



Companhia de Gás de São Paulo - COMGÁS

Interim financial statements

June 30, 2019



Companhia de Gás de São Paulo - COMGÁS

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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 June 30, 2019, which comprises the statement of financial position as of June 30, 2019 and the respective statements of profit and loss and comprehensive income for the three and six-month periods then ended and changes in shareholders' equity and cash flows for the six-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 enabled 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 six-month period ended June 30, 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, August 6, 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
June 30, 2019 and December 31, 2018
(In thousands of Brazilian Reais – R\$, unless otherwise stated)

	Note	June 30 , 2019	December 31, 2018 (Reclassified)
Assets			
Cash and cash equivalents	5.1	1,210,338	602,618
Marketable securities	5.2	946,623	1,124,723
Trade receivables	5.3	1,038,065	674,992
Derivative financial instruments	5.7	117,233	114,891
Inventories		64,578	65,259
Gas paid and not used	7	93,188	254,651
Receivables from related parties	5.4	1,552	1,158
Income tax and social contribution		-	72,143
Other recoverable taxes	6	297,701	292,204
Other assets		26,808	29,876
Current assets		3,796,086	3,232,515
Trade receivables	5.3	12,392	20,155
Other recoverable taxes	6	13,517	11,076
Judicial deposits	12	54,975	52,885
Derivative financial instruments	5.7	269,916	254,037
Other assets		407	756
Right of use		11,544	-
Contract assets	8	338,548	217,855
Intangible assets	9	4,649,637	4,571,298
Non-current assets		5,350,936	5,128,062
Total assets		9,147,022	8,360,577

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



Statement of financial position
June 30, 2019 and December 31, 2018

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

	Note	June 30 , 2019	December 31, 2018
Liabilities			
Loans, financing and debentures	5.5	720,200	679,735
Trade payables	5.6	1,058,729	1,012,895
Employee benefits payable		47,781	63,520
Income tax payables		178,345	-
Other taxes payable		175,250	70,768
Dividends and interest on capital payable		1,033	11,551
Payables to related parties	5.4	6,063	14,994
Other financial liabilities		53,373	52,868
Leases		2,234	-
Other liabilities		8,239	8,879
Current liabilities		2,251,247	1,915,210
Loans, financing and debentures	5.5	2,865,244	2,971,810
Provision for legal proceedings	12	129,040	120,972
Post-employment benefits	19	513,359	504,320
Deferred tax liabilities	11	73,583	102,426
Other tax payable		6,365	6,464
Leases		9,799	-
Other liabilities		13,807	18,051
Non-current liabilities		3,611,197	3,724,043
Total liabilities		5,862,444	5,639,253
Shareholders' equity			
Share capital		2,036,315	1,650,032
Capital reserve		4,866	60,032
Revaluation reserve		5,761	5,761
Carrying value adjustments		(161,597)	(161,597)
Profit reserve		837,089	1,167,096
Retained earnings		562,144	-
Shareholders' equity		3,284,578	2,721,324
Total liabilities and shareholders' equity		9,147,022	8,360,577

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



Statement of profit or loss
June 30, 2019 and 2018
(In thousands of Brazilian Reais - R\$, unless otherwise stated)

	Note	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Net sales	15	2,338,799	4,398,851	1,592,803	3,023,679
Cost of gas and services	16	(1,550,871)	(3,049,798)	(1,140,367)	(2,082,799)
Gross result		787,928	1,349,053	452,436	940,880
Selling expenses	16	(37,416)	(70,720)	(35,270)	(71,562)
General and administrative expenses	16	(173,695)	(342,757)	(168,165)	(332,631)
Other income (expense), net		10,714	14,183	(4,064)	(4,317)
Operating expenses		(200,397)	(399,294)	(207,499)	(408,510)
Result before financial results and taxes		587,531	949,759	244,937	532,370
Finance expense		(101,802)	(187,577)	(122,702)	(209,546)
Finance income		52,280	90,132	43,764	99,211
Foreign exchange gain (loss)		9,232	5,916	(93,241)	(87,826)
Derivatives		3,392	2,154	106,253	110,606
Financial results, net	17	(36,898)	(89,375)	(65,926)	(87,555)
Result before income tax and social contribution		550,633	860,384	179,011	444,815
Current		(208,859)	(327,083)	(29,724)	29,529
Deferred		20,314	28,843	(35,280)	(181,244)
Income tax and social contribution	11	(188,545)	(298,240)	(65,004)	(151,715)
Net result for the period		362,088	562,144	114,007	293,100
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:	14				
Common shares		2.67448	4.15215	0.84209	2.16492
Preferred shares		2.94193	4.56736	0.92629	2.38141
		5,61641	8,71951	1,76838	4,54633
Diluted per share:	14				
Common shares		2.66976	4.14482	0.84116	2.16254
Preferred shares		2.93674	4.55930	0.92528	2.37879
		5,60650	8,70412	1,76644	4,54133

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



Statement of comprehensive income
June 30, 2019 and 2018
(In thousands of Brazilian Reais - R\$, unless otherwise stated)

	Note	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Result for the period		362,088	562,144	114,007	293,100
Total comprehensive income for the period		362,088	562,144	114,007	293,100

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



Statement of changes in shareholder's equity
June 30, 2019 and 2018
(In thousands of Brazilian Reais - R\$, unless otherwise stated)

	Capital reserves				Profit reserve			Retained earnings	Carrying value adjustments	Total equity
	Share capital	Tax incentives	For the future capitalization	Granted shares recognized	Revaluation reserves	Legal reserve	Result retention			
At 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	-	-	-	-	-	-	-	562,144	-	562,144
Comprehensive income:	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	-	562,144	-	562,144
Granted shares recognized	-	-	-	1,110	-	-	-	-	-	1,110
Increase capital	386,283	-	(56,276)	-	-	(330,007)	-	-	-	-
Total contributions by and distributions to owners	386,283	-	(56,276)	1,110	-	(330,007)	-	-	-	1,110
At June 30, 2019	2,036,315	1,201	-	3,665	5,761	-	837,089	562,144	(161,597)	3,284,578

