

NOVA TRANSPORTADORA DO SUDESTE S.A. -  
NTS

MANAGEMENT REPORT 2019



## REPORT CONTENT

1. MANAGEMENT'S MESSAGE
2. NTS
  - 2.1. CORPORATE GOVERNANCE
3. CORPORATE MANAGEMENT
  - 3.1. BUSINESS
  - 3.2. HUMAN RESOURCES
  - 3.3. HEALTH, SAFETY AND ENVIRONMENT
  - 3.4. MAINTENANCE AND INTEGRITY
  - 3.5. MEASUREMENT AND QUALITY
  - 3.6. RISK MANAGEMENT
  - 3.7. SOCIAL RESPONSIBILITY
4. TRANSPORTATION ASSETS
  - 4.1. NTS PIPELINE NETWORK
  - 4.2. INVESTMENTS
5. GAS TRANSPORTATION AGREEMENTS
6. ECONOMIC-FINANCIAL PERFORMANCE
  - 6.1. NET OPERATIONAL REVENUE
  - 6.2. CHARGES ON SALES
  - 6.3. COST OF SERVICES PROVIDED
  - 6.4. GROSS PROFIT
  - 6.5. OPERATIONAL EXPENSES
  - 6.6. OPERATIONAL PROFIT
  - 6.7. FINANCIAL RESULTS
  - 6.8. INCOME BEFORE TAXES
  - 6.9. INCOME TAX AND SOCIAL CONTRIBUTION
  - 6.10. NET PROFIT
  - 6.11. EBITDA
  - 6.12. BALANCE SHEET EVOLUTION
7. OTHER INFORMATION
  - 7.1 DEBENTURES ISSUED BY THE COMPANY
  - 7.2 PROFIT REINVESTMENT POLICY AND DISTRIBUTION OF DIVIDENDS
  - 7.3. VALUE-ADDED DISTRIBUTION
  - 7.4. SUBSEQUENT EVENTS 31/12/2019

## 1. MANAGEMENT'S MESSAGE

The year of 2019 for NTS was marked by significant advances in discussions about changes in the regulatory framework for the gas sector in Brazil, towards the formation of an open, dynamic and competitive sector. In June, the National Energy Policy Council (CNPE) issued, by resolution, the regulatory guidelines for opening and promoting competition in the natural gas market, which are expected to be adopted in this process over the next few years. Subsequently, the Federal Government launched the “New Gas Market” program, a program coordinated by the Ministry of Mines and Energy together with other entities and which foresees the breaking of the monopoly in the market and improvements in the regulation of transport and distribution of natural gas in Brazil.

In July, the Administrative Council for Economic Defense (CADE) and Petrobras signed a Term of Commitment for Termination (TCC), in which Petrobras committed to free up capacity in the country's gas pipeline network, as well as all the essential infrastructure for the natural gas sector, including flow pipes, processing units and LNG terminals.

Finally, in October 2019, Law 6,407 / 13 (New Gas Law) was approved by the Mines and Energy Commission in the Lower House. These events were very important and significant for the NTS strategy.

It is also worth mentioning the following operational and financial highlights for the year of 2019:

- Operational highlights:
  - The average volume of natural gas delivered was 37.4 million m<sup>3</sup> / day (million cubic meters per day), 10% higher than the daily average recorded in 2018, with a maximum recorded in August, equivalent to 43.6 million m<sup>3</sup> /day;
  - The Total Recordable Injury Frequency Rate for NTS was 1.37 per million of man hours worked, considering a maximum acceptable rate for the Company of 2.88 per million of man hours worked, but above the registered in the previous year, when the index was 1.02. Reinforcing NTS' commitment to the safety of the people involved or affected by its operation, we invested throughout the year in initiatives such as the Zero Harm Program, which seeks to improve the training of people, improvement of processes and infrastructure aimed at the safety culture.
  - Implementation of the Emergency and Crisis Management Program, with training and simulations focused on the Company's response and resilience, based on the methodology of the ICS - Incident Command System;
  - Investments of BRL 124 million focused especially on the integrity of gas pipelines and operations, including inspections of the pipeline network and replacement of equipment with safer and more modern solutions.
  
- Financial highlights:
  - The Company's results in 2019 mainly reflect the macroeconomic impact of inflation on revenues, combined with relevant investments, capital discipline and efficient supply chain management. The EBITDA margin calculated at the end of 2019 was approximately 89.1%, compared to 89.6% recorded in 2018, totaling BRL 3.9 billion against BRL 3.6 billion recorded in 2018. This growth of 8.4% in EBITDA allowed NTS to remunerate its shareholders with approved distributions of approximately

BRL 2.2 billion between dividends and interest on equity in the last year, in addition to reducing capital by BRL 624 million.

- Net Profit for the year increased 14.7% compared to 2018, reflecting a 9.0% higher Net Operating Revenue, impacted by the positive variation of the inflation (IGP-M index) in 2018 (incorporated in the tariffs in force in 2019), decrease of Costs of Services Provided by 5.7% and Net Financial Result by 25.0%.
- In 2019, we also concluded the Company's registration with the Brazilian Securities and Exchange Commission (CVM) in category "B" and had a long-term national rating affirmed by Fitch Ratings, or "AAA (bra)" with a stable outlook.

Other initiatives were implemented focusing on training our technical staff, with the integration of approximately 30 new professionals throughout the year, constant dissemination of the compliance and risk management program.

The main numbers are summarized below:

In thousands of Reais	2019	2018	Var.
<b>Net Operating Revenue</b>	<b>4,406,215</b>	<b>4,040,892</b>	<b>9.0%</b>
<b>Gross Profit</b>	<b>3,662,433</b>	<b>3,252,095</b>	<b>12.6%</b>
Gross Margin %	83.1	80.5	2.6 pp
<b>Operating Profit</b>	<b>3,584,352</b>	<b>3,204,270</b>	<b>11.9%</b>
% on the NOR	81.3	79.3	2.1 pp
<b>Net Profit for the year</b>	<b>2,217,519</b>	<b>1,933,508</b>	<b>14.7%</b>
% on the NOR	50.3	47.8	2.5 pp

In 2019, we reinforced our commitment to the local community, through tax incentive laws, totaling BRL 13.9 million for sponsoring the Brazilian Symphony Orchestra and for social projects in the communities located around our gas pipelines, focused on serving mainly children and teenagers and impact their lives by encouraging sports, inclusion and health promotion actions.

In the year NTS completed two years under new management, after the change of control in April 2017, as a result of the improvement of the work environment to gather opportunities for development, training and respect, in addition to guiding future initiatives to seek continuous improvements to our employees and processes, we were awarded the GPTW (Great Place to Work) certification.

In addition, we remain focused on safe natural gas transportation, promote the training of the team's technicians to achieve excellence in the operation and maintenance of the Company's gas pipelines as well as carry out investments and projects that ensure the maintenance of integrity, safety, reliability and availability of NTS assets and facilities.

For the future, NTS believes that the changes in the regulatory framework of the gas market will promote greater liquidity, free competition and greater competitiveness to the industry, thus generating new business opportunities allied to the production growth in the coming years. NTS endorses that the model transition happens in a sustainable way and has been participating and contributing to discussions on the New Gas Market. There have been

significant advances in the regulatory environment in the last year and NTS is confident that discussions on the New Gas Law will be resumed soon in Congress and the sector will continue to progress in 2020.

We are grateful for the trust of our shareholders, the dedication and support of the members of the Executive Board, our managers and all our professionals for the work carried out in 2019. Everyone's commitment to the NTS values has been fundamental to our success and achievement of our goals.

Wong Loon  
Chief Executive Officer

Flávio Mendonça Leal  
Chief Finance and Investor Relations Officer

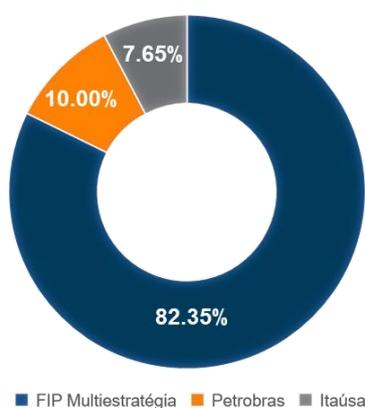
## 2. NTS

NTS transports natural gas through a solid pipeline system, connecting Brazil's most industrialized region with safety and reliability through its approximately 2.050 kilometers of pipelines, with an effective transport capacity of approximately 79 million m<sup>3</sup> per day<sup>1</sup>.

The pipeline transportation capacity of NTS is 100% contracted by Petrobras through 5 (five) GTAs, regulated by Brazilian Petroleum, Natural Gas and Biofuels Agency (ANP).

NTS pipelines connect the states of Rio de Janeiro, Minas Gerais and São Paulo (responsible for approximately 50% of gas consumption in Brazil) to Brazil-Bolivia pipeline, LNG terminals and gas processing plants.

The Company has private control, as per the shareholding composition described below:



### 2.1. CORPORATE GOVERNANCE

According to NTS' Bylaws, the Company is managed by a Board of Directors and an Executive Board. The Board of Directors is the highest guiding and directing board of NTS, with deliberative duties, while the Executive Board is responsible for managing the corporate businesses in general and the performance of all acts required or convenient for this purpose, except those for which competence is attributed to the Board of Directors or the General Meeting. There is also a Fiscal Board in the corporate governance structure of NTS, which is permanent, with the duties provided under the Corporations Law (Law No. 6,404/76), without prejudice to other duties assigned to it under the law, the Bylaws or resolution of the General Shareholders' Meeting.

The Company's Board of Directors is comprised of ten members and their alternate members, all of them with a mandate until the next Ordinary General Shareholder's Meeting, in April 2020. The Statutory Executive Board is comprised of 3 members: an Alternate Chief Executive Officer, an Chief Operations Officer and a Chief Financial and Investor Relations Officer, elected by Board of Directors Meeting.

<sup>1</sup> The effective transport capacity must be approved by the ANP, based on transport simulations that consider the most likely scenarios for gas entry points, gas exit points and respective quantities.

The independent external audit, which hiring was approved by the Company's Board of Directors, audits the Company's financial statements at the end of each financial year, and such statements shall be approved by NTS' General Shareholders' Meeting, based on the Board of Directors' opinion and on the report prepared by the Fiscal Board. Every five years, the auditor is changed in order to ensure isonomy, independence and transparency to the audit process and, additionally, NTS has an internal audit structure that reports directly to the Board of Directors.

In 2019, external audit fees totaled BRL 616 thousand, 6% higher than the BRL 581 thousand spent in 2018, by reason of the quarterly revision by the auditor of the intermediary financial statements and the 2018 Company financial statements, as well as analysis of new accounting pronouncements impacts, considering the necessary scope for the Company's registration with the Brazilian Securities and Exchange Commission - CVM.

Interim dividends distribution and interest on equity to shareholders totaled BRL 1,970million in 2019, of which BRL 1,795 million as dividends and BRL 175 million as interest on equity. Additionally, BRL 190 million of proposed dividends related to 2018 results were paid. Other BRL 248 million of additional dividends related to 2019 results were proposed and kept in the Profit Reserve, with resolution of distribution approved by the Board of Directors. In 2019, the Company's shareholders have also approved a capital reduction of BRL 624 million, considering in excess to the NTS activities. Distributions paid in 2018 summed BRL 1,980 million.

### 3. CORPORATE MANAGEMENT

#### 3.1. BUSINESS

The main purposes of NTS are generating value to the stakeholders, delivering results, generating stable cash flow with operational excellence and ensuring availability and reliability of the network, respecting life and the environment.

These purposes are met by observing governance structures, compliance with regulations and the application of a management model that prioritizes:

- Safety and integrity;
- Operational excellence; and
- Discipline in capital allocation.

In financial year of 2019, NTS had Net Operational Revenue of BRL 4.4 billion and fixed assets totaling BRL 8.3 billion, with reduction of 3.6% in the year, mainly due to depreciation of assets in the period.

