

Quarterly Information (ITR)

Nova Transportadora do Sudeste S.A. - NTS

June 30, 2019

With Independent Auditor's Review Report

Nova Transportadora do Sudeste S.A. - NTS

Quarterly Information (ITR)

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A free translation from Portuguese into English of Independent Auditor's Review Report on Quarterly Information (ITR) prepared in Brazilian currency in accordance with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (ITR)

Independent auditor's review report on quarterly information

To the Shareholders, Board of Directors and Officers of
Nova Transportadora do Sudeste S.A.
Rio de Janeiro - RJ

Introduction

We have reviewed the interim financial information of Nova Transportadora do Sudeste S.A. ("Company"), contained in the Quarterly Information Form (ITR), for the quarter ended June 30, 2019, which comprises the statement of financial position as at June 30, 2019 and the related statements of profit or loss and of comprehensive income for the three- and six-month periods then ended, and statements of changes in equity and of cash flows for the six-month period then ended, including explanatory information.

Management is responsible for the preparation of the interim financial information in accordance with Accounting Pronouncement CPC 21 (R1) - Interim Financial Reporting and IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the fair presentation of this information in accordance with the rules issued by the Brazilian Securities and Exchange Commission ("CVM") applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion on the interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21(R1) and IAS 34, applicable to the preparation of Quarterly Information (ITR), and presented consistently with the rules issued by the Brazilian SEC ("CVM").

Other matters

Statement of value added

We have also reviewed the Statement of Value Added (SVA) for the six-month period ended June 30, 2019, prepared under the responsibility of the Company management, whose presentation in the interim financial information is required in accordance with the standards issued by the Brazilian SEC ("CVM") applicable to the preparation of Quarterly Information (ITR). These statements were subject to the same review procedures described above and, based on our review, we are not aware of any facts that lead us to believe that they were not prepared, in all material respects, consistently with the overall interim financial information.

Rio de Janeiro, August 9, 2019.

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

A handwritten signature in blue ink, appearing to read 'Roberto Martorelli', is written over a faint horizontal line.

Roberto Martorelli
Accountant CRC-1RJ106103/O-0

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Nova Transportadora do Sudeste S.A - NTS

Statement of financial position
June 30, 2019 and December 31, 2018
(In thousands of reais)

	Note	06/30/2019	12/31/2018
Assets			
Current assets			
Cash and cash equivalents	5	781,601	362,083
Accounts receivable	6	865,626	804,273
Taxes recoverable	12.1	693	98
Other accounts receivable	11	37,526	17,851
Prepaid expenses		3,502	10,032
Advances		2,664	3,136
Other		378	246
		1,691,990	1,197,719
Noncurrent assets			
Restricted bank deposits	7	14,848	14,595
Judicial deposits	19.2	17,382	16,845
Taxes recoverable	12.1	8,520	8,411
Property, plant and equipment (PP&E)	8	8,418,031	8,607,430
		8,458,781	8,647,281
Total assets		10,150,771	9,845,000

	Note	06/30/2019	12/31/2018
Liabilities and equity			
Current liabilities			
Trade accounts payable	9	170,705	154,898
Taxes payable	12.1	55,138	55,574
Payroll and charges		14,337	14,366
Debentures payable	10	59,809	59,811
Interest on equity		-	16,561
Income and social contribution taxes payable	12.1	209,163	112,037
		509,152	413,247
Noncurrent liabilities			
Debentures payable	10	5,194,321	5,193,354
Provisions for environmental compensation	13.1	30,788	29,849
Provision for environmental constraints	13.2	61,552	69,484
Provision for contingencies	19.1	8,225	8,225
Deferred taxes	12.2	1,123,410	923,212
		6,418,296	6,224,124
Equity			
Capital	14.1	1,618,630	1,618,630
Capital reserve	14.2	1,360,199	1,360,199
Income reserve	14.3	244,494	228,800
		3,223,323	3,207,629
Total liabilities and equity		10,150,771	9,845,000

See accompanying notes.

Nova Transportadora do Sudeste S.A - NTS

Statement of profit or loss

Three- and six-month periods ended June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

	Note	Three-month period ended		Six-month period ended	
		06/30/2019	06/30/2018	06/30/2019	06/30/2018
Revenue	15	1,097,477	1,002,697	2,181,304	1,993,125
Cost of services	16	(175,951)	(193,664)	(366,708)	(380,501)
General and administrative expenses	17	(14,785)	(10,421)	(24,969)	(22,214)
Operating expenses		(14,785)	(10,421)	(24,969)	(22,214)
Operating income		906,741	798,612	1,789,627	1,590,410
Finance income	18	15,758	12,416	26,704	26,371
Finance costs	18	(91,420)	(111,302)	(181,728)	(245,457)
Finance income (costs), net		(75,662)	(98,886)	(155,024)	(219,086)
Income before income and social contribution taxes		831,079	699,726	1,634,603	1,371,324
Current income and social contribution taxes	12.3	(170,373)	(120,180)	(335,073)	(232,078)
Deferred income and social contribution taxes	12.3	(99,277)	(99,719)	(200,198)	(204,320)
Net income for the period		561,429	479,827	1,099,332	934,926
Basic and diluted earnings per share (in R\$)		0.24	0.21	0.48	0.40

See accompanying notes.

Nova Transportadora do Sudeste S.A - NTS

Statement of comprehensive income

Three- and six-month periods ended June 30, 2019 and 2018

(In thousands of reais)

	Three-month period ended		Six-month period ended	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Net income for the period	561,429	479,827	1,099,332	934,926
Other comprehensive income	-	-	-	-
Comprehensive income for the period	561,429	479,827	1,099,332	934,926

See accompanying notes.

Nova Transportadora do Sudeste S.A - NTS

Statement of changes in equity

Six-month periods ended June 30, 2019 and 2018

(In thousands of reais)

	Capital	Capital reserve	Income reserves		Retained earnings (accumulated losses)	Total
		Capital transaction	Legal	Proposed dividends		
Balances at December 31, 2017	2,312,329	1,360,199	38,368	232,189	-	3,943,085
Net income for the period	-	-	-	-	934,926	934,926
Interest on equity	-	-	-	-	(106,053)	(106,053)
Dividends	-	-	-	(232,189)	(675,337)	(907,526)
Balances at June 30, 2018	2,312,329	1,360,199	38,368	-	153,536	3,864,432
	Capital	Capital reserve Capital transaction	Income reserves Legal	Proposed dividends	Retained earnings (accumulated losses)	Total
Balances at December 31, 2018	1,618,630	1,360,199	38,368	190,432	-	3,207,629
Net income for the period	-	-	-	-	1,099,332	1,099,332
Interest on equity	-	-	-	-	(84,496)	(84,496)
Dividends	-	-	-	(190,432)	(808,710)	(999,142)
Balances at June 30, 2019	1,618,630	1,360,199	38,368	-	206,126	3,223,323

See accompanying notes.