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



Statement of changes in shareholder's equity

June 30, 2019 and 2018

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

	Capital reserves					Profit reserve				Carrying value adjustments	Total equity
	Share capital	Tax incentives	For the future capitalization	Special goodwill reserve	Granted shares recognized	Revaluation reserves	Legal reserve	Result retention	Retained earnings		
At 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)
At 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	-	-	-	-	-	-	-	-	293,100	-	293,100
Comprehensive income:	-	-	-	-	-	-	-	-	-	-	-
Realization of revaluation reserve	-	-	-	-	-	(71)	-	71	-	-	-
Total comprehensive income for the period	-	-	-	-	-	(71)	-	71	293,100	-	293,100
Granted shares recognized	-	-	-	-	658	-	-	-	-	-	658
Increase capital	168,828	-	(168,828)	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners	168,828	-	(168,828)	-	658	-	-	-	-	-	658
At June 30, 2018	1,650,032	1,201	-	56,276	1,514	5,767	267,043	158,845	293,100	(129,297)	2,304,481

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



Statement of cash flows
June 30, 2019 and 2018

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

	Note	June 30 , 2019	June 30 , 2018
Cash flows from operating activities			
Result before taxes		860,384	444,815
Adjustments for:			
Amortization		169,970	173,090
Loss on the disposal of intangible assets		11,612	5,759
Granted shares recognized	20	1,110	658
Provision for judicial demands		4,823	1,027
Interest, monetary and exchange variations		114,132	152,280
Provisions for employee benefits		19,152	17,254
Impairment of trade receivables	5.3	4,761	7,201
Extemporaneous credits		(23,773)	-
Gas paid and not used		(91,821)	(7,755)
Other		(984)	(452)
		1,069,366	793,877
Changes in:			
Trade receivables		(341,919)	(115,101)
Inventories		(1,025)	7,581
Other taxes, net		55,480	(65,899)
Trade payables		74,662	167,534
Employee benefits		(34,891)	(34,037)
Gas paid and not used		161,463	-
Post-employment benefits		(13,761)	(13,465)
Other assets and liabilities, net		3,120	76
		(96,871)	(53,311)
Net cash provided by operating activities		972,495	740,566
Cash flows from investing activities			
Marketable securities		204,915	(591,756)
Cash received on sale of other permanent assets		28	1,123
Additions to intangible assets and contract assets		(320,387)	(251,627)
Net cash used in investing activities		(115,444)	(842,260)
Cash flows from financing activities			
Proceeds from new loans, borrowings and debentures	5.5	-	482,227
Payments of principal on loans, borrowings and debentures	5.5	(237,287)	(616,162)
Payments of interest on loans, borrowing and debentures	5.5	(40,661)	(44,642)
Derivative financial instruments		40,644	98,118
Payments of principal on leases		(1,175)	-
Payments of interest on leases		(334)	-
Dividends and interest on capital paid		(10,518)	(169,176)
Net cash used in financing activities		(249,331)	(249,635)
Increase (decrease) in cash and cash equivalents		607,720	(351,329)
Cash and cash equivalents at beginning of the period		602,618	1,727,521
Cash and cash equivalents at end of the period		1,210,338	1,376,192
Additional information:			
Income tax and social contribution paid		101,353	55,158

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



Statement of value added

June 30, 2019 and 2018

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

	Note	June 30 , 2019	June 30 , 2018
Revenue			
Sales of gas		5,211,747	3,706,284
Sales of services	15	29,565	32,829
Provision for impairment of trade receivables	5.3	(4,761)	(7,201)
Construction revenue	15	342,050	185,670
Other sales (expenses)		14,183	(4,317)
		5,592,784	3,913,265
Cost and expenses			
Cost of gas and transportation		(3,588,617)	(2,488,618)
Cost of services		(11,637)	(13,882)
Construction costs	16	(342,050)	(185,670)
Materials, services and other expenses		(102,946)	(102,158)
		(4,045,250)	(2,790,328)
Gross value added		1,547,534	1,122,937
Retention			
Amortization	16	(169,970)	(173,090)
		(169,970)	(173,090)
Net value added generated by the Company		1,377,564	949,847
Value added received through transfer			
Finance income		78,413	90,243
		78,413	90,243
Total value added to distributed		1,455,977	1,040,090
Distribution of value added			
Personnel and social charges		83,607	76,140
Remuneration		51,292	53,756
Benefits		22,474	15,696
FGTS		9,841	6,688
Taxes and contributions		635,492	486,270
Federal		383,720	277,469
State		240,422	198,164
Municipalities		11,350	10,637
Finance costs and rentals		174,734	184,580
Interest		140,721	142,597
Rents and leases		7,129	6,811
Other		26,884	35,172
Remuneration of shareholder´s equity		562,144	293,100
Profit retention		562,144	293,100
		1,455,977	1,040,090

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



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

June 30, 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 99.10%.

On June 4, 2019, happened auctioned the Company's Voluntary Public Tender Offer, where by Cosan S.A. acquired 2,479,066 common shares and 2,812,632 preferred shares issued by the Company.

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).

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 the five-year tariff review procedures 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.



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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 Company to its supplier (Resolution ARSESP 308/2012).

On February 01, 2019 ARSESP published Resolution nº 849, which updated the weighted 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. There was an average increase of 11% for the residential segment, 14% for the commercial segment, 32% for the industrial segment and 40% for the automotive segment.

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, being: (3%) in the residential segment; (4%) for the commercial segment; (7%) for the industrial segment; and (8%) for the automotive segment, 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.

On May 23, 2019 ARSESP published Final Technical Note NTN-0030-2019 and the Circumstantiated Report on the conclusion of the Company's 4th Ordinary Tariff Review, from May 31, 2018 to May 30, 2024. Final Technical Note NTF-0030-2019 determined, in relation to the Maximum Margin (P0), the amount of R\$ 0.5182 per cubic meter, in April 2018 currency, having its value adjusted by the IGP-M variation in the period from May 2018 to April 2019 and discounted from Factor X. For Factor X, the established percentage was 0.52% p.y.



