

NOVA TRANSPORTADORA DO SUDESTE S.A. -
NTS

MANAGEMENT REPORT 2020



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1. MANAGEMENT'S MESSAGE

For NTS, the year 2020 was marked by growth and achievements.

Considering the regulatory aspects for the natural gas transportation, we highlight the New Gas Bill of Law (PL 6407/13) that was voted by the House of Representatives in September 2020 and by the Federal Senate in December, with new rounds of discussions to be taken by the National Congress. The sector expects discussions to resume shortly in 2021 and that this change will promote a more dynamic and competitive gas transportation market.

In the last quarter of the year, we reported our record volume of gas transported in a single day, at 55.6 million m³. We ended 2020 with an average daily volume of 34.4 million m³ in natural gas delivered per day.

It is important to highlight that the results achieved in 2020 were supported by a consistent business continuity and crisis management plans, which were triggered since the beginning of the pandemic scenario caused by COVID-19. Throughout this period, our activities followed the recommendations and protocols of the health and sanitary authorities. Additionally, we migrated our corporate activities to the remote working model.

Despite the pandemic scenario and imposed restrictions, we guarantee the transportation of natural gas, without interruptions and in complete safety, within the new protocols that have been established for our teams to guarantee operational safety.

The financial results were in line with our business plan, considering the macroeconomic assumptions, allowing the achievement of an EBITDA margin of approximately 91% and distribution of approximately R\$2.4 billion to shareholders, as dividends and interest on equity, in addition to reducing and refunding our share capital by R\$653 million. Fitch Ratings reaffirmed our national long-term rating, meaning we maintained the "AAA (bra)" rating with a stable outlook, and all the covenants for our debentures were fulfilled.

Investments totaled R\$182 million in the year, mainly related to the acquisition of the Mantiqueira compression station and integrity and operational safety projects. Other relevant projects were concluded, such as the delivery of the new Guapimirim Receiving Point, the new "CCO" (operational control center), the implementation of the SCADA system and our operational support bases. As we plan to carry out additional investments and focus on optimizing our capital structure, we took out a R\$60 million loan through CCB (bank credit notes).

We ended 2020 with 206 job positions filled, which means 119 new direct positions were created during the year, mainly for technical and operational teams. Our technical staff was 100% certified, after completing technical training courses, totaling more than 1,650 in training hours.

The Total Recordable Injured Frequency Rate at NTS totaled 1.90 per million man-hours, below the operational limits defined by the Company. We reinforce our commitment to strive for zero accidents.

Aiming to mitigate the socioeconomic impacts brought by the pandemic in the communities nearby our operations, we donated R\$6 million for the acquisition and activation of more than 80 hospital beds and equipment, in addition to basic food baskets, to the municipalities at the three states where NTS operates (MG, SP and RJ). Another R\$14 million was donated by means of incentive laws, especially related to culture and sports, benefiting social projects for children, teenagers and the elderly. NTS prioritizes its initiatives in regions that have low Human Development Indexes (HDI) and are located along the operating range of the Company's gas pipelines.

In terms of the Company's Environmental Management System ("EMS"), NTS elaborated and revised its standards according to Management Integrated System ("SGI").

Other important highlights achieved by NTS in 2020 include:

- The consolidation of the crisis management program;
- The implementation of legal requirements related to the General Data Protection Law ("LGPD");
- Initiatives carried out to consolidate its corporate culture, diversity and inclusion;
- The Company's participation in Rio Oil&Gas conference, including the "Natural Gas Transportation Pipeline" panel which held discussions and debates between several of the sector's players as well as presentation of four articles;
- For the second consecutive year, NTS was recognized as the best company in the transportation sector according to the "Maiores & Melhores" edition published by the EXAME magazine, and for the third consecutive year, we ranked as the best company in the transport and logistics sector, according to the "Valor 1000" magazine published by Valor Econômico.

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 and resilience carried out in 2020. Everyone's commitment to the NTS values is fundamental for the results consolidation and for the success of all projects planned for 2021.

Wong Loon

Chief Executive Officer

Flávio Mendonça Leal

Chief Finance and Investor Relations Officer

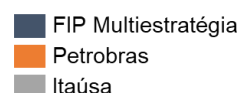
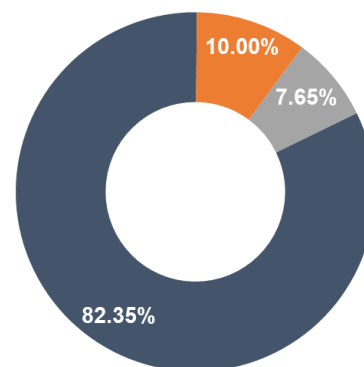
2. NTS

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.

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 capital and 82.35% of its shares are held by Nova Infraestrutura - FIP Multiestratégia, 7.65% by Itaúsa S.A. and 10.0% by Petrobras. In March 2020, Petrobras initiated a divestment process in NTS and announced the sale of its 10% minority stake.



2.1. CORPORATE GOVERNANCE

The Company is managed by a Board of Directors and an Executive Board according to its Bylaws. 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. At an Extraordinary General Shareholders' Meeting held in January 2020, Petrobras indicated the election of two independent board members, according to the New Market Regulation of B3 S.A. - Brasil, Bolsa, Balcão. All sitting and alternate members have mandates until the next annual General Shareholders' Meeting (GSM), in April 2021. The Statutory Executive Board is comprised of 2 members, being a Chief Executive and Operations Officer and a Chief Financial and Investor Relations Officer, both reelected by Board of Directors in 2020, for a three-year term of office.

The independent external audit, whose hiring was approved by the Company's Board of Directors, examines the Company's financial statements after the end of each of the first three quarters of the current fiscal year and during the 4 (four) first months following the end of the fiscal year. The financial statements are approved by the shareholders of NTS at the General Shareholders' Meeting, based on a statement issued by the Board of Directors and an opinion prepared by the Fiscal Council. After five consecutive fiscal years, the external audit company must be replaced to ensure equality, independence and transparency in the audit process.

In 2020, external audit fees for the quarterly reviews conducted by the auditors on the Company's interim and annual statements totaled R\$604 thousand (this amount was R\$616 thousand in 2019 for the same scope). The Company's external auditor, Ernst & Young Auditores Independentes S.S. also provided additional services including comments and/or recommendations on the memorandum for the apportionment of personnel cost defined by the Company according to applicable accounting literature or regulatory guidelines. Fees for these services totaled R\$69 thousand, or 11% of the fees paid for external audit services. These services did not affect the auditor's independence and objectivity, including any potential threats of independence inherent in this situation and the respective roles and responsibilities of the Company's management and the auditor during the execution of the hired services. The main factors considered in the analysis were:

- during the execution of these services, the auditor acted only as an adviser and did not assume any responsibility for the management of NTS;
- the management of NTS made all judgments and decisions, which are part of its responsibilities, supervised the services and evaluated the adequacy of the results for management purposes, in addition to taking responsibility for the actions arising from the result of the services;
- while performing these services, the auditor did not: (i) make or approve business risk decisions, (ii) present business risk considerations to the Board of Directors or others on behalf of management, or (iii) design or implement internal accounting controls or risk management activities.

NTS also has an internal audit structure responsible for providing independent assessment on the effectiveness of processes, standards, and policies, as well as on complaints concerning conduct and ethics received through the Confidential Channel, in accordance with the Code of Business Conduct and Ethics of NTS. The internal audit area reports directly to the Board of Directors.

2.1.1. ETHICS AND INTEGRITY

One of the behaviors guided by the corporate culture at NTS is to act with integrity, transparency and based on legality. The Company has a permanent compliance program which is supported by an Ethics and Integrity Committee.

Among the instruments that support the management of corporate integrity are the Company's Code of Business Conduct and Ethics, the Anti-Bribery and Anti-Corruption Policy, the Disclosure of Information Policy, the Positive Work Environment Policy, in addition to the Confidential Channel.

3. CORPORATE MANAGEMENT

3.1. BUSINESS

NTS's mission is to ensure safe and sustainable transport of natural gas.

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.

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

3.2. OPERATIONS

NTS conducts follow-up and certification of the volumes transported daily, allowing for operational control and making available necessary traceable and reliable information for the invoicing of each one of the GTAs.

MAINTENANCE AND INTEGRITY

As mentioned, TRANSPETRO is hired by NTS and plans and executes, with the supervision and control of NTS, maintenance activities for gas pipelines, delivery points, compression stations and other installations of the NTS gas pipeline network. Maintenance and inspection activities are required to ensure the reliability, availability, integrity, and operational safety of the natural gas transport infrastructure, based on the best technologies and practices available in the market, as well as national and international standards applied to the pipeline industry and compliance with current legislation.

NTS manages these activities through a set of structured indicators developed for this purpose and assessed periodically during technical-operational audits, periodic meetings, and monthly technical reports, in addition to daily contacts with operational teams.

Since 2017, we have been maintaining a regular asset audit plan, which intends to verify the adequacy of the activities, facilities and controls executed by TRANSPETRO and other service providers during the operation and assets maintenance.

In 2020, we highlight the following initiatives, in addition to the regular maintenance activities carried out by TRANSPETRO:

- a) 50 excavations in different pipelines, related to the integrity plan;
- b) conclusion of the long-term maintenance plan for the network, based on the variations in the pipeline class location due to population densification.
- c) delivery of the Operational Control Center ("CCO"), with 6 operational bases, in addition to the conclusion of the acceptance test for the SCADA (Supervision, Control and Data Acquisition) System. All of these initiatives are an important step to allow NTS to operate its gas pipeline network in a centralized and real-time manner, using telecommunications systems and its own CCOs.

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 2020, one of NTS' articles was selected and presented at the Rio Oil&Gas conference, entitled: "Gas allocation system: innovative applications for the new gas market of a system that identifies the gas route in a pipeline network". The article presents the SAQGAS algorithm developed by the NTS team which identifies gas routes in a pipeline system. In other words, it defines the proportion of gas reaching each delivery point starting from the receiving point. The original motivation for this project was the need to comply with tax requirements that establish different rates for each gas origination and delivery point, but new objectives were established during the implementation of this software. The article describes how the mathematical model was developed, the prerequisites for obtaining the desired results and other applications currently used, such as: monitoring gas flow along the pipeline, calculating intermediate flows to be compared with operational meters and detect measurement errors, calculating the energy associated with the volume of gas delivered based only on information from the chromatography receiving points, calculation of the energy stored in gas pipelines and other applications.

During the last year, several actions were carried out jointly with the engineering team to increase the availability and reliability of measuring equipment, including installation projects for energy back-up systems at the locations subject to lack of supply, replacement of obsolete flow meters and computers, and the acquisition and installation of chromatographs.

3.3. RISK MANAGEMENT

Since 2018, the Company has adopted the Enterprise Risk Management (ERM) model, based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2017), to support the corporate risk management process and subsequent actions to prevent or mitigate these risks.

The ERM governance model was defined in 2019 and its implementation process was concluded in 2020, carrying out risk inventory steps, measuring its qualitative impacts, probability of occurrence and vulnerability, and, lastly, action plans were established for each risk aiming to reduce them to an acceptable residual level.

In this corporate risk management model that NTS adopts, the Company seeks to address risks that may affect its operational continuity, from operational impacts to corporate impacts.

