Companhia de Gás de São Paulo - COMGÁS

Financial statements

December 31, 2019

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KPMG Auditores Independentes
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Independent Auditor's Report on the Financial Statements

To the Board of Directors and Shareholders of
Companhia de Gás de São Paulo – COMGÁS.
São Paulo - SP

Opinion

We have audited the financial statements of Companhia de Gás de São Paulo - COMGÁS ("the Company"), which comprise the statement of financial position as at December 31, 2019 the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Companhia de Gás de São Paulo - COMGÁS as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements of the current period. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Unbilled revenue	
See Note 6.3 to the financial statements	
The Key audit matter	**How the matter was addressed in our audit**
On a monthly basis, the Company recognizes revenue from gas sales operations based on the measurement of its customers' consumption. This consumption measurement and its billing occurs in monthly cycles whose dates may differ from the monthly accounting closing dates. Unbilled revenue is recognized for that time interval between the date of the last measurement and the end of the month based on an estimate that takes into account the volume of gas consumed per customer segment and its measurement based on the different applicable tariffs for each segment. The balance of unbilled revenue for the year ended December 31, 2019 is R$ 622.572 thousand. Due to the relevance of the unbilled revenue balance and the judgment level to estimate the allocation of the gas volume among the customer segments during the time interval between the date of the last measurement and the end of the month, this matter was considered significant for our audit.	We evaluated the key controls for allocating the gas volume between customer segments during the time interval between the date of the last measurement and the end of the month. We perform the following procedures: (i) Documental test, based on sampling, of the information that was used by the Company as the basis for allocating the gas volume per customer segment. (ii) Recalculation of unbilled revenue by customer segment, including evaluation of the key assumptions used. (iii) Independent estimation of the allocation of the gas volume per customer segments considering the historical consumption at the end of the year and comparison to the estimated volume per segment calculated by the Company (iv) Comparison the tariffs used for valuation of revenue per customer segment, with the tariffs determined by the regulatory agency. (v) Comparison of the average consumption assumption estimated by the Company with the actual average consumption referring to the billing of the subsequent cycle occurred in January 2020. (vi) Reconciliation of unbilled revenue balance with accounting records. We have also considered the disclosures made in the financial statements consider the relevant aspects required by the applicable financial reporting frameworks. Based on the evidence obtained through the above summarized procedures, we consider that the unbilled revenue balance and the corresponding notes are acceptable in the context of the financial statements taken as a whole, for the year ended December 31, 2019.

Other matters – Statements of value added

The statements of value added (DVA) for the year ended December 31, 2019, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statement of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement and are consistent with the overall financial statements.

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

Management is responsible for the other information comprising the management report.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

São Paulo, February 11, 2020.

KPMG Auditores Independentes
CRC 2SP014428/O-6
(Original report in Portuguese signed by)
José Carlos da Costa Lima Junior
Accountant CRC 1SP243339/O-9

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

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

	Note	December 31, 2019	December 31, 2018 (Reclassified)
Assets			
Cash and cash equivalents	6.1	1,083,410	602,618
Marketable securities	6.2	200,233	1,124,723
Trade receivables	6.3	974,296	674,992
Derivative financial instruments	6.7	128,786	114,891
Inventories		89,586	65,259
Gas paid and not used	8	23,464	254,651
Receivables from related parties	6.4	1,820	1,158
Income tax and social contribution		-	72,143
Other recoverable taxes	7	249,957	292,204
Other assets		40,504	29,876
Current assets		**2,792,056**	**3,232,515**
Trade receivables	6.3	13,101	20,155
Deferred tax assets	12	18,459	-
Other recoverable taxes	7	19,902	11,076
Judicial deposits	13	52,104	52,885
Derivative financial instruments	6.7	245,944	254,037
Other assets		195	756
Right of use		10,128	-
Contract assets	10	594,601	217,855
Intangible assets	9	4,705,232	4,571,298
Non-current assets		**5,659,666**	**5,128,062**
Total assets		**8,451,722**	**8,360,577**

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

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

	Note	December 31, 2019	December 31, 2018
Liabilities			
Loans, financing and debentures	6.5	908,522	679,735
Trade payables	6.6	1,154,206	1,012,895
Employee benefits payable		59,928	63,520
Income tax payables		395,730	-
Other taxes payable		177,463	70,768
Dividends and interest on capital payable		1,450	11,551
Payables to related parties	6.4	6,515	14,994
Other financial liabilities		92,111	52,868
Leases		1,680	-
Other liabilities		10,288	8,879
Current liabilities		**2,807,893**	**1,915,210**
Loans, financing and debentures	6.5	4,336,420	2,971,810
Provision for legal proceedings	13	128,735	120,972
Post-employment benefits	21	630,549	504,320
Deferred tax liabilities	12	-	102,426
Other tax payable		6,142	6,464
Leases		9,163	-
Other liabilities		13,312	18,051
Non-current liabilities		**5,124,321**	**3,724,043**
Total liabilities		**7,932,214**	**5,639,253**
Shareholders' equity	14		
Share capital		536,315	1,650,032
Capital reserve		6,175	60,032
Revaluation reserve		5,761	5,761
Carrying value adjustments		(233,009)	(161,597)
Profit reserve		204,266	1,167,096
Shareholders' equity		**519,508**	**2,721,324**
Total liabilities and shareholders' equity		**8,451,722**	**8,360,577**

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

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Statement of profit or loss

December 31, 2019 and 2018

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

	Note	December 31, 2019	December 31, 2018
Net sales	16	9.514.222	6,840,011
Cost of gas and services	17	(6.402.338)	(4,901,715)
Gross result		**3.111.884**	**1,938,296**
Selling expenses	17	(154.908)	(146,400)
General and administrative expenses	17	(742.109)	(712,398)
Other income (expense), net	18	(40.523)	763,609
Operating expenses		**(937.540)**	**(95,189)**
Result before financial results and taxes		**2.174.344**	**1,843,107**
Finance expense		(405.098)	(448,034)
Finance income		205.637	482,342
Foreign exchange gain (loss)		(27.518)	(93,810)
Derivatives		46.598	138,275
Financial results, net	19	**(180.381)**	**78,773**
Result before income tax and social contribution		**1.993.963**	**1,921,880**
Current		(710.881)	(368,954)
Deferred		84.097	(213,493)
Income tax and social contribution	12	**(626.784)**	**(582,447)**
Net result for the exercise		**1.367.179**	**1,339,433**
Earnings per share attribute to the owners of the Company, expressed in reais per share			
Basic per share:	15		
Common shares		10,09835	9,89341
Preferred shares		11,10819	10,88275
		21,20654	**20,77616**
Diluted per share:	15		
Common shares		10,07811	9,87980
Preferred shares		11,08592	10,86778
		21,16403	**20,74758**

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

Statement of comprehensive income

December 31, 2019 and 2018

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

	December 31, 2019	December 31, 2018
Result for the year	**1,367,179**	**1,339,433**
Other comprehensive income		
Items that will not be reclassified to the result:	-	-
Actuarial loss on defined benefit plan	(108,200)	(48,939)
Taxes over actuarial loss on defined benefit plan	36,788	16,639
Total other comprehensive income for the year	**(71,412)**	**(32,300)**
Total comprehensive income for the year	**1,295,767**	**1,307,133**

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

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

		Capital reserves				Profit reserve				
	Share capital	Tax incentives	For the future capitalization	Granted shares recognized	Revaluation reserves	Legal reserve	Profit retention	Retained earnings	Carrying value adjustments	Total equity
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 year	-	-	-	-	-	-	-	1,367,179	-	1,367,179
Comprehensive income:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Actuarial loss on defined benefit plan	-	-	-	-	-	-	-	-	(108,200)	(108,200)
Taxes on actuarial loss on defined benefit plan	-	-	-	-	-	-	-	-	36,788	36,788
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,367,179**	**(71,412)**	**1,295,767**
Increase capital	386,283	-	(56,276)	-	-	(330,007)	-	-	-	-
Decrease capital (Note 14)	(1,500,000)	-	-	-	-	-	-	-	-	(1,500,000)
Dividends payed	-	-	-	-	-	-	(837,089)	(997,958)	-	(1,835,047)
Interest on capital	-	-	-	-	-	-	-	(164,955)	-	(164,955)
Legal reserve	-	-	-	-	-	68,359	-	(68,359)	-	-
Granted shares recognized	-	-	-	2,603	-	-	-	-	-	2,603
Share-based payment	-	-	-	(184)	-	-	-	-	-	(184)
Profit retention	-	-	-	-	-	-	135,907	(135,907)	-	-
Total contributions by and distributions to owners	**(1,113,717)**	**-**	**(56,276)**	**2,419**	**-**	**(261,648)**	**(701,182)**	**(1,367,179)**	**-**	**(3,497,583)**
At December 31, 2019	**536,315**	**1,201**	**-**	**4,974**	**5,761**	**68,359**	**135,907**	**-**	**(233,009)**	**519,508**