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On May 31, 2019, ARSESP published Deliberation nº 875, with prospective effects as of June 1, 2019, or, alternatively, five-year tariff review hereafter, with changes in the Company's tariffs for all consumer segments. These changes are the result of the readjustment of the Company's distribution margins in accordance with the Tariff Review process and the transfer of gas costs purchased from its supplier.

On June 11, 2019, the Company's Board of Directors, with the favorable opinion from the Fiscal Council, considering that the capital stock became excessive for the normal development of the Company's business and for the accomplishment of its corporate purpose, approved the proposal of reduction of the Company's capital stock, in the amount of R\$ 1,500,000 without cancellation of shares, maintaining unchanged the percentage of the shareholders' interest in the Company's capital stock, with the repayment, in cash, to the shareholders of part of the value of its shares..

The capital reduction is subject to the certain conditions in accordance with the terms of article nº 125 of Law nº 10.406/02 (Civil Code), as follow: (i) the 60 (sixty) day period for the opposition of unsecured creditors, pursuant to article nº 174 of law nº 6.404/76, without being presented by the unsecured creditors opposition to this resolution or, if there was opposition, upon proof of payment or judicial deposit of the amounts due to such creditors, pursuant to Article nº 174 of Law nº 6.404/76; and (ii) the consent of the Company's debenture holders meeting at a special meeting.

Upon such reduction, the Company's capital will decrease from R\$ 2,036,315 to R\$ 536,315.



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

June 30, 2019

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

2 Conformity declaration

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

	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.



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

June 30, 2019

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

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 August 6, 2019.

3 Accounting policies

The accounting policies described below have 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.

The Company leases buildings 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. 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. 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 amortized 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.



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

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.

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 options for extension and termination exercised are exercisable only by the Company and not by the respective lessor.

In order to optimize lease costs during the contract period, the Company sometimes provides residual value guarantees with respect to equipment leases.



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

June 30, 2019

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

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

Non-current	
Assets of right of use	12,961
Total non-current assets	<u>12,961</u>
Total assets	<u>12,961</u>
Current liabilities	
Lease liabilities	<u>2,199</u>
Total current liabilities	2,199
Non-current liabilities	
Lease liabilities	<u>10,762</u>
Total non-current liabilities	10,762
Total liabilities	<u>12,961</u>

The Company adopted the weighted average incremental rate on loans of 8.07% per year to measure the lease liabilities recognized on the date of application of the pronouncement.

3.2 Cash Flow

i. Transactions that do not involve cash

During the period ended June 30, 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. Capital increase in the amount of R\$ 386,283 through (i) 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.
- ii. Acquisitions of assets for the construction of the distribution network with payment of term in the amount of R\$ 60,493.



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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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Segments	Margin per segment - April 1, 2019 to June 30, 2019							Total
	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues ⁽ⁱ⁾	
Volume (thousands of m ³) (not audited)	70,882	39,334	891,586	85,318	56,816	-	-	1,143,936
Gross revenue	399,750	162,322	1,954,623	129,077	114,164	182,114	14,118	2,956,168
Deductions	(91,724)	(36,741)	(442,463)	(18,480)	(26,183)	-	(1,778)	(617,369)
Net revenue	308,026	125,581	1,512,160	110,597	87,981	182,114	12,340	2,338,799
Regulatory assets (liabilities)	(7,864)	(3,341)	(54,459)	(2,395)	(3,716)	-	(7,856)	(79,631)
Cost	(88,493)	(49,160)	(1,114,203)	(88,227)	(71,037)	(182,114)	42,363	(1,550,871)
Economic gross profit	211,669	73,080	343,498	19,975	13,228	-	46,847	708,297
Reversal of regulatory assets								79,631
Gross profit								787,928
Selling expenses								(37,416)
General and administrative expenses								(173,695)
Other operating expenses, net								10,714
Operating expenses								(200,397)
Finance expense								(101,802)
Finance income								52,280
Foreign exchange gain (loss)								9,232
Derivatives								3,392
Financial result, net								(36,898)
Profit before taxes								550,633
Provision for income tax and social contribution								(188,545)
Profit for the period								362,088
Reconciliation of EBITDA								
Profit for the period								362,088
Provision for income tax and social contribution								188,545
Financial result, net								36,898
Amortization								84,870
Other amortization								(139)
EBITDA								672,262

(i) Recognized in the cost line the effect of the transaction "Gas paid and not used" for the period. For more details, check note 8 to the financial statements at December 31, 2018.



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June 30, 2019

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

Segments	Margin per segment – January 1, 2019 to June 30, 2019							Total
	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues ⁽ⁱ⁾	
Volume (thousands of m ³) (not-audited)	124,632	77,903	1,765,687	170,334	113,046	-	-	2,251,602
Gross revenue	673,714	297,599	3,750,879	251,850	217,943	342,050	29,565	5,563,600
Deductions	(154,761)	(68,091)	(850,311)	(37,730)	(49,993)	-	(3,863)	(1,164,749)
Net revenue	518,953	229,508	2,900,568	214,120	167,950	342,050	25,702	4,398,851
Regulatory assets (liabilities)	(6,605)	(1,702)	5,718	872	(767)	-	(15,457)	(17,940)
Cost	(156,604)	(97,884)	(2,214,442)	(176,952)	(141,948)	(342,050)	80,082	(3,049,798)
Economic gross profit	355,744	129,923	691,844	38,040	25,235	-	90,327	1,331,113
Reversal of regulatory assets								17,940
Gross profit								1,349,053
Selling expenses								(70,720)
General and administrative expenses								(342,757)
Other operating expenses, net								14,183
Operating expenses								(399,294)
Finance expense								(187,577)
Finance income								90,132
Foreign exchange gain (loss)								5,916
Derivatives								2,154
Financial result, net								(89,375)
Profit before taxes								860,384
Provision for income tax and social contribution								(298,240)
Profit for the period								562,144
Reconciliation of EBITDA								
Profit for the period								562,144
Provision for income tax and social contribution								298,240
Financial result, net								89,375
Amortization								169,970
Other amortization								(323)
EBITDA								1,119,406

(i) Recognized in the cost line the effect of the transaction “Gas paid and not used” for the period. For more details, check note 8 to the financial statements at December 31, 2018.



