

NOVA TRANSPORTADORA DO SUDESTE S.A. -
NTS

MANAGEMENT REPORT 1Q20



MESSAGE FROM MANAGEMENT

The first quarter of 2020 started off with a positive scenario given the fact that the Company's credit rating had been reaffirmed by Fitch Ratings at AAA(bra), with a stable outlook, in January 2020. In the first quarter of 2020, our EBITDA margin reached 90.1%. Investments totaled BRL 51.1 million, of which BRL 46.1 million was disbursed in February with the acquisition of the Mantiqueira compression station. We also concluded the first distribution of interim dividends and interest on equity to shareholders in March 2020, in the amount of BRL 635.3 million.

At the same time, we are facing the pandemic situation declared by the World Health Organization. The Company's management has been closely monitoring the developments regarding the COVID-19 virus, as well as market reactions for the expected slowdown of the global economy. Until the date of this quarterly report, no interruption or material impact on the transportation of natural gas was observed. Due to the high contamination risk of this virus, and in accordance with the recommendations of health specialists, NTS adopted a remote working format for all its corporate employees as prevention measure to reduce exposure with infected individuals.

Within this context, we highlight that our formal Business Continuity Plan and our Crisis Management Plan, both of which were elaborated and tested throughout 2019, allowed us to promptly implement a 100% remote working format in less than a week for this crisis situation. The procedures for field activities, including those carried out by third parties, were also revised in order to mitigate risks for employees, and an operational contingency control room was installed to separate the teams responsible for monitoring our operations. The Company's management will continue making decisions based on the health and safety wellbeing of its employees and in compliance with the recommendations issued by health authorities.

NTS also analyzed the financial impacts of COVID-19 on the Company's operations and concluded that such impacts are not material given the stable revenue stream from natural gas transportation contracts, in addition to the Company's protection instruments through guarantee over its receivables. Therefore, NTS does not have continuity risks at this time.

NTS is also helping the society at this time and is allocating financial resources for the acquisition of medical supplies and hospital equipment in the municipalities of Nova Iguaçu and Japeri, both of which are located close to the Company's operational units. The accounting effects of these actions will be measured in the second quarter of 2020 and donations are expected to reach approximately BRL 6 million.

NTS will continue to monitor the current situation and any impacts that may arise as a result of the COVID-19 pandemic.

We appreciate the trust from our shareholders and the dedication and support from our Executive Board, managers and employees, all of whom have shown great committed and adaptability to maintain their responsibilities during this pandemic, which has affected the first quarter of 2020.

Wong Loon

Chief Executive Officer

Flávio Mendonça Leal

Chief Finance and Investor Relations
Officer

ECONOMIC-FINANCIAL PERFORMANCE

Nova Transportadora do Sudeste SA - NTS (“NTS” or “Company”) Management Report for the first quarter of 2020 (“Q1’20”), considering the period ended March 31st, 2020, compared to the first quarter of 2019 (“Q1’19”) presents the following highlights:

1. NET OPERATING REVENUE

Net Operating revenue reached BRL 1,148.5 million in the quarter, 6.0% higher than the same period in 2019. The annual IGP-M weighted index of the 5 GTAs was approximately 6% and generated 100% of revenues.

Variations in the average volume transported have an immaterial impact on revenues, since the GTAs have Ship-or-Pay clauses, a contractual condition that guarantees to the transporter predictability and stability of revenue, as the revenue is calculated based on the transportation capacity contracted, regardless of the volume effectively transported.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Net Operating Revenue	1,148,485	1,083,827	6.0%

2. COST OF SERVICES PROVIDED

Cost of services provided totaled BRL 187.4 million, corresponding to 16.3% of Net Operating Revenue (“NOR”) in 1Q20, versus BRL 190.8 million in 1Q19. The 1.8% reduction in the period is due to lower depreciation (PIS/COFINS credits over the fixed asset base that initiated in March 2019), partially offset by the increase in maintenance and operating costs of the gas pipeline network. The operating division increased its headcount by 17 employees between both periods, including activities for the transition of operational and maintenance contracts.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Cost of Services Provided	(187,381)	(190,757)	-1.8%
% on the NOR	-16.3	-17.6	1.3 pp

3. GROSS PROFIT

Gross Profit in 1Q20 totaled BRL 961.1 million, 7.6% higher than the same period of 2019 and corresponds to a 1.3 p.p. increase in gross margin as a result of the 6% increase in NOR.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Gross Profit	961,104	893,070	7.6%
Gross Margin %	83.7	82.4	1.3 pp

4. OPERATING EXPENSES

Operating Expenses totaled BRL 12.4 million in 1Q20, increasing by 21.6% in relation to 1Q19, representing 1.1% of NOR and 0.1 p.p. higher than the previous period.

The increase in Operating Expenses is mainly due to higher General and Administrative Expenses, of which approximately BRL 1 million was in personnel expenses and BRL 1 million was in corporate expenses, resulting from the increase in administrative employees, from 37 on 03/31/19 to 49 on 03/31/20, as well as severance costs for executive board members in early 2020. Expenses for sponsorship activities remained stable between both periods.

The details of these expenses are shown below:

In thousands of Reais	Q1' 20	Q1' 19	Var.
Operational Expenses	(12,384)	(10,184)	21.6%
% on the NOR	-1.1	-0.9	0.1 pp
General and Administratives expenses	(12,384)	(10,184)	21.6%
% on the NOR	-1.1	-0.9	0.1 pp

5. OPERATING PROFIT

Operating Profit totaled BRL 948.7 million in the quarter, corresponding to a margin of 82.6% of NOR, compared to a margin of 81.5% in the previous period. The result in 1Q20 was 7.5% higher than in 1Q19 due to improvement in gross profit, which was impacted by the slight reduction in costs. Consequently, operating margin increased by 1.1 p.p.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Operating Profit	948,720	882,886	7.5%
% on the NOR	82.6	81.5	1.1 pp

6. FINANCIAL RESULTS

Net Financial Result came in negative by BRL 49.1 million in 1Q20, improving by 38.1% against 1Q19, mainly due to expenses with interest on debentures. Expenses reduced by approximately 33% between both periods due to the lower interest rate (CDI) (average cost of 6.4% in 1Q19 versus 4.2% in 1Q20), considering the second debentures issuance has a cost of 109% of the CDI rate.