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

Statement of changes in shareholder's equity

December 31, 2019 and 2018

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

		Capital reserves					Profit reserve				
	Share capital	**Tax incentives**	**For the future capitalization**	**Special goodwill reserve**	**Granted shares recognized**	**Revaluation reserves**	**Legal reserve**	**Profit retention**	**Retained earnings**	**Carrying value adjustments**	**Total equity**
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 year	-	-	-	-	-	-	-	-	1,339,433	-	1,339,433
Comprehensive income:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Actuarial loss on defined benefit plan	-	-	-	-	-	-	-	-	-	(48,939)	(48,939)
Taxes on actuarial loss on defined benefit plan	-	-	-	-	-	-	-	-	-	16,639	16,639
Realization of revaluation reserve	-	-	-	-	-	(77)	-	-	77	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(77)**	**-**	**-**	**1,339,510**	**(32,300)**	**1,307,133**
Increase capital	168,828	-	(168,828)	-	-	-	-	-	-	-	-
Dividends proposed	-	-	-	-	-	-	-	-	(456,632)	-	(456,632)
Interest on capital	-	-	-	-	-	-	-	-	(141,599)	-	(141,599)
Legal reserve	-	-	-	-	-	-	62,964	-	(62,964)	-	-
Special goodwill reserve	-	-	56,276	(56,276)	-	-	-	-	-	-	-
Granted shares recognized (Note 22)	-	-	-	-	1,699	-	-	-	-	-	1,699
Profit retention	-	-	-	-	-	-	-	678,315	(678,315)	-	-
Total contributions by and distributions to owners	**168,828**	**-**	**(112,552)**	**(56,276)**	**1,699**	**-**	**62,964**	**678,315**	**(1,339,510)**	**-**	**(596,532)**
At December 31, 2018	**1,650,032**	**1,201**	**56,276**	**-**	**2,555**	**5,761**	**330,007**	**837,089**	**-**	**(161,597)**	**2,721,324**

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

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Statement of cash flows
December 31, 2019 and 2018
(In thousands of Brazilian Reais - R$, unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Cash flows from operating activities			
Result before taxes		1,993,963	1,921,880
Adjustments for:			
Amortization		338,269	343,157
Loss on the disposal of intangible assets		43,443	29,542
Granted shares recognized	22	2,603	1,699
Provision for judicial demands		6,588	10,291
Interest, monetary and exchange variations		234,595	119,793
Provisions for employee benefits		57,057	54,089
Impairment of trade receivables	6.3	12,898	16,215
Indemnities	18	-	(726,000)
Other		(24,901)	(203,370)
		2,664,515	**1,567,296**
Changes in:			
Trade receivables		(265,956)	(53,881)
Inventories		(21,314)	8,183
Other taxes, net		(59,125)	(418,167)
Trade payables		284,953	545,009
Employee benefits		(60,649)	(49,628)
Post-employment benefits		(27,571)	(26,225)
Other assets and liabilities, net		(2,550)	584
		(152,212)	**5,875**
Net cash provided by operating activities		**2,512,303**	**1,573,171**
Cash flows from investing activities			
Marketable securities		977,778	(590,989)
Cash received on sale of other permanent assets		28	1,123
Additions to intangible assets and contract assets		(775,769)	(531,739)
Net cash provided (used) in investing activities		**202,037**	**(1,121,605)**
Cash flows from financing activities			
Proceeds from new loans, borrowings and debentures	6.5	1,998,235	482,449
Payments of principal on loans, borrowings and debentures	6.5	(626,439)	(1,263,509)
Payments of interest on loans, borrowings and debentures	6.5	(200,348)	(230,333)
Payments of derivative financial instruments		(3.856)	(4.728)
Receipts of derivative financial instruments		112,052	196,419
Payments of principal on leases		(2.362)	-
Payments of interest on leases		(870)	-
Capital Decrease		(1.499.675)	-
Dividends and interest on capital paid		(2,010,101)	(756,767)
Share options exercised		(184)	-
Net cash used in financing activities		**(2,233,548)**	**(1,576,469)**

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Statement of cash flows
December 31, 2019 and 2018
(In thousands of Brazilian Reais - R$, unless otherwise stated)

	Note	December 31, 2019	December 31, 2018
Increase (decrease) in cash and cash equivalents		**480,792**	**(1,124,903)**
Cash and cash equivalents at beginning of the year		602,618	1,727,521
Cash and cash equivalents at end of the year		**1,083,410**	**602,618**
Additional information:			
Income tax and social contribution paid		(255,523)	(296,783)

The accompanying notes are an integral part of these financial statements

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Statement of value added
December 31, 2019 and 2018

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

		December 31, 2019	December 31, 2018
Revenue			
Sales of gas		11,161,973	8,240,951
Sales of services	16	73,342	69,788
Provision for impairment of trade receivables	6.3	(12,898)	(16,215)
Construction revenue	16	813,341	415,753
Other sales (expenses)		(40,523)	876,999
		11,995,235	**9,587,276**
Cost and expenses			
Cost of gas and transportation		(7,401,651)	(5,888,810)
Cost of services		(22,888)	(31,955)
Construction costs	17	(813,341)	(415,753)
Materials, services and other expenses		(241,805)	(228,999)
		(8,479,685)	**(6,565,517)**
Gross value added		**3,515,550**	**3,021,759**
Retention			
Amortization	17	(338,269)	(343,157)
		(338,269)	**(343,157)**
Net value added generated by the Company		**3,177,281**	**2,678,602**
Value added received through transfer			
Finance income		177,279	453,355
		177,279	**453,355**
Total value added to distributed		**3,354,560**	**3,131,957**
Distribution of value added			
Personnel and social charges		**194,641**	**175,275**
Remuneration		117,379	123,699
Benefits		48,157	36,760
FGTS		29,105	14,816
Taxes and contributions		**1,420,008**	**1,228,385**
Federal		835,898	826,459
State		560,394	377,743
Municipalities		23,716	24,183
Finance costs and rentals		**372,732**	**388,864**
Interest		302,564	297,189
Rents and leases		15,182	14,225
Other		54,986	77,450
Remuneration of shareholder´s equity		**1,367,179**	**1,339,433**
Dividends proposed		997,958	456,632
Interest on capital		164,955	141,599
Profit retention		204,266	741,202
		3,354,560	**3,131,957**

The accompanying notes are an integral part of these financial statements

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

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

Exceptionally, the regulation allows to adjust the cost of gas in a period of less than one year, provided that certain criteria are met, depending on the difference between the cost of gas contained in the tariff and that paid by the 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 the Final Technical Note NTN-0030-2019 and the Detailed Report referring to the conclusion of the 4th Ordinary Tariff Review of the Company, from May 31, 2018 to May 30, 2024. The Final Technical Note NTF-0030-2019 determined, in relation to the Maximum Margin (P0), the value of R $ 0,5182 per cubic meter, in April 2018 currency, having its value readjusted by the variation of the IGP-M in the period comprised between May 2018 and April 2019 and discounted from Factor X. For Factor X, the percentage established was 0.52% per year.

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 December 6, 2019, ARSESP published Resolution 933, for the purpose of non-tariff compensation to the Concessionaire, in the amount of R $ 697,233 in April 2018 currency, prior to monetary updates, as a result of the 3rd Ordinary Tariff Review, a be applied in the manner that may be defined by the Granting Authority until May 31, 2020. With the publication of the aforementioned Resolution, there are no more tariff discussions related to previous periods with the Regulatory Agency. The amount indicated in the resolution was not recognized in these financial statements.

2 Conformity declaration

The financial statements are presented in thousands of Brazilian reais, unless otherwise indicated, including the notes to the financial statements and have been prepared in accordance with accounting practices adopted in Brazil, based on the provisions of the Brazilian Corporation Law, by the Brazilian Securities and Exchange Commission (CVM) - in the Pronouncements and Guidance issued by the Accounting Pronouncements Committee (CPC) - in the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

These 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.

These financial statements are prepared based on historical cost, except when indicated otherwise and were authorized for issue by the Board of Directors on February 6, 2020.

3 Accounting policies

The accounting policies are included in the explanatory notes, except those described below.

3.1 Functional and presentation currency

The financial statements are presented in Reais (R$). The real is the functional currency since it is the currency of the main economic environment in which it operates, generates and consumes cash.

3.2 Use of judgments and estimates

The preparation of the financial statements requires management to make judgments, estimates and adopt assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

Actual results may differ from these estimates.

Estimates and assumptions are reviewed continuously and recognized prospectively when applicable. Information on critical judgments, assumptions and estimates of uncertainties in the application of accounting policies that have a more significant effect on the amounts recognized in the financial statements are included in the following notes:

(i) **Note 6.3** – Trade Receivables
(ii) **Note 6.8** – Fair value of derivatives and other financial instruments
(iii) **Note 9 –** Intangible assets
(iv) **Note 11** – Commitments
(v) **Note 12 –** Income and social contribution taxes
(vi) **Note 13** – Provisions for legal proceedings
(vii) **Note 21** – Post-employment benefits
(viii) **Note 22** – Share-based payments

3.3 Changes in Significant Accounting Policies

3.3.1 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.

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

Assets of right of use are measured at cost, including amount of the initial measurement of the lease liability.

Lease liabilities include the net present value of future lease payments, excluding variable / contingent consideration.

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 edifications 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	12,961
Total assets	**12,961**
Current liabilities	

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

Lease liabilities	2,199
Total current liabilities	2,199
Non-current liabilities	
Lease liabilities	10,762
Total non-current liabilities	10,762
Total liabilities	**12,961**

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.

3.3.2 Other standards and interpretations effective January 1, 2019, without effect on the financial statements

Interpretation ICPC 22 / IFRIC 23 - Uncertainty about Income Tax Treatment

No effects of the adoption of interpretation ICPC 22 / IFRIC 23 that affected the accounting policies of the Company and these financial statements were identified.

3.4 Cash Flow

i. Transactions that do not involve cash

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

i. Capital increase in the amount of R $ 386,283 (R $ 168,828 in 2018) through: (i) capitalization of the goodwill reserve in the amount of R $ 56,276 (R $ 168,828 in 2018); 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 $ 123,011.

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 New standards and interpretations not yet effective

New standards and amendments to the standards will be effective for years beginning after January 1, 2020. Early adoption, although encouraged by the IASB, is not permitted in Brazil by the Accounting Pronouncements Committee (CPC).

No other new accounting pronouncements issued or in effect during the fiscal year have had or are expected to have a material impact on the financial statements.