Since 2019, NTS also has in place a Business Continuity Plan, which allows the Company to quickly adopt the necessary procedures 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. With the restrictions imposed by the COVID-19 pandemic, the plan was activated to migrate corporate functions related to the remote working environment, ensuring the full continuity of activities and the availability of necessary resources for each employee.

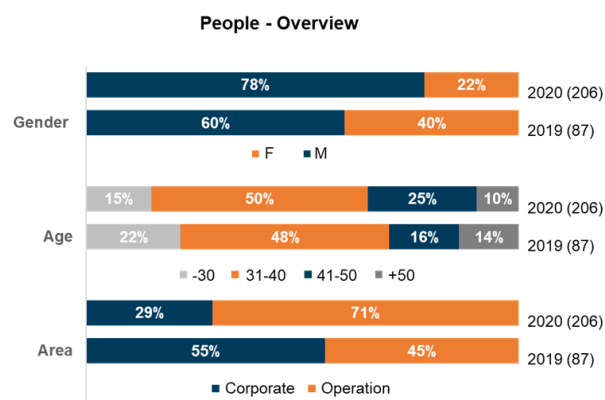
In 2020, the Crisis Management Plan was consolidated, with simulations and adaptations of the plan carried out as emergency responses. Similar to the Continuity Plan, the program was activated, and the Crisis Committee was installed to provide ongoing monitoring of the impacts caused by the pandemic.

The Company also relies on the insurance policies hired as another important tool used in risk management and 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, environmental risks, general civil liability, general D&O liability, general E&O liability, engineering risks, general liability for civil works, property, fraud, cyber risks. At the end of 2020, coverage of all policies amounted to approximately R\$2.6 billion.

3.4. PEOPLE MANAGEMENT

NTS continued to hire employees and created more than 100 direct job positions in 2020, in line with the growth and implementation of the Company's strategy, ending the year with 206 professionals (87 at the end of 2019) distributed as shown in the chart.

The recruitment and training processes were adapted in 2020, most of which took place remotely. Approximately 90% of the job positions created in 2020 were allocated to technical and operational areas.



Though an innovative partnership with UnIBP, new gas pipeline technicians and CCO operators concluded theoretical training courses that were adapted to online environment, with more than 1,650 training hours offered full-time during approximately 6 months. As a result of this effort, 100% of these professionals were certified.

The expressive growth in teams required investments to strengthen the corporate culture, diversity, and inclusion, including the adoption of an internal positive work environment policy.

In September 2020, NTS joined the Citizen Company Program, expanding its maternity and paternity leave benefits.

3.5. HEALTH, SAFETY AND ENVIRONMENT

NTS is commitment to health and safety management to ensure that everyone returns home safely at the end of each day and that our assets are operated safely. This commitment is based on caring for employees, service providers, the communities surrounding our operations, and the environment. For this, we adopt health, safety, environment and quality management systems and practices across our operations, ensuring a strategic understanding of the issues related to these themes, which are fundamental to achieve the results expected by the Company.

The Company believes that zero damage is an achievable objective and focuses on three action fronts: improving facilities and equipment through technology and innovation, implementing an integrated management system to improve our practices and procedures, and developing our people and transforming the safety culture at NTS.

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.

The Total Recordable Injured Frequency Rate at NTS totaled 1.90 per million man-hours and was below the operational limits defined by the 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.

In terms of the Company's Environmental Management System (EMS), NTS elaborated and revised its standards according to SGI. As for environmental licensing, the Company carried out and requested the acquittance of forest restoration, of roughly 575 hectares of the 1,110 hectares that are part of its commitment.

3.6. SOCIAL RESPONSABILITY

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. Based on a socioeconomic and strategic data survey carried out in 2019, we began to focus on actions in 10 municipalities selected by the Company for an institutional approach plan by 2021.

The Company continued to maintain the Brazilian Symphony Orchestra (OSB), our main project since 2017, and allocated R\$8 million in donations in 2020 through the Rouanet Law. In addition to the OSB supporting, we allocated approximately other R\$6 million, totaling R\$14 million to social projects in 2020, through call notices for Social Projects in accordance with Incentive Laws (Sports Incentive Law - LIE, PRONON/PRONAS, the Childhood and Adolescence Fund - FIA, the Municipal Fund for Children and Adolescents - FUMCAD, the Elderly Law and the Rouanet Law).

In total, the Company selected 26 projects to support in 2020. Due to the COVID-19 pandemic, a portion of the projects required adaptations, while others will be implemented in 2021. Among them, we highlight the Citizen Sport Project "Ajudô" em Brumadinho-MG and the "Judô Mais que Ouro" Project from SOS Reviver institute in Nova Iguaçu-RJ, which seek to promote educational activities, life quality, discipline and valuing of the community, keeping kids away from drugs through sports activities. Together, these projects impact approximately 600 children and teenagers. Among the projects focused on children and teenagers, we highlight the "Ver na Escola" ("See at School") Project – Verter institute, which

offers ophthalmological services to nearly 20,000 students in the municipal public school network of the city of São Paulo-SP.

Regarding the actions taken to combat COVID-19, NTS donated R\$6 million to mitigate the socioeconomic impacts in the area surrounding its operations (in States of MG, SP and RJ), ensuring transparency and the appropriate application of resources in following fronts:

- Activation of 25 hospital beds at the João Fernandes do Carmo Municipal Hospital in Brumadinho (MG), 40 hospital beds at Policlínica Itália Franco in Japeri (RJ) and 20 hospital beds at the Hospital Geral da Posse, in Nova Iguaçu (RJ);
- In partnership with TRANSPETRO, the donation of food baskets to 4,110 families, for 3 months, in the communities of Rodolfo Pirani, Jardim São Francisco, Parque das Flores, Jardim Colorado and Morumbizinho, all in the State of São Paulo;
- Donation of 1,965 food baskets and hygiene kits, for 3 months, to beneficiaries of three partner institutions in social projects sponsored by NTS in Betim, Brumadinho and Ibirité (municipalities in the State of Minas Gerais);
- Donation of PPE to employees and electronic equipment to support elderly care institutions in partnership with social projects sponsored by NTS, in the State of Minas Gerais.

NTS employees also contributed through internal fundraising campaigns to purchase basic food baskets. The action was aimed at reaching 80 families in the Austin neighborhood in Nova Iguaçu (State of Rio de Janeiro) and, in parallel, support the community's local commerce that was affected by social restrictions. NTS matched the amount achieved through the fundraising effort.

The total amount investment in social activities, by NTS, reached R\$20 million and benefited approximately 22,000 individuals in the surroundings of the Company's gas pipeline network, which represents a capillarity of 23% of the municipalities close to NTS operations.

3.7. SUSTAINABILITY

For NTS, sustainability is achieved when the business generates value to its shareholders and all stakeholders (investors, employees, clients, suppliers, other companies on the sector and representatives from public authorities and local communities), 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.

NTS Sustainability Policy defines principles and commitments to sustainability, guiding processes, actions and relationships. The sustainability fundamentals present in our policy are:

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

- Ensure quality management in our operations

In 2020, we focused our efforts on the creation of the NTS Sustainability Plan, which will establish targets, metrics, and practices to guide our actions and ensure an increasingly sustainable gas transportation. The plan will cover the period from 2021 to 2025 and was developed along three action pillars: People, Environment and Governance. Among the objectives for the next 5 years, NTS will seek to be recognized in the areas surrounding its operation, establish and disseminate its environmental management processes, and establish an official supplier qualification and development program. Approximately 100 activities have already been mapped under the ESG scope to be implemented in the period.

In 2020 NTS published its first Sustainability Report presenting to its stakeholders highlights to the Company's progress in its sustainability management in 2019. The content was produced according to the guidelines of the Global Reporting Initiative (GRI), with a list of the priority themes identified for the Company's sustainability management aligned with the Sustainable Development Goals (ODS) proposed by the UN.

In addition to the highlights for the year, the report presents a summary of the Company's performance in the financial, health and safety, social, environmental and operational areas and addresses the Company's strategy and vision of the future amidst the many transformations that already occur in the Brazilian natural gas transportation segment. The report is available on the Company's website (www.ntsbrasil.com).

4. TRANSPORTATION ASSETS

4.1. NTS' GAS PIPELINE NETWORK

The NTS infrastructure comprises a gas pipeline network with a total length of approximately 2,050 kilometers through three Brazilian states in the Southeast region - Rio de Janeiro, Minas Gerais and São Paulo. There are 6 gas compression stations (5 of which owned by NTS and 1 outsourced), 47 delivery points besides 3 interconnection points along the pipeline.

This network is characterized by the strong interconnection between its gas pipelines, connecting to the national production mainly arising from Campos and Santos basins, to Bolivia-Brazil gas pipeline owned by Transportadora Brasileira Gasoduto Bolívia-Brasil S.A. (TBG), to Brazilian northeast gas pipelines, owned by Transportadora Associada de Gás S.A. (TAG) and to Guanabara Bay's LNG terminal, owned by Petrobras, totalizing 9 gas receiving points.

Gas Delivery

NTS pipeline network serves the largest gas consumers in the country, being the states of Rio de Janeiro, São Paulo and Minas Gerais. Besides These three states demanded approximately 45%, 45% and 10% of all gas delivered by NTS in 2020, respectively.

In 2020, the average volume delivered by NTS was 34.4 million m³/day, compared to 37.4 million m³/day in 2019.

4.2. INVESTMENTS

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

Part of annual investments made aim at ensuring the integrity, availability and reliability of the gas pipelines and equipment, either by improvements, adequacy or modernizations. It is mandatory maintaining the transportation capacity as per the contractual obligations of each one of the GTAs, as well carry out investments related to legal and regulatory compliance.

Investments were R\$173 million in the 2020 fiscal year, versus investments of R\$110 million in 2019, in addition to R\$9 million allocated for the compliance with environmental constraints (versus R\$14 million in 2019), totaling R\$182 million (R\$124 million in 2019) . The main investments made in 2020 were:

- Acquisition of Mantiqueira compression station in February 2021;
- Operational integrity and safety projects, including inspections and pipelines repairs (using pig, specialized tools and dig-ups);
- Construction of the receiving point (PR) in Guapimirim, which will receive the gas processed at the COMPERJ Natural Gas Processing Unit (UPGN) (under construction by Petrobras) and handle pre-salt production. The project will contribute to increasing flexibility of the transportation network with the inclusion of yet another gas receiving unit nearby the Metropolitan Region of Rio de Janeiro.

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 m³ per day.

During 2020, 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 (MM m ³ /day)		Maturity
		2020	2019	
Malha Sudeste	43.8	29.6	33.0	12/31/2025
Malha Sudeste II	49.4	2.4	2.8	10/14/2031
GASDUC III	40.0	15.2	19.1	11/11/2030
GASTAU	20.0	12.2	14.6	11/30/2031
Paulínia - Jacutinga	5.0	0.2	0.3	01/14/2030
Total	158.2			

*The operating data in this table has not been audited by the independent audit Ernst & Young Auditores Independentes S.S.

