



Companhia de Gás de São Paulo - COMGÁS

Interim financial statements

March 31, 2019



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Report on review report on the interim financial information

To the Management, Board of Directors and Shareholders of
Companhia de Gás de São Paulo - COMGÁS
São Paulo - SP

Introduction

We have reviewed the accompanying interim financial information of Companhia de Gás de São Paulo - COMGÁS ("Company"), contained in the Quarterly Information Form (ITR) for the quarter ended March 31, 2019, which comprises the statement of financial position as of March 31, 2019 and the respective statements of profit and loss, comprehensive income, changes in shareholders' equity and cash flows for the three-month period then ended, including the explanatory notes.

The Company's management is responsible for the preparation of this interim financial information in accordance with Technical Pronouncement *CPC 21 (R1) - Demonstração Intermediária* and IAS 34 - Interim Financial Reporting issued by the International Accounting Standards Board - IASB, as well as for presenting this information in a manner consistent with the standards issued by the *Comissão de Valores Mobiliários*, applicable to the preparation of the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion on the interim information

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information included in the quarterly information referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34, issued by the IASB, applicable to the preparation of the Quarterly Information - ITR and presented in accordance with the standards issued by the *Comissão de Valores Mobiliários*.



Other matters - Statements of added value

The interim financial information related to the statements of value added (DVA) for the three-month period ended March 31, 2019 prepared under the responsibility of the Company's management, presented herein as supplementary information for IAS 34 purposes, have been subject to review procedures jointly performed with the review of the Company's interim financial information - ITR. In order to form our conclusion, we assessed whether those statements are reconciled with the interim financial information and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement *CPC 09 - Demonstração do Valor Adicionado*. Based on our review, nothing has come to our attention that causes us to believe that the statements of added value above referred were not prepared, in all material respects, consistently with the overall interim financial information.

São Paulo, May 7, 2019

KPMG Auditores Independentes
CRC 2SP014428/O-6
(Original report in Portuguese signed by)
Rogério Hernandez Garcia
Accountant CRC 1SP213431/O-5



Statement of financial position
 March 31, 2019 and December 31, 2018
(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	March 31, 2019	December 31, 2018
Assets			
Cash and cash equivalents	5.1	864,906	602,618
Marketable securities	5.2	931,854	1,124,723
Trade receivables	5.3	886,922	674,992
Derivative financial instruments	5.7	116,189	114,891
Inventories		63,452	65,259
Gas paid and not used	7	176,059	254,651
Receivables from related parties	5.4	1,144	1,158
Income tax and social contribution		-	72,143
Other recoverable taxes	6	292,862	292,204
Other current assets		31,239	29,876
Current assets		3,364,627	3,232,515
Trade receivables	5.3	18,905	20,155
Other recoverable taxes	6	11,756	11,076
Judicial deposits	12	53,471	52,885
Derivative financial instruments	5.7	258,607	254,037
Other non-current assets		567	756
Right of use		14,662	-
Contract assets	8	287,239	217,855
Intangible assets	9	4,593,748	4,571,298
Non-current assets		5,238,955	5,128,062
Total Assets		8,603,582	8,360,577

The accompanying notes are an integral part of these interim financial statements.



Statement of financial position
 March 31, 2019 and December 31, 2018
(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	March 31, 2019	December 31, 2018
Liabilities			
Loans, financing and debentures	5.5	707,192	679,735
Trade payables	5.6	1,052,190	1,012,895
Employee benefits payable		35,699	63,520
Income tax payables		9,199	-
Other taxes payable		156,152	70,768
Dividends and interest on capital payable		1,033	11,551
Payables to related parties	5.4	8,442	14,994
Other financial liabilities		25,561	52,868
Leases		2,088	-
Other current liabilities		6,991	8,879
Current liabilities		2,004,547	1,915,210
Loans, financing and debentures	5.5	2,919,974	2,971,810
Provision for legal proceedings	12	121,903	120,972
Post-employment benefits	19	508,124	504,320
Deferred tax liabilities	11	93,897	102,426
Other tax payable		6,392	6,464
Leases		12,754	-
Other non-current liabilities		14,056	18,051
Non-current liabilities		3,677,100	3,724,043
Total liabilities		5,681,647	5,639,253
Shareholders' equity			
Share capital		1,650,032	1,650,032
Capital reserve		60,587	60,032
Revaluation reserve		5,761	5,761
Carrying value adjustments		(161,597)	(161,597)
Profit reserve		1,167,096	1,167,096
Retained earnings		200,056	-
Shareholders' equity		2,921,935	2,721,324
Total liabilities and shareholders' equity		8,603,582	8,360,577

The accompanying notes are an integral part of these interim financial statements.



Statement of profit or loss
 March 31, 2019 and 2018
 (In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	March 31, 2019	March 31, 2018
Net sales	15	2,060,052	1,430,876
Cost of gas and services	16	(1,498,927)	(942,432)
Gross result		561,125	488,444
Selling expenses	16	(33,304)	(36,292)
General and administrative expenses	16	(169,062)	(164,466)
Other income (expense), net		3,469	(253)
Operating expenses		(198,897)	(201,011)
Result before financial results and taxes		362,228	287,433
Finance expense		(85,775)	(86,714)
Finance income		37,852	55,316
Foreign exchange gain (loss)		(3,316)	5,415
Derivatives		(1,238)	4,354
Financial results, net	17	(52,477)	(21,629)
Result before income tax and social contribution		309,751	265,804
Current		(118,224)	59,253
Deferred		8,529	(145,964)
Income tax and social contribution	11	(109,695)	(86,711)
Net result for the period		200,056	179,093
Earnings per share attribute to the owners of the Company - Expressed in R\$ per share attributed to the owners of the Company			
Basic per share:			
Common shares	14	1.47767	1.32283
Preferred shares		1.62543	1.45511
		3.10310	2.77794
Diluted per share:			
Common shares	14	1.47506	1.32138
Preferred shares		1.62257	1.45351
		3.09763	2.77489

The accompanying notes are an integral part of these interim financial statements.



Statement of comprehensive income
March 31, 2019 and 2018
(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	March 31, 2019	March 31, 2018
Result for the period	200,056	179,093
Total comprehensive income for the period	<u>200,056</u>	<u>179,093</u>

The accompanying notes are an integral part of these interim financial statements.