5 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:

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

	Margin per segment January 1, 2019 to December 31, 2019							
Segments	**Residential**	**Commercial**	**Industrial**	**Cogeneration**	**Automotive**	**Construction revenues**	**Other revenues** (i)	**Total**
Volume (thousands of m³) (not audited)	279,450	160,573	3,516,469	333,800	222,079	-	-	4,512,371
Gross revenue	1,680,569	658,400	7,809,312	517,805	454,864	813,341	73,342	12,007,633
Deductions	(385,462)	(150,850)	(1,763,712)	(80,478)	(104,227)	-	(8,682)	(2,493,411)
Net revenue	1,295,107	507,550	6,045,600	437,327	350,637	813,341	64,660	9,514,222
Regulatory liabilities	(28,879)	(12,167)	(173,354)	(9,916)	(11,909)	-	(34,683)	(270,908)
Cost	(361,492)	(206,876)	(4,528,404)	(351,035)	(285,901)	(813,341)	144,711	(6,402,338)
Economic gross profit	904,736	288,507	1,343,842	76,376	52,827	-	174,688	2,840,976
Reversal of regulatory assets								270,908
Gross profit								3,111,884
Selling expenses								(154,908)
General and administrative expenses								(742,109)
Other operating expenses, net								(40,523)
Operating expenses								(937,540)
Finance expense								(405,098)
Finance income								205,637
Foreign exchange gain (loss)								(27,518)
Derivatives								46,598
Financial result, net								(180,381)
Profit before taxes								1,993,963
Provision for income tax and social contribution								(626,784)
Profit for the year								**1,367,179**

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

Segments	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues (i)	Total
		Margin per segment January 1, 2019 to December 31, 2019						
Reconciliation of EBITDA								
Profit for the year								1,367,179
Provision for income tax and social contribution								626,784
Financial result, net								180,381
Amortization								338,269
Other amortization								(601)
EBITDA								**2,512,012**

(i) Recognized in the cost line the effect of the transaction "Gas paid and not used" for the year. For more details, check note 8 to the financial statements at December 31, 2019.

Segments	Residential	Commercial	Industrial	Cogeneration	Automotive	Construction revenues	Other revenues (i)	Total
	Margin per segment - January 1, 2018 to December 31, 2018							
Volume (thousands of m³) (not audited)	276,153	156,464	3,557,349	327,399	225,933	-	-	4,543,298
Gross revenue	1,278,477	501,553	5,708,952	379,718	340,967	415,753	69,788	8,695,208
Deductions	(292,404)	(114,484)	(1,297,215)	(63,793)	(78,154)	-	(9,147)	(1,855,197)
Net revenue	986,073	387,069	4,411,737	315,925	262,813	415,753	60,641	6,840,011
Regulatory assets (liabilities)	26,675	18,454	479,531	32,058	13,067	-	(24,790)	544,995
Cost	(277,504)	(156,388)	(3,542,551)	(277,084)	(228,415)	(415,753)	(4,020)	(4,901,715)
Economic gross profit	735,244	249,135	1,348,717	70,899	47,465	-	31,831	2,483,291
Reversal of regulatory assets								(544,995)
								-
Gross profit								1,938,296

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

	Margin per segment - January 1, 2018 to December 31, 2018							
Segments	**Residential**	**Commercial**	**Industrial**	**Cogeneration**	**Automotive**	**Construction revenues**	**Other revenues** (i)	**Total**
Selling expenses								(146,400)
General and administrative expenses								(712,398)
Other operating expenses, net								763,609
Operating expenses								(95,189)
Finance expense								(448,034)
Finance income								482,342
Foreign exchange gain (loss)								(93,810)
Derivatives								138,275
Financial result, net								78,773
Profit before taxes								1,921,880
Provision for income tax and social contribution								(582,447)
Profit for the year								**1,339,433**
Reconciliation of EBITDA								
Profit for the year								1,339,433
Provision for income tax and social contribution								582,447
Financial result, net								(78,773)
Amortization								343,157
Other amortization								(556)
EBITDA								**2,185,708**

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

6 Financial assets and liabilities

Accounting practice:
Financial assets are written off when the rights to receive cash flows from these assets have expired or when the Company has substantially transferred all the risks and rewards of ownership.

The Company does not recognize a financial liability when its contractual obligations are withdrawn, canceled or overdue or when its terms are modified, and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

The financial assets and liabilities are as follows:

	Note	December 31, 2019	December 31, 2018
Assets			
Fair value through profit or loss			
Financial investments	6.1	608,660	190,413
Marketable securities	6.2	200,233	1,124,723
Derivative financial instruments	6.7	374,730	368,928
		1,183,623	**1,684,064**
Amortized cost			
Cash and cash equivalents	6.1	474,750	412,205
Trade receivables	6.3	987,397	695,147
Receivables from related parties	6.4	1,820	1,158
		1,463,967	**1,108,510**
Total assets		**2,647,590**	**2,792,574**
Liabilities			
Amortized cost			
Loans, financing and debentures	6.5	(3,733,157)	(1,987,134)
Trade payables	6.6	(1,154,206)	(1,012,895)
Other financial liabilities		(92,111)	(52,868)
Dividends and interest on capital payable		(1,450)	(11,551)
Installment of tax debts		(6,818)	(7,105)
Leases		(10,843)	-
Payables to related parties	6.4	(6,515)	(14,994)
		(5,005,100)	**(3,086,547)**
Fair value through profit or loss			
Loans, financing and debentures	6.5	(1,511,785)	(1,664,411)
		(1,511,785)	**(1,664,411)**
Total liabilities		**(6,516,885)**	**(4,750,958)**

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

6.1 Cash and cash equivalents

Accounting practice:
They are measured and classified at fair value through profit or loss and amortized cost, being high liquidity, with maturity of up to three months, which are subject to an insignificant risk of change in value.

	December 31, 2019	December 31, 2018
Cash and bank deposits	82,422	39,973
Financial investments	1,000,988	562,645
	1,083,410	**602,618**

The financial investments are composed as follows:

	December 31, 2019	December 31, 2018
Investment funds		
Compromised operations	608,660	190,413
	608,660	**190,413**
Applications in banks		
Certificate of bank deposits	392,328	372,232
	392,328	**372,232**
	1,000,988	**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.

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

The Company's onshore financial investments are monetized at rates around 100% of the CDI in December 31, 2019 (100% of CDI at December 31, 2018).

6.2 Marketable securities

Accounting practice:
They are measured and classified at fair value through profit or loss, with the average maturity of government bonds between two and five years, however they can be promptly redeemed and are subject to an insignificant risk of change in value.

	December 31, 2019	December 31, 2018
Marketable securities		
Government security	200,233	1,124,723
	200,233	**1,124,723**

Public securities indexed by the SELIC and maturity between two and five years.

6.3 Trade receivables

Accounting practice:
Trade receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value. The Company holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

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

The expected loss rates are based on the corresponding historical credit losses experienced within this period. The historical loss rates may be adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the interest rate implicit in the contract to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

	December 31, 2019	**December 31, 2018**
Receivable from gas	433,681	327,570
Unbilled revenue [(i)]	622,572	430,596
Receivable from sale of equipment	4,937	6,296
Financing marketing program	27,148	29,020
	1,088,338	**793,482**
Other	-	6,290
Impairment of trade receivable	(100,941)	(104,625)
	(100,941)	**(98,335)**
Total	**987,397**	**695,147**
Current	**974,296**	**674,992**
Non-current	**13,101**	**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. See accounting practice on Note 16 (ii).

The aging of accounts receivable is as follows:

	December 31, 2019	**Estimated loss**	**December 31, 2018**	**Estimated loss**
Not overdue	902,433	(1,203)	626,166	(1,196)
Overdue:				
From 1 to 30 days	50,693	(147)	24,280	(116)
From 31 to 60 days	16,886	(1,293)	7,808	(1,359)
From 61 to 90 days	8,918	(1,572)	5,367	(1,711)
More than 90 days	109,408	(96,726)	129,861	(100,243)
	1,088,338	**(100,941)**	**793,482**	**(104,625)**

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

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

January 1, 2018	**(112,643)**
Provisions / Reversals	(16,215)
Write-off	24,233
January 1, 2019	**(104,625)**
Provisions / Reversals	(12,898)
Write-off	16,582
December 31, 2019	**(100,941)**

6.4 Related parties

Accounting practice:
Sales and purchases involving related parties are made at normal market prices. The outstanding balances at the end of the year are not guaranteed, nor are they subject to interest and are settled in cash. There were no guarantees given or received on any accounts receivable or payable involving related parties. At the end of each period is performed recovery analysis of the values and receive this year no provision was recognized.

a) Accounts receivable and payable from related parties:

	December 31, 2019	**December 31, 2018**
Current Asset		
Commercial operations		
Raízen Combustíveis S.A. (i)	1,820	1,158
	1,820	**1,158**
Current liabilities		
Contractual operations		
Raízen Energia S.A. (ii)	6,515	14,994
	6,515	**14,994**

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

b) Transactions with related parties:

	December 31, 2019	December 31, 2018
Operation income		
Raízen Combustíveis S.A [(i)]	18,117	14,284
Elevações Portuárias S.A. [(iii)]	596	572
	18,713	**14,856**
Income (expense)		
Raízen Energia S.A. [(ii)]	(35,230)	(39,929)
	(35,230)	**(39,929)**

[(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:

	December 31, 2019	December 31, 2018
Short-term benefits to directors	24,070	32,634
Post-employment benefits	407	191
Other long-term benefits	-	547
Share-based payments	1,842	1,030
	26,319	**34,402**

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

6.5 Loans, financing and debentures

Accounting practice:
Initially measured at fair value, net of costs incurred in the transaction and subsequently at amortized cost.

They are written off when the obligation specified in the agreement is settled, canceled or expired. The difference between the carrying amount of a financial liability that has been terminated or transferred to another party and the consideration paid, including any transferred non-cash assets or liabilities assumed, is recognized in profit or loss as other income or financial expense.