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Margin per segment - April 1, 2018 to June 30, 2018

Segments	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues	Total
Volume (thousands of m ³) (not-audited)	69,339	38,058	869,879	78,826	54,910	-	-	1,111,012
Gross revenue	315,287	119,671	1,341,030	87,766	83,112	96,177	16,829	2,059,872
Deductions	(76,457)	(28,936)	(323,492)	(15,916)	(20,155)	-	(2,113)	(467,069)
Net revenue	238,830	90,735	1,017,538	71,850	62,957	96,177	14,716	1,592,803
Regulatory assets (liabilities)	10,971	6,428	139,101	9,016	485	-	(6,033)	159,968
Cost	(65,955)	(36,054)	(823,588)	(63,394)	(52,061)	(96,177)	(3,138)	(1,140,367)
Economic gross profit	183,846	61,109	333,051	17,472	11,381	-	5,545	612,404
Reversal of regulatory assets								(159,968)
Gross profit								452,436
Selling expenses								(35,270)
General and administrative expenses								(168,165)
Other operating expenses, net								(4,064)
Operating expenses								(207,499)
Finance expense								(122,702)
Finance income								43,764
Foreign exchange gain (loss)								(93,241)
Derivatives								106,253
Financial result, net								(65,926)
Profit before taxes								179,011
Provision for income tax and social contribution								(65,004)
Profit for the period								114,007
Reconciliation of EBITDA								
Profit for the period								114,007
Provision for income tax and social contribution								65,004
Financial result, net								65,926
Amortization								86,014
Other amortization								(138)
EBITDA								330,813



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Margin per segment - January 1, 2018 to June 30, 2018

Segments	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues	Total
Volume (thousands of m ³) (not-audited)	125,456	73,934	1,730,671	149,817	102,870	-	-	2,182,748
Gross revenue	566,027	227,225	2,581,683	160,800	155,975	185,670	32,829	3,910,209
Deductions	(137,001)	(54,940)	(622,265)	(30,275)	(37,824)	-	(4,225)	(886,530)
Net revenue	429,026	172,285	1,959,418	130,525	118,151	185,670	28,604	3,023,679
Regulatory assets (liabilities)	15,394	9,199	204,037	12,425	(6,470)	-	(11,612)	222,973
Cost	(111,059)	(64,859)	(1,513,808)	(110,625)	(90,689)	(185,670)	(6,089)	(2,082,799)
Economic gross profit	333,361	116,625	649,647	32,325	20,992	-	10,903	1,163,853
Reversal of regulatory assets								(222,973)
Gross profit								940,880
Selling expenses								(71,562)
General and administrative expenses								(332,631)
Other operating expenses, net								(4,317)
Operating expenses								(408,510)
Finance expense								(209,546)
Finance income								99,211
Foreign exchange gain (loss)								(87,826)
Derivatives								110,606
Financial result, net								(87,555)
Profit before taxes								444,815
Provision for income tax and social contribution								(151,715)
Profit for the period								293,100
Reconciliation of EBITDA								
Profit for the period								293,100
Provision for income tax and social contribution								151,715
Financial result, net								87,555
Amortization								173,090
Other amortization								(277)
EBITDA								705,183

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5 Financial assets and liabilities

The financial assets and liabilities are as follows:

	<u>Note</u>	<u>June 30 , 2019</u>	<u>December 31, 2018</u>
Assets			
Fair value through profit or loss			
Financial investments	5.1	770,592	190,413
Marketable securities	5.2	946,623	1,124,723
Derivative financial instruments	5.7	387,149	368,928
		2,104,364	1,684,064
Amortized cost			
Cash and cash equivalents	5.1	439,746	412,205
Trade receivables	5.3	1,050,457	695,147
Receivables from related parties	5.4	1,552	1,158
		1,491,755	1,108,510
Total assets		3,596,119	2,792,574
Liabilities			
Amortized cost			
Loans, financing and debentures	5.5	(1,915,602)	(1,987,134)
Trade payables	5.6	(1,058,729)	(1,012,895)
Other financial liabilities		(53,373)	(52,868)
Dividends and interest on capital payable		(1,033)	(11,551)
Installment of tax debts		(6,909)	(7,105)
Leases		(12,033)	-
Payables to related parties	5.4	(6,063)	(14,994)
		(3,053,742)	(3,086,547)
Fair value through profit or loss			
Loans, financing and debentures	5.5	(1,669,842)	(1,664,411)
		(1,669,842)	(1,664,411)
Total liabilities		(4,723,584)	(4,750,958)



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5.1 Cash and cash equivalents

	June 30 , 2019	December 31, 2018
Cash and bank deposits	57,068	39,973
Financial investments	1,153,270	562,645
	1,210,338	602,618

The financial investments are composed as follows:

	June 30 , 2019	December 31, 2018
Investment funds		
Compromised operations	770,592	190,413
	770,592	190,413
Applications in banks		
Certificate of bank deposits	382,678	372,232
	382,678	372,232
	1,153,270	562,645

Repurchase transactions 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 relevant 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 relevant penalties or other restrictions for early redemption.

The Company's short-term investments yield interest at approximately 100% of the CDI rate at June 30, 2019 (100% of the CDI rate at December 31, 2018).