Statement of changes in shareholder's equity
March 31, 2019 and 2018
(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Capital reserves				Revenue reserves				Retained earnings	Carrying value adjustments	Total equity
	Share capital	Tax incentives	For the future capitalization	Granted options recognized	Revaluation reserves	Legal reserve	Result retention				
January 01, 2019	1,650,032	1,201	56,276	2,555	5,761	330,007	837,089	-	(161,597)	2,721,324	
Result for the period	-	-	-	-	-	-	-	200,056	-	200,056	
Comprehensive income:	-	-	-	-	-	-	-	-	-	-	
Total comprehensive income for the period	-	-	-	-	-	-	-	200,056	-	200,056	
Stock grants	-	-	-	555	-	-	-	-	-	555	
Total contributions by and distributions to owners	-	-	-	555	-	-	-	-	-	555	
March 31, 2019	1,650,032	1,201	56,276	3,110	5,761	330,007	837,089	200,056	(161,597)	2,921,935	

The accompanying notes are an integral part of these interim financial statements

	Share capital	Capital reserves				Revaluation reserves	Revenue reserves		Retained earnings	Carrying value adjustments	Total equity
		Tax incentives	For the future capitalization	Special goodwill reserve	Granted options recognized		Legal reserve	Result retention			
December 31, 2017	1,481,204	1,201	168,828	56,276	856	5,838	267,043	165,134	-	(129,297)	2,017,083
IFRS 9	-	-	-	-	-	-	-	(6,360)	-	-	(6,360)
January 1, 2018	1,481,204	1,201	168,828	56,276	856	5,838	267,043	158,774	-	(129,297)	2,010,723
Result for the period	-	-	-	-	-	-	-	-	179,093	-	179,093
Comprehensive income:	-	-	-	-	-	-	-	-	-	-	-
Realization of revaluation reserve	-	-	-	-	-	(35)	-	35	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(35)	-	35	179,093	-	179,093
Stock grants	-	-	-	-	313	-	-	-	-	-	313
Total contributions by and distributions to owners	-	-	-	-	313	-	-	-	-	-	313
March 31, 2018	1,481,204	1,201	168,828	56,276	1,169	5,803	267,043	158,809	179,093	(129,297)	2,190,129

The accompanying notes are an integral part of these interim financial statements.



Statement of cash flows March 31, 2019 and 2018

(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	March 31, 2019	March 31, 2018
Cash flows from operating activities			
Result before taxes		309,751	265,804
Adjustments for:			
Amortization		85,100	87,076
Loss on the disposal of intangible assets		5,757	1,252
Granted options recognized	20	555	313
Provision for judicial demands		350	1,000
Interest, monetary and exchange variations		62,392	67,554
Provisions for employee benefits		6,828	6,564
Impairment of trade receivables	5.3	2,103	4,340
Recovery taxes program		(9,438)	-
Gas paid and not used		(43,707)	(3,358)
Other		(658)	(422)
		419,033	430,123
Changes in:			
Trade receivables		(207,664)	2,629
Inventories		(86)	5,380
Other taxes, net		60,835	(56,796)
Trade payables		14,820	15,458
Employee benefits		(34,649)	(34,229)
Gas paid and not used		78,593	-
Post-employment benefits		(7,596)	(6,470)
Other assets and liabilities, net		(2,375)	(2,925)
		(98,122)	(71,103)
		320,911	359,020
Net cash provided by operating activities			
Cash flows from investing activities			
Marketable securities		205,272	113,477
Cash received on sale of other permanent assets		28	1,123
Additions to intangible assets and contract assets		(146,182)	(97,201)
		59,118	17,399
Net cash provided in investing activities			
Cash flows from financing activities			
Payments of principal on loans, borrowing and debentures	5.5	(108,529)	(499,397)
Payments of interest on loans, borrowing and debentures	5.5	(14,777)	(25,401)
Derivative financial instruments		16,851	74,708
Payments to principal on leases		(598)	-
Payments of interest on leases		(170)	-
Dividends and interest on capital paid		(10,518)	(169,164)
		(117,741)	(619,254)
Net cash used in financing activities			
		262,288	(242,835)
Increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of the period		602,618	1,727,521
Cash and cash equivalents at end of the period		864,906	1,484,686
Additional information:			
Income tax and social contribution paid		41,426	42,243

The accompanying notes are an integral part of these interim financial statements.



Statement of value added

March 31, 2019 and 2018

(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	March 31, 2019	March 31, 2018
Revenue			
Sales of gas		2,441,449	1,751,772
Sales of services		15,447	16,000
Provision for impairment of trade receivables	5.3	(2,103)	(4,340)
Construction revenue	15	159,936	89,493
Other sales (expenses)		3,469	(253)
		2,618,198	1,852,672
Cost and expenses			
Cost of gas and transportation		(1,773,733)	(1,118,691)
Cost of services		(5,987)	(6,344)
Construction costs	16	(159,936)	(89,493)
Materials, services and other expenses		(49,731)	(50,953)
		(1,989,387)	(1,265,481)
Gross value added		628,811	587,191
Retention			
Amortization		(85,100)	(87,076)
		(85,100)	(87,076)
Net value added generated by the Company		543,711	500,115
Value added received through transfer			
Finance income		33,042	50,685
		33,042	50,685
Total value added to distribute		576,753	550,800
Distribution of value added			
Personnel and social charges		38,386	35,414
Remuneration		22,730	24,196
Benefits		10,984	8,011
FGTS		4,672	3,207
Taxes and contributions		248,965	260,446
Federal		141,530	151,847
State		100,506	102,939
Municipalities		6,929	5,660
Finance costs and rentals		89,346	75,847
Interest		72,297	54,569
Rents and leases		4,058	3,476
Other		12,991	17,802
Remuneration of shareholder's equity		200,056	179,093
Profit retention		200,056	179,093
		576,753	550,800

The accompanying notes are an integral part of these interim financial statements



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

March 31, 2019

(In thousands of Brazilian Reals - R\$, unless otherwise stated)

1 Operational context

The main activity of Companhia de Gás de São Paulo - COMGÁS (the "Company") is the distribution of piped natural gas in part of the State of São Paulo (in approximately 180 municipalities, including the region referred to as Greater São Paulo) to industrial, residential, commercial, automotive, thermal-power generation and co-generation consumers.

COMGÁS is a public company headquartered in São Paulo, State of São Paulo, is listed on the São Paulo Stock Exchange (B3) and is a direct subsidiary of Cosan S.A. which holds in 94.88%.

The Concession Contract for the Exploration of Public Piped Gas Distribution Services was signed on May 31, 1999 with the conceding authority - represented by the Sanitation and Energy Regulatory Agency for the State of São Paulo (ARSESP), (formerly Energy Public Utilities Commission (CSPE)).

The Contract grants and regulates the concession for the exploration of public piped gas distribution services for a period of 30 years, which may be extended for a further period of 20 years at the concessionaire's request and subsequent approval of the granting authority, as well as the rules for procedures five-year tariff review and the quality and safety indicators to be met.

ARSESP is responsible for the enforcement of the agreement and for regulating, controlling and overseeing the operations of energy operators in the State of São Paulo.

In addition, the concession agreement establishes that the tariffs practiced by the Company must be readjusted once a year in the month of May, with the objective of realigning its price to the cost of gas and adjusting the distribution margin for inflation.

Exceptionally, the regulation allows to adjust the cost of gas in a period of less than one year, provided that certain criteria are met, depending on the difference between the cost of gas contained in the tariff and that paid by the concessionaire to its supplier (Resolution ARSESP 308/2012). In addition, five-yearly, through the Tariff Review process, the tariff margins are realigned to the ticket application, authorized by the regulator, in function of projections of costs and volumes for the next five-year period.