Classified as current liabilities, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the balance sheet date.

Financial guarantee agreements issued by the Company are initially measured at fair value and, if not designated at fair value through profit or loss, are subsequently measured at the higher of:
I. the amount of the obligation under the contract; and
II. the amount initially recognized less, when appropriate, accumulated amortization recognized in accordance with revenue recognition policies.

	Interest				
Description	**Index**	**Annual interest rate**	**December 31, 2019**	**December 31, 2018**	**Maturity**
Loan and financing					
BNDES - Project VI	TJ462 + 1.80%	8.37%	144,574	316,854	Oct-20
BNDES - Project VI	SELIC + 1.80%	6.28%	73,540	152,562	Oct-20
BNDES - Project VII	TJLP + 2.00%	7.57%	83,174	107,731	Jun-23
BNDES - Project VII	SELIC + 1.96%	6.45%	52,031	63,852	Jun-23
BNDES - Project VII	TJLP + 2.00%	5.57%	1,667	-	Jun-23
EIB	USD + 3.88%	3.88%	31,770	89,003	Jun-20
	USD + 2.94%	2.94%	29,081	54,508	Sep-20
	USD + LIBOR6M + 0.54%	2.46%	71,129	115,581	May-21
	USD + LIBOR6M + 0.61%	2.66%	89,336	130,402	Sep-21
Resolution 4131	USD + 3.67%	3.67%	313,493	292,173	May-23
Total of loans and financing			**889,795**	**1,322,666**	
3ª emission - 1ª issue	CDI + 0.90%	7.36%	-	43,471	Sep-19
3ª emission - 3ª issue	IPCA + 5.57%	9.84%	108,133	203,613	Sep-20
4ª emission - 1ª issue	IPCA + 7.14%	11.47%	318,412	305,895	Dec-20

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

Description	Interest Index	Annual interest rate	December 31, 2019	December 31, 2018	Maturity
4ª emission - 2ª issue	IPCA + 7.48%	11.82%	286,271	275,014	Dec-22
4ª emission - 3ª issue	IPCA + 7.36%	11.70%	94,366	90,656	Dec-25
5ª emission – Single issue	IPCA + 5.87%	10.15%	859,996	767,638	Dec-23
6ª emission – Single issue	IPCA + 4.33%	8.54%	431,817	414,583	Oct-24
7ª emission – Single issue	IGPM + 6.10%	10.59%	240,900	228,009	May-28
8ª emission – Single issue	CDI + 0.50%	4.92%	2,015,252	-	Oct-22
Total of debentures			**4,355,147**	**2,328,879**	
Total			**5,244,942**	**3,651,545**	
Current			**908,522**	**679,735**	
Non-current			**4,336,420**	**2,971,810**	

Non-current loans have the following maturities:

	December 31, 2019	December 31, 2018
13 to 24 months	305,973	542,854
25 to 36 months	2,233,865	452,555
37 to 48 months	1,069,912	220,142
49 to 60 months	463,553	1,030,659
61 to 72 months	29,510	28,215
73 to 84 months	77,862	446,513
85 to 96 months	77,862	103,894
Over 96 months	77,883	146,978
	4,336,420	**2,971,810**

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

	December 31, 2019	December 31, 2018
Brazilian Reais (R$)	4,710,133	2,969,878
Dollar (US$) [i]	534,809	681,667
	5,244,942	**3,651,545**

[i] As of December 31, 2019, all debts denominated in US dollars have hedge against exchange rate risk through derivatives (Note 6.8).

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

Some financing agreements for investments are guaranteed by bank guarantee, with an average cost of 0.99% per year. At December 31, 2019, the balance of bank guarantees contracted was R$ 532.558 (R$ 1,195,048 at December 31, 2018).

At below follow the changes in loans, financing and debentures that occurred for the year ended December 31, 2019:

January 1, 2018	**4,212,504**
Raised	482,449
Payment of principal	(1,263,509)
Payment of interest	(230,333)
Monetary and exchange rate adjustment	450,434
December 31, 2018	**3,651,545**
Raised	1,998,235
Payment of principal	(626,439)
Payment of interest	(200,348)
Interest, exchange variation and fair value	421,949
December 31, 2019	**5,244,942**

a. *Banco Nacional de Desenvolvimento Econômico e Social - BNDES*
Expansion of the gas distribution network and is allocated to investments in intangible assets, with the following guarantees offered:

- Project VI - direct operation with the BNDES: bank guarantee of the banks Bradesco (67.83%), Itaú (14.56%) and Safra (17.61%); and
- Project VII - direct operation with BNDES: bank guarantee of banks Santander (39.69%), Safra (26.98%) and Sumitomo (33.33%).
- New contract with BNDES in the amount of R $ 2 billion signed in December 2019 not yet disbursed.

b. *EIB*
Refers to loans denominated in US dollars, bearing interest at the LIBOR rate, maturing up to 2021 and guaranteed by bank guarantee. The funds were used to expand and support the natural gas distribution network.

c. *Resolution 4.131*
Refers to funds raised outside Brazil with several financial institutions, maturing until 2023, in order to finance the Company's cash flow. To mitigate exchange rate and interest rate risk, derivative instruments were contracted.

On May 8, 2018, the Board of Directors approved the signing of the financing agreement between the Company and The Bank of Nova Scotia. The operation, in the amount of US$ 75,000, has a total term of 5 years and a fixed interest rate of 3.67% per year.

d. *Debentures*

(i) 3rd issue

On September 15, 2013, debentures were issued referring to the 3rd issuance of unsecured simple debentures not convertible into shares of the Company. The funds were collected in three series, totaling R$ 540,000. Currently, only the 3rd series of the 3rd issue remains in effect.

Interest will be paid annually in the month of September until the end of the transaction.

The principal and monetary adjustment of the third series will be amortized in two annual installments in the sixth (50%) and seventh (50%) years, so the first payment will be due on September 15, 2019 and the last payment will be due in 15 of September of 2020.

On September 17, 2018, the Company paid interest and principal on the 3rd issue of debentures. The debentures of the 2nd series of the 3rd issue (GASP23) are no longer negotiated due to their maturity.

As of December 31, 2019, the percentages for fair value traded on the secondary market for the third series were 102.18% of the unit price of the curve.

(ii) 4th issue

On December 15, 2015, debentures were issued referring to the 4th issuance of simple unsecured debentures not convertible into shares of the Company. The funds were raised in three series, totaling R $ 591,894.

Interest on the first, second and third series will be paid annually in December until the end of the operation.

The principal and monetary restatement of the first series will be fully amortized at the end of the operation that will occur on December 15, 2020.

The principal amount and monetary adjustment of the second series will be amortized in two annual installments in the sixth (50%) and seventh (50%) years, so the first payment will be due on December 15, 2021 and the last payment will be due in December 15, 2022.

The value of the principal and monetary restatement of the third series will be amortized over the following years: eighth year (33.33%), ninth year (33.335%) and tenth year (33.335%).

As of December 31, 2019, the fair value percentages traded on the secondary market were 104.43% of the unit price of the curve for the first series, 110.88% for the second series, and 117.22% for the third series.

(iii) 5th issue

On December 15, 2016, debentures were issued referring to the 5th issuance of simple unsecured debentures not convertible into shares of the Company. The funds were raised in a single series, totaling R$ 675,000.

Interest on the single series will be paid annually in December until the end of the operation.

The principal amount and monetary restatement of the single series will be fully amortized at the end of the operation that will occur on December 15, 2023.

As of December 31, 2019, the percentage of fair value traded on the secondary market was 110.11% of the unit price of the curve.

(iv) 6th issue

On October 15, 2017, debentures were issued regarding the 6th issuance of unsecured simple debentures not convertible into shares of the Company. The funds were raised in a single series, totaling R$ 400,000.

Interest on the single series will be paid annually in the month of October until the end of the operation.

The principal amount and monetary restatement of the single series will be fully amortized at the end of the operation that will occur on October 15, 2024.

At December 31, 2019, the percentage of fair value traded on the secondary market was 102.71% of the unit price of the curve.

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

(v) 7th issue

On May 23, 2018, debentures were issued regarding the 7th issuance of unsecured simple debentures no convertible into shares of the Company.

The funds were raised in a single series, totaling R$ 215,000.

The 7th issue debentures are entitled to a remuneration corresponding to 6.10% + IGPM and matures in 2028.

(vi) 8th issue

On October 15, 2019 debentures were issued regarding the 8th issuance of unsecured simple debentures no convertible into shares of the Company.

The funds were raised in a single series, add up to R$ 2,000,000.

The 8th issue debentures are entitled to a remuneration corresponding to CDI + 0,5% and matures in October, 2022.

Covenants

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

Debt	Target	Index
Debenture 3ª emission	Net debt / EBTIDA not exceed 4.00	1.43
Debenture 3ª emission	Loans current / Loans total not exceed 0.6	0,16
Debenture 4ª emission	Net debt / EBTIDA not exceed 4.00	1.43
Debenture 4ª emission	Loans current / Loans total not exceed 0.6	0,16
Debenture 5ª emission	Net debt / EBTIDA not exceed 4.00	1.43
Debenture 6ª emission	Net debt / EBTIDA not exceed 4.00	1.43
Debenture 7ª emission	Net debt / EBTIDA not exceed 4.00	1.43
Debenture 8ª emission	Net debt / EBTIDA not exceed 4.00	1.43

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

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

	December 31, 2019	December 31, 2018
Net debt	3,597,412	1,555,276
EBITDA(*)	2,512,012	2,185,708
(=) Net debt/ EBITDA	**1.43**	**0.71**

(*) Last twelve months

	December 31, 2019	December 31, 2018
Loans current (net of derivatives)	781,416	564,844
Loans total (net of derivatives)	4,881,055	3,282,617
(=) Loans current/ Loans total	**0.16**	**0.17**

6.6 Trade payables

Accounting practice:
The amounts of suppliers are the same as their fair values, due to their short-term nature and are generally paid within 30 days of recognition.