The improvement in financial income by approximately 5% was mainly due to higher cash availability in 1Q20 (BRL 664.9 million on 03/31/2020) versus the same period in 2019 (BRL 631.9 million on 3/31/2019).

NTS has no relevant exposure to exchange rates.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Net Financial Results	(49,144)	(79,362)	-38.1%
Financial revenues	11,527	10,946	5.3%
Financial expenses	(60,671)	(90,308)	-32.8%

7. INCOME BEFORE TAXES

The increase in Operating Profit combined with the decrease in Financial Expenses in the quarter led to Income Before Taxes of BRL 899.6 million in 1Q20, 12.0% higher than the same period in 2019. This corresponded to 78.3% of NOR, increasing by 4.2 p.p.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Income Before Taxes	899,576	803,524	12.0%
% on the NOR	78.3	74.1	4.2 pp

8. INCOME TAX AND SOCIAL CONTRIBUTION

The amount of current and deferred income tax and social contribution in the quarter totaled BRL 297.6 million, compared to BRL 265.6 million in 1Q19 and this change is explained by the significant increase in Income Before Taxes. The effective tax rate remained stable, reaching 33.1% in both periods.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Total Income Tax and Social Contribution	(297,639)	(265,621)	12.1%
% on income before taxes	-33.1	-33.1	0.0 pp
Current Income Tax and Social Contribution	(198,493)	(164,700)	20.5%
% on income before taxes	-22.1	-20.5	1.6 pp
Deferred Income Tax and Social Contribution	(99,146)	(100,921)	-1.8%
% on income before taxes	-11.0	-12.6	1.5 pp

9. NET PROFIT

NTS reported a Net Profit of BRL 601.9 million in 1Q20 against BRL 537.9 million in 1Q19. The positive variation of 11.9% was due to the operating and financial results previously mentioned.

In thousands of Reais	Q1' 20	Q1' 19	Var.
Net Profit for the year	601,937	537,903	11.9%
% on the NOR	52.4	49.6	2.8 pp

10. EBITDA

NTS reported an EBITDA of BRL 1,034.4 million in the first quarter of 2020, compared to BRL 978.9 million in 1Q19. EBITDA margin remained stable at 90.1% versus 90.3% in 1Q19, since the increase in profit combined with the reduction in depreciation and financial expenses was partially offset by the increase in taxes.

EBITDA Reconciliation (In thousands of Reais)	Q1' 20	Q1' 19	Var.
Net Profit	601,937	537,903	11.9%
Income Tax and Social Contribution	297,639	265,621	12.1%
Net Financial Results	49,144	79,362	-38.1%
Depreciation	85,659	96,063	-10.8%
EBITDA	1,034,379	978,949	5.7%
EBITDA Margin %	90.1	90.3	- 0.3 pp

11. BALANCE SHEET EVOLUTION

PP&E totaled BRL 8.2 billion at the end of 1Q20, versus BRL 8.3 billion on 12/31/19.

Gross indebtedness by the end of first quarter was BRL 5.3 billion, close to the BRL 5.2 billion as of 12/31/2019. Net debt increased to BRL 4.6 billion at the end of 1Q20, versus R\$4.4 billion in 12/31/2019.

The cash position between periods was impacted, among other events, by the acquisition of the Mantiqueira compression station, in the amount of BRL 46.1 million, disbursed in February 2020.

Indebtedness (In thousands of Reais)	03/31/2020	12/31/2019	Var.
Gross Debt	5,299,695	5,241,123	1.1%
Cash	664,854	795,974	-16.5%
Net Debt	4,634,841	4,445,149	4.3%

12. DIVIDENDS AND INTEREST ON EQUITY

In 1Q20, after opinion issued by the Fiscal Council and approval by the Board of Directors, BRL 635.3 million was paid to shareholders, of which BRL 602.6 million as dividends (BRL 0.261/share) and BRL 32.7 million as interest on equity (BRL 0.014/share).

The dividends payment referred to: (i) BRL 248.0 million as additional dividends proposed at the end of 2019, and (ii) BRL 354.6 million as interim dividends, anticipated based on the January and February 2020 results. The interest on equity payment referred to: (i) BRL 10.8 million as accrued interest related to the month of December 2019, and (ii) BRL 21.9 million as interest on equity related to the months of January and February 2020.

13. INDEPENDENT AUDITORS

Independent external auditors are engaged exclusively to provide external audit services. No other services were requested from the auditors.

14. SUBSEQUENT EVENTS

In April 2020, the Company signed an agreement with Petrobras for the deferral of natural gas transportation receivables related to the invoices of March, April and May 2020. According to the payment schedule in the agreement, Petrobras expects to settle the final payment installment for deferred receivables by August 2020.

According to the teaser released by Petrobras on March 31, 2020, the process of divesting 10% (ten percent) of Petrobras' stake in the Company is in progress, in compliance with the Cessation of Practice Commitment No. 08700.003133 / 2019-71, from July 8, 2019, celebrated between the Administrative Council for Economic Defense - CADE and Petrobras. For the non-binding phase of the process, potential buyers have until May 15, 2020 to sign Confidentiality Agreement and Compliance Certificate.

Quarterly Information - ITR

Nova Transportadora do Sudeste S.A. - NTS

March 31, 2020

Including the Independent Auditor's Report

Nova Transportadora do Sudeste S.A. - NTS

Quarterly Information - ITR

March 31, 2020

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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 accompanying interim financial information, contained in the Quarterly Information Form (ITR) of Nova Transportadora do Sudeste S.A. for the quarter ended March 31, 2020, comprising the statement of financial position as of March 31, 2020 and the related statements of profit or loss, comprehensive income, of changes in equity and of cash flows for the three month period then ended, including the explanatory notes.

Management is responsible for preparation of the interim financial information in accordance with Accounting Pronouncement NBC TG 21 – 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 conformity with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Information Form (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 accompanying interim financial information included in the quarterly information referred to above are not prepared, in all material respects, in accordance with NBC TG 21 and IAS 34 applicable to the preparation of Quarterly Information Form (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statements of value added

The abovementioned quarterly information includes the statement of value added (SVA) for the three month period ended March 31, 2020, prepared under Company's Management responsibility and presented as supplementary information by IAS 34. These statements have been subject to review procedures performed together with the review of the quarterly information with the objective to conclude whether they are reconciled to the interim financial information and the accounting records, as applicable, and if its format and content are in accordance with the criteria set forth by NBC TG 09 – Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the overall interim financial information.