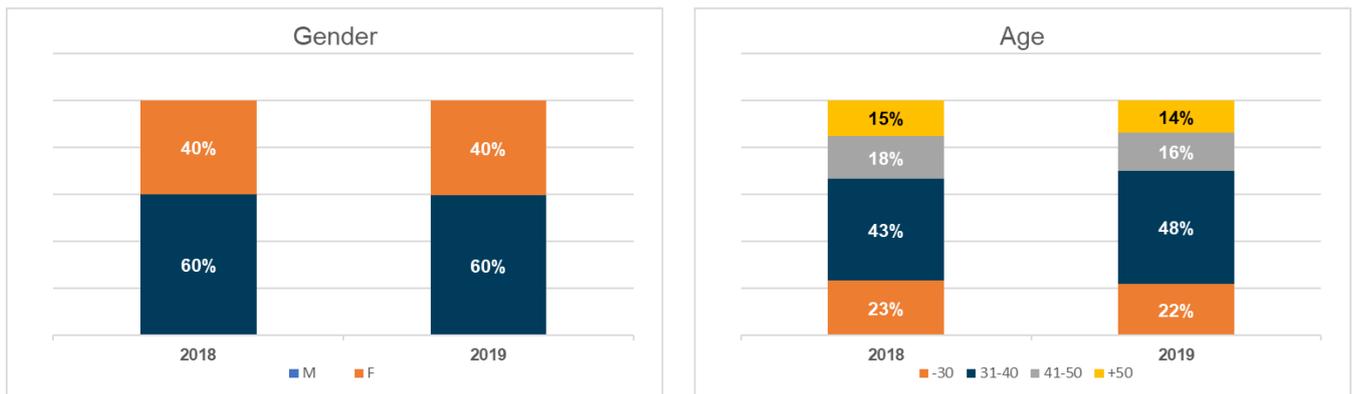
The network's operation and maintenance activities are conducted with the technical support of by Petrobras Transporte S.A. (TRANSPETRO), hired by NTS to operate its infrastructure (including four out of five compression units owned by NTS), performing natural gas transportation and delivery. TRANSPETRO is the largest and main pipeline operator (oil and gas) of Brazil, with great expertise in the operation of this type of system.

Follow-up and certification of the volumes transported in the pipelines is conducted daily by NTS, using specific systems and databases for such purpose. Based on the transported volumes, NTS can identify the distribution between various reception and delivery gas

points, allowing for better operational control and making available necessary information for the invoicing of each one of the GTAs.

### 3.2. HUMAN RESOURCES

In 2019, NTS continued expanding and hiring, aligned with Company's strategy, closing the year with 87 professionals (60 in 2018), distributed as shown:



This year, NTS received the GPTW (Great Place to Work) certification. The result obtained will allow us to guide future initiatives to seek continuous improvements to our employees and processes, opportunities for development and training.

### 3.3. HEALTH, SAFETY AND ENVIRONMENT

The operation with economic, environmental and social responsibility is a premise in both maintenance of the operations and development of new initiatives. In order to meet this objective, NTS has a Sustainability Policy, that defines the sustainability principles and commitments, guiding the processes, measures and the relationship with the several stakeholders, guarantee the action in all these dimensions

For NTS, sustainability is achieved when the business generates value to its shareholders and all stakeholders, supporting the social empowerment, maintaining and improving of the health and safety conditions of the employees and the communities direct or indirect affected by our business and the eliminating or mitigating the negative environmental impacts. NTS can then potentialize the positive impacts and the socio-economic development of the regions where the Company operates.

Based on these targets and committed with corporate vision, mission and values, NTS has defined four primary sustainability pillars:

- Reduce risks and direct impacts of its activities
- Act with ethics, transparency and moral conduct
- Act committed with safety, health and zeal towards its employees
- Build and reinforce the partnerships along the operations areas

NTS is committed to implement systems and practices to manage health, safety, environmental aspects and quality in all its operations, ensuring strategic understanding related with these teams are fundamental to achieve the results expected by the Company.

With this objective, NTS implemented the Zero Damage strategy, which aims to demonstrate the Company's commitment to the non-occurrence of incidents and to ensure zero high-risk incidents. Zero Harm is based on three programs, as follows:

- Our facilities, which aims to reduce high-risk incidents, through technology and innovation;
- Integrated Management System, which focuses on implementing a system through practices and processes;
- Our people, which aims to develop the security culture of our Company.

In every new project, studies and programs are developed in the regions of influence with the aim of identifying and evaluating the impacts on the communities, the fauna, flora, soil, water resources and the air, besides proposing measures to eliminate, minimize or compensate the negative impacts, emphasizing integration of the project to the location.

NTS permanent follow-up is conducted on the compliance with legal requirements, fulfilment of environmental conditions and, finally, the deadlines established for the requirement of licenses' renewal to occur timely, thus allowing for continuance of the operating activities in compliance with the governing legislation.

### 3.4. MAINTENANCE AND INTEGRITY

The maintenance and inspection activities necessary to ensure reliability, availability, integrity and operational safety of the natural gas transportation infrastructure are performed with the technical support of TRANSPETRO, a contractor of NTS, based on the best technologies and practices of the market, as well as national and international rules applying to the pipeline industry, in compliance with the governing legislation.

TRANSPETRO, under control and supervision of NTS, plans the maintenance activities, using the SAP R/3 system to help with the control process, and performs the maintenance activities on the pipelines, delivery points, compression stations and other facilities of NTS' gas pipeline network.

NTS manages the effectiveness of these activities through a set of structured indicators developed for this purpose and periodically monitored by NTS in the technical-operational audits, periodic meetings and monthly technical reports, besides daily operational follow-ups.

In 2019, NTS has given continuity to the auditing plan initiated in 2017, achieving the rate of 97% of the assets inspected. The audits intend to check the adequacy of TRANSPETRO's activities, facilities and controls as well as other service providers in the operation and maintenance of its assets.

Throughout last year, NTS has realized the following initiatives, besides the regular maintenance conducted by TRANSPETRO:

a) implementation of the integrity management system based on risk, in additional 4 pipelines (totaling 10 pipelines), using a specialized software globally recognized by the gas transportation industry;

b) 74 excavations were carried out in 4 different pipelines, continuing the long-term Stress Corrosion Cracking (SCC) management plan, increasing the safety of operations through pipeline inspections, using specialized tools that detect failures in the pipeline (instrumented pigs);

c) conclusion of the class location variations diagnosis as result of the encroachment. The operational pressure was lowered in the pipelines where it was required, in compliance with the applicable rules, without compromising the required gas transportation as established by the GTA. The long-term network maintenance plan, that will include the measures required to re-establish the original pressure of the assets, was initiated and it is expected to be concluded by 2020.

### 3.5. MEASUREMENT AND QUALITY

The accuracy of the measurement of all volumes and energy handled in the NTS pipeline network is of great importance to ensure the reliability of the billing of NTS and its customers. To ensure rigorous measurements, NTS measurement systems comply with current regulatory and contractual requirements, and periodic calibrations are performed, as well as replacement of equipment for most modern technologies and use of software for failure monitoring and metrological control.

In 2019, several actions were carried out, together with engineering, to increase the availability of metering equipment, among them: projects for the installation of energy back-up systems in locations subject to power failure, replacement of meters and obsolete flow rates computers, acquisition and installation of chromatographs and improvements in the safety conditions of the measurement points, to mitigate thefts with potential impact on gas measurement. There was also the implementation of failure monitoring software used by leading gas transportation companies worldwide. Additionally, support measurement (exchange of information between customer and carrier) was implemented for some strategic delivery points, in order to confirm the certified measures before the billing process. In the innovation category, a predictive software for monitoring and associating energy on time was internally developed for each delivery point, indicating the energy delivered referring to the gas mixture even in the event of equipment failure.

### 3.6. RISK MANAGEMENT

The Company is enhancing its corporate risks management process, aiming the prevention and mitigation. Among the major risks identified, the most relevant are: i) assets integrity; ii) interruption in the transportation service or delivery fail; iii) obtention or renew of the environmental licenses; iv) turn-over of administration members or incapability to retain talents; v) unfavorable decision on tax, labor and civil legal disputes involving the Company; vi) cyber-attacks; vii) suppliers dependency and; viii) regulatory changes or penalties applied by the regulator.

Among the initiatives focused on the continuous improvement of risk management, we mention the development and implementation of the Business Continuity Plan. Throughout 2019, the necessary procedures and resources were defined to allow the execution of critical corporate processes (such as financial processes, related to people or commercial management), in case of inaccessibility to NTS facilities. A contingency and disaster recovery plan was developed.

The insurance policies hired by the Company are another important tool used in risk management. The Company adopts the policy of contracting insurance coverage for assets subject to risks for amounts considered enough to cover possible losses, considering the nature of its activity. The Company has several insurance policies, including operational risks and business interruption, general liability, environmental risks, D&O liability, engineering risks, general liability for civil works and property. At the end of 2019, coverage of all policies amounted to approximately BRL 2.7 billion.

### 3.7. SOCIAL RESPONSIBILITY

NTS seeks to foster projects that have impact on the communities surrounding gas pipelines across the states of São Paulo, Rio de Janeiro and Minas Gerais.

In 2018, NTS maintained the sponsorship of the Brazilian Symphonic Orchestra (OSB). Through an initiative called “Musical Connections”, OSB performs musical formation activities for public school students and teachers in low-HDI municipalities across the regions crossed by NTS’ pipelines. This initiative covered the municipalities of Paracambi, Barra do Piraí, Barra Mansa and Guapimirim, all in state of Rio de Janeiro. OSB musicians has prepared municipal schools’ teachers in these municipalities according the project “Orchestra in the Classroom”, offering musical education for more than 10 thousand students. Local musicians were selected to participating in masterclasses with the orchestra, playing with the OSB in concerts at the end of the project. In Barra Mansa, the project denominated “Like up” has worked with 1,500 children and they participated in an open sky concert with OSB. Making use of Lei Rouanet Law, NTS sponsorship to OSB was BRL 8.0 million in 2018.

In 2019, in addition to sponsoring the OSB, the Company supported another 10 projects selected through a public notice for Social Projects through tax incentive laws (Sports Incentive Law (LIE), PRONON / PRONAS, Childhood and Adolescence Fund - FIA / Municipal Program for Children and Teenagers - FUMCAD and the Elderly Law). Among them, projects like the “Projeto Esporte Cidadão” - Ajudôu in Brumadinho-MG and the “Projeto Judô Mais que Ouro” - SOS Reviver Institute in Nova Iguaçu-RJ were selected, both of them promote educational activities, life quality, discipline and valorization of the community, away from drugs and through the practice of sports activities. Together, these projects impact approximately 600 children and teenagers. The “Gol de Letra” Foundation in São Paulo-SP operates in public schools, contributing to comprehensive education also through social inclusion using sports, covering approximately 800 children and teenagers. Among the projects focused on childhood, we can mention the “Projeto Ver na Escola” – Verter Institute, which offers ophthalmological service in public schools and impacts around 20 thousand students from the municipal school network in São Paulo-SP. In 2019, approximately BRL 13.9 million were allocated through incentive laws.



states of Rio de Janeiro, São Paulo and Minas Gerais demanded approximately 45%, 45% and 10% of all gas delivered by NTS, respectively.

In 2018, the average of volume delivered by NTS was 37.4 million m<sup>3</sup>/day, compared to 34.5 million m<sup>3</sup>/day in 2018.

## 4.2. INVESTMENTS

The Company operates regulatory assets and must maintain these assets in operational conditions at full capacity during the effective term of the authorizations for operation.

Thus, the investments made aim at ensuring the availability and reliability of the gas pipelines and equipment, i.e. improvements, adequacy and modernizations, maintaining the transportation capacity as per the contractual obligations of each one of the GTAs, as well as investments connected with legal and regulatory compliance.

During 2019 investments totaled BRL 124 million, compared to BRL 90 million in 2018, including investments related to environmental obligations.

The Company highlights the following investments throughout 2019:

- Conclusion of two remaining projects for improvements in the measurement system, totaling 13 projects between 2018 and 2019. The investments in 2019 were approximately BRL 29 million;
- *Overhaul* of Taubaté's compression station turbines, in the approximate amount of BRL 24 million;
- Execution of environmental obligations related to the pipeline's installations totaling approximately BRL 15 million;
- Inspections and pipelines repairs (using pigs, specialized tools, excavations) to detect and correct points with SCC (Stress Corrosion Cracking), in the amount of approximately BRL 12 million.

Additionally, reinforcing the focus on pipeline integrity management, approximately BRL 63 million were also spent in 2019 under the scope of the SCC and Class Location, which are not capitalized and should be reimbursed by Petrobras as part of the remaining obligations of the sale agreement of the Company in 2017. These amounts are included in other accounts receivable balance, which total BRL 77 million as of 12/31/2019.

## 5. TRANSPORTATION AGREEMENTS

The commercial relationship between a gas transportation company and its customers, so called carriers, is governed by Natural Gas Transportation Service Agreements ("GTAs"), regulated by the Brazilian National Petroleum, Natural Gas and Biofuels Agency – ANP.

Each of the GTAs refers to a set of pipelines from NTS transportation system. Thus, the sum of contractual capacities corresponds to 158.2 million m<sup>3</sup> per day, which is equivalent to the effective transport capacity in the system of 79 million m<sup>3</sup> per day.

During 2019, there was no events changing the contracted capacity of the GTAs.

The table below shows, by contract, the contracted transport capacity and the average handling per day. The calculation of transportation of the Malha Sudeste II agreement has only considered natural gas volumes effectively delivered at the Delivery Points of Duque de Caxias, UTE Baixada Fluminense and São Bernardo do Campo II.