	December 31, 2019	December 31, 2018
Natural gas suppliers	815,798	838,105
Materials and service suppliers	338,408	174,790
	1,154,206	**1,012,895**

The Company has natural gas supply with Petrobras and Gás Brasiliano under the following conditions:

- Contract with Petrobras on a firm basis, started in January 2008, valid until December 2021, and with contractual daily amount of national gas of 5,22 million m^3 / day, denominated National Firm.

- Contract with Petrobras on a firm basis that will begin in January, 2020, effective until December 2023 and contractual daily quantity of national gas of 4.62 million m^3 / day, denominated NMG.

- Contract with Petrobras on a firm basis, starting in June 1999, effective until December 2021 and contractual daily quantity of Bolivian gas of 8.10 million m^3 / day, denominated TCQ.

- Gas contract entered into the Priority Thermoelectric Program (PPT) with Petrobras, to supply 0.3 million m³ / day with Ingredion Brasil Ingredientes Industriais Ltda, effective until March 31, 2023.

- Contract with Gás Brasiliano in the firm mode, started in April 2008, valid until March 26, 2021 and contracted average monthly volume of 0.760 million m³ and contracted annual volume of 9.12 million m³.

The contracts for the supply of natural gas, TCQ, have price composed of two parcels: one indexed to a basket of fuel oils in the international market and readjusted quarterly; and another adjusted annually based on local. The contract price indexed for Brent, readjusted quarterly and transport party follow the same issues by TCQ contract, readjusted annually for IGP-M.

6.7 Derivatives financials instruments

Accounting Practice:
Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the hedged item. The Company designates certain derivatives as:

(i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(ii) hedge of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecasted transactions (cash flow hedge).

At the beginning of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items, including changes in the cash flows of hedge instruments, to offset changes in the cash flows of hedged items. The Company documents its objective and risk management strategy for the performance of its hedge operations. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the income statement and are included in other gains / (losses).

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

The fair values of the derivative financial instruments designated in the hedge relationships are disclosed below. The total fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is greater than 12 months; is classified as current assets or liabilities when the remaining maturity of the hedged item is less than 12 months.

The Company makes an assessment, both at the beginning of the hedging relationship and on an ongoing basis, as to whether hedging instruments should be highly effective in offsetting changes in fair value or cash flows of the respective attributable hedged items. For the hedged risk, and if the actual results of each hedge are within a range of 60% to 140% (60% - 140% until December 31, 2018)

	Nocional [(i)]		Fair value	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Interest rate and exchange rate risk				
Swap agreements (interest rate)	763,800	843,100	200,104	127,375
Swap agreements (interest rate and exchange)	360,722	461,512	174,626	241,553
	1,124,522	1,304,612	374,730	368,928
Total financial instruments contracted by the Company in assets			**374,730**	**368,928**
Current			**128,786**	**114,891**
Non-current			**245,944**	**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.

Fair value hedge

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.

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

The amounts related to the items designated as hedge instruments were as follows:

	Nocional Ammount (R$)	Accounting Ammount (R$)		Balance Sheet	Year to date of vair value adjustment	
		December 31, 2019	December 31, 2018		December 31, 2019	December 31, 2018
Debits	**763,800**	**(976,974)**	(982,744)	Loans, financing and debentures	**(104,932)**	(114,572)
3rd issues – 3th series	79,299	(108,356)	(204,236)		(14,822)	(34,040)
5th issues – single series	684,501	(868,618)	(778,508)		(90,110)	(80,532)
Derivatives	**763,800**	**200,104**	127,965	Loans, financing and debentures	**94,093**	53,736
3rd issues – 3th series	79,299	24,842	41,286		5,510	11,488
5th issues – single series	684,501	175,262	86,679		88,583	42,248
Total		**(776,870)**	(854,779)		**(10,839)**	(60,836)

6.8 Fair value measurements recognized

Accounting Policy:
When the fair value of financial assets and liabilities cannot be derived from active markets, its fair value is determined using valuation techniques, including the discounted cash flow model. Inputs to these models are obtained from observable markets when possible, but when this is not feasible, a degree of judgment is required to determine fair values. Judgment is required in determining data such as liquidity risk, credit risk and volatility. Changes in these variables could affect the reported fair value of financial instruments.

Specific valuation techniques used to value financial instruments include:

i. the use of quoted market prices;

ii. for swaps we use the present value of estimated future cash flows based on market observable curves; and

iii. for other financial instruments we analyze the discounted cash flow.

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

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

			Assets and liabilities measured at fair value	
		Account	Level 2	Level 2
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Assets				
Financial investments	608,660	190,413	608,660	190,413
Marketable securities	200,233	1,124,723	200,233	1,124,723
Derivate financial instruments	374,730	368,928	374,730	368,928
Total	**1,183,623**	**1,684,064**	**1,183,623**	**1,684,064**
	-	-	-	-
Liabilities			-	
Loans, financing and debentures	(1,511,785)	(1,664,411)	(1,511,785)	(1,664,411)
Total	**(1,511,785)**	**(1,664,411)**	**(1,511,785)**	**(1,664,411)**

7 Other recoverable taxes

	December 31, 2019	December 31, 2018
Contribution Financing of Social Security (COFINS)	135,143	154,331
Value-added Tax on Sales and Services (ICMS)	105,114	114,137
Social Integration Program (PIS)	29,431	34,648
Other	171	164
	269,859	**303,280**
Current	**249,957**	**292,204**
Non-Current	**19,902**	**11,076**

i. On March 15, 2017, the STF decided, in terms of general repercussion, for the provision of Extraordinary Appeal 574,706 filed against a decision that determined the inclusion of ICMS in the PIS and COFINS calculation basis. In 2018, the Company recognized credits for periods after March 2017 resulting from PIS and COFINS contributions based on the STF decision in the amount of R $ 188,216 in deductions from revenues and other revenues. It is important to note that the PIS and COFINS credits make up the regulator's chart of accounts and will be reversed in favor of the concession users through tariff review or annual readjustment, after the final decision, as determined by Portaria CSPE nº 399/2006 and legislation of regency.

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

8 Gas paid and not used

Accounting practice:
Recognized at cost, classified as current or noncurrent depending on the expected realization and tested for impairment annually.

	December 31, 2019	December 31, 2018
Gas paid and not used	23,464	254,651
	23,464	**254,651**

The natural gas supply contracts have specific characteristics, such as minimum withdrawal obligations by the Company.

If the Company consumes below the contractual obligations, it must pay the differences between the volume consumed and the minimum contracted volumes, and may compensate them (through consumption) over the term of the respective contract, provided that the consumption exceeds the minimum quantity contracted.

9 Intangible assets

Accounting Practices:

a. Intangible assets related to the concession contract
The Company has a public concession agreement for a gas distribution service in which the Concession Authority controls what services will be provided and the price, in addition to having a significant stake in the infrastructure at the end of the concession. This concession agreement represents the right to charge users for gas supply during the term of the agreement. Accordingly, the Company recognizes this right as an intangible asset.

The assets acquired or constructed underlying the concession, necessary for the distribution of gas, are amortized over the period in which the future economic benefits of the asset are expected to be reverted to the Company, or the final term of the concession, whichever occurs first. This period reflects the economic useful life of each of the underlying assets that make up the concession. This economic useful life is also used by the regulating agency to determine the basis of measurement of the tariff for the rendering of the services object of the concession.

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

The construction of the necessary infrastructure for the distribution of gas is considered a service to the Granting Authority and the related revenue is recognized at fair value. Financing costs directly related to construction are capitalized.

The company does not recognize the margin in the construction of the infrastructure.

Current intangibles are measured at cost and capitalized as they are available for concession use.

b. ***Contracts with clients***

Costs incurred in developing gas systems for new customers (including pipelines, valves and equipment in general) are recognized as intangible assets and amortized over the contract period.

c. ***Subsequent expenses***

Subsequent expenses are capitalized only when the future economic benefits incorporated in the specific asset to which they relate are increased. All other expenses are recognized in the income statement as incurred.

d. ***Amortization***

Amortization is recognized in the statement of income by the straight-line method, based on estimated useful lives, as of the date they are available for use.

The amortization of intangible assets reflects the expected standard for the use of future economic benefits by the Company, which corresponds to the useful life of the assets that make up the infrastructure.

The amortization of intangible assets is discontinued when the respective asset is fully utilized or written off, and is no longer included in the basis for calculation of the concession services fee, whichever occurs first.

	Concession agreement	**Customer loyalty efforts**	**Loyalty of customers in progress**	**Total**
Cost				
January 1, 2018	**6,441,722**	**1,130,277**	**201,528**	**7,773,527**
Additions	-	-	529,604	529,604
Disposals	(136,276)	(402,266)	-	(538,542)
Transfers	435,477	49,430	(484,907)	-
December 31, 2018	**6,740,923**	**777,441**	**246,225**	**7,764,589**
	-	**-**	(217,855)	**(217,855)**
	6,740,923	**777,441**	**28,370**	**7,546,734**

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

	Concession agreement	Customer loyalty efforts	Loyalty of customers in progress	Total
Additions	-	-	85,439	85,439
Disposals	(67,261)	(214)	-	(67,475)
Transfers	447,862	46,918	(58,477)	436,303
December 31, 2019	**7,121,524**	**824,145**	**55,332**	**8,001,001**
Amortization				
January 1, 2018	**(2,156,162)**	**(976,490)**	**-**	**(3,132,652)**
Additions	(263,584)	(79,573)	-	(343,157)
Disposals	99,881	400,492	-	500,373
Transfers	(360)	360	-	-
December 31, 2018	**(2,320,225)**	**(655,211)**	**-**	**(2,975,436)**
Additions	(272,597)	(62,839)	-	(335,436)
Disposals	14,747	64	-	14,811
Transfers	(8)	300	-	292
December 31, 2019	**(2,578,083)**	**(717,686)**	**-**	**(3,295,769)**
December 31, 2018	**4,420,698**	**122,230**	**28,370**	**4,571,298**
December 31, 2019	**4,543,441**	**106,459**	**55,332**	**4,705,232**

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 year ended December 31, 2019. There is no intangible assets with undefined useful lives at the Company.

