounting basis unless management either intends to liquidate the Company or cease its operations, or has realistic but to do so.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Rio de Janeiro, March 24, 2021

KPMG Auditores Independentes
CRC SP-014428/O-2 F-RJ
(Original report in Portuguese signed by)
Marcelo Luiz Ferreira
Accountant CRC RJ-087095/O-7

MRS Logística S.A.

Balance sheet
on December 31
In thousands of reais

ASSETS	Accompanying note	2020	2019
CURRENT			
Cash and cash equivalents	**7**	1,206,484	668,264
Restricted cash	**8**	-	2,033
Trade accounts receivable	**9**	382,503	899,682
Other receivables	**11**	8,740	8,379
Inventories	**12**	132,353	119,478
Taxes recoverable	**13**	63,638	90,863
Prepaid expenses	**15**	16,767	18,049
Derivative financial instruments	**25**	27,240	51,645
Other current assets	**16**	27,312	20,100
Total current assets		1,865,037	1,878,493
NON-CURRENT			
Trade accounts receivable	**9**	284,742	175,222
Other receivables	**11**	30,342	85,155
Taxes recoverable	**13**	108,641	92,843
Deferred taxes	**14**	60,788	-
Prepaid expenses	**15**	1,294	4,848
Derivative financial instruments	**25**	116,441	44,699
Other non-current assets	**16**	124,644	126,913
Fixed assets in operation	**17**	5,766,256	6,044,892
Fixed assets in progress	**17**	801,335	372,672
Leasing Right of Use	**17**	1,906,497	1,852,618
Intangible assets	**18**	63,696	45,844
Total non-current assets		9,264,676	8,845,706
TOTAL ASSETS		11,129,713	10,724,199

(continued)

MRS Logística S.A.

Balance sheet
on December 31
In thousands of reais

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LIABILITIES AND EQUITY	Accompanying note	2020	2019
CURRENT			
Suppliers	**19**	331,614	197,349
Labor and social security obligations	**20**	164,079	178,209
Income tax and social contribution	**21**	207,265	209,035
Other tax liabilities	**22**	50,355	106,371
Loans and funding	**23**	831,632	714,499
Financial leasing	**24**	317,913	256,034
Derivative financial instruments	**25**	10,570	12,277
Payable dividends	**26**	102,371	119,698
Concession payable	**27**	4,706	3,812
Customer advances		1,902	383
Reserves	**28**	53,762	39,835
Other covenants	**29**	55,267	31,362
Total current liabilities		2,131,436	1,868,864
NON-CURRENT			
Deferred taxes	**14**	-	63,615
Suppliers	**19**	39,392	36,954
Loans and funding	**23**	2,156,376	2,351,023
Financial leasing	**24**	1,675,075	1,650,758
Concession payable	**27**	2,737	2,662
Customer advances		19	19
Reserves	**28**	662,481	581,392
Other covenants	**29**	149,378	66,385
Total non-current liabilities		4,685,458	4,752,808
TOTAL LIABILITIES		6,816,894	6,621,672
EQUITY			
Share capital	**30a**	2,047,268	1,917,306
Reserve for capital increase	**39**	104,271	129,962
Revenue reserves		2,151,539	2,047,268
Statutory reserve	**30c**	342,047	320,533
Investment reserves	**30d and 39**	1,809,492	1,726,735
Equity adjustments	**30f**	9,741	7,991
Total equity		4,312,819	4,102,527
TOTAL LIABILITIES AND EQUITY		11,129,713	10,724,199

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Income statement for the year ended on December 31
In thousands of reais

	Accompanying note	2020	2019
SERVICES NET REVENUE	**32**	3,604,965	3,200,809
Cost of services rendered	**33**	(2,517,730)	(2,377,782)
GROSS PROFIT		1,087,235	823,027
OPERATIONAL REVENUES (EXPENSES)			
Sales expenses	**33**	(13,440)	(14,036)
General and administrative expenses	**33**	(247,197)	(222,454)
Other operational revenues	**34**	389,820	832,281
Other operational expenses	**34**	(253,438)	(376,174)
OPERATIONAL PROFIT		962,980	1,042,644
FINANCIAL RESULT			
Financial Income	**35**	498,924	312,489
Financial Expenses	**35**	(815,338)	(597,400)
		(316,414)	(284,911)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		646,566	757,733
INCOME TAX AND SOCIAL CONTRIBUTION			
Current	**36**	(340,349)	(391,521)
Deferred	**36**	124,065	137,143
NET PROFIT FOR THE YEAR		430,282	503,355
AMOUNT OF SHARES AT THE END OF THE YEAR - THOUSANDS	**30a**	340,000	340,000
PROFIT FOR A THOUSAND SHARES AT THE END OF THE YEAR - R$		1,265.54	1,480.46
BASIC EARNINGS PER COMMON SHARE	**31**	1.211	1.417
PREFERENTIAL	**31**	1.1	1.1
DILUTED EARNINGS PER COMMON SHARE	**31**	1.333	1.559
PREFERENTIAL	**31**	1.333	1.559

The accompanying notes are integral part of the financial statements.

	Explanatory note	2020	2019
NET PROFIT FOR THE YEAR		430,282	503,355

Items that shall not be classified against statement of income			
Post-employment benefits	**30f**	1,413	(1,941)
Income tax and social contribution on other comprehensive income	**30f**	337	337
COMPREHENSIVE RESULTS FOR THE YEAR		432,032	501,751

The accompanying notes are integral part of the financial statements.

MRS Logística S.A.

Statement of Stockholders’ Equity

In thousands of reais

	Explanatory note	Share capital	Share capital increase	Equity adjustments	Revenue reserves: Legal	Revenue reserves: Retention for investments	Revenue reserves: Proposed dividends	Revenue reserves: Total	Accrued profits	Total
ON JANUARY 1, 2015		1,718,440	198,866	9,595	295,365	1,621,941	-	1,917,306	-	3,844,207
Comprehensive results for the year									-	-
Net income for the year									503,355	503,355
Covenants measurements of post-employment benefits				(1,604)					-	(1,604)
Total comprehensive results for the year		-	-	(1,604)	-	-	-	-	503,355	501,751
Stockholder contributions and distributions to stockholder										
Capital increase - RCA 3/20/2019		198,866	(198,866)			-		-		-
Additional proposed dividends - approved on EGM of 11/25/2019						(123,884)		(123,884)	-	(123,884)
Destination of net income for the year										
Board of directors' proposal for reserve allocation for capital increase			129,962			(129,962)		(129,962)		-
Dividends and interest on net equity								-		-
Minimum mandatory dividends								-	(119,547)	(119,547)
Transfer among reservations										-
. Statutory reserve					25,168			25,168	(25,168)	-
. Retention for investments						358,640		358,640	(358,640)	-
Total of stockholder contributions and distributions to stockholder		198,866	(68,904)	-	25,168	104,794		129,962	(503,355)	(243,431)
BALANCES ON DECEMBER 31, 2019		1,917,306	129,962	7,991	320,533	1,726,735	-	2,047,268	-	4,102,527
Comprehensive results for the year									-	-
Net income for the year									430,282	430,282
Covenants measurements of post-employment benefits	**30f**			1,750					-	1,750
Total comprehensive results for the year		-	-	1,750	-	-	-	-	430,282	432,032
Stockholder contributions and distributions to stockholder										
Capital increase - RCA 3/25/2020	**30a**	129,962	(129,962)			-		-		-
Additional dividends - approved at the EGM of 11/27/2020	**26**					(119,548)	-	(119,548)	-	(119,548)
Destination of net income for the year										
Board of directors' proposal for reserve allocation for capital increase	**39**		-							-
Dividends and interest on net equity								-		-
Minimum mandatory dividends	**26**							-	(102,192)	(102,192)
Transfer among reservations										-
. Statutory reserve	**30c**				21,514			21,514	(21,514)	-
. Retention for investments	**30d**		104,271			202,305		202,305	(306,576)	-
Total of stockholder contributions and distributions to stockholder		129,962	(25,691)	-	21,514	82,757	-	104,271	(430,282)	(221,740)
BALANCES ON December 31, 2020		2,047,268	104,271	9,741	342,047	1,809,492	-	2,151,539	-	4,312,819

The accompanying notes are integral part of the accounting statements.

MRS Logística S.A.

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

	Accompanying note	2020	2019
CASH FLOW OF OPERATING ACTIVITIES			
Net profit before income tax and social contribution		646,566	757,733
Adjustments to reconcile net income for the year with cash generated by operating activities:			
Fixed asset sale results	**37.1**	-	(2,128)
Depreciation and amortization	**33**	1,049,931	921,226
Monetary/Exchange rate variation and assets and liabilities financial charges		363,655	382,915
Residual value of write-off fixed assets	**17 and 18.**	41,378	56,461
Reserves	**28**	47,618	121,333
Prepaid expenses amortization	**15**	19,479	15,500
Provision/(reversal) for asset losses	**34**	(742)	(445)
Provision/(reversal) for estimated losses in doubtful debt	**9 and 11.**	282	372
Others		424	431
		2,168,591	2,253,398
(Increase) reduction in business assets:			
Trade accounts receivable/Other accounts receivable	**9 and 11.**	460,030	(591,761)
Stock	**12**	(18,081)	(9,998)
Recoverable taxes	**13**	28,527	(25,559)
Prepaid expenses	**15**	(14,643)	(21,841)
Other assets		(1,567)	(7,796)
Restricted cash		2,055	67,884
(Increase) reduction in business liabilities:			
Concession payable	**27**	969	(580)
Suppliers		(34,244)	(19,305)
Tax obligations	**20 and 21.**	(109,240)	67,163
Labor and social security obligations	**20**	(14,130)	(1,973)
(Provisions)/Reversals	**30.f**	1,413	(1,941)
Customer advances		1,519	(2,118)
Other covenants		106,898	(15,535)
Cash from operations		2,578,097	1,690,038
Payment of taxes on profit		(288,894)	(280,044)
Payment of interests on loans and financings	**37.3**	(135,049)	(144,125)
Payment of interests on right-of-use	**37.3**	(152,017)	(159,961)
Net cash from operational activities		2,002,137	1,105,908

MRS Logística S.A.

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

	Accompanying note	2020	2019
CASH FLOW OF INVESTMENT ACTIVITIES			
Additions to fixed assets	**17**	(795,347)	(645,653)
Additions of intangible	**18**	(27,124)	(13,289)
Resources from disposition of fixed assets	**37.1**	-	2,163
Net cash in application activities		(822,471)	(656,779)
CASH FLOW OF FINANCING ACTIVITIES			
Collection of loans and financings	**37.3**	511,692	280,500
Payment of loans and financing/derivative financial instruments		(606,290)	(512,390)
Resources from the issue of debentures	**37.3**	-	650,000
Payment of Debentures	**37.3**	(60,680)	(9,402)
Lease payment	**37.3**	(247,123)	(218,510)
Dividends paid	**26**	(239,045)	(247,716)
Cash generated by financing activities		(641,446)	(57,518)
INCREASE (REDUCTION) OF CASH BALANCE AND EQUIVALENT		538,220	391,611
Cash and cash equivalents			
Initial balance		668,264	276,653
Closing balance		1,206,484	668,264

The accompanying notes are integral part of the accounting statements.

MRS Logística S.A.

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

	Explanatory note	2020	2019
REVENUES			
Sales of freight services	**32**	3,890,220	3,483,747
Other revenue		389,820	832,281
Revenue from construction of own assets		27,011	4,205
Provision/ (reversal) for doubtful accounts	**9 and 11.**	(283)	(564)
		4,306,768	4,319,669
INPUTS ACQUIRED FROM THIRD PARTIES			
Cost of products, goods and services sold		(1,206,973)	(1,158,118)
Materials, energy, third-party services, and others		(103,432)	(87,004)
Others		(176,384)	(255,130)
		(1,486,789)	(1,500,252)
GROSS ADDED VALUE		2,819,979	2,819,417
WITHHOLDINGS			
Depreciation, amortization, and depletion	**33**	(1,049,931)	(921,226)
NET ADDED VALUE PRODUCED BY THE COMPANY		1,770,048	1,898,191
ADDED VALUE (RECEIVED) IN TRANSFER			
Financial Income	**35**	498,924	312,489
TOTAL ADDED VALUE (RECEIVED) TO BE DISTRIBUTED		2,268,972	2,210,680
DISTRIBUTION OF ADDED VALUE (RECEIVED)			
Personnel and charges		520,470	542,743
Taxes, fees and contributions		490,512	564,540
Remuneration of third party capital		827,708	600,042
Remuneration of own capital		430,282	503,355
Proposed	**26**	102,192	119,547
Retained earnings	**30c and 30d**	328,090	383,808
		2,268,972	2,210,680

The accompanying notes are integral part of the accounting statements.

1. Operational context

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

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

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

In April 2017, MRS filed its Business Plan with the Government to begin negotiations regarding the early renewal of the concession, and since then these negotiations have been conducted with the National Land Transport Agency - ANTT. On June 6, 2019, embodied in Deliberation No. 614, of June 4, 2019, ANTT published the Notice of Public Hearing No. 007/2019, communicating the holding of said Hearing to gather subsidies, with a view to improving the studies for the extension of the contractual term of the MRS concessionaire. On September 13, 2019, at 6:00 pm, the deadline for contributions to the Public Hearing ended, set by SEI Official Letter No. 7414/2019/SUFER/DIR-ANTT, issued on July 5, 2019. Based on the information obtained from ANTT, within the scope of the MRS process, three hundred and fifteen (315) contributions were submitted, as follows: (i) 90 oral contributions, according to manifestations in the 4 public sessions held in the states of Minas Gerais, São Paulo, Rio de Janeiro and Brasília; (ii) 42 written contributions; and (iii) 183 contributions sent by the ANTT website, 50% of which refer to contributions submitted by MRS itself.
During 2020, several agendas were carried out with ANTT for updating the Business Plan to promote the adjustments resulting from the contributions made during the Public Hearing process.
Currently, we are waiting for the analysis of the contributions by ANTT's technical area and for possible adjustments to be made to contemplate the contributions accepted by the Agency. After the issuance of the Final Report of the Public Hearing of MRS, its approval by the ANTT Board of Directors, and in the absence of any manifestation to the contrary, the process will be forwarded to the Ministry of Infrastructure, which will evaluate its conformity with the Public Policy guidelines, and, in sequence, will send it for analysis and approval by the Federal Audit Court.