Contract	Contractual capacity*	Average transport*		Maturity
		2019	2018	
Malha Sudeste	43.8	33.0	29.7	12/31/2025
Malha Sudeste II	49.4	2.8	3.0	10/14/2031
GASDUC III	40.0	19.1	16.1	11/11/2030
GASTAU	20.0	14.6	11.2	11/30/2031
Paulínia - Jacutinga	5.0	0.3	0.3	01/14/2030
<b>Total</b>	<b>158.2</b>			

\*Million m<sup>3</sup>/day

## 6. ECONOMIC-FINANCIAL PERFORMANCE

### 6.1. NET OPERATING REVENUE

The 5 (five) GTAs previously described are responsible for 100% of revenues. Net Operating Revenue (“NOR”) for the 2019 financial year was BRL 4.4 billion, 9.0% higher than 2018 (BRL 4.0 billion), due to positive variation of the inflation and accumulated IGP-M index in 2018, positively impacting tariffs in 2019. The increase in the average volume transported does not impact 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	2019	2018	Var.
<b>Net Operating Revenue</b>	<b>4,406,215</b>	<b>4,040,892</b>	<b>9.0%</b>

### 6.2. CHARGES ON SALES

In 2019, Charges on Sales totalized BRL 766 million versus BRL 663 million in 2018, distributed in the federal sphere (PIS/COFINS) and in the state and municipal spheres (ICMS/ISS). Charges increase is a result of revenues increase described in item 6.1.

### 6.3. COST OF SERVICES PROVIDED

In 2019 the Cost of Services Provided totaled BRL 744 million, corresponding to 16.9% of the Net Operating Revenue. In 2018, costs were BRL 789 million, corresponding to 19.5% of the NOR. The reduction between periods is mainly due to depreciation variation, since

NTS is recognizing tax credits (PIS / COFINS) on fixed assets starting in 2019. The following table shows in detail the Costs of Services Provided:

In thousands of Reais	2019	2018	Var.
<b>Cost of Services Provided</b>	<b>(743,782)</b>	<b>(788,797)</b>	<b>-5.7%</b>
Depreciation	(340,046)	(416,578)	-18.4%
Operation and Maintenance	(257,633)	(234,533)	9.8%
Services, Charters and General Charges	(24,744)	(24,876)	-0.5%
Right of Way	(55,185)	(52,586)	4.9%
Electric Power	(19,276)	(17,861)	7.9%
Insurance	(13,551)	(13,554)	0.0%
ICMS on the gas used in the system	(9,985)	(9,685)	3.1%
TAG temporary support	--	(359)	-100.0%
Environmental costs	(820)	(1,320)	-37.9%
Personal costs	(10,741)	(11,763)	-8.7%
Other costs	(11,801)	(5,682)	107.7%
% on the NOR	-16.9	-19.5	2.6 pp

#### 6.4. GROSS PROFIT

Gross Profit totaled BRL 3.7 billion in 2019, an increase of 12.6% when compared to 2018, due to a 9% increase in the NOR and reduction of 5.7% on the cost of services provided, equivalent to a 2.6 percentage points (pp) increase in the gross margin.

In thousands of Reais	2019	2018	Var.
<b>Gross Profit</b>	<b>3,662,433</b>	<b>3,252,095</b>	<b>12.6%</b>
Gross Margin %	83.1	80.5	2.6 pp

#### 6.5. OPERATIONAL EXPENSES

Operational Expenses totaled BRL 78 million in 2019, representing 1.8% of the NOR, compared to 1.2% recorded in 2018, when Operational Expenses totaled BRL 48 million.

The increase in Operating Expenses is mainly due to the write-off of assets related to canceled, deactivated or discontinued projects in the amount of BRL 23.5 million, in the third quarter of 2019, as approved by the AGE held on August 29, 2019. None these assets made up the NTS regulatory asset base.

The variation of General and Administrative Expenses between periods is explained basically by sponsorship by NTS mainly for the Brazilian Symphony Orchestra through Rouanet Law as well as for other projects supported through other incentive laws for sports and childhood, which were BRL 5.9 million higher than expenses in 2018. Other reason for the expenses increase between periods is the increase in office expenses, partially

explained by increase in hiring and higher rent expenses, amounting approximately BRL 6.0 million.

Excluding the effect of sponsorship expenses, since the totality of these resources corresponds to allocations provided for in the tax incentive laws, General and Administrative Expenses totaled approximately BRL 41 million, BRL 0.9 million higher than the previous year expenses, corresponding to an increase of 2.2% compared on the same basis.

The details of these expenses are shown below:

In thousands of Reais	2019	2018	Var.
<b>Operational Expenses</b>	<b>(78,081)</b>	<b>(47,825)</b>	<b>63.3%</b>
<b>General and Administratives expenses</b>	<b>(54,588)</b>	<b>(47,825)</b>	<b>14.1%</b>
Personal	(22,293)	(25,808)	-13.6%
Sponsorship	(13,929)	(8,030)	73.5%
Office and others	(13,357)	(7,450)	79.3%
Other	(5,009)	(6,537)	-23.4%
<b>Assets write-off</b>	<b>(23,493)</b>	--	--

## 6.6. OPERATIONAL PROFIT

The Operational Profit totaled BRL 3.6 billion, or approximately 81% of the NOR, an increase of 12% when compared to the BRL 3.2 billion Operational Profit in 2018.

In thousands of Reais	2019	2018	Var.
<b>Operating Profit</b>	<b>3,584,352</b>	<b>3,204,270</b>	<b>11.9%</b>
% on the NOR	81.3	79.3	2.1 pp

## 6.7. FINANCIAL RESULTS

Net Financial Results was negative in BRL 282 million, mainly due to debentures interest. As result of the Company refinancing in April 2018, NTS debt cost was materially reduced (information in item 7.1), combined with a lower interest rate (CDI) in 2019 when compared to 2018.

In 2018 Net Financial Result was negative BRL 376 million, still impacted during the first quarter by the interest of the first debentures issuance.

NTS has no relevant exposure to exchange rates.

In thousands of Reais	2019	2018	Var.
<b>Net Financial Results</b>	<b>(282,260)</b>	<b>(376,399)</b>	<b>-25.0%</b>
Financial revenues	67,324	56,413	<b>19.3%</b>
Financial expenses	(349,584)	(432,812)	<b>-19.2%</b>

## 6.8. INCOME BEFORE TAXES

Income Before Taxes has increased approximately BRL 0.5 billion, to BRL 3.3 billion, equivalent to 75% of the NOR from BRL 2.8 billion in 2018, equivalent to 70% of the NOR. This result derives from Operational Profit increase in approximately 12% added to net financial expenses reduction in 25%.

In thousands of Reais	2019	2018	Var.
<b>Income Before Taxes</b>	<b>3,302,092</b>	<b>2,827,871</b>	<b>16.8%</b>
% on the NOR	74.9	70.0	5.0 pp

## 6.9. INCOME TAX AND SOCIAL CONTRIBUTION

The amount of current and deferred Income Tax and Social Contribution assessed in 2019 fiscal year totaled BRL 1.1 billion, compared to BRL 894 million in 2018, associated to the higher Income Before Tax in 2019. The effective rate reached 32.8% compared to 31.6% in 2018.

In thousands of Reais	2019	2018	Var.
<b>Total Income Tax and Social Contribution</b>	<b>(1,084,573)</b>	<b>(894,363)</b>	<b>21.3%</b>
% on income before taxes	-32.8	-31.6	1.2 pp
<b>Current IT and Social Contribution</b>	<b>(688,752)</b>	<b>(492,181)</b>	<b>39.9%</b>
% on income before taxes	-20.9	-17.4	3.5 pp
<b>Deferred IT and Social Contribution</b>	<b>(395,821)</b>	<b>(402,182)</b>	<b>-1.6%</b>
% on income before taxes	-12.0	-14.2	2.2 pp

## 6.10. NET PROFIT

In 2019, NTS Net Profit was BRL 2.2 billion, equivalent to 50% of the NOR and BRL 284 million higher than the BRL 1.9 billion registered in 2018.

In thousands of Reais	2019	2018	Var.
<b>Net Profit for the year</b>	<b>2,217,519</b>	<b>1,933,508</b>	<b>14.7%</b>
% on the NOR	50.3	47.8	2.5 pp

## 6.11. EBITDA

NTS reported EBITDA of BRL 3.9 billion in 2019, compared to BRL 3.6 billion in 2018. EBITDA margin was stable, 89.1% vs. 89.6% in 2018 and shows the stability in the Company's operational cash generation and capabilities re cost control in the period.

EBITDA Reconciliation (In thousands of Reais)	2019	2018	Var.
Net Profit	2,217,519	1,933,508	14.7%
Income Tax and Social Contribution	1,084,573	894,363	21.3%
Net Financial Results	282,260	376,399	-25.0%
Depreciation	340,046	416,578	-18.4%
<b>EBITDA</b>	<b>3,924,398</b>	<b>3,620,848</b>	<b>8.4%</b>
EBITDA Margin %	89.1	89.6	- 0.5 pp

## 6.12. BALANCE SHEET EVOLUTION

Fixed assets were BRL 8.3 billion as of December 31<sup>st</sup>, 2019 compared to BRL 8.6 billion as of December 31<sup>st</sup>, 2018. Balance reduction in the period is basically due to depreciation and BRL 23 million assets write-off, as explained in item 6.5

Gross indebtedness by 2019-year end was BRL 5.2 billion, like 2018. Net debt, however, has decreased from BRL 4.9 billion as of December 31<sup>st</sup>, 2018 to BRL 4.4 billion as of December 31<sup>st</sup>, 2019. Better cash position can be explained by the change in the monthly payment of income tax / social contribution based on the real calculation regime to the estimation regime (change implemented in the fourth quarter of 2018), offsetting the calculation differences between the two regimes in January, leading to a higher cash accumulation by the Company throughout this year.

Indebtedness (In thousands of Reais)	12/31/2019	12/31/2018	Var. %
Gross Debt	5,241,123	5,253,165	-0.2%
Cash	795,974	362,083	119.8%
<b>Net Debt</b>	<b>4,445,149</b>	<b>4,891,082</b>	<b>-9.1%</b>

## 7. OTHER INFORMATION

### 7.1 DEBENTURES ISSUED BY THE COMPANY

On April 20<sup>th</sup>, 2018, the Extraordinary General Shareholders' Meeting of the Company approved the Second Issuance of Simple Debentures, not convertible into shares, unsecured, in a single series, object of public bid of distribution with restricted placement

efforts, under the terms of CVM Instruction n. 476 of 2009 and the other applicable legal and regulatory (“Second Issuance of Debentures”).

On May 15<sup>th</sup>, 2018, 520,000 debentures with par value of BRL 10,000.00 were paid up and they had the following characteristics:

- Issuance date: April 25<sup>th</sup>, 2018
- Term: 60 (sixty) months, with expiration date on April 25<sup>th</sup>, 2023
- Amortization: Due on April 25<sup>th</sup>, 2023
- Remuneration: 109% of the accumulated variation of the CDI Rate
- Payment of interest: semi-annually, on April and October
- No debt renegotiation or automatic renewal clauses

On May 15<sup>th</sup>, 2018, the Company performed the early redemption of the First Issuance of Debentures with funds raised through the Second Issuance of Debentures

The debentures have restrictive clauses that establish financial ratios to be met on a quarterly basis: (i) Net Debt / EBITDA should be  $\leq 3.0x$  and (ii) EBITDA / Net Financial Expenses  $\geq 1.5x$ . By the end of 2019 both ratios were calculated and the Company was in compliance with the restrictive clauses.

In January 2019, NTS had the national long-term corporate rating “AAA (bra)”, along with the rating for its second debentures, affirmed by Fitch Ratings, with a stable outlook. The rating was reaffirmed in January 2020.

## 7.2 PROFIT REINVESTMENT POLICY AND DIVIDEND DISTRIBUTION

During the year ended on December 31<sup>st</sup>, 2019 and December 31<sup>st</sup>, 2018 dividends and interest on equity were distributed to the Company’s shareholders, as described in item 2.1.

## 7.3. VALUE-ADDED DISTRIBUTION

In 2019, the distribution of value-added totaled BRL 4.5 billion, or 12.6% higher than in 2018, 49.4% of which were applied for remuneration of capital equity (dividends and interest on equity), 41.5% for taxes, 8.3% for remuneration of third-party capital and 0.8% for people.

## 7.4. SUBSEQUENT EVENTS

In February 18<sup>th</sup>, 2020, NTS and Exterran Serviços de Óleo e Gás Ltda. signed the purchase and sale agreement to the acquisition of the Mantiqueira compression station’s assets, by BRL 46.1 million, paid on February 21<sup>st</sup>, 2020.

The interim distribution of dividends and Interest on Equity was unanimously approved, without restrictions by the Board of Directors in the meeting held on March 9, 2020, in the amount of BRL 248 million, based on a favorable opinion from the Fiscal Council, as mentioned in item 2.1. Management plans to execute the distribution of dividends and Interest on Equity in the first quarter of 2020.