10 Contract assets

	Contract assets
Cost value:	
December 31, 2018	**217,855**
Additions	813,341
Transfer to intangible assets	(436,595)
December 31, 2019	**594,601**

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

Capitalization of loan costs

During the year ended on December 31, 2019, R$ 19,877 was capitalized at an average rate of 7.29% p.y. (R$ 9,917 and 8.94% for the year ended on December 31, 2018).

11 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 internationality (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):

	December 31, 2019	December 31, 2018
Cost of gas to be recovered/ (transferred)	427,335	504,175
Credits of taxes to be recovered/ (transferred)	(431,900)	(252,816)
Amount	**(4,565)**	**251,359**
Effect on the result for the exercise		
Result not recognized in income before taxes	**(255,924)**	**472,256**
Regulatory (liabilities) assets	(115,597)	672,810
Regulatory liabilities - taxes	(155,311)	(127,815)
	(270,908)	**544,995**
Actualization	38,757	3,713
Extemporaneous credits	(23,773)	(76,452)
	(255,924)	**472,256**

Commitments with supply contracts

Considering the current gas supply contracts, the Company has a total financial commitment in an estimated present value of R$ 18,736,022, whose value includes the minimum established in contract in both commodities and transportation.

12 Income tax and social contribution

Accounting practice:

The combined income tax and social contribution rate is 34% and are recognized in income, except for certain transactions that are recognized in equity.

(i) Current income and social contribution taxes
It is the tax payable or receivable expected on the taxable profit or loss for the year, using rates prevailing at the balance sheet date, and any adjustment to taxes payable in respect of prior years.

(ii) Deferred income and social contribution taxes
It is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the respective amounts for tax purposes.

The measurement of deferred tax reflects the way in which the Company expects, at the end of the reporting period, to recover or settle the book value of its assets and liabilities.

Deferred tax is measured at the rates that are expected to be applied to the temporary differences in their reversal.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and if they relate to taxes levied by the same taxing authority on the same taxable entity.

(iii) Tax Risks
In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This valuation is based on estimates and assumptions and may involve a series of judgments about future events. New information may become available, which may cause the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes in tax obligations will impact tax expenses in the period in which such determination is made.

(iv) Recoverability of deferred income tax and social contribution
In assessing the recoverability of deferred taxes, management considers the projections of future taxable income and the movements of temporary differences. When it is not probable that part or all the taxes will be realized, the tax asset is reversed. There is no indication of deferred tax not realized at the Company on December 31, 2019. There is no deadline for using tax losses and negative bases, but the use of these accumulated losses from previous years is limited to 30% of annual taxable profits.

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

a) Reconciliation of income tax and social contribution expenses

	December 31, 2019	December 31, 2018
Profit before income tax and social contribution	1.993.963	1.921.880
Income tax and social contribution – nominal rate (34%)	(677,947)	(653,439)
Adjustments to determine the effective rate		
Permanent addictions (donations, gifts, others)	(15,861)	(5,566)
Interest on capital	56.084	48.144
Other	10.940	28.414
Income tax and social contribution expense (current and deferred)	**(626.784)**	**(582.447)**
Effective rate	31.43%	30.31%

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:

Active differences	December 31, 2019	December 31, 2018
Temporary differences	35,928	22,576
Variação cambial - Empréstimos e financiamentos [(ii)]	6,904	-
Provision for legal proceedings	41,112	38,397
Post-employment benefit obligation [(i)]	214,387	171,469
Impairment of trade receivables	9,439	9,265
Regulatory current account	53,875	59,597
Share-base payment transactions	1,754	869
Leases	243	-
Provisões de participações no resultado	9,959	-
Other	971	1,095
Deferred taxes assets	**374,572**	**303,268**

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

	December 31, 2019	December 31, 2018
Active differences		
Passive differences		
Useful life of intangible assets	(257,436)	(284,774)
Leases	-	(14)
Intangible assets - concession agreement	-	(6,745)
Not realized result with derivatives	(82,477)	(104,613)
Other	(16,200)	(9,548)
Deferred tax liabilities	**(356,113)**	**(405,694)**
Total deferred taxes	**18,459**	**(102,426)**

(i) The credit related to the provision of the post-employment benefit plan has an estimated financial realization period of 16.5 years.

(ii) The Company opted for the regime of taxation of foreign exchange variation on loans and financing for the periods finds on December 31, 2019 and 2018.

i. Deferred tax assets	Post-employment obligations	Benefit of employers	Provisions	Leasing	Others	Total
January 31, 2018	149,881	291	149,353	-14	116,709	416,220
Recognized in profit or loss	4,948	578	-79,115	-	-56,016	-129,605
Other comprehensive income	16,639	-	-	-	-	16,639
December 31, 2018	**171,468**	**869**	**70,238**	**-14**	**60,693**	**303,254**
Recognized in profit or loss	6,131	10,844	16,241	257	-5,847	27,626
Other comprehensive income	36,788	-	-	-	-	36,788
Ammounts exchange	-	-	-	-	6,904	6,904
December 31, 2019	**214,387**	**11,713**	**86,479**	**243**	**61,750**	**374,572**

i. Deferred tax liabilities	Assets	Non realized results of derivatives	Others	Total
January 31, 2018	-312,113	1,513	-14,468	-325,068
Recognized in profit or loss	27,339	-106,126	-1,825	-80,612
Other comprehensive income				
December 31, 2018	**-284,774**	**-104,613**	**-16,293**	**-405,680**
Recognized in profit or loss	27,338	22,136	93	49,567
Other comprehensive income				
December 31, 2019	**-257,436**	**-82,477**	**-16,200**	**-356,113**

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

c) Changes in deferred taxes (net)

January 31, 2018	**91,152**
Deferred taxes recognized in income for the period	(213,493)
Initial adoption IFRS 9	3,276
Deferred income taxes on comprehensive income	16,639
December 31, 2018	**(102,426)**
Deferred taxes recognized in income for the exercise	84,097
Deferred income taxes on comprehensive income	36,788
December 31, 2019	**18,459**

d) Realization of deferred income tax and social contribution

In assessing the recoverability of deferred taxes, management considers the projections of future taxable income and the changes in temporary differences. When it is most likely that a part or all of the taxes will not be realized the provision is reversed.

13 Provision for legal proceedings and judicial deposits

Accounting practice:
A provision is recognized, based on a past event, if the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an economic resource will be required to settle the obligation.
The assessment of loss of likelihood includes the available evidence, the hierarchy of laws, case law, most recent court decisions and relevance in the legal system, as well as the opinion of outside lawyers. Provisions are reviewed and adjusted for circumstances such as limitation period, findings of tax inspections or additional exposures identified based on new matters or court decisions.

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

	Provision for lawsuits		Judicial deposit	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Tax	8,663	8,350	21,716	20,998
Civil, environmental and regulatory	47,213	44,420	20,828	19,528
Labor	72,859	68,202	9,560	12,359
	128,735	**120,972**	**52,104**	**52,885**

Changes in provisions for lawsuits:

	Tax	**Civil, environmental and regulatory**	**Labor**	**Total**
January 1, 2018	**16,840**	**30,381**	**60,416**	**107,637**
Provisions	2	4,268	8,184	12,454
Settlement / Write-offs	(3)	(1,792)	(5,619)	(7,414)
Monetary variation (i)	(1,371)	4,445	5,221	8,295
Transfers	(7,118)	7,118	-	-
December 31, 2018	**8,350**	**44,420**	**68,202**	**120,972**
Provisions	-	2.187	7.219	9.406
Settlement / Write-offs	-	(4,339)	(10,808)	(15,147)
Monetary variation (i)	313	3,983	8,246	12,542
Transfers	-	962	-	962
December 31, 2019	**8,663**	**47,213**	**72,859**	**128,735**

(i) Includes write-off of interest.

Possible losses

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

	December 31, 2019	**December 31, 2018**
Tax	1,303,477	1,165,030
Civil, environment and regulatory	93,158	90,391
Labor	35,954	37,840
	1,432,589	**1,293,261**

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

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:

	December 31, 2019	December 31, 2018
Income Tax / Social Contribution	760,961	729,571
Federal tax	459,599	342,830
Others	82,917	92,629
	1,303,477	**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.

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.

14 Shareholders' equity

Accounting Practices:

a. Share capital

Common and Preferred Shares
The common and preferred shares are classified in shareholders' equity. The incremental costs directly attributable to the issuance of new shares are shown in shareholders' equity as a deduction from the amount collected, net of taxes.

Dividends
The minimum dividend amounts established in the bylaws, 25%, are recorded as a liability at the end of each year. Any amount above the mandatory minimum is recognized as a liability only when approved by the shareholders at the general meeting.

Interest on shareholders 'equity is treated as dividends and is presented as a reduction in shareholders' equity. The related tax benefit is recorded in the statement of income.

Dividends are calculated and paid in accordance with the financial statements prepared in accordance with the accounting standards adopted in Brazil.

Legal reserve
It aims to increase the company's capital or absorb losses, but cannot be distributed in the form of dividends. It is constituted with the allocation of 5% of net income for the year up to the limit of 20% of the capital stock.

Profit retention reserve
The profit retention reserve refers to the retention of the remaining balance of profit for the year based on management's proposal, in order to meet the Company's business growth plan, according to the capital budget to be approved by the Board of Directors and submitted to the General Meeting.

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.