Nova Transportadora do Sudeste S.A - NTS

Statement of cash flows

Six-month periods ended June 30, 2019 and 2018

(In thousands of reais)

	06/30/2019	06/30/2018
Operating activities		
Net income for the period	1,099,332	934,926
Adjustments to non-cash income and expenses:		
Deferred income and social contribution taxes	200,198	204,320
Insurance amortization	236	7,204
Interest expenses on debentures and financing	175,456	243,324
Depreciation and amortization	215,823	201,282
Provision for bonus	7,814	7,074
Other	755	(6,133)
	1,699,614	1,591,997
Changes in assets and liabilities		
Trade accounts receivable	(61,353)	11,391
Taxes recoverable	(704)	21,186
Other accounts receivable	(19,674)	591
Judicial deposits	(100)	(1,488)
Other assets	6,128	(2,119)
Trade accounts payable and other payables	15,807	17,598
Proceeds and charges payable	(7,844)	(6,875)
Taxes payable	335,087	236,274
Income and social contribution taxes paid	(237,947)	(241,037)
Expenses with environmental provisions	(7,932)	(6,209)
Other liabilities	(9)	(223)
Net cash flows from operating activities	1,721,073	1,621,086
Investing activities		
Acquisition of PP&E	(26,424)	(29,907)
Cash flow used in investing activities	(26,424)	(29,907)
Financing activities		
New debentures raised/paid	-	(9,480)
Payment of interest on debentures	(174,482)	(224,635)
Payment of dividends and interest on equity	(1,100,649)	(1,034,653)
Cash flow used in financing activities	(1,275,131)	(1,268,768)
Increase in cash and cash equivalents	419,518	322,411
Changes in cash and cash equivalents		
Cash and cash equivalents at beginning of period	362,083	194,991
Cash and cash equivalents at end of period	781,601	517,402
	419,518	322,411

See accompanying notes.

Nova Transportadora do Sudeste S.A - NTS

Statement of value added
Six-month periods ended June 30, 2019 and 2018
(In thousands of reais)

	<u>06/30/2019</u>	<u>06/30/2018</u>
Value added to be distributed		
Revenues	<u>2,559,740</u>	2,313,331
Service revenue and other revenues	<u>2,559,740</u>	2,313,331
Inputs acquired from third parties	<u>(182,296)</u>	(173,601)
Services rendered, electric power, third-party services and other	<u>(182,296)</u>	(173,601)
Gross value added	<u>2,377,444</u>	2,139,730
Depreciation and amortization	<u>(177,470)</u>	(201,282)
Net value added produced by the Company	<u>2,199,974</u>	1,938,448
Value added received in transfer	<u>26,704</u>	26,371
Short-term investment yield – includes monetary/exchange differences	<u>26,704</u>	26,371
Total value added to be distributed	<u><u>2,226,678</u></u>	<u><u>1,964,819</u></u>
Distribution of value added		
Personnel	<u>15,697</u>	15,436
Direct compensation	<u>12,559</u>	12,567
Benefits	<u>2,127</u>	1,868
Unemployment Compensation Fund (FGTS)	<u>1,011</u>	1,001
Taxes, charges and contributions	<u>918,536</u>	761,442
Federal	<u>787,269</u>	664,699
State	<u>122,840</u>	87,566
Municipal	<u>8,427</u>	9,177
Debt remuneration	<u>193,112</u>	54,664
Interest, fines and monetary/exchange differences	<u>180,303</u>	45,890
Donations and sponsorships	<u>6,490</u>	3,000
Trade accounts payable – non-operational services	<u>6,319</u>	5,750
Other debt remuneration	<u>-</u>	24
Equity remuneration	<u>1,099,332</u>	1,133,277
Interest on loans and financing taken out with related parties	<u>-</u>	198,351
Interest on equity	<u>84,496</u>	106,053
Dividends paid	<u>808,710</u>	675,337
Retained profit	<u>206,126</u>	153,536
Total distribution of value added	<u><u>2,226,677</u></u>	<u><u>1,964,819</u></u>

See accompanying notes.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

1. The Company and its operations

Nova Transportadora do Sudeste S.A. ("NTS" or "Company") was incorporated on January 15, 2002, and its business purpose is the construction, installation, operation and maintenance of gas pipelines in the southeast region of Brazil, including gas pipeline networks that interconnect the states of São Paulo, Minas Gerais and Rio de Janeiro.

In September 2016, Petrobras announced to the market the sales operation of 90% of the shares held by Petrobras in NTS to the Nova Infraestrutura Fundo de Investimentos em Participações Multiestratégia ("FIP"), managed by Brookfield Brasil Asset Management Investimentos Ltda., an entity affiliated with Brookfield Asset Management.

On April 4, 2017, NTS's sale operation was completed with the acquisition of 90% of NTS's shares by FIP and the subsequent sale by FIP, on the same date, of 7.65% of its shares in NTS to ITAÚSA (Itaú Investimentos S.A.).

Thus, the Company's current shareholding structure is as follows: FIP holds 82.35% of its shares, Petrobras holds 10% of its shares and ITAÚSA holds 7.65% of its shares.

On October 24, 2017, ANP issued final authorizations to operate on behalf of NTS with respect to its gas pipelines.

The Company has a single operating segment, related to the transportation of natural gas, which is not subject to seasonality.

2. Basis of presentation of the quarterly information

The quarterly information was prepared and is presented in accordance with Accounting Pronouncement CPC 21 (R1), Interim Financial Reporting, which was approved by the Brazilian Securities and Exchange Commission (CVM), in accordance with IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB). The quarterly information was prepared based on historical cost.

This quarterly information is presented including the significant changes that occurred in the period, without repeating certain previously disclosed explanatory notes, which in management's opinion provide a comprehensive view of the Company's financial position and financial performance. Therefore, such financial information must be read jointly with the Company's annual financial statements as at December 31, 2018.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

2. Basis of preparation and presentation of quarterly information (Continued)

In addition, the Company considered the guidance provided for in Accounting Guidance OCPC 07 in preparing its quarterly information. Accordingly, significant information of the quarterly information itself is being disclosed and corresponds to that used by management over its administration.

This quarterly information was approved by the Company's Supervisory Board on August 8, 2019.

NTS's functional currency is the Brazilian real (R\$), since this is the currency of the economic environment in which it operates.

3. Summary of significant accounting practices

The accounting policies and calculation methods used in the preparation of this quarterly information are the same as those used in the preparation of the Company's annual financial statements for the year ended December 31, 2018. In addition, the Company noted no changes in its accounting policies arising from adoption of the pronouncements as of January 1, 2019: CPC 06 (R2) - Leases.