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On February 01, 2019 ARSESP published Deliberation nº 849, which updated the average cost of gas and transportation contained in tariffs, which varies according to the international oil price and the exchange rate. In addition, it carried out the transfer of the regulatory current account, accumulated in the last 12 months. The publication impacted the tariffs of the different segments and consumption volumes, with the average increase for the residential segment being up to 11% and for trade up to 14%; for industry the impact was 32% and for automotive it was a readjustment of 40%.

On February 26, 2019 ARSESP published Deliberation nº 852 that reduced the percentage of variation of the tariffs of the Company, by means of the delay in time. The reductions were applied to all segments in a distinct way: -3% in the residential segment; -4% for the commercial segment; -7% for the industrial segment; and -8% for automotive, considering the tariff applied to gas stations. The adjustment entered into force on March 01, 2019 and should be maintained until the base date for updating the Company tariffs on May 31, 2019.

2 Conformity declaration

The interim financial statements are presented in thousands of Brazilian reais, unless otherwise stated, and have been prepared and are presented in accordance with technical pronouncement CPC 21 (R1) - Interim Financial Statements and IAS 34 - Interim Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and also based on the provisions of the Brazilian Corporation Law, and presented in a manner consistent with the standards issued by the Brazilian Securities and Exchange Commission, applicable to the preparation of quarterly financial information (ITR).

These interim financial statements were prepared based on the preparation basis and accounting policies consistent with those adopted in the preparation of the financial statements as of December 31, 2018 and should be read together.

These interim financial statements present the reclassification of comparative balances. The balance of work in progress, in the amount of R\$ 217,855 previously classified in intangible assets, in accordance with IFRS15/ CPC 47, effective for fiscal years beginning on or after January 1, 2018, should be classified as a contract asset. It is a reclassification of active accounts, within the same balance sheet group, non-current assets, without any impact on the results of the periods presented.



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Notes to the financial statements

March 31, 2019

(In thousands of Brazilian Reals - R\$, unless otherwise stated)

	Note	December 31, 2018 (Published)	IFRS 15	December 31, 2018 (Reclassified)
Assets				
Current		3,232,515	-	3,232,515
Other non-current assets		338,909	-	338,909
Contract assets	8	-	217,855	217,855
Intangible assets	9	4,789,153	(217,855)	4,571,298
Non-current		5,128,062	-	5,128,062
Total assets		8,360,577	-	8,360,577

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

These interim financial statements are prepared based on historical cost, except when indicated otherwise and were authorized for issue by the Board of Directors on May 7, 2019.

3 Accounting policies

The accounting policy described below has been consistently applied by the Company to all periods presented in these interim financial statements.

3.1 Changes in Significant Accounting Policies

3.1.1 CPC 06 (R2) / IFRS 16 Leasing Operations

The Company initially adopted IFRS 16 / CPC 03 (R2) as of January 1, 2019, using the modified retrospective approach and, therefore, the comparative information has not been restated and continues to be reported in accordance with IAS 17 / CPC 06 (R1) and IFRIC 4 / ICPC 03.



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

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(In thousands of Brazilian Reals - R\$, unless otherwise stated)

The Company leases property and equipment. Lease agreements are usually made for fixed periods, but may have extension options. The terms of the lease are negotiated individually and contain a wide variety of different terms and conditions. Lease agreements do not impose any obligation and leased assets cannot be used as collateral for loan purposes

Accounting policy adopted as of January 1, 2019:

Leases are recognized as a right of use asset and a corresponding liability on the date the leased asset is made available for use by the Company, presented in these interim financial statements under the captions of right of use in assets and leasehold liabilities. Each lease payment is allocated between the liability and the financial cost. The financial cost is recognized in income during the period of the lease, in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The asset of the right of use is depreciated for the shorter term between its useful life and the term of the lease, by the straight-line method.

Assets and liabilities arising from leasing are initially measured based on the present value.

Assets of right of use are measured at cost, including:

- Amount of the initial measurement of the lease liability.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments.

Lease payments are discounted using the implied interest rate on the lease, if such rate can be determined, or the incremental loan rate of the Company.

Payments associated with short-term leases and leases of low-value assets are recognized by the straight-line method as an expense in the statement of income.

Short-term leases are leases with lease term of 12 months or less. Low value assets include computer equipment and small items of office furniture.



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The options for extension and termination are included in various leases of properties and equipment throughout the Company. These terms are used to maximize operational flexibility in terms of contract management. Most of the extension and termination options are exercisable only by the lessee.

The impact on the Company's equity position on January 1, 2019 was as follows:

Non-current	
Assets of right of use	15,440
Total non-current assets	<u>15,440</u>
Total assets	<u>15,440</u>
Current liabilities	
Lease liabilities	2,686
Total current liabilities	<u>2,686</u>
Non-current liabilities	
Lease liabilities	12,754
Total non-current liabilities	<u>12,754</u>
Total liabilities	<u>15,440</u>

For lease agreements whose implicit interest rate cannot be determined, the Company adopted the weighted average incremental loan rate of 4.23% per annum to measure lease liabilities recognized at the date of application of the pronouncement.

3.2 Cash Flow

i. Transactions that do not involve cash

During the period ended March 31, 2019, the Company carried out the following transactions that did not involve cash and are therefore not reflected in the statement of cash flows.

- i. Acquisitions of assets for the construction of the distribution network with payment of term in the amount of R\$ 35,035.



Companhia de Gás de São Paulo - COMGÁS

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(In thousands of Brazilian Reals - R\$, unless otherwise stated)

ii. Interest rate

Interest paid is classified as cash flow from financing activities, as it is considered to refer to the costs of obtaining financial resources.

4 Segment information

Management analyzes the financial performance considering the gross economic result separately by business segment. The regulatory agency determines the tariffs for the various business segments. The Company does not perform asset analysis by segment for business management. Finally, the definition of a cash-generating unit, representing the smallest asset in use that generates cash inflows, in the Company's context cannot be segregated by segment, since the same pipeline distributes gas to consumers in different segments.

Information by operating segments is presented in a manner consistent with the internal report provided to the chief operating decision maker. The chief operating decision maker is responsible for the allocation of resources and the performance evaluation of the operating segments.

The composition of the margin per segment is as follows:



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(In thousands of Brazilian Reals - R\$, unless otherwise stated)

Segments	Margin per segment January 1, 2019 to March 31, 2019							
	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues	Total
Volume (thousands of m ³) (not audited)	53,750	38,569	874,101	85,016	56,230	-	-	1,107,666
Gross revenue	273,964	135,277	1,796,256	122,773	103,779	159,936	15,447	2,607,432
Deductions	(63,037)	(31,350)	(407,848)	(19,250)	(23,810)	-	(2,085)	(547,380)
Net revenue	210,927	103,927	1,388,408	103,523	79,969	159,936	13,362	2,060,052
Regulatory assets (liabilities)	1,259	1,640	60,177	3,268	2,950	-	(7,603)	61,691
Cost	(68,111)	(48,724)	(1,100,239)	(88,725)	(70,911)	(159,936)	37,719	(1,498,927)
Economic gross profit	144,075	56,843	348,346	18,066	12,008	-	43,478	622,816
Reversal of regulatory assets (liabilities)								(61,691)
Gross profit								561,125
Selling expenses								(33,304)
General and administrative expenses								(169,062)
Other operating expenses, net								3,469
Operating expenses								(198,897)
Finance expense								(85,775)
Finance income								37,852
Foreign exchange gain (loss)								(3,316)
Derivatives								(1,238)
Financial result, net								(52,477)
Profit before taxes								309,751
Provision for income tax and social								(109,695)
Profit for the period								200,056
Reconciliation of EBITDA								
Profit for the period								200,056
Provision for income tax and social								109,695
Financial result								52,477
Amortization								85,100
Other amortization								(184)
EBITDA								447,144