On June 11, 2019, the Company's Board of Directors, with a favorable opinion from the Fiscal Council, considering that the share capital became excessive for the normal development of the Company's business and for the achievement of its corporate purpose, approved the proposal for reduction of the capital stock of the Company, in the amount of R$ 1,500,000 without cancellation of shares, maintaining the percentage of shareholder's participation in the capital stock of the Company unchanged, with refund, in cash, to the shareholders of part of the value of their actions. After complying with all the legal requirements applicable to this transaction, the capital reduction was effective on December 27, 2019, and the Company's capital decreased from R$ 2,036,315 to R$ 536,315.

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

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:

	Number of share - thousand in December 31, 2019					
Stockholders	**Common shares**	**%**	**Preferred shares**	**%**	**Total**	**%**
Cosan S.A.	103,699	99.84	27,682	96.59	131,381	99.14
Others	164	0.16	976	3.41	1,140	0.86
Total	**103,863**	**100,00**	**28,658**	**100,00**	**132,521**	**100,00**

	Number of share - thousand in December 31, 2018					
Stockholders	**Common shares**	**%**	**Preferred shares**	**%**	**Total**	**%**
Cosan S.A.	100,789	97.41	4,984	17.46	105,773	80.12
Others	2,684	2.59	23,566	82.54	26,250	19.88
Total	**103,473**	**100,00**	**28,550**	**100,00**	**132,023**	**100,00**

The movement of the number of shares in the year is as follows:

Quantity of shares	**Common**	**Preferred**	**Total**
December 31, 2017	**101,917**	**28,121**	**130,038**
Capital increase	1,556	429	1,985
December 31, 2018	**103,473**	**28,550**	**132,023**
Capital increase	390	108	498
December 31, 2019	**103,863**	**28,658**	**132,521**

b. Retained earnings

January 01, 2018	
Result for the year	1,339,433
Interest on capital 2018, imputes to the minimum mandatory	(141,599)
Transfer to legal reserve	(62,964)
Realization of revaluation	77
Transfer to profit retention	(678,315)
Dividends	(456,632)
December 31, 2018	-
January 01, 2019	
Result for the year	1,367,179
Interest on capital 2019,	(164,955)
Transfer to legal reserve	(68,359)
Transfer to profit retention	(135,907)
Dividends	(997,958)
December 31, 2019	-

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

c. *Interest on capital*

On December 28, 2018, the Board of Directors approved the credit of interest on shareholders' equity, related the period comprised between December 1, 2018 and December 28, 2019, amount of R$ 10,520. The payment of R$ 10.518 was made on January 17, 2019.

On December 04, 2019, the Board of Directors approved the credit of interest on shareholders' equity, related the period comprised between January, 1 2019 and November 30, 2019, amount of R$ 164,955. The payment of R$ 164.925 was made on December 26, 2019.

d. *Dividends*

On December 4, 2019, the payment of interim dividends in the amount of R$ 997,958 was approved and approved based on the Company's interim financial statements of November 30, 2019 and retained earnings of prior year end in the amount of R$ 837.088, add up to R$ 1,835,046. The payment of R$ 1.834.658 was made on December 26, 2019.

Result for the year	1,367,179
Profit available for distribution in December 31, 2019	**1,367,179**
Legal reserve	(68,359)
Dividend calculation basis	**1,298,820**
Mandatory minimum dividends – 25%	**324,705**
Interest on capital	(164,955)
Interim dividends paid	(997,958)
Interest on capital and dividends	**(1,138,177)**
Profit to year destine in 2019	135,907

e. *Allocation of profit for the year*

The next Annual Shareholder´s Meeting will deliberate on the amount of retained earnings that exceeds the capital stock as established in Law nº. 6.404, article 199, as well as any allocation of net income.

15 Earnings per share

Accounting practice:

a. ***Basic earnings per share***
Basic earnings per share are calculated:

(i) i. The profit attributable to the controlling shareholders, excluding any service costs of equity other than common shares; and
(ii) By the weighted average number of common shares outstanding during the year, adjusted by the bonus elements in common shares issued during the year.

b. ***Diluted earnings per share***
Diluted earnings per share adjust the values used to determine basic earnings per share whereat:

(i) The effect after tax of interest income and other financing costs associated with potential dilutive common shares; and
(ii) The weighted average number of additional common shares that would be outstanding, assuming the conversion of all potential dilutive common shares.

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

Earnings per share	**December 31, 2019**	**December 31, 2018 (i)**
Numerator		
Results of the year	1,367,179	1,339,433
Common shares	1,048,843	1,027,557
Preferred shares	318,336	311,876
Denominator (in thousands of shares)		
Weighted average number of common shares	103,863	103,863
Weighted average number of preferred shares	28,658	28,658
Earnings per share - R$		
Common shares	10.09835	9.89341
Preferred shares	11.10819	10.88275

Earnings per share	**December 31, 2019**	**December 31, 2018 (i)**
Diluted earnings per share		
Numerator		
Results of the year	1,367,179	1,339,433
Common shares	1,046,740	1,026,143
Preferred shares	320,439	313,290
Denominator (in thousands of shares)		
Weighted average number of common shares	103,863	103,863
Weighted average number of preferred shares	28,905	28,827
Earnings per share - R$		
Common shares	10.07811	9.87980
Preferred shares	11.08592	10.86778

(i) Due to the capitalization of reserves on April 25, 2019, the disclosure of earnings per share was adjusted retrospectively in accordance with CPC41, item 64.

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.

16 Revenue

Accounting practice:
The Company recognizes revenues from the following ways:

(i) Billed revenue
Gas distribution revenue is recognized when its value can be measured reliably and is recognized in the income statement in the same period in which the volumes are used by the customers based on the monthly measurements made.

(ii) Unbilled revenue
Unbilled gas revenue refers to the part of gas supplied billing and measurement has not yet occurred for customer. This amount is estimated based on the period between the date of the last measurement and the last day of the month.

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

Actual invoiced volume may be different from estimates. The Company believes that, based on its historical experience with similar operations, the estimated amount not billed will not differ significantly from the actual amounts.

(iii) Revenue from concession construction
The construction of the necessary infrastructure for the distribution of gas is considered a construction service provided to the granting authority, and related revenue is recognized in the result in the final phase of the work.

Construction costs are recognized at the end of construction activity of the period, and are included in cost of sales.

(iv) Revenue from services
Service revenues are recognized when the amount of revenue can be measured reliably, when it is probable that the economic benefits associated with the transaction will flow, when the completion stage of the transaction at the end of the period can be reliably determined and measured, and as when their amount and related costs can be measured reliably.

The following is an analysis of the Company's revenue for the year:

	December 31, 2019	**December 31, 2018**
Gross revenue from sales of products	11,120,950	8,209,667
Gross revenue from sales of services	73,342	69,788
Construction revenue	813,341	415,753
Indirect taxes and deductions	(2,493,411)	(1,855,197)
Net sales	**9,514,222**	**6,840,011**

17 Costs and expenses by nature

Accounting practice:
Cost of sales includes the cost of gas and transportation purchases, net of taxes.

Cost of services provided includes personnel expenses and the amortization of assets related to provided services.

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

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

	December 31, 2019	December 31, 2018
Cost of gas	(4,885,497)	(3,767,874)
Cost of transportation and other	(703,500)	(718,088)
Construction revenue	(813,341)	(415,753)
Personal expenses	(234,661)	(209,462)
Expenses materials/ services	(324,087)	(306,179)
Amortization	(338,269)	(343,157)
	(7,299,355)	**(5,760,513)**
Cost of gas and services	(6,402,338)	(4,901,715)
Selling expenses	(154,908)	(146,400)
General and administrative expenses	(742,109)	(712,398)
	(7,299,355)	**(5,760,513)**

18 Other income (expenses), net

	December 31, 2019	December 31, 2018
Recovery taxes program	23,773	76,452
Indemnities (i)	-	726,000
Income from disposals and write-offs	(48,132)	(29,542)
Net effect of legal proceedings	(6,588)	(10,291)
Others	(9,576)	990
	(40,523)	**763,609**

(i) In 2018, Comgás and Petrobras terminated the legal actions proposed by Comgás not related to the cost of gas, and as a consequence, the Company was indemnified and recognized the net tax gain of R$ 726,000.

19 Finance results

Accounting practice:
Financial income includes interest income on invested funds, gains on fair value of financial assets measured at fair value through profit or loss, gains on hedging instruments which are recognized in profit or loss. Interest income is recognized to the extent that it is recognized in profit or loss, using the effective interest rate method.

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

Financial expenses include interest expenses on loans, settlement of the discount of provisions and deferral, losses on the fair value of financial assets at fair value through profit or loss, contingent consideration, reduction losses to recoverable amount recognized in financial assets (other than accounts receivable), losses on hedging instruments that are recognized in the income statement.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the income statement using the effective interest method.

Foreign exchange gains and losses on financial assets and financial liabilities are reported on a net basis as financial income or financial expense, depending on whether the net foreign currency fluctuations result in a gain or loss position.

The details of revenues and financial costs are as follows:

	December 31, 2019	December 31, 2018
Cost of gross debt		
Interest on debt	(259,674)	(291,993)
Adjustment to fair value of debt and derivative	(14,257)	(3,330)
Exchange rate variation on debt	(27,518)	(93,780)
Exchange derivatives	27,461	95,443
Debt guarantees	(20,925)	(25,824)
	(294,913)	**(319,484)**
Financial investment income	138,972	140,964
	138,972	**140,964**
Cost of debt, net	**(155,941)**	**(178,520)**
Other charges and monetary		
Tax about financial income	(8,667)	(19,209)
Interest on other operations (i)	32,548	313,971
Interest on customer	33,057	23,486
Interest on judicial deposits	735	1,278
Interest on actuarial liabilities and other	(47,351)	(13,470)
Other monetary variations	(11)	(24,939)
Interest on contingencies	(8,715)	(9,465)
Bank expenses	(26,036)	(14,359)
	(24,440)	**257,293**
Financial results, net	**(180,381)**	**78,773**

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

	December 31, 2019	December 31, 2018
Reconciliation		
Finance expense	(405,098)	(448,034)
Finance income	205,637	482,342
Exchange rate variation	(27,518)	(93,810)
Derivatives (ii)	46,598	138,275
Financial results, net	**(180,381)**	**78,773**

(i) In 2018, as a consequence of the closing of the lawsuits between the Company and Petrobras, the entire balance of financial restatement of the provisions payable in the amount of R $ 177,423 was reversed, as well as the recognition of the update of the judicial deposit in the amount of R $ 101,583..

