



Companhia de Gás de São Paulo - COMGÁS

Interim financial statements

September 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

KPMG Auditores Independentes
CRC 2SP014428/O-6
(Original report in Portuguese signed by)
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Statement of financial position
September 30, 2019 and December 31, 2018
(In thousands of Brazilian Reais – R\$, unless otherwise stated)

| | Note | September 30, 2019 | December 31, 2018 (Reclassified) |
|------------------------------------|------|-----------------------|-------------------------------------|
| Assets | | | |
| Cash and cash equivalents | 5.1 | 1,715,479 | 602,618 |
| Marketable securities | 5.2 | 960,282 | 1,124,723 |
| Trade receivables | 5.3 | 1,044,796 | 674,992 |
| Derivative financial instruments | 5.7 | 136,661 | 114,891 |
| Inventories | | 60,527 | 65,259 |
| Gas paid and not used | | 32,676 | 254,651 |
| Receivables from related parties | 5.4 | 1,354 | 1,158 |
| Income tax and social contribution | | - | 72,143 |
| Other recoverable taxes | 6 | 267,007 | 292,204 |
| Other assets | | 39,612 | 29,876 |
| Current assets | | 4,258,394 | 3,232,515 |
| Trade receivables | 5.3 | 12,623 | 20,155 |
| Other recoverable taxes | 6 | 15,676 | 11,076 |
| Judicial deposits | 11 | 54,932 | 52,885 |
| Derivative financial instruments | 5.7 | 272,659 | 254,037 |
| Other assets | | 280 | 756 |
| Right of use | | 10,836 | - |
| Contract assets | 7 | 426,371 | 217,855 |
| Intangible assets | 8 | 4,689,119 | 4,571,298 |
| Non-current assets | | 5,482,496 | 5,128,062 |
| Total assets | | 9,740,890 | 8,360,577 |

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



Statement of financial position
September 30, 2019 and December 31, 2018
(In thousands of Brazilian Reals – R\$, unless otherwise stated)

| | Note | September 30, 2019 | December 31, 2018 |
|---|------|-----------------------|----------------------|
| Liabilities | | | |
| Loans, financing and debentures | 5.5 | 696,469 | 679,735 |
| Trade payables | 5.6 | 1,177,151 | 1,012,895 |
| Employee benefits payable | | 59,500 | 63,520 |
| Income tax payables | | 344,907 | - |
| Other taxes payable | | 188,026 | 70,768 |
| Dividends and interest on capital payable | | 1,033 | 11,551 |
| Payables to related parties | 5.4 | 9,320 | 14,994 |
| Other financial liabilities | | 69,577 | 52,868 |
| Leases | | 1,970 | - |
| Other liabilities | | 10,388 | 8,879 |
| Current liabilities | | 2,558,341 | 1,915,210 |
| Loans, financing and debentures | 5.5 | 2,736,731 | 2,971,810 |
| Provision for legal proceedings | 11 | 130,344 | 120,972 |
| Post-employment benefits | 18 | 516,533 | 504,320 |
| Deferred tax liabilities | 10 | 46,856 | 102,426 |
| Other tax payable | | 6,237 | 6,464 |
| Leases | | 9,474 | - |
| Other liabilities | | 13,560 | 18,051 |
| Non-current liabilities | | 3,459,735 | 3,724,043 |
| Total liabilities | | 6,018,076 | 5,639,253 |
| Shareholders' equity | | | |
| Share capital | 12 | 2,036,315 | 1,650,032 |
| Capital reserve | | 5,238 | 60,032 |
| Revaluation reserve | | 5,761 | 5,761 |
| Carrying value adjustments | | (161,597) | (161,597) |
| Profit reserve | | 837,089 | 1,167,096 |
| Retained earnings | | 1,000,008 | - |
| Shareholders' equity | | 3,722,814 | 2,721,324 |
| Total liabilities and shareholders' equity | | 9,740,890 | 8,360,577 |

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



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

| | Note | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|---|------|---|---|---|---|
| Net sales | 14 | 2,585,530 | 6,984,381 | 1,900,984 | 4,924,663 |
| Cost of gas and services | 15 | (1,666,191) | (4,715,989) | (1,377,288) | (3,460,087) |
| Gross result | | 919,339 | 2,268,392 | 523,696 | 1,464,576 |
| Selling expenses | 15 | (41,721) | (112,441) | (38,463) | (110,025) |
| General and administrative expenses | 15 | (180,585) | (523,342) | (175,626) | (508,257) |
| Other income (expense), net | | (20,497) | (6,314) | (7,816) | (12,133) |
| Operating expenses | | (242,803) | (642,097) | (221,905) | (630,415) |
| Result before financial results and taxes | | 676,536 | 1,626,295 | 301,791 | 834,161 |
| Finance expense | | (83,055) | (270,632) | (126,510) | (335,828) |
| Finance income | | 52,790 | 142,922 | 55,460 | 154,443 |
| Foreign exchange gain (loss) | | (50,554) | (44,638) | (30,811) | (118,637) |
| Derivatives | | 54,138 | 56,292 | 46,431 | 157,037 |
| Financial results, net | 16 | (26,681) | (116,056) | (55,430) | (142,985) |
| Result before income tax and social contribution | | 649,855 | 1,510,239 | 246,361 | 691,176 |
| Current | | (238,718) | (565,801) | (82,150) | (52,621) |
| Deferred | | 26,727 | 55,570 | 23,280 | (157,964) |
| Income tax and social contribution | 10 | (211,991) | (510,231) | (58,870) | (210,585) |
| Net result for the period | | 437,864 | 1,000,008 | 187,491 | 480,591 |
| 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 | 13 | 3.23418 | 7.38633 | 1.38486 | 3.54977 |
| Preferred shares | | 3.55760 | 8.12496 | 1.52334 | 3.90475 |
| | | 6.79178 | 15.51129 | 2.90820 | 7.45452 |
| Diluted per share: | | | | | |
| Common shares | 13 | 3.22723 | 7.37235 | 1.38272 | 3.54535 |
| Preferred shares | | 3.54995 | 8.10958 | 1.52099 | 3.89988 |
| | | 6.77718 | 15.48193 | 2.90371 | 7.44523 |

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



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

| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|--|---|--|---|--|
| Result for the period | 437,864 | 1,000,008 | 187,491 | 480,591 |
| Total comprehensive income for the period | 437,864 | 1,000,008 | 187,491 | 480,591 |



Statement of changes in shareholder's equity
September 30, 2019 and 2018
(In thousands of Brazilian Reals - 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 | - | - | - | - | - | - | - | 1,000,008 | - | 1,000,008 |
| Comprehensive income: | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - | - | - | - | 1,000,008 | - | 1,000,008 |
| Granted shares recognized (Note19) | - | - | - | 1,666 | - | - | - | - | - | 1,666 |
| Share-based payment transactions (Note19) | - | - | - | (184) | - | - | - | - | - | (184) |
| Result retention | - | - | - | - | - | - | - | - | - | - |
| Increase capital | 386,283 | - | (56,276) | - | - | (330,007) | - | - | - | - |
| Total contributions by and distributions to owners | 386,283 | - | (56,276) | 1,482 | - | (330,007) | - | - | - | 1,482 |
| At September 30, 2019 | 2,036,315 | 1,201 | - | 4,037 | 5,761 | - | 837,089 | 1,000,008 | (161,597) | 3,722,814 |