Rio de Janeiro, May 14, 2020



ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Daniel de Araujo Peixoto

Accountant CRC-1BA025.348/O-9

Nova Transportadora do Sudeste S.A - NTS

Statement of financial position
 March 31, 2020 and March 31, 2019
 (In thousands of reais)

Assets	Note	3/31/2020	12/31/2019
Current			
Cash and cash equivalent	5	664,854	795,974
Trade accounts receivable	6	888,181	861,142
Recoverable taxes	12.1	72	3
Other accounts receivable	13	87,807	76,793
Prepaid expenses		8,174	10,707
Advances		3,291	2,594
Other		675	52
		1,653,054	1,747,265
Non-current			
Restricted bank deposits	7	15,197	15,096
Judicial deposits	20.2	17,933	17,716
Recoverable taxes	12.1	8,659	8,622
Other		2,195	
Property, Plant, and Equipment - PP&E	8	8,204,598	8,262,072
		8,248,582	8,303,506
Total Assets		9,901,636	10,050,771

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Liabilities	Note	3/312020	12/31/2019
Current			
Trade accounts payable	9	237,783	256,471
Taxes payable	12.1	58,960	54,708
Payroll and charges payable		23,215	20,174
Debentures payable	10	103,913	45,828
Interest on equity	15.3	-	10,546
Income tax and social contribution payable	12.1	142,937	414,949
		566,808	802,676
Non-current			
Debentures payable	10	5,195,782	5,195,295
Provisions for environmental compensation	14.1	31,361	31,543
Provision for environmental constraints	14.2	53,873	55,018
Provision for legal contingencies	20.1	6,336	6,336
Provision for intersection crossings		10,947	-
Deferred taxes	12.2	1,418,179	1,319,032
		6,716,478	6,607,224
Equity			
Share capital	15.1	994,301	994,301
Capital reserve	15.2	1,360,199	1,360,199
Profit reserve	15.3	263,850	286,371
		2,618,350	2,640,871
Total Liabilities and Shareholders' Equity		9,901,636	10,050,771

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Statement of profit or loss

Three-month period ended March 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

	Note	<u>3/31/2020</u>	<u>3/31/2019</u>
Revenue	16	1,148,485	1,083,827
Costs of services	17	(187,381)	(190,757)
General and administrative expenses	18	<u>(12,384)</u>	<u>(10,184)</u>
Operating expenses		<u>12,384</u>	<u>(10,184)</u>
Operating profit		<u>948,720</u>	<u>882,886</u>
Financial revenue	19	11,527	10,946
Financial expenses	19	<u>(60,671)</u>	<u>(90,308)</u>
Net financial result		<u>(49,144)</u>	<u>(79,362)</u>
Income before tax and social contribution		<u>899,576</u>	<u>803,524</u>
Current income tax and social contribution	12.3	(198,493)	(164,700)
Deferred income tax and social contribution	12.3	(99,146)	(100,921)
Net income for the period		<u>601,937</u>	<u>537,903</u>
Basic and diluted earnings per share (in R\$)		<u>0.26</u>	<u>0.23</u>

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Statement of comprehensive income
Three-month period ended March 31, 2020 and 2019
(In thousands of reais)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Net income for the period	601,937	537,903
Other comprehensive results	-	-
Comprehensive income for the period	<u>601,937</u>	<u>537,903</u>

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Statement of changes in equity
 Three-month period ended March 31, 2020 and 2019
 (In thousands of reais)

	Capital Reserve		Profit Reserve			Total
	Share Capital	Capital Transaction	Legal	Proposed Dividends	Accumulated Profit (Loss)	
Balance on December 31, 2018	1,618,630	1,360,199	38,368	190,432	-	3,207,629
Net income for the period	-	-	-	-	537,903	537,903
Interest on equity	-	-	-	-	(36,426)	(36,426)
Dividends paid	-	-	-	(190,432)	(275,013)	(465,445)
Balance on March 31, 2019	1,618,630	1,360,199	38,368	-	226,464	3,243,661

	Capital Reserve		Profit Reserve			Total
	Share Capital	Capital Transaction	Legal	Proposed Dividends	Accumulated Profit (Loss)	
Balance on December 31, 2019	994,301	1,360,199	38,368	248,003	-	2,640,871
Net income for the period	-	-	-	-	601,937	601,937
Interest on equity	-	-	-	-	(21,899)	(21,899)
Dividends paid	-	-	-	(248,003)	(354,556)	(602,559)
Proposed dividends	-	-	-	-	-	-
Balance on March 31, 2020	994,301	1,360,199	38,368	-	225,482	2,618,350

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Statement of cash flows

Three-month period ended March 31, 2020 and 2019

(In thousands of reais)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Operating activities		
Net income for the period	601,937	537,903
Adjustments to expenses and income, non-cash:		
Deferred income tax and social contribution	99,146	100,921
Insurance amortization	3,513	3,193
Interest expense on debentures and financing	58,572	87,310
Depreciation and amortization	108,577	107,882
Provision for bonus	3,770	3,292
Other	(349)	392
	<u>875,166</u>	<u>840,893</u>
Changes in assets and liabilities		
Trade accounts receivable	(27,040)	(30,995)
Recoverable taxes	(106)	(628)
Other accounts receivable	(11,014)	(6,105)
Judicial deposits	(1)	(99)
Other assets	(4,495)	(455)
Trade accounts and other accounts payable	(7,741)	(2,176)
Payments and charges payable	(729)	(7,532)
Taxes payable	203,032	169,774
Income tax and social contribution paid	(470,505)	(162,318)
Expenses with environmental provisions	(1,294)	(3,723)
Other liabilities	-	(8)
Net cash flow generated by operating activities	<u>555,273</u>	<u>796,628</u>
Investment activities		
Acquisition of PP&E	(51,103)	(8,394)
Cash flow used in investment activities	<u>(51,103)</u>	<u>(8,394)</u>
Financing activities		
Payment of dividends and interest on equity	(635,290)	(518,431)
Cash flow used in financing activities	<u>(635,290)</u>	<u>(518,431)</u>
Increase in cash and cash equivalents	<u>(131,120)</u>	<u>269,803</u>
Changes in cash and cash equivalents		
Cash and cash equivalents at the beginning of the period	795,974	362,083
Cash and cash equivalents at the end of the period	<u>664,854</u>	<u>631,886</u>
	<u>(131,120)</u>	<u>269,803</u>