# **Financial Statements**

## **Nova Transportadora do Sudeste S.A. - NTS**

December 31, 2019  
Including the Independent Auditor's Report

# **Nova Transportadora do Sudeste S.A. - NTS**

## **Financial Statements**

December 31, 2019

### **Contents**

Independent auditor's report on the financial statements .....2

#### **Audited Financial Statements**

Statement of financial position .....	6
Statement of profit or loss .....	8
Statement of comprehensive income .....	9
Statement of changes in equity .....	10
Statement of cash flows .....	11
Statement of value added .....	12
Notes to the financial statements .....	13



**A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)**

---

## **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**

The Shareholders, Board of Directors and Officers

**Nova Transportadora do Sudeste S.A.**

Rio de Janeiro - RJ

### **Opinion**

We have audited the financial statements of Nova Transportadora do Sudeste S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Transportadora do Sudeste S.A. as at December 31, 2019, and its financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of



material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Issue of nonconvertible debentures

Over the year ended December 31, 2018, the Company issued simple nonconvertible debentures with a public offering, which were guaranteed by Banco Itaú S.A., BB - Banco de Investimento S.A. and Banco Bradesco BBI S.A.. These debentures total R\$5,241,123 thousand as of December 31, 2019. As described in Note 13, the debentures have restrictive clauses that require the Company to comply with financial ratios, calculated on a quarterly basis.

The monitoring of this matter was considered significant for our audit, considering the relevance of the amounts involved and its possible effects on the financial statements and liquidity of the Company in case of failure to reach the financial ratios.

How our audit addressed this matter

Our audit procedures included, among others, the analysis of the debenture's agreement and the evaluation of the accounting treatment adopted by Management based on the facts and circumstances observed in the related documents and based on our discussions with Management. In addition, we discussed with Management the methodology for calculating the ratios established in the restrictive clauses and evaluated their compliance to the requirements of the respective contracts.

Based on the results of the audit procedures performed, which is consistent with Management's assessment, we consider that the criteria and assumptions for the recognition and measurement of the referred financial instrument adopted by Management, as well as the respective disclosures made in note 13, are acceptable in the context of the financial statements taken as a whole.

#### **Other matters**

##### *Statements of value added*

The statements of value added (SVA) for year ended December 31, 2019, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall financial statements.

#### **Other information accompanying the financial statements and the auditor's report**

Management is responsible for such other information, which comprise the Management Report.



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

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

### **Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, March 27, 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

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

<b>Assets</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Current assets</b>			
Cash and cash equivalents	7	795.974	362.083
Accounts receivable	8	861.142	804.273
Taxes recoverable	15.1	3	98
Other accounts receivable	9	76.793	17.851
Prepaid expenses		10.707	10.032
Advances		2.594	3.136
Other		52	246
		<b>1.747.265</b>	<b>1.197.719</b>
<b>Noncurrent assets</b>			
Restricted bank deposits	10	15.096	14.595
Judicial deposits	22.2	17.716	16.845
Taxes recoverable	15.1	8.622	8.411
		<b>41.434</b>	<b>39.851</b>
Property, plant and equipment (PP&E)	11	8.262.072	8.607.430
		<b>8.262.072</b>	<b>8.607.430</b>
<b>Total assets</b>		<b>10.050.771</b>	<b>9.845.000</b>

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

## Nova Transportadora do Sudeste S.A - NTS

<b>Liabilities and equity</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Current liabilities</b>			
Trade accounts payable	12	256.471	154.898
Taxes payable	15.1	54.708	55.574
Payroll and charges		20.174	14.366
Debentures and financing payable	13	45.828	59.811
Interest on Equity payable	17.3	10.546	16.561
Income and social contribution taxes payable	15.1	414.949	112.037
		<b>802.676</b>	<b>413.247</b>
<b>Noncurrent liabilities</b>			
Debentures payable	13	5.195.295	5.193.354
Environmental provisions	16.1	31.543	29.849
Provision for environmental constraints	16.2	55.018	69.484
Provision for contingencies	22.1	6.336	8.225
Deferred taxes	15.2	1.319.032	923.212
		<b>6.607.224</b>	<b>6.224.124</b>
<b>Equity</b>			
Capital	17.1	994.301	1.618.630
Capital reserve	17.2	1.360.199	1.360.199
Income reserve	17.3	286.371	228.800
		<b>2.640.871</b>	<b>3.207.629</b>
<b>Total liabilities and equity</b>		<b>10.050.771</b>	<b>9.845.000</b>

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

## Nova Transportadora do Sudeste S.A - NTS

Statement of profit or loss  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, except if indicated otherwise)

	Note	<u>2019</u>	<u>2018</u>
<b>Net revenue</b>	18	4.406.215	4.040.892
<b>Cost of services</b>	19	(743.782)	(788.797)
General and administrative expenses	20	(54.588)	(47.825)
Assets' write-off	11	<u>(23.493)</u>	<u>-</u>
<b>Operating expenses</b>		<u><b>(78.081)</b></u>	<u><b>(47.825)</b></u>
<b>Operating income</b>		<u><b>3.584.352</b></u>	<u><b>3.204.270</b></u>
Finance income	21	67.324	56.413
Finance costs	21	<u>(349.584)</u>	<u>(432.812)</u>
<b>Finance income (costs), net</b>		<u><b>(282.260)</b></u>	<u><b>(376.399)</b></u>
<b>Income before income and social contribution taxes</b>		<u><b>3.302.092</b></u>	<u><b>2.827.871</b></u>
Current income and social contribution taxes	15.1	(688.752)	(492.181)
Deferred income and social contribution taxes	15.2	(395.821)	(402.182)
<b>Net income for the year</b>		<u><u><b>2.217.519</b></u></u>	<u><u><b>1.933.508</b></u></u>
<b>Basic and diluted earnings per share (in R\$)</b>		<u><u><b>0,96</b></u></u>	<u><u><b>0,84</b></u></u>

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

## Nova Transportadora do Sudeste S.A - NTS

Statement of comprehensive income

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

	<u>2019</u>	<u>2018</u>
Net income for the year	2.217.519	1.933.508
Other comprehensive income	-	-
<b>Comprehensive income for the year</b>	<b><u>2.217.519</u></b>	<b><u>1.933.508</u></b>

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

## Nova Transportadora do Sudeste S.A - NTS

Statement of changes in equity

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

	Capital	Capital reserve	Income reserves			Total
		Capital transaction	Legal	Proposed dividends	Retained earnings (accumulated losses)	
<b>Balances as of December 31, 2017</b>	<b>2.312.329</b>	<b>1.360.199</b>	<b>38.368</b>	<b>232.189</b>	<b>-</b>	<b>3.943.085</b>
Net income for the year	-	-	-	-	1.933.508	1.933.508
Capital reduction	(693.699)	-	-	-	-	(693.699)
Interest on equity	-	-	-	-	(233.900)	(233.900)
Dividends paid	-	-	-	(232.189)	(1.509.176)	(1.741.365)
Proposed dividends	-	-	-	190.432	(190.432)	-
<b>Balances as of December 31, 2018</b>	<b>1.618.630</b>	<b>1.360.199</b>	<b>38.368</b>	<b>190.432</b>	<b>-</b>	<b>3.207.629</b>
Net income for the year	-	-	-	-	2.217.519	2.217.519
Interest on equity	-	-	-	-	(174.478)	(174.478)
Dividends paid	-	-	-	(190.432)	(1.795.038)	(1.985.470)
Proposed dividends	-	-	-	248.003	(248.003)	-
Capital reduction	(624.329)	-	-	-	-	(624.329)
<b>Balances as of December 31, 2019</b>	<b>994.301</b>	<b>1.360.199</b>	<b>38.368</b>	<b>248.003</b>	<b>-</b>	<b>2.640.871</b>

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

## Nova Transportadora do Sudeste S.A - NTS

### Statement of cash flows

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

	<u>2019</u>	<u>2018</u>
<b>Operating activities</b>		
Net income for the year	2.217.519	1.933.508
<i>Adjustments to non-cash income and expenses:</i>		
Deferred income and social contribution taxes	395.821	402.182
Insurance amortization	766	13.556
Interest expenses on debentures and financing	336.045	422.429
Depreciation and amortization	431.475	416.578
Provisions for bonus, annual leave and 13 <sup>o</sup> salary	16.755	15.959
Others	22.014	(5.619)
	<u><b>3.420.395</b></u>	<u><b>3.198.593</b></u>
<i>Changes in assets and liabilities</i>		
Trade accounts receivable	(56.869)	(10.533)
Taxes recoverable	(116)	22.482
Other accounts receivables	(58.942)	(14.757)
Prepaid expenses	(0)	(1.293)
Other assets	(705)	(12.042)
Trade accounts payable and other payables	101.573	70.859
Proceeds and charges payable	(10.948)	(10.135)
Taxes payable	688.049	500.008
Income and social contribution taxes paid	(385.840)	(412.707)
Environmental provisions	(12.663)	(18.155)
Provisão para contingências legais	(1.889)	-
Other liabilities	(22)	(1.103)
<b>Net cash flows from operating activities</b>	<u><b>3.682.023</b></u>	<u><b>3.311.217</b></u>
<b>Operating activities</b>		
Acquisition of PP&E	(109.598)	(74.836)
<b>Cash flow used in investing activities</b>	<u><b>(109.598)</b></u>	<u><b>(74.836)</b></u>
<b>Financing activities</b>		
Payment of financing	-	(5.201.358)
New debenture obtained	-	5.191.489
Capital reduction	(624.329)	(693.699)
Payment of interest on debentures	(348.079)	(385.944)
Payment of dividends and interest on equity	(2.166.126)	(1.979.777)
<b>Cash flow used in financing activities</b>	<u><b>(3.138.534)</b></u>	<u><b>(3.069.289)</b></u>
<b>Increase in cash and cash equivalents</b>	<u><b>433.891</b></u>	<u><b>167.092</b></u>
<b>Changes in cash and cash equivalents</b>		
Cash and cash equivalents at beginning of exercise	362.083	194.991
Cash and cash equivalents at end of period exercise	795.974	362.083
	<u><b>433.891</b></u>	<u><b>167.092</b></u>

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

## Nova Transportadora do Sudeste S.A - NTS

Statement of value added

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

	<u>2019</u>	<u>2018</u>
<b>Value added to be distributed</b>		
<b>Revenues</b>	<b>5.148.661</b>	<b>4.703.529</b>
Service revenue and other revenues	5.148.661	4.703.529
<b>Inputs acquired from third parties</b>	<b>(392.995)</b>	<b>(360.456)</b>
Services rendered, electric power, third-party services and other	(392.995)	(360.456)
<b>Gross value added</b>	<b>4.755.666</b>	<b>4.343.073</b>
Depreciation	(340.046)	(416.578)
<b>Net value added produced by the Company</b>	<b>4.415.620</b>	<b>3.926.495</b>
<b>Value added received in transfer</b>	<b>67.306</b>	<b>56.413</b>
Short-term investment yield – includes monetary/exchange differences	67.306	56.413
<b>Total value added to be distributed</b>	<b>4.482.926</b>	<b>3.982.908</b>
<b>Distribution of value added</b>		
<b>Personnel</b>	<b>36.322</b>	<b>30.945</b>
Direct compensation	28.608	25.081
Benefits	5.475	3.851
Unemployment Compensation Fund (FGTS)	2.239	2.013
<b>Taxes, charges and contributions</b>	<b>1.861.285</b>	<b>1.566.634</b>
Federal	1.594.862	1.358.402
State	247.281	190.267
Municipal	19.142	17.965
<b>Debt remuneration</b>	<b>367.800</b>	<b>253.470</b>
Interest, fines and monetary/exchange differences	346.315	231.852
Donations and sponsorships	13.929	8.030
Trade accounts payable – non-operational services	19.869	13.563
Other debt remuneration	(12.313)	25
<b>Equity remuneration</b>	<b>2.217.519</b>	<b>2.131.859</b>
Interest on loans and financing taken out with related parties	-	198.351
Interest on equity	174.478	233.900
Dividends paid	1.795.038	1.509.177
Dividends proposed	248.003	190.431
<b>Total distribution of value added</b>	<b>4.482.926</b>	<b>3.982.908</b>

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

# **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

December 31, 2019 and 2018

(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 compliance with its objectives, July 1, 2003, the Company signed agreements for the establishment and operational startup of the consortium Consórcio Malhas Sudeste Nordeste - “Consórcio Malhas”, which is comprised of (i) Nova Transportadora do Sudeste S.A. - NTS, (ii) Nova Transportadora do Nordeste S.A. - NTN (who would have ownership of certain gas pipelines to be built through project financings), as well as (iii) Transportadora do Nordeste Sudeste S.A. - TNS (later incorporated by Transportadora Associada de Gás S.A. - TAG, a leading consortium company controlled by Petróleo Brasileiro S.A. - Petrobras, who would contribute with existing assets) and (iv) Petrobras Transportes S.A. - Transpetro.