6. ECONOMIC-FINANCIAL PERFORMANCE

In thousands of Reais	2020	2019	Var.
Net Operating Revenue	4,671,168	4,406,215	6.0%
Cost of Services	(823,532)	(743,782)	10.7%
Gross Profit	3,847,636	3,662,433	5.1%
Operating revenues (expenses), net	30,086	(78,081)	n.a.
Operating Income	3,877,722	3,584,352	8.2%
Net Financial Results	(107,387)	(282,260)	-62.0%
Income Before Taxes	3,770,335	3,302,092	14.2%
Total Income Tax and Social Contribution	(1,242,351)	(1,084,573)	14.5%
Net Income for the period	2,527,984	2,217,519	14.0%

6.1. NET OPERATING REVENUE

Net Operating Revenue (“NOR”) for the 2020 fiscal year totaled R\$4.7 billion, 6.0% higher than the R\$4.4 billion reported in 2019.

NTS revenue is 100% obtained by the 5 (five) GTAs. The variation in the average transported volume, which was impacted this year by the pandemic, does not impact billing since GTAs operate under a “Ship-or-Pay” clause. In other words, this contractual condition ensures us revenue predictability and stability since it is calculated according to the contracted transport capacity, regardless of the volume effectively handled. The variation in revenue between years is explained by inflation, since contracts are readjusted by the IGP-M index, which positively impacted the effective tariffs in 2020.

In thousands of Reais	2020	2019	Var.
Net Operating Revenue	4,671,168	4,406,215	6.0%

6.2. CHARGES ON SERVICES

Taxes on services totaled R\$770 million in 2020, over R\$766 million in 2019, including federal level taxes (PIS/COFINS) and the state and municipal taxes (ICMS/ISS). The increase is in line with the revenue variations reported in item 6.1. After an unappealable decision on the matter, NTS was entitled to exclude ICMS from the PIS/COFINS calculation base, and this measure will not have a material impact on net revenue.

6.3. COST OF SERVICES

Costs of Services reached R\$824 million, or 17.6% of NOR, compared to R\$744 million in 2019, which corresponded to 16.9% of NOR at that time.

From February 2019 to April 2020, after adjusting the PIS/COFINS calculation base from November 2016 to January 2019, NTS compensated for the retroactive PIS/COFINS credits of its fixed asset base. The 13% increase between periods can be explained mainly by the end of the compensation of such retroactive PIS/COFINS credits on the fixed asset base, which negatively impacted depreciation expenses in 2020. Depreciation varied by R\$44 million.

Operation and maintenance costs refer mainly to the costs incurred with TRANSPETRO, which provides services for the Company's gas pipelines and other operating facilities. Contract prices are readjusted every 12 months, based on the IGP-M and IPCA indexes.

Items with a real increase include personnel costs, which was R\$20 million higher between the periods, and training costs, which totaled another R\$3 million. These increases reflect the growth in the number of employees, especially in the technical and operational areas, which hired, trained, and certified a large portion of the more than 100 new professionals.

In 2020, approximately R\$9 million was spent in consulting costs, mainly associated with consultancy services for maintenance and integrity, the implementation of SGI besides recruitment of employees and support to structure activities for the new O&M processes, including the implementation of systems such as the SAP-PM.

However, these increases were partially offset by the reduction in rental costs at the Mantiqueira compression station as this asset was acquired by NTS in February 2020.

The following table provides a breakdown of the Costs of Services Provided:

In thousands of Reais	2020	2019	Var.
Cost of Services	(823,532)	(743,782)	10.7%
Depreciation	(383,783)	(340,046)	12.9%
Operation and Maintenance	(264,624)	(257,653)	2.7%
Right of Way	(60,255)	(55,185)	9.2%
Personal costs	(30,869)	(9,869)	212.8%
Services, Freight and General Charges	(22,915)	(33,438)	-31.5%
Electric Power	(20,249)	(19,276)	5.0%
Insurance	(14,348)	(13,551)	5.9%
Consulting	(8,627)	--	100.0%
ICMS on gas used in the system	(4,830)	(9,985)	-51.6%
Training and seminars	(3,366)	--	100.0%
Environmental costs	(1,088)	(801)	35.9%
Other costs	(8,578)	(3,978)	115.6%
% on the NOR	-17.6	-16.9	- 0.7 pp

6.4. GROSS PROFIT

NTS reported a Gross Profit of R\$3.8 billion in 2020, increasing by 5.1% over 2019 (R\$3.7 billion). The increase was mainly justified by the 6.0% expansion in NOR, as costs increased 0.7 p.p. in relation to NOR between the periods, therefore affecting our gross margin (82.4% in 2020 vs. 83.1% in 2019).

In thousands of Reais	2020	2019	Var.
Gross Profit	3,847,636	3,662,433	5.1%
Gross Margin %	82.4	83.1	- 0.7 pp

6.5. OPERATIONAL REVENUES AND EXPENSES

Operating Revenues and Expenses totaled a positive balance of R\$30 million in 2020, equivalent to 0.6% of NOR, a very different result versus 2019, when this amount came in as an Operating Expenses in the amount of R\$78 million (1.8% of ROL).

As of the third quarter of 2020, we recognized retroactive tax credits, in the total amount of R\$49 million, relating mainly to the exclusion of ICMS from the PIS and COFINS calculation base, after a final and unappealable decision with a favorable outcome for NTS.

In October 2020, after extensive discussions with external advisors (lawyers and tax consultants) and based on Normative Instruction 1881 of 2019 issued by the Federal Revenue of Brazil, the Company's management concluded a review of the PIS and COFINS calculations for the 2015 and 2016 calendar years and identified that it had unduly paid PIS and COFINS taxes on financial income, at the joint rate of 4.65%, which correspond to an Adjusted Present Value (AVP) on accounts receivable from financial leasing existing at the time and impacted its financial income. It is worth highlighting that this assessment considered a duplicity in the payment of PIS and COFINS taxes on financial income since they were also included in the PIS/COFINS calculation on revenues and taxed at the joint rate of 9.25% at the time. For this reason, the Company recorded in its books tax credits of R\$53 million (principal amount), to be used to offset future tax debts, generated from the Company's operating activity (which were partially compensated on Q4'20).

In 2019, we had a non-recurring event related to the write-off of assets linked to canceled, deactivated, or discontinued projects, in the amount of approximately R\$24 million (none of these assets were comprised in the NTS regulatory asset base).

General and Administrative Expenses were R\$17 million higher than in 2019 (+30.5%), of which R\$6 million referred to donations made to battle and prevent COVID-19. Sponsorships to the Brazilian Symphony Orchestra, made through the Rouanet Law, as well as sponsorships to other projects supported through the Sports Incentive Law (FIA) were slightly higher than the amounts reported in 2019 and were in line with the increase in the Company's taxable results.

Another factor that explains the increase in expenses in 2020 versus 2019 was the increase in personnel and recruitment expenses, reflecting new hires that caused a R\$3 million impact between the periods.

Expenses for 2020 were also affected by the write-off of tax proceeding (ISS) and related court deposits involving NTS and the Municipality of Silveiras due to an unfavorable final court decision against NTS, with a total variation of R\$5 million between the analyzed periods.

Expenses with legal and consultancy fees increased by approximately R\$4 million in 2020 over 2019 and reflect, for example, values related to the implementation of the LGPD (General Data Protection Law), legal and tax support for the analysis of recognized tax credits, corporate strategic planning projects, and strengthening of the Company's culture focusing on diversity and inclusion.

In terms of recurring expenses, excluding sponsorship since these resources are backed by tax incentive laws, the donations relating to COVID-19 and contingencies reversals, General and Administrative Expenses totaled approximately R\$47 million, increasing by R\$5 million, or 12%, over the previous period.

The breakdown of these expenses is provided below:

In thousands of Reais	2020	2019	Var.
Operating revenues (expenses), net	30,086	(78,081)	n.a.
General and Administratives expenses	(71,234)	(54,588)	30.5%
Personal expenses	(27,695)	(25,192)	9.9%
Sponsorship	(14,365)	(13,929)	3.1%
Legal, accounting and consulting services	(8,396)	(4,864)	72.6%
Donation	(6,000)	--	-100.0%
(Provision)/Reversion of Contingencies	(3,430)	1,803	-290.2%
Services hired	(3,384)	(2,248)	50.6%
License maintainance, rentals and charges	(2,721)	(2,683)	1.4%
Auditing	(690)	(999)	-31.0%
Recruitment	(580)	(37)	1478.7%
Office expenses and other	(3,973)	(6,439)	-38.3%
% on the NOR	-1.5	-1.2	0.3 pp
Taxes recoverable	101,345	--	100.0%
% on the NOR	2.2	--	2.2 pp
Assets' write-off	(25)	(23,493)	-99.9%
% on the NOR	-0.0	-0.5	0.5 pp

6.6. OPERATING INCOME

The Operating Income totaled R\$3.9 billion in 2020, or approximately 83.0% of the NOR, an increase of 8.2% when compared to the R\$3.6 billion Operating Income in 2019.

In thousands of Reais	2020	2019	Var.
Operating Income	3,877,722	3,584,352	8.2%
% on the NOR	83.0	81.3	1.7 pp

6.7. FINANCIAL RESULTS

Net Financial Result decreased 62.0% in 2020 and came in as a negative amount of R\$107 million, compared to R\$282 million in 2019. The improvement in the result was mainly due to lower interest expenses on debentures, which decreased by approximately 52%, or R\$177 million lower between the periods. Cost of debentures is 109% of the CDI rate, which dropped from an average rate of 6% p.a. to 3% p.a. between the periods.

The new R\$60.0 million loan taken out through the issuance of bank credit notes (“CCB”) in 2020, which was aimed at optimizing the capital structure of two projects, generated financial expenses in the amount of R\$0.9 million in the year, at a cost of CDI+1.98% p.a.

As for financial income, the decrease of approximately 7% was also due to the drop of the CDI, being partially offset by a R\$9 million revenue corresponding a monetary restatement of the retroactive PIS and COFINS credits and R\$17 million referring to SELIC interest on AVP credits (see item 6.5 of this report).

NTS has no relevant exposure to exchange rates.

In thousands of Reais	2020	2019	Var.
Net Financial Results	(107,387)	(282,260)	-62.0%
Financial revenues	62,768	67,324	-6.8%
Financial expenses	(170,155)	(349,584)	-51.3%

6.8. INCOME BEFORE TAXES

Income before Taxes increased by approximately R\$0.5 billion, totaling R\$3.8 billion in 2020 and corresponding to 81% of NOR compared to R\$3.3 billion and 75% of NOR in 2019. This result reflects the increase in Operating Profit, by approximately 8%, along with a 51% reduction in net financial expenses.

In thousands of Reais	2020	2019	Var.
Income Before Taxes	3,770,335	3,302,092	14.2%
% on the NOR	80.7	74.9	5.8 pp

6.9. INCOME TAX AND SOCIAL CONTRIBUTION

NTS reported R\$1.2 billion in current and deferred IRPJ/CSLL taxes in 2020, compared to R\$1.1 billion in 2019. Such variation is associated with the increase in Income before Taxes and was mainly reflected in current taxes. The effective tax rate reached 33.0% in the fiscal year, versus 32.9% in 2019.