5.2 Marketable securities

	June 30 , 2019	December 31, 2018
Marketable securities		
Government security	946,623	1,124,723
	946,623	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

	June 30 , 2019	December 31, 2018
Receivable from gas	460,696	327,570
Unbilled revenue ⁽ⁱ⁾	656,673	430,596
Receivable from sale of equipment	5,605	6,296
Financing marketing program	25,559	29,020
	1,148,533	793,482
Other	320	6,290
Impairment of trade receivable	(98,396)	(104,625)
	(98,076)	(98,335)
Total	1,050,457	695,147
Current	1,038,065	674,992
Non-current	12,392	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:

	June 30 , 2019	Estimated loss	December 31, 2018	Estimated loss
Not overdue	269,183	(532)	195,570	(520)
Unbilled revenue	656,673	(829)	430,596	(676)
Overdue:				
From 1 to 30 days	73,071	(136)	24,280	(116)
From 31 to 60 days	10,943	(1,706)	7,808	(1,359)
From 61 to 90 days	7,015	(1,285)	5,367	(1,711)
More than 90 days	131,648	(93,908)	129,861	(100,243)
	1,148,533	(98,396)	793,482	(104,625)

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

January 1, 2019	(104,625)
Provisions / Reversals	(4,761)
Write-off	10,990
June 30 , 2019	(98,396)

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5.4 Related parties

a) Accounts receivable and payable from related parties:

	June 30 , 2019	December 31, 2018
Current Asset		
Commercial operations		
Raízen Combustíveis S.A. ⁽ⁱ⁾	1,529	1,158
Elevações Portuárias S.A. ⁽ⁱⁱⁱ⁾	23	-
	1,552	1,158
Current liabilities		
Contractual operations		
Raízen Energia S.A. ⁽ⁱⁱ⁾	6,063	14,994
	6,063	14,994

b) Transactions with related parties:

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Operation income				
Raízen Combustíveis S.A. ⁽ⁱ⁾	4,720	8,223	3,735	7,025
Elevações Portuárias S.A. ⁽ⁱⁱⁱ⁾	87	285	72	127
	4,807	8,508	3,807	7,152
Income (expense)				
Raízen Energia S.A. ⁽ⁱⁱ⁾	(7,868)	(16,168)	(13,392)	(19,122)
	(7,868)	(16,168)	(13,392)	(19,122)

⁽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.

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c) Remuneration of directors and officers:

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

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Short-term benefits to directors	5,055	14,174	5,798	9,743
Post-employment benefits	94	189	4	8
Other long-term benefits	-	-	35	70
Share-based payments	333	665	206	412
	5,482	15,028	6,043	10,233

5.5 Loans, financing and debentures

Description	Interest		June 30 , 2019	December 31, 2018	Maturity
	Index	Annual interest rate			
Loan and financing					
BNDES - Project VI	TJ462 + 1.80%	9.08%	231,170	316,854	Oct-20
BNDES - Project VI	SELIC + 1.80%	8.32%	114,396	152,562	Oct-20
BNDES - Project VII	TJLP + 2.00%	8.28%	96,041	107,731	Jun-23
BNDES - Project VII	SELIC + 1.96%	8.49%	58,496	63,852	Jun-23
EIB	USD + 3.88%	3.88%	60,049	89,003	Jun-20
	USD + 2.94%	2.94%	42,041	54,508	Sep-20
	USD + LIBOR6M + 0.48%	3.10%	91,568	115,581	May-21
	USD + LIBOR6M + 0.55%	3.29%	108,169	130,402	Sep-21
Resolution 4131	USD + 3.67%	3.67%	302,547	292,173	May-23
Total of loans and financing			1,104,477	1,322,666	



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Description	Interest		June 30 , 2019	December 31, 2018	Maturity
	Index	Annual interest rate			
3ª emission - 1ª issue	CDI + 0.90%	7.36%	43,540	43,471	Sep-19
3ª emission - 3ª issue	IPCA + 5.57%	9.60%	211,143	203,613	Sep-20
4ª emission - 1ª issue	IPCA + 7.14%	11.31%	324,242	305,895	Dec-20
4ª emission - 2ª issue	IPCA + 7.48%	11.59%	291,959	275,014	Dec-22
4ª emission - 3ª issue	IPCA + 7.36%	11.46%	96,187	90,656	Dec-25
5ª emission	IPCA + 5.87%	9.91%	844,206	767,638	Dec-23
6ª emission	IPCA + 4.33%	8.32%	433,998	414,583	Oct-24
7ª emission - single	IGPM + 6.10%	12.93%	235,692	228,009	May-28
Total of debentures			2,480,967	2,328,879	
Total			3,585,444	3,651,545	
Current			720,200	679,735	
Non-current			2,865,244	2,971,810	

Non-current loans have the following maturities:

	June 30 , 2019	December 31, 2018
13 to 24 months	691,788	542,854
25 to 36 months	249,312	452,555
37 to 48 months	489,593	220,142
49 to 60 months	718,241	1,030,659
61 to 72 months	456,958	28,215
73 to 84 months	107,189	446,513
85 to 96 months	76,070	103,894
Over 96 months	76,093	146,978
	2,865,244	2,971,810



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

	June 30 , 2019	December 31, 2018
Brazilian Reais (R\$)	2,981,070	2,969,878
Dollar (US\$) ⁽ⁱ⁾	604,374	681,667
	3,585,444	3,651,545

⁽ⁱ⁾ As of June 30, 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 0.98% per year. On June 30, 2019, the balance of bank guarantees contracted was R\$ 783,993 (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 June 30, 2019:

December 31, 2018	3,651,545
Payment of principal	(237,287)
Payment of interest	(40,661)
Interest, exchange variation	211,847
June 30, 2019	3,585,444

Covenants

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

Debt	Target	Index
Debenture 3 ^a emission	Net debt / EBTIDA not exceed 4.00	0.41
Debenture 3 ^a emission	Loans current / Loans total not exceed 0.6	0.19
Debenture 4 ^a emission	Net debt / EBTIDA not exceed 4.00	0.41
Debenture 4 ^a emission	Loans current / Loans total not exceed 0.6	0.19
Debenture 5 ^a emission	Net debt / EBTIDA not exceed 4.00	0.41
Debenture 6 ^a emission	Net debt / EBTIDA not exceed 4.00	0.41
Debenture 7 ^a emission	Net debt / EBTIDA not exceed 4.00	0.41



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As of June 30, 2019, the Company was complying with all financial restrictive clauses.