The operational startup of Consórcio Malhas officially began on January 1, 2006, with the issuance of the Start Date of Commercial Operations Statement (Data do Início da Operação Comercial - DIOC).

Until December 15, 2014, NTS’s shareholders were Mitsui (35%), Itochu (25%), Mitsubishi (25%) and Tokyo Gas (15%). On said date, TAG, a Petrobras subsidiary, exercised its right to purchase all of NTS’s shares, thus becoming its direct controlling shareholder.

The Company provides transportation of natural gas, a unique operating segment.

### **1.1. Registration as a Category B securities issuer with the CVM**

On April 18, 2019, the Company received its category B securities issuer registration from the Brazilian Securities and Exchange Commission (CVM).

## **2. Corporate restructuring**

On October 21, 2016, NTS began its corporate restructuring process. The Extraordinary Shareholders' Meeting held by NTS approved: (i) a capital contribution with net assets from TAG's assets and liabilities, appraised at book value on August 31, 2016, (ii) the transfer of the operating authorizations issued by the Agência Nacional de Petróleo, Gás Natural e Biocombustíveis - ANP to NTS; and (iii) the granting of natural gas transportation agreements (GTAs) related to contributed assets.

NTS's net assets, in the amount of R\$2,308,843, were comprised of assets in the Southeast of Brazil (R\$8,050,238) and debt (R\$5,741,395) referring to the Promissory Notes issued by NTS in favor of Petrobras Global Trading (PGT).

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

### **2. Corporate restructuring -- Continuation**

Also on October 21, 2016, the Extraordinary Shareholders' Meeting held by TAG approved the reduction of its share capital through the transfer of all its shares at NTS to Petróleo Brasileiro S.A. - Petrobras.

On October 24, 2016, ANP issued temporary operating authorizations on behalf of NTS for all its gas pipelines, with Petrobras now directly controlling NTS.

On the same date, amendments were made to the Consórcio Malhas composition and operational agreements in order to exclude NTS from the consortium.

On October 25, 2016, as a result of the corporate restructuring conducted by Petrobras and TAG, as well as TAG's contribution of its net assets to NTS, certain contracts were assigned by TAG to NTS, with highlights to the following:

- (a) Malhas Sudeste Transport Service Agreement for the daily transportation of gas, which is 1,274.67 km long, with a contract volume of 43.8 m<sup>3</sup>/day and a 20-year term valid until December 2025. The following gas pipelines are part of this agreement: RECAP-RPCB (GASAN), Campinas-Rio (GASCAR), ESVOL-RECAP (GASPAL), REDUC-ESVOL (GASVOL), Rio de Janeiro-Belo Horizonte (GASBEL), Campos Elíseos Branch (16 inches in diameter);
- (b) Malhas Sudeste II Transport Service Agreement for the daily transportation of gas, which is 405 km long, with a contract volume of 49.4 m<sup>3</sup>/day and a 20-year term valid until October 2031. The following gas pipelines are part of this agreement: Japeri-REDUC (GASJAP), RECAP-RPBC (GASAN II) Guararema-Mauá (GASPAL II), Rio de Janeiro-Belo Horizonte II (GASBEL II);
- (c) Paulínia-Jacutinga (GASPAJ) Transport Service Agreement for the daily transportation of gas, which is 93 km long, with a contract volume of 5.0 m<sup>3</sup>/day and a 20-year term valid until January 2030;
- (d) Cabiúnas-REDUC (GASDUC III) Transport Service Agreement for the daily transportation of gas, which is 180 km long, with a contract volume of 40 m<sup>3</sup>/day and a 20-year term valid until November 2030; and
- (e) GASTAU Transport Service Agreement for the daily transportation of gas with a contract volume of 20 m<sup>3</sup>/day and a 20-year term valid until November 2031.

Petrobras is the carrier of NTS in the transportation service agreements in force, and Petrobrás Transportes S.A. - Transpetro provides technical support of the operations and maintenance of the NTS gas pipeline network.

Due to the corporate restructurings and their effects on the Consórcio Malhas Sudeste consortium, specifically regarding changes in contracts that governed its creation and operations, a reappraisal was carried out on October 24, 2016, for the agreements in force between NTS and Petrobras in order to comply with the accounting practices adopted in Brazil, pursuant to ICPC 03, since leasing operations were replaced by service provisions.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **2. Corporate restructuring -- Continuation**

#### **2.1. Sale of NTS's Controlling Shares**

In September 2016, Petrobras publicly announced the sale of 90% of its stake in NTS to Nova Infraestrutura Fundo de Investimentos em Participações Multiestratégia ("FIP"), managed by Brookfield Brasil Asset Management Investimentos Ltda., a company affiliated with 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.

### **3. Basis of presentation of the financial statements**

The financial statements were prepared and are presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and the accounting practices adopted in Brazil, which comprise the provisions contained in the Brazilian Corporations Law and the changes introduced through the Laws 11638/2007 and 11941/2009, the norms issued by the Brazilian Securities and Exchange Commission (CVM) and the pronouncements of the Accounting Pronouncements Committee (CPC). The financial statements were prepared based on historical cost.

Additionally, the Company considered the guidelines provided for in Accounting Guidance OCPC 07, issued by CPC in November 2014, in preparing its financial statements. Significant information of the financial statements itself is being disclosed and corresponds to that used by the Company's management during its administration.

The financial statements were approved by the Company's Board of Directors on March, 27 2020.

#### **3.1. Functional currency and presentation currency**

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

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

## 4. Summary of significant accounting practices

The main accounting policies described in detail below have been applied consistently throughout the financial statements for the fiscal years presented.

### 4.1. Financial instruments

#### l) Financial assets

##### *Initial recognition and measurement*

Financial assets are initially classified as financial assets at fair value through profit or loss, loans and receivables, investments held to maturity, financial assets available for sale, or derivatives classified as effective hedge instruments, depending on their situation. All financial assets are recognized at fair value; financial assets not recognized at fair value through profit or loss will have transaction costs attributable to the acquisition of the financial asset included in their value.

##### *Initial recognition and measurement -- Continuation*

Sales and purchases of financial assets that require the delivery of goods within a timeframe determined by regulation or market convention (regular purchases) are recognized on the transaction date, that is, on the date the Company commits to buying or selling the asset.

The Company's financial assets include cash and cash equivalents and trade accounts receivable, classified as amortized cost.

The Company does not have financial assets measured at fair value through profit or loss, available for sale or held to maturity.

##### *Subsequent measurement*

Loans and receivables are non-derivative financial assets, with fixed and determined payments, not traded in an active market. After the initial measurement, these financial assets are recorded at amortized cost through the effective interest method (effective interest rate), minus impairment loss. The calculation of amortized cost includes discounts or "premiums" on the acquisition, plus fees or incurred costs. The amortization of the effective interest method is included in the financial income line in the statement of profit or loss. Impairment losses are recognized as a financial expense in the statement of profit or loss.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

### 4. Summary of significant accounting practices -- Continuation

#### *Derecognition (write-off)*

A financial asset (or, when applicable, a portion of a financial asset or group of similar financial assets) is mainly off (excluded from the income for the year) particularly when:

The rights to receive cash flows from the asset expire;

The Company transfers its rights to receive cash flows from the asset, or assumes an obligation to pay the received cash flows in full, without significant delay, to a third party by means of a "pass-through" agreement; and (a) the Company substantially transfers all risks and benefits related to the asset, or (b) the Company does not transfer or substantially retain all the risks and benefits related to the asset, but transfers control of the asset.

When the Company transfers its rights to receive cash flows from an asset or has signed a transfer agreement but does not transfer or substantially retain all the risks and benefits related to the asset, the asset is recognized to the extent of the Company's continued involvement with said asset.

The continued involvement takes form of a guarantee for the transferred asset is measured according to the original book value of the asset, or the maximum amount of the consideration required for the Company to amortize the asset, whichever is less.

#### II) Impairment of financial assets

The Company recognizes a provision for expected credit losses for all debt instruments not held at fair value through profit or loss. The expected credit losses are based on the difference between the contractual cash flows due under the contract and all cash flows the Company expects to receive, discounted at an effective interest rate that reaches approximately the original transaction rate. The expected cash flows will include cash flows from the sale of guarantees or other credit improvements that are part of the contractual terms.

Expected credit losses are recognized in two stages: credit exposures which have not significantly increased their credit risk since their initial recognitions are provisioned according to the expected possible credit loss default events in the following 12 months; credit exposures which significantly increased their credit risk since their initial recognitions are provisioned according to the expected credit loss over the remaining course of the exposure, regardless if a default event occurs (lifetime credit loss).

For the trade account receivables and contracted assets, the Company applies a simplified approach when calculating expected credit losses. Therefore, the Company does not monitor changes in credit risk, but recognizes a provision for losses based on expected lifetime credit losses on each base date.

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

## 4. Summary of significant accounting practices -- Continuation

### 4.1. *Financial instruments -- Continuation*

#### II) Impairment of financial assets - Continuation

##### *Financial assets and liabilities at amortized cost*

In relation to financial assets and liabilities presented at amortized cost, the Company initially evaluates financial assets individually to verify whether there is clear evidence of impairment loss for each significant financial asset or, on a consolidated basis for financial assets that are individually significant. If the Company concludes there is no evidence of impairment loss for an individual financial asset, whether it is a significant asset or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and is evaluated jointly for purposes of impairment loss. Assets that are individually evaluated for impairment loss, or for which impairment losses are or continue to be recognized, are not included in a joint impairment evaluation.

The amount of any impairment loss is measured as the difference between the asset's value and the present value of estimated future cash flows (excluding expected and not yet realized future credit losses). The present value of estimated future cash flows is discounted at the original effective interest rate for the financial asset.

The book value of the asset is reduced through a provision, and the amount of the loss is recognized in the profit and loss statement. If, in a subsequent fiscal year, the amount of the estimated impairment loss increases or decreases due to an event that occurred after the recognition of the impairment loss, the previously recognized loss is increased or reduced by adjusting the provision. In the event an amount that has been previously written-off is recovered, the recovered amount will be recognized in the profit and loss statement.

#### III) Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are initially classified at fair value through profit or loss, loans and financing, accounts payable, or as derivatives classified as hedging instruments, as the case may be.

Financial liabilities are initially recognized at fair value and, in the case of loans and financing, include transaction costs for directly related loans and financings.

The Company's main financial liabilities include suppliers and debentures and financing, measured at amortized cost. The Company does not have financial liabilities classified at fair value through profit or loss.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

### **4. Summary of significant accounting practices -- Continuation**

#### **4.1. Financial instruments -- Continuation**

##### III) Financial liabilities - Continuation

The Company's main financial liabilities include suppliers and debentures and financing, all of which are measured at amortized cost. The Company does not have financial liabilities classified at fair value through profit or loss.

##### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification, which can be as follows:

##### *Loans and financings*

After their initial recognition, interest-bearing loans and financing are subsequently measured at amortized cost through the effective interest rate method. Gains and losses are recognized in the profit and loss statement at the time liabilities are written off, as well as during the amortization process through the effective interest rate method.

##### *Derecognition (write-off)*

A financial liability is written off when its obligation is revoked, canceled or expires.

When an existing financial liability is replaced by another with the same lender and with substantially different terms, or when terms of an existing liability are significantly changed, such replacement or change is treated as a write-off of the original liability and a new liability is recognized, with the difference in their book values recognized in the profit and loss statement.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

### **4. Summary of significant accounting practices -- Continuation**

#### **4.1. Financial instruments -- Continuation**

##### IV) Financial instruments - net

Financial assets and liabilities are presented in their respective net amounts in the statement of financial position only if a current and enforceable legal right allows the offsetting of the recognized amounts or if there is an intention to offset the amounts or to recognize the asset and settle the liability simultaneously.

##### 4.1.1. Cash and cash equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term cash commitments and are recognized as investments or other purposes. These balances include cash, available bank deposits and short-term investments that are highly liquid, maturing in up to three months from the date they were deposited, and readily convertible into a known cash amount without significant risks of changes in value.

##### 4.1.2. Accounts receivable

Initially recorded at fair value of the amount to be received and, subsequently, measured at amortized cost through the effective interest rate method minus losses on allowance for doubtful accounts.

The Company recognizes losses in doubtful accounts when impairment is evidenced arising from one or more events occurring after the initial recognition of the asset in which the impact on estimated future cash flows can be reliably estimated.

##### 4.1.3. Debentures and financings

Initially recognized at fair value minus incurred transaction costs and, after their initial recognition, are measured at amortized cost through the effective interest rate method.

#### **4.2. Property, plant and equipment**

Stated at construction costs, which corresponds to the costs required to put the asset in operating conditions minus accumulated depreciation and impairment loss, when applicable.