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



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

| | Capital reserves | | | | | Profit reserve | | | | | Total equity |
|---|------------------|----------------|-------------------------------|--------------------------|---------------------------|----------------------|----------------|------------------|-------------------|----------------------------|------------------|
| | Share capital | Tax incentives | For the future capitalization | Special goodwill reserve | Granted shares recognized | Revaluation reserves | Legal reserve | Result retention | Retained earnings | Carrying value adjustments | |
| 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 | - | - | - | - | - | - | - | - | 480,591 | - | 480,591 |
| Comprehensive income: | - | - | - | - | - | - | - | - | - | - | - |
| Realization of revaluation reserve | - | - | - | - | - | (76) | - | 76 | - | - | - |
| Total comprehensive income for the period | - | - | - | - | - | (76) | - | 76 | 480,591 | - | 480,591 |
| Granted shares recognized (Note 19) | - | - | - | - | 1,144 | - | - | - | - | - | 1,144 |
| Increase capital | 168,828 | - | (168,828) | - | - | - | - | - | - | - | - |
| Total contributions by and distributions to owners | 168,828 | - | (168,828) | - | 1,144 | - | - | - | - | - | 1,144 |
| At September 30, 2018 | 1,650,032 | 1,201 | - | 56,276 | 2,000 | 5,762 | 267,043 | 158,850 | 480,591 | (129,297) | 2,492,458 |

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



Statement of cash flows
September 30, 2019 and 2018
(In thousands of Brazilian Reals - R\$, unless otherwise stated)

| | Note | September 30, 2019 | September 30, 2018 |
|---|------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Result before taxes | | 1,510,239 | 691,176 |
| Adjustments for: | | | |
| Amortization | | 252,438 | 259,044 |
| Loss on the disposal of intangible assets | | 22,672 | 8,771 |
| Granted shares recognized | 19 | 1,666 | 1,144 |
| Provision for judicial demands | | 5,969 | 4,221 |
| Interest, monetary and exchange variations | | 158,778 | 225,914 |
| Provisions for employee benefits | | 34,028 | 36,923 |
| Impairment of trade receivables | 5.3 | 9,483 | 13,274 |
| Extemporaneous credits | | (23,773) | - |
| Other | | 3,189 | (10,968) |
| | | 1,974,689 | 1,229,499 |
| Changes in: | | | |
| Trade receivables | | (343,147) | (160,061) |
| Inventories | | (2,776) | 8,424 |
| Other taxes, net | | 30,106 | (43,382) |
| Trade payables | | 323,856 | 336,734 |
| Employee benefits | | (38,048) | (37,503) |
| Post-employment benefits | | (21,987) | (19,334) |
| Other assets and liabilities, net | | 1,887 | (480) |
| | | (50,109) | 84,398 |
| Net cash provided by operating activities | | 1,924,580 | 1,313,897 |
| Cash flows from investing activities | | | |
| Marketable securities | | 205,933 | (590,188) |
| Cash received on sale of other permanent assets | | 28 | 1,123 |
| Additions to intangible assets and contract assets | | (528,201) | (382,025) |
| Net cash used in investing activities | | (322,240) | (971,090) |
| Cash flows from financing activities | | | |
| Proceeds from new loans, borrowings and debentures | 5.5 | 1,850 | 482,449 |
| Payments of principal on loans, borrowings and debentures | 5.5 | (492,554) | (1,134,799) |
| Payments of interest on loans, borrowings and debentures | 5.5 | (64,128) | (93,709) |
| Derivative financial instruments | | 78,428 | 169,165 |
| Payments of principal on leases | | (1,765) | - |
| Payments of interest on leases | | (608) | - |
| Dividends and interest on capital paid | | (10,518) | (169,176) |
| Payments of share grants plans | | (184) | - |
| Net cash used in financing activities | | (489,479) | (746,070) |
| Increase (decrease) in cash and cash equivalents | | 1,112,861 | (403,263) |
| Cash and cash equivalents at beginning of the period | | 602,618 | 1,727,521 |
| Cash and cash equivalents at end of the period | | 1,715,479 | 1,324,258 |
| Additional information: | | | |
| Income tax and social contribution paid | | 186,593 | 55,158 |

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



Statement of value added
September 30, 2019 and 2018

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

| | September 30, 2019 | September 30, 2018 |
|---|-------------------------------|-------------------------------|
| Revenue | | |
| Sales of gas | 8,272,778 | 6,043,938 |
| Sales of services | 14 50,685 | 56,594 |
| Provision for impairment of trade receivables | 5.3 (9,483) | (13,274) |
| Construction revenue | 14 541,780 | 292,451 |
| Other sales (expenses) | (6,314) | (10,508) |
| | 8,849,446 | 6,369,201 |
| Cost and expenses | | |
| Cost of gas and transportation | (5,533,515) | (4,155,173) |
| Cost of services | (16,872) | (22,839) |
| Construction costs | 15 (541,780) | (292,451) |
| Materials, services and other expenses | (162,960) | (152,216) |
| | (6,255,127) | (4,622,679) |
| Gross value added | 2,594,319 | 1,746,522 |
| Retention | | |
| Amortization | 15 (252,438) | (259,044) |
| | (252,438) | (259,044) |
| Net value added generated by the Company | 2,341,881 | 1,487,478 |
| Value added received through transfer | | |
| Finance income | 123,422 | 140,667 |
| | 123,422 | 140,667 |
| Total value added to distributed | 2,465,303 | 1,628,145 |
| Distribution of value added | | |
| Personnel and social charges | 129,192 | 125,588 |
| Remuneration | 79,967 | 90,839 |
| Benefits | 34,717 | 24,175 |
| FGTS | 14,508 | 10,574 |
| Taxes and contributions | 1,085,915 | 728,204 |
| Federal | 662,402 | 406,107 |
| State | 405,820 | 305,783 |
| Municipalities | 17,693 | 16,314 |
| Finance costs and rentals | 250,188 | 293,762 |
| Interest | 198,721 | 230,508 |
| Rents and leases | 10,985 | 10,236 |
| Other | 40,482 | 53,018 |
| Remuneration of shareholder´s equity | 1,000,008 | 480,591 |
| Profit retention | 1,000,008 | 480,591 |
| | 2,465,303 | 1,628,145 |

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



Companhia de Gás de São Paulo - COMGÁS

Notes to the financial statements

September 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 99.14%.

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 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. At the date of approval of these interim financial statements, the aforementioned capital reduction process had not yet been executed, and the Company's capital stock remained unchanged compared to the immediately preceding period.



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September 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 IFRS 15, 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 | 7 | - | 217,855 | 217,855 |
| Intangible assets | 8 | 4,789,153 | (217,855) | 4,571,298 |
| Non-current | | 5,128,062 | - | 5,128,062 |
| Total assets | | 8,360,577 | - | 8,360,577 |



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

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 November 5, 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 06 (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.



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

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

Assets of right of use are measured at cost including the initial measurement of the lease liability. Lease liabilities include the net present value of the following lease payments, excluding variable/ contingent consideration.

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.