The concession agreement sets forth goals to be met by the Company, related to the increase in production in cargo transportation and the reduction in the number of accidents on the railway lines. If these goals are not achieved, after all stages of clarification and administrative defenses have been overcome, ANTT may apply penalties, which may even lead to termination, in case of repeated non-compliance with the contractual goals. The concession may be terminated in the following legal situations: (i) end of the contract term; (ii) expropriation; (iii) expiration; (iv) termination; (v) annulment of the tender; (vi) bankruptcy or dissolution of the Company. In any case of termination of the concession, the Company shall be indemnified by the Federal Government for the not depreciated balance of investments carried out and declared reversible by the Government. As of December 31, 2020, MRS was up to date with its contractual obligations and duly compliant with ANTT.

The Company Management states that a relevant share of the negative net current assets presented on December 31, 2020, refers to structured debts, with most maturities concentrated in the second half of that year. It is also understood that this scenario will be managed throughout the year, due to the strong flow cash generation from its operational activities, as well as new long-term fundraising, via financial institutions or the local capital market, already provided for by the Company.

2. Foundations

2.1 Presentation of Information

a) Declaration of Conformity

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

The accounting statements for the year ended on December 31, 2020 were approved by the Company's Board of Directors on March 24, 2021.

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

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

b) COVID-19 pandemic

The Company's management continues to monitor the evolution of the COVID-19 pandemic scenario and assess the possible impacts on the Company's future operating, economic and financial results.

The Company did not suffer any interruptions or significant reductions in its operating activities as a result of the pandemic and, at this time, does not foresee any significant impacts on its operations that could reflect on its future economic and financial results.

As of April, a significant improvement can be seen in the Heavy Haul volumes transported, which represents more than 60% of the volumes planned for the year. This fact is due to the improved performance in unloading the ports in a period of lesser rainfall. There was also an increase in production at the Andaime terminal and the future expectation for this segment is to continue accelerating the pace of transported volumes in 2021, taking advantage of favorable conditions in the foreign market.

Regarding the impacts of COVID-19, a reduction in the volumes transported in the steel industry can be seen as a result of the slowdown in the domestic market. However, the representation of this business in total was not enough to impact the whole, as the company ended the year increasing its production level.

Below, we present some analyzes and measures adopted by the Company aiming at its economic and financial balance in view of the results presented in 2020 and to face the possible impacts of the pandemic:

- Net Working Capital: as a measure to replenish working capital, during the year the company raised new funds of around BRL 500,000 and, for 2021, new long-term fundraising is planned. The Company ended the year with BRL 1,206,484 in cash.

- Risk of non-realization of inventory: considering that the volume projections did not show significant reductions, the Company was not impacted by inventory reductions, given the continuity of the maintenance plan.

- Importing materials: the volume of materials imported into MRS as raw material in asset maintenance is not relevant when compared to the organization's total inputs. In any case, impacts have been noted due to the lack of maritime transport and the closing of factories abroad, which could be observed in the worsening of adherence in the deliveries of some materials. However, MRS acted preventively, advancing part of the orders to guarantee suppliers the continuity of their operations and consequently not impacting rail transport.

- National materials: as a strategy to fight the pandemic, MRS made advance purchases of materials, a fundamental action to support maintenance and mitigate risks of lack of materials, which were essential for the accelerated destocking of assets with the resumption of volume. After this period of risk of shortage during the year 2020, today we face another challenge that is the lack of raw materials in the market, such as: steel, pig iron, scrap, wood, copper and plastics. These materials impact the production chain of the Company's items, mainly permanent track.

- Accounts Receivable and Suppliers PCE (Expected Credit Loss):
  we observed a 7% increase in December 2020 compared to December 2019 in the estimated loss of accounts receivable. However, as mentioned above, we have taken measures to help the value chain related to cargo transported by MRS, putting in place a temporary policy to increase the delivery period for customers most affected by the crisis, such as the steel and civil construction segment. By the end of 2020, this measure had already been normalized to pre-pandemic periods. It is worth mentioning that from the 3rd quarter on, payment terms also returned to normal, the pre-pandemic scenario.

- Renegotiation of rental contracts for commercial rooms:
  With the arrival of the COVID-19 pandemic, many significant changes took place and one of them was the change of some habits. Since the beginning of the pandemic, the Company has adopted the home office work model for the administrative area, aiming to take care of the health of its employees and thus creating reduced access to offices. As a result, rental contracts were renegotiated in 2020.

2.2 Measurement basis

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

2.3 Functional currency and presentation currency

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

2.4 Presentation of information in pieces

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

3. Changes in key accounting policies and publications

There were no new accounting standards in 2020 that materially affected the Company's financial statements.

4. Summary of the main accounting policies

The significant accounting policies relevant to understanding the basis of recognition and measurement applied in the preparation of the financial statements are described in the following items and comply with accounting policies consistent with those used when preparing the financial statements of December 31, 2019, published in the Government Printing Office on March 26, 2020, unless otherwise noted.

4.1 In foreign currency

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

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

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

4.2 Cash and Cash Equivalents

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

4.3 Financial instruments

i. Initial recognition and measurement

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

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

ii. Classification and subsequent measurement

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

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

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

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

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

- it is maintained within a business model whose objective is achieved both by receiving contractual cash flows and by selling financial assets; and
- its contractual terms generate, on specific dates, cash flows that are solely payments of principal and interest on the outstanding principal amount.

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

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

Financial assets: business model assessment

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

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

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

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

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

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

Financial assets: subsequent measurement and gain and loss

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

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

Financial liabilities: classification, subsequent measurement and gain and loss

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

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

iii. Derecognition

Financial Assets

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

Financial Liabilities

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

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

iv. Compensation

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

v. Derivative financial instruments and hedge accounting

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

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

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

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

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

Financial liabilities designated as hedging instruments are shown in Note 25.

4.4 Non-derivative financial liabilities impairment

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

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

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

- Individual lease: all billing documents referring to individual lease contracts are provisioned as a loss, due to the high level of default.
- Legal proceedings: all billing documents to customers that are being collected in court are provisioned as a loss, due to the high level of uncertainty.
- Freight: the provision for expected credit losses will be measured by the percentage of historical losses in the last two years, applied to the balance of accounts receivable of this grouping, on the date of analysis.
- Other revenue: the provision for loan losses will be calculated by the percentage of historical loss, based on defaults in the last two years, on the balance of accounts receivable of this grouping, on the date of analysis.
- Related parties: considering that we have long-term contracts, protection mechanisms and historically there has been no financial loss with the companies involved, we do not have provisions for losses constituted for this group.

4.5 Trade accounts receivable and Related companies

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

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

The discount rate used involves the analysis of the capital structure and the uncertainties of the macroeconomic context and was estimated at 10.29% p.a. and 15.91% a.a.

4.6 Inventories

Inventories are shown at weighted average cost, which does not exceed net realization values. Provisions for losses on low turnover or obsolete inventories are set up when deemed necessary by Management.

4.7 Intangible asset

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

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

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

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

4.8 Fixed assets

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

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

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

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

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

Land is not depreciated.

Useful Life Revision:
In compliance with CPC 27 - Fixed Asset and IAS 16, the Company annually revises the economic

In thousands of reais, unless otherwise stated

life of its main assets. Thus, according to a technical report issued by a specialized consultancy, as well as publication in the Official Federal Gazette of December 17, 2019, as of January 2020, the useful life of some assets and components were changed.

The annual rates of depreciation and useful life of the main groups of assets in force in 2020 are:

Asset groups	%	Average life (in years)
Fixed assets		
Improvements in permanent road		
Rails	7.69	13
Sleepers	8.33	12
Improvements on leased property	4.00	25
Specific works (Tunnel, Viaduct and Bridge)	2.85	35
Locomotives		
Diesel locomotives	3.33	30
Electric locomotives	4.17	24
Used locomotives	10.00	10
Useful improvements on locomotives	12.50	8
Average service life of the main components	14.53	3 through 17
Wagons		
Wagons	3.33	30
Useful improvements on wagons	10.00	10
Average service life of the main components	14.35	2 through 17
Others		
Grinder, control car, equipment and tools	10.00	10
Data processing equipment	20.00	5
Furniture and utensils	10.00	10

The residual value, asset service life, and depreciation methods are reviewed at the end of each year and adjusted prospectively, when applicable. See more details in note 17, on the changes in the useful life of assets for 2020.

4.9 Nonfinancial assets impairment

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

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

4.10 Trade accounts payable

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

4.11 Provisions

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

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

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

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

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

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

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

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

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

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

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

4.13 Employee benefits

Pension benefits and other benefits after employment

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

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

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

Short-term benefits – variable remuneration

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

4.14 Leases/Right of Use

The Company applied CPC 06(R2)/IFRS 16 using the modified retrospective approach.

Leases in which the Company is a lessee

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

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

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

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

(i) Lease with the Government: obtained considering the representativeness and the weighted cost of the Company's debts;
(ii) Real estate lease agreement: rate quoted with financial institutions related to the Company;
(iii) Agreement for the leasing of machinery, equipment and others: BNDES financing rate (specific line for this purpose that considers TLP plus bank spread).

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

(i) fixed payments, including fixed payments in essence;
(ii) amounts expected to be paid under the residual value guarantees; and
(iii) the strike price of the call option if the Company is reasonably certain to exercise that option, and payments of fines for termination of the lease, if the lease term reflects the Company exercising the option to terminate the lease.

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

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

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

Low value asset leases

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

Leases in which the Company is a lessor

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

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

The discount rate used to calculate the present value of accounts receivable from sub-lease agreements is the same as for the main lease agreement.

4.15 Concessions

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

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

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

4.16 Share capital

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

4.17 Revenue recognition

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

- **Provision of transportation services**

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

- **Financial Income**

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

- **Other operational revenues**

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

4.18 Distribution of dividends

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

5. Estimates and critical accounting judgments

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

Estimates and assumptions are continually revised.

Reviews to estimates are recognized prospectively.

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

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

(b) Post-employment benefits

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

(c) Fair value of derivatives and other financial instruments

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

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

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

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

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

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

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

6. New standards and interpretations not yet effective

A series of new standards will be effective for the years starting after January 1, 2021 and 2022.

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

- Reform of the reference interest rate - Phase 2 (amendments to CPC48/IFRS 9, CPC 38/IAS 39, CPC 40/IFRS 7, CPC 11/IFRS 4 and CPC 06/IFRS 16
- Onerous Agreements - costs to fulfill an agreement (amendments to CPC 25/IAS 37)

In thousands of reais, unless otherwise stated

- Fixed assets: Revenues before intended use (Amendments to IAS 16)
- Reference to the Concept Framework (amendments to IFRS 3)

7. Cash and cash equivalents

	2020	2019
Current		
Availability		
Cash and banks	7,814	3,077
	7,814	**3,077**
Financial investments in the country		
CDB	1,198,670	665,187
	1,198,670	**665,187**
Cash and cash equivalents	**1,206,484**	**668,264**

Financial investments are granted in deeds issued by banks in Brazil and have an average liquidity of 90 days. They can be redeemed before maturity, without changes or significant adjustment in the yield previously agreed with the financial institution.

These investments are in CDB, with remuneration based on the variation of Interbank Deposit Certificates - CDI, currently in the range between 85.0% and 112.0% (98.3% and 104.0% as of December 31, 2019).

The increase of R$538,220 in the balance and cash equivalents is basically due to the higher volume of funding in the first six months of 2020.

The risk rating of financial investments according to the business model is described in note 25.

8. Restricted cash

	2020	2019
CDB	-	2,033
Total	-	**2,033**

The Company ended the year 2020 without the commitment to restricted cash.

The restricted cash balance on December 31, 2019 consisted of financial investments in CDB, constituted as a guarantee of the commercial agreement for the purchase and sale of electricity.

In thousands of reais, unless otherwise stated

These investments were backed by bonds in Brazil, and had a maximum liquidity of 360 days and remuneration based on the variation of Interbank Deposit Certificates – CDI, in the range between 98.3% and 99.0%.

The risk rating of financial investments in restricted cash according to the business model is described in note 25.

9. Trade accounts receivable

		2020	2019
Accounts receivable of related parties	**10**	643,203	1,035,480
Customers in the country	**(a)**	25,149	40,531
Expected credit losses	**(b)**	(1,107)	(1,107)
		667,245	**1,074,904**
Current		382,503	899,682
Non-current		284,742	175,222

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

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

10. Related parties

The assets and liabilities balances on Thursday, December 31, 2020 and 2019, informed in this Note, are related to operations with related parties arising from Company transactions with its shareholders, related companies and key professionals from management.

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

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

In thousands of reais, unless otherwise stated

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

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

- Asset

		Receivables	
		2020	**2019**
Mineração Usiminas S.A.	**(a)**	81,325	157,457
Vale S.A.	**(b)**	391,010	651,892
CSN Mineração S.A.	**(c)**	140,551	158,610
Companhia Siderúrgica Nacional		19,984	58,709
Usinas Siderúrgicas de Minas Gerais S.A.		3,266	1,597
Gerdau Açominas S.A.		2,030	3,648
Ferrovia Centro Atlântica		3,329	1,751
Gerdau Aços Longos S.A.		675	529
Confab Industrial S.A.		-	1
Gerdau S.A.		22	342
TerniumBrasil Ltda.		32	31
Vallourec Soluções Tubulares do Brasil S.A.		979	913
		643,203	**1,035,480**
Current		358,461	860,258
Non-current		284,742	175,222

(a) The reduction in the amount receivable in 2020 is due to the receipt of three installments of the contractual amendment entered into in 2016 between MRS and Mineração Usiminas, maturing in January 2020, January 2021 and January 2022. In January 2020, we received the amount of R$31,546 referring to the fourth installment of said amendment. In October 2020, we received the amount of R$60,269 referring to the anticipation of two installments of this amendment maturing in January 2021 and January 2022, as established in it.