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March 31, 2019

(In thousands of Brazilian Reals - R\$, unless otherwise stated)

Margin per segment - January 1, 2018 to March 31, 2018

Segments	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues	Total
Volume (thousands of m ³) (not audited)	56,117	35,876	860,792	70,991	47,960	-	-	1,071,736
Gross revenue	250,739	107,553	1,240,653	73,034	72,864	89,493	16,000	1,850,336
Deductions	(60,544)	(26,003)	(298,773)	(14,358)	(17,669)	-	(2,113)	(419,460)
Net revenue	190,195	81,550	941,880	58,676	55,195	89,493	13,887	1,430,876
Regulatory assets (liabilities)	4,423	2,771	64,936	3,409	(6,955)	-	(5,579)	63,005
Cost	(45,104)	(28,805)	(690,220)	(47,231)	(38,628)	(89,493)	(2,951)	(942,432)
Economic gross profit	149,514	55,516	316,596	14,854	9,612	-	5,357	551,449
Reversal of regulatory assets (liabilities)								(63,005)
Gross profit								488,444
Selling expenses								(36,292)
General and administrative expenses								(164,466)
Other operating expenses, net								(253)
Operating expenses								(201,011)
Finance expense								(86,714)
Finance income								55,316
Foreign exchange gain (loss)								5,415
Derivatives								4,354
Financial result, net								(21,629)
Profit before taxes								265,804
Provision for income tax and social								(86,711)
Profit for the period								179,093
Reconciliation of EBITDA								
Profit for the period								179,093
Provision for income tax and social								86,711
Financial result								21,629
Amortization								87,076
Other amortization								(139)
EBITDA								374,370



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5 Financial assets and liabilities

The financial assets and liabilities are as follows:

	Note	March 31, 2019	December 31, 2018
Assets			
Fair value through profit or loss			
Financial investments	5.1	426,123	190,413
Marketable securities	5.2	931,854	1,124,723
Derivative financial instruments	5.7	374,796	368,928
		1,732,773	1,684,064
Amortized cost			
Cash and cash equivalents	5.1	438,783	412,205
Trade receivables	5.3	905,827	695,147
Receivables from related parties	5.4	1,144	1,158
		1,345,754	1,108,510
Total assets		3,078,527	2,792,574
Liabilities			
Amortized cost			
Loans, financing and debentures	5.5	(1,952,488)	(1,987,134)
Trade payables	5.6	(1,052,190)	(1,012,895)
Other financial liabilities		(25,561)	(52,868)
Dividends and interest on capital		(1,033)	(11,551)
Installment of tax debts		(7,042)	(7,105)
Leases		(14,842)	-
Payables to related parties	5.4	(8,442)	(14,994)
		(3,061,598)	(3,086,547)
Fair value through profit or loss			
Loans, financing and debentures	5.5	(1,674,678)	(1,664,411)
		(1,674,678)	(1,664,411)
Total liabilities		(4,736,276)	(4,750,958)

5.1 Cash and cash equivalents

	March 31, 2019	December 31, 2018
Cash and bank deposits	61,545	39,973
Financial Investments	803,361	562,645
	864,906	602,618



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The financial investments are composed as follows:

	Indexers	Weighted average rate%	March 31, 2019	December 31, 2018
Investment funds				
Compromised operations	CDI	100.00	426,123	190,413
			426,123	190,413
Applications in banks				
Certificate of bank deposits	CDI	101.20	377,238	372,232
			377,238	372,232
			803,361	562,645

Compromised operations refer to purchases of assets, with repurchase commitments at a rate previously established by the parties, generally with a fixed term of 90 days or less or for which there are no penalties or other restrictions for early redemption.

Bank Deposit Certificates (CDBs) are securities issued by Brazilian financial institutions with original maturities of 90 days or less, for which there are no penalties or other restrictions for early redemption.

5.2 Marketable securities

	March 31, 2019	December 31, 2018
Marketable securities		
Government security	931,854	1,124,723
	931,854	1,124,723

Government securities bear interest at SELIC and maturity between two and five years with daily liquidity.



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5.3 Trade receivables

	March 31, 2019	December 31, 2018
Receivable from gas	428,902	327,570
Unbilled revenue ⁽ⁱ⁾	541,459	430,596
Receivable from sale of equipment	5,953	6,296
Financing marketing program	25,908	29,020
	1,002,222	793,482
Other	5,664	6,290
Impairment of trade receivable	(102,059)	(104,625)
	(96,395)	(98,335)
Current	886,922	674,992
Non-current	18,905	20,155

⁽ⁱ⁾ Unbilled revenue refers to that part of the gas supply in the month, whose measurement and billing have not yet been made.

The aging of accounts receivable is as follows:

	March 31, 2019	Estimated loss	December 31, 2018	Estimated loss
Not overdue	254,664	(599)	195,570	(520)
Unbilled revenue	541,459	(694)	430,596	(676)
Overdue:				
From 1 to 30 days	62,952	(163)	24,280	(116)
From 31 to 60 days	8,537	(1,385)	7,808	(1,359)
From 61 to 90 days	4,296	(1,440)	5,367	(1,711)
More than 90 days	130,314	(97,778)	129,861	(100,243)
	1,002,222	(102,059)	793,482	(104,625)

The variation in the allowance for doubtful accounts is as follows:

At January 1, 2019	(104,625)
Provisions / Reversals	(2,103)
Write-off	4,669
March 31, 2019	(102,059)



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5.4 Related parts

a) Accounts receivable and payable from related parties:

	March 31, 2019	December 31, 2018
Current Asset		
Commercial operations		
Raízen Combustíveis S.A. ⁽ⁱ⁾	1,144	1,158
	1,144	1,158
Current liabilities		
Contractual operations		
Raízen Energia S.A. ⁽ⁱⁱ⁾	8,442	14,994
	8,442	14,994

b) Transactions with related parties:

	March 31, 2019	March 31, 2018
Operation income		
Raízen Combustíveis S.A. ⁽ⁱ⁾	3,503	3,290
Elevações Portuárias S.A. ⁽ⁱⁱⁱ⁾	198	-
	3,701	3,290
Income (expense)		
Raízen Energia S.A. ⁽ⁱⁱ⁾	(8,300)	(5,730)
	(8,300)	(5,730)

⁽ⁱ⁾ **Raízen Combustíveis S.A.**

Supply of gas to gas stations.

⁽ⁱⁱ⁾ **Raízen Energia S.A. (RESA)**

Shared services executed by RESA of the Company's responsibility.