In thousands of Reais	2020	2019	Var.
Total Income Tax and Social Contribution	(1,242,351)	(1,084,573)	14.5%
% on income before taxes	-33.0	-32.8	- 0.1 pp
Current Income Tax and Social Contribution	(859,037)	(688,752)	24.7%
% on income before taxes	-22.8	-20.9	- 1.9 pp
Deferred Income Tax and Social Contribution	(383,314)	(395,821)	-3.2%
% on income before taxes	-10.2	-12.0	1.8 pp

6.10. NET INCOME

In 2020, NTS Net Income was R\$2.5 billion, equivalent to 54% of the NOR and R\$310 million higher than the R\$2.2 billion registered in 2019.

In thousands of Reais	2020	2019	Var.
Net Income for the period	2,527,984	2,217,519	14.0%
% on the NOR	54.1	50.3	3.8 pp

6.11. EBITDA

NTS reported an EBITDA of R\$4.3 billion in 2020, against R\$3.9 billion in the previous year. EBITDA margin expanded by 2.2 p.p., reaching 91.2% compared to 89.1% in 2019, demonstrating the Company's stable operating cash generation and cost management capacity in the period.

EBITDA Reconciliation (In thousands of Reais)	2020	2019	Var.
Net Income	2,527,984	2,217,519	14.0%
Income Tax and Social Contribution	1,242,351	1,084,573	14.5%
Net Financial Results	107,387	282,260	-62.0%
Depreciation	383,783	340,046	12.9%
EBITDA	4,261,505	3,924,398	8.6%
EBITDA Margin %	91.2	89.1	2.2 pp

6.12. BALANCE SHEET EVOLUTION

PP&E, net of depreciation, totaled R\$8.0 billion as of December 31, 2020, compared to R\$8.3 billion as of December 31, 2019. The reduction in balance was basically due to the depreciation between the periods.

Another important impact on assets is shown in the recoverable taxes' lines (current and non-current), which varied by R\$105 million between the periods. Details on the tax credits accounting recognition are described in item 6.5 of this report.

We ended the year with a gross debt of R\$5.3 billion, slightly higher than the R\$5.2 billion reported at the end of 2019, due to the R\$60 million loan issued through CCB notes. Net debt reduced to R\$4.3 billion, compared to R\$4.4 billion as of December 31, 2019. The improvement in our cash position can be explained mainly by the higher deferral of income tax throughout the year due to the calculation of taxes based on the Company's estimated revenue.

Among the changes in Shareholders' Equity, we highlight the following:

- build-up of a profit reserve on tax incentives, in the amount of R\$58 million, resulting from an investment subsidy referring to the ICMS credit appropriation arising from the option for the ICMS Agreement 106/96, which grants a credit of 20% of the ICMS amount due to companies providing transportation services. These credits were recorded in the income statement of the period and allocated monthly to the tax incentive reserve, being excluded from the calculation of the dividend calculation base.
- the incorporation of a portion of the capital reserve (R\$168 million), followed by a capital reduction approved in the Extraordinary Shareholders' Meeting held in August 2020 and coming into effect at the beginning of November 2020, in the amount of R\$653 million. The Company's total share capital was R\$509 million as of December 31, 2020.

Indebtedness (In thousands of Reais)	Dec. 31 st 2020	Dec. 31 st 2019	Var.
Gross Debt	5,275,680	5,241,123	0.7%
Cash	954,089	795,974	19.9%
Net Debt	4,321,591	4,445,149	-2.8%

7. OTHER INFORMATION

7.1 DEBENTURES E FINANCIAMENTOS

DEBENTURES ISSUED BY THE COMPANY

On April 20th, 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 15th, 2018, 520,000 debentures with par value of R\$10,000.00 were paid up and they had the following characteristics:

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

On May 15th, 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 covenants 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 covenants.

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.

“CCB”

On July 27, 2020, the Board of Directors approved the issuance, by the Company, of a bank credit note (“CCB”), in favor of Banco Santander (Brasil) S.A., in the total amount of R\$60.0 million, under the following conditions:

- Issuance Date: August 13, 2020
- Maturity: 12 (twelve) months, maturing on August 13, 2021
- Amortization: on maturity
- Remuneration: 100% of CDI plus a spread of 1.98% p.a.
- Interest Payment: every six months, in February and August
- No debt renegotiation or automatic renewal clauses

7.2 PROFIT REINVESTMENT POLICY AND DIVIDEND DISTRIBUTION

Payment of dividends and interest on equity to shareholders totaled R\$2,128 million in 2020, of which R\$2,012 million was in the form of dividends and R\$116 million as interest on equity. In addition, R\$248 million was paid as dividends proposed at the end of 2019, with distributions effectively paid in 2020 totaling R\$2,376 million. Another R\$346 million in additional dividends related to the profit for the year 2020 was proposed and maintained in the Profit Reserve account, with the Board of Directors voting in favor of its distribution at a meeting held on March 10, 2021.

At the Extraordinary General Meeting held on August 31, 2020, the Company's shareholders approved, the incorporation of part of the Company's capital reserve to its capital, resulting in an increase in the Company's share capital to R\$1,162,037, by increasing the nominal value of the Company's shares and maintaining the number of shares and percentage of each shareholder's share in the capital unchanged. Immediately following, shareholders approved the Company's capital reduction to R\$508,712 pursuant to the provisions of Article 173 of Law 6.404/76, as it was considered excessive in view of the activities performed by the Company, by reduction of the nominal value of the Company's shares to R\$0.22 (twenty-

two cents) without the cancellation of any shares representing the Company's share capital. The reduction was carried out by means of capital restitution to shareholders, paid in December 2020.

7.3. VALUE-ADDED DISTRIBUTION

In 2020, the distribution of added value totaled R\$4.8 billion, 7.8% higher than in 2019. Approximately 52.3% of this amount was allocated as remuneration on own equity (in the form of dividends and interest on equity; 49.4% in 2019), 41.9% as taxes, fees and contributions (41.5% in 2019), 4.6% as third-party capital remuneration (8.3% in 2019) and 1.2% as personnel (0.8% in 2019).

In thousands of Reais	2020	2019	Var.
Personnel	56,536	36,322	55.7%
Taxes, charges and contributions	2,023,512	1,861,285	8.7%
Debt remuneration	223,378	367,800	-39.3%
Equity remuneration	2,527,984	2,217,519	14.0%
TOTAL VALUE ADDED DISTRIBUTED	4,831,410	4,482,926	7.8%

7.4. SUBSEQUENT EVENTS 12/31/2020 AND OTHER INFORMATION

On January 19, 2021, credit risk rating agency Fitch Ratings reaffirmed the national long-term corporate rating and the rating for the Company's second debentures issue as "AAA (bra)", maintaining a stable outlook. The Fitch report is available at <https://ri.ntsbrasil.com>.

The Board of Directors unanimously approved, at a meeting held on March 10, 2021, the interim distribution of dividends and interest on equity by the Company, in the amount of R\$827 million without reservation and based on the favorable opinion issued by the Fiscal Council. Payment is expected to occur during the first quarter of 2021.

Financial Statements

Nova Transportadora do Sudeste S.A. - NTS

On December 31, 2020
and Independent Auditor's Report

Nova Transportadora do Sudeste S.A. - NTS

Financial Statements

December 31, 2020

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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

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

Opinion

We have audited the financial statements of Nova Transportadora do Sudeste S.A. (Company), which comprise the statement of financial position as at December 31, 2020, 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, 2020, 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 the 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 this matter. 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 matter below, provide the basis for our audit opinion on the accompanying financial statements.

Nonconvertible debentures

The Company issued unsecured nonconvertible debentures in 2018, with a public offering for distribution, which were guaranteed by Banco Itaú SA, BB - Banco de Investimento S.A. and Banco Bradesco BBI S.A. At December 31, 2020, these debentures totaled R\$ 5,214,805 thousand. As described in Note 13, the debentures provide for covenants that impose on the Company compliance with financial ratios, calculated quarterly.

Monitoring this matter was considered significant for our audit, considering the materiality of the amounts involved and the possible effects on the Company's financial statements and liquidity in the event of failure to reach the financial ratios to be calculated.

How our audit addressed this matter

Our audit procedures included, among others: (i) obtaining an understanding of the procedures and controls designed and implemented by the Company related to monitoring compliance with the covenants; (ii) evaluating the accounting treatment adopted by management based on the facts and circumstances observed in the related documents; (iii) assessing the methodology for calculating the indices established in the covenants and their adherence to the requirements of the respective contracts; and (iv) evaluating the calculations prepared by management.

Based on the results of audit procedures performed, which is consistent with management's assessment, we understand that the criteria and assumptions adopted by management, as well as the respective disclosures in Note 13 are acceptable in regard to the financial statements taken as a whole.

Other matters

Statements of value added

The statements of value added (SVA) for year ended December 31, 2020, 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.



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 18, 2021.

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

A handwritten signature in blue ink, appearing to read 'Diogo Afonso da Silva', is written over the printed name and title.

Diogo Afonso da Silva
Accountant CRC-1RJ114783/O-8

Nova Transportadora do Sudeste S.A - NTS

Statement of financial position

Fiscal years ended December 31, 2019 and 2020

(In thousands of reais, except if indicated otherwise)

Assets	Note	2020	2019
Current			
Cash and cash equivalents	7	954,089	795,974
Trade accounts receivable	8	961,240	861,142
Recoverable taxes	15.1	47,341	3
Other accounts receivable	9	120,262	76,793
Prepaid expenses		11,757	10,707
Advances		4,089	2,594
Other		155	52
		2,098,933	1,747,265
Noncurrent			
Restricted bank deposits	10	15,387	15,096
Judicial deposits	22.2	16,674	17,716
Inventory held by third parties		5,548	-
Recoverable taxes	15.1	66,730	8,622
Other		359	-
		104,698	41,434
Property, plant & equipment	11	7,996,353	8,262,072
		7,996,353	8,262,072
Total Assets		10,199,984	10,050,771

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

Nova Transportadora do Sudeste S.A - NTS

Statement of financial position

Fiscal years ended December 31, 2019 and 2020

(In thousands of reais, except if indicated otherwise)

Liabilities	Note	2020	2019
Current			
Trade accounts payable	12	310,714	256,471
Taxes recoverable	15.1	67,731	54,708
Payroll and charges payable		24,422	20,174
Debentures and financings	13	78,438	45,828
Dividends and interest on equity	17.3	6,291	10,546
Income tax and social contribution payable	15.1	570,059	414,949
		1,057,655	802,676
Noncurrent			
Debentures and financings	13	5,197,242	5,195,295
Provision for environmental compensation	16.1	32,636	31,543
Provision for environmental constraints	16.2	45,986	55,018
Provision for legal contingencies	22.1	4,258	6,336
Provision for intersection crossings		15,421	-
Deferred taxes	15.2	1,702,347	1,319,032
Other		869	-
		6,998,759	6,607,224
Shareholders' Equity			
Capital	17.1	508,712	994,301
Capital reserve	17.2	1,192,463	1,360,199
Income reserve	17.3	442,395	286,371
		2,143,570	2,640,871
Total Liabilities		10,199,984	10,050,771

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 2020

(In thousands of reais, except if indicated otherwise)