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A - NTS

Statement of added value

Three-month period ended March 31, 2020 and 2019

(In thousands of reais)

	<u>3/31/2020</u>	<u>3/31/2019</u>
Added value to be distributed		
Revenue	1,340,943	1,268,312
Services and other revenues	1.340,943	1,268,312
Inputs purchased from third parties	(95,990)	(91,621)
Services provided, energy, third party services and others	(95,990)	(91,621)
Gross added value	1,244,953	1,176,691
Depreciation and amortization	(85,659)	(96,063)
Net added value by the company	1,159,294	1,080,628
Added value received in transfer	11,481	10,946
Investment income - includes monetary and exchange variations	11,481	10,946
Total added value to be distributed	1,170,775	1,091,574
Added value distribution		
Personnel	10,758	7,086
Direct compensation	8,052	5,556
Benefits	2,122	1,068
FGTS	584	462
Taxes, fees and contributions	492,307	452,339
Federal	429,353	390,307
State	58,120	57,259
Municipal	4,834	4,773
Remuneration on third-party capital	65,773	94,246
Interest, fines, monetary and exchange variations	60,033	89,663
Donations and sponsorships	2,000	1,980
Trade accounts – non-operating services	5,010	2,603
Other third-party capital remuneration	(1,270)	-
Remuneration on equity	601,937	537,903
Interest on loans and financing with related parties	-	-
Interest on equity	21,899	36,426
Distributed dividends	354,556	275,013
Proposed dividends	225,482	226,464
Total added value distributed	1,170,775	1,091,574

See accompanying notes as they are an integral part of the quarterly statements.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Three-month period ended March 31, 2020

(In thousands of reais, except if indicated otherwise)

1. Operating context

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 sale of 90% of the shares it held in NTS to Nova Infraestrutura Fundo de Investimentos em Participações Multiestratégia (“FIP”), managed by Brookfield Brasil Asset Management Investimentos Ltda., a company affiliated to Brookfield Asset Management.

On April 4, 2017, the sale of 90% of NTS’s shares to FIP was concluded with the subsequent sale, by FIP, of 7.65% of NTS’s shares to ITAÚSA ITAÚSA (Itaú Investimentos S.A.) on the same day.

Therefore, the current shareholder structure of the Company is as follows: FIP owns 82.35%, Petrobras owns 10% and ITAÚSA owns 7.65% of the total shares.

On October 24, 2017, ANP issued NTS permanent operating authorizations for all its gas pipelines.

The Company operates in a single segment, the transportation of natural gas, which is not subject to seasonality.

2. Basis of presentation of the financial statements

The quarterly information has been prepared and is being presented in accordance with the Accounting Pronouncements Committee - CPC 21 (R1) Interim Statements, which were approved by the Brazilian Securities and Exchange Commission (CVM) and in accordance with the international standard 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 with the relevant changes that occurred in the period, without the repetition of certain previously disclosed explanatory notes, which, according to the management’s opinion, provide a comprehensive view of the Company’s equity and financial position and the performance of its operations. Therefore, the accounting information should be read jointly with the Company’s annual financial statements for the year ended December 31, 2019.

Additionally, the Company considered the guidelines issued by OCPC 07 Technical Guidance when preparing this quarterly information.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements
Three-month period ended March 31, 2020
(In thousands of reais, except if indicated otherwise)

2. Basis of presentation of the financial statements --continuation

Therefore, relevant information disclosed for the quarterly information corresponds to the information used by Management when carrying out their daily attributions.

This quarterly information was approved by the Fiscal Council on May 8th, 2020 and by the Board of Directors on May 13th, 2020.

NTS's functional currency is the Brazilian real (R\$) as it is the currency of the economic environment in which the Company 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 fiscal year ended December 31, 2019. In addition, the Company did not observe changes in its accounting policies resulting from the adoption, on January 1, 2019, of the pronouncements CPC 06 (R2) - "Leasing operations" and ICPC22/IFRIC23 - "Uncertainty about the treatment of taxes on profit".

4. Significant estimates and judgments

The quarterly financial statements herein presented were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these quarterly statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the quarterly statements. 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 financial statements due to the uncertainties inherent in the estimation process. The Company reviews its estimates periodically throughout the year.

For more information on relevant estimates, see note 5 to the financial statements of December 31, 2019.

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Notes to the financial statements
Three-month period ended March 31, 2020
(In thousands of reais, except if indicated otherwise)

5. Cash and cash equivalents

	<u>3/31/2020</u>	<u>12/31/2019</u>
Cash and cash equivalents	416	614
Short-term financial investments	<u>664,438</u>	<u>795,360</u>
	<u>664,854</u>	<u>795,974</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) remunerated by reference to the Interbank Deposit Certificate (CDI).

6. Trade accounts receivable

	<u>3/31/2020</u>	<u>12/31/2019</u>
Petróleo Brasileiro S.A - Petrobras	888,181	861,142
	<u>888,181</u>	<u>861,142</u>

The Company's receivables arise from Gas Transportation Agreements (GTAs) entered into with Petrobras. There were no overdue amounts receivable on March 31, 2020 and December 31, 2019, just as we have no expected losses associated with these receivables.

7. Restricted bank deposits

The balance of R\$15,197 on March 31, 2020 (R\$15,096 on December 31, 2019), refers to savings account held with Banco do Brasil to cover environmental compensations related to the construction of gas pipelines GASAN II, GASPAL II and ECOMP in Guararema, State of São Paulo and will be used as required by environmental bodies. Such deposits should be linked to savings accounts and follow the provisions of Federal Law 9.985/2000, which constituted the National System of Units of Conservation – SNUC.