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 | 2,199 |
| Total current liabilities | <u>2,199</u> |
| Non-current liabilities | |
| Lease liabilities | 10,762 |
| Total non-current liabilities | <u>10,762</u> |
| Total liabilities | <u>12,961</u> |



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

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 of nine months ended September 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\$ 71,467.

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.



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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 July 1, 2019 to September 30, 2019 | | | | | | | Total |
|---|---|------------|-------------|--------------|------------|-----------------------|--------------------|----------------|
| | Residential | Commercial | Industrial | Cogeneration | Automotive | Construction revenues | Other revenues (i) | |
| Volume (thousands of m ³) (not audited) | 86,081 | 41,516 | 885,333 | 80,375 | 54,023 | - | - | 1,147,328 |
| Gross revenue | 561,190 | 181,916 | 2,059,959 | 129,982 | 117,389 | 199,730 | 21,120 | 3,271,286 |
| Deductions | (128,714) | (41,848) | (465,914) | (20,031) | (26,906) | - | (2,343) | (685,756) |
| Net revenue | 432,476 | 140,068 | 1,594,045 | 109,951 | 90,483 | 199,730 | 18,777 | 2,585,530 |
| Regulatory assets (liabilities) | (11,058) | (4,711) | (76,488) | (4,343) | (4,601) | - | (7,641) | (108,842) |
| Cost | (115,083) | (55,174) | (1,182,121) | (86,473) | (72,107) | (199,730) | 44,497 | (1,666,191) |
| Economic gross profit | 306,335 | 80,183 | 335,436 | 19,135 | 13,775 | - | 55,633 | 810,497 |
| Reversal of regulatory assets | | | | | | | | 108,842 |
| Gross profit | | | | | | | | 919,339 |
| Selling expenses | | | | | | | | (41,721) |
| General and administrative expenses | | | | | | | | (180,585) |
| Other operating expenses, net | | | | | | | | (20,497) |
| Operating expenses | | | | | | | | (242,803) |
| Finance costs | | | | | | | | (83,055) |
| Finance income | | | | | | | | 52,790 |
| Foreign exchange gain | | | | | | | | (50,554) |
| Derivatives | | | | | | | | 54,138 |
| Financial result, net | | | | | | | | (26,681) |
| Profit before taxes | | | | | | | | 649,855 |
| Provision for income tax and social contribution | | | | | | | | (211,991) |
| Profit for the period | | | | | | | | 437,864 |
| Reconciliation of EBITDA | | | | | | | | |
| Profit for the period | | | | | | | | 437,864 |
| Provision for income tax and social contribution | | | | | | | | 211,991 |
| Financial result, net | | | | | | | | 26,681 |
| Amortization | | | | | | | | 82,468 |
| Other amortization | | | | | | | | (139) |
| EBITDA | | | | | | | | 758,865 |

(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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September 30, 2019

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

| Segments | Margin per segment January 1, 2019 to September 30, 2019 | | | | | | | Total |
|---|--|------------|-------------|--------------|------------|-----------------------|--------------------|------------------|
| | Residential | Commercial | Industrial | Cogeneration | Automotive | Construction revenues | Other revenues (i) | |
| Volume (thousands of m ³) (not audited) | 210,713 | 119,419 | 2,651,020 | 250,709 | 167,069 | - | - | 3,398,930 |
| Gross revenue | 1,234,904 | 479,515 | 5,810,838 | 381,832 | 335,332 | 541,780 | 50,685 | 8,834,886 |
| Deductions | (283,475) | (109,939) | (1,316,225) | (57,761) | (76,899) | - | (6,206) | (1,850,505) |
| Net revenue | 951,429 | 369,576 | 4,494,613 | 324,071 | 258,433 | 541,780 | 44,480 | 6,984,381 |
| Regulatory assets (liabilities) | (17,663) | (6,413) | (70,770) | (3,471) | (5,368) | - | (23,098) | (126,783) |
| Cost | (271,687) | (153,058) | (3,396,563) | (263,425) | (214,055) | (541,780) | 124,580 | (4,715,989) |
| Economic gross profit | 662,079 | 210,105 | 1,027,280 | 57,175 | 39,010 | - | 145,961 | 2,141,609 |
| Reversal of regulatory assets | | | | | | | | 126,783 |
| Gross profit | | | | | | | | 2,268,392 |
| Selling expenses | | | | | | | | (112,441) |
| General and administrative expenses | | | | | | | | (523,342) |
| Other operating expenses, net | | | | | | | | (6,314) |
| Operating expenses | | | | | | | | (642,097) |
| Finance costs | | | | | | | | (270,632) |
| Finance income | | | | | | | | 142,922 |
| Foreign exchange gain | | | | | | | | (44,638) |
| Derivatives | | | | | | | | 56,292 |
| Financial result, net | | | | | | | | (116,056) |
| Profit before taxes | | | | | | | | 1,510,239 |
| Provision for income tax and social contribution | | | | | | | | (510,231) |
| Profit for the period | | | | | | | | 1,000,008 |
| Reconciliation of EBITDA | | | | | | | | |
| Profit for the period | | | | | | | | 1,000,008 |
| Provision for income tax and social contribution | | | | | | | | 510,231 |
| Financial result, net | | | | | | | | 116,056 |
| Amortization | | | | | | | | 252,438 |
| Other amortization | | | | | | | | (462) |
| EBITDA | | | | | | | | 1,878,271 |

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

Margin per segment - July 1, 2018 to September 30, 2018

| Segments | Residential | Commercial | Industrial | Cogeneration | Automotive | Construction revenues | Other revenues | Total |
|---|-------------|------------|------------|--------------|------------|-----------------------|----------------|----------------|
| Volume (thousands of m ³) (not-audited) | 81,672 | 42,307 | 939,661 | 86,246 | 59,255 | - | - | 1,209,140 |
| Gross revenue | 385,139 | 140,237 | 1,606,488 | 108,703 | 89,074 | 106,781 | 23,766 | 2,460,188 |
| Deductions | (93,378) | (33,898) | (387,366) | (20,216) | (21,600) | - | (2,746) | (559,204) |
| Net revenue | 291,761 | 106,339 | 1,219,122 | 88,487 | 67,474 | 106,781 | 21,020 | 1,900,984 |
| Regulatory assets (liabilities) | 11,157 | 5,753 | 130,412 | 8,919 | 7,924 | - | (6,181) | 157,984 |
| Cost | (85,976) | (44,506) | (993,300) | (78,655) | (62,682) | (106,781) | (5,388) | (1,377,288) |
| Economic gross profit | 216,942 | 67,586 | 356,234 | 18,751 | 12,716 | - | 9,451 | 681,680 |
| Reversal of regulatory assets | | | | | | | | (157,984) |
| Gross profit | | | | | | | | 523,696 |
| Selling expenses | | | | | | | | (38,463) |
| General and administrative expenses | | | | | | | | (175,626) |
| Other operating expenses, net | | | | | | | | (7,816) |
| Operating expenses | | | | | | | | (221,905) |
| Finance expense | | | | | | | | (126,510) |
| Finance income | | | | | | | | 55,460 |
| Foreign exchange gain (loss) | | | | | | | | (30,811) |
| Derivatives | | | | | | | | 46,431 |
| Financial result, net | | | | | | | | (55,430) |
| Profit before taxes | | | | | | | | 246,361 |
| Provision for income tax and social contribution | | | | | | | | (58,870) |
| Profit for the period | | | | | | | | 187,491 |
| Reconciliation of EBITDA | | | | | | | | |
| Profit for the period | | | | | | | | 187,491 |
| Provision for income tax and social contribution | | | | | | | | 58,870 |
| Financial result, net | | | | | | | | 55,430 |
| Amortization | | | | | | | | 85,954 |
| Other amortization | | | | | | | | (140) |
| EBITDA | | | | | | | | 387,605 |