(b) The reduction in the 2020 balance is basically due to the receipt, in February 2020, of the amount of R$632,257 referring to accounts receivable from the revenue protection mechanism registered in 2019, according to the 3rd Amendment signed in accordance with the provisions of the Securities Commission. Additionally, in December 2020, the fourth amendment to the contract for the provision of rail transport services between MRS and VALE was signed, through which VALE assumed the obligation to pay MRS indemnity in the amount of R$353,539 due to the review of the minimum volumes transported provided in the original contract. The amount will be paid in 3 installments, being R$239,085 in 2021, R$44,397 in 2022 and R$106,091 in 2023. The present value of the flow of payments is R$366,560 on December 31, 2020, R$225,969 in current and R$140,591 in non-current. The amount of R$239,085 was received in January 2021.

(c) In January 2020, the Company received the 2nd installment of the contractual amendment signed on November 1, 2018 between MRS and CSN Mineração as mentioned in note 10 (c) of the financial statements of December 31, 2018, in the amount of R$23,547 . In February 2021, the Company received the 3rd installment of said amendment, in the amount of R$23,547.

In thousands of reais, unless otherwise stated

The Company has receivables agreements with some related parties given as guarantee for loans.

Except for accounts receivable referring to revenue protection mechanisms and contractual amendments, the average term for receipt of accounts receivable from related parties is less than 13 days.

- Liability

		Accounts payable / other liabilities		Advances		Payable dividends	
		2020	**2019**	**2020**	**2019**	**2020**	**2019**
Vale S.A.	(d)	148,019	8,298	-	-	10,680	12,493
Mineração Brasileiras Reunidas S.A.		-	-	-	-	34,354	40,189
CSN Mineração S.A.	(e)	64,110	76,968	1	1	19,304	22,583
Companhia Siderúrgica Nacional	(f)	2,125	864	-	-	19,293	22,570
Usiminas Participações e Logística S.A.		-	-	-	-	10,902	12,754
Usinas Siderúrgicas de Minas Gerais S.A.		-	-	-	-	273	320
Ferrovia Centro Atlântica		15,197	16,580	675	-	-	-
Gerdau Aços Longos S.A.		1	131	-	5	-	-
Gerdau S.A.		-	-	-	-	1,283	1,501
RailvestInvestmentsInc		-	-	-	-	4,243	4,964
Mitsui & Co. Ltda.	(g)	54,529	23,939	-	-	-	-
SepetibaTecon S.A.		2	-	-	-	-	-
Others		-	-	-	-	2,039	2,324
		283,983	**126,780**	**676**	**6**	**102,371**	**119,698**
Current		126,751	51,055	676	6	102,371	119,698
Non-current		157,232	75,725	-	-	-	-

In thousands of reais, unless otherwise stated

(d) As mentioned in item (b) of this note, against the amount recognized in accounts receivable referring to the indemnity agreed in the contractual amendment signed with Vale, the Company registered in "Other liabilities" the amount of R$127,474, in compliance with CPC 47 – Revenue from customer agreement. This amount will be appropriate monthly to income, for the period of the amendment, as indemnity revenue. Additionally, in December 2020, accounts payable were recorded in the amount of R$20,545 (R$8,298 as of December 31, 2019) referring to the provision for the protection mechanism.

(e) As mentioned in item (c) of this note, against the amount recognized in the indemnity accounts receivable referring to the contractual amendment signed with CSN Mineração, the Company registered other liabilities which on December 31, 2020 has a balance of R$64,110 , in compliance with CPC 47 – Revenue from customer agreement. The amount initially recognized is being allocated monthly to income, over the period of the contractual amendment, as indemnity revenue.

(f) Accounts payable in the amount of R$2,125 in 2020 refer to the provision for the revenue protection mechanism, on behalf of CSN.

(g) The amount of R$54,529 (R$23,939 on December 31, 2019) refers to the purchase of rails, according to agreement No. 70,267 /MRS/2020, acquired in December 2020.

- Result

		Services income		Other revenue		Financial Income	
		2020	**2019**	**2020**	**2019**	**2020**	**2019**
Vale S.A.	**(h)**	1,209,596	804,493	239,160	632,283	420	193
Companhia Siderúrgica Nacional		358,857	322,072	12,129	22,672	907	176
Mineração Usiminas S.A.		174,204	143,549	-	-	16,129	19,186
CSN Mineração S.A.	**(i)**	639,027	742,514	44,979	15,944	10,805	10,830
Usinas Siderúrgicas de Minas Gerais S.A.		104,672	119,777	-	6	2	5
Gerdau S.A.		1,180	2,945	604	1,030	33	155
Gerdau Açominas S.A.		111,097	116,350	43	2,760	1	27
Gerdau Aços Longos S.A.		17,921	18,082	12,337	14,438	1	14
Ferrovia Centro Atlântica		66,566	55,130	4,062	3,550	-	-
Ternium Brasil Ltda.		610	7,392	-	56	1	30
Usiminas Mecânica S.A.		-	-	3,150	3	-	-
Mitsui & Co. Ltda.	**(j)**	-	-	-	-	6,701	980
Vallourec Soluções Tubulares do Brasil S.A		23,153	32,986	3,698	-	1	-
Confab Industrial S.A.		2,289	2,017	-	-	2	4
		2,709,172	**2,367,307**	**320,162**	**692,742**	**35,003**	**31,600**

In thousands of reais, unless otherwise stated

(h) The amount of R$1,209,596 recorded as "service revenue" refers to the resumption of transport in 2020, after the decrease in 2019, due to the accident in Brumadinho that occurred that year. The decrease in "Other revenues" is explained in item (b) of this note.

(i) The increase in "Other revenues" in 2020 is due to the higher volume of provision related to the revenue protection mechanism (*take or pay*) with CSN Mineração.

(j) The increase in "Financial incomes" in December 2020, refers to the exchange variation on the purchase of the tracks, as mentioned in item (g) of this note.

	Other operational/financial expenses	
	2020	**2019**
Ferrovia Centro Atlântica	12,998	11,886
Gerdau Aços Longos S.A(k)	6,137	2,770
Mitsui & Co. Ltda. (g)	7,694	980
Vale S.A.	117	901
SepetibaTecon S.A(l)	1,876	218
Companhia Siderúrgica Nacional	-	187
Confab Industrial S.A.	3	3
Ternium do Brasil Ltda.	1	1
	28,826	**16,945**

(k) In 2020 there was an increase in purchases for the Company's operational activity.

(l) The increase in 2020 refers to storage expenses and port expenses for the import of rails, provided in note (g) above.

Management key personnel

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

In thousands of reais, unless otherwise stated

	Result	
	2020	2019
Short-term benefits	15,370	16,635
Post-employment benefits	338	366
Other long-term benefits	11,226	3,060
	26,934	**20,061**

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

The growth of long-term benefits in 2020 can be justified by the recovery of provisions for this benefit, since in 2019 the accident in Brumadinho brought a reduction in these provisions.

11. Other receivables

		2020	2019
Concession and lease receivable amounts	(a)	6,188	53,127
Receivables - other sales	(b)	5,221	5,092
Subleasing amounts receivable	(c)	29,218	35,348
Other receivables		2,414	3,644
Expected credit losses	(d)	(3,959)	(3,677)
		39,082	**93,534**
Current		8,740	8,379
Non-current		30,342	85,155

(a) Amounts receivable from concession and lease posted in the noncurrent assets correspond to the registration resulting from a favorable decision in process involving the Granting Authority over amounts paid in the quarterly concession and lease installments updates from October 1997 to April 2001.
The details of the process can be seen in note 11 item (a) of the 2019 financial statements.
On September 21, 2020, a decision was issued approving the undisputed amount of R$49,132 and allowing the Federal Government to express its opinion on the remaining amount indicated by MRS, resulting from the monetary restatement of the undisputed balance until

September 2020. On October 9, 2020, ANTT's Attorney's Office authorized the compensation of the undisputed amount in the next installment of the lease agreement.
Therefore, on October 15, 2020, the amount was effectively offset in the referred lease installment.
On January 15, 2021, after the compensation authorization by the ANTT's Attorney's Office, the remaining balance of R$6,188 on December 31, 2020 was fully offset in the 95th installment of the lease and concession.

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

(c) Subleases, recorded at present value in current and non-current assets, refer to real estate rental agreements in which the Company is the intermediary lessor of a main lease, classified as a Right of Use Asset.

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

In thousands of reais, unless otherwise stated

The use of subleases in the period was as follows:

Sub-leasing	**2020**	**2019**
On January 1	**46,321**	**99,281**
Additions to agreements	3,481	4,288
Agreement derecognition (*)	(6,752)	(46,886)
Amortizations	(6,539)	(10,362)
On December 31	**36,511**	**46,321**
Interest to accrue		
On January 1	**(10,973**	**(26,267)**
Additions to agreements	(654)	(1,023)
Agreement derecognition (*)	2,131	11,612
Interest accrued	2,206	4,705
On December 31	**(7,293)**	**(10,973)**
Net balance	**29,218**	**35,348**

(*) The derecognition of agreements is mainly due to cancellations occurred in the period.

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

	2021	**In up to 5 years**	**Total**
Sub-leasing	7,253	29,258	36,511

12. Inventories

		2020	**2019**
Maintenance materials	**(a)**	115,473	97,306
Material under retrieval progress		8,186	7,603
Ongoing imports		243	1,020
Fuels		7,777	8,292
Others		10,495	9,872
Provision for loss by obsolescence	**(b)**	(9,821)	(4,615)
		132,353	**119,478**

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

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

13. Taxes recoverable

	2020	**2019**

Tax on movement of goods and services – ICMS	**(a)**	58,933	71,112
(-) Provision for loss of ICMS	**(a)**	-	(17,100)
PIS/COFINS recoverable	**(b)**	50,379	65,267
Income tax	**(c)**	57,360	58,813
INSS to be recovered	**(d)**	5,386	5,390
Others		221	224
		172,279	**183,706**
Current		63,638	90,863
Non-current		108,641	92,843

(a) Mainly refer to credits arising from acquisitions of assets for the fixed assets and purchases of inputs, net of provision for loss of non-retrievable credits. In 2020, after monitoring the use of the credit balance accumulated in the last year and reviewing the future projection of state tax revenues and debts, the provision for loss of ICMS credits, constituted in previous years, was reversed due to the verification of the capacity of utilization of said credits by the Company within the period provided by law.

(b) They mainly refer to fixed assets property credits.

(c) Of the total of R$57,360 in 2020, R$24,717 results from a final favorable court decision in case No. 0006873-32.2009.4.02.5101, which recognized the right to deduct expenses with the Worker's Food Program (PAT) without the limitations imposed by Interministerial Ordinance No. 326, Normative Instruction No. 267/02 and other infra-legal standards. The remainder of the amount, R$32,643, refers to withholding income tax on financial investments and to gains on derivative transactions - *swap*. As income is taxed only on the redemption of investments and winding-up of *swaps*, this amount includes the provision for source IT from these operations.

(d) The balances as of December 31, 2020 and 2019 refer basically to tax credits recoverable from Social Security Contribution (company) arising from a final favorable court decision in case No. 0092045-52.2014.4.01.3400, which ruled out the requirement of this contribution on the amounts paid to cooperatives.

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

	2020	2019
ICMS credit composition - current		
ICMS - RJ	12,668	23,689
ICMS - SP	17,061	21,416
Current total	**29,729**	**45,105**

14. Deferred taxes

In thousands of reais, unless otherwise stated

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

	2020	**2019**
Asset		
Contingency provisions	201,508	180,512
Various provisions	105,290	80,216
Asset loss provisions	14,156	8,464
ICMS loss provisions	-	5,814
Health insurance provisions	1,357	1,304
Others	61	-
Total asset	**322,372**	**276,310**
Liability		
RTT adjustments amortization	(120,057)	(140,219)
Depreciation	(54,068)	(114,148)
Derivative financial instruments – *swap (f)*	(52,369)	(29,667)
Cars and locomotives accelerated depreciation	(33,064)	(52,956)
Interest capitalization	(105)	(105)
Accelerated R&D Depreciation 2008 / 2009 / 2012 Act 11.196/05	(1,921)	(2,830)
Total liabilities	**(261,584)**	**(339,925)**
Net total	**60,788**	**(63,615)**

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

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

The amount of R$322,372 (R$276,310 December 31, 2019) refers to deferred tax assets. The Company estimated its future taxable income for the next 5 years and it proved to be sufficient to cover the temporary differences of deferred assets. Thus, deferred tax assets were fully recognized in the 2020 financial statements.

The amount of R$261,584 (R$339,925as of December 31, 2019) refers to the deferred liability which includes the derecognition (amortization) of the adjustments arising from the RTT - Transitory Tax System. Due to such adjustments, the Company recorded IRPJ/CSLL deferred from differences between corporate and tax result, in the amount of R$241,001, which is being derecognition for the remaining term of the concession agreement as the rules provided for in Articles 69 of Act No. 12.793/14 and 174 of Normative Instruction RFB No. 1515/14. The amount amortized in 2020 was R$20,162 (R$20,224 in 2019), making a balance of R$120,057 on December 31, 2020 (R$140,219 in 2019) .