# **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

## **4. Summary of significant accounting practices -- Continuation**

### **4.2. Property, plant and equipment -- Continuation**

This cost includes the cost of replacing property, plant and equipment, financing costs for long-term construction projects, if the recognition criteria are met, and socio-environmental costs related to the construction of the gas pipeline network with a corresponding provision in the Company's liabilities, in in line with the requirements issued by ICPC 12.

When significant parts of property, plant and equipment need to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. Likewise, when a major inspection is carried out, its cost is recognized in the book value of the replaced property, plant and equipment, if the recognition criteria are met. All other repair and maintenance costs are recognized in the profit and loss statement, at the time they are incurred.

A property, plant and equipment item is written off when it is sold or when no future economic benefit is expected from its use or sale. Any gain or loss resulting from the write-off of the asset (calculated as the difference between the asset's net sale value and its book value) is included in the profit and loss statement for the fiscal year in which the asset was written off.

The residual value and useful lives of the assets and the depreciation methods are reviewed at the end of each fiscal year and adjusted prospectively, when applicable.

### **4.3. Impairment of assets**

The Company makes its own assessments for fixed assets when there are indications that their book value cannot be recovered. If there are indications that book values can be recovered, the Company's policy is to hire independent appraisal firms who, through appraisal reports based on fair and market values, can determine if a provision for the asset is required.

### **4.4. Provisions, contingent assets and liabilities**

Provisions are recognized when a present obligation exists arising from a past event and if a use of resources will be probable, including economic benefits, to settle the obligation and the amount required can be reliably estimated.

Contingent assets are not recognized in the financial statements.

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

## 4. Summary of significant accounting practices -- Continuation

### 4.4. Provisions, contingent assets and liabilities -- Continuation

Contingent liabilities, when a probable outflow of resources exists, are not recognized in the statement of financial position but are disclosed in explanatory notes, including those whose values cannot be estimated.

### 4.5. Income tax and social contribution

Income tax and social contribution expenses for the year include current and deferred taxes.

#### 1) Current income tax and social contribution

Current tax assets and liabilities from the last fiscal year and previous years are measured at the expected recoverable amounts, or payable amounts, to the tax authorities. The tax rates and tax laws used to calculate the amount are those in force on the date of the statement of financial position and that generate taxable income.

Income tax and current social contribution are calculated based on taxable income, applying the rates in force at the end of the fiscal year being reported.

Current income tax and social contribution are shown in net amounts.

#### 2) Deferred current income tax and social contribution

Deferred tax assets arising from deductible temporary differences, tax loss carryforwards and a negative base for social contribution, when applicable, are recognized in proportion to the probability of future taxable profits, projected according to a business plan approved by the Company's management, and the existence of deferred tax liabilities arising from taxable temporary differences.

Deferred income tax and social union contribution are calculated by applying the rates (and tax legislation) that are in force at the end of the fiscal year being reported.

Deferred income tax and social contribution are shown in net amounts.

# **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

December 31, 2019 and 2018

(In thousands of reais, except if indicated otherwise)

## **4. Summary of significant accounting practices -- Continuation**

### **4.6. Share capital and remuneration to shareholders**

The share capital is represented by common shares.

When proposed by the Company, the remuneration to shareholders is paid through dividends and/or interest on equity based on the limits defined by law and the Company's bylaws.

### **4.7. Recognition of revenues, costs and expenses**

Revenue is recognized after the providing natural gas transportation services to Petrobras (transfer of control of the asset), based on transportation contracts, which includes “ship or pay” clauses, in which Petrobras (carrier) is obliged to pay for the contracted transport capacity, regardless of the volume transported, for an amount that reflects what the Company expects to receive in exchange for these services. The Company concludes that it is the main player in its revenue contracts because it controls the services before transferring them to the client.

The Company verifies whether or not there are other obligations in the contract that are distinct performance obligations, to which a portion of the transaction price needs to be allocated. When determining the transaction price for the services to be provided, the Company also considers if other amounts are due, such as variable compensation, significant financing components, non-monetary obligations and other amounts due to the customer (if any). Operating costs include expenses with the operation and maintenance contract for the Company's gas pipeline network, carried out by Transpetro, costs with the outsourced operation of the Congonhas and Mantiqueira Compression Systems (SCOMPs), electric power with the Guararema compression station (ECOMP), right of easement/pass through points of the network located at properties belonging to Petrobras, insurance premium costs, ICMS tax on gas supplied by Petrobras, free of charge, for use in operating the system, as well as depreciation of the network and other costs.

General and administrative expenses include expenses with payroll, consultant firms and other hired services, in addition to expenses with office management and maintenance, and taxes and fees.

Financial income and expenses mainly include interest on financial investments, expenses with interest on debentures, in addition to foreign exchange variations.

Revenues, costs and expenses are recognized through the accrual method.

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

## 4. Summary of significant accounting practices -- Continuation

### 4.8. Calculating fair value

Fair value is the price that should be received for the sale of an asset or paid for the transfer of a liability under a voluntary transaction between market participants on date it is calculated. Fair value assumes that the transaction to sell an asset or transfer a liability will occur under the following:

- In the main market for the asset or liability; or
- In the absence of a main market, in the most relevant market for the asset or liability.

The main or most relevant market must be accessible by the Company.

The fair value of an asset or liability is measured on assumptions that market participants would use when setting the price for an asset or liability, assuming that market participants act in their best economic interest. The calculation of the fair value of a non-financial asset assumes that a market participant will be able to generate economic benefits through the optimal use of the asset or by selling it to another market participant who would also use the asset in an ideal manner.

The Company uses appropriate valuation techniques for each situation in which there is sufficient data to calculate the fair value, maximizing the use of relevant information available and avoid the use of information not available as much as possible.

All assets and liabilities for which fair value is disclosed in the financial statements are categorized within the fair value hierarchy described below, based on the lowest level of information that is significant for calculating fair value in general:

Level 1 - Market prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Valuation techniques in which the smallest and most significant information for calculating fair value can be directly or indirectly identified;

Level 2 - Valuation techniques in which the smallest and most significant information for calculating fair value is not available.

For purposes of disclosing fair value, the Company determines classes of assets and liabilities based on their nature, characteristics and risks and the level of the fair value hierarchy for the asset or liability, as explained above. The corresponding disclosures, at fair value, of financial instruments and non-financial assets calculated at fair value or at the time of disclosure of their fair values, are provided in their respective explanatory notes.

# **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

## **4. Summary of significant accounting practices -- Continuation**

### **4.9. Statements of cash flow**

The Company classifies the interest paid as financing activities in the statement of cash flows since it is considered as cost for obtaining financial resources associated with its operations, as permitted by the current accounting standards.

### **4.10 Current assets and liabilities adjusted to present value**

Long-term monetary assets and liabilities undergo monetary restatements and therefore are adjusted to their present value. The adjustment to present value of short-term monetary assets and liabilities is calculated, and only recorded, if it is considered relevant to the financial statements. For purposes of recording and determining relevance, the adjustment to present value is calculated by using contractual cash flows and explicit interest rates, and implicit rates in certain situations, of the respective assets and liabilities. Based on the analyzes performed and the best estimates used by the Company's management, it was concluded that adjustments to present value of current monetary assets and liabilities is irrelevant for the financial statements and thus their adjustments are not recorded

## **5. Significant estimates and judgments**

The financial statements herein presented were prepared under various measurement bases used in accounting estimates. The accounting estimates involved in the preparation of these financial statements were based on objective and subjective factors, considering management's judgment for determining the adequate amounts to be recorded in the financial 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.

Following is a disclosure of information according to accounting practices and estimates that require a high level of judgment or complexity for their applicability and that may materially affect the Company's financial situation and results.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **5. Significant estimates and judgments -- Continuation**

#### **5.1. Estimates related to lawsuits and contingencies**

The Company is a party to several legal and administrative proceedings involving civil, tax and labor issues arising from the normal course of its operations. The assessment of the likelihood of loss is based on available evidence, hierarchy of laws, available jurisprudence, the most recent court decisions and their relevance in the legal system, as well as assessments made by external legal advisors. Provisions are reviewed and adjusted according to changes in circumstances, such as the applicable statute of limitations, conclusions of tax inspections or additional exposures arising from new matters or court decisions.

Information on provisioned processes and contingencies is presented in Note 22 to the financial statements.

#### **5.2. Estimates related to environmental compensations and conditions**

The Company has liabilities relating to environmental compensations and conditions required by the environmental control, monitoring and inspection bodies, at the federal and state levels, arising from licenses issued for the installment and operation of projects and constructions linked to its gas pipeline network. The amounts recorded reflect the probable financial disbursements that the Company will incur in compliance with its obligations.

Information on recorded liabilities is presented in Notes 16.1 and 16.2 of the financial statements.

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

## 6. New standards and interpretations

### 6.1. New or revised pronouncements applied for the first time in 2019

Norm	Key requirements	Effective date
IFRIC 23 / ICPC 22 – Uncertainty about treatment for taxes on profit	<p>The technical interpretation ICPC 22 clarifies how the recognition and measurement requirements set out in CPC 32, which provides for taxes on profit, should be applied, when there is uncertainty regarding how these taxes should be treated.</p> <p>The Company adhered to these standard as they became effective on January 1, 2019. However, based on the management's understanding, there is no material impact on accounting due to uncertain positions regarding taxes on profit due to the adoption of this new accounting pronouncement.</p>	January 1, 2019
CPC 06 (R2) - "Leasing Operations"	<p>CPC 06 (R2) establishes the principles for the recognition, measurement, presentation and disclosure of leasing operations and requires that lessees record all leases under a single balance sheet model, similar to accounting for financial leases along the lines of CPC 06 (R1). On the initial lease date, the lessee recognizes a liability for the lease payments due (a lease liability) and an asset representing the right of use of the underlying asset during the lease term (a right-of-use asset). Lessees must separately recognize interest expense on the lease liability and the depreciation expense for the right-of-use asset.</p> <p>Lessees are also required to reassess the lease liability in the event of certain events (for example, a change in the lease term, a change in future lease payments as a result of a change in a referred index or rate to determine such payments). In general, the lessee will recognize the revaluation amount of the lease liability as an adjustment to the right-of-use asset.</p> <p>There is no substantial change in the lessor's accounting requirements based on CPC 06 (R2) in relation to the current accounting requirements of CPC 06 (R1). Lessors will continue to classify all leases according to the same classification principle provided by CPC 06 (R1), distinguishing between two types of leases: operational and financial.</p> <p>CPC 06 (R2), which is in effect for the year beginning on or after January 1, 2019, requires that lessees and lessors make more comprehensive disclosures than those provided for in CPC 06 (R1).</p> <p>The Company prepared an analysis of the existing lease contracts based on the principles and characteristics of the new accounting standard, and concluded that the application of this standard as of January 1, 2019 did not affect the recognized accounting balances for the statements of financial position, statements of profit or loss and statements of comprehensive income.</p>	January 1, 2019

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 7. Cash and cash equivalents

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	614	22
Short-term investments	795.360	362.061
	<u>795.974</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) remunerated by reference to the Interbank Deposit Certificate (CDI).

### 8. Accounts receivable

	<u>2019</u>	<u>2018</u>
Petróleo Brasileiro S.A - Petrobrás	861.142	804.273
	<u>861.142</u>	<u>804.273</u>

The Company's receivables arise from Gas Transportation Agreements (GTAs) entered into with Petrobras. There were no overdue amounts receivable on December 31, 2019 and 2018.

The Company did not record any allowance for loan losses on December 31, 2019 and 2018, in view of the absence of expected loss, the inexistence of past due invoices on these base dates and the Account Linking Management Agreement between Petrobras and Banco Bradesco S.A., detailed in Nota 23.c). This instrument ensures that Petrobras' receivables, originating from the Gas Purchase and Sale Agreements in which it acts as a seller, guarantee a coverage of at least 120% of the expected value of the Company's monthly invoices.

### 9. Other accounts receivable

The balance of R\$76,793 on December 31, 2019 refer to: i) expenses incurred by the Company within the scope of the Stress Corrosion Cracking (SCC) Integrity Management Plan in the amount of R\$74,566 (R\$17,851 on December 2018); and ii) Lease Class in the amount of R\$2,227. Such amounts will be reimbursed by Brasileiro S.A. – Petrobras as part of the agreement for the sale of the Company, described in Note 2.1. Management expects to receive this amount during 2020 and has not updated the amount since it is being treated as a recovery of incurred costs.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 10. Restricted bank deposits

The balance of R\$15,096 on December 31, 2019 (R\$14,595 on December 31, 2018), 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 9985/2000, which constituted the National System of Units of Conservation – SNUC.