	Note	2020	2019
Net revenue	18	4,671,168	4,406,215
Cost of services	19	(823,532)	(743,782)
General and administrative expenses	20	(71,234)	(54,588)
Taxes recoverable	15.1	101,345	-
Assets' write-off		(25)	(23,493)
Operating revenue (expenses)		30,086	(78,081)
Operating income		3,877,722	3,584,352
Finance income	21	62,768	67,324
Finance costs	21	(170,155)	(349,584)
Finance income (costs), net		(107,387)	(282,260)
Income before income and social contribution taxes		3,770,335	3,302,092
Current income and social contribution taxes	15.3	(859,037)	(688,752)
Deferred income tax and social contribution taxes	15.2	(383,314)	(395,821)
Net income for the year		2,527,984	2,217,519
Basic and diluted earnings per share (in R\$)		1.09	0.96

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 2020
(In thousands of reais, except if indicated otherwise)

	<u>2020</u>	<u>2019</u>
Net income for the year	2,527,984	2,217,519
Other comprehensive income	-	-
Comprehensive income for the year	<u>2,527,984</u>	<u>2,217,519</u>

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 2020

(In thousands of reais, except if indicated otherwise)

	Capital Reserve		Income Reserves			Total
	Capital	Capital Transaction	Legal	Proposed Dividends	Retained Earnings	
Balance as of December 31, 2018	1,618,630	1,360,199	38,368	190,432	-	3,207,629
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)
Balances as of December 31, 2019	994,301	1,360,199	38,368	248,003	-	2,640,871

	Capital Reserve		Income Reserves				Total
	Capital	Capital Transaction	Legal	Tax Incentive Reserve	Proposed Dividends	Retained Earnings	
Balances as of December 31, 2019	994,301	1,360,199	38,368	-	248,003	-	2,640,871
Net income for the year	-	-	-	-	-	2,527,984	2,527,984
Interest on equity	-	-	-	-	-	(111,712)	(111,712)
Approved dividends	-	-	-	-	(248,003)	(2,012,245)	(2,260,248)
Grants - Tax incentives	-	-	-	58,212	-	(58,212)	-
Incorporation of Capital Reserve	167,736	(167,736)	-	-	-	-	-
Proposed dividends	-	-	-	-	345,815	(345,815)	-
Capital reduction	(653,325)	-	-	-	-	-	(653,325)
Balances as of December 31, 2020	508,712	1,192,463	38,368	58,212	345,815	-	2,143,570

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 2020

(In thousands of reais, except if indicated otherwise)

	<u>2020</u>	<u>2019</u>
Operating activities		
Net income for the year	2,527,984	2,217,519
<i>Adjustments to non-cash income and expenses:</i>		
Deferred income tax and social contribution taxes	383,314	395,821
Interest expenses on debentures/financings & raising debt cost amortization	159,141	336,045
Depreciation and amortization	439,093	431,475
Provisions for bonus, annual leave and 13 ^o salary	18,503	16,755
Loss from assets' write-off	25	23,493
Other	1,066	(713)
	<u>3,529,126</u>	<u>3,420,395</u>
 <i>Changes in assets and liabilities</i>		
Trade accounts receivable	(100,098)	(56,869)
Taxes recoverable	(105,446)	(116)
Other accounts receivable	(43,469)	(58,942)
Other assets	(8,556)	(705)
Trade accounts payable and other accounts payable	54,530	101,573
Proceeds and charges payable	(14,255)	(10,948)
Taxes recoverable	871,889	688,049
Income tax and social contribution taxes paid	(703,927)	(385,840)
Environmental provisions	(9,032)	(14,357)
Provision for legal contingencies	(2,394)	(1,889)
Other liabilities	17,384	1,672
Net cash flow from operating activities	<u>3,485,752</u>	<u>3,682,023</u>
 Operating activities		
Acquisition of PP&E	(173,399)	(109,598)
Cash flow used in investment activities	<u>(173,399)</u>	<u>(109,598)</u>
 Financing activities		
Bank loans	60,000	-
Payment of interest on financing	-	-
Capital reduction	(653,324)	(624,329)
Payment of interest on debentures	(184,584)	(348,079)
Payment of dividends and interest on equity	(2,376,330)	(2,166,126)
Cash flow used in financing activities	<u>(3,154,238)</u>	<u>(3,138,534)</u>
 Increase (decrease) in cash and cash equivalents	<u>158,115</u>	<u>433,891</u>
 Changes in cash and cash equivalents		
Cash and cash equivalents at beginning of period	795,974	362,083
Cash and cash equivalents at end of period	<u>954,089</u>	<u>795,974</u>
	<u>158,115</u>	<u>433,891</u>

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

Nova Transportadora do Sudeste S.A - NTS

Statements of value added

Fiscal years ended December 31, 2019 and 2020

(In thousands of reais, except if indicated otherwise)

	<u>2020</u>	<u>2019</u>
Value added to be distributed		
Revenues	5,441,294	5,148,661
Services and other revenues	5,441,294	5,148,661
Inputs acquired from third parties	(390,214)	(392,995)
Services rendered, electric power, third-party services and other	(390,214)	(392,995)
Gross value added	5,051,080	4,755,666
Depreciation	(383,783)	(340,046)
Net value added produced by the Company	4,667,297	4,415,620
Value added received in transfer	164,113	67,306
Short-term investment yield – includes monetary/exchange differences	62,768	67,306
Recovery of PIS/COFINS – Exclusion of ICMS from calculation base	48,618	-
Recovery of PIS and COFINS – AVP	52,727	-
Total value added to be distributed	4,831,410	4,482,926
Distribution of value added		
Personnel	56,536	36,322
Direct compensation	41,804	28,608
Benefits	12,137	5,475
FGTS	2,595	2,239
Taxes, charges and contributions	2,023,512	1,861,285
Federal	1,774,624	1,594,862
State	235,836	247,281
Municipal	13,052	19,142
Debt remuneration	223,378	367,800
Interest, fines, monetary/exchange variations	166,727	346,315
Donations and sponsorships	20,365	13,929
Trade accounts payable – non-operational services	41,817	19,869
Other debt remuneration	(5,531)	(12,313)
Equity remuneration	2,527,984	2,217,519
Interest on equity	111,712	174,478
Dividends paid	2,012,246	1,795,038
Retained earnings	404,026	248,003
Total distribution of value added	4,831,410	4,482,926

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, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

1. General information

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).

1.2. Impacts from COVID-19

We spared no effort to adapt and remain focused on our objectives for this year, even in the uncertain scenario caused by the COVID-19 pandemic. The Crisis Committee, which has been installed since March 2020, monitored the effects caused by the COVID-19 pandemic on operations throughout the entire year. The transportation of natural gas is considered an essential service and we maintained our operations without interruptions and material impacts. Our revenues were not impacted since all of our gas transportation contracts are conducted in the ship-or-pay modality.

As of June, some field operations were resumed and, as of August we gradually resumed the return to our offices for corporate employees following all security protocol required for in-person working conditions. We reiterate that the Company, supported by the Crisis Committee, has guided its decisions in line with the recommendations of the sanitary and health authorities and always valuing the safety of our teams.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

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).

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 m³/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), Ramal de Campos Elíseos (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 m³/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 m³/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 m³/day and a 20-year term valid until November 2030;
- (e) GASTAU Transport Service Agreement for the daily transportation of gas with a contract volume of 20 m³/day and a 20-year term valid until November 2031.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

2. Corporate restructuring--Continuation

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.

2.1. Sale of NTS's Controlling Shares

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

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

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

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

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 11.638/2007 and 11.941/2009, 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 for the preparation of its financial statements. Therefore, relevant information in the financial statements is being disclosed and correspond to the information used by Management when carrying out their daily attributions.

These financial statements were approved by the Board of Directors on March 18, 2021.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

3. Basis of presentation of the financial statements--Continuation

3.1. Functional Currency and Presentation Currency

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

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

i) Financial assets

Initial recognition and measurement

Financial assets are initially classified as such and subsequently measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss.

Excluding trade receivables that do not include a significant financing component or for which the Company and its subsidiaries have applied the practical expedient, the Company and its subsidiaries initially measure a financial asset at its fair value plus transaction costs, in the case of a financial asset not measured at fair value through profit or loss.

For a financial asset to be classified and measured at amortized cost it must generate cash flows that are "solely payments of principal and interest" on the principal amount outstanding. This evaluation is executed at the instrument level. Financial assets with cash flows other than solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model.

Purchases or sales of financial assets that require the delivery of assets within a period established by regulation or market agreement (regular trades) are recognized on the trade date, that is, the date in which the Company and its subsidiaries have committed to purchase or sell the asset.

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

Subsequent measurement

For subsequent measurement purposes, financial assets are classified into four categories:

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

4. Summary of significant accounting practices--Continuation

4.1. Financial instruments--Continuation

I) Financial assets--Continuation

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through other comprehensive income, reclassified as accumulated profit or loss (debt instruments);
- Financial assets at fair value through other comprehensive income, without being reclassified as accumulated profit or loss when written-off (equity instruments); and
- Financial assets at fair value through profit or loss.

- *Derecognition (write-off)*

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

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Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

4. Summary of significant accounting practices--Continuation

4.1. Financial instruments--Continuation

II) Impairment of financial assets--Continuation

Expected credit losses are recognized in two stages. Credit exposures which have not significantly increased their credit risk since their initial recognitions are provisioned for expected credit losses according to the possible default events for 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).

The Company applies a simplified approach when calculating expected credit losses for trade account receivables and contracted assets. 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.

Financial assets and liabilities at amortized costs

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 the impairment loss is measured as the difference between the assets' carrying amount 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.

Nova Transportadora do Sudeste S.A. - NTS

Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

4. Summary of significant accounting practices--Continuation

4.1. Financial instruments--Continuation

III) Financial liabilities

Initial recognition and measurement

Financial liabilities are initially classified at fair value through profit or loss, financial liabilities at amortized cost, or as derivatives classified as effective hedging instruments, as the case may be.

All financial liabilities are initially measured at their fair value plus or minus, in the case of financial liabilities that are not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for trading and financial liabilities classified upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for sale if they are acquired with the purpose of being sold or repurchased in the short term. Derivatives, including separate derivatives instruments, are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on trading liabilities are recognized in the income statement. Financial liabilities initially recognized at fair value through profit or loss are designated on the initial recognition date and only if the criteria of CPC 48 are met.

Financial liabilities at amortized cost (loans and financing)

After their initial recognition, interest-bearing financial liabilities 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.

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Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

4.1. Financial instruments--Continuation

III) Financial liabilities--Continuation

- *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 under 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.

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. Trade 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.

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Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

4. Summary of significant accounting practices--Continuation

4.2. Property, Plant, and Equipment - PP&E

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.

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 period 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.

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(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 and social contribution tax 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 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.

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Notes to the financial statements

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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 revenue, 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.

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Notes to the financial statements

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(In thousands of reais, except if indicated otherwise)

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 3 - 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.

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4. Summary of significant accounting practices--Continuation

4.9. Statement 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 as a whole. 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.

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Notes to the financial statements

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5 Critical accounting 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.

6. New standards and interpretations

6.1. New or revised pronouncements applied for the first time in 2020

There are no new standards and interpretations issued and not yet adopted that may, in Management's opinion, have a significant impact on the results or equity disclosed by the Company.