In thousands of reais, unless otherwise stated

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

	2020	2019
On January 1	**(63,615)**	**(201,095)**
Depreciation	60,080	(90)
Various provisions	25,074	43,513
Contingency provisions	20,996	60,088
RTT adjustments amortization	20,162	20,224
Cars and locomotives accelerated depreciation	19,892	21,326
Asset loss provisions	5,692	2,723
Derivative financial instruments –*swap*	(22,702)	(8,586)
ICMS loss provisions	(5,814)	(3,060)
Accelerated R&D Depreciation 2008/2009/2012 Act 11.196/05	909	1,316
Health insurance provisions	53	26
Others	61	-
On December 31	**60,788**	**(63,615)**

15. Prepaid expenses

		2020	2019
Insurance	**(a)**	5,625	13,121
Prepaid personnel expenses		8,669	7,089
Prepaid services expenses		3,767	2,687
		18,061	**22,897**
Current		16,767	18,049
Non-current		1,294	4,848

(a) They refer to insurance payments in advance. The amounts on December 31, 2020 and 2019 refer to the balance not yet amortized. The term and coverage of the insurance policies contracted by the Company are detailed in note 38.

16. Other current and non-current assets

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

In thousands of reais, unless otherwise stated

		2020	2019
Court deposits	**(a)**	124,637	126,907
Advances to suppliers	**(b)**	17,684	11,140
Advances to employees	**(c)**	9,628	8,960
Others		7	6
		151,956	**147,013**
Current		27,312	20,100
Non-current		124,644	126,913

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

(b) It corresponds to advances granted to domestic and foreign suppliers for the acquisition of materials and inputs that do not correspond to fixed assets.

(c) It corresponds to advances granted to employees such as vacation advance, vacation loans and other advances.

17. Fixed assets

17.1 Fixed assets in operation and in progress

By their nature, fixed assets are comprised as follows:

In thousands of reais, unless otherwise stated

	2020							2019
	Fixed assets in operation							
	Improvements on third parties properties	Locomotives	Wagons	Others	Total	Fixed assets in progress	Total	Total
Cost								
On January 1	**5,101,396**	**2,935,369**	**2,743,572**	**619,276**	**11,399,613**	**372,672**	**11,772,285**	**11,197,252**
Addition	-	-	-	-	**-**	964,962	**964,962**	**720,669**
Transfers	289,167	143,847	74,252	12,639	**519,905**	(519,905)	**-**	**-**
Reversion (provision) for write-off	77	(3,832)	(6,672)	(725)	**(11,152)**	-	**(11,152)**	**(10,472)**
Right of Use Reclassification	-	-	-	-	**-**	-	**-**	**(31,077)**
Write-Off	(28)	(4,893)	(49,474)	(5,603)	**(59,998)**	(16,394)	**(76,392)**	**(104,087)**
On December 31	**5,390,612**	**3,070,491**	**2,761,678**	**625,587**	**11,848,368**	**801,335**	**12,649,703**	**11,772,285**
Depreciation								
On January 1	**(2,227,930)**	**(1,468,468)**	**(1,234,877)**	**(423,447)**	**(5,354,722)**	**-**	**(5,354,722)**	**(4,759,519)**
Addition	(370,212)	(221,470)	(128,754)	(41,993)	**(762,429)**	-	**(762,429)**	**(645,371)**
Right of Use Reclassification	-	-	-	-	**-**	-	**-**	**2,391**
Write-Off	5	1,596	27,906	5,532	**35,039**	-	**35,039**	**47,778**
On December 31	**(2,598,137)**	**(1,688,342)**	**(1,335,725)**	**(459,908)**	**(6,082,112)**	**-**	**(6,082,112)**	**(5,354,721)**
Net residual value				-				
On December 31	**2,792,475**	**1,382,149**	**1,425,953**	**165,679**	**5,766,256**	**801,335**	**6,567,591**	**6,417,564**

The use of fixed assets for 2019 is published in the explanatory note 16 of the 2019 financial statements.

Reversion (provision) for assets write-off

Locomotives and Wagons

The amounts of R$3,832 and R$6,672 refer to the constitution of a provision for cutting off locomotives and wagons, respectively.

Write-Off

Locomotives and Wagons

The net amounts of R$3,297 and R$21,568, presented in the groups of locomotives and wagons, respectively, are mainly due to the write-off of unused wagons in 2020 and the write-off of components for locomotives and wagons.

Fixed assets in progress

Fixed assets in progress are substantially represented by expenses incurred in the expansion, recovery and modernization of the permanent track, locomotives, wagons and signaling systems. The write-off of fixed assets in progress against the result for 2020 in the amount of R$16,394 basically refers to investment projects for works that, due to the Company's strategic decision, will not be carried out.

Capitalized loans costs

The amount of capitalized loans costs in the period ended on December 31, 2020 was R$691 (R$187 as of December 31, 2019). The rate used to determine the cost amount of financing subject to capitalization was 5.56% per year (6.94% in 2019), which represents the Company's average financing rate.

Useful Lives Revision

In compliance with CPC 27 - Fixed Asset and IAS 16, the Company annually revises the economic life of its main assets. Thus, according to a technical report issued by a specialized consultancy, as well as published in the Brazilian Federal Gazette of December 17, 2019, as of January 2020, the useful life of some assets and components was changed as shown in the table below:

In thousands of reais, unless otherwise stated

Asset groups	2020 %	2020 Years	2019 %	2019 Years
Permanent Tracks				
Rail	7.69%	13	10.00%	10
Sleeper	8.33%	12	10.00%	10
Locomotives				
Average life of components	14.53%	3 to 17	12.97%	4 to 18
Wagons				
Average life of components	14.35%	2 to 17	16.81%	2 to 13

Due to the change in the useful life of the assets groups listed above, the prospective impact was the amount of R$67,952.

The annual rates of depreciation and useful life of the main assets groups applied in 2020 are shown in the note 4.8.

The Company has wagons and locomotives pledged as collateral for financing.
The residual amount as of December 31, 2020 and 2019, of the assets pledged as collateral is R$578,551 and R$579,353, respectively.

17.2 Leasing Right of Use

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

	2020	2019

	Assets associated to the concession	Vehicles	Real Estate	Computing Equipment	Others	Total	Total
Right of Use Cost							
Initial Recognition	**2,067,106**	**15,088**	**6,382**	**36,327**	**738**	**2,125,641**	**1,946,688**
Previously expenses paid							**163,392**
Sub-leasing	1,799	-	-	-	-	1,799	**-41,004**
Addition	316,456	15,652	872	241	440	333,661	**56,565**
On December 31	**2,385,361**	**30,740**	**7,254**	**36,568**	**1,178**	**2,461,101**	**2,125,641**
Right of Use Depreciation							
Initial Recognition	**(252,397)**	**(9,766)**	**(1,357)**	**(9,178)**	**(325)**	**(273,023)**	**(3,100)**
Addition	(266,927)	(5,316)	(1,461)	(7,563)	(314)	**(281,581)**	**(269,923)**
On December 31	**(519,324)**	**(15,082)**	**(2,818)**	**(16,741)**	**(639)**	**(554,604)**	**(273,023)**
On December 31	**1,866,037**	**15,658**	**4,436**	**19,827**	**539**	**1,906,497**	**1,852,618**

The use of leasing right of use for 2019 is published in the explanatory note 16.2 of the 2019 financial statements.

18. Intangible assets

Intangible assets are comprised as follows:

a) Acquisition/development of computerized systems and software

In thousands of reais, unless otherwise stated

	2020			2019
	Computer systems and software	**Ongoing projects**	**Total**	**Total**
Cost				
On January 1	**220,091**	**12,222**	**232,313**	**233,344**
Addition	-	25,752	**25,752**	**13,289**
Transfers	4,864	(4,864)	**-**	**-**
Right of Use Reclassification	-		**-**	**(3,545)**
Write-Off	(67)	-	**(67)**	**(10,775)**
On December 31	**224,888**	**33,110**	**257,998**	**232,313**
Amortization				
On January 1	**(194,808)**	**-**	**(194,808)**	**(197,257)**
Addition	(8,804)	-	**(8,804)**	**(8,832)**
Right of Use Reclassification	-	-	**-**	**709**
Write-Off	42	-	**42**	**10,572**
On December 31	**(203,570)**	**-**	**(203,570)**	**(194,808)**
Total	**21,318**	**33,110**	**54,428**	**37,505**

The use of intangible assets for 2019 is published in the explanatory note 17 of the 2019 financial statements.

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

b) Concession Advance Payment

Intangible assets also comprise the portion referring to the concession advance payment (granting right) in the amount of R$9,268 on December 31, 2020 (R$8,339 in 2019).

In thousands of reais, unless otherwise stated

19. Suppliers

		2020	2019
Amounts payable to related parties	10	92,400	49,849
In local currency	(a)	268,253	184,264
In foreign currency	(b)	10,353	190
		371,006	**234,303**
Current		331,614	197,349
Non-current		39,392	36,954

(a) The increase in the balance on December 2020 compared to December 2019 refers to acquisitions of assets in the last month of 2020, basically locomotives, infrastructure works, among others.

(b) The increase in the balance on December 2020 when compared to December 2019 basically refers to the purchase of rails.

20. Labor and social security obligations

	2020	2019
PSP – Profit Sharing Plan / Bonus	64,489	81,450
Vacation and Christmas bonus allowance	33,599	30,367
Wages payable	27,196	29,683
Social Security	19,196	17,842
FGTS	6,599	5,365
IRRF payable	4,926	4,280
Others	8,074	9,222
	164,079	**178,209**

21. Income tax and social contribution on net income

	2020	2019
Income tax	159,793	170,743
Social contribution tax	47,472	38,292
	207,265	**209,035**

In thousands of reais, unless otherwise stated

22. Other tax liabilities

	2020	2019
COFINS (*)	13,614	68,546
PIS (*)	3,235	13,941
ICMS	21,056	13,089
INSS withheld from third parties	3,865	3,870
ISS	2,844	2,489
Others	5,741	4,436
	50,355	**106,371**

(*) The reduction in the balance is basically due to the payment of these taxes arising from the recognition of the revenue protection mechanisms mentioned in the explanatory note 10(b) to the 2019 financial statements.

In thousands of reais, unless otherwise stated

23. Loans and funding

Loans and funding are comprised as follows:

		2020	2019
Local currency			
FINEM - BNDES	(a)	395,840	551,361
DULC - BNDES	(b)	-	101,355
FINAME and BNDES automático	(c)	8,964	17,231
Safra Bank	(d)	50,184	-
Sumitomo Bank	(e)	102,464	-
		557,452	669,947
Transaction costs		(1,489)	(1,993)
		555,963	**667,954**
Foreign currency			
MUFG Bank	(f)	653,077	607,008
Fair value *hedge* adjustment - MUFG Bank		2,696	10,100
		655,773	617,108
Transaction costs		(6)	(29)
		655,767	**617,079**
Debentures	(g)		
7th Issue		777,731	744,376
8th Issue		337,884	397,620
9th Issue		677,114	661,929
		1,792,729	1,803,925
Transaction costs		(16,451)	(23,436)
		1,776,278	**1,780,489**
Total funding and loan + transaction cost		**2,988,008**	**3,065,522**
Current		831,632	714,499
Non-current		2,156,376	2,351,023

(a) FINEM's operations, directly or not directly contracted with BNDES, have a nominal rate equal to the effective rate and are subject to TJLP charges plus *spread* of up to 3.41% per year or a fixed rate of 2.50% per year up to 5.50% per year. These funds shall be used to cover expenses aimed at reducing the number of accidents, improve the operational cycle and the purchase of rolling stock, as well as building bridges, viaducts, underpasses and social projects. The final amortization period of these contracts is June 15, 2024. These operations are secured by receivables from commercial agreements that make up at least 130% of the debt service, chattel mortgage of financed assets and emerging rights. In 2019, there was a fundraising in the amount of R$140,000, at a nominal rate of TLP +3.00% per year, however, in September 2020, the last amortization installment was settled in the amount of R$11,692.

The outstanding balance of this modality is lower in 2020 compared to 2019 because in the last quarter of 2020 MRS opted to anticipate amortization in the total amount of R$81,810, from contracts that had higher financing rates.

(b) DULC, a direct operation with BNDES, had a nominal rate equal to the effective rate and was subject to TJLP plus "*spread*" charges of up to 2.06% per year or a fixed rate of 4.50% per year. The purpose of this operation was to finance logistical projects, expansion of the permanent track, modernization and recovery of assets, infrastructure reliability, and locomotive purchases and social projects. The final amortization term of these contracts was June 15, 2023, but in October 2020, the Company decided to prepay the principal amount of R$76,611. The security of this contract consisted of receivables from commercial agreements that made up at least 130% of the debt service and rights emerging from the concession.

(c) FINAME and BNDES Automático are financing systems with BNDES funds, transferred to the Company indirectly through financial institutions, with nominal rate equal to the effective rate. FINAMEs had the purpose of acquiring new wagons and locomotives while BNDES automático financed a technological innovation project that provides for the reduction of fuel consumption in locomotives. These fundings are subject to TJLP charges plus a spread equivalent to a TIR of 9.70% per year or a fixed rate of 4.50% per year. The final amortization period of these contracts is January 15, 2022. These operations have as security the chattel mortgage of the financed goods. During 2020 there were no funding of these credit modalities and amortizations were in the amount of R$ 8,236.

(d) The financing from Safra Bank refers to a funding made in June 2020, in the total amount of R$50,000, in the form of CCB (Bank Credit Bill), with a maturity term of 3 years, at a cost of CDI +2.75%p.y. In this operation there are no contractual securities and the purpose of the funding is to support the Company's cash needs in the short and medium term.

(e) The financing from Sumitomo Bank refers to a funding made in June 2020, in the total amount of R$100,000, in the form of CCB (Bank Credit Certificate), with a maturity term of 2 years, at a rate of CDI+ 2.40% pa In this operation there are no contractual securities and the purpose of the funding was to support the Company's cash needs in the short and medium term.