### 11. Property, plant and equipment (PP&E)

Description	31/12/2018	Changes in 2019				31/12/2019
		Additions	Write-offs	Transfers	Depreciation	
Construction in progress	78.676	103.996	-	(71.637)	-	111.035
Leasehold improvements	4.217	381	-	(40)	(478)	4.079
Environmental constrains	123.361	-	-	-	(5.251)	118.110
Equipment and other assets	8.401.176	5.221	(23.493)	71.677	(425.733)	8.028.848
	<b>8.607.430</b>	<b>109.598</b>	<b>(23.493)</b>	<b>-</b>	<b>(431.462)</b>	<b>8.262.072</b>

Description	31/12/2017	Changes in 2018				31/12/2018
		Additions	Write-offs	Transfers	Depreciation	
Leasehold improvements	18.338	69.834	-	(9.496)	-	78.676
Environmental constrains	6.246	-	-	(6.190)	(56)	-
Equipment and other assets	4.650	342	-	(319)	(456)	4.217
Leasehold improvements	75.051	24.777	-	27.978	(4.445)	123.361
Environmental constrains	8.820.204	4.660	-	(11.973)	(411.715)	8.401.176
	<b>8.924.489</b>	<b>99.613</b>	<b>-</b>	<b>-</b>	<b>(416.672)</b>	<b>8.607.430</b>

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.

In the third quarter of 2019, an asset write-off occurred for canceled or discontinued projects, in the amount of R\$ 23.5 million, as approved at the Extraordinary General Meeting held on August 29, 2019.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **11. Property, plant and equipment (PP&E) -- Continuation**

#### Capitalized borrowing costs

During the fiscal year periods ended December 31, 2019 and 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.

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.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **11. Property, plant and equipment (PP&E) -- Continuation**

#### Useful life of assets -- 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 Piraí/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

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.

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **11. Property, plant and equipment (PP&E) -- Continuation**

#### Useful life of assets -- 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 fiscal years ended December 31, 2019 and 2018.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 12. Trade accounts payable

	<u>2019</u>	<u>2018</u>
Petróleo Brasileiro S.A - Petrobrás	162.538	100.052
Petróleo Transportes S.A - Transpetro	39.130	24.181
Solar Turbines Internati	6.402	-
Tokio Marine Seguradora	4.506	-
Intech Engenharia Ltda	1.980	1.740
Chubb Seguros Brasil S.A	1.635	6.116
Schneider	1.613	-
Rosenbra Engenharia Brasil Ltda	1.878	3.446
Enerflex/Geogás	1.314	1.102
EGD Engenharia Ltda.	1.022	-
Exterran	933	944
AIG Seguros Brasil	890	828
XL Seguros Brasil	512	512
Alfredo A Possebon Filho & cia Ltda	-	3.061
Mckinsey & Company inc do Brasil consult	-	2.329
Construtora Biapo Ltda	-	767
Gascat Industria e Comercio	-	522
Transportadora Associada de Gás	-	114
Consultores e outros serviços contratados	11.236	3.100
Demais Fornecedores	20.883	6.084
	<u>256.471</u>	<u>154.898</u>

### 13. Debentures payable

	<u>Interest rate</u>	<u>Maturity</u>	<u>2018</u>	<u>2017</u>
Current				
Charges – second-issue debentures	109% CDI	2023	47.775	61.756
Funding costs	-	-	(1.947)	(1.945)
<b>Total current</b>			<b>45.828</b>	59.811
Noncurrent				
Principal – second-issue debentures	109% CDI	2023	5.200.000	5.200.000
Funding costs	-	-	(4.705)	(6.646)
<b>Total noncurrent</b>			<b>5.195.295</b>	<b>5.193.354</b>
<b>Total</b>			<b>5.241.123</b>	<b>5.253.165</b>

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.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 13. Debentures payable -- Continuation

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 financial statements on December 31, 2019, the Company determined both indices and concluded that the covenants were complied with.

Payments and amortization of funding costs are as follows

Year	Principal	Amortization of funding costs
2020	-	1.947
2021	-	1.947
2022	-	1.947
2023	5.200.000	811
<b>Total</b>	<b>5.200.000</b>	<b>6.552</b>

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

## 14. Transactions with related parties

### a) Operations between legal entities

	<u>FIP</u>	<u>Petrobrás</u>	<u>ITAUSA</u>	<u>Transpetro</u>	<u>TAG</u>	<u>2019</u>
<b>P&amp;L</b>						
Gross service revenue	-	5.172.155	-	-	-	5.172.155
Cost with gas pipeline operation and	-	-	-	(257.633)	-	(257.633)
Other operating costs/expenses	-	(55.185)	-	-	-	(55.185)
	<u>-</u>	<u>5.116.970</u>	<u>-</u>	<u>(257.633)</u>	<u>-</u>	<u>4.859.337</u>
<b>Assets</b>						
Accounts receivable	-	861.142	-	-	-	861.142
Other accounts receivable	-	76.793	-	-	-	76.793
	<u>-</u>	<u>937.935</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>937.935</u>
<b>Liabilities</b>						
Trade accounts payable	-	(162.538)	-	(39.130)	195	(201.473)
	<u>-</u>	<u>(162.538)</u>	<u>-</u>	<u>(39.130)</u>	<u>195</u>	<u>(201.473)</u>
	<u>FIP</u>	<u>Petrobrás</u>	<u>ITAUSA</u>	<u>Transpetro</u>	<u>TAG</u>	<u>2018</u>
<b>P&amp;L</b>						
Gross service revenue	-	4.703.529	-	-	-	4.703.529
Cost with gas pipeline operation and	-	-	-	(234.533)	-	(234.533)
Other operating costs/expenses	-	(52.586)	-	-	(1.555)	(54.141)
Net financial expenses	(181.492)	(4.965)	(16.860)	-	-	(203.316)
	<u>(181.492)</u>	<u>4.645.978</u>	<u>(16.860)</u>	<u>(234.533)</u>	<u>(1.555)</u>	<u>4.211.539</u>
<b>Assets</b>						
Accounts receivable	-	804.273	-	-	-	804.273
Other accounts receivable	-	17.851	-	-	-	17.851
	<u>-</u>	<u>822.124</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>822.124</u>
<b>Liabilities</b>						
Trade accounts payable	-	(100.052)	-	(24.181)	-	(124.233)
Dividends and interests on equity	(14.009)	(1.446)	(1.106)	-	-	(16.561)
	<u>(14.009)</u>	<u>(101.498)</u>	<u>(1.106)</u>	<u>(24.181)</u>	<u>-</u>	<u>(140.794)</u>

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 14. Transactions with related parties -- Continuation

#### a) Operations between legal entities -- Continued

For the financial statements ended December 31, 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 – On December 31, 2019 and 2018, the transactions carried out with FIP referred to the amount belonging to FIP in relation to the total amount of the Company's first debentures issue, as well as to the remuneration attributed to the debentures held by related party. As described in Note 10, on May 15, 2018, the Company executed an early redemption of its debentures issued under the terms of the "Private Instrument of Indenture for the First Non-convertible Debentures, in a Single Series, with Security Interest, issued by NTS".
- II) Petrobras – on December 31, 2019 and 2018, 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 2018 and 2019. The terms of the agreements were defined by the parties involved, billing occurs up to the 7<sup>th</sup> business day of the month following the date when the service was provided and the due date will be the 10<sup>th</sup> 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 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) ITAUSA – on December 31, 2018, the transactions carried out with ITAUSA referred to the amount belonging to ITAUSA in relation to the total amount of the Company's first debentures issue, as well as to the remuneration attributed to the 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 executed an early redemption of its debentures issued under the terms of the "Private Instrument of Indenture for the First Non-convertible Debentures, in a Single Series, with Security Interest, issued by NTS".

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 14. Transactions with related parties -- Continuation

#### a) Operations between legal entities -- Continued

- IV) Transpetro – on December 31, 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 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.
- V) Transportadora Associada de Gás - TAG – on June 30, 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 IGPM. 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 account. 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:

	2019	2018
Management compensation	6.458	11.016
Short-term benefits	3.851	1.002
	<u>10.309</u>	<u>12.018</u>

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

## 15. Taxes

### 15.1. Current taxes

Taxes	Current assets		Noncurrent assets		Current liabilities	
	2018	2017	2018	2017	2018	2017
Income tax	2	-	-	-	(290.229)	(77.225)
Social Contribution tax	1	-	-	-	(124.720)	(34.813)
PIS/COFINS (a)	-	-	8.622	8.411	(30.025)	(31.832)
ICMS	-	-	-	-	(17.111)	(18.550)
ISS	-	-	-	-	(3.896)	(1.964)
IRRF	-	98	-	-	(1.360)	(1.081)
Other taxesssss	-	-	-	-	(2.316)	(2.146)
	<b>3</b>	<b>98</b>	<b>8.622</b>	<b>8.411</b>	<b>(469.657)</b>	<b>(167.611)</b>

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.

### 15.2. Deferred taxes

#### a) Breakdown of deferred income and social contribution taxes

	Base at 12/31/2019	Balance of deferred income tax at 34%	Base at 12/31/2018	Balance of deferred income tax at 34%
Deferred tax assets				
Provision for contingencies and other	16.226	5.517	13.059	4.440
Provision – expenses with environmental compensation	31.543	10.725	32.014	10.885
Provision for bonus	17.117	5.820	12.101	4.114
Provision for tax credits	-	-	-	-
Other	-	-	2.116	719
		22.062		20.158
Deferred tax liabilities				
PP&E	(3.944.394)	(1.341.094)	(2.772.536)	(942.662)
Deposit not yet under <i>res judicata</i>	-	-	(2.084)	(708)
		(1.341.094)		(943.370)
Balance of deferred taxes, net		(1.319.032)		(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.

	2020	2021	2022	Total
Recoverability of the deferred tax asset	5.363	11.183	5.516	22.062

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 15. Taxes -- Continuation

#### 15.3. Reconciliation of income and social contribution taxes

	<u>2018</u>	<u>2018</u>
Income before income and social contribution taxes	<b>3.302.092</b>	2.827.871
Income and social contribution taxes at statutory rate (34%)	<b>(1.122.711)</b>	(961.476)
	<b>2.179.381</b>	1.866.395
Adjustments to determine effective tax rate:		
Permanent (exclusions)/additions, net	<b>(70.395)</b>	(177.893)
Temporary (exclusions)/additions, net	<b>(1.164.180)</b>	(1.177.420)
Additions	<b>30.655</b>	26.940
(+) Provision for bonus	<b>12.038</b>	13.075
(+) Provision for environmental compensation	<b>2.776</b>	9.184
(+) Provision for contingencies	-	-
(+) Provision for losses on withholding income and social contribution taxes	-	-
(+) Other	<b>15.841</b>	4.681
Exclusions	<b>(1.194.835)</b>	(1.204.360)
(-) Tax depreciation x corporate depreciation	<b>(1.171.858)</b>	(1.185.736)
(-) Bonus	<b>(7.023)</b>	(8.097)
(-) Provision for environmental compensation	<b>(13.754)</b>	(9.258)
(-) Other	<b>(2.200)</b>	(1.269)
Adjusted income and social contribution tax base	<b>2.067.517</b>	1.472.558
(Income and social contribution tax losses realized)	-	-
Income and social contribution taxes	<b>(702.666)</b>	(500.185)
Discount due to sponsorships (Rouanet Law)	<b>13.914</b>	8.004
Current income and social contribution taxes	<b>(688.752)</b>	(492.181)
Deferred income and social contribution taxes	<b>(395.821)</b>	(402.182)
	<b>(1.084.573)</b>	(894.363)
Effective IR and CS rate	<b>32,85%</b>	31,63%

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **16. Provision for environmental compensation and environmental constraints**

#### **16.1 Provision for environmental compensation**

Refers to amounts accrued totaling R\$31,543 (R\$29,849 on December 31, 2018), based on Federal Law 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.

#### **16.2 Provision for environmental constraints**

The balance recorded amounting to R\$55,018 (R\$69,484 on 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 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.

### **17. Equity**

#### **17.1 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.

Due to the abovementioned capital reduction, on December 31, 2019, the Company's fully subscribed and paid-up capital was represented by 2,312,328,578 common registered shares with a par value of R\$0.43 each. On December 31, 2018, the Company's share capital was represented by 2,312,328,578 common registered shares with a par value of R\$0.70 each. The Company does not have authorized capital.

# Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

## 17. Equity -- Continuation

### 17.2 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.

### 17.3 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 December 31, 2019, NTS distributed a total of R\$1,795,038 in interim dividends (R\$1,509,177 on December 31, 2018) and a total of R\$163,654 related to interest on equity (R\$216,889 on December 31, 2018), both approved by the Fiscal Council and Board of Directors.