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Notes to the financial statements

Three-month period ended March 31, 2020

(In thousands of reais, except if indicated otherwise)

8. Property, Plant, and Equipment (PP&E)

Description	12/31/2019	Changes in 2020				3/31/2020
		Additions	Write-offs	Transfers	Depreciation	
Construction in progress	111,035	5,049		(3,348)		112,736
Improvement in third-party assets	4,079				(121)	3,958
Environmental constraints	118,110				(1,400)	116,710
Equipment and other assets	8,028,848	46,054		3,348	(107,056)	7,971,194
	8,262,072	51,103	-	-	(108,577)	8,204,598

Description	31/12/2018	Changes in 2019				12/31/2019
		Additions	Write-offs	Transfers	Depreciation	
Construction in progress	78,676	103,996	-	(71,637)	-	111,035
Improvement in third-party assets	4,217	381	-	(40)	(478)	4,079
Environmental constraints	123,361	-	-	-	(5,251)	118,110
Equipment and other assets	8,401,176	5,221	(23,493)	71,677	(425,733)	8,028,848
	8,607,430	109,598	(23,493)	-	(431,462)	8,262,072

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 that increase the asset's useful life), 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 three-month period ended March 31, 2020 and the fiscal year ended December 31, 2019 there was no capitalization of interest on financing for construction projects in the Company's PP&E.

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Notes to the financial statements
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(In thousands of reais, except if indicated otherwise)

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

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.

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.

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

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.

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 5.5 km-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

The 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.

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Notes to the financial statements

Three-month period ended March 31, 2020

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

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.

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 three-month period ended March 31, 2020 and the fiscal year ended December 31, 2019.

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Notes to the financial statements
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 (In thousands of reais, except if indicated otherwise)

9. Trade accounts payable

	<u>3/31/2020</u>	<u>12/31/2019</u>
Petróleo Brasileiro S.A - Petrobrás	166,058	162,538
Petróleo Transportes S.A - Transpetro	48,730	39,130
Solar Turbines Internati	-	6,402
Tokio Marine Seguradora	-	4,506
Intech Engenharia Ltda	419	1,980
Chubb Seguros Brasil SA	128	1,635
Schneider	-	1,613
Rosenbra Engenharia Brasil Ltda	314	1,878
Enerflex/Geogás	1,678	1,314
EGD Engenharia Ltda.	20	1,022
Exterran	411	933
AIG Seguros Brasil	-	890
XL Seguros Brasil	-	512
Consultants and other contracted services	10,480	11,236
Other trade accounts	9,545	20,882
	<u>237,783</u>	<u>256,471</u>

10. Debentures payable

	Interest	Maturity	<u>3/31/2020</u>	<u>12/31/2019</u>
Current				
Charges - 2 nd issue debentures	109% CDI	2023	105,860	47,775
Funding costs	-	-	(1,947)	(1,947)
Total current			<u>103,913</u>	<u>45,828</u>
Non-current				
Principal - 2 nd issue debentures	109% CDI	2023	5,200,000	5,200,000
Funding costs	-	-	(4,218)	(4,705)
Total non-current			<u>5,195,782</u>	<u>5,195,295</u>
Total			<u>5,299,695</u>	<u>5,241,123</u>

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Three-month period ended March 31, 2020

(In thousands of reais, except if indicated otherwise)

10. Debentures payable—Continuation

On April 20, 2018, the Company's Extraordinary General Meeting (EGM) 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 Instruction 476 and other legal and regulatory provisions, in the total amount of R\$5,200,000 at the nominal unit value of R\$10,000.00.

The Second Debentures Issue was subject to a firm guarantee 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 Extraordinary General Meeting (EGM) held on April 20, 2018 and paid in 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 more than 1.5 times.

At the reporting date of the quarterly information on March 31, 2020, the Company verified 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>
2020	-	1,460
2021	-	1,947
2022	-	1,947
2023	5,200,000	811
	<u>5,200,000</u>	<u>6,165</u>

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Notes to the financial statements
 Three-month period ended March 31, 2020
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11. Transactions with related parties

a) Operations between legal entities

	<u>Petrobrás</u>	<u>Transpetro</u>	<u>TAG</u>	<u>3/31/2020</u>
Results				
Revenue from services	1,340,943	-	-	1,340,943
Cost with operation and maintenance of gas pipes	-	(65,840)	-	(65,840)
Other operating costs	(14,525)	-	-	(14,525)
	<u>1,326,418</u>	<u>(65,840)</u>	<u>-</u>	<u>1,260,578</u>
Assets				
Trade accounts receivable	888,182	-	-	888,182
Other accounts receivable	87,807	-	-	87,807
	<u>975,989</u>	<u>-</u>	<u>-</u>	<u>975,989</u>
Liabilities				
Trade accounts	(166,058)	(48,730)	-	(214,788)
	<u>(166,058)</u>	<u>(48,730)</u>	<u>-</u>	<u>(214,788)</u>

	<u>Petrobras</u>	<u>Transpetro</u>	<u>TAG</u>	<u>3/31/2019</u>
Results				
Gross revenue from services	1,268,312	-	-	1,268,312
Cost with operation and maintenance of gas pipes	-	(60,260)	-	(60,260)
Other operating costs/expenses	(13,766)	-	-	(13,766)
Net financial expenses	-	-	-	-
	<u>1,254,546</u>	<u>(60,260)</u>	<u>-</u>	<u>1,194,286</u>
				<u>12/31/2019</u>
Assets				
Trade accounts receivable	861,142	-	-	861,142
Other accounts receivable	76,793	-	-	76,793
	<u>937,935</u>	<u>-</u>	<u>-</u>	<u>937,935</u>
Liabilities				
Trade accounts	(162,538)	(39,130)	195	(201,473)
	<u>(162,538)</u>	<u>(39,130)</u>	<u>195</u>	<u>(201,473)</u>

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Notes to the financial statements

Three-month period ended March 31, 2020

(In thousands of reais, except if indicated otherwise)

11. Transactions with related parties—Continuation

a) Operations between legal entities —Continuation

For the three-month period ended March 31, 2020 and 2019, the Company entered into transactions with shareholders and other related parties, as described below:

- I) Petrobras – On March 31, 2020 and 2019, the transactions with Petrobras referred 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 2019 and 2020. 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 provided and the due date will be the 10th day of the second month, also after services were provided. 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 2020 and 2019 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.
- II) Transpetro – On March 31, 2020 and 2019, the transaction with Transpetro referred 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 provided. 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.

b) 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 account. The benefits are partially paid for by their managers and are recorded as expenses when incurred.