⁽ⁱⁱⁱ⁾ **Port Elevations S.A.**

Gas supply.

c) Remuneration of directors and officers:

The Company has a remuneration policy approved by the Board of Directors. The remuneration of directors, who are responsible for planning, directing and controlling the Company's activities, which include the members of the Board of Directors and statutory officers, in the periods ended March 31, 2019 and 2018 are as follows:



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	March 31, 2019	March 31, 2018
Short-term benefits to directors	9,119	3,945
Post-employment benefits	95	4
Other long-term benefits	-	35
Share-based payments	332	206
	9,546	4,190

5.5 Loans, financing and debentures

Description	Interest		March 31, 2019	December 31, 2018	Maturity
	Index	Annual interest rate ⁽ⁱ⁾			
Loan and financing					
BNDES - Project VI	TJ462 + 1.80%	9.92%	274,476	316,854	Oct-20
BNDES - Project VI	SELIC + 1.80%	8.32%	133,784	152,562	Oct-20
BNDES - Project VII	TJLP + 2.00%	9.11%	102,039	107,731	Jun-23
BNDES - Project VII	SELIC + 1.96%	8.49%	61,220	63,852	Jun-23
EIB	USD + 3.88%	3.88%	91,105	89,003	Jun-20
	USD + 2.94%	2.94%	42,769	54,508	Sep-20
	USD + LIBOR6M + 0.48%	3.43%	116,642	115,581	May-21
	USD + LIBOR6M + 0.55%	3.29%	108,462	130,402	Sep-21
Resolution 4131	USD + 3.67%	3.67%	298,988	292,173	May-23
Total of loans and financing			1,229,485	1,322,666	
3 ^a emission - 1 ^a issue	CDI + 0.90%	7.36%	42,759	43,471	Sep-19
3 ^a emission - 3 ^a issue	IPCA + 5.57%	9.68%	208,376	203,613	Sep-20
4 ^a emission - 1 ^a issue	IPCA + 7.14%	11.31%	314,849	305,895	Dec-20
4 ^a emission - 2 ^a issue	IPCA + 7.48%	11.66%	283,281	275,014	Dec-22
4 ^a emission - 3 ^a issue	IPCA + 7.36%	11.54%	93,355	90,656	Dec-25
5 ^a emission - single	IPCA + 5.87%	9.99%	797,528	767,638	Dec-23
6 ^a emission - single	IPCA + 4.33%	8.39%	424,084	414,583	Oct-24
7 ^a emission - single	IGPM + 6.10%	11.64%	233,449	228,009	May-28
Total of debentures			2,397,681	2,328,879	
Total			3,627,166	3,651,545	
Current			707,192	679,735	
Non-current			2,919,974	2,971,810	



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Non-current loans have the following maturities:

	March 31, 2019	December 31, 2018
13 to 24 months	781,131	542,854
25 to 36 months	266,675	452,555
37 to 48 months	223,736	220,142
49 to 60 months	944,949	1,030,659
61 to 72 months	451,753	28,215
73 to 84 months	28,726	446,513
85 to 96 months	74,327	103,894
Over 97 months	148,677	146,978
	<u>2,919,974</u>	<u>2,971,810</u>

The carrying amounts of loans, financing and debentures are denominated in the following currencies:

	March 31, 2019	December 31, 2018
Brazilian Reais (R\$)	2,969,200	2,969,878
Dollar (U.S.\$) ⁽ⁱ⁾	657,966	681,667
	<u>3,627,166</u>	<u>3,651,545</u>

⁽ⁱ⁾ As of March 31, 2019, all debts denominated in US dollars have hedge against exchange rate risk through derivatives (Note 5.7).

Some financing agreements for investments are guaranteed by bank guarantee, with an average cost of 0.97% per year. On March 31, 2019, the balance of bank guarantees contracted was R\$ 1,134,519 (R\$ 1,195,048 on December 31, 2018).

The table below shows the changes in loans, financing and debentures that occurred for the quarter ended March 31, 2019:

December 31, 2018	3,651,545
Payment of principal	(108,529)
Payment of interest	(14,777)
Interest, exchange variation and fair value	98,927
March 31, 2019	<u>3,627,166</u>



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Covenants

Some debts determine the compliance with certain financial indices (financial covenants) as follows:

Debt	Target	Index
Debenture 3 ^a	Net debt / EBITDA not exceed 4.00	0.65
Debenture 3 ^a	Loans current / Loans total not exceed 0.6	0.18
Debenture 4 ^a	Net debt / EBITDA not exceed 4.00	0.65
Debenture 4 ^a	Loans current / Loans total not exceed 0.6	0.18
Debenture 5 ^a	Net debt / EBITDA not exceed 4.00	0.65
Debenture 6 ^a	Net debt / EBITDA not exceed 4.00	0.65
Debenture 7 ^a	Net debt / EBITDA not exceed 4.00	0.65

As of March 31, 2019, the Company was complying with all financial restrictive clauses.

	March 31, 2019	December 31, 2018
Net debt	1,470,452	1,555,276
EBITDA	2,258,481	2,185,708
(=) Net debt/ EBITDA	0.65	0.71
	March 31, 2019	December 31, 2018
Loans current	593,091	564,844
Loans total net of derivatives	3,267,212	3,282,617
(=) Loans current/ Loans total	0.18	0.17

5.6 Trade payables

	March 31, 2019	December 31, 2018
Natural gas suppliers	854,288	838,105
Materials and service suppliers	197,902	174,790
	1,052,190	1,012,895



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5.7 Derivative financial instruments

• Derivatives that do not qualify for hedge accounting

At March 31, 2019 and December 31, 2018, fair values related to transactions involving derivative financial instruments to protect the Company's exposure to risk were using observable data such as quoted prices in active markets or discounted cash flow based on market curves, and are presented below:

	Nocional ⁽ⁱ⁾		Fair value	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Interest rate and exchange rate risk				
Swap agreements (interest rate)	843,100	843,100	147,430	127,375
Swap agreements (interest rate and exchange)	423,128	461,512	227,366	241,553
	1,266,228	1,304,612	374,796	368,928
Total financial instruments			374,796	368,928
Current			116,189	114,891
Non-current			258,607	254,037

⁽ⁱ⁾ These balances are equivalent to the notional amount in US Dollars converted into R\$ at the Dollar rate on the day of hiring.

Derivatives are used only for economic hedging purposes and not as speculative investments.