4. Significant estimates and judgments

This quarterly information was prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of this quarterly information were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the quarterly information. Significant items subject to these estimates and assumptions include selection of useful lives and recoverability of property, plant and equipment, measurement of financial assets and liabilities at fair value and present value adjustment, as well as analysis of other risks in determining other provisions, including provision for contingencies.

The settlement of transactions involving these estimates may result in amounts materially different from those recorded in the quarterly information due to the uncertainties inherent in the estimation process. The Company reviews its estimates periodically throughout the year.

For more information on significant estimates, see Note 5 to the financial statements as at December 31, 2018.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

5. Cash and cash equivalents

	<u>06/30/2019</u>	<u>12/31/2018</u>
Cash and banks	428	22
Short-term investments	<u>781,173</u>	<u>362,061</u>
	<u>781,601</u>	<u>362,083</u>

Short-term investments are highly liquid and readily convertible into a known cash amount.

The current remuneration of Company's short-term investments is equivalent to approximately 100% of CDI. The Company investments were allocated to Bank Deposit Certificates (CDBs) and investment funds remunerated by reference to the Interbank Deposit Certificate (CDI).

6. Accounts receivable

	<u>06/30/2019</u>	<u>12/31/2018</u>
Petróleo Brasileiro S.A. - Petrobras	<u>865,626</u>	<u>804,273</u>
	<u>865,626</u>	<u>804,273</u>

Company receivables arise from Gas Transportation Agreements (GTAs) entered into with Petrobras. There are no overdue amounts receivable at June 30, 2019 and December 31, 2018. There are also no expected losses associated with these receivables.

7. Restricted bank deposits

The balance of R\$14,848, at June 30, 2019 (R\$14,595 at December 31, 2018) refers to savings account held with Banco do Brasil to cover environmental compensations and will be used as required by environmental bodies. Such deposits should be linked to savings accounts due to the significant impacts caused by the construction of gas pipelines GASAN II, GASPAL II and ECOMP in Guararema, State of São Paulo, and follow the provisions of Federal Law No. 9985/2000, which constituted the National System of Units of Conservation – SNUC.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

8. Property, plant and equipment (PP&E)

Description	12/31/2018			06/30/2019			
	Cost	Accumulated depreciation	Residual balance	Additions	Transfer	Depreciation	Residual balance
Construction in progress	78,676	-	78,676	21,660	(77,086)	-	23,250
Leasehold improvements	4,813	(596)	4,217	-	-	(239)	3,978
Environmental constraints	148,839	(25,478)	123,361	-	-	(2,536)	120,825
Equipment and other assets	11,820,464	(3,419,288)	8,401,176	4,764	77,086	(213,048)	8,269,978
	12,052,792	(3,445,362)	8,607,430	26,424	-	(215,823)	8,418,031

The balance of construction in progress comprises costs with construction, maintenance and repair of gas pipelines (provided these are related to the replacement of parts and equipment or to meeting regulatory requirements), compressor stations/services, points of delivery, Stress Corrosion Cracking (SCC) Integrity Management Plan for Gas Pipelines and repair of the gas pipeline tunnel of GASDUC III.

Capitalized borrowing costs

During the six-month period ended June 30, 2019 and the year ended December 31, 2018, there was no capitalization of interest on financing for construction projects in the Company's property, plant and equipment.

Useful life of assets

Depreciation is calculated on a straight-line basis over the estimated useful life of assets, as follows:

- Buildings and improvements – from 16 to 30 years
- Leasehold improvements – 10 to 30 years
- Gas pipelines, equipment and other items – up to 30 years
- Environmental constraints – up to 30 years

The residual value and useful life of the assets as well as the depreciation methods used are reviewed at year-end, and adjusted prospectively, when applicable.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

8. Property, plant and equipment (PP&E) (Continued)

The NTS's gas pipelines network comprises the following extensions:

GASTAU

Gas Pipeline Caraguatatuba-Taubaté (GASTAU), which is 98 km long and 28 inches in diameter, interconnects the Monteiro Lobato Gas Processing Unit (UTGCA), in Caraguatatuba, on the north coast of São Paulo, to Taubaté, a city in the Middle Paraíba Region, to Campinas-Rio Gas Pipeline and the rest of the Southeast network.

GASDUC III

Cabiúnas-REDUC Gas Pipeline (GASDUC III), which is 180 km long and 38 inches in diameter is the gas pipeline with the greatest diameter in South America and has the highest transportation capacity (40 million cbm/day) among the Brazilian gas pipelines.

GASPAJ

Paulínia-Jacutinga Gas Pipeline (GASPAJ), which is 93 km long and 14 inches in diameter, has the purpose to meet the natural gas demand of the South region of the State of Minas Gerais. The gas pipeline originates in the city of Paulínia/SP, where gas pipelines Paulínia-Jacutinga, Campinas-Rio (GASCAR), REPLAN-Guararema of Gas Pipeline Bolívia Brasil (GASBOL) interconnect and where the Point of Delivery REPLAN is located.

Southeast Network

The Southeast Network comprises five gas pipelines and two branches:

GASAN

RECAP-RPBC Gas Pipeline (GASAN), which is 41.6 km long and 12 inches in diameter interconnects the municipality of Capuava/SP to the municipality of Cubatão/SP.

GASCAR

Campinas-Rio Gas Pipeline (GASCAR), which is 453 km long and 28 inches in diameter, has the purpose of increasing the capacity of Bolivian gas flow to Rio de Janeiro. The gas pipeline starts in the Planalto Refinery (REPLAN), in the city of Paulínia/SP, and goes through the municipality of Japeri/RJ, where it interconnects the gas pipelines GASVOL and GASJAP, both in the state of Rio de Janeiro.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

8. Property, plant and equipment (PP&E) (Continued)

Southeast Network (Continued)

GASPAL

ESVOL-RECAP Gas Pipeline (GASPAL), which is 325.5 km long and 22 inches in diameter, starts in the municipality of Pirai/RJ and ends in the municipality of Mauá/SP.

GASVOL

REDUC-ESVOL Gas Pipeline (GASVOL), which is 95 km long and 18 inches in diameter, starts in the municipality of Duque de Caxias/RJ and ends in the municipality of Volta Redonda/RJ and also has a 5.5km-long branch within the municipality of Volta Redonda/RJ.

GASBEL I

Rio de Janeiro-Belo Horizonte I Gas Pipeline (GASBEL I), which is 357 km long and 16 inches in diameter, starts in the municipality of Duque de Caxias/RJ and ends in Gabriel Passos Refinery, in the city of Betim/MG.