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

	<u>3/31/2020</u>	<u>12/31/2019</u>
Administration fees	1,606	6,458
Short-term benefits	<u>350</u>	<u>3,851</u>
	<u>1,956</u>	<u>10,309</u>

12. Taxes

12.1. Current taxes

	<u>Current Assets</u>		<u>Non-Current Assets</u>		<u>Current Liabilities</u>	
	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2020</u>	<u>12/31/2019</u>
Income tax	-	2	-	-	(102,550)	(290,229)
Social contributions	-	1	-	-	(40,387)	(124,720)
PIS/COFINS (a)	-	-	8,659	8,622	(32,414)	(30,025)
ICMS	-	-	-	-	(21,422)	(17,111)
ISS	-	-	-	-	(3,405)	(3,896)
IRRF	-	-	-	-	(84)	(1,360)
Other	72	-	-	-	(1,635)	(2,316)
	<u>72</u>	<u>3</u>	<u>8,659</u>	<u>8,622</u>	<u>(201,897)</u>	<u>(469,657)</u>

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12. Taxes—Continuation

- a) The amounts recorded under non-current assets refer to the Social Integration Program (PIS) and for Social Security Financing (COFINS) tax credits 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 date 3/31/2020	Deferred IR and CSLL Balance (34%)	Base date 12/31/2019	Deferred IR and CSLL Balance (34%)
Deferred tax assets				
Provision for contingencies and other	16,995	5,778	16,226	5,517
Provision - expenses with environmental compensation	31,362	10,663	31,543	10,725
Provision for bonus	19,546	6,646	17,117	5,820
Other			-	-
		23,087		22,062
Deferred tax liabilities				
PP&E - Difference in corporate x tax depreciation	(4,239,018)	(1,441,266)	(3,944,394)	(1,341,094)
			-	-
		(1,441,266)		(1,341,094)
Net deferred tax balance		(1,418,179)		(1,319,032)

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.

	2020	2021	2022	2023	Total
Recoverability of deferred tax assets	3,323	8,654	5,332	5,778	23,087

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12. Taxes—Continuation

12.3. Reconciliation of income and social contribution taxes

	<u>3/31/2020</u>	<u>3/31/2019</u>
Income before income tax and social contribution	899,576	803,524
Income tax and social contribution - nominal rate (34%)	(305,856)	(273,198)
	<u>593,720</u>	530,326
Adjustments for calculating the effective rate:		
Permanent net exclusions	(18,191)	(15,691)
Temporary net exclusions	(290,896)	(296,825)
Additions	5,101	6,211
(+) Provision for bonus	2,429	2,782
(+) Provision for environment	725	586
(+) Other	1,947	2,843
Exclusions	(295,997)	(303,035)
(-) Depreciation (tax x corporate)	(294,624)	(292,289)
(-) Bonus	-	(7,023)
(-) Provision for environment	(1,145)	(3,723)
(-) Other	(228)	
Basis for calculating adjusted income tax and social contribution	<u>590,490</u>	491,009
Income tax and social contribution	(200,737)	(166,681)
Sponsorships (Lei Rouanet)	2,244	1,981
Current income and social contribution taxes	(198,493)	(164,700)
Deferred income and social contribution taxes	(99,146)	(100,921)
	<u>(297,639)</u>	(265,621)
	33.09%	33.06%
Effective IR and CS rate		

13. Other accounts receivable

The balance of R\$87,807 on March 31, 2020 was referred to: i) expenses incurred by the Company within the scope of the Management and Remediation of Cracks by Corrosion Under Tension (SCC), in the amount of R\$85,538 (R\$74,566 in December 2019); and ii) Rentals, in the amount of R\$2,269. These amounts must be reimbursed by Petróleo Brasileiro S.A. – Petrobras during 2020, as part of the remaining obligations agreed between buyer and seller for the sale of the Company. This balance is not being monetarily restated.

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Notes to the financial statements

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14. Provision for environmental compensation and environmental constraints

14.1 Provision for environmental compensation

Refers to provisions, in the amount of R\$31,361 (R\$31,543 on December 31, 2019), based on Federal Law 9.985/2000, which constituted the National System of Units of Conservation – SNUC, which aims to ensure the preservation of nature and sustainable development of natural resources and will be spent as established by the Environment Foundation - FATMA and the Public Ministry.

14.2 Provision for environmental constraints

The balance, in the amount of R\$53,873 (R\$55,018 on December 31, 2019), 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 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.

15. Equity

15.1 Share capital

At the Extraordinary General Meeting held on July 16, 2019, was attended by the Company's shareholders representing the majority of the share capital, who unanimously and unreservedly approved the reduction of the Company's share capital in the amount of R\$624,329, as deemed excessive, and the Fiscal Council has previously expressed a favorable opinion. On September 15, 2019, after 60 (sixty) days from the publication of the minutes of this meeting without the opposition of creditors, the Company's share capital was reduced from R\$1,618,630 to R\$994,301, with decrease of the nominal value of the share from R\$0.70 (seventy centavos) to R\$0.43 (forty-three centavos) and upon capital restitution to the shareholders, proportionally to their respective interests in the Company's share capital.

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15. Equity—Continuation

Due to the abovementioned capital reduction, the Company's fully subscribed and paid-up capital on March 31, 2020 was 2,312,328,578 common registered shares with a par value of R\$0.43 each (2,312,328,578 common shares on December 31, 2019 all registered shares with a par value of R\$0.43 each). The Company does not have authorized capital.

15.2 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 on October 25, 2016, generating gains of R\$1,360,199, recorded as capital transaction in Equity.

15.3 Income reserves

a) Legal reserve

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

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

b) Interim dividends

In the period ended March 31, 2020, NTS distributed a total of R\$354,556 as interim dividends. (R\$1,795,038 on December 31, 2019) and a total of R\$21,899 related to interest on equity (R\$163,654 on December 31, 2019). Both the payment of dividends and interest on equity were approved by the Fiscal Council and the Board of Directors.