(f) Financings with MUFG Bank has a fixed nominal rate equal to the effective rate. On December 31, 2019, the Company had three (3) active fundings, the first of which, contracted and disbursed in May 2017, with interest rate of 2.49% per year in the first year and 2.59% per year, in the following years until the end of the contract, and the second contracted and disbursed in August 2018, with interest rate of 4.82% per year, in the first year and 4.59% per year for the following years, with the third of them, contracted and disbursed in April 2019, with interest rate of 3.37% per year, in the first six months, and 3.49% per year, for the following six months. These fundings in dollars were intended to reinforce the Company's cash position for the investments made. The Company did not provide securities for these contracts and the final amortization period is May 2020 for the one signed in 2017, August 2023 for the one disbursed in 2018 and April 2020 for the one disbursed in 2019. Fundings overdue in April and May 2020 were settled upon maturity, in the amounts of US$25,000 (R$95,500) and US$75,000 (R$244,905), respectively.

In June 2020, new funding took place, in the amount of (Yen) JPN$7,723,200 in 3 different operations, via 4131, at an exchange rate of R$0.0453, making a total of R$350,000 in local currency. They began on June 9, the first operation with a maturity term of 1 year, at a rate of 0.99% p.a., in the amount of R$150,000. The second operation, with a maturity term of 2 years, at a rate of 1.25% p.a., in the amount of R$50,000. And, finally, the third operation, with a maturity term of 3 years, at a rate of 1.39% pa, in the amount of R$$150,000. Fundings in foreign currency were intended to reinforce the Company's cash position for the investments made. The Company did not provide securities for these contracts. For all funding in foreign currency, hedge operations were contracted for exchange protection.

(g) Debentures:

- *7th Issue*

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

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

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

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

- *8th Issue*

On December 13, 2017, the Company carried out its 8th issue of simple, non-convertible debentures of unsecured kind, via CVM 476 Instruction. A total of 40,000 debentures were issued in two series, which are 2nd and 3rd, totaling a funding of R$ 400,000 thousand, of which R$ 217,960 was allocated in the 2nd series and R$ 182,040 in the 3rd series. The issue could have been made in up to 3 series, but, after bookbuilding procedure, it was determined the emission of the 2nd and 3rd series only, canceling the 1st series.

In thousands of reais, unless otherwise stated

The second series of this issue was placed on the market, with interest of 108.30% of CDI per year, defined after bookbuilding procedure, paid semiannually, with a 5 year term and amortization in the 4th and 5th year.
The 3rd series was exclusively intended to debenture holders of the 6th issue of the Company's debentures, within the scope of the Tender Offer operation. The 6th issue debenture holders who joined the *Tender Offer* sold their debentures to the Company for the value at the curve and acquired the 8th issue papers | 3rd series, exclusively for these investors. The 3rd series of the 8th issue was placed with a fixed rate of 109.50% of CDI per year, paid semiannually, with a 5 year term and amortization in the 3rd, 4th and 5th year.
The net resources obtained by the Company with this issuance were used to strengthen its working capital and to extend the debt profile.

• *9th Issue*

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

Non-current financing depreciation flow is as follows:

	2022	2023	2024	After 2024	Total
FINAME	2,743	255	-	-	2,998
FINEM	91,784	24,682	24,484	131,545	272,495
Debentures	394,595	237,260	627,027	95,835	1,354,717
MUFG Bank	139,572	248,756	-	-	388,328
CCB	100,000	50,000	-	-	150,000
	728,694	**560,953**	**651,511**	**227,380**	**2,168,538**

On December 31, 2020, transaction costs of fund raising were represented as follows:

	Current	Non-current					Total
	2021	2022	2023	2024	After 2025	Total	CP + LP
DULC	132	110	44	-	-	154	286
FINEM	285	188	119	113	497	917	1,202
FINAME	1	-	-	-	-	-	1

In thousands of reais, unless otherwise stated

Debentures	5,365	3,116	2,888	5,003	80	11,087	16,452
MUFG Bank	1	2	2	-	-	4	5
	5,784	**3,416**	**3,053**	**5,116**	**577**	**12,162**	**17,946**

On December 31, 2020 and 2019, the amount of transaction costs incurred in each fund raising process was as of:

	2020	**2019**
FINEM	11,692	140,000
(-) fund raising costs	75	(1,232)
% costs/Funded amount	0.64%	(0.88%)
SAFRA Bank	50,000	-
(-) fund raising costs	184	-
% costs/Funded amount	0.37%	-
MUFG Bank	350,000	95,500
(-) fund raising costs	11,466	(29)
% costs/Funded amount	3.28%	(0.03%)
Debentures 9th issue	-	650,000
(-) fund raising costs	-	(5,890)
% costs/Funded amount	-	(0.91%)

Financial restrictive conditions (covenants)

Loan and financing agreements have restrictive covenants related to the maintenance of financial indexes. All *covenants* have been met on December 31, 2020. The debentures issued by the Company also have restrictive covenants related to the maintenance of financial indexes, which were complied with on December 31, 2020. The 7th issue debentures have minimum risk rating maintenance clauses attributable by *Standard and Poor's*, which were also complied with in the reporting period. The 8th and 9th issue debentures do not have minimum risk rating maintenance clauses.

24. Financial leasing

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

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

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

In thousands of reais, unless otherwise stated

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

Computer equipment: computer equipment, electronics and software.

Others: container and others.

The use and balance of financial leasing is shown below:

	2020						20
	Assets associated to the concession	Vehicles	Real Estate	Computing Equipment	Others	Total	To
Lease payable							
Initial Recognition	**2,428,011**	**6,185**	**6,810**	**22,490**	**560**	**2,464,056**	**2**
Addition		17,616	684	-	452	**18,752**	
Remeasurement by monetary restatement	398,776		173		46	**398,995**	
Payments	(377,175)	(5,676)	(1,662)	(14,198)	(429)	**(399,140)**	**(**
On December 31	**2,449,612**	**18,125**	**6,005**	**8,292**	**629**	**2,482,663**	**2**
Interest to accrue							
Initial Recognition	**(553,100)**	**(600)**	**(1,243)**	**(2,277)**	**(44)**	**(557,264)**	**(**
Additions/(Reversals)		(1,964)	(109)	(100)	(44)	**(2,217)**	
Remeasurement by monetary restatement	(82,320)		114		(5)	**(82,211)**	
Interest accrued	149,139	577	415	1,852	34	**152,017**	
On December 31	**(486,281)**	**(1,987)**	**(823)**	**(525)**	**(59)**	**(489,675)**	**(**
Net residual value							
On December 31	**1,963,331**	**16,138**	**5,182**	**7,766**	**570**	**1,992,988**	**1**
Current	**301,691**	**7,099**	**1,502**	**7,266**	**355**	**317,913**	
Non-current	**1,661,640**	**9,039**	**3,680**	**500**	**215**	**1,675,075**	**1**

In thousands of reais, unless otherwise stated

The flow of future financial leasing payments is as follows:

2020

	2021	Within 5 years Long term	Total
Assets associated to the concession	448,689	2,000,923	2,449,612
Vehicles	8,526	9,599	18,125
Real Estate	1,696	4,309	6,005
Computing Equipment	7,778	514	8,292
Others	394	235	629
	467,083	**2,015,580**	**2,482,663**

2019

	2020	In up to 5 years	More than 5 years	Total
Assets associated to the concession	381,941	1,798,527	247,543	2,428,011
Vehicles	2,875	3,310	0	6,185
Real Estate	1,677	4,513	620	6,810
Computing Equipment	14,206	8,284	0	22,490
Others	368	192	0	560
	401,067	**1,814,826**	**248,163**	**2,464,056**

25. Derivative Financial Instruments

Operations with financial instruments

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

The fair value of loans and financing is based on market assumptions, the calculation follows the following methodology: for operations that have a public market quotation for the reference interest rate, the flow to maturity is calculated at the contractual rate and , then deducted at the updated rate from the public source. For loans and funding without public interest rate source, after the flow is calculated to maturity date with contractual rate, it is deducted by the interest rate from transactions similar in terms of risk and time. In case of any difficulties to identify comparable financing, the discount rate may be determined by consulting with financial institutions.

In thousands of reais, unless otherwise stated

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

	2020		2019	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets				
Trade accounts receivable	667,245	618,958	1,074,904	1,041,496
Liabilities				
Loan and funding in foreign currency	655,773	674,003	617,108	617,452

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

In thousands of reais, unless otherwise stated

Classification of financial instruments

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

	2020				2019			
	Amortized cost	**VJR**	**VJR/operations used for *hedge***	**Total**	**Amortized cost**	**VJR**	**VJR/operations used for *hedge***	**Total**
Assets								
Cash and cash equivalents	-	1,206,484	-	1,206,484	-	668,264	-	668,264
Restricted cash	-	-	-	-	-	2,033	-	2,033
Accounts receivable and other accounts receivable	706,327	-	-	706,327	1,168,438	-	-	1,168,438
Gains on transactions with derivative financial instruments – *swap*/NDF	-	-	143,681	143,681	-	-	96,344	96,344
Total	**706,327**	**1,206,484**	**143,681**	**2,056,492**	**1,168,438**	**670,297**	**96,344**	**1,935,079**

	2020							
	Amortized cost	**VJR**	**VJR/operations used for *hedge***	**Total**	**Amortized cost**	**VJR**	**VJR/operations used for *hedge***	**Total**
Liabilities								
Suppliers	371,006	-	-	371,006	234,303	-	-	234,303
Loan and funding in R$	557,452	-	-	557,452	669,947	-	-	669,947
Loan and funding in USD	653,077	-	-	653,077	607,008	-	-	607,008
Debentures	1,792,729	-	-	1,792,729	1,803,925	-	-	1,803,925
Losses on transactions with derivative financial instruments – swap/NDF	-	-	10,570	10,570	-	-	12,277	12,277
Fair Value Hedge Adjustment - MUFG Bank	-	-	2,696	2,696	-	-	10,100	10,100
Total	**3,374,264**	**-**	**13,266**	**3,387,530**	**3,315,183**	**-**	**22,377**	**3,347,560**

Derivative financial instruments

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

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

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

Thus, *swap* transactions that on December 31, 2020 showed a receivable net balance in the amount of R$133,111 (R$84,067 on December 31, 2019), had their variations accounted as income.

In thousands of reais, unless otherwise stated

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

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

	Fair Value Hedge Object	
	2020	2019
Debt	653,077	607,008
Fair Value Hedge Adjustment	2,696	10,100

	Impact on financial result	
	2020	2019
Financial income		
Fair Value Hedge Adjustment	16,370	626
Financial expense		
Fair Value Hedge Adjustment	(8,966)	(6,875)
Net Financial Result (a)	**7,404**	**(6,249)**

(a) For all contracts with MUFG bank, *hedge accounting,* operations were contracted, resulting in the balance of the net financial result.

In thousands of reais, unless otherwise stated

Derivative designed for Fair Value Hedge	Reference amount (notional)		Fair value	
Contract type	**2020**	**2019**	**2020**	**2019**
Swap contracts (fixed Dollar for CDI real)				
Asset position				
Fixed Dollar	206,000	546,405	276,091	617,451
Liability position				
Real CDI	206,000	546,405	(207,318)	(551,924)
			68,773	65,527
Swap contracts (fixed yen for CDI real)				
Asset position				
Fixed Yen	350,000	-	397,912	-
Liability position				
Real CDI	350,000	-	(371,388)	-
			26,524	65,527
Total Swap Contracts			**95,297**	**65,527**
Income tax allowance on swap gains			(15,621)	(10,185)
Total income net swap contracts			**79,676**	**55,342**
Rated				
In the current asset			26,585	51,645
In the non-current asset			56,615	4,702
In current liabilities			(3,524)	(1,005)
			79,676	**55,342**

In thousands of reais, unless otherwise stated

Unassigned Derivatives	Reference amount (notional)		Fair value	
Contract type	**2020**	**2019**	**2020**	**2019**
Hedge contracts				
Asset position				
Fixed Dollar (fixed Dollar for CDI real)	-	-	-	-
IPCA (IPCA for CDI)	367,150	367,150	432,952	407,335
Variable euro to fixed dollar	-	-	-	-
Variable dollar to fixed real	23,016	-	23,751	-
Liability position				
CDI Real (fixed Dollar for CDI real)	-	-	-	-
CDI (IPCA for CDI)	367,150	367,150	(368,977)	(371,429)
Variable euro to fixed dollar	-	-	-	-
Variable dollar to fixed real	23,016	-	(22,969)	-
Total hedge contracts			**64,757**	**35,906**
Income tax allowance on *swap*/NDF			(11,322)	(7,181)
Total income tax net swap/NDF agreements			**53,435**	**28,725**
Rated				
In the current asset			655	-
In the non-current asset			59,826	39,997
In current liabilities			(7,046)	(11,272)
			53,435	**28,725**

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

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

In thousands of reais, unless otherwise stated

Description	2020			2019		
	Notional Value	Fair Value	Salaries	Notional Value	Fair Value	Salaries
Swap contracts						
Asset position						
Foreign currency	556,000	674,003		546,405	617,451	Apr/20
IPCA	367,150	432,952	To	367,150	407,335	To
Liability position			Apr/24			Apr/24
Rates (post)	923,150	947,682		913,555	923,353	
"NDF" contracts						
Asset position						
Foreign currency	23,016	23,751	Jan/21	-	-	
Liability position			-			-
Foreign currency	23,016	22,969		-	-	

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

Entity	MRS Receives	MRS Payable	Start Date	Maturity Date	Contracted Notional Value	Fair Value 2020 (R$) Asset	Fair Value 2020 (R$) Liability	Gross Income (R$) Asset - Liability (*)
Swap contracts								
MUFG Bank	Yen+ 1.131%	CDI+1.75%	6/9/2020	6/9/2021	R$150,000	170,276	154,366	15,910
MUFG Bank	Yen+ 1.42%	CDI+2.40%	6/9/2020	6/9/2022	R$50,000	56,890	52,994	3,896
MUFG Bank	Yen+ 1.58%	CDI+2.75%	6/9/2020	6/9/2023	R$150,000	170,744	164,027	6,717
MUFG Bank	USD+ 4.59%	106%,5% of CDI	8/27/2018	8/23/2023	R$206,000	276,091	207,318	68,773
Mizuho BanK	IPCA+4.095%	100.64% of CDI	4/30/2019	4/15/2024	R$100,000	117,922	100,498	17,424
JP Morgan Bank	IPCA+4.095%	100.64% of CDI	4/30/2019	4/15/2024	R$267,150	315,030	268,479	46,551
Total						**1,106,953**	**947,682**	**159,271**

In thousands of reais, unless otherwise stated

Entity	Start Date	Maturity Date	Contracted Notional Value	Fair Value (R$) Asset	Fair Value (R$) Liability	Gross Income (R$) Asset - Liability (*)
NDF contracts						
Sumitomo	12/17/2020	1/20/2021	USD 1,579	8,192	7,990	202
Sumitomo	12/10/2020	1/20/2021	USD 1,500	7,780	7,600	180
Sumitomo	6/10/2020	1/20/2021	USD 1,500	7,780	7,379	401
Total				**23,751**	**22,969**	**783**

(*)Gross Withholding Income Tax amounts of R$26,943, totaling a net derivative position of R$133,111 (R$84,067 on December 31, 2019)

Non-derivative financial instruments

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

25.1. Fair value hierarchy

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

- Level 1: Financial instruments that have data from active market (not adjusted quoted price) so as to be able to be daily accessible, including at the fair value measurement date.
- Level 2: Financial instruments that have different data arising from an active market (not adjusted quoted price) included on Level 1, extracted from a pricing model based on observable market data.
- Level 3: The Instruments classified as being Level 3 are those whose data are extracted from a pricing model based on non-observable market data.