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

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

| Segments | Residential | Commercial | Industrial | Cogeneration | Automotive | Construction revenues | Other revenues | Total |
|--|-------------|------------|-------------|--------------|------------|-----------------------|----------------|------------------|
| Volume (thousands of m³) (not audited) | 207,128 | 116,241 | 2,670,332 | 236,063 | 162,124 | - | - | 3,391,888 |
| Gross revenue | 951,166 | 367,462 | 4,188,171 | 269,503 | 245,049 | 292,451 | 56,595 | 6,370,397 |
| Deductions | (230,379) | (88,838) | (1,009,631) | (50,491) | (59,424) | - | (6,971) | (1,445,734) |
| Net revenue | 720,787 | 278,624 | 3,178,540 | 219,012 | 185,625 | 292,451 | 49,624 | 4,924,663 |
| Regulatory assets (liabilities) | 26,551 | 14,952 | 334,449 | 21,344 | 1,454 | - | (17,793) | 380,957 |
| Cost | (197,035) | (109,365) | (2,507,108) | (189,280) | (153,371) | (292,451) | (11,477) | (3,460,087) |
| Economic gross profit | 550,303 | 184,211 | 1,005,881 | 51,076 | 33,708 | - | 20,354 | 1,845,533 |
| Reversal of regulatory assets | | | | | | | | (380,957) |
| Gross profit | | | | | | | | 1,464,576 |
| Selling expenses | | | | | | | | (110,025) |
| General and administrative expenses | | | | | | | | (508,257) |
| Other operating expenses, net | | | | | | | | (12,133) |
| Operating expenses | | | | | | | | (630,415) |
| Finance expense | | | | | | | | (335,828) |
| Finance income | | | | | | | | 154,443 |
| Foreign exchange gain (loss) | | | | | | | | (118,637) |
| Derivatives | | | | | | | | 157,037 |
| Financial result, net | | | | | | | | (142,985) |
| Profit before taxes | | | | | | | | 691,176 |
| Provision for income tax and social contribution | | | | | | | | (210,585) |
| Profit for the period | | | | | | | | 480,591 |
| Reconciliation of EBITDA | | | | | | | | |
| Profit for the period | | | | | | | | 480,591 |
| Provision for income tax and social contribution | | | | | | | | 210,585 |
| Financial result, net | | | | | | | | 142,985 |
| Amortization | | | | | | | | 259,044 |
| Other amortization | | | | | | | | (417) |
| EBITDA | | | | | | | | 1,092,788 |



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

5 Financial assets and liabilities

The financial assets and liabilities are as follows:

| | Note | September 30, 2019 | December 31, 2018 |
|---|------|--------------------|--------------------|
| Assets | | | |
| Fair value through profit or loss | | | |
| Financial investments | 5.1 | 1,216,775 | 190,413 |
| Marketable securities | 5.2 | 960,282 | 1,124,723 |
| Derivative financial instruments | 5.7 | 409,320 | 368,928 |
| | | 2,586,377 | 1,684,064 |
| Amortized cost | | | |
| Cash and cash equivalents | 5.1 | 498,704 | 412,205 |
| Trade receivables | 5.3 | 1,057,419 | 695,147 |
| Receivables from related parties | 5.4 | 1,354 | 1,158 |
| | | 1,557,477 | 1,108,510 |
| Total assets | | 4,143,854 | 2,792,574 |
| Liabilities | | | |
| Amortized cost | | | |
| Loans, financing and debentures | 5.5 | (1,828,028) | (1,987,134) |
| Trade payables | 5.6 | (1,177,151) | (1,012,895) |
| Other financial liabilities | | (69,577) | (52,868) |
| Dividends and interest on capital payable | | (1,033) | (11,551) |
| Installment of tax debts | | (6,906) | (7,105) |
| Leases | | (11,444) | - |
| Payables to related parties | 5.4 | (9,320) | (14,994) |
| | | (3,103,459) | (3,086,547) |
| Fair value through profit or loss | | | |
| Loans, financing and debentures | 5.5 | (1,605,172) | (1,664,411) |
| | | (1,605,172) | (1,664,411) |
| Total liabilities | | (4,708,631) | (4,750,958) |

5.1 Cash and cash equivalents

| | September 30, 2019 | December 31, 2018 |
|------------------------|--------------------|-------------------|
| Cash and bank deposits | 110,734 | 39,973 |
| Financial investments | 1,604,745 | 562,645 |
| | 1,715,479 | 602,618 |



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

The financial investments are composed as follows:

| | September 30, 2019 | December 31, 2018 |
|------------------------------|---------------------------|--------------------------|
| Investment funds | | |
| Compromised operations | 1,216,775 | 190,413 |
| | 1,216,775 | 190,413 |
| Applications in banks | | |
| Certificate of bank deposits | 387,970 | 372,232 |
| | 387,970 | 372,232 |
| | 1,604,745 | 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 September 30, 2019 (100% of the CDI rate at December 31, 2018).

5.2 Marketable securities

| | September 30, 2019 | December 31, 2018 |
|------------------------------|---------------------------|--------------------------|
| Marketable securities | | |
| Government security | 960,282 | 1,124,723 |
| | 960,282 | 1,124,723 |

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



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September 30, 2019

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5.3 Trade receivables

| | September 30, 2019 | December 31, 2018 |
|-----------------------------------|---------------------------|--------------------------|
| Receivable from gas | 424,346 | 327,570 |
| Unbilled revenue ⁽ⁱ⁾ | 703,657 | 430,596 |
| Receivable from sale of equipment | 5,335 | 6,296 |
| Financing marketing program | 24,720 | 29,020 |
| | 1,158,058 | 793,482 |
| Other | - | 6,290 |
| Impairment of trade receivable | (100,639) | (104,625) |
| | (100,639) | (98,335) |
| Total | 1,057,419 | 695,147 |
| Current | 1,044,796 | 674,992 |
| Non-current | 12,623 | 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:

| | September 30, 2019 | Estimated loss | December 31, 2018 | Estimated loss |
|--------------------|-------------------------------|---------------------------|------------------------------|---------------------------|
| Not overdue | 879,516 | (1,349) | 626,166 | (1,196) |
| Overdue: | | | | |
| From 1 to 30 days | 121,044 | (232) | 24,280 | (116) |
| From 31 to 60 days | 15,179 | (2,725) | 7,808 | (1,359) |
| From 61 to 90 days | 8,016 | (1,388) | 5,367 | (1,711) |
| More than 90 days | 134,303 | (94,945) | 129,861 | (100,243) |
| | 1,158,058 | (100,639) | 793,482 | (104,625) |

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

| | |
|---------------------------|------------------|
| January 1, 2019 | (104,625) |
| Provisions / Reversals | (9,483) |
| Write-off | 13,469 |
| September 30, 2019 | (100,639) |