Currently, the Company adopts fair value hedge accounting for some of its operations, both hedge instruments and hedged items are recorded at fair value through profit or loss. The operational and accounting effects of this adoption are as follows:

	Debt	Derivative	Total
December 31, 2018	(982,744)	127,965	(854,779)
Fair value	(33,968)	19,465	(14,503)
March 31, 2019	(1,016,712)	147,430	(869,282)



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5.8 Fair value measurements recognized

The carrying amounts and fair value of financial assets and liabilities are as follows:

Account	Assets and liabilities measured at fair value			
	Account		Level 2	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Assets				
Financial investments	426,123	190,413	426,123	190,413
Marketable securities	931,854	1,124,723	931,854	1,124,723
Derivate financial instruments	374,796	368,928	374,796	368,928
Total	1,732,773	1,684,064	1,732,773	1,684,064
Liabilities				
Loans, financing and debentures	(1,674,678)	(1,664,411)	(1,674,678)	(1,664,411)
Total	(1,674,678)	(1,664,411)	(1,674,678)	(1,664,411)

6 Other taxes recoverable

	March 31, 2019	December 31, 2018
Contribution Financing of Social Security (COFINS)	164,116	154,331
Value-added Tax on Sales and Services (ICMS)	104,590	114,137
Social Integration Program (PIS)	35,745	34,648
Other	167	164
	304,618	303,280
Current	292,862	292,204
Non-current	11,756	11,076

7 Gas paid and not used

	March 31, 2019	December 31, 2018
Gas paid and not used	176,059	254,651
	176,059	254,651



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8 Contract assets

Cost Value:

December 31, 2018 (reclassified)	217,855
Additions	159,936
Transfer to intangible assets	(90,552)
March 31, 2019	<u>287,239</u>

Assets linked to concession infrastructure still under construction are recorded as contract assets.

New assets are initially recorded as contract assets, measured at acquisition cost, including capitalized borrowing costs. After the assets are put into operation, the completion of the performance obligation linked to construction is evidenced, and the assets are then recognized as intangible assets.

Capitalization of loan costs

During the period ended March 31, 2019, R\$ 3,202 was capitalized at an average rate of 8.60% p.y. (R\$ 2,123 and 8.11% for the quarter ended March 31, 2018).

9 Intangible assets

	Concession agreement	Customer loyalty efforts	Loyalty of customers in progress	Total
Cost				
December 31, 2018 (reclassified)	6,740,923	777,441	28,370	7,546,734
Additions	-	-	21,281	21,281
Disposals	(9,960)	(56)	-	(10,016)
Transfers	99,004	16,884	(25,336)	90,552
March 31, 2019	<u>6,829,967</u>	<u>794,269</u>	<u>24,315</u>	<u>7,648,551</u>
Amortization				
December 31, 2018 (reclassified)	(2,320,225)	(655,211)	-	(2,975,436)
Additions	(67,433)	(16,888)	-	(84,321)
Disposals	4,912	42	-	4,954
Transfers	(1)	1	-	-
March 31, 2019	<u>(2,382,747)</u>	<u>(672,056)</u>	<u>-</u>	<u>(3,054,803)</u>
December 31, 2018 (reclassified)	4,420,698	122,230	28,370	4,571,298
March 31, 2019	<u>4,447,220</u>	<u>122,213</u>	<u>24,315</u>	<u>4,593,748</u>



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Impairment

Intangible assets with defined useful lives, which are subject to amortization, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, which did not occur for the period ended March 31, 2019.

10 Commitments

The balance of this account is considered as an asset or liability in accordance with the chart of accounts. They are not recognized in the interim financial statements presented herein, since, in accordance with accounting practices adopted in Brazil and also IFRS, they are not recognized as assets or liabilities since the realization or settlement of the balance depends on future consumption by different consumers of the Company.

Regulatory assets (liabilities):

	March 31, 2019	December 31, 2018
Cost of gas to be recovered/ (transferred)	611,320	504,175
Credits of taxes to be recovered/ (transferred)	(298,111)	(252,816)
Amount	313,209	251,359
<i>Effect on the result for the exercise</i>		
Revenue/(expenses) not recognized in income before taxes	61,850	472,256
Regulatory assets	97,548	672,810
Regulatory liabilities - taxes	(35,857)	(127,815)
	61,691	544,995
Adjustment	9,597	3,713
Extemporaneous credits	(9,438)	(76,452)
	61,850	472,256



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11 Income tax and social contribution

a) Reconciliation of income tax and social contribution expenses

	March 31, 2019	December 31, 2018
Profit before income tax and social contribution	309,751	265,804
Income tax and social contribution - nominal rate (34%)	(105,315)	(90,373)
<i>Adjustments to determine the effective rate</i>		
Permanent differences (donations, gifts, etc.)	(3,356)	(942)
Other	(1,024)	4,604
Income tax and social contribution expense (current and deferred)	(109,695)	(86,711)
Effective rate	35.41%	32.62%

b) Deferred income tax assets and liabilities

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are evidenced below:

	March 31, 2019	December 31, 2018
Active differences		
Temporary differences	18,805	22,576
Exchange variation - loans and financing	1,313	-
Provision for legal proceedings	38,714	38,397
Post-employment benefit obligation ⁽ⁱ⁾	172,762	171,469
Impairment of trade receivables	8,585	9,265
Regulatory current account	58,166	59,597
Share-base payment transactions	1,058	869
Leases	61	-
Other	3,380	1,095
Deferred taxes assets	302,844	303,268
Passive differences		
Useful life of intangible assets	(277,940)	(284,774)
Leases	-	(14)
Intangible assets - concession agreement	(6,261)	(6,745)
Not realized result with derivatives ⁽ⁱⁱ⁾	(101,935)	(104,613)
Other	(10,605)	(9,548)
Deferred tax liabilities	(396,741)	(405,694)
Total deferred taxes	(93,897)	(102,426)
Deferred tax liabilities	(93,897)	(102,426)



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- (i) The Company opted for the regime of taxation of foreign exchange variation on loans and financing.
- (ii) The credit related to the provision of the post-employment benefit plan has an estimated financial realization period of 25 to 30 years.

c) Changes in deferred taxes (net)

December 31, 2018	(102,426)
Deferred taxes recognized in income for the exercise	8,529
March 31, 2019	(93,897)

12 Provision for legal proceedings and judicial deposits

	Provision for lawsuits		Judicial deposit	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Tax	8,430	8,350	21,188	20,998
Civil, environmental and regulatory	44,949	44,420	19,661	19,528
Labor	68,524	68,202	12,622	12,359
	121,903	120,972	53,471	52,885

Changes in provisions for legal proceedings:

	Tax	Civil, environmental and regulatory	Labor	Total
December 31, 2018	8,350	44,420	68,202	120,972
Provisions	-	43	302	345
Settlement / Write-offs	-	(81)	(675)	(756)
Monetary variation	80	567	695	1,342
March 31, 2019	8,430	44,949	68,524	121,903



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Possible losses

The main processes for which we consider possible loss risk are described below:

	March 31, 2019	December 31, 2018
Tax	1,181,757	1,165,030
Civil, environment and regulatory	91,825	90,391
Labor	38,440	37,840
	<u>1,312,022</u>	<u>1,293,261</u>

a) Taxes

The main tax lawsuits, whose likelihood of loss is possible and, consequently, no provision was recognized in the interim financial statements, are as follows:

	March 31, 2019	December 31, 2018
Tax ⁽ⁱ⁾	737,644	729,571
Federal tax	350,833	342,830
Other	93,280	92,629
	<u>1,181,757</u>	<u>1,165,030</u>

⁽ⁱ⁾ The Company was aware of the non-homologation of tax debts, using credits arising from Corporate Income Tax (IRPJ), questioned at administrative level.