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Notes to the financial statements

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7. Cash and cash equivalents

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	732	614
Short-term investments	953,357	795,360
	<u>954,089</u>	<u>795,974</u>

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

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

8. Trade accounts receivable

	<u>2020</u>	<u>2019</u>
Petróleo Brasileiro S.A - Petrobras	961,240	861,142
	<u>961,240</u>	<u>861,142</u>

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

9. Other accounts receivable

The balance of R\$120,262 on December 31, 2020 refers to: i) expenses incurred by the Company within the scope of the Management and Remediation activities for Cracks by Corrosion Under Tension (SCC), in the amount of R\$111,140 (R\$74,566 in December 2019); and ii)

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Notes to the financial statements

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9. Other Accounts Receivable—Continuation

Lease Class, in the amount of R\$9,122 (R\$2,227 on December 31, 2019). These amounts will be reimbursed by Petróleo Brasileiro S.A. – Petrobras during 2021, as part of the remaining obligations agreed between buyer and seller for the sale of the Company, described in Note 2.1. This balance is not being monetarily restated.

10. Restricted bank deposits

The balance of R\$15,387 on December 31, 2020 (R\$15,096 on December 31, 2019), refers to savings account held with Banco do Brasil to cover environmental compensations related to the construction of gas pipelines GASAN II, GASPAL II and ECOMP in Guararema, in the State of São Paulo, and will be used as required by environmental bodies. Such deposits should be linked to savings accounts and follow the provisions of Federal Law 9.985/2000, which constituted the National System of Units of Conservation – SNUC.

11. Property, Plant, and Equipment - PP&E

Description	Balance as of December 31, 2019			Changes in 2020				Balance as of December 31, 2020		
	Costs	Accumulated depreciation	Balance	Additions	Write-offs	Transfers	Depreciation	Costs	Accumulated depreciation	Balance
Construction in progress	111,035	-	111,035	124,936	-	(22,049)	-	213,922	-	213,922
Improvement in third-party assets	5,153	(1,073)	4,080	-	-	-	(486)	5,153	(1,559)	3,594
Environmental constraints	148,839	(30,729)	118,110	-	-	-	(5,600)	148,839	(36,329)	112,510
Equipment and other assets	11,667,332	(3,638,485)	8,028,847	48,462	(25)	22,049	(433,007)	11,737,819	(4,071,492)	7,666,327
	11,932,359	(3,670,287)	8,262,072	173,399	(25)	-	(439,093)	12,105,733	(4,109,380)	7,996,353

Description	Balance as of December 31, 2018			Changes in 2019				Balance as of December 31, 2019		
	Costs	Accumulated depreciation	Balance	Additions	Write-offs	Transfers	Depreciation	Costs	Accumulated depreciation	Balance
Construction in progress	78,676	-	78,676	103,996	-	(71,637)	-	111,035	-	111,035
Improvement in third-party assets	4,812	(595)	4,217	381	-	(40)	(478)	5,153	(1,073)	4,080
Environmental constraints	148,839	(25,478)	123,361	-	-	-	(5,251)	148,839	(30,729)	118,110
Equipment and other assets	11,613,928	(3,212,752)	8,401,176	5,221	(23,494)	71,677	(425,733)	11,667,332	(3,638,485)	8,028,847
	11,846,255	(3,238,825)	8,607,430	109,598	(23,494)	-	(431,462)	11,932,359	(3,670,287)	8,262,072

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(In thousands of reais, except if indicated otherwise)

11. Property, Plant, and Equipment - PP&E--Continuation

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.

Capitalized borrowing costs

During the fiscal years ended December 31, 2020 and 2019 there was no capitalization of interest on financing for construction projects in the Company's PP&E.

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 lives of the assets and the depreciation methods are reviewed at the end of each fiscal period 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 m³/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

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Notes to the financial statements

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(In thousands of reais, except if indicated otherwise)

11. Property, Plant, and Equipment - PP&E--Continuation

The Southeast Network comprises five gas pipelines and two branches:

GASAN

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

GASCAR

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

GASPAL

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

GASVOL

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

GASBEL I

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

Campos Elíseos Branch (16 inches)

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

SOUTHEAST NETWORK II

The Southeast Network II comprises the following gas pipelines:

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11. Property, Plant, and Equipment - PP&E--Continuation

GASJAP

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

GASAN II

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

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, 2020 and 2019.

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Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

12. Trade accounts payable

Trade payables	2020	2019
Petróleo Brasileiro S.A - Petrobrás	212,680	162,538
Petróleo Transportes S.A - Transpetro	47,157	39,130
Solar Turbines International	-	6,402
Tokio Marine Seguradora	7,690	4,506
Intech Engenharia Ltda	685	1,980
Chubb Seguros Brasil S.A.	1,370	1,635
Schneider	1,648	1,613
Rosenbra Engenharia Brasil Ltda	5,179	1,878
Enerflex/Geogás	1,022	1,314
EGD Engenharia Ltda.	-	1,022
Industec	3,225	-
Conaut Controles	1,522	-
Worley Engenharia	1,231	-
Macaetec Instrumentos	1,001	-
Exterran	-	933
AIG Seguros Brasil	-	890
XL Seguros Brasil	-	512
Consultants and other contracted services	3,294	11,235
Other trade accounts	23,010	20,883
	310,714	256,471

13. Debentures and financings

	Interest	Maturity	2020	2019
Current				
Charges - 2nd issue debentures	109% CDI	2023	19,510	47,775
Funding costs	-	-	1,947	(1,947)
Principal - Loan	CDI + 1.98%	2021	60,000	-
Charges – Loan	CDI + 1.98%	2021	875	-
Total current			78,438	45,828
Noncurrent				
Principal - 2nd issue debentures	109% CDI	2023	5,200,000	5,200,000
Funding costs	-	-	(2,758)	(4,705)
Total noncurrent			5,197,242	5,195,295
Total			5,275,680	5,241,123

On April 20, 2018, the Company's Extraordinary General Meeting (EGM) approved the second issue of unprivileged unsecured non-convertible debentures in a single series, subject to a public distribution offering and restricted placement efforts, under the terms of CVM Instruction 476 and other legal and regulatory provisions, in the total amount of R\$5,200,000 at the nominal unit value of R\$10,000.00.

The Second Debentures Issue was subject to a firm guarantee with Banco Itaú BBA S.A, BB – Banco de Investimento S.A and Banco Bradesco BBI S.A.

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13. Debentures and financings--Continuation

On April 25, 2018, debentures were issued in 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, without 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) Net Financial Debt x EBITDA ratio shall be equal or less than 3; or

(b) EBITDA x Net Financial Expense ratio shall be equal or greater than 1.5.

At the reporting date of the financial statements for the period ended December 31, 2020, the Company verified both indexes and concluded that the covenants were complied with.

On July 27, 2020, the Board of Directors' Extraordinary Meeting approved the issuance, by the Company, of a bank credit note ("CCB"), in favor of Banco Santander (Brasil) S.A., in the total amount of R\$60,000,000 (sixty million reais), with maturity in 1 (one) year, counted from the issue date, at a remuneration of 100% of the CDI Rate plus a spread of 1.98% p.a. on a calendar year of 252 (two hundred and fifty-two) business days, paid semi-annually. The principal amount will be paid by the Company in a single installment on the maturity date.

Payments and amortization schedule of funding costs

<u>Year</u>	<u>Principal</u>	<u>Funding costs</u>
2021	60,000	1,947
2022	-	1,947
2023	5,200,000	811
	<u>5,260,000</u>	<u>4,705</u>

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14. Transactions with related parties

a) Operations between legal entities

	<u>Petrobras</u>	<u>Transpetro</u>	<u>2020</u>
Result			
Revenue from services	5,441,318		5,441,317
Cost with operation and maintenance of gas pipes		(268,873)	(268,873)
Other operating costs	<u>(70,177)</u>		<u>(70,177)</u>
	<u>5,371,141</u>	<u>(268,873)</u>	<u>5,102,267</u>
Assets			
Trade accounts receivable	961,240	-	961,240
Other accounts receivable	<u>120,262</u>	-	<u>120,262</u>
	<u>1,081,502</u>		<u>1,081,502</u>
Liabilities			
Trade accounts	<u>(212,680)</u>	<u>(47,157)</u>	<u>(259,837)</u>
	<u>(212,680)</u>	<u>(47,157)</u>	<u>(259,837)</u>

	<u>Petrobras</u>	<u>Transpetro</u>	<u>2019</u>
Result			
Gross revenue from services	5,172,155	-	5,172,155
Cost with operation and maintenance of gas pipes	-	(257,633)	(257,633)
Other operating costs/expenses	<u>(55,185)</u>	-	<u>(55,185)</u>
	<u>5,116,970</u>	<u>(257,633)</u>	<u>4,859,337</u>

	<u>Petrobras</u>	<u>Transpetro</u>	<u>TAG</u>	<u>12/31/2020</u>
Assets				
Trade accounts receivable	861,142	-	-	861,142
Other accounts receivable	<u>76,793</u>	-	-	<u>76,793</u>
	<u>937,935</u>	<u>-</u>	<u>-</u>	<u>937,935</u>
Liabilities				
Trade accounts	<u>162,538</u>	<u>(39,130)</u>	<u>195</u>	<u>(201,473)</u>
	<u>(162,538)</u>	<u>(39,130)</u>	<u>195</u>	<u>(201,473)</u>

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14. Transactions with related parties--Continuation

a) Operations between legal entities--Continuation

For the fiscal years ended December 31, 2020 and 2019, the Company entered into transactions with shareholders and other related parties, as described below:

- I) Petrobras – On December 31, 2020 and 2019, the transactions with Petrobras referred to Company's revenues arising from Natural Gas Transportation Agreements, whose object is the transportation of natural gas, as well as to the receivables maturing in 2019 and 2020. The terms of the agreements were defined by the parties involved, billing occurs up to the 7th business day of the month following the date when the service was provided and the due date will be the 10th day of the second month, also after services were provided. Payment must be made by bank transfer, in case of delay or non-payment, there will be (i) a 2% late payment fine, (ii) monetary restatement calculated in accordance with the General Market Price Index (IGPM/FGV), and (iii) simple late payment interest (100% CDI), calculated from the day following the due date. It is worth mentioning that transportation tariffs are adjusted every twelve months by reference to the IGPM/FGV. The Company also recognized in 2020 and 2019 provisions for payment for the use and sharing of gas pipeline rights-of-way and payments related to: i) acquisition of electricity as an input to operate the Guararema Compression Station; ii) equipment rental related to the RPBC Delivery Point; and iii) 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. Also in relation to Petrobras, the Company recognized accounts receivable arising from expenses incurred within the scope of Management and Remediation of Cracks by Corrosion Under Tension (SCC) activities, in the amount of R\$111,140 (R\$74,566 on December 31, 2019); and ii) Lease Class, in the amount of R\$9,122 (R\$2,227 on December 31, 2019). These amounts will be reimbursed by Petróleo Brasileiro S.A. – Petrobras during 2020, as part of the remaining obligations agreed between buyer and seller for the sale of the Company.
- II) Transpetro – On December 31, 2020 and 2019, 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 2020, due by the Company to Transpetro for the services performed.