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c) Dividends paid

On December 31, 2019, the Company's management proposed the distribution of additional dividends in the amount of R\$248,003. This amount was paid in the first quarter of 2020 together with the anticipated dividends, after the deliberation and approval of the Board of Directors.

d) Earnings per share

The calculation of basic and diluted earnings per share for the three-month period ended on March 31, 2020 and 2019, were as follows:

	3/31/2020	3/31/2019
Net income for the period (in thousands of Reais)	601,937	537,903
Total shares issued	2,312,328,578	2,312,328,578
Basic and diluted earnings per share in Reais	0.26	0.23

16.Net revenue

	3/31/2020	3/31/2019
Gross revenue	1,400,045	1,324,517
Sales taxes	(192,458)	(184,485)
Tariff adjustments	(59,102)	(56,205)
	1,148,485	1,083,827

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17. Costs of services

	<u>3/31/2020</u>	<u>3/31/2019</u>
Depreciation and amortization	(85,659)	(96,063)
Contracted services, freight, rentals, and general charges	(4,798)	(5,885)
Operation and maintenance	(65,840)	(60,260)
Rite of passage	(14,525)	(13,766)
Electric energy	(4,366)	(4,806)
Insurance	(3,513)	(3,193)
ICMS on the gas used in the system	(1,727)	(3,056)
Personnel costs	(4,368)	(2,545)
Other costs	(2,585)	(1,183)
	<u>(187,381)</u>	<u>(190,757)</u>

18. General and administrative expenses

	<u>3/31/2020</u>	<u>3/31/2019</u>
Personnel expenses	(6,483)	(5,527)
Legal advice	(283)	(119)
Accounting advice	(261)	(306)
Consulting	(154)	(79)
Sponsorships	(2,000)	(1,980)
Office and other expenses	(3,209)	(2,173)
	<u>(12,384)</u>	<u>(10,184)</u>

19. Net financial result

	<u>3/31/2020</u>	<u>3/31/2019</u>
Financial income	9,188	10,646
Other financial income	2,339	300
Total financial income	<u>11,527</u>	<u>10,946</u>
Interest on financing	(58,848)	(87,663)
Fines and interest	(592)	(645)
Taxes on financial result	(53)	(28)
Other financial expenses	(1,178)	(1,972)
Total financial expenses	<u>(60,671)</u>	<u>(90,308)</u>
Net financial result	<u>(49,144)</u>	<u>(79,362)</u>

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20. Legal proceedings and contingencies

20.1 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:

	<u>3/31/2020</u>	<u>12/31/2019</u>
Non-current liabilities		
Labor	(2,996)	(2,996)
Tax	(3,340)	(3,340)
	<u>(6,336)</u>	<u>(6,336)</u>

20.2 Judicial deposits

	<u>3/31/2020</u>	<u>12/31/2019</u>
Non-current assets		
Labor	17	17
Tax	17,897	17,681
Other	19	18
	<u>17,933</u>	<u>17,716</u>

20.3 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 these quarterly statements.

Contingent liabilities estimated for legal proceedings on March 31, 2020 and December 31, 2019 in which the probability of loss of which is considered possible, are presented below:

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20.4 Non-accrued legal proceedings – Continuation

	Civil	Tax		Total
	Judicial	Administrative	Judicial	
Balance on December 31, 2019	44	96,845	13,033	109,922
New lawsuits	1,026	31,490	-	32,516
Monetary restatements	-	1,410	160	1,570
Balance on March 31, 2020	1,070	129,745	13,193	144,008

The main administrative tax causes refer to several administrative proceedings initiated by the Brazilian Federal Revenue (RFB) and are related to tax credits used by NTS and not approved by the tax authority. Additionally, in this quarter, a new lawsuit was added concerning a decision that partially disapproved the negative balance credits of the IRPJ and CSLL taxes, respectively, for the 2015 fiscal year, totaling R\$111,974 (R\$84,474 in December 2019).

21. 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.

On March 31, 2020, the Company did not have any 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 the Company's 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 on March 31, 2020 are sufficient for the settlement of its short-term liabilities. Liquidity risk is managed by the Company by investing its cash in CDBs and investment funds with daily liquidity and renegotiating (when necessary) the maturity date of its debts.

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21. Financial instruments--Continuation

	2020	2021	2022	2023	Total
Debtentures	153,824	204,360	204,380	5,263,728	5,826,292
Trade accounts	237,783	-	-	-	237,783

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. On March 31, 2020, the Company did 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. On March 31, 2020, the Company did not have any 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 NTS signed a Restricted Accounts Management Agreement with Banco Bradesco S.A. aiming to diversify NTS's credit risk in relation to the Gas Transportation Agreements (GTAs) with Petrobras and so that the Company does not depend exclusively on its only customer to obtain its revenues.

Receivables pledged as collateral by Petrobrás to NTS refer to deposits made in the restricted account by Petrobrás' low-credit risk clients, 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 Company's expected monthly invoices, due by Petrobras under the GTAs, in addition to any taxes and charges that may be deducted by Banco Bradesco every month.

d) Sensitivity analysis

On March 31, 2020, the Company's management carried out a sensitivity analysis for financial instruments subject to interest rate risk, considering that the exposure is the value of the debtentures, as described in Note 10, and financial investments exposed to the CDI variation. The possible and remote scenarios consider a 25% and 50% variation in the expected interest rates on loan balances, net of financial investments, respectively, in relation to this same date.

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21. Financial instruments—Continuation

e) Sensitivity Analysis— Continuation

Instruments	Exposure	Risk	Probable (*)	Possible (25% Variation)	Remote (50% Variation)
<u>Financial liabilities</u>					
Debentures (**)	5,299,694	Increase in CDI	(209,126)	(260,784)	(312,209)
<u>Financial assets</u>					
Cash and cash equivalents	664,854	Decrease in CDI	24,932	18,699	12,466

(*) 12-month scenario

(**) Debenture amount and interest to be incurred/ projected financial charges do not include funding expenses

(a) The probable scenario was calculated considering a CDI rate of 3.75%, applicable to the floating interest rate portion of the debentures net of cash and cash equivalents as of March 31, 2020. The possible and remote scenarios considered variations of 25% and 50% respectively, in the CDI rate applied to the floating portion of the debentures (increase in CDI), net of the cash balance and cash equivalents for the next 12 months.

f) 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 on March 31, 2020 and December 31, 2019.