The tax contingencies refer to tax assessments, mainly in the Federal sphere, assessed as possible losses by lawyers and by management, and therefore, without constitution of a provision.

b) Labor

The labor lawsuits refer to inquiries in several claims related to salary differences, overtime, additional dangerousness and unhealthiness, and joint liability, among others.

c) Civil

The civil lawsuits are derived from the normal course of the Company's activities, involving claims for compensation for losses and damages of accidents occurring in the network.



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13 Shareholders' equity

The capital stock is represented by 103,473 common shares with no par value and fully paid up and 28,550 class A preferred shares, and their composition is as follows:

Stockholders	Number of share - thousand in March 31, 2019					
	Common shares	Percentage	Preferred shares	Percentage	Total	Percentage
Cosan S.A. Indústria e Comércio	100,789	97.41	24,480	85.74	125,269	94.88
Utilico Emerging Markets Trust PLC	-	-	1,544	5.41	1,544	1.17
Partner FI em ações Investimento no exterior	634	0.61	-	-	634	0.48
Brasil Capital Master FIA	496	0.48	-	-	496	0.38
Brasil Capital 30 Master FIA	328	0.32	-	-	328	0.25
Other	1,226	1.18	2,526	8.85	3,752	2.84
Total	103,473	100	28,550	100	132,023	100

Stockholders	Number of share - thousand in December 31, 2018					
	Common shares	Percentage	Preferred shares	Percentage	Total	Percentage
Cosan S.A. Indústria e Comércio	100,789	97.41	4,984	17.46	105,773	80.12
Alaska Poland FIA BDR Nível 1	-	-	6,857	24.02	6,857	5.19
Utilico Emerging Markets Limited	-	-	1,544	5.41	1,544	1.17
Norges Bank	1	-	1,489	5.22	1,490	1.13
Alaska Black Master FIA BDR Nível 1	27	0.03	1,133	3.97	1,160	0.88
Other	2,656	2.56	12,543	43.92	15,199	11.51
Total	103,473	100	28,550	100	132,023	100

There was no change in the number of shares in the period.

Interest on own capital

On December 28, 2018, the Board of Directors approved the credit of interest on capital for the period comprised on December 1, 2018 and December 28, 2018, in the amount of R\$ 10,520. The amount of R\$ 10,518 was paid on January 17, 2019.

14 Earnings per share

The following table sets forth the calculation of earnings per share (in thousands of Reals, except per share amounts):



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Earnings per share	March 31, 2019	March 31, 2018
Numerator		
Results of the year attributed to controlling shareholders	200,056	179,093
Common shares	153,475	137,393
Preferred shares	46,581	41,700
Denominator (in thousands of shares)		
Weighted average number of common shares	103,863	103,863
Weighted average number of preferred shares	28,658	28,658
Earnings per share - R\$		
Common shares	1.47767	1.32283
Preferred shares	1.62543	1.45511
Diluted earnings per share		
Numerator		
Results of the year attributed to controlling shareholders	200,056	179,093
Common shares	153,204	137,242
Preferred shares	46,852	41,851
Denominator (in thousands of shares)		
Weighted average number of common shares	103,863	103,863
Weighted average number of preferred shares	28,875	28,793
Earnings per share - R\$		
Common shares	1.47506	1.32138
Preferred shares	1.62257	1.45351

The Company has a category of possible dilutive effect, which is its share-based compensation plans, in which case a calculation is made to determine the dilution effect on the profit attributable to the Company's shareholders due to the exercise of stock options.



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15 Revenue

The following is an opening of the Company's revenue for the periods ended March 31, 2019 and 2018:

	March 31, 2019	March 31, 2018
Gross revenue from sales of products	2,432,049	1,744,843
Gross revenue from services rendered	15,447	16,000
Construction revenue	159,936	89,493
Indirect taxes and deductions	(547,380)	(419,460)
Net sales	2,060,052	1,430,876

16 Costs and expenses by nature

Expenses are presented in the income statement by function. The reconciliation of income by nature / purpose is as follows:

	March 31, 2019	March 31, 2018
Cost of gas	(1,189,009)	(684,091)
Cost of transportation and other	(149,982)	(168,848)
Construction cost	(159,936)	(89,493)
Personal expenses	(46,865)	(43,025)
Expenses materials/ services	(70,401)	(70,657)
Amortization	(85,100)	(87,076)
	(1,701,293)	(1,143,190)
Cost of gas and services	(1,498,927)	(942,432)
Selling expenses	(33,304)	(36,292)
General and administrative expenses	(169,062)	(164,466)
	(1,701,293)	(1,143,190)



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17 Finance results

The details of revenues and financial costs are as follows:

	March 31, 2019	March 31, 2018
Cost of gross debt		
Interest on debt	(53,478)	(69,960)
Adjustment to fair value of debt and derivative	(14,855)	(4,374)
Exchange rate variation on debt	(3,316)	5,415
Exchange derivatives	3,245	(3,513)
Debt guarantees	(6,704)	(7,076)
	(75,108)	(79,508)
	-	-
Financial investment income	24,178	32,635
	24,178	32,635
Cost of debt, net	(50,930)	(46,873)
Other charges and monetary variations		
Tax about financial income	(1,611)	(2,584)
Interest on other operations	6,399	16,221
Interest on customer	6,747	5,786
Interest on judicial deposits	471	445
Interest on actuarial liabilities and other	(11,920)	17,282
Other monetary variations	(1)	(5,121)
Interest on contingencies	(1,556)	(2,364)
Bank expenses	(76)	(4,421)
	(1,547)	25,244
Financial results, net	(52,477)	(21,629)
Reconciliation		
Finance expense	(85,775)	(86,714)
Finance income	37,852	55,316
Exchange rate variation	(3,316)	5,415
Derivatives ⁽ⁱ⁾	(1,238)	4,354
Financial results, net	(52,477)	(21,629)

⁽ⁱ⁾ Includes the result of exchange and interest derivatives.



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18 Financial risk management

The use of financial instruments to hedge against these areas of volatility is determined by means of an analysis of the risk exposure that the administration intends to cover.

a) Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, optimizing return.

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines established by the risk management committee. Generally, the Company seeks to apply hedge accounting to manage volatility in profits or losses.

i. Cambial risk

At March 31, 2019 and December 31, 2018, the Company had the following net exposure to the exchange variation of assets and liabilities denominated in US Dollar:

	March 31, 2019	December 31, 2018
Loans, borrowings and debentures	(657,966)	(681,667)
Derivative financial instruments	657,966	681,667
Foreign exchange exposure, net	-	-

The sensitivity of the result to changes in exchange rates results mainly from financial instruments denominated in dollars.

The probable scenario was defined based on the US dollar market rates projected for March 31, 2020, which determines the fair value of the derivatives at that date. Stressed scenarios (positive and negative effects, before taxes) were defined based on adverse impacts of 25% and 50% on the US dollar exchange rates used in the probable scenario.



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Based on the financial instruments denominated in US dollars, as of December 31, 2018, the Company performed a sensitivity analysis with an increase and decrease in exchange rates (R\$ / US\$) of 25% and 50%.