The Company's derivative financial instruments, with a receivable net balance of R$133,111 as of December 31, 2020, as well as financial instruments associated with cash (including cash and cash equivalents) were classified in Level 2 for the fair value hierarchy. There are no financial instruments rated as Level 3 or Level 1 in the Company.

In the year ended on December 31, 2020 there were no transfers between levels.

	2020	2019

	Fair value	Level	Fair value	Level
Assets (Liabilities)				
Derivative financial instruments assets	143,681	2	96,344	2
Derivative Financial Instruments Liabilities	(10,570)	2	(12,277)	2
Restricted cash	-	2	2,033	2

25.2. Targets and policies for the financial risk management

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

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

Senior Management oversees the management of these risks and it is supported by a financial committee from the Board of Directors, thus contributing to maintain an adequate financial risk governance structure for the Company.

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

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

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

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

25.3. Derivative financial instruments use policy

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

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

25.4. Market Risk

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

(a) Interest Rate Risk

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

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

The risks associated with the CDI, TJLP and IPCA are assessed by sensitivity analysis. This analysis assumes reasonably possible scenarios, considering 25% and 50% appreciation in market interest rates. In scenario I, rates are increased by 25% and in scenario II by 50% in relation to the rates of the likely scenario listed by the Company, using the market perspective for the end of 2020, based on the FOCUS market report published by the Central Bank of Brazil on December 31, 2020, in addition to the TJLP and TLP on the same date.
In the table below, it is possible to note that, on the base date of December 31, 2020, the 50% increase in both the CDI and the TJLP (scenario II) represents a loss close to 2.7% (in 2019 the loss was lower than 5%) of an increase in the net liability position of approximately R$29,004 (R$25,744 on December 31, 2019), when compared to the likely scenario, which is why the Company decided not to use derivative instruments to minimize such exposure.

In millions of reais

	2020 Base	Likely	Scenario I	Scenario II
CDI	4.00%	1.90%	2.38%	2.85%
TJLP	5.57%	4.94%	6.18%	7.41%
TLP	6.76%	6.53%	8.16%	9.80%
IPCA	4.21%	4.38%	5.48%	6.57%
Liability	**2,200.6**	**2,282.9**	**2,302.6**	**2,323.3**
TJLP Debt	23.3	24.5	23.9	24.3
TLP Debt	230.2	245.2	249.0	252.8
CDI Debt	776.3	791.1	794.8	798.5
IPCA Debt	1,170.8	1,222.1	1,234.9	1,247.7
Asset	**1,198.7**	**1,221.4**	**1,227.1**	**1,232.8**
Applications	1,198.7	1,221.4	1,227.1	1,232.8
Net Uncovered Position	**1,001.9**	**1,061.5**	**1,075.5**	**1,090.5**

	Book value	
	2020	**2019**
Fixed rate instruments		
Financial Liabilities	957,227	880,834
Post fixed rate instruments		
Financial Assets	1,206,484	670,297
Financial Liabilities	2,050,494	2,210,146

(b) Exchange Rate Risk

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

In particular, its exposure to currency risk (exchange rate risk) focuses on purchases and loans made primarily in US Dollar and Japanese Yen, which ended the year ended on December 31, 2020 with a positive variation of 29, 33% and 35.74%, respectively (8.42% and 5.33% positive on December 31, 2019, respectively).

	2020	**2019**
Foreign Currency Assets		

In thousands of reais, unless otherwise stated

Ongoing imports	35,170	1,769
Advances to suppliers	27,307	132
Swap/NDF financial instruments	696,201	617,451
	758,678	**619,352**
Foreign Currency Liabilities		
Suppliers	(10,353)	(190)
Loans and funding	(655,773)	(617,108)
	(666,126)	**(617,298)**
Net Exposure	**92,552**	**(2,054)**

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

The sensitivity analyzes in the following sections refer to the position as of December 31, 2020 and seek to simulate how stressing risk variables could affect the Company, considering reasonably possible scenarios. The first step was to identify the main factors that may potentially generate losses in results, which is comprised of the exchange rate. The analysis started from a base scenario represented by the booking amount of operations i.e. taking into account the selling rate of December 31, 2020, and interest accrued in the period. Additionally, three scenarios were drawn, the probable one, the II with a deterioration of 25% and the III, with a deterioration of 50% in the risk variable.

To carry out the analysis, the Company uses the exchange rate as of December 31, 2020, disclosed in the last Focus Report - Bacen, as a likely scenario. Based on the likely exchange rate, the 25% and 50% risk deterioration scenarios are produced.

The following table represents the sensitivity analysis involving the net effect resulting from these shocks in exchange rates for the year 2020

In thousands of reais, unless otherwise stated

Dollar Appreciation Risk – 2020

R$ Millions

Transaction	Likely Scenario I	Scenario II	Scenario III
Hedge – Swap Asset Leg	3.076	75.741	151.482
Debt in USD	(2.879)	(70.904)	(141.808)
Net operation increased risk US$	**0.196**	**4.837**	**9.674**

	Exposure (R$ Millions)	Likely Exposure (R$ Millions)	Real	Expected Rate	Impact	
					25%	50%
Swap Asset Leg	299.9	303.0	5.20	5.25	6.56	7.88
Debt in Dollars	(303.8)	(306.9)	5.20	5.25	6.56	7.88

These transactions are primarily made in Real and Dollar.

R$ Millions

Transaction	Likely Scenario I	Scenario II	Scenario III
Hedge – Swap Asset Leg	0.552	99.616	199.232
Debt in Yen	(0.521)	(93.889)	(187.779)
Net operation increased risk Y$	**0.032**	**5.727**	**11.453**

	Exposure (R$ Millions)	Likely Exposure (R$ Millions)	Real	Expected Rate	Impact	
					25%	50%
Swap Asset Leg	397.9	398.5	0.05	0.05	0.06	0.08
Debt in Yen	(375.0)	(375.6)	0.05	0.05	0.06	0.08

These transactions are primarily made in Real and Yen.

(c) Credit Risk

It refers to the possibility of the Company incurring losses due to default by any counterparts or financial institutions which deposit resources or financial investments. In order to mitigate these risks, the Company adopts as a practice the analysis of their counterparts' financial and property situation, as well as by defining the credit limits and constantly monitoring outstanding accounts. The Company has no guarantees taken in relation to accounts receivable.

In thousands of reais, unless otherwise stated

	2020	2019
Cash and cash equivalents	1,206,484	668,264
Restricted cash	-	2,033
Receivables	706,327	1,168,438
Derivative financial instruments – *swap/NDF*	133,111	84,067
Total	**2,045,922**	**1,922,802**

Receivables

The Company has accounts receivable focused on some big customers, which are also its related parties (note 10), representing, on December 31, 2020, 91.06% of the total accounts receivable (88.62% on December 31, 2019).

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

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

Financial instruments and cash deposits

The Company is subject to credit risk associated with the financial investments it makes, in view of the insolvency risk of the institutions in which the Company maintains its investments, which may result in the total or partial loss of the funds invested. As of December 31, 2020 , the amount in exposure of the Company's cash and cash equivalents was R$1,206,484 (R$668,264 as of December 31, 2019), which were allocated in a current account or in investments in CDB or in operations that had formal commitment of repurchase by financial institutions.

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

	2020
AAA+	456,014
AA+	662,818
A or A+	87,652
Total	**1,206,484**

(d) Risk of liquidity

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

The Company's current cash position is considered robust and, throughout 2020, there was a reinforcement of both cash generation and new long-term funding, which are already internally directed and strategically distributed in the first semester of 2020. These resources shall cover part of the estimated amount of investments for the year.

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

The table below summarizes the Company's maturity profile of financial liabilities on December 31, 2020, based on not discounted contractual payments.

In thousands of reais, unless otherwise stated

	Non-Deducted Cash Flow – 2020				
	Up to 6 months	**6 - 12 months**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**
Non-derivative financial liabilities					
Loans, financing and debentures (R$)	410,774	515,746	850,506	877,940	125,983
Related parties	70,128	45,386	109,263	47,061	12,822
Suppliers	248,620	346	29,640		
Derivative financial liabilities					
Swaps used for hedge (USD)	19,390	23,441	49,340	67,101	-

	Non-Deducted Cash Flow – 2019				
	Up to 6 months	**6 - 12 months**	**1 - 2 years**	**2 - 5 years**	**More than 5 years**
Non-derivative financial liabilities					
Loans, financing and debentures (R$)	550,429	245,337	741,002	953,861	851,355
Related parties	36,361	14,700	15,233	47,259	3,233
Suppliers	158,928	188	25,338	-	-
Derivative financial liabilities					
Swaps used for *hedge* (USD)	61,041	(216)	(101)	4,803	-

It is worth mentioning that the non derivative financial liabilities that have some sort of collateral are detailed in management note 23. Derivative financial liabilities do not have any type of warranty.

Capital management

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

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

In thousands of reais, unless otherwise stated

	2020	2019
Total liabilities	6,816,894	6,621,672
(-) Cash and cash equivalents	1,206,484	668,264
(-) Restricted cash	-	2,033
Net obligations	5,610,410	5,951,375
Total equity	4,312,819	4,102,527
Ratio of net obligations on equity	**1.301**	**1.451**

26. Dividends

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

	2020	2019
Net income for the year	430,282	503,355
Appropriation for statutory reserve	(21,514)	(25,168)
Base net profit for determining dividends	**408,768**	**478,187**
Minimum mandatory dividends – 25%	102,192	119,547
Balance of dividends payable from previous years	179	151
Total dividends	**102,371**	**119,698**

On December 16, 2020, R$239,094 in dividends was paid (R$247,768 on December 10, 2019), of which R$119,547 of mandatory minimum dividends and R$119,547 referring to additional dividends approved at the Extraordinary General Meeting held on November 27, 2020, using part of the retained earnings reserve of the previous year.

27. Concession payable

In thousands of reais, unless otherwise stated

	2020	2019
Concession payable	7,443	6,474
	7,443	**6,474**
Current	4,706	3,812
Non-current	2,737	2,662

The balance of concession payable refers to the recognition of obligations payable incurred up to this date. The current liabilities obligations are recorded linearly on an accrual basis, and according to the agreement terms (360 months) with costs of services provided as an offsetting. The recorded amount in non-current liabilities refers to the grace period which was recognized according to the accrual basis and is being paid in each of the installments paid quarterly.

The concession agreement provides that for the operation of railway transport services, the Company will pay the total amount in 117 quarterly installments, maturing in the months of January, April, July and October of each year. As of December 31, 2020, 23 quarterly installments of R$5,698, totaling R$131,048 remained. These amounts include the capitalization of contractual interest of 10.99% pa and monetary restatement up to December 31, 2020, based on the latest contractual index, the IGP-DI - General Price Index - Internal Availability.
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The flow of future concession payments is as follows:

	2021	In up to 5 years	Total
Concession	22,791	108,257	131,048

In January 2021, the Company paid the 94th installment of the concession, in the amount of R$5,698.

In thousands of reais, unless otherwise stated

28. Reserves

Allowances consisted of the following:

		2020	2019
Allowances for contingencies	**28.1**	597,326	526,458
Provision for indemnity/fines to the Power Authority	**28.2**	49,441	42,553
ILP Allowance (Long-term incentives)		17,257	12,568
Allowances for post-employment benefits	**28.3**	4,934	6,190
Other allowances		47,285	33,458
		716,243	**621,227**
Current		53,762	39,835
Non-current		662,481	581,392

In thousands of reais, unless otherwise stated

28.1 Allowances for contingencies

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

	Social security and labor lawsuits (*)	Civil	Tax	Environmental	Total accrued liability
On December 31, 2018	**155,584**	**68,878**	**125,268**	**-**	**349,730**
Addition	194,214	13,013	202	2,073	209,502
Updates	44,667	3,479	3,806	575	52,527
Write-offs for reversals or payments	(74,964)	(9,233)	-	(1,104)	(85,301)
On December 31, 2019	**319,501**	**76,137**	**129,276**	**1,544**	**526,458**
Addition	51,974	31,689	26,417	-	110,080
Updates	35,283	6,151	5,750	301	47,485
Write-offs for reversals or payments	(47,846)	(38,569)	(173)	(109)	(86,697)
On December 31, 2020	**358,912**	**75,408**	**161,270**	**1,736**	**597,326**

(*) R$352,788 (R$313,465 in 2019) related to labor lawsuits and R$6,124 (R$6,036 in 2019) related to the provision for Tax Debt Assessment Notices ("NFLD") for social contributions payable to the INSS, concerning the SAT surcharge.