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14. Transactions with related parties--Continuation

b) Operations with key management personnel

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

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

	<u>2020</u>	<u>2019</u>
Management compensation	7,907	6,458
Short-term benefits	773	3,851
	<u>8,680</u>	<u>10,309</u>

15. Taxes

15.1. Current taxes

	<u>Current Assets</u>		<u>Noncurrent Assets</u>		<u>Current Liabilities</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Income tax	-	2	-	-	(402,568)	(290,229)
Social contributions	-	1	-	-	(167,491)	(124,720)
PIS/COFINS (a)	47,335	-	8,727	8,622	(37,934)	(30,025)
Recoverable PIS/COFINDS (b)	-	-	58,003	-	-	-
ICMS	-	-	-	-	(24,792)	(17,111)
ISS	-	-	-	-	(1,104)	(3,896)
IRRF	-	-	-	-	(1,508)	(1,360)
Other	6	-	-	-	(2,393)	(2,316)
	<u>47,341</u>	<u>3</u>	<u>66,730</u>	<u>8,622</u>	<u>(637,790)</u>	<u>(469,657)</u>

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15. Taxes--Continuation

15.1. Current taxes--Continuation

- a) In October 2020, after extensive discussions with external advisors (lawyers and tax consultants), based on Normative Instruction 1881 of 2019 issued by the Federal Revenue of Brazil, the Company's management completed a review of the PIS and COFINS calculations for the 2015 and 2016 calendar years and identified that it had unduly paid PIS and COFINS taxes on financial income, at the joint rate of 4.65%, corresponding to the Adjusted Present Value (AVP) on accounts receivable from financial leasing existing at the time and impacting its financial income. It is worth highlighting that this assessment considered a duplicity in the payment of PIS and COFINS taxes on financial income since they were also included in the PIS/COFINS calculation on revenues and taxed at the joint rate of 9.25% at the time. Thus, the Company recorded in its books tax credits of R\$69,850, of which R\$52,727 corresponded to the principal amount and R\$17,260 related to SELIC interest (which were partially compensated by December 31, 2020).

- b) In 2018, the Company filed a lawsuit challenging the constitutionality of including the Tax on Circulation of Merchandise_ICMS in the PIS and COFINS calculation basis. In 2020, the lawsuit had a final favorable outcome for NTS, allowing the exclusion of ICMS from the PIS and COFINS calculation basis prospectively, as well as the retroactive recovery of the amounts collected in excess (limited to the last 5 years counted from the date the lawsuit was filed), restated based on the Selic interest rate. The Company recorded tax credits of R\$58,003, of which R\$48,618 corresponded to the principal amount and R\$9,385 related to SELIC interest.

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15. Taxes--Continuation

15.2. Deferred taxes

a) Breakdown of deferred income and social contribution taxes

	Base at 2020	Deferred IR and CSLL Balance at 34%	Base at 2019	Deferred IR and CSLL Balance at 34%
Deferred income tax				
Provision for PIS/COFINS loss	54,039	18,373	-	
Provision for Illegal Derivations	17,600	5,984	13,900	4,726
Provision for insurances	1,053	358	1,053	358
Provision for contingencies and other	8,008	2,780	1,273	433
Provision - expenses with environmental compensation	32,635	11,096	31,543	10,725
Provision for bonus	16,941	5,760	17,117	5,820
	130,276	44,351	64,886	22,062
Deferred tax liabilities				
PP&E – Difference in corporate x tax depreciation	(5,143,858)	(1,746,698)	(3,944,394)	(1,341,094)
	(5,143,858)	(1,746,698)	(3,944,394)	(1,341,094)
Deferred tax balance, net	(5,013,582)	(1,702,347)	(3,879,508)	(1,319,032)

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

	2020	2021	2022	2023	Total
Recoverability of deferred tax assets	-	-	-	44,351	44,351

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15. Taxes--Continuation

15.3. Reconciliation of income and social contribution taxes

	<u>2020</u>	<u>2019</u>
Income before income tax and social contribution	3,770,336	3,302,092
Income tax and social contribution - nominal rate (34%)	<u>(1,281,914)</u>	<u>(1,122,711)</u>
	2,488,422	2,179,381
Adjustments for calculating the effective rate:		
Permanent net exclusions	(85,473)	(70,395)
Temporary net exclusions	(1,114,079)	(1,164,180)
Additions	<u>88,728</u>	<u>30,655</u>
(+ Provision for bonus)	11,862	12,038
(+ Provision for environment)	2,899	2,776
(+ Provision for PIS/COFINS loss)	54,039	-
(+ Environmental constraints)	16,009	1,694
(+ Illegal trepanning)	3,700	9,800
(+ Other)	219	4,347
Exclusions	<u>(1,202,807)</u>	<u>(1,194,835)</u>
(-) Depreciation (tax x corporate)	(1,180,147)	(1,171,858)
(-) Bonus	(12,038)	(7,023)
(-) Provision for environmental compensation	(7,831)	(13,754)
(-) Other	(2,791)	(2,200)
Basis for calculating adjusted income tax and social contribution	<u>2,570,784</u>	<u>2,067,517</u>
Income tax and social contribution	(874,067)	(702,666)
Sponsorships (Lei Rouanet) + Others	15,030	13,914
Current income and social contribution taxes	(859,037)	(688,752)
Deferred income tax and social contribution taxes	<u>(383,314)</u>	<u>(395,821)</u>
	<u>(1,242,351)</u>	<u>(1,084,573)</u>
Effective IR and CS rates	32.95%	32.85%

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16. Provision for environmental compensation and environmental constraints

16.1 Provision for environmental compensation

Refers to provisions, in the amount of R\$32,636 (R\$31,543 on December 31, 2019), based on Federal Law 9.985/2000, which constituted the National System of Units of Conservation – SNUC, which aims to ensure the preservation of nature and sustainable development of natural resources and will be spent as established by the Environment Foundation - FATMA and the Public Ministry.

16.2 Provision for environmental constraints

The balance, in the amount of R\$45,986 (R\$55,018 on December 31, 2019), refers to environmental constraints required by environmental control, monitoring and inspection bodies, at the federal and state levels, due to the issuance of preliminary licenses for the installation and operation of ventures and construction of the Company's gas pipelines network, under the terms of Resolution 237/1997 of the National Environment Council – CONAMA.

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

17. Equity

17.1 Share capital

At the Extraordinary General Meeting held on August 31, 2020, the Company's shareholders representing the entire share capital attended the meeting and, based on the favorable opinion issued by the Company's Fiscal Council on July 24, 2020, unanimously approved, without reservations, the incorporation of part of the Company's capital reserve to its capital, in an amount equivalent to R\$167,736, resulting in an increase in the Company's share capital, from R\$994,301 to R\$1,162,037, by increasing the nominal value of the Company's shares and maintaining the number of shares and percentage of each shareholder's share in the capital unchanged. Immediately following, shareholders approved the Company's capital reduction, in the amount of R\$653,325, pursuant to the provisions of Article 173 of Law 6.404/76, as it was considered excessive in view of the activities performed by the Company. The reduction was carried out by means of capital restitution to shareholders, in national currency, proportionally to their respective holdings in the Company's share capital, and a reduction in the nominal value of the Company's share to R\$0.22 (twenty-two centavos), without the cancellation of any shares representing the Company's share capital. After the deadline of 60 days without

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17. Equity--Continuation

17.1 Share capital--Continuation

opposition from creditors, this reduction was executed, with the Company's share capital changing from R\$1,162,037 to R\$508,712, fully subscribed and paid in.

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.

In August 2020, part of the capital reserve, in the amount of R\$167,736, was incorporated into the Company's capital (as mentioned in item 17.1 above), reducing the amount recorded as a capital transaction in shareholders' equity from R\$1,360,199 to R\$1,192,463.

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

During the fiscal year ended December 31, 2020, NTS distributed a total of R\$2,012,245 in dividends for the current period (R\$1,795,038 on December 31, 2019) and a total of R\$105,251 in interest on equity (R\$163,654 on December 31, 2019). Both the payment of dividends and interest on equity were approved by the Fiscal Council and the Board of Directors, in accordance with the favorable opinion issued by the Fiscal Council.

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17. Equity—Continuation

17.3 Income reserves--Continuation

c) Dividends & interest on equity paid

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

In March 2020, the amount of R\$10,832 was paid related to the provisioning approved at a meeting of the Company's Board of Directors held on November 7, 2019, referring to interest on equity related to the month of December 2019.

On December 1, 2020, the Company's Management approved the total distribution of R\$566,008, of which R\$540,921, referred to interim dividends, and R\$25,088 as interest on equity. In addition, the provision of R\$6,462 referring to interest on equity for December 2020, payable in 2021, was approved.

d) Additional dividend proposed

On December 31, 2020, the Company's management proposed the distribution of additional dividends in the amount of R\$345,815 based on the net income reported for the 2020 fiscal year, in addition to interim dividends paid to shareholders during 2020. The proposed dividends will be kept as Income Reserve until they have been deliberated by the Board of Directors.

The following tables illustrate the calculation of the proposed dividends and the reconciliation of the balance recorded in current liabilities as interest on capital payable.

	<u>2020(*)</u>	<u>2019(*)(**)</u>
Net income for the year	2,527,984	2,217,519
(-) Interim dividends in the period	(2,012,244)	(1,795,038)
(-) Interest on equity paid in the period	(105,251)	(163,654)
(-) Interest on equity payable	(6,462)	(10,824)
(=) Base profit for calculating dividends	404,027	248,003
Mandatory dividends	-	-
Tax incentive reserve	(58,212)	-
Additional proposed dividends	345,815	248,003

(*) Management decided to not constitute a Legal Reserve for the profit reported in 2020 and 2019 since its Capital and Legal Reserve combined balances correspond to 242% in 2020 (141% in 2019) of the Company's subscribed and paid-in Capital, substantially exceeding the 30% limit provided for under paragraph 1 of article 193 of Law 6,404 / 76.

(**) Due to the distribution of interim dividends made by the Company to its shareholders in 2020, the proposed dividends will remain in the Profit Reserve account until deliberation by the Board of Directors.