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5.4 Related parties

a) Accounts receivable and payable from related parties:

| | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|---|---------------------------|--------------------------|
| Current Asset | | |
| Commercial operations | | |
| Raízen Combustíveis S.A. ⁽ⁱ⁾ | 1,354 | 1,158 |
| | 1,354 | 1,158 |
| Current liabilities | | |
| Contractual operations | | |
| Raízen Energia S.A. ⁽ⁱⁱ⁾ | 9,320 | 14,994 |
| | 9,320 | 14,994 |

b) Transactions with related parties:

| | <u>July 01, 2019 to September 30, 2019</u> | <u>January 01, 2019 to September 30, 2019</u> | <u>July 01, 2018 to September 30, 2018</u> | <u>January 01, 2018 to September 30, 2018</u> |
|--|--|---|--|---|
| Operation income | | | | |
| Raízen Combustíveis S.A. ⁽ⁱ⁾ | 4,427 | 12,650 | 3,857 | 10,882 |
| Elevações Portuárias S.A. ⁽ⁱⁱⁱ⁾ | 161 | 445 | 234 | 361 |
| | 4,588 | 13,095 | 4,091 | 11,243 |
| Income (expense) | | | | |
| Raízen Energia S.A. ⁽ⁱⁱ⁾ | (9,056) | (25,224) | (10,646) | (29,768) |
| | (9,056) | (25,224) | (10,646) | (29,768) |

⁽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, for the periods are as follows:



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| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|----------------------------------|---|--|---|--|
| Short-term benefits to directors | 5,513 | 19,687 | 10,666 | 20,409 |
| Post-employment benefits | 95 | 284 | 79 | 87 |
| Other long-term benefits | - | - | 442 | 512 |
| Share-based payments | 984 | 1,649 | 207 | 619 |
| | 6,592 | 21,620 | 11,394 | 21,627 |

5.5 Loans, financing and debentures

| Description | Interest | | September 30, 2019 | December 31, 2018 | Maturity |
|--|-----------------------|----------------------------|-----------------------|----------------------|----------|
| | Index | Annual interest rate | | | |
| Loan and financing | | | | | |
| BNDES - Project VI | TJ462 + 1.80% | 8.75% | 187,897 | 316,854 | Oct-20 |
| BNDES - Project VI | SELIC + 1.80% | 7.30% | 94,412 | 152,562 | Oct-20 |
| BNDES - Project VII | TJLP + 2.00% | 7.95% | 89,068 | 107,731 | Jun-23 |
| BNDES - Project VII | SELIC + 1.96% | 7.47% | 55,084 | 63,852 | Jun-23 |
| BNDES - Project VII | TJLP + 2.00% | 5.95% | 1,786 | - | Jun-23 |
| EIB | USD + 3.88% | 3.88% | 65,625 | 89,003 | Jun-20 |
| | USD + 2.94% | 2.94% | 30,699 | 54,508 | Sep-20 |
| | USD + LIBOR6M + 0.54% | 3.10% | 99,803 | 115,581 | May-21 |
| | USD + LIBOR6M + 0.61% | 2.66% | 92,163 | 130,402 | Sep-21 |
| Resolution 4131 | USD + 3.67% | 3.67% | 330,355 | 292,173 | May-23 |
| Total of loans and financing | | | 1,046,892 | 1,322,666 | |
| Debentures | | | | | |
| 3 ^a emission - 1 ^a issue | CDI + 0.90% | 7.36% | - | 43,471 | Sep-19 |
| 3 ^a emission - 3 ^a issue | IPCA + 5.57% | 9.22% | 103,909 | 203,613 | Sep-20 |
| 4 ^a emission - 1 ^a issue | IPCA + 7.14% | 10.85% | 331,521 | 305,895 | Dec-20 |
| 4 ^a emission - 2 ^a issue | IPCA + 7.48% | 11.20% | 298,760 | 275,014 | Dec-22 |
| 4 ^a emission - 3 ^a issue | IPCA + 7.36% | 11.07% | 98,398 | 90,656 | Dec-25 |
| 5 ^a emission | IPCA + 5.87% | 9.53% | 873,137 | 767,638 | Dec-23 |
| 6 ^a emission | IPCA + 4.33% | 7.94% | 440,742 | 414,583 | Oct-24 |
| 7 ^a emission - single | IGPM + 6.10% | 11.59% | 239,841 | 228,009 | May-28 |
| Total of debentures | | | 2,386,308 | 2,328,879 | |
| Total | | | 3,433,200 | 3,651,545 | |
| Current | | | 696,469 | 679,735 | |
| Non-current | | | 2,736,731 | 2,971,810 | |



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Non-current loans have the following maturities:

| | September 30, 2019 | December 31, 2018 |
|-----------------|---------------------------|--------------------------|
| 13 to 24 months | 534,905 | 542,854 |
| 25 to 36 months | 232,324 | 452,555 |
| 37 to 48 months | 507,385 | 220,142 |
| 49 to 60 months | 743,015 | 1,030,659 |
| 61 to 72 months | 458,683 | 28,215 |
| 73 to 84 months | 107,614 | 446,513 |
| 85 to 96 months | 76,390 | 103,894 |
| Over 96 months | 76,415 | 146,978 |
| | 2,736,731 | 2,971,810 |

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

| | September 30, 2019 | December 31, 2018 |
|------------------------------|---------------------------|--------------------------|
| Brazilian Reais (R\$) | 2,814,555 | 2,969,878 |
| Dollar (US\$) ⁽ⁱ⁾ | 618,645 | 681,667 |
| | 3,433,200 | 3,651,545 |

⁽ⁱ⁾ As of September 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 0.99% per year. On September 30, 2019, the balance of bank guarantees contracted was R\$ 650,797 (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 September 30, 2019:

| | |
|---|------------------|
| September 30, 2018 | 3,651,545 |
| Raised | 1,850 |
| Payment of principal | (492,554) |
| Payment of interest | (64,128) |
| Interest, exchange variation and fair value | 336,487 |
| September 30, 2019 | 3,433,200 |



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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 | 0.12 |
| 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 | 0.12 |
| 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 | 0.12 |
| Debenture 6 ^a emission | Net debt / EBTIDA not exceed 4.00 | 0.12 |
| Debenture 7 ^a emission | Net debt / EBTIDA not exceed 4.00 | 0.12 |

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

| | September 30, 2019 | December 31, 2018 |
|--------------------------------|--------------------|-------------------|
| Net debt | 359,563 | 1,555,276 |
| EBITDA (*) | 2,971,189 | 2,185,708 |
| (=) Net debt/ EBITDA | 0.12 | 0.71 |
| <i>(*) last twelve months</i> | | |
| | September 30, 2019 | December 31, 2018 |
| Loans current | 561,778 | 564,844 |
| Loans total net of derivatives | 3,035,324 | 3,282,617 |
| (=) Loans current/ Loans total | 0.19 | 0.17 |

5.6 Trade payables

| | September 30, 2019 | December 31, 2018 |
|---------------------------------|--------------------|-------------------|
| Natural gas suppliers | 941,233 | 838,105 |
| Materials and service suppliers | 235,918 | 174,790 |
| | 1,177,151 | 1,012,895 |