Considering the deposits and blockages made during the process, and which are still pending, the expected future impact on cash is composed as follows:

		December 31, 2020				
		No. of shares (*)	Implied value	Allowance (**)	Deposits	Net value
Social security and labor	**(a)**	1,688	692,916	358,912	(52,972)	305,940
Civil	**(b)**	1,050	444,369	75,408	(17,102)	58,306
Tax	**(c)**	153	786,463	161,270	(52,985)	108,285
Environmental	**(d)**	69	38,588	1,736	(1,578)	158
Others	**(e)**	9	-	-	-	-
		2,969	**1,962,336**	**597,326**	**(124,637)**	**472,689**

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

In 2020, after analyzes carried out by the Legal area, the Company's management decided to update the criteria for provisioning labor and civil contingencies, aiming at greater governance and better adherence to what has been recently decided in the courts. The total impact of this estimate update on the 2020 financial statements was R$50,947, of which R$23,402 in labor provisions and R$27,545 in civil provisions.

(a) Social security and labor

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

As of December 31, 2020, the total amount of labor claims, classified as probable or possible loss, was 692,916 (R$758,427 as of December 31, 2019). Based on the understanding of its legal advisors, the Company has provisioned R$358,912 for 940 lawsuits (R$319,501 as of December 31, 2019), considering the prospect of probable loss in those lawsuits.

The addition in the amount of R$51,974 is mainly due to the change in the criterion for provisioning labor contingencies adopted from December 2020 as mentioned above in this explanatory note, in addition to changes in the prognosis, results of calculations arising from condemnatory decisions or amendments issued during the period and an increase in the number of labor claims accrued.

Likewise, provision write-offs in the period total R$47,846 and refer to execution payments, payments for entering into agreements and changes in the prognosis. Separately, the largest write-off, in the amount of R$11,184, resulted from the execution of an agreement.

Furthermore, based on the assessment of its legal advisors, the Company has a contingency of R$227,280 for 748 suits with an estimated possible loss, which do not have amounts recorded as a provision.

(b) Civil

Currently, in the civil law, the Company is part of 1,050 lawsuits, which it acts as the defendant in 939 and as author/confrontational/interested in 111.

The lawsuits in which the Company is the defendant, mostly concern civil liability for railway accidents, legality of charging for third-party interference in right-of-way areas, concession and lease agreements, maintenance of the health care insurance and adjustment index of the health care insurance monthly fee after the dismissal of the Company's employees, equivalence of the private pension plan to the RFFSA plan and Public Civil Lawsuits. The total amount involved in said lawsuits, as of December 31, 2020, was R$429,392 (R$487,146 as of December 31, 2019). Following the opinion of its legal advisors, the Company has a provision of R$75,408 (R$68,677 as of December 31, 2019), referring to the estimated amount of the lawsuits with a probability of probable loss.

In the lawsuits in which Company operates as plaintiff/abutter/interested party, are mostly on contractual liability, collection actions when using the right of way, adverse possession and repossession. The total amount involved in said lawsuits, as of December 31, 2020, was R$14,977. In 2019, the amount involved represented R$52,638, which included discussions of fines applied to the Company. In 2020, after analysis, we understood that the amount corresponding to these discussions, as well as their respective accrued amounts, would be better represented with the contingent liability, totaled in the 2nd paragraph of this item.
Following the opinion of its legal advisors, as of December 31, 2020, the Company has a provision of R$0.02 for these lawsuits (R$7,460 as of December 31, 2019).

New provisions in the amount of R$31,689 were added, mainly due to the change in the criterion for provisioning civil contingencies adopted from December 2020, as mentioned above in this explanatory note, in addition to condemnatory decisions modifying the amount originally provisioned for the period.

Write-offs of provisions were made in the period, totaling R$38,569, arising from the realization of the provisioned expenses. The highest write-off was in the amount of R$22,273.

The Company is a party to 887 lawsuits for which, based on the assessment of its legal advisors, it has no provision, since the loss prognosis was classified as possible. The amount of contingencies with a possible loss prognosis is R$351,943 as of December 31, 2020 (R$459,833 as of December 31, 2019) and refers mainly to indemnity claims arising from railway accidents.

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

(c) Tax

The Company is a party to 181 legal and administrative proceedings of a tax nature, 28 of which are lawsuits for recovery of taxes and 153 lawsuits with a possible or probable risk of funds outflow.

As of December 31, 2020, the total amount involved for the 153 lawsuits was R$786,463 (R$611,184 as of December 31, 2019). Based on the opinion of its legal advisors, the Company has provisioned the amount of R$161,270 (R$129,276 as of December 31, 2019), referring to 13 lawsuits considering the prospect of probable loss.

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

- ICMS – The amounts of R$74,742 and R$53,346 refer to lawsuits in which the use of ICMS credits is being discussed, in the states of Rio de Janeiro and São Paulo, respectively, for the acquisition of goods classified by the Company as inputs or components of the permanent asset, mentioned by the state inspection.
- Tax execution for the collection of IRPJ debts in the amount of R$745, extinguished by offsetting.
- Tax execution for the collection of COFINS debts in the amount of R$404, extinguished by offsetting.
- Action for annulment of debts included ex officio by the tax authority in the Crisis REFIS instituted by Law No. 11,941/09, in the modality of " Payment in installments of remaining balances of the REFIS, PAES, PAEX programs and Ordinary Installments ", in the amount of R$1,667.
- Writ of Mandamus PIS COFINS Financial Revenue, in the amount of R$27,857.
- Assessment of ICMS MG remittance for repair without return, in the amount of R$2,080.
- Assessment of ICMS RJ undue credit for the purchase of diesel, in the amount of R$429.

The Company has 140 lawsuits for which, based on the assessment of its legal advisors, it has no provision, since the loss expectations were considered possible. The amount of R$625,193 refers to actions that relate, in their majority, to:

- Infraction notices for disallowance of PIS and COFINS credits on lease, mutual traffic and right of way in the amount of R$ 144,206.
- IPTU reciprocal immunity. R$62,879, refer to administrative and legal proceedings related to the improper collection of IPTU on operating real estate, object of the concession agreement, assigned to the Company by the Federal Government to provide the transport service.
- PIS and COFINS mutual traffic: R$17,597 refer to the PIS and COFINS requirement on the entry of amounts as mutual traffic into the Company's cash and, continuously, transferred to third parties (revenue from another concessionaire).
- PIS and COFINS exchange variation: R$32,440 refer to the exclusion of amounts arising from exchange variation of PIS and COFINS calculation basis.

- Non-approval of compensations and disregard for payments of various taxes: R$39,178
- ICMS RJ assessment for alleged lack of bookkeeping of the CIAP Book: R$14,564
- ICMS RJ assessment for alleged lack of bookkeeping of invoices: BRL 647

(d) Environmental

The Company is a party to 17 legal proceedings and 52 administrative proceedings whose object is on environmental matters. As of December 31, 2020, the total amount involved in these lawsuits was R$38,588 (R$32,264 as of December 31, 2019). Based on the understanding of its legal advisors, the Company has provisioned the amount of R$1,736 referring to 1 lawsuit considering the prospect of probable loss in that action, the others remaining as 'possible' loss.

(e) Others

The Company has 8 Conduct Adjustment Agreements (TACs) signed and in force, 2 due to labor issues and 6 from civil issues. TACs of labor matter aim to (i) guarantee union leaders of full exercise of activities intended to defend collective or individual rights and interests of the occupational category; and (ii) fill the percentage of employees with disabilities required by art. 93, Act 8.213/91. In the civil area, there are 6 TACs: (i) in the municipality of Guarujá, dealing with improvements in safety signage, regularization of the right-of-way area and availability of waste dumpsters; (ii) in the municipality of Santos Dumont, for the installation of acoustic windows in the local Forum; (iii) in the municipality of Santo André, for the renovation of properties within the Paranapiacaba railway yard; (iv) in the municipality of Congonhas, for the construction of 1 overpass and 2 walkways in Bairro do Pires; (v) in the municipality of Resende, for the renovation of the shed at the Engenheiro Passos Railway Station and; (vi) in the municipality of Conselheiro Lafaiete, for the donation of a vehicle to the Military Police and contracting a company for the production of films top resent the cultural heritage of cities that are part of the Conselheiro Lafaiete and Piranga District

28.2 Provision for indemnity/fines to the Granting Authority

The amount of R$49,441 (R$42,553 in 2019) registered in non-current liabilities refers to the provision for ongoing lawsuits with the Granting Authority, arising from the sanitation and regularization of the real property, in addition to some ongoing administrative proceedings and penalties with ANTT, with a prognosis of probable loss.

28.3 Allowances for post-employment benefits

Complementary pension plans

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

In thousands of reais, unless otherwise stated

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

The Company's contributions account for R$6,015 in the fiscal year ended on, December 31, 2020 (R$6,394 in 2019), which were entered as year expenses.

As of December 31, 2020 and 2019, there were no liabilities on behalf of the Company arising from the supplementary pension plan.

Medical care plan

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

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

On December 31, 2020, the plan had 15,887 lives in Bradesco Saúde and 665 in Unimed Juiz de Fora, amounting 16,552 lives.

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

The Company's contributions to medical care plan managed by Bradesco Saúde S.A and Unimed account for R$36,497 on December 31, 2020 (R$41,025 on December 31, 2019).

On December 31, 2020, there were actuarial liabilities of the Company arising from the health plan in the amount of R$4,934 (R$6,190 in 2019), which were duly provided in the non-current liability.

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

	2020	**2019**
Net actuarial liabilities in January 1	6,190	4,156
Expense accounted in the year	506	413
Gains in obligations	(1,762)	1,621
Actuarial liabilities on December 31	**4,934**	**6,190**

In thousands of reais, unless otherwise stated

b. Actuarial liabilities transactions:

	2020	2019
Actuarial liabilities at the end of the year	6,190	4,156
Current service cost	83	45
Interests over actuarial liabilities	423	368
Benefits paid directly to plan	(349)	(320)
(Gain)/Loss – cost rescaling included in other comprehensive income	(1,413)	1,941
Actuarial liabilities on December 31	**4,934**	**6,190**

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

	2021
Current service cost	92
Interests over actuarial liabilities	392
Total expenses to be accounted	**484**

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

Discount rate	4.23% p.a.
Long-term inflation	3.80% p.a.
Medical inflation (HCCTR)	2.32% p.a.
Aging factor	From 0 to 24 y/o: 1.5% p.a. From 25 to 54 y/o: 2.5% p.a. From 55 to 79 y/o: 4.5% p.a. More than 80 y/o: 2.5% p.a.
Overall mortality table	AT-2000

<u>Life insurance</u>

Employees participate in a collective life insurance guaranteed by Generalli Companhia de Seguros. In 2020, the Company contributed with R$874 (R$813 in 2019) for its employees' life insurance policies.

29. Other covenants

		2020	2019
Contractual obligation with related parties	**10(d/e)**	191,583	76,931
Deferred revenue		0	6,409
Consigned fuel		7,777	8,292
Other payables		5,285	6,115
		204,645	**97,747**
Current		55,267	31,362

In thousands of reais, unless otherwise stated

Non-current	149,378	66,385

30. Equity

(a) *Subscribed and paid-up capital*

The subscribed and paid-up capital, amounting to R$2,047,268(R$1,917,306 in 2019), is divided into 340,000,000 shares with no face value, divided in ordinary and preferable class “A” and “B”.

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

The Board of Directors’ Meeting held on, March 25, 2020 approved capital stock increase in the amount of R$129,962 using part of investment reserves constituted in previous years.

On December 31, 2020, participation in the Company's share capital was as follows:

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

(b) *Stock rights*

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

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

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

(c) *Revenue reserves - legal reserve*

In thousands of reais, unless otherwise stated

Recorded at 5% of the net income before profit sharing and reversal of interest on shareholders' equity, as required by the legislation and limited to 20% of the share capital. On December 31, 2020, after registering R$21,514 on accrued profits for the year, the balance of the Legal Reserve was changed to R$342,047 (R$320,533 in 2019).

(d) *Profit reserves - investment reserve*

As described in Note 26, in December 2020 additional dividends were paid in the amount of R$119,547, using part of the investment reserves.
Management proposed retaining the remaining retained income for expansion in the amount of R$306,576, aiming to supply the required resources for fulfilling the Company's capital investment budget. Additionally, a share capital increase in the amount of R$104,271 was proposed using part of the investment reserves to be approved by the Board of Directors. On December 31, 2020, the Investment Reserve balance was R$ 1,809,492 (R$1,726,735 in 2019).

(e) Additional dividend

On December 16, 2020, R$119,547 were paid referring to additional dividends approved at the Extraordinary General Meeting, held on November 27, 2020, using part of the investment reserves, constituted in previous years, representing 25% of net income for the year 2019.

There was no amount declared as exceeding the mandatory minimum dividend on December 31, 2020.

(f) *Equity adjustments*

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

	Actuarial earnings	IRPJ/CSLL	Total
2019	**10,326**	**(2,335)**	**7,991**
Earnings	1,413	337	1,750
2020	**11,739**	**(1,998)**	**9,741**

31. Result per share

The following table sets forth the calculation of earnings per share for the years ended on Thursday, December 31, 2020 and 2019 (in thousands of Reais, except per share amounts):

	2020	2019
Numerator		
Net income for the year	430,282	503,355
Denominator		
Common shares weighted average	188,333	188,333
Preferred shares weighted average - A	82,076	82,076
Preferred shares weighted average - B	69,591	69,591
10% - Preferred shares	1.1	1.1
Weighted average of adjusted preferred shares (basic earnings)	166,834	166,834
Weighted average of adjusted preferred shares (diluted earnings)	90,284	90,284
Denominator for basic earnings per share	355,167	355,167
Denominator for diluted earnings per share	348,208	348,208
Basic/diluted earnings per common share	1.211	1.417
10% - Preferred shares	1.1	1.1
Basic/diluted earnings per preferred share - A	1.333	1.559
Basic/diluted earnings per preferred share - B	1.333	1.559

The Company does not hold outstanding shares with potential for dilution or other instruments that could result in the dilution of the earnings per share calculation.