Campos Elíseos Branch (16 inches)

The Campos Elíseos Branch, which is 2.7 km long and 16 inches in diameter, is located in the municipality of Duque de Caxias/RJ.

Southeast Network II

Southeast Network II comprises the following gas pipelines:

GASJAP

JAPERI-REDUC Gas Pipeline (GASJAP), which is 45 km long and 28 inches in diameter, starts in the municipality of Japeri/RJ and ends in the municipality of Duque de Caxias/RJ, interconnecting the Caxias Hub to the Campinas-Rio Gas Pipeline (GASCAR). The Gas Pipeline has a Compressor Station in Campos Elíseos.

GASAN II

RECAP-RPBC Gas Pipeline (GASAN II), which is 39 km long and 22 inches in diameter, starts in the municipality of Mauá/SP and ends in the municipality of São Bernardo do Campo, and can extend, along with GASPAL II, the natural gas transportation capacity from the Guararema-RPBC system.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

8. Property, plant and equipment (PP&E) (Continued)

Southeast Network II (Continued)

GASPAL II

Guararema-Mauá Gas Pipeline (GASPAL II), which is 54 km long and 22 inches in diameter, starts in the municipality of Guararema/SP and ends in the municipality of Mauá, and can extend, along with GASAN II, the natural gas transportation capacity from the Guararema-RPBC system.

GASBEL II

Rio de Janeiro-Belo Horizonte II Gas Pipeline (GASBEL II), which is 267 km long and 18 inches in diameter, starts in the municipality of Volta Redonda/RJ and ends in the municipality of Queluzito/MG, extended the natural gas offer to the state of Minas Gerais, especially in the metropolitan area of Belo Horizonte and Vale do Aço.

Impairment of assets

Management annually reviews events or changes in economic, operating, or technological circumstances of its assets to assess whether there are any preliminary indications of deterioration or impairment. No PP&E impairment indicators were identified for the six-month period ended June 30, 2019 and the year ended December 31, 2018.

Nova Transportadora do Sudeste S.A. - NTS

Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
(In thousands of reais, unless otherwise stated)

9. Trade accounts payable

	<u>06/30/2019</u>	<u>12/31/2018</u>
Petróleo Brasileiro S.A. - Petrobras	131,318	100,052
Petróleo Transportes S.A. - Transpetro	24,248	24,181
Chubb Seguros Brasil S.A.	-	6116
Alfredo A Possebon Filho & Cia. Ltda.	1,447	3,061
Rosenbra Engenharia Brasil Ltda.	-	3,446
McKinsey & Company Inc do Brasil Consult	-	2,329
Intech Engenharia Ltda.	-	1,740
Exterran	878	944
Enerflex/Geogás	1,094	1,102
AlG Seguros Brasil	-	828
Northeng Engenharia Ltda.	1,011	-
XL Seguros Brasil S.A.	-	512
Construtora Biapo Ltda.	-	767
Gascat Industria e Comércio	-	522
Transportadora Associada de Gás	-	114
Consulting services and other contracted services	2,535	3,100
Other trade accounts payable	8,174	6,084
	<u>170,705</u>	<u>154,898</u>

10. Debentures payable

	<u>Interest rate</u>	<u>Maturity</u>	<u>2019</u>	<u>2018</u>
Current				
Charges – second-issue debentures	109% CDI	2023	61,756	61,756
Funding costs	-	-	(1,947)	(1,945)
Total current			<u>59,809</u>	<u>59,811</u>
Noncurrent				
Principal – second-issue debentures	109% CDI	2023	5,200,000	5,200,000
Funding costs	-	-	(5,679)	(6,646)
Total noncurrent			<u>5,194,321</u>	<u>5,193,354</u>
Total			<u>5,254,130</u>	<u>5,253,165</u>

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Notes to quarterly information (Continued)
Six-month period ended June 30, 2019
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10. Debentures payable (Continued)

On April 20, 2018, the Company's Special General Meeting (SGM) approved the second issue of unprivileged unsecured non-convertible debentures in a single series, subject to a public distribution offering and restricted placement efforts, under the terms of CVM Rule No. 476 and other legal and regulatory provisions, in the total amount of R\$5,200,000 at the par value of R\$10,000.00.

The second issue of debentures was subject to a firm guarantee by Banco Itaú BBA S.A, BB – Banco de Investimento S.A and Banco Bradesco BBI S.A.

On April 25, 2018, debentures were issued at the amount approved at the Special General Meeting held on April 20, 2018 and paid up on May 15, 2018. The debentures bear interest of 109.00% of the accumulated variation of the CDI Rate, with payment of interest every six months, in April and October. They do not have interim amortizations and mature on April 25, 2023, without debt rescheduling clauses or automatic renewal.

The debentures have covenants that require the Company to comply with the following financial ratios, calculated on a quarterly basis:

- (a) Financial ratio resulting from the division of the Net Financial Debt by the EBITDA shall be equal to or less than 3.0 times; or
- (b) Financial ratio resulting from the division of the EBITDA by the Net Financial Debt shall be equal to or less than 1.5 time.

At the reporting date of the quarterly information ended June 30, 2019, the Company determined both indices and concluded that the covenants were complied with.

Payments and amortization of funding costs are as follows:

<u>Year</u>	<u>Principal</u>	<u>Funding costs</u>
2019	-	973
2020	-	1,947
2021	-	1,947
2022	-	1,947
2023	5,200,000	812
	<u>5,200,000</u>	<u>7,626</u>

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Notes to quarterly information (Continued)
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11. Transactions with related parties

a) Operations between legal entities

	<u>Petrobras</u>	<u>ITAÚSA</u>	<u>Transpetro</u>	<u>TAG</u>	<u>06/30/2019</u>
P&L					
Gross service revenue	2,672,774	-	-	-	2,672,774
Cost with gas pipeline operation and maintenance	-	-	(120,546)	-	(120,546)
Other operating costs/expenses	(113,035)	-	-	-	(113,035)
	<u>2,559,739</u>	<u>-</u>	<u>(120,546)</u>	<u>-</u>	<u>2,439,193</u>
Assets					
Accounts receivable	865,626	-	-	-	865,626
Other accounts receivable	37,526	-	-	-	37,526
	<u>903,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>903,152</u>
Liabilities					
Trade accounts payable	(131,318)	-	(24,248)	-	(155,566)
	<u>(131,318)</u>	<u>-</u>	<u>(24,248)</u>	<u>-</u>	<u>(155,566)</u>