5.7 Derivatives

• Derivatives that do not qualify for hedge accounting

At September 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:



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| | Nocional ⁽ⁱ⁾ | | Fair value | |
|--|-------------------------|----------------------|-----------------------|----------------------|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Interest rate and exchange rate risk | | | | |
| Swap agreements (interest rate) | 843,100 | 843,100 | 180,087 | 127,375 |
| Swap agreements (interest rate and exchange) | 423,128 | 461,512 | 229,233 | 241,553 |
| | 1,266,228 | 1,304,612 | 409,320 | 368,928 |
| Total financial instruments contracted by the Company in assets | | | 409,320 | 368,928 |
| Current | | | 136,661 | 114,891 |
| Non-current | | | 272,659 | 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) |
| Principal amortization | 99,687 | (4,638) | 95,049 |
| Interest amortization | 11,015 | (17,316) | (6,301) |
| Fair value | (114,485) | 74,076 | (40,409) |
| September 30, 2019 | (986,527) | 180,087 | (806,440) |



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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 |
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Assets | | | | |
| Financial investments | 1,216,775 | 190,413 | 1,216,775 | 190,413 |
| Marketable securities | 960,282 | 1,124,723 | 960,282 | 1,124,723 |
| Derivate financial instruments | 409,320 | 368,928 | 409,320 | 368,928 |
| Total | 2,586,377 | 1,684,064 | 2,586,377 | 1,684,064 |
| | - | - | - | - |
| Liabilities | | | | |
| Loans, financing and debentures | (1,605,172) | (1,664,411) | (1,605,172) | (1,664,411) |
| Total | (1,605,172) | (1,664,411) | (1,605,172) | (1,664,411) |

6 Other recoverable taxes

| | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Contribution Financing of Social Security (COFINS) | 139,237 | 154,331 |
| Value-added Tax on Sales and Services (ICMS) | 113,174 | 114,137 |
| Social Integration Program (PIS) | 30,268 | 34,648 |
| Other | 4 | 164 |
| | 282,683 | 303,280 |
| Current | 267,007 | 292,204 |
| Non-Current | 15,676 | 11,076 |

7 Contract assets

| | Contract assets |
|---|-----------------|
| Cost value: | |
| December 31, 2018 (reclassified) | 217,855 |
| Additions | 541,780 |
| Transfer to intangible assets | (333,264) |
| September 30, 2019 | 426,371 |



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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 September 30, 2019, R\$ 13,683 was capitalized at an average rate of 7.95% p.y. (R\$ 7,002 and 8.05% for the period of September 30, 2018).

8 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 | - | - | 57,888 | 57,888 |
| Disposals | (49,522) | (145) | - | (49,667) |
| Transfers | 344,534 | 30,522 | (42,085) | 332,971 |
| September 30, 2019 | 7,035,935 | 807,818 | 44,173 | 7,887,926 |
| Amortization | | | | |
| December 31, 2018 (reclassified) | (2,320,225) | (655,211) | - | (2,975,436) |
| Additions | (201,358) | (48,955) | - | (250,313) |
| Disposals | 26,542 | 107 | - | 26,649 |
| Transfers | (7) | 300 | - | 293 |
| September 30, 2019 | (2,495,048) | (703,759) | - | (3,198,807) |
| December 31, 2018 (reclassified) | 4,420,698 | 122,230 | 28,370 | 4,571,298 |
| September 30, 2019 | 4,540,887 | 104,059 | 44,173 | 4,689,119 |

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 September 30, 2019. There are no intangibles with indefinite useful lives of material values in the Company.



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9 Commitments

The balance of this account is considered as an asset or liability in accordance with the chart of accounts and are not recognized in the interim financial statements presented here in accordance with accounting practices adopted in Brazil and also internationally (IFRS), as their respective realization/ settlement depends on regulatory agency deliberations.

Regulatory assets (liabilities):

| | September 30, 2019 | December 31, 2018 |
|---|---------------------------|--------------------------|
| Cost of gas to be recovered/ (transferred) | 522,345 | 504,175 |
| Credits of taxes to be recovered/ (transferred) | (390,329) | (252,816) |
| Amount | 132,016 | 251,359 |
| <i>Effect on the result for the period</i> | | |
| Result not recognized in income before taxes | (119,343) | 472,256 |
| Regulatory assets | (13,042) | 672,810 |
| Regulatory liabilities - taxes | (113,741) | (127,815) |
| | (126,783) | 544,995 |
| Actualization | 31,213 | 3,713 |
| Extemporaneous credits | (23,773) | (76,452) |
| | (119,343) | 472,256 |



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10 Income tax and social contribution

a) Reconciliation of income tax and social contribution expenses

| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|--|---|---|--|---|
| Profit before income tax and social contribution | 649,855 | 1,510,239 | 246,361 | 691,176 |
| Income tax and social contribution - nominal rate (34%) | (220,951) | (513,481) | (83,763) | (235,000) |
| <i>Adjustments to determine the effective rate</i> | | | | |
| Permanent additions (donations, etc.) | (1,048) | (6,572) | 5,952 | 2,711 |
| Tax incentives | 9,211 | 9,325 | 5,875 | 46 |
| PAT – workers food program | 1,036 | 1,160 | 12,968 | 13,948 |
| Other | (239) | (663) | 98 | 7,710 |
| Income tax and social contribution expense (current and deferred) | (211,991) | (510,231) | (58,870) | (210,585) |
| Effective rate | 32.62% | 33.78% | 23.90% | 30.47% |



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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:

| | September 30, 2019 | December 31, 2018 |
|--|---------------------------|--------------------------|
| Active differences | | |
| Temporary differences | 28,532 | 22,576 |
| Exchange variation – loans and financing ⁽ⁱⁱ⁾ | 14,346 | - |
| Provision for legal proceedings | 41,763 | 38,397 |
| Post-employment benefit obligation ⁽ⁱ⁾ | 175,621 | 171,469 |
| Impairment of trade receivables | 9,056 | 9,265 |
| Regulatory current account | 55,306 | 59,597 |
| Share-base payment transactions | 1,435 | 869 |
| Leases | 207 | - |
| Other | 8,281 | 1,095 |
| Deferred taxes assets | 334,547 | 303,268 |
| Passive differences | | |
| Useful life of intangible assets | (264,270) | (284,774) |
| Leases | - | (14) |
| Intangible assets - concession agreement | (6,345) | (6,745) |
| Not realized result with derivatives ⁽ⁱⁱ⁾ | (96,685) | (104,613) |
| Other | (14,103) | (9,548) |
| Deferred tax liabilities | (381,403) | (405,694) |
| Total deferred taxes | (46,856) | (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 | 55,570 |
| September 30, 2019 | (46,856) |



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11 Provision for legal proceedings and judicial deposits

| | Provision for lawsuits | | Judicial deposit | |
|-------------------------------------|------------------------|----------------------|-----------------------|----------------------|
| | September 30, 2019 | December 31, 2018 | September 30, 2019 | December 31, 2018 |
| Tax | 8,593 | 8,350 | 21,556 | 20,998 |
| Civil, environmental and regulatory | 48,760 | 44,420 | 20,540 | 19,528 |
| Labor | 72,991 | 68,202 | 12,836 | 12,359 |
| | 130,344 | 120,972 | 54,932 | 52,885 |