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21. Financial instruments—Continuation

Financial assets (current and non-current)	Level	3/31/2020		12/31/2019	
		Book Value	Fair Value	Book Value	Fair Value
Measured at amortized cost		1,656,040	1,656,040	1,749,005	1,749,005
Cash and cash equivalents	2	664,854	664,854	795,974	795,974
Trade accounts receivable	2	888,182	888,182	861,142	861,142
Other accounts receivable	2	87,807	87,807	76,793	76,793
Restricted deposits	2	15,197	15,197	15,096	15,096
Financial liabilities (current and non-current)					
Measured at amortized cost		5,537,478	5,537,478	5,497,594	5,497,594
Trade accounts		237,783	237,783	256,471	256,471
Debentures		5,299,695	5,299,695	5,241,123	5,241,123

e) Estimate at fair value:

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

- Level 1 - unadjusted prices in active markets for instruments identical to those held by the Company
- Level 2 - observable information on assets or liabilities, whether directly or indirectly, except for 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 that may be used as a benchmark to determine their fair values, its book values reflect the fair value of the transaction.

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21. Financial instruments—Continuation

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:

Debentures & Financing	Balance on December 31, 2019	Cash Changes			Non-Cash Changes			Balance on December 31, 2020
		Financing activities received (paid)	Interest payment	Funding costs	Approved dividends & interest on equity	Interest expense	Amortization of funding costs	
Debentures – 2 nd Issue	5,241,123		-	-	-	58,085	487	5,299,695
Dividends & Interest on Equity	10,546	(387.001)		-	376,455	-	-	-
	5,251,669	(387.001)	-	-	376,455	58,085	487	5,299,695

22. 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 March 31, 2020:

Type of Contract	2020	2021	2022	2023	2024	Total
Office rental	1,063	1,024	512	45	48	2,692
Telecom & printers	16	-	-	-	-	16
Compression services	10,821	11,183	12,001	12,879	13,822	60,706
Operation and maintenance	278,309	278,309	278,309	278,309	278,309	1,391,545
Use and sharing of gas pipelines	41,302	55,069	59,099	63,424	68,066	286,960
Total	331,511	345,585	349,921	354,657	360,245	1,741,919

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22. Commitments- Continuation

b) Guarantees

On March 31, 2020, the Company had a guarantee of R\$1,251 with Banco Bradesco to cover the guarantees required in the lease agreement of the Company's head office located at Praia do Flamengo 200/23rd floor, Rio de Janeiro, RJ. The Company also had a rent guarantee insurance contract in the amount of R\$902 with Potencial Seguradora S.A. as security in compliance with the lease agreement of part of the office located at Praia do Flamengo 200/19th floor, Rio de Janeiro, RJ.

23. 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, considering the nature of their activities.

The Company has several insurance policies, including operational risks and business interruption, general civil liability, environmental risks, D&O civil liability, engineering risks, civil liability works and property liability.

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

Type of Insurance	Maturity	Coverage
Operational risks and business interruption	Oct. 3, 2020	1,500,000,000
General civil liability	Oct. 3, 2020	400,000,000
Environmental risk	Oct. 3, 2020	300,000,000
D&O civil liability	Oct. 3, 2020	300,000,000
Professional civil liability (E&O)	Oct. 3, 2020	10,000,000
Data protection and resp. cybernetics (Cyber)	Oct. 3, 2020	10,000,000
Corporate fraud (Crime)	Oct. 3, 2020	5,000,000
Civil liability works (CCO)	Apr. 4, 2020	60,000,000
Property (office)	Nov. 27, 2020	10,000,000
Engineering risk (CCO)	Jan. 31, 2021	9,986,530
Total		2,604,986,530

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23. Insurance—Continuation

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 on March 31, 2020 and 2019 as prepaid expenses:

Description	3/31/2020	12/31/2019
Operating Risks and Business Interruption	4,479	6,719
General Civil Liability	985	1,477
Environmental Risks	649	974
D&O Civil Liability	431	647
Engineering Risks	377	573
Others – insurance	1,253	317
	8,174	10,707

24. Impacts from COVID-19

The Company's management has been closely following the updates on the Covid-19 virus, as well as market reactions with expectation of a slowdown in the global economy. Until the date of this quarterly report, no interruptions in the Company's operations were observed, although it is not possible to predict, at this time, the extent, severity, and duration of the possible impacts of the Covid-19 virus. Due to the high risk of contamination, remote working was recommended employees, as much as possible and for the time necessary to ensure our employees' health wellbeing and reduce chances of contact with individuals infected by Covid-19. Since the remote working format began, the Company did not have any material impacts on its operations and management expects that the measures taken by the health authorities will be sufficient to stop the expansion of the pandemic at regional and global levels.

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24. Impacts from COVID-19 – Continuation

The Company's management analyzed the financial impacts of COVID-19 on the Company's business until the date of this report and concluded that the impacts were relatively small given the stability of its revenues, given the terms in the natural gas transportation contracts with its client and the guarantee instrument on trade receivables, as detailed in note 21.c, and thus the virus does not represent a risk for business continuity. It should also be noted that the Company signed an agreement with Petrobras in April 2020 for the deferral of natural gas transportation receivables related to the invoices of March, April, and May 2020. According to the payment schedule in the agreement, Petrobras expects to settle the final payment installment for deferred receivables by August 2020.

25. Subsequent event

According to the teaser released by Petrobras on March 31, 2020, the process of divesting 10% (ten percent) of Petrobras' stake in the Company is in progress, in compliance with the Cessation of Practice Commitment No. 08700.003133 / 2019-71, of July 8, 2019, celebrated between the Administrative Council for Economic Defense - CADE and Petrobras. For the non-binding phase of the process, potential buyers have until May 15, 2020 to sign confidentiality agreements and certificates of compliance.

As detailed in Note 24, the Company signed an agreement with Petrobras in April 2020 for the deferral of natural gas transportation receivables related to the invoices of March, April, and May 2020. According to the payment schedule in the agreement, Petrobras expects to settle the final payment installment for deferred receivables by August 2020.