	<u>FIP</u>	<u>Brookfield</u>	<u>Petrobras</u>	<u>ITAÚSA</u>	<u>Transpetro</u>	<u>TAG</u>	<u>06/30/2018</u>
P&L							
Gross service revenue	-	-	2,416,393	-	-	-	2,416,393
Cost with gas pipeline operation and maintenance	-	-	-	-	(113,838)	-	(113,838)
Other operating costs/expenses	-	-	(129,542)	-	-	(1,555)	(131,097)
Finance costs, net	(181,492)	-	-	(16,860)	-	-	(198,352)
	<u>(181,492)</u>	<u>-</u>	<u>2,286,851</u>	<u>(16,860)</u>	<u>(113,838)</u>	<u>(1,555)</u>	<u>1,973,106</u>
Assets							
Accounts receivable	-	-	782,349	-	-	-	782,349
Other accounts receivable	-	-	2,503	-	-	-	2,503
	<u>-</u>	<u>-</u>	<u>784,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>784,852</u>
Liabilities							
Trade accounts payable	-	(442)	(68,031)	-	(21,388)	-	(89,861)
	<u>-</u>	<u>(442)</u>	<u>(68,031)</u>	<u>-</u>	<u>(21,388)</u>	<u>-</u>	<u>(89,861)</u>

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Notes to quarterly information (Continued)
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11. Transactions with related parties (Continued)

a) Operations between legal entities (Continued)

For the six-month periods ended June 30, 2019 and 2018, the Company entered into transactions with shareholders and other related parties, as described below:

- (I) Nova Infraestrutura Fundo de Investimento em Participações Multiestratégia – FIP – at June 30, 2019 and 2018, the transactions carried out with FIP refer to the amount belonging to FIP in relation to the total amount of the Company's first-issue debentures, as well as to the remuneration attributed to said amount of debentures held by the related party. As described in Note 10, on May 15, 2018, the Company early redeemed its debentures issued under the terms of the "Private Instrument of Indenture for the Issuance of Non-convertible Debentures, in a Single Series, with Security Interest, First Issued by NTS".
- (II) *Petrobras* - at June 30, 2019 and 2018, transactions with Petrobras refer to Company's revenues arising from Natural Gas Transportation Agreements, whose object is the transportation of natural gas, as well as to the receivables maturing in 2018 and 2019. The terms of the agreements were defined by the parties involved, billing occurs up to the 7th business day of the month following the date when the service was rendered and the due date will be the 10th day of the second month, also after service rendering. Payment must be made by bank transfer, in case of delay or non-payment, there will be (i) a 2% late payment fine, (ii) monetary restatement calculated in accordance with the General Market Price Index (IGPM/FGV) and (iii) simple late payment interest (100% CDI), calculated from the day following the due date. It is worth mentioning that transportation tariffs are adjusted every twelve months by reference to the IGPM/FGV. Also in relation to Petrobras, the Company recognized in 2019 and 2018 provisions for payment for the use and sharing of gas pipeline rights-of-way and payments related to the difference between the revenue arising from the transportation tariffs provided for in the Gas Transportation Agreements and the revenue of such agreements that were taken into consideration for purposes of the NTS sale operation.
- (III) *ITAÚSA* – at June 30, 2018, the transactions carried out with ITAUSA refer to the amount belonging to ITAUSA in relation to the total amount of the Company's first issued debentures, as well as to the remuneration attributed to said amount of debentures held by the related party. The additional transaction corresponds to interest on equity payable to ITAUSA as a Company shareholder. As described in Note 10, on May 15, 2018, the Company early redeemed its debentures issued under the terms of the "Indenture of Single-Series Convertible Debentures, with Security Interest, of First Issue of NTS".

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Notes to quarterly information (Continued)
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11. Transactions with related parties (Continued)

a) Operations between legal entities (Continued)

(IV) *Transpetro* – at June 30, 2019 and 2018, the transaction with Transpetro refers to the services for the operation and maintenance of the gas pipeline network and other Company's operating facilities, under the Service Agreement for Gas Transportation Technical Support entered into by and between the parties. The terms of these agreements were defined by the parties involved, payments will be made monthly up to 30 days from the date the service was rendered. There will be fines of 4% per month on the billed amount in case of late payment. It is worth mentioning that the price is adjusted every 12 months and is based on the adjustment of the IGPM and IPCA. The portion recorded under liabilities arises from the obligations of payments maturing in 2019, due by the Company to Transpetro for the services performed.

(V) *Transportadora Associada de Gás - TAG* – at March 31, 2018, the Company recorded expenses with TAG arising from the agreement to provide management and advisory services related to the transportation of natural gas. This transaction was entered into as agreed between the parties. Services rendered are measured monthly and, consequently, billing is also issued monthly. Payments were made through bank payment forms maturing within 30 days from the date of measurement. Prices are adjusted annually by reference to the IGP-M. The agreement with the related party was terminated in the first quarter of 2018.

(VI) *Operations with key management personnel*

The Company offers its managers the following benefits: health care, life insurance, private pension plans and meal allowance, presented in Short-term benefits. The benefits are partially paid for by their managers and are recorded as expenses when incurred.

The amounts related to the compensation and benefits of key management personnel, represented by its officers, are as follows:

	<u>06/30/2019</u>	<u>12/31/2018</u>
Management compensation	3,021	11,016
Short-term benefits	501	1,002
	<u>3,522</u>	<u>12,018</u>

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Notes to quarterly information (Continued)
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12. Taxes

12.1. Current taxes

	Current assets		Noncurrent assets		Current liabilities	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018	06/30/2019	12/31/2018
Income tax	437	-	-	-	(147,534)	(77,225)
Social contribution tax (a)	157	-	-	-	(61,629)	(34,813)
PIS/COFINS (a)	-	-	8,520	8,411	(28,243)	(31,832)
ICMS	-	-	-	-	(21,778)	(18,550)
ISS	-	-	-	-	(2,336)	(1,964)
IRRF	99	98	-	-	(401)	(1,081)
Other	-	-	-	-	(2,380)	(2,146)
	693	98	8,520	8,411	(264,301)	(167,611)

(a) The amounts recorded under noncurrent assets refer to the following tax credits: Contribution Tax on Gross Revenue for Social Integration Program (PIS) and for Social Security Financing (COFINS), which have been the subject of requests for refund filed with the Brazilian IRS and await approval. These are presented in the long term in view of the lack of present facts that indicate receipt of these funds over the next 12 months.

12.2. Deferred taxes

a) Breakdown of deferred income and social contribution taxes

	Base at 06/30/2019	Deferred IR and CSLL balance at 34%	Base at 12/31/2018	Deferred IR and CSLL balance at 34%
Deferred tax assets				
Provision for contingencies and other	16,171	5,948	13,059	4,440
Provision – expenses with environmental compensation	30,788	10,468	32,014	10,885
Provision for bonus	10,630	3,614	12,101	4,114
Other	-	-	2,116	719
	-	19,580	-	20,158
Deferred tax liabilities				
PP&E – Difference between tax depreciation rate vs. corporate depreciation rate	(3,357,143)	(1,141,429)	(2,772,536)	(942,662)
Provision – expenses with environmental compensation	(4,593)	(1,561)	-	-
Deposit not yet under <i>res judicata</i>	-	-	(2,084)	(708)
	-	(1,142,990)	-	(943,370)
Balance of deferred taxes, net	-	(1,123,410)	-	(923,212)

Income and social contribution tax loss carryforwards may be carried indefinitely according to the tax legislation in force.