	June 30 , 2019	December 31, 2018
Net debt	1,053,367	1,555,276
EBITDA	2,599,930	2,185,708
(=) Net debt/ EBITDA	0.41	0.71

	June 30 , 2019	December 31, 2018
Loans current	602,967	564,844
Loans total net of derivatives	3,210,328	3,282,617
(=) Loans current/ Loans total	0.19	0.17

5.6 Trade payables

	June 30 , 2019	December 31, 2018
Natural gas suppliers	846,421	838,105
Materials and service suppliers	212,308	174,790
	1,058,729	1,012,895

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5.7 Derivative financial instruments

• **Derivatives that do not qualify for hedge accounting**

At June 30, 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	
	June 30 , 2019	December 31, 2018	June 30 , 2019	December 31, 2018
Interest rate and exchange rate risk				
Swap agreements (interest rate)	843,100	843,100	183,311	127,375
Swap agreements (interest rate and exchange)	423,128	461,512	203,838	241,553
	1,266,228	1,304,612	387,149	368,928
Total financial instruments contracted by the Company in assets			387,149	368,928
Current			117,233	114,891
Non-current			269,916	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	(82,724)	55,346	(27,378)
June 30 , 2019	(1,065,468)	183,311	(882,157)

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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			
	Level 2		Level 2	
	June 30 , 2019	December 31, 2018	June 30 , 2019	December 31, 2018
Assets				
Financial investments	770,592	190,413	770,592	190,413
Marketable securities	946,623	1,124,723	946,623	1,124,723
Derivate financial instruments	387,149	368,928	387,149	368,928
Total	2,104,364	1,684,064	2,104,364	1,684,064
Liabilities				
Loans, financing and debentures	(1,669,842)	(1,664,411)	(1,669,842)	(1,664,411)
Total	(1,669,842)	(1,664,411)	(1,669,842)	(1,664,411)

6 Other recoverable taxes

	June 30 , 2019	December 31, 2018
Contribution Financing of Social Security (COFINS)	169,666	154,331
Value-added Tax on Sales and Services (ICMS)	105,155	114,137
Social Integration Program (PIS)	36,230	34,648
Other	167	164
	311,218	303,280
Current	297,701	292,204
Non-current	13,517	11,076

7 Gas paid and not used

	June 30 , 2019	December 31, 2018
Gas paid and not used	93,188	254,651
	93,188	254,651

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8 Contract assets

	Contract assets
Cost value:	
December 31, 2018 (reclassified)	217,855
Additions	342,050
Transfer to intangible assets	(221,357)
June 30 , 2019	338,548

Assets are initially recorded as contract assets, measured at acquisition cost, including capitalized borrowing costs. Subsequently such assets are transferred to operation, so the fulfilment of the performance obligation related to the construction is evidenced, and the assets are then classified as intangible assets.

Capitalization of loan costs

During the period ended June 30, 2019, R\$ 7,886 was capitalized at an average rate of 8.99% p.y. (R\$ 4,400 and 7.51% for the period of June 30, 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	-	-	38,830	38,830
Disposals	(31,998)	(122)	-	(32,120)
Transfers	231,203	24,122	(33,968)	221,357
June 30 , 2019	6,940,128	801,441	33,232	7,774,801
Amortization				
December 31, 2018 (reclassified)	(2,320,225)	(655,211)	-	(2,975,436)
Additions	(135,052)	(33,501)	-	(168,553)
Disposals	18,737	88	-	18,825
Transfers	(3)	3	-	-
June 30 , 2019	(2,436,543)	(688,621)	-	(3,125,164)
December 31, 2018 (reclassified)	4,420,698	122,230	28,370	4,571,298
June 30 , 2019	4,503,585	112,820	33,232	4,649,637

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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 June 30, 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 internationally (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):

	June 30, 2019	December 31, 2018
Cost of gas to be recovered/ (transferred)	580,976	504,175
Credits of taxes to be recovered/ (transferred)	(350,625)	(252,816)
Amount	230,351	251,359
<i>Effect on the result for the period</i>		
Result not recognized in income before taxes	(21,008)	472,256
Regulatory assets	56,096	672,810
Regulatory liabilities - taxes	(74,036)	(127,815)
	(17,940)	544,995
Actualization	20,705	3,713
Extemporaneous credits	(23,773)	(76,452)
	(21,008)	472,256



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11 Income tax and social contribution

a) Reconciliation of income tax and social contribution expenses

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Profit before income tax and social contribution	550,633	860,384	179,011	444,815
Income tax and social contribution - nominal rate (34%)	(187,215)	(292,531)	(60,864)	(151,237)
<i>Adjustments to determine the effective rate</i>				
Permanent additions (donations, etc.)	(2,168)	(5,524)	(2,299)	(3,241)
Other	838	(185)	(1,841)	2,763
Income tax and social contribution expense (current and deferred)	(188,545)	(298,240)	(65,004)	(151,715)
Effective rate	34.24%	34.66%	36.31%	34.11%

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 shown below:

	June 30 , 2019	December 31 , 2018
Active differences		
Temporary differences	23,614	22,576
Provision for legal proceedings	41,140	38,397
Post-employment benefit obligation ⁽ⁱ⁾	174,542	171,469
Impairment of trade receivables	8,224	9,265
Regulatory current account	56,736	59,597
Share-base payment transactions	1,246	869
Leases	166	-
Other	5,897	1,095
Deferred taxes assets	311,565	303,268

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	June 30 , 2019	December 31 , 2018
Active differences		
Passive differences		
Useful life of intangible assets	(271,105)	(284,774)
Exchange variation - loans and financing ⁽ⁱⁱ⁾	(2,133)	-
Leases	-	(14)
Intangible assets - concession agreement	(6,449)	(6,745)
Not realized result with derivatives	(93,296)	(104,613)
Other	(12,165)	(9,548)
Deferred tax liabilities	(385,148)	(405,694)
Total deferred taxes	(73,583)	(102,426)
Deferred tax liabilities	(73,583)	(102,426)

(i) The credit related to the provision of the post-employment benefit plan has an estimated financial realization period of 25 to 30 years.