Changes in provisions for lawsuits:

| | Tax | Civil, environmental and regulatory | Labor | Total |
|---------------------------|--------------|---|---------------|----------------|
| December 31, 2018 | 8,350 | 44,420 | 68,202 | 120,972 |
| Provisions | - | 656 | 6,848 | 7,504 |
| Settlement / Write-offs | - | (249) | (3,714) | (3,963) |
| Monetary variation | 243 | 2,971 | 1,655 | 4,869 |
| Transfers | - | 962 | - | 962 |
| September 30, 2019 | 8,593 | 48,760 | 72,991 | 130,344 |

Possible losses

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

| | September 30, 2019 | December 31, 2018 |
|-----------------------------------|--------------------|-------------------|
| Tax | 1,288,529 | 1,165,030 |
| Civil, environment and regulatory | 90,684 | 90,391 |
| Labor | 37,554 | 37,840 |
| | 1,416,767 | 1,293,261 |



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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:

| | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|--------------------|---------------------------|--------------------------|
| Tax ⁽ⁱ⁾ | 753,950 | 729,571 |
| Federal tax | 452,680 | 342,830 |
| Other | 81,899 | 92,629 |
| | <u>1,288,529</u> | <u>1,165,030</u> |

- (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.

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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12 Shareholders' equity

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 September 30, 2019 | | | | | |
|--------------|--|------------|------------------|------------|----------------|------------|
| | Common shares | % | Preferred shares | % | Total | % |
| Cosan S.A. | 103,699 | 99.84 | 27,682 | 96.59 | 131,381 | 99.14 |
| Other | 164 | 0.16 | 976 | 3.41 | 1,140 | 0.86 |
| Total | 103,863 | 100 | 28,658 | 100 | 132,521 | 100 |

| Stockholders | Number of share - thousand in December 31, 2018 | | | | | |
|-------------------------------------|---|------------|------------------|------------|----------------|------------|
| | Common shares | % | Preferred shares | % | Total | % |
| Cosan S.A. | 100,789 | 97.41 | 4,984 | 17.46 | 105,773 | 80.12 |
| Alaska Poland FIA BDR Nivel 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 Nivel 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 |

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

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



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13 Earnings per share

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

| Earnings per share | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|---|---|---|---|---|
| Numerator | | | | |
| Results of the year | 437,864 | 1,000,008 | 187,491 | 480,591 |
| Common shares | 335,911 | 767,164 | 143,835 | 368,689 |
| Preferred shares | 101,953 | 232,844 | 43,656 | 111,902 |
| 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 | 3.23418 | 7.38633 | 1.38486 | 3.54977 |
| Preferred shares | 3.55760 | 8.12496 | 1.52334 | 3.90475 |
| Diluted earnings per share | | | | |
| Numerator | | | | |
| Results of the year | 437,864 | 1,000,008 | 187,491 | 480,591 |
| Common shares | 335,189 | 765,712 | 143,613 | 368,230 |
| Preferred shares | 102,675 | 234,296 | 43,878 | 112,361 |
| 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 | 28,923 | 28,891 | 28,848 | 28,811 |
| Earnings per share - R\$ | | | | |
| Common shares | 3.22723 | 7.37235 | 1.38272 | 3.54535 |
| Preferred shares | 3.54995 | 8.10958 | 1.52099 | 3.89988 |



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14 Revenue

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

| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|--------------------------------------|---|--|---|--|
| Gross revenue from sales of products | 3,050,436 | 8,242,421 | 2,329,641 | 6,021,352 |
| Gross revenue from sales of services | 21,120 | 50,685 | 23,766 | 56,594 |
| Construction revenue | 199,730 | 541,780 | 106,781 | 292,451 |
| Indirect taxes and deductions | (685,756) | (1,850,505) | (559,204) | (1,445,734) |
| Net sales | 2,585,530 | 6,984,381 | 1,900,984 | 4,924,663 |

15 Costs and expenses by nature

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

| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|-------------------------------------|---|--|---|--|
| Cost of gas | (1,276,243) | (3,642,507) | (1,061,419) | (2,585,697) |
| Cost of transportation and other | (190,218) | (531,702) | (209,088) | (581,939) |
| Construction revenue | (199,730) | (541,780) | (106,781) | (292,451) |
| Personal expenses | (57,254) | (159,406) | (58,363) | (150,159) |
| Expenses materials/ services | (82,584) | (223,939) | (69,772) | (209,079) |
| Amortization | (82,468) | (252,438) | (85,954) | (259,044) |
| | (1,888,497) | (5,351,772) | (1,591,377) | (4,078,369) |
| Cost of gas and services | (1,666,191) | (4,715,989) | (1,377,288) | (3,460,087) |
| Selling expenses | (41,721) | (112,441) | (38,463) | (110,025) |
| General and administrative expenses | (180,585) | (523,342) | (175,626) | (508,257) |
| | (1,888,497) | (5,351,772) | (1,591,377) | (4,078,369) |



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16 Finance results

The details of revenues and financial costs are as follows:

| | July 01, 2019 to September 30, 2019 | January 01, 2019 to September 30, 2019 | July 01, 2018 to September 30, 2018 | January 01, 2018 to September 30, 2018 |
|---|---|---|---|---|
| Cost of gross debt | | | | |
| Interest on debt | (56,254) | (180,184) | (82,351) | (229,523) |
| Adjustment to fair value of debt and derivative | 498 | (12,554) | 2,470 | (4,058) |
| Exchange rate variation on debt | (50,554) | (44,638) | (30,811) | (118,637) |
| Exchange derivatives | 50,495 | 44,547 | 30,771 | 120,193 |
| Debt guarantees | (4,161) | (14,654) | (6,398) | (19,887) |
| | <u>(59,976)</u> | <u>(207,483)</u> | <u>(86,319)</u> | <u>(251,912)</u> |
| | - | - | - | - |
| Financial investment income | 36,371 | 90,367 | 40,454 | 104,999 |
| | <u>36,371</u> | <u>90,367</u> | <u>40,454</u> | <u>104,999</u> |
| | | | - | - |
| Cost of debt, net | (23,605) | (117,116) | (45,865) | (146,913) |
| Other charges and monetary variations | | | | |
| Tax about financial income | (2,178) | (6,003) | (2,481) | (6,897) |
| Interest on other operations | 6,757 | 26,200 | 8,733 | 30,203 |
| Interest on customer | 9,195 | 24,669 | 5,855 | 17,603 |
| Interest on judicial deposits | 479 | 1,469 | 335 | 1,154 |
| Interest on actuarial liabilities and other | (12,125) | (36,299) | (10,238) | (3,218) |
| Other monetary variations | (3) | (9) | (5,725) | (16,879) |
| Interest on contingencies | (2,003) | (5,663) | (1,880) | (5,372) |
| Bank expenses | (3,198) | (3,304) | (4,164) | (12,666) |
| | <u>(3,076)</u> | <u>1,060</u> | <u>(9,565)</u> | <u>3,928</u> |
| Financial results, net | (26,681) | (116,056) | (55,430) | (142,985) |
| Reconciliation | | | | |
| Finance expense | (83,055) | (270,632) | (126,510) | (335,828) |
| Finance income | 52,790 | 142,922 | 55,460 | 154,443 |
| Exchange rate variation, net | (50,554) | (44,638) | (30,811) | (118,637) |
| Derivatives ⁽ⁱ⁾ | 54,138 | 56,292 | 46,431 | 157,037 |
| Financial results, net | (26,681) | (116,056) | (55,430) | (142,985) |