The amounts of deferred tax liabilities on PP&E refer to tax depreciation of the gas pipelines network and other Company facilities.

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Notes to quarterly information (Continued)
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12. Taxes (Continued)

12.2. Deferred taxes (Continued)

a) Breakdown of deferred income and social contribution taxes (Continued)

	2019	2020	2021	Total
Recoverability of the deferred tax asset	-	3,614	15,966	19,580

12.3. Reconciliation of income and social contribution taxes

	06/30/2019	06/30/2018
Income before income and social contribution taxes	1,634,603	1,371,324
Income and social contribution taxes at statutory rate (34%)	(555,765)	(466,250)
Adjustments to determine the effective rate:		
Permanent exclusions, net	(43,305)	(77,592)
Temporary exclusions, net	(588,819)	(600,941)
Additions	10,743	9,192
(+) Provision for bonus	5,551	6,937
(+) Provision for environmental compensation	1,174	849
(+) Other	4,018	1,406
Exclusions	(599,562)	(610,133)
(-) Tax depreciation vs. corporate depreciation	(584,607)	(601,192)
(-) Bonus	(7,023)	(8,097)
(-) Provision for environmental compensation	(7,932)	-
(-) Other	-	(844)
Adjusted income and social contribution tax base	1,002,479	692,791
Income and social contribution taxes	(340,572)	(235,078)
Discount due to sponsorships (Rouanet Law)	5,499	3,000
Current income and social contribution taxes	(335,073)	(232,078)
Deferred income and social contribution taxes	(200,198)	(204,320)
	(535,271)	(436,398)
Effective IR and CS rate	32.75%	31.82%

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Notes to quarterly information (Continued)
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13. Provision for environmental compensation and environmental constraints

13.1. Provision for environmental compensation

Refers to amounts accrued totaling R\$30,788 (R\$29,849 at December 31, 2018), based on Federal Law No. 9985/2000, which constitutes the National System of Units of Conservation – SNUC, the purpose of which is to guarantee the preservation of nature and sustainable development from natural resources that will be spent as decided by the Environmental Foundation (FATMA) and the Prosecution Office.

13.2. Provision for environmental constraints

The balance recorded amounting to R\$61,552 (R\$69,484 at December 31, 2018) refers to environmental constraints required by environmental control, monitoring and inspection bodies, at the federal and state levels, due to the issuance of preliminary licenses for the installation and operation of ventures and construction of the Company's gas pipelines network, under the terms of Resolution No. 237/1997 of the National Environment Council – CONAMA.

The Company treats the events related to these constraints in accordance with the principles of ICPC 12 – Changes in Existing Decommissioning, Restoration and Similar Liabilities - and recognizes in the fixed asset the corresponding portion (initial measurement and future measurement). Expenses incurred to comply with the constraints are deducted from the accrued amount and the corresponding fixed asset is being amortized under the straight line method, due to the expiration of authorizations for the operation of gas pipelines linked to such constraints.

14. Equity

14.1. Capital

On August 6, 2018, the Company's shareholders approved unanimously and without qualifications the reduction of the Company's capital in the total amount of R\$693,699, based on a favorable opinion of the Supervisory Board, which deemed it excessive in relation to the Company activities. On December 11, 2018, with the approval of said reduction, the Company's capital was reduced from R\$2,312,329 to R\$1,618,630, upon return of capital to shareholders, in proportion to their corresponding equity interest held in the Company.

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14. Equity (Continued)

14.1. Capital (Continued)

Due to the abovementioned capital reduction, at June 30, 2019, Company's fully subscribed and paid-up capital is represented by 2,312,328,578 common registered shares with a par value of R\$0.70 each (2,312,328,578 common registered shares with a par value of R\$0.70 each at December 31, 2018). The Company does not have authorized capital.

14.2. Capital transactions

Refers to the transactions with shareholders in their capacity as owners and the recognition of gains arising from unusual transactions regarding the termination of the finance lease between companies in the same economic group.

In October 2016, due to the corporate restructuring of companies Transportadora Associada de Gás (TAG), Nova Transportadora do Nordeste (NTN), the Company's corporate restructuring and the termination of the Malhas Consortium, Petrobras *Leasing* with NTS was reversed at October 25, 2016, generating gains of R\$1,360,199, recorded as capital transaction in Equity.

14.3. Income reserves

a) Legal reserve

The legal reserve is set up considering the limit of 20% of capital, through allocation of 5% of net income for the year, in compliance with article 193 of Brazilian Corporation Law. This reserve can only be used to absorb losses or increase capital.

The Company may be exempt from setting up this reserve if it achieves the limit of 20% of capital mentioned in the previous paragraph or the sum of its balance and the capital reserve exceeds 30% of the capital.

b) Interim dividends

In the period ended June 30, 2019, NTS distributed a total of R\$808,710 of interim dividends (R\$1,509,177 at December 31, 2018) and a total of R\$84,496 related to interest on equity (R\$233,900 at December 31, 2018), both approved by the Board of Directors at the General Meeting.

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Notes to quarterly information (Continued)
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14. Equity (Continued)

14.3. Income reserves (Continued)

c) Dividends paid

At December 31, 2018, Company management proposed the distribution of additional dividends amounting to R\$190,431. Such amount was paid in the first quarter of 2019 along with interim dividends, after resolution and approval by the Board of Directors.

d) Earnings per share

The calculation of basic and diluted earnings per share for the three- and six-month periods ended June 30, 2019 and 2018, is as follows:

	<u>Three-month period ended</u>		<u>Six-month period ended</u>	
	<u>06/30/2019</u>	<u>06/30/2018</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
Net income for the period (in thousands of reais)	561,429	479,827	1,099,332	934,926
Total shares issued	2,312,328,578	2,312,328,578	2,312,328,578	2,312,328,578
Basic and diluted earnings per share - in reais	0.24	0.21	0.48	0.40

15. Net revenue

	<u>Three-month period ended</u>		<u>Six-month period ended</u>	
	<u>06/30/2019</u>	<u>06/30/2018</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
Gross service revenue	1,348,256	1,218,551	2,672,774	2,416,393
Charges on services	(193,949)	(164,039)	(378,436)	(320,206)
Tariff adjustment	(56,830)	(51,815)	(113,034)	(103,062)
	1,097,477	1,002,697	2,181,304	1,993,125