(ii) The Company opted for the regime of taxation of foreign exchange variation on loans and financing.

c) Changes in deferred taxes (net)

December 31, 2018	(102,426)
Deferred taxes recognized in income for the period	28,843
June 30, 2019	(73,583)

12 Provision for legal proceedings and judicial deposits

	Provision for lawsuits		Judicial deposit	
	June 30 , 2019	December 31, 2018	June 30 , 2019	December 31, 2018
Tax	8,512	8,350	21,371	20,998
Civil, environmental and regulatory	48,074	44,420	20,319	19,528
Labor	72,454	68,202	13,285	12,359
	129,040	120,972	54,975	52,885

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Changes in provisions for lawsuits:

	Tax	Civil, environmental and regulatory	Labor	Total
December 31, 2018	8,350	44,420	68,202	120,972
Provisions	-	514	4,583	5,097
Settlement / Write-offs	-	(205)	(1,206)	(1,411)
Monetary variation	162	2,383	875	3,420
Transfers	-	962	-	962
June 30 , 2019	8,512	48,074	72,454	129,040

Possible losses

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

	June 30 , 2019	December 31, 2018
Tax	1,275,281	1,165,030
Civil, environment and regulatory	95,850	90,391
Labor	41,914	37,840
	1,413,045	1,293,261

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:

	June 30 , 2019	December 31, 2018
Tax ⁽ⁱ⁾	745,771	729,571
Federal tax	448,188	342,830
Other	81,322	92,629
	1,275,281	1,165,030

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

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.



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b) Labor

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

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.

13 Shareholders' equity

The Annual and Extraordinary General Meeting held on April 25, 2019 approved the increase of subscribed and paid-in capital in the amount of R\$ 386,283, from R\$ 1,650,032 on March 31, 2019, to R\$ 2,036,315, through: (i) capitalization of the special goodwill reserve in the amount of R\$ 56,276; and (ii) capitalization of the total legal reserve in the amount of R\$ 330,007.

The capital stock is represented by 103,863 common shares with no par value and fully paid up and 28,658 class A preferred shares, and their composition is as follows:

Stockholders	Number of share - thousand in June 30, 2019					
	Common shares	%	Preferred shares	%	Total	%
Cosan S.A. Indústria e Comércio	103,651	99.80	27,682	96.59	131,333	99.10
Other	212	0.20	976	3.41	1,188	0.90
Total	103,863	100.00	28,658	100.00	132,521	100.00

Stockholders	Number of share - thousand in December 31, 2018					
	Common shares	%	Preferred shares	%	Total	%
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	100.00	28,550	100.00	132,023	100.00



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The movement of the number of shares in the period is presented below:

<u>Quantity of shares</u>	<u>Common</u>	<u>Preferred</u>	<u>Total</u>
December 31, 2018	103,473	28,550	132,023
Capital increase	390	108	498
June 30, 2019	103,863	28,658	132,521

14 Earnings per share

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

Earnings per share	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Numerator				
Results of the period attributed to controlling shareholders	362,088	562,144	114,007	293,100
Common shares	277,779	431,253	87,461	224,854
Preferred shares	84,309	130,891	26,546	68,246
Denominator (in thousands of shares)				
Weighted average number of common shares	103,863	103,863	103,863	103,863
Weighted average number of preferred shares	28,658	28,658	28,658	28,658
Earnings per share - R\$				
Common shares	2.67448	4.15215	0.84209	2.16492
Preferred shares	2.94193	4.56736	0.92629	2.38141
Diluted earnings per share				
Numerator				
Results of the period attributed to controlling shareholders	362,088	562,144	114,007	293,100
Common shares	277,289	430,493	87,365	224,607
Preferred shares	84,799	131,651	26,642	68,493
Denominator (in thousands of shares)				
Weighted average number of common shares	103,863	103,863	103,863	103,863
Weighted average number of preferred shares	28,875	28,875	28,793	28,793
Earnings per share - R\$				
Common shares	2.66976	4.14482	0.84116	2.16254
Preferred shares	2.93674	4.55930	0.92528	2.37879

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 shares options.

15 Revenue



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The following is an analysis of the Company's revenue for the periods ended June 30, 2019 and 2018:

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Gross revenue from sales of products	2,759,936	5,191,985	1,946,866	3,691,710
Gross revenue from sales of services	14,118	29,565	16,829	32,829
Construction revenue	182,114	342,050	96,177	185,670
Indirect taxes and deductions	(617,369)	(1,164,749)	(467,069)	(886,530)
Net sales	2,338,799	4,398,851	1,592,803	3,023,679

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:

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Cost of gas	(1,177,255)	(2,366,264)	(848,847)	(1,532,937)
Cost of transportation and other	(191,502)	(341,484)	(195,343)	(364,192)
Construction revenue	(182,114)	(342,050)	(96,177)	(185,670)
Personal expenses	(55,287)	(102,152)	(48,771)	(91,796)
Expenses materials/ services	(70,954)	(141,355)	(68,650)	(139,307)
Amortization	(84,870)	(169,970)	(86,014)	(173,090)
	(1,761,982)	(3,463,275)	(1,343,802)	(2,486,992)
Cost of gas and services	(1,550,871)	(3,049,798)	(1,140,367)	(2,082,799)
Selling expenses	(37,416)	(70,720)	(35,270)	(71,562)
General and administrative expenses	(173,695)	(342,757)	(168,165)	(332,631)
	(1,761,982)	(3,463,275)	(1,343,802)	(2,486,992)

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17 Finance results

The details of revenues and financial costs are as follows:

	April 01, 2019 to June 30, 2019	January 01, 2019 to June 30, 2019	April 01, 2018 to June 30, 2018	January 01, 2018 to June 30, 2018
Cost of gross debt				
Interest on debt	(70,452)	(123,930)	(77,212)	(147,172)
Adjustment to fair value of debt and derivative	1,803	(13,052)	(2,154)	(6,528)
Exchange rate variation on debt	9,232	5,916	(93,241)	(87,826)
Exchange derivatives	(9,192)	(5,948)	92,935	89,422
Debt guarantees	(3,789)	(10,493)	(6,414)	(13,489)
	(72,398)	(147,507)	(86,086)	(165,593)
Financial investment income	29,818	53,996	31,910	64,545
	29,818	53,996	31,910	64,545
Cost of debt, net	(42,580)	(93,511)	(54,176)	(101,048)
Other charges and monetary variations				
Tax about financial income	(2,214)	(3,825)	(1,832)	(4,416)
Interest on other operations	13,044	19,443	5,250	21,471
Interest on customer	8,727	15,474	5,962	11,748
Interest on judicial deposits	519	990	374	819
Interest on actuarial liabilities and other	(12,254)	(24,174)	(10,294)	7,021
Other monetary variations	(4)	(6)	(6,032)	(11,153)
Interest on contingencies	(2,104)	(3,660)	(1,128)	(3,493)
Bank expenses	(32)	(106)	(4,050)	(8,504)
	5,682	4,136	(11,750)	13,493
Financial results, net	(36,898)	(89,375)	(65,926)	(87,555)
Reconciliation				
Finance expense	(101,802)	(187,577)	(122,702)	(209,546)
Finance income	52,280	90,132	43,764	99,211
Exchange rate variation	9,232	5,916	(93,241)	(87,826)
Derivatives ⁽ⁱ⁾	3,392	2,154	106,253	110,606
Financial results, net	(36,898)	(89,375)	(65,926)	(87,555)

⁽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 June 30, 2019 and December 31, 2018, the Company had the following net exposure to the exchange variation of assets and liabilities denominated in US Dollar:

	June 30 , 2019	December 31, 2018
Loans, borrowings and debentures	(604,374)	(681,667)
Derivative financial instruments	604,374	681,667
Foreign exchange exposure, net	-	-

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

The probable scenario was defined based on the US dollar market rates projected for June 30, 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.

Based on the financial instruments denominated in US dollars, as of June 30, 2019, the Company performed a sensitivity analysis with an increase and decrease in exchange rates (R\$ / US\$) of 25% and 50%.

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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\$)						
		Scenarios				
June 30 , 2019	Probable	25%	50%	(25%)	(50%)	
Dollar	3.8322	3.7800	4.7250	5.6700	2.8350	1.8900

Instrument	Risk factor	Probable	Scenario			
			25%	50%	-25%	-50%
Loans, borrowings and debentures	Increases in the exchange rate R\$/US\$	8,232	(149,035)	(298,071)	149,035	298,071
Derivative financial instruments	Decreases in the exchange rate R\$/US\$	(8,232)	149,035	298,071	(149,035)	(298,071)
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	5.65	7.06	8.48	4.24	2.83
CDI	5.65	7.06	8.48	4.24	2.83
TJLP	5.50	6.88	8.25	4.13	2.75
TJLP462	6.50	7.88	9.25	5.13	3.75
IPCA	4.09	5.11	6.14	3.07	2.05
IGPM	4.30	5.37	6.45	3.22	2.15

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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	68,384	17,096	34,192	(17,096)	(34,192)
Financial investments	53,484	13,371	26,742	(13,371)	(26,742)
Derivatives financial instruments	26,302	(54,431)	(101,297)	52,257	113,036
Loans, financing and debentures	(154,584)	(32,846)	(65,692)	32,846	65,692
Impacts on income	(6,414)	(56,810)	(106,055)	54,636	117,794

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:

	June 30 , 2019	December 31, 2018
Cash and cash equivalents	1,210,338	602,618
Marketable securities	946,623	1,124,723
Trade receivables ⁽ⁱ⁾	1,050,457	695,147
Derivatives financial instruments	387,149	368,928
Receivables from related parties	1,552	1,158
	3,596,119	2,792,574

⁽ⁱ⁾ As of June 30, 2019, the Company had a portfolio of approximately 1,945 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.

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.



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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:

	June 30 , 2019	December 31, 2018
AAA	2,041,011	1,604,865
AA	503,099	491,404
	2,544,110	2,096,269

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.

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

	June 30 , 2019				December 31, 2018
	Up to 1 year	1 - 2 years	3 - 5 years	More than 5 years	Total
Loans, financing and debentures	(769,237)	(793,827)	(1,787,034)	(1,002,034)	(4,352,132)
Derivatives financial instruments	115,929	85,764	202,962	-	404,655
Suppliers	(1,058,729)	-	-	-	(1,058,729)
Other financial liabilities	(53,373)	-	-	-	(53,373)
Dividends and interest on own capital payable	(1,033)	-	-	-	(1,033)
Tax debts	(581)	(585)	(1,176)	(5,123)	(7,465)
Leases	(3,364)	(2,223)	(7,696)	(4,008)	(17,291)
Payables to related parties	(6,063)	-	-	-	(6,063)
	(1,776,451)	(710,871)	(1,592,944)	(1,011,165)	(5,091,431)
					(5,621,806)



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19 Post-employment benefits

The movement of the period ended June 30, 2019 is as follows:

December 31, 2018	504,320
Current service cost	240
Interest expense	22,800
Expected return on plan assets	(14,001)
June 30 , 2019	513,359

20 Share-based payment

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

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

Reconciliation of outstanding stock options

There were no changes in the number of outstanding premiums and their prices average periods in the period ended June 30, 2019.

Expenses recognized in income

The share-based compensation expense included in the statement of income for the periods ended June 30, 2019 and 2018 was as follows:

	Share-based payment plan
June 30, 2018	658
June 30 , 2019	1,110