The probable scenario considers the estimated exchange rates, performed by a specialized third party, on the maturity date of operations for companies with Real functional currency (positive and negative, before tax effects), as follows:

		Exchange rate sensitivity analysis (R\$/US\$)				
		Scenario				
	March 31, 2019	Probable	25%	50%	-25%	-50%
Dollar	3.8967	3.765	4.7063	5.6475	2.8238	1.8825

Instrument	Risk factor	Probable	Scenario			
			25%	50%	-25%	-50%
Loans, borrowings and debentures	Increases in the exchange rate R\$/US\$	22,238	(158,932)	(317,864)	158,932	317,864
Derivative financial instruments	Decreases in the exchange rate R\$/US\$	(22,238)	158,932	317,864	(158,932)	(317,864)
Impacts on profit or loss		-	-	-	-	-

ii. Interest rate risk

The Company monitors fluctuations in variable interest rates related to its loans and uses derivative instruments to minimize the risks of fluctuations in variable interest rates.

The probable scenario considers the estimated interest rate, made by a specialized third party and the Central Bank of Brazil, or BACEN, as follows:

	Sensitivity analysis of changes in interest rates				
	Probable	25%	50%	-25%	-50%
SELIC	6.65	8.31	9.98	4.99	3.33
CDI	6.65	8.31	9.98	4.99	3.33
TJLP	5.80	7.25	8.70	4.35	2.90
TJLP462	6.80	8.25	9.70	5.35	3.90
IPCA	3.70	4.63	5.55	2.78	1.85
IGPM	3.38	4.23	5.07	2.54	1.69



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A sensitivity analysis on interest rates on loans and financing in compensation for CDI investments with 25% and 50% pre-tax increases and reductions is presented below:

	Probable	Scenario			
		25%	50%	-25%	-50%
Cash and cash equivalents	57,517	14,379	28,759	(14,379)	(28,759)
Marketable securities	61,967	15,492	30,984	(15,492)	(30,984)
Derivatives financial instruments	(117)	(59,718)	(115,743)	72,869	151,440
Loans, financing and debentures	(150,531)	(31,258)	(62,517)	31,258	62,517
Impacts on income	(31,164)	(61,105)	(118,517)	74,256	154,214

b) Credit risk

The company's regular operations expose it to potential defaults when customers, suppliers and counterparties are unable to meet their financial or other commitments. The Company seeks to mitigate this risk by conducting transactions with a diversified set of counterparties. However, remains subject to unexpected financial failures from third parties that could disrupt its operations. The exposure to credit risk was as follows:

	March 31, 2019	December 31, 2018
Cash and cash equivalents	864,906	602,618
Marketable securities	931,854	1,124,723
Trade receivables ⁽ⁱ⁾	905,827	695,147
Derivatives financial instruments	374,796	368,928
Related parties	1,144	1,158
	3,078,527	2,792,574

⁽ⁱ⁾ As of March 31, 2019, the Company had a portfolio of approximately 1,923 million customers in the residential, commercial, industrial, vehicular, cogeneration and thermo-generation segments, with no large consumer credit volume exceeding 10% sales, thus diluting the risk of default.

The Company is also exposed to risks related to its cash management activities and temporary investments, and any interruption affecting its financial intermediaries may also adversely affect its operations.



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The Company's exposure to commercial receivables risk (Note 5.3) is limited, given the large number of clients. However, still holds reserves for potential credit losses. Risk control evaluates the credit quality of the client, taking into account their financial position, past experience and other factors. Individual risk limits are defined based on internal or external classifications, in accordance with the limits established by Management. Compliance with customer credit limits is regularly monitored by internal audit.

The net assets are invested mainly in public security bonds and other investments in banks with a minimum degree of "A". Investments of surplus funds are made only with approved counterparties and within the credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually and can be updated throughout the year. The limits are defined to minimize the concentration of risks and therefore mitigate the financial loss through failure of the counterparty to make payments. The credit risk of cash and cash equivalents, securities and derivative financial instruments is determined by classification instruments widely accepted by the market and are arranged as follows:

	March 31, 2019	December 31, 2018
AAA	1,658,116	1,604,865
AA	513,440	491,404
	<u>2,171,556</u>	<u>2,096,269</u>

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled through the delivery of cash or other financial assets. The Company's approach to managing liquidity is to ensure, to the extent possible, that it has sufficient liquidity to meet its liabilities when they mature under normal and stress conditions without incurring unacceptable losses or risking damage to the Company's reputation.



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The non-derivative financial liabilities of the Company classified by maturity dates (based on the undiscounted cash flows contracted) are as follows:

	March 31, 2019					December 31, 2018
	Up to 1 year	1 - 2 years	3 - 5 years	More than 5 years	Total	Total
Loans, financing and debentures	(769,442)	(904,265)	(1,846,746)	(986,221)	(4,506,674)	(4,882,530)
Derivatives financial instruments	107,806	86,546	187,942	-	382,294	360,761
Suppliers	(1,052,190)	-	-	-	(1,052,190)	(1,012,895)
Other financial liabilities	(25,561)	-	-	-	(25,561)	(52,868)
Dividends and interest on own capital payable	(1,033)	-	-	-	(1,033)	(11,551)
Payment of tax debts	(695)	(701)	(1,407)	(4,806)	(7,609)	(7,729)
Leases	(3,406)	(2,264)	(7,745)	(4,008)	(17,423)	-
Related parties	(8,442)	-	-	-	(8,442)	(14,994)
	(1,752,963)	(820,684)	(1,667,956)	(995,035)	(5,236,638)	(5,621,806)

19 Post-employment benefits

The movement of the period ended March 31, 2019 is as follows:

December 31, 2018	504,320
Current service cost	120
Interest expense	11,400
Benefits paid	(7,716)
March 31, 2019	508,124

20 Share-based payment

The table below presents the data of stock-based payment programs:

Share-based payment plan	Expected life (years)	Granted
April 20, 2017	5	61,300
August 12, 2017	5	97,780
August 1, 2018	5	96,787
		255,867



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Reconciliation of outstanding stock options

There were no changes in the number of outstanding premiums and their prices average periods in the period ended March 31, 2019.

Expenses recognized in income

The share-based compensation expense included in the statement of income for the periods ended March 31, 2019 and 2018 was as follows:

	Share-based payment plan
March 31, 2018	313
March 31, 2019	555

21 Subsequent events

The increase in subscribed and paid-up capital in the amount of R\$ 386,283 was approved at the Annual and Extraordinary Shareholders' Meeting held on April 25, 2019, through (i) the capitalization of the goodwill reserve in the amount of R\$ 56,276 and (ii) capitalization of the total legal reserve in the amount of R\$ 330,007, with the Company's capital going from R\$ 1,650,032 to R\$ 2,036,315.

(i) Of the total amount of the increase through the capitalization of the goodwill reserve, 30% (thirty percent) corresponding to R\$ 16,883 will be capitalized without the issuance of new shares for the benefit of all shareholders and 70% (seventy percent) of the total amount of the increase corresponding to R\$ 39,393 will be capitalized in favor of the Company's controlling shareholder, Cosan SA upon the issue of new common shares and Class A preferred shares.

(ii) Considering that on December 31, 2018, the Company's legal reserve reached a limit of 20% of the share capital, it was decided to capitalize the legal reserve, without the issuance of new shares.