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16. Cost of services

	Three-month period ended		Six-month period ended	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Depreciation and amortization	(81,407)	(104,205)	(177,470)	(201,252)
Contracted services, freight, rent and general charges	(6,019)	(5,992)	(11,904)	(12,142)
Operation and maintenance	(60,286)	(57,023)	(120,546)	(113,838)
Right-of-way	(13,767)	(13,455)	(27,533)	(26,480)
Electric power	(4,827)	(3,976)	(9,633)	(7,742)
Insurance coverage	(3,395)	(3,602)	(6,588)	(7,204)
ICMS on gas used in the system	(2,343)	(1,969)	(5,399)	(4,957)
Temporary support - TAG	-	(6)	-	(359)
Environmental costs	(18)	(178)	(181)	(635)
Personnel costs	-	(2,887)	(6,942)	(5,361)
Other costs	(3,889)	(371)	(512)	(531)
	(175,951)	(193,664)	(366,708)	(380,501)

17. General and administrative expenses

	Three-month period ended		Six-month period ended	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Personnel	(6,541)	(6,402)	(12,068)	(13,234)
Legal counsel	(265)	(353)	(384)	(604)
Auditing	(246)	-	(246)	(15)
Accounting advisory services	(326)	(300)	(632)	(575)
Consulting services	(208)	(227)	(287)	(418)
Sponsorships	(4,510)	(1,500)	(6,490)	(3,000)
Expenses with temporary support – TAG and Petrobrás	-	(52)	-	(1,196)
Office expenses and other	(2,689)	(1,419)	(4,862)	(2,902)
Other taxes	-	(168)	-	(270)
	(14,785)	(10,421)	(24,969)	(22,214)

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18. Finance income (costs), net

	Three-month period ended		Six-month period ended	
	06/30/2019	06/30/2018	06/30/2019	06/30/2018
Finance income	14,235	10,270	24,881	18,942
Other finance income	1,523	2,146	1,823	7,429
Total finance income	15,758	12,416	26,704	26,371
Interest on financing	(88,398)	(110,261)	(176,057)	(243,324)
Fines and interest charges	(780)	(30)	(1,425)	(32)
Taxes on finance income (costs)	(36)	(497)	(68)	(1,215)
Other finance costs	(2,206)	(514)	(4,178)	(886)
Total finance costs	(91,420)	(111,302)	(181,728)	(245,457)
Finance income (costs), net	(75,662)	(98,886)	(155,024)	(219,086)

19. Legal proceedings and contingencies

19.1. Accrued legal proceedings

The Company recorded provisions in amounts deemed sufficient to cover any losses considered probable for which a reliable estimate can be made.

The amounts accrued are as follows:

	06/30/2019	12/31/2018
Noncurrent liabilities		
Labor	(2,685)	(2,685)
Tax	(5,540)	(5,540)
	(8,225)	(8,225)

19.2. Judicial deposits

	06/30/2019	12/31/2018
Noncurrent assets		
Labor	42	42
Tax	17,297	16,779
Civil	24	24
Sundry	19	-
	17,382	16,845

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Notes to quarterly information (Continued)
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19. Legal proceedings and contingencies (Continued)

19.3. Non-accrued legal proceedings

Legal proceedings that constitute present obligations whose outflow of resources is not probable or whose amounts cannot be reliably estimated are not recognized, however, they are disclosed. Cases classified as remote are not the subject of any disclosures in this quarterly information.

Contingent liabilities estimated for legal proceedings at June 30, 2019 and December 31, 2018, the probability of loss of which is considered possible, are presented below:

	Civil		Tax	
	Legal	Administrative	Legal	Total
Balances at December 31, 2018	48	45,182	11,837	57,067
New cases	-	-	81	81
Monetary restatement	4	2,093	439	2,536
Balances at June 30, 2019	52	47,275	12,357	59,684

20. Financial instruments

The Company is engaged in transactions involving financial instruments. These instruments are managed through operational strategies and internal control to ensure liquidity, profitability, and safety. Control policy consists of permanent monitoring of contracted conditions versus current market conditions.

At June 30, 2019, the Company had no derivative financial instruments to mitigate risks associated to its financial instruments and, during the years, did not make speculative investments. The results are consistent with the policies and strategies defined by Company management.

a) Liquidity risk

The Company uses its funds to cover operating liabilities and to pay creditors. The sources of funds plus the Company's financial position at June 30, 2019 are sufficient for the settlement of its short-term liabilities. Liquidity risk is managed by the Company by investing its cash in investment funds with daily liquidity and renegotiating (when necessary) the maturity date of its debts.

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20. Financial instruments (Continued)

a) Liquidity risk (Continued)

	Maturity of financial liabilities					Total
	2019	2020	2021	2022	2023	
Debentures	174,482	425,810	441,882	445,492	5,419,136	6,906,802
Trade accounts payable	170,705	-	-	-	-	170,705

b) Currency risk

Currency risk arises from the possibility of fluctuations in foreign exchange rates used by the Company for acquiring equipment or services and entering into financial instruments. At June 30, 2019, the Company does not have any financial assets or liabilities denominated in foreign currency or exposed to other currencies.

The Company adopts the policy of eliminating market risks, thus avoiding exposure to market value fluctuations, and operate only with instruments that enable risk control. At June 30, 2019, the Company had no outstanding derivative financial instruments.

c) Credit risk

As part of the Share Purchase and Sale Agreement entered into with the Company shareholders, described in Note 2.1, Petrobras and Banco Bradesco S.A. entered into a Restricted Accounts Management Agreement with a view to diversifying the credit risk of NTS in relation to the Gas Transportation Agreements (GTAs) executed with Petrobras, so that the Company does not depend exclusively on its sole customer to obtain its revenues.

Receivables pledged as collateral refer to deposits made in the restricted account, arising from the Natural Gas Purchase and Sale Agreement (GSAs), in which Petrobras acts as the seller. Deposits made in this account are intended to guarantee coverage of at least 120% of the expected amount of monthly Company billings, due by Petrobras under the GTAs, in addition to any taxes and charges that may be deducted by Banco Bradesco every month.

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20. Financial instruments (Continued)

d) Sensitivity analysis

The sensitivity analysis was performed for financial instruments subject to interest rate risk, considering that the exposure is the value of the debentures, described in Note 10, exposed to the Interbank Deposit Certificate (CDI) variation at June 30, 2019 and that the possible and remote scenarios consider a 25% and 50% risk variation of the interest rates expected on loan amounts, net of short-term investments, respectively, in relation to this same date.