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17. Equity—Continuation

17.3 Income reserves—Continuation

d) Additional dividend proposed--Continuation

Reconciliation with current liabilities	2020	2019
Interest on Equity to be Paid	6,462	10,833
IRRF Tax on Interest on Equity	(171)	(287)
Interest on Equity Recorded in Liabilities	6,291	10,546

e) Tax incentive reserve

NTS constituted an income reserve on tax incentives, in the amount of R\$58,212, resulting from an investment subsidy related to the appropriation of ICMS credit arising from the option for the ICMS Agreement 106/96 that grants credit of 20% on ICMS amount due to companies providing transport services. These credits were recorded in the income statement of the period and allocated monthly to the tax incentive reserve, being excluded from the calculation of the dividend calculation base e interest on equity.

f) Earnings per share

The calculation of basic and diluted earnings per share for the fiscal year ended December 31, 2020 and 2019, were as follows:

	2020	2019
Net income for the year (in thousands of Reais)	2,527,984	2,217,519
Total shares issued	2,312,328,578	2,312,328,578
Basic and diluted earnings per share - in Reais	1.09	0.96

18. Net Revenue

	2020	2019
Gross service revenue	5,717,821	5,400,869
Charges on services	(770,150)	(765,940)
Tariff adjustment	(276,503)	(228,714)
4,671,168	4,406,215	4,406,215

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19. Cost of Services

	<u>2020</u>	<u>2019</u>
Depreciation and amortization	(383,783)	(340,046)
Contracted services, freight, rentals, and general charges	(22,915)	(33,438)
Operation and maintenance	(264,624)	(257,653)
Right-of-way	(60,255)	(55,185)
Electric power	(20,249)	(19,276)
Insurance coverage	(14,348)	(13,551)
ICMS on gas used in the system	(4,830)	(9,985)
Environmental costs	(1,088)	(801)
Consulting services	(8,627)	-
Trainings and seminars	(3,366)	-
Personnel costs	(30,869)	(9,869)
Other costs	(8,578)	(3,978)
	<u>(823,532)</u>	<u>(743,782)</u>

20. General and administrative expenses

	<u>2020</u>	<u>2019</u>
Personnel expenses	(27,695)	(25,192)
Legal advice	(3,384)	(2,242)
Auditing	(690)	(999)
Accounting advisory services	(1,745)	(1,657)
Consulting services	(3,267)	(965)
Sponsorships	(14,365)	(13,929)
Donations	(6,000)	-
Provision/Reversion of Contingencies	(3,430)	1,803
License maintenance	(1,553)	(1,440)
Recruitment and hires	(580)	(37)
Rentals and charges	(1,168)	(1,243)
Services hired	(3,384)	(2,248)
Office expenses and other	(3,973)	(6,439)
	<u>(71,234)</u>	<u>(54,588)</u>

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21. Financial income (costs), net

	<u>2020</u>	<u>2019</u>
Income from short-term investments	30,436	60,712
Monetary restatement	30,549	5,714
Other finance income	1,783	898
Total finance income	<u>62,768</u>	<u>67,324</u>
Interest on financing	(160,217)	(337,205)
Fines and interest charges	(3,112)	(3,350)
Taxes on financial result	(312)	(270)
Other finance costs	(6,514)	(8,759)
Total finance costs	<u>(170,155)</u>	<u>(349,584)</u>
Finance income (costs), net	<u>(107,387)</u>	<u>(282,260)</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>	
Balances as of December 31, 2019	<u>(3,340)</u>	<u>(2,996)</u>	<u>(6,336)</u>
Write-offs (a)		2,394	2,394
Monetary restatement	125	(441)	(316)
Balances as of December 31, 2020	<u>(3,215)</u>	<u>(1,043)</u>	<u>(4,258)</u>

(a) Refers to the write-off of tax process (ISS) involving NTS and the Municipality of Silveiras, as a result of an unfavorable final court decision against NTS.

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22. Legal proceedings and contingencies--Continuation

22.2. Judicial deposits

	<u>2020</u>	<u>2019</u>
Noncurrent assets		
Labor	8	17
Tax	16,647	17,681
Other	19	18
	<u>16,674</u>	<u>17,716</u>

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, 2020 and December 31, 2019, in which the probability of loss of which is considered possible, are presented below:

	<u>Civil</u>	<u>Tax</u>		<u>Environmental</u>	<u>Total</u>
	<u>Judicial</u>	<u>Administrative</u>	<u>Judicial</u>	<u>Administrative</u>	
Balances as of December 31, 2019	(44)	(96,845)	(13,033)	(51)	(109,973)
New cases	(1,083)	(5,556)	(16)	(52,813)	(59,468)
Monetary restatements	(22)	(2,174)	(362)	(1,171)	(2,729)
Write-offs		415	-		415
Balances as of December 31, 2020	(1,149)	(104,160)	(13,411)	(54,035)	(172,755)

The main administrative tax causes refer to several administrative proceedings initiated by the Brazilian Federal Revenue (RFB) and are related to the contestation of tax credits used by NTS and not approved by the tax authority, as well as related to the decision that partially disallowed the IRPJ and CSLL negative balance credits respectively, referring to the 2015 calendar year. These main causes total R \$ 90,370 (R \$ 84,474 in December 2019).

The new environmental causes included as of September 2020 refer to environmental compensation processes under discussion between the Environmental Agency and NTS on the following topics: (i) the maximum percentage that can be applied to compensation in the GASCAR process; (ii) the index applicable for the purpose of monetary correction in the processes related to GASCAR, GASTAU, GASPAJ e GASBEL II; and (iii) the base date for the application of the monetary correction in the case of GASTAU.

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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, 2020, the Company did not have any derivative financial instruments to mitigate risks associated to its financial instruments and, during the periods, did not make speculative investments. The results are consistent with the policies and strategies defined by the Company's management.

a) Liquidity risk

The Company uses its funds to cover operating liabilities and to pay creditors. The sources of funds plus the Company's financial position on December 31, 2020 are sufficient for the settlement of its short-term liabilities. Liquidity risk is managed by the Company by investing its cash in CDBs and investment funds with daily liquidity and renegotiating (when necessary) the maturity date of its debts.

	2021	2022	2023	Total
Financial debt*	168,230	106,801	5,233,249	5,508,280
Trade payables	310,714	-	-	310,714

*Debt projections consider the probable scenario of NE 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, 2020, the Company did not have any financial assets or liabilities denominated or exposed to foreign 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, 2020, the Company did not have any outstanding derivative financial instruments.

c) Credit risk

As part of the Share Purchase and Sale Agreement entered into with the Company shareholders, described in Note 2.1, Petrobras and NTS signed a Restricted Accounts

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23. Financial instruments--Continuation

Management Agreement with Banco Bradesco S.A. aiming to diversify NTS's credit risk in relation to the Gas Transportation Agreements (GTAs) that the Company has with Petrobras (client).

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

d) Sensitivity analysis

On December 31, 2020, 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)
<u>Financial liabilities</u>					
Debentures and financings payable (**)	5,275,680	Increase in CDI	(108,230)	(135,204)	(161,550)
<u>Financial assets</u>					
Cash and cash equivalents	954,089	Decrease in CDI	18,128	13,596	9,064

(*) 12-month scenario

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

The "Probable" scenario was calculated considering a CDI rate of 1.90%, applicable to the floating interest rate portion of the debentures, net of cash and cash equivalents as of December 31, 2020. The "Possible" and "Remote" scenarios consider increases of 25% and 50% of the CDI rate, respectively.

e) Estimate at fair value:

The table below provides 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, 2020 and December 31, 2019.

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23. Financial instruments--Continuation

Financial assets (current and noncurrent)		Level	2020		2019	
			Book Value	Fair Value	Book Value	Fair value
			2,050,978	2,050,978	1,749,005	1,749,005
Cash and cash equivalents	Fair value through profit or loss	2	954,089	954,089	795,974	795,974
Trade accounts receivable	Amortized costs		961,240	961,240	861,142	861,142
Other accounts receivable	Amortized costs		120,262	120,262	76,793	76,793
Restricted bank deposits	Amortized costs		15,387	15,387	15,096	15,096
Financial liabilities (current and noncurrent)			5,586,394	5,586,394	5,497,594	5,497,594
Trade accounts	Amortized costs		310,714	310,714	256,471	256,471
Debentures e Financing	Amortized costs		5,275,680	5,275,680	5,241,123	5,241,123

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

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

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

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

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23. Financial instruments--Continuation

f) Changes in the cash flow liabilities of financing activities

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

Debtures & Financing	Balance at 2019	Cash Changes			Non-Cash Changes			Balance at 2020
		Financing activities received (paid)	Interest payment	Funding costs	Approved dividends & interest on equity	Interest expenses	Other Amortization funding costs	
Debtures – 2 nd Issue	5,241,123	-	(184,585)	-	-	156,319	1,947	5,214,804
CCB	-	60,000	-	-	-	876	-	60,876
Dividends & Interest on Equity	10,546	(2,376,331)	-	-	2,371,961	-	115	6,291
	5,251,669	(2,316,331)	(184,585)	-	2,371,961	157,195	115	5,281,971

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, 2020:

Type of Contract	2021	2022	2023	2024	2025	Total
Office space rental	3,464	2,580	1,596	1,621	1,174	10,435
Telecom & printers	133	139	84	-	-	356
Compression services	4,661	4,852	1,259	-	-	10,772
Operation and maintenance	294,509	306,584	318,234	329,372	340,900	1,589,599
Use and sharing of gas pipelines	72,354	75,320	78,182	80,919	83,751	390,526
Total	375,121	389,475	399,355	411,912	425,825	2,001,688

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24. Commitments

b) Guarantees

As of December 31, 2020, the Company had eight rental guarantee insurance policies to cover the guarantees required in its lease agreements, which totaled R\$4,426 in coverage limit, distributed as follows:

Location	Coverage Limit
Praia do Flamengo, 19º andar, Flamengo, Rio de Janeiro, RJ	902
Praia do Flamengo, 22º andar, Flamengo, Rio de Janeiro, RJ	1,695
Praia do Flamengo, 23º andar, Flamengo, Rio de Janeiro, RJ	1,590
Rod. Washington Luiz, 2500, Bl. B Salas 703 a 707, Duque de Caxias, RJ	60
Rua Adelelmo Piva, 36, Jardim Vista Alegre, Paulínia, SP	49
Est. Hélio Rosa dos Santos, 1000, salas 105 e 205, Imboassica, Macaé, RJ	39
Rua Messia Assú, nº 293, Itararé, São Vicente, SP	57
Rodovia BR 040, KM 800, salas nº 20, 21 e 22, Matias Barbosa, MG	34

25. Insurance

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

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

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25. Insurance--Continuation

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

Type of Insurance	Start of Coverage Period	End of Coverage Period	Coverage Amount
Operational risks and business interruption	Oct 3, 2020	Oct 3, 2021	1,500,000
General civil liability	Oct 3, 2020	Oct 3, 2021	400,000
Environmental liability	Oct 3, 2020	Oct 3, 2021	300,000
D&O civil liability	Oct 3, 2020	Oct 3, 2021	300,000
Professional civil liability (E&O)	Oct 3, 2020	Oct 3, 2021	10,000
Data protection and cyber responsibility	Oct 3, 2020	Oct 3, 2021	15,000
Corporate fraud (crime)	Oct 3, 2020	Oct 3, 2021	5,000
Property (office)	Nov 27, 2020	Nov 27, 2021	11,000
Engineering risk (CCO)	Sep 9, 2020	Apr 31, 2021	9,082
Total			2,550,082

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, 2020 and 2019 as prepaid expenses:

Description	2020	2019
Operating Risks and Business Interruption	7,690	6,719
General civil liability	1,470	1,477
Environmental Risks	968	974
D&O civil liability	647	647
Corporate insurance	563	573
Total insurance	11,338	10,390
Other prepaid expenses	419	317
Total	11,757	10,707

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Notes to the financial statements

December 31, 2020 and 2019

(In thousands of reais, except if indicated otherwise)

26. Subsequent event

On January 19, 2021, credit risk rating agency Fitch Ratings reaffirmed the national long-term corporate rating and the rating for the Company's second debentures issue as "AAA (bra)", maintaining a stable outlook. The Fitch report is available at <https://ri.ntsbrasil.com>.

The Board of Directors unanimously approved, at a meeting held on March 10, 2021, the interim distribution of dividends and interest on equity by the Company, in the amount of R\$827 million without reservation and based on the favorable opinion issued by the Fiscal Council. The distribution was completed on March 11, 2021.