#### c) Proposed additional dividends

On December 31, 2019, the Company's management proposed the distribution of additional dividends amounting to R\$248,003, based on the net profit recorded for the 2019 fiscal year and in addition to the interim dividends distributed to shareholders in 2019. The proposed dividends will be maintained in the Legal Reserve account until they have been approved by the Board of Directors at a General Shareholders' Meeting.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

### 17. Equity -- Continuation

#### c) Proposed additional dividends -- Continuation

The tables below illustrate the calculation of the proposed dividends and the reconciliation of the statement of financial position recorded in current liabilities as interest on equity.

	<u>2019(*) (**)</u>	<u>2018(*)</u>
Net income for the period	<b>2.217.519</b>	1.933.508
(-) Interim dividends for the period	<b>(1.795.038)</b>	(1.509.177)
(-) Interest on Equity paid in the period	<b>(163.654)</b>	(216.889)
(-) Interest on Equity to be paid	<b>(10.824)</b>	(17.010)
<b>(=) Base profit for determining dividends</b>	<b><u>248.003</u></b>	<u>190.432</u>
<b>Mandatory Dividends</b>	<b>-</b>	<b>-</b>
<b>Additional Proposed Dividends</b>	<b><u>248.003</u></b>	<u>190.432</u>

(\*) The Company's management chose not to constitute a Legal Reserve for the recorded profits in 2019 and 2018 given that the Capital and Legal Reserve balances already recorded exceed 41% of the Company's subscribed and paid-in share capital. This decision is supported by the provisions of article 193, paragraph 1, of Law 6404/1976.

(\*\*) Due to the interim dividend distributions made by the Company to its shareholders in 2019, the proposed dividends will remain recorded in the Profit Reserve until approved by the Board of Directors.

<u>Reconciliation with current liabilities</u>	<u>2019</u>	<u>2018</u>
Interest on Equity to be paid	<b>10.833</b>	17.010
IRRF tax on Interest on Equity	<b>(287)</b>	(449)
<b>Interest on equity recorded in liabilities</b>	<b><u>10.546</u></b>	<u>16.561</u>

#### d) 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 will be paid in the first quarter of 2020, along with the intermediate dividends of 2020, once approved by the Board of Directors.

#### e) Earnings per share

The calculation of basic and diluted earnings per share for the three and nine-month periods ended December 31, 2019 and 2018, as follows:

	<u>2019</u>	<u>2018</u>
<b>Net income for the year (in thousands of Reais)</b>	<b>2.217.519</b>	<b>1.933.508</b>
Total shares issued	<u>2.312.328.578</u>	<u>2.312.328.578</u>
<b>Basic and diluted earnings per share - in reais</b>	<b><u>0,96</u></b>	<b><u>0,84</u></b>

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 18. Net revenue

	<u>2019</u>	<u>2018</u>
Gross service revenue	5.400.869	4.913.069
Charges on services	(765.940)	(662.637)
Tariff adjustment	(228.714)	(209.540)
	<u><b>4.406.215</b></u>	<u><b>4.040.892</b></u>

### 19. Cost of services

	<u>2019</u>	<u>2018</u>
Depreciation and amortization	(340.046)	(416.578)
Contracted services, freight, rent and general charges	(24.744)	(24.876)
Operation and maintenance	(257.633)	(234.533)
Right-of-way	(55.185)	(52.586)
Electric power	(19.276)	(17.861)
Insurance coverage	(13.551)	(13.554)
ICMS on gas used in the system	(9.985)	(9.685)
Temporary support - TAG	-	(359)
Environmental costs	(820)	(1.320)
Personnel	(10.741)	(11.763)
Other costs	(11.801)	(5.682)
	<u><b>(743.782)</b></u>	<u><b>(788.797)</b></u>

### 20. General and administrative expenses

	<u>2019</u>	<u>2018</u>
Personnel	(22.293)	(25.808)
Legal counsel	(2.242)	(1.206)
Auditing	(999)	(582)
Accounting advisory services	(1.657)	(1.492)
Consulting services	(1.914)	(1.974)
Sponsorships	(13.929)	(8.030)
Expenses with temporary support – TAG and Petrobrás	-	(1.196)
Office expenses and other	(13.357)	(7.450)
Legal provision reversal	1.803	(86)
Other	-	(1)
	<u><b>(54.588)</b></u>	<u><b>(47.825)</b></u>

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 21. Financial income (costs), net

	<u>2019</u>	<u>2018</u>
Finance income	60.723	48.426
Other finance income	6.601	7.987
Total finance income	<u>67.324</u>	<u>56.413</u>
Interest on financing	(337.205)	(423.045)
Taxes on finance income (costs)	(3.350)	(2.608)
Fines and interest charges	(270)	(153)
Other finance costs	(8.759)	(7.006)
Total finance costs	<u>(349.584)</u>	<u>(432.812)</u>
Finance income (costs), net	<u><b>(282.260)</b></u>	<u><b>(376.399)</b></u>

### 22. Legal proceedings and contingencies

#### 22.1 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>Labor</u>	<u>Tax</u>	<u>Total</u>
<b>Balances at of December 31, 2018</b>	(2.685)	(5.540)	(8.225)
Reversals	-	1.808	1.808
Monetary restatement	(655)	736	81
<b>Balances at December 31, 2019</b>	<u><b>(3.340)</b></u>	<u><b>(2.996)</b></u>	<u><b>(6.336)</b></u>

#### 22.2 Judicial deposits

	<u>2019</u>	<u>2018</u>
Noncurrent assets		
Labor	17	41
Tax	17.681	16.780
Civil	-	24
Others	18	-
	<u>17.715</u>	<u>16.845</u>

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 22. Legal proceedings and contingencies – Continuation

#### 22.3 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 financial statements.

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

	Civil		Tax	
	Legal	Administrative	Legal	Total
<b>Balances at December 31, 2018</b>	48	45.182	11.837	57.067
New cases	-	48.831	479	49.310
Monetary restatement	(4)	2.832	717	3.545
<b>Balances at December 31, 2019</b>	<b>44</b>	<b>96.845</b>	<b>13.033</b>	<b>109.922</b>

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 2019, two new proceedings were 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\$84,474 (R\$34,012 in December 2018).

Judicial tax proceedings basically refer to the execution of an Infraction Notice regarding IRPJ/CSLL taxes on financial expenses referring to interest paid in previous years by the Company on foreign loans. The deductibility of these expenses has not been approved by the tax authority and is awaiting a decision by the lower court. The estimated value in December 2019 was R\$11,372 (R\$10,661 in December 2018).

### 23. 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 December 31, 2019, 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.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 23. Financial instruments -- Continuation

#### 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 December 31, 2019 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.

	Maturity of financial liabilities				
	2020	2021	2022	2023	Total
Debentures*	251.526	251.480	251.511	5.278.484	6.033.001
Trade accounts payable	256.471	-	-	-	256.471

\* The projections for the debentures consider the probable scenario in Note 23(e).

#### 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 December 31, 2019, 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 December 31, 2019, 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) executed with Petrobras (customer).

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.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 23. Financial instruments -- Continuation

#### d) Sensitivity analysis

On December 31, 2019, the Company's management carried out a sensitivity analysis for financial instruments subject to interest rate risk.

Instruments	Exposure	Risk	Probable (*)	Possible (25% variation)	Remote (50% variation)
<b>Financial liabilities</b>					
Debentures (**)	5.247.775	CDI increase	(251.526)	(313.415)	(374.919)
<b>Financial assets</b>					
Cash and cash equivalents	795.974	CDI decrease	35.819	26.864	17.909

(\*) 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.

The "probable" scenario was calculated considering a CDI rate of 4.50%, applicable to the floating portion of the debenture interest rate and to the balance of cash and cash equivalents on December 31, 2019. The "possible" and "remote" scenarios considered fluctuations of 25% and 50%, respectively, in the CDI rate applied in the "probable" scenario.

#### 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 on December 31, 2019 and 2018.

Financial assets (current and noncurrent)	Level	2019		2018	
		Book value	Fair value	Book value	Fair value
<b>Measured at amortized cost</b>		<b>1.749.005</b>	<b>1.749.005</b>	1.198.802	1.198.802
Cash and cash equivalents	2	795.974	795.974	362.083	362.083
Accounts receivable	2	861.142	861.142	804.273	804.273
Other accounts receivable	2	76.793	76.793	17.851	17.851
Restricted bank deposits	2	15.096	15.096	14.595	14.595
<b>Financial liabilities (current and noncurrent)</b>					
<b>Measured at amortized cost</b>		<b>5.497.594</b>	<b>5.497.594</b>	5.408.063	5.408.063
Trade accounts payable	2	256.471	256.471	154.898	154.898
Debentures	2	5.241.123	5.241.123	5.253.165	5.253.165

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

### 23. Financial instruments -- Continuation

#### e) Estimate at fair value--Continuation

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.

#### 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 at December 31, 2018	Cash changes			Non-cash changes			Balance at December 31, 2018
		Received/(Paid) – financing activities	Payment of interest	Funding costs	Dividends and IOE approved	Interest expenses	Amortization of funding costs	
Debentures – 2 <sup>nd</sup> issue	5.253.165	- (348.079)	(8)	-	334.098	1.947	5.241.123	
Dividends and IOE	16.561	(2.166.126)	-	-	2.160.111	-	10.546	
	5.269.726	(2.166.126)	(348.079)	(8)	2.160.111	334.098	5.251.669	

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements  
Fiscal years ended December 31, 2019 and 2018  
(In thousands of reais, unless otherwise stated)

### 24. 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 December 31, 2019:

Types of Agreements	2020	2021	2022	2023	2024	Total
Office space rental	1.436	1.024	512	45	48	<b>3.065</b>
Telecom & Printers	28	-	-	-	-	<b>28</b>
Compression services	16.473	12.605	13.527	14.517	15.579	<b>72.701</b>
Operation and maintenance of gas pipelines	278.309	278.309	278.309	278.309	278.309	<b>1.391.545</b>
Use and sharing of gas pipelines rights-of-way	55.069	55.069	59.099	63.424	68.066	<b>300.727</b>
<b>Total</b>	<b>351.315</b>	<b>347.007</b>	<b>351.447</b>	<b>356.295</b>	<b>362.002</b>	<b>1.768.066</b>

#### b) Guarantees

On December 31, 2019, 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 R\$902 rent guarantee insurance contracted 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.

## Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### 25. 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 has several insurance policies, including Operational Risks and Ceasing Profits, General Liability, Environmental Risks, D&O Liability, Engineering Risks, Works Liability and Property Liability.

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

<b>Insurance Type</b>	<b>Start</b>	<b>Maturity</b>	<b>Coverage</b>
Operational risk (damage and business interruption)	03/10/2019	03/10/2020	<b>1.500.000.000</b>
Civil liability	03/10/2019	03/10/2020	<b>400.000.000</b>
Environmental liability	03/10/2019	03/10/2020	<b>300.000.000</b>
D&O	03/10/2019	03/10/2020	<b>300.000.000</b>
Professional liability	03/10/2019	03/10/2020	<b>10.000.000</b>
Data protection & Cyber responsibility	03/10/2019	03/10/2020	<b>10.000.000</b>
Corporate Fraud (Crime)	03/10/2019	03/10/2020	<b>5.000.000</b>
Civil liability (construction works - CCO)	15/09/2019	31/01/2020	<b>60.000.000</b>
Engineering risk	01/11/2017	31/01/2020	<b>45.135.940</b>
Commercial Multiple Peril (office)	27/11/2019	27/11/2020	<b>10.000.000</b>
Engineering risk CCO	15/09/2019	31/01/2021	<b>9.986.530</b>
<b>Total</b>			<b><u>2.650.122.470</u></b>

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 December 31, 2019 and 2018 as prepaid expenses:

<b>Description</b>	<b>2019</b>	<b>2018</b>
Operational risk	<b>6.719</b>	6.847
Civil liability	<b>1.477</b>	1.367
Environmental liability	<b>974</b>	1.020
D&O	<b>647</b>	651
Engineering risk	<b>573</b>	111
Others - Insurance	<b>317</b>	36
<b>Total</b>	<b><u>10.707</u></b>	<b><u>10.032</u></b>

## **Nova Transportadora do Sudeste S.A. - NTS**

Notes to the financial statements

Fiscal years ended December 31, 2019 and 2018

(In thousands of reais, unless otherwise stated)

### **26. Event after the reporting period**

On February 18, 2020, Nova Transportadora do Sudeste SA and Exterran Serviços de Óleo e Gás Ltda. entered into a purchase and sale agreement for the acquisition of assets corresponding to the Mantiqueira compression station, in the amount of R \$ 46,147,200 , 00 (forty-six million, one hundred and forty-seven thousand, two hundred reais), which was settled on February 21, 2020.

At a Board of Directors' meeting held on March, 27 2020, the Board unanimously and without reservations approved the interim distribution of dividends and interest on equity by the Company in the amount of R\$248,003 (two hundred and forty-eight million and three thousand reais), based on a favorable opinion issued by the Fiscal Council.

Management plans to execute the distribution of dividends and interest on equity during the first quarter of 2020.