In thousands of reais, unless otherwise stated

32. Services net revenue

	2020	2019
Services gross revenue	3,890,220	3,483,747
Tax on Sales	(285,255)	(282,938)
Services net revenue	**3,604,965**	**3,200,809**

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

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

33. Expenses by kind

		2020	2019
Depreciation and amortization	**(a)**	(1,049,931)	(921,226)
Labor and social charges		(605,162)	(624,619)
Fuel/Lubricants		(479,072)	(476,943)
Outsourced services		(291,276)	(257,282)
Inputs/other materials		(176,104)	(146,417)
Shares of freight		(95,393)	(107,035)
Additional transportation costs		(22,654)	(25,411)
Concession cost		(21,001)	(18,550)
Insurance expenses		(12,327)	(10,501)
Operational vehicles and equipment rent		(10,618)	(6,656)
Management fees		(4,805)	(4,591)
Provision for expected losses on doubtful debts		(283)	(564)
Presumed ICMS MG credit		64,238	61,335
Others		(73,979)	(75,812)
		(2,778,367)	**(2,614,272)**
Cost of services rendered		(2,517,730)	(2,377,782)
Sales expenses		(13,440)	(14,036)
General and administrative expenses		(247,197)	(222,454)
		(2,778,367)	**(2,614,272)**

(a) The increase in depreciation cost in 2020 when compared to 2019 is largely due to the review of the useful life of assets, as per Note 17.1

In thousands of reais, unless otherwise stated

34. Other revenues and other operational expenses

		2020	2019
Other operational revenues			
Indemnity revenue	**10.b**	239,085	-
Contractual penalties **(a)**	**10.b**	62,371	671,110
Alternative Revenues		35,217	32,068
Material Sales (scrap/exceeding stock)		27,072	33,354
Reversed allowance for circulating asset loss	**12/13**	11,894	9,000
Insurance **(b)**		5,271	41,793
Reversal of other liability provisions		517	1,880
Revenue from sales of fixed assets		-	2,163
Reversal of provision for loss of current and non-current assets		-	4,233
Reversal of fines/indemnities provisions of the Granting Authority		-	541
Other revenue		8,393	36,139
		389,820	**832,281**
Other operational expenses			
Procedural Loss Enforcement		(80,959)	(55,830)
Taxes on sales and other revenues		(34,685)	(72,830)
Fixed and intangible asset write-off	**17 and 18.**	(24,984)	(16,740)
Loss of tax credits		(22,701)	(28,537)
Other tax expenses		(16,421)	(14,680)
Write-off of investment projects	**17.1**	(16,394)	(14,053)
Alternative revenues cost		(9,652)	(9,257)
Sponsorship expenses (tax incentives)		(8,733)	(8,894)
Allowance for non-circulating asset loss		(7,958)	(12,216)
Provisions fines/indemnity Granting Authority	**28.2**	(6,618)	-
Agreements with Municipalities		(4,082)	(5,806)
Donations		(3,200)	2,207
Inventory Adjustment/Write-Off		(934)	-
Compensation to Granting Authority		(796)	(326)
Cost on Material Sales (scrap/exceeding stock)		(643)	(3,320)
Allowances for contingencies		-	(124,376)
Other expenses		(14,678)	(11,516)
		(253,438)	**(376,174)**
Other net operational incomes (expenses)		**136,382**	**456,107**

(a) The amounts of R$62,371 and R$671,110 in 2020 and 2019, respectively, result from the recognition of revenue protection mechanisms and their respective tax impacts. The amount reduction in 2020 is due to the resumption in part of volumes transported after the Brumadinho accident in 2019 and to the renegotiation, in 2020, of transport volumes for the next years.
(b) Of the amount of R$41,793 in 2019, R$38,815 is due to the provision for receiving reimbursement of assets damaged by the rupture of the dam belonging to Vale S.A. at Mina do Feijão, in Brumadinho, Minas Gerais, which occurred on January 25, 2019.

In thousands of reais, unless otherwise stated

35. Financial revenues and expenses

	Note	2020	2019
Financial Income			
Derivative financial instruments –*swap*		293,174	54,421
Exchange and Monetary Variation		129,404	145,461
Present value adjustment of accounts receivable and subleasing		31,406	34,562
Incomes w/o Financial Investments		30,148	44,686
Marking-to-market adjustment - hedge accounting	25	7,404	-
Interest		2,292	2,184
Other financial revenues		5,096	31,175
		498,924	**312,489**
Financial Expenses			
Exchange and Monetary Variation		(469,337)	(213,613)
Interest		(172,771)	(192,363)
Adjustment to present amount of leases	24	(152,017)	(159,961)
Marking-to-market adjustment - hedge accounting	25	-	(6,249)
Other financial expenses		(21,213)	(25,214)
		(815,338)	**(597,400)**
Net Financial Income		**(316,414)**	**(284,911)**

In thousands of reais, unless otherwise stated

36. Taxes on profit

	2020	2019
Profit before the income tax and social contribution	**646,566**	**757,733**
Nominal aliquot	34%	34%
IRPJ/CSLL by rated aliquot:	**219,832**	**257,629**
Adjustments to reflect actual aliquot:	**(3,548)**	**(3,251)**
Inventory adjustment	351	576
Donation expenses	578	278
Loss on visual investment	-	20
Citizen Company Project Expenses	403	318
Tax incentives	(15,163)	(16,139)
Write-off of investment projects	5,574	4,778
Others	4,709	6,918
IRPJ/CSLL at the results for the year	**216,284**	**254,378**
Current	340,349	391,521
Deferred	(124,065)	(137,143)
IRPJ/CSLL at the results for the year	**216,284**	**254,378**
Total effective tax rate	33.45%	33.57%
Total effective tax rate – current	52.64%	51.67%
Total effective tax rate – deferred	-19.19%	-18.10%

In thousands of reais, unless otherwise stated

37. Other reports on cash flows

37.1 Sale of fixed assets

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

	2020	2019
Net book value	-	35
Profit from fixed assets disposal	-	2,128
Amounts received in fixed assets disposal	**-**	**2,163**

37.2 Effect on investment activities

	2020	2019
Payment of investments from previous years	**(1,332)**	**(126,188)**
Purchase in the period of fixed assets	**170,947**	**75,000**
Effect on investment activities	**169,615**	**(51,188)**

In thousands of reais, unless otherwise stated

37.3 Settlement of liabilities resulting from financing activities

	2020					
	Bank loans	**Debentures**	**Finance Lease**	**Total**	**Derivative Financial Instruments**	**Total debt**
Loans and Funding 12/31/2019	**1,285,032**	**1,780,490**	**1,906,792**	**4,972,314**	**(84,067)**	**4,888,247**
Operations that have affected cash flow	**(384,323)**	**(142,736)**	**(399,140)**	**(926,199)**	**235,400**	**(690,799)**
New fundings	511,692	-	-	511,692	-	511,692
Payment from main	(843,016)	(60,680)	(247,123)	(1,150,819)	235,400	(915,419)
Interest payment	(52,993)	(82,056)	(152,017)	(287,066)	-	(287,066)
Transaction cost	(6)	-	-	(6)	-	(6)
Operations that have not affected cash flow	**311,020**	**138,525**	**485,336**	**934,881**	**(284,444)**	**650,437**
Acquisition/new leasings	-	-	16,535	16,535	-	16,535
Remeasurement by monetary restatement			316,784	316,784		316,784
Amortization of transaction costs/debentures discount	533	8,417	-	8,950	-	8,950
Monetary and exchange variation	310,487	130,108	152,017	592,612	(284,444)	308,168
Loans and Funding 12/31/2020	**1,211,729**	**1,776,279**	**1,992,988**	**4,980,996**	**(133,111)**	**4,847,885**

Payments related to investment suppliers are presented in the cash flow as financing activities. In 2020, the payment of R$1,332 referring to investments from previous years was made.

In thousands of reais, unless otherwise stated

	2019					
	Bank loans	**Debentures**	**Finance Lease**	**Total**	**Derivative Financial Instruments**	**Total debt**
Loans and Funding 12/31/2018	**1,377,230**	**1,099,895**	**29,729**	**2,506,854**	**(58,640)**	**2,448,214**
Operations that have affected cash flow	**(184,527)**	**550,158**	**(378,471)**	**(12,840)**	**23,713**	**10,872**
New fundings	280,500	650,000	-	930,500	-	930,500
Payment from main	(405,413)	(9,402)	(218,510)	(633,325)	23,713	(609,613)
Interest payment	(59,585)	(84,541)	(159,961)	(304,086)	-	(304,086)
Transaction cost	(29)	(5,900)	-	(5,929)	-	(5,929)
Operations that have not affected cash flow	**92,329**	**130,437**	**2,255,534**	**2,478,300**	**(49,140)**	**2,429,161**
Initial Recognition	-	-	2,038,932	2,038,932	-	2,038,932
Acquisition/new leasings	-	-	2,749	2,749	-	2,749
Remeasurement by monetary restatement	-	-	53,892	53,892	-	53,892
Amortization of transaction costs/debentures discount	525	8,055	-	8,580	-	8,580
Exchange variation	91,804	122,382	159,961	374,147	(49,140)	325,008
Loans and Funding 12/31/2019	**1,285,032**	**1,780,490**	**1,906,792**	**4,972,314**	**(84,067)**	**4,888,247**

Payments related to investment suppliers are presented in the cash flow as financing activities. In 2019, the payment of R$126,188 referring to investments from previous years was made.

In thousands of reais, unless otherwise stated

38. Insurance

The Company has the following insurance policies for their operations:

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

Notes:

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

39. Subsequent events

Boards of Administration Meeting
In accordance to law 6.404/76 (Corporate Law), item 199, the balance of profit reserves, apart from contingencies, of tax incentives and unrealized profits should not exceed the capital stock. The Company has reached this cap on December 31, 2020, and the Board of Directors' Meeting held on March 24, 2021, approved capital stock increase in the amount of R$104,271 using part of investment reserves constituted in previous years.

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Management: Advisors and Directors

Board of Directors

Viktor NigriMoszkowicz
CEO

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

Executive Board Members

Guilherme Segalla de Mello
CEO, CCO, and COO

Alexandre Claro Fleischhauer
Chief Engineer and CMO

Félix Lopez Cid
CHRO

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

Other Directors not part of the Board

Daniel Dias Olivio
Henrique Rocha Martins
Luiz Gustavo Bambini de Assis

Statement by the Officers on the Financial Statements

By this instrument, the Chief Executive Officer, Operations and Commercial Officer, Executive Board and other Officers of MRS Logística SA, a publicly-held limited liability company, for the purposes of the provisions of items V and VI of article 25 of CVM Instruction No. 480, of 07 of December 2009 ("INSTRUCTION"), declare that they have reviewed, discussed and agreed with the financial statements of MRS Logística SA for the fiscal year ended December 31, 2020.

Rio de Janeiro, March 24, 2021

Guilherme Segalla de Mello
CEO, CCO, and COO

Alexandre Fleischhauer
Chief Engineer and Maintenance Officer

Félix Lopez Cid
Chief Human Resources Officer

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

Other Directors not part of the Board

Daniel Dias Olivio

Henrique Rocha Martins

Luiz Gustavo Bambini de Assis

Statement by the Officers on the Independent Auditors' Report

By this instrument, the Chief Executive Officer, Operations and Commercial Officer, Executive Board and other Directors of MRS Logística SA, a publicly-held limited liability company, for the purposes of the provisions of items V and VI of article 25 of CVM Instruction No. 480, of 07 of December 2009 ("INSTRUCTION"), declare that they have reviewed, discussed and agree with the opinions expressed in the Independent Auditor's Report of KPMG Auditores Independentes, regarding the financial statements of MRS Logística SA for the fiscal year ended December 31, 2020.

Rio de Janeiro, March 24, 2021

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

Other Directors not part of the Board

Daniel Dias Olivio	Henrique Rocha Martins
Luiz Gustavo Bambini de Assis	

To
shareholders of
MRS Logística S/A

We submit below the proposal for the Capital Budget for the year 2020, approved at a meeting of the Board of Directors on March 24, 2021, as well as the realization of the Capital Budget for 2020.

Income retention:

Management proposed the retention of the remaining profits in an expansion/investment reserve in the amount of R$306,576, aiming at the supply of resources required to comply with the Company's capital investment budget.

Capital budget:

The capital budget will be financed by the retained profits in the 2020 fiscal year and by the funds arising from the 2021 financing activity.

With regard to the projects included in the Capital Budget for the year ended 2020, 83.8% of the estimated amounts were realized, as shown in the table below:

In thousands of Reais

Investments	**Budget 2020**	**Accomplished 2020**	**Accomplished (-) Budgeted**
Permanent tracks [1]	522,144	432,950	(89,194)
Rolling stock[2]	281,619	253,481	(28,138)
SMS Program [3]	31,864	16,091	(15,773)
Electronic systems	19,567	15,829	(3,738)
Miscellaneous	82,068	66,696	(15,372)
Total	**937,262**	**785,047**	**(152,215)**

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

At the Board of Directors' Meeting held on March 24, 2021, the Officers resolved to propose at the General Shareholders' Meeting, the retention of R$306,576 corresponding to 75% of the profit for the year 2020, after the constitution of the Legal Reserve, to fund part of the investments foreseen in the 2021 capital budget.

The capital budget for fiscal year 2021 is composed of the following sources of funds:

	In thousands of Reais
Funds sources	
Cash:	1,054,193
Fund raising in 2021	405,168
Total of funding sources	**1,459,361**

The summary of the Capital Budget applications for fiscal year 2021 is presented below:

Investments	**Budget 2021**
Rolling stock [1]	704,792
Permanent Tracks [2]	600,618
SMS Program [3]	46,144
Electronic systems	25,195
Miscellaneous	82,612
Total	**1,459,361**

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

Rio de Janeiro, March 24, 2021

The Board