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



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17 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 September 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:

| | September 30, 2019 | December 31, 2018 |
|---------------------------------------|---------------------------|--------------------------|
| Loans, borrowings and debentures | (618,645) | (681,667) |
| Derivative financial instruments | 618,645 | 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 September 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 September 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 | | | | |
| | September 30, 2019 | Probable | 25% | 50% | -25% | -50% |
| Dollar | 4.1644 | 3.9700 | 4.9625 | 5.9550 | 2.9775 | 1.9850 |

| Instrument | Risk factor | Probable | Scenario | | | |
|----------------------------------|---|----------|-----------|-----------|-----------|-----------|
| | | | 25% | 50% | -25% | -50% |
| Loans, borrowings and debentures | Increases in the exchange rate R\$/US\$ | 28,879 | (147,442) | (294,883) | 147,442 | 294,883 |
| Derivative financial instruments | Decreases in the exchange rate R\$/US\$ | (28,879) | 147,442 | 294,883 | (147,442) | (294,883) |
| 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 | | | | |
|---------|----------|---|------|-------|-------|--|
| | | Scenario | | | | |
| | Probable | 25% | 50% | (25%) | (50%) | |
| SELIC | 4.90 | 6.13 | 7.35 | 3.68 | 2.45 | |
| CDI | 4.90 | 6.13 | 7.35 | 3.68 | 2.45 | |
| TJLP | 5.20 | 6.50 | 7.80 | 3.90 | 2.60 | |
| TJLP462 | 6.20 | 7.50 | 8.80 | 4.90 | 3.60 | |
| IPCA | 3.85 | 4.81 | 5.77 | 2.89 | 1.92 | |
| IGPM | 3.79 | 4.74 | 5.69 | 2.84 | 1.90 | |



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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 | 84,058 | 21,015 | 42,029 | (21,015) | (42,029) |
| Financial investments | 47,054 | 11,763 | 23,527 | (11,763) | (23,527) |
| Derivatives financial instruments | 16,330 | (61,955) | (107,234) | 39,254 | 95,877 |
| Loans, financing and debentures | (137,781) | (28,592) | (57,185) | 28,592 | 57,185 |
| Impacts on income | 9,661 | (57,769) | (98,863) | 35,068 | 87,506 |

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:

| | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Cash and cash equivalents ⁽ⁱ⁾ | 1,715,479 | 602,618 |
| Marketable securities | 960,282 | 1,124,723 |
| Trade receivables ⁽ⁱⁱ⁾ | 1,057,419 | 695,147 |
| Derivatives financial instruments | 409,320 | 368,928 |
| Receivables from related parties | 1,354 | 1,158 |
| | 4,143,854 | 2,792,574 |

⁽ⁱ⁾ The Company understand that credit risk is no relevant, as it refers to banks and first financial institutions.

⁽ⁱⁱ⁾ As of September 30, 2019, the Company had a portfolio of approximately 1,972 million customers in the residential, commercial, industrial, vehicular, cogeneration, 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.

Net assets are mainly invested in government securities and other investments in banks with a minimum grade of "A", substantially reducing credit risk. 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 as follows:

| | September 30, 2019 | December 31, 2018 |
|-----|---------------------------|--------------------------|
| AAA | 2,523,419 | 1,604,865 |
| AA | 561,662 | 491,404 |
| | 3,085,081 | 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.

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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:

| | September 30, 2019 | | | | Total | December 31, 2018 |
|---|--------------------|------------------|--------------------|--------------------|--------------------|----------------------|
| | Up to 1 year | 1 - 2 years | 3 - 5 years | More than 5 years | | Total |
| Loans, financing and debentures | (728,516) | (621,716) | (1,741,537) | (1,013,353) | (4,105,122) | (4,882,530) |
| Derivatives financial instruments | 139,281 | 63,728 | 202,253 | - | 405,262 | 360,761 |
| Suppliers | (1,177,151) | - | - | - | (1,177,151) | (1,012,895) |
| Other financial liabilities | (69,577) | - | - | - | (69,577) | (52,868) |
| Dividends and interest on own capital payable | (1,033) | - | - | - | (1,033) | (11,551) |
| Tax debts | (704) | (706) | (1,425) | (4,527) | (7,362) | (7,729) |
| Leases | (2,945) | (1,993) | (7,696) | (3,046) | (15,680) | - |
| Payables to related parties | (9,320) | - | - | - | (9,320) | (14,994) |
| | (1,849,965) | (560,687) | (1,548,405) | (1,020,926) | (4,979,983) | (5,621,806) |

18 Post-employment benefits

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

| | |
|--------------------------------|----------------|
| December 31, 2018 | 504,320 |
| Current service cost | 360 |
| Interest expense | 34,200 |
| Expected return on plan assets | (22,347) |
| September 30, 2019 | 516,533 |

19 Share-based payment

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

| Data do programa | Expectativa de exercício (anos) | Taxa de juros | Volatilidade | Quantidade em 30/09/2019 | | | Preço de mercado na data de outorga | Valor justo na data de outorga R\$ (i) |
|------------------|---------------------------------|---------------|--------------|--------------------------|------------------------------|----------------|-------------------------------------|--|
| | | | | Ações outorgadas | Ações exercidas / canceladas | Em 30/09/2019 | | |
| 20/04/2017 | 5 | 12.16% | 27.20% | 61,300 | (4,725) | 56,575 | 47.80 | 37.29 |
| 12/08/2017 | 5 | 10.09% | 30.00% | 97,780 | (6,000) | 91,780 | 54.25 | 36.37 |
| 01/08/2018 | 5 | 10.56% | 32.38% | 96,787 | - | 96,787 | 59.66 | 37.45 |
| 31/07/2019 | 5 | 6.82% | 32.81% | 83,683 | - | 83,683 | 79.00 | 78.57 |
| | | | | 339,550 | (10,725) | 328,825 | | |

(i) Fair value measurement was made using the Black-Scholes pricing model.



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Reconciliation of outstanding stock options

There were changes in the number of outstanding premiums and their weighed average prices.

| | <u>Share-based payment plan</u> |
|---------------------------|-------------------------------------|
| December 31, 2018 | 255,867 |
| Granted | 83,683 |
| Exercised | (10,725) |
| September 30, 2019 | <u>328,825</u> |

Expenses recognized in income

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

| | <u>Share-based payment plan</u> |
|---------------------------|-------------------------------------|
| September 30, 2018 | 1,144 |
| September 30, 2019 | <u>1,666</u> |

20 Subsequent events

On October 8, 2019, was approved in the Board of Directors' Meeting the public offering of the 8th issue of simple, non-convertible, unsecured debentures, in a single series, for public distribution with restricted efforts distribution, of 2,000 debentures, registered and book-entry, with nominal value of R\$ 1,000,000 at the date of issue, totaling R\$ 2,000,000,000 (two billion reais). in accordance with the procedures of CVM Instruction 476. This issue was settled on October 25, 2019, when the financial resources were made available to a Company.