<u>Instruments</u>	<u>Exposure</u>	<u>Risk</u>	<u>Probable (*) 6.50%</u>	<u>Possible (25% variation)</u>	<u>Remote (50% variation)</u>
<u>Financial liabilities</u>					
Debentures (**)	5,254,130	CDI increase	(364,578)	(453,973)	(542,052)
<u>Financial assets</u>					
Cash and cash equivalents	781,601	Interest to be incurred	50,804	63,505	76,206

(*) Scenarios projected for a 12-month period.

(**) The amount of debentures and interest to be incurred/financial charges projected do not consider debt funding costs.

(a) The probable scenario was calculated considering a CDI rate of 6.50%, applicable to the floating portion of the debenture interest rate and to the balance of cash and cash equivalents as at June 30, 2019. The possible and remote scenarios considered fluctuations of 25% and 50%, respectively, in the CDI rate applied to the floating portion of the debentures (CDI increase) net of the balance of cash and cash equivalents for the next 12 months.

e) Estimate at fair value

The table below sets forth the book values and fair values of the Company's financial instruments and other assets and liabilities, as well as its measurement level, as of June 30, 2019 and December 31, 2018.

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Notes to quarterly information (Continued)
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(In thousands of reais, unless otherwise stated)

20. Financial instruments (Continued)

e) Estimate at fair value (Continued)

	Level	06/30/2019		12/31/2018	
		Book value	Fair value	Book value	Fair value
Financial assets (current and noncurrent)					
Measured at amortized cost					
		1,662,768	1,662,768	1,198,802	1,198,802
Cash and cash equivalents	2	781,601	781,601	362,083	362,083
Accounts receivable	2	865,626	865,626	804,273	804,273
Other accounts receivable	2	693	693	17,851	17,851
Restricted bank deposits	2	14,848	14,848	14,595	14,595
Financial liabilities (current and noncurrent)					
Measured at amortized cost					
		5,424,835	5,424,835	5,408,063	5,408,063
Trade accounts payable		170,705	170,705	154,898	154,898
Debentures		5,254,130	5,254,130	5,253,165	5,253,165

The measurement level of each financial instrument corresponds to the following fair value hierarchy:

- Level 1 - for unadjusted prices quoted in active markets for instruments identical to those of the Company
- Level 2 - for observable information on assets or liabilities, whether directly or indirectly, except for quoted prices included in the previous level
- Level 3 – for non-observable data for the instrument in question

The Company understands that the fair value of trade accounts receivable is already reflected in their book value, since most of them mature in the short-term.

For financing classified and measured at amortized cost, the Company understands that since these are bilateral transactions and do not have an active market or other similar source with conditions comparable to those already presented and that may be used as a benchmark to determine their fair values, book values reflect the fair value of the transaction.

f) Changes in the cash flow liabilities of financing activities

As required by CPC 03, the Company states below the changes in the cash flow liabilities of financing activities, as recorded in its Statement of Cash Flows:

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20. Financial instruments (Continued)

f) Changes in the cash flow liabilities of financing activities (Continued)

Description	Balance at December 31, 2018	Cash changes			Dividends and IOE approved	Non-cash changes		Balances at June 30, 2019
		Received/(Paid) – financing activities	Payment of interest	Funding costs		Interest expenses	Amortization of funding costs	
Debentures – 2 nd issue	5,253,165	-	(174,482)	(8)	-	174,482	(973)	5,252,184
Dividends and interest on equity	16,561	(1,100,649)	-	-	1,084,088	-	-	-
	5,269,726	(1,100,649)	(174,482)	(8)	1,084,088	174,482	(973)	5,252,184

21. Commitments

a) Contractual obligations

The following table sets forth the annual minimum required and non-cancelable future payments related to the contractual obligations assumed by the Company as of June 30, 2019:

Types of Agreements	2019	2020	2021	2022	Total
Office space rental	395	790	822	855	2,862
Telecom and printers	48	48	48	48	192
Compression services	13,376	2,466	-	-	15,842
Operation and maintenance of gas pipelines	132,769	265,538	265,538	88,513	752,358
Use and sharing of gas pipelines rights-of-way	27,535	57,437	59,792	62,184	206,948
Total	174,123	326,279	326,200	151,600	978,202

b) Guarantees

At June 30, 2019, the Company had a guarantee of R\$1,247 with Banco Bradesco to cover the guarantees required in the lease agreement of the Company's head office.

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Six-month period ended June 30, 2019
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22. Insurance coverage

The Company has a policy of taking out insurance coverage for the assets subject to risks in amounts considered sufficient to cover possible losses, taking into account the nature of their activities.

The Company took out insurance coverage for operational risks, civil liability, civil and environmental liability, engineering risk, property risk and D&O liability.

The table below summarizes the insurance coverage types and their effective terms as contracted by the Company:

Insurance type	Effective term	Coverage
Operational risk (damage and business interruption)	10/03/2019	1,500,000,000
Civil liability	10/03/2019	400,000,000
Environmental risk	10/03/2019	300,000,000
D&O	10/03/2019	300,000,000
Engineering risk	01/01/2020	45,135,940
Engineering risk (Santa Eufrásia Farm)	08/19/2019	9,986,530
Civil liability (construction works)	08/19/2019	5,000,000
Property risk (office)	11/27/2019	10,000,000
Total		<u>2,570,122,470</u>

Insurance premiums paid related to the insurance policies are recorded under assets as prepaid expenses and are recorded proportionally to P&L as a result of the policies' effective terms.

The table below summarizes the amounts recorded at June 30, 2019 as prepaid expenses:

Description	06/30/2019	12/31/2018
Operating liability	2,334	6,847
Civil liability	463	1,367
Environmental liability	348	1,020
D&O	224	651
Engineering risk	60	111
Other - insurance	73	36
Total	<u>3,502</u>	<u>10,032</u>

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23. Event after the reporting period

The Special General Meeting (SGM) held on July 16 approved the reduction of the Company's capital stock by R\$624,328,716.06 (six hundred twenty-four million, three hundred twenty-eight thousand, seven hundred and sixteen reais and six cents), equivalent to a reduction of 38.57% in relation to the Company's current capital stock, which went from R\$1,618,630,004.60 (one billion, six hundred and eighteen million, six hundred thirty thousand and four reais and sixty cents), fully subscribed and paid-up, to R\$994,301,288.54 (nine hundred and ninety-four million, three hundred and one thousand, two hundred and eighty-eight reais and fifty-four cents), upon return of capital to shareholders in local currency in proportion to their corresponding equity interest held in the Company, and a decrease in the par value of the Company's share from R\$0.70 (seventy cents) to R\$0.43 (forty-three cents) with no cancellation of shares representing the Company's capital stock, thus maintaining the number of shares and the percentage interest of each shareholder in the Company's capital stock unchanged.