(ii) Includes the result of foreign exchange and interest derivatives.

20 Financial risk management

Accounting practice:
This note explains the Company's exposure to financial risks and how these risks may affect its future financial performance. The current year's profit and loss information was included, where relevant, to add more context.

The Company's financial risk management is controlled by the treasury under policies approved by the Board of Directors. The Board provides written principles for global risk management as well as policies covering specific areas such as currency risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and excess liquidity investment. The Company's treasury identifies, evaluates and protects financial risks in close cooperation with the Company's operating units.

When all relevant criteria are met, hedge accounting is applied to eliminate the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in the recognition of interest expense at a fixed interest rate for floating rate secured loans.

The Company's policy is to maintain a robust capital base to promote investor, creditor and market confidence, and to ensure the future development of the business. Management monitors that return on equity is appropriate for each of its businesses.

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

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

	December 31, 2019	December 31, 2018
Loans, borrowings and debentures	(534,810)	(681,667)
Derivative financial instruments	534,810	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 December 31, 2020, which determines the fair value of the derivatives at that date. Stressed scenarios (positive and negative effects, before taxes) were defined based on adverse impacts of 25% and 50% on the US dollar exchange rates used in the probable scenario.

Based on the financial instruments denominated in US dollars, as of December 31, 2019, the Company performed a sensitivity analysis with an increase and decrease in exchange rates (R$ / US$) of 25% and 50%.

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

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			
	December 31, 2019	**Probable**	**25%**	**50%**	**-25%**	**-50%**
Dollar	4.0307	4.0028	5.0035	6.0042	3.0021	2.0014

Instrument	**Risk factor**	**Probable**	**25%**	**50%**	**-25%**	**-50%**
						Scenario
Loans, borrowings and debentures	Increases in the exchange rate R$/US$	3,702	(132,777)	(265,554)	132,777	265,554
Derivative financial instruments	Decreases in the exchange rate R$/US$	(3,702)	132,777	265,554	(132,777)	(265,554)
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	4.50	5.63	6.75	3.38	2.25
CDI	4.61	5.76	6.92	3.46	2.31
TJLP	4.90	6.13	7.35	3.68	2.45
TJLP462	5.90	7.13	8.35	4.68	3.45
IPCA	3.60	4.50	5.40	2.70	1.80
IGPM	4.10	5.12	6.15	3.07	2.05

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

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:

					Scenario
	Probable	**25%**	**50%**	**-25%**	**-50%**
Cash and cash equivalents	49,945	12,486	24,973	12,486	(24,973)
Financial investments	9,231	2,308	4,615	(2,308)	(4,615)
Derivatives financial instruments	-	(54,230)	(96,830)	40,151	92,476
Loans, financing and debentures	(211,753)	(47,928)	(95,857)	47,928	95,857
Impacts on income	**(152,577)**	**(87,364)**	**(163,099)**	**73,285**	**158,745**

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:

	December 31, 2019	**December 31, 2018**
Cash and cash equivalents	1,083,410	602,618
Marketable securities	200,233	1,124,723
Trade receivables [(i)]	987,397	695,147
Derivatives financial instruments	374,730	368,928
Receivables from related parties	1,820	1,158
	2,647,590	**2,792,574**

[(i)] As of December 31, 2019, the Company had a portfolio of approximately 2,009 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.

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

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.

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:

	December 31, 2019	**December 31, 2018**
AAA	1,133,013	1,604,865
AA	525,360	491,404
	1,658,373	**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.

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

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

	December 31, 2019					**December 31, 2018**
	Up to 1 year	**1 - 2 years**	**3 - 5 years**	**More than 5 years**	**Total**	**Total**
Loans, financing and debentures	(1,104,943)	(506,317)	(4,212,729)	(431,490)	(6,255,479)	(4,882,530)
Derivatives financial instruments	163,748	47,590	219,486	-	430,824	360,761
Suppliers	(1,154,206)	-	-	-	(1,154,206)	(1,012,895)
Other financial liabilities	(92,111)	-	-	-	(92,111)	(52,868)
Dividends and interest on own capital payable	(1,450)	-	-	-	(1,450)	(11,551)
Tax debts	(626)	(628)	(1,267)	(4,750)	(7,271)	(7,729)
Leases	(2,614)	(1,941)	(7,696)	(2,565)	(14,816)	-
Payables to related parties	(6,515)	-	-	-	(6,515)	(14,994)
	(2,198,717)	**(461,296)**	**(4,002,206)**	**(438,805)**	**(7,101,024)**	**(5,621,806)**

21 Post-employment benefits

Accounting practice:
The cost of the post-employment benefit plan and the present value of the retirement obligation are determined using actuarial valuations. An actuarial valuation involves the use of several assumptions that can change from actual results in the future. These include determining the discount rate, future salary increases, mortality rates and future pension increases. A defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed by management on each balance sheet date.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity (Pension Fund) and has no legal or constructive obligation to pay additional amounts. Contribution obligations to defined contribution pension plans are recognized as employee benefit expenses in the statement of income in the periods during which services are done by employees.

Prepaid contributions are recognized as an asset on the condition that there is cash reimbursement or reduction in future payments is available. Contributions to a defined contribution plan whose maturity is expected to be 12 months after the end of the period in which the employee provides the service are discounted to their present values.

Defined benefit plans
The Company offers the following post-employment benefits:

Health assistance granted to former employees and their dependents retired until May 31, 2000. After this date, only employees with a 20-year contribution to the INSS and 15 years of uninterrupted work in the Company on May 31, 2000 are entitled to this defined benefit plan, provided that, at the date the retirement is granted, they are working at the Company.

The liability recognized in the balance sheet in relation to defined benefit post-employment plans is calculated annually by independent actuaries.

The amount recognized in the balance sheet in relation to the liabilities of the post-employment benefit plans represents the present value of the obligations less the fair value of the assets, including actuarial gains and losses. Remuneration of net obligation, which includes: actuarial gains and losses, return on plan assets (excluding interest) and the effect of asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. Net interest income and other expenses related to defined benefit plans are recognized in income.

Actuarial gains and losses arising from adjustments based on experience and changes in actuarial assumptions are recorded directly in shareholders' equity, as other comprehensive income, when they occur.

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

Details of the present value of the defined benefit obligation and the fair value of the plan assets are as follows:

	December 31, 2019	December 31, 2018
Actuarial obligation at beginning of the year	507,418	445,526
Current service cost	480	584
Interest expense	45,601	41,225
Actuarial loss arising from financial assumptions	113,609	13,702
Actuarial (gain) loss arising from experience adjustment	(4,726)	33,636
Actuarial gain from changes demographic assumptions	-	(447)
Benefits payment	(29,517)	(26,808)
Actuarial obligation at the end of the year	**632,865**	**507,418**
Fair value of plan assets at beginning of the year	(3,098)	(4,699)
Interest income	(273)	(447)
Return on investments in the year (excluding interest income)	(683)	2,048
Contributions paid	(28,053)	(26,808)
Benefit payments	29,791	26,808
Fair value of plan assets end of the year	**(2,316)**	**(3,098)**
Net defined benefit liability	**630,549**	**504,320**

The Company has obligations related to post-employment benefit plans, which include medical care and retirement incentive, sick pay and disability pension, are recognized in accordance with CVM 695 Deliberation.

The defined benefit pension plan is governed by Brazilian labor laws, which require payments of the final salary to be adjusted to the consumer price index at the time of payment during retirement. The level of benefits provided depends on the length of service and the member's salary at retirement age.

The Company maintains with the Bradesco Vida e Previdência S.A., the Free Benefit Generating Plan (PGBL), a complementary open pension plan, structured in the capitalization financial regime and in the variable contribution modality approved by the Private Insurance Superintendence (SUSEP). The plan is the fixed income plan and has the objective of granting a pension benefit, in the form of a monthly income for life.

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

The total expense recognized in income for the year is as follows:

	December 31, 2019	December 31, 2018
Current service cost	480	584
Interest expense	45,601	41,225
Expected return on plan assets	(273)	(447)
Impact on income for the year	**45,808**	**41,362**

Total amount recognized as other accumulated comprehensive income:

	December 31, 2019	December 31, 2018
Amount accumulated at the beginning of the year		
Actuarial losses to changes in financial assumptions	(113,609)	(13,702)
Gain/(Loss) from adjustments by experience	5,409	(35,684)
Actuarial gain from changes demographic assumptions	-	447
Net actuarial gains	**(108,200)**	**(48,939)**

The main assumptions used to determine the Company's benefit obligations are as follows:

	December 31, 2019	December 31, 2018
Discount rate	7.43 p.y.	9.30 p.y.
Inflation rate	3,70% a.a.	4,00% a.a.
Future salary increases	6.81 p.y.	7.12 p.y.
Aging factor	3.00%	3.00%
Medical inflation	6.81 p.y.	7.12 p.y.
Overall mortality (segregated by gender)	AT-2000	AT-2000
Disable mortality table	IAPB-1957	IAPB-1957
Entry into disability (modified)	UP-84 Modified	UP-84 Modified
Turnover	0.6/(time in service + 1)	0.6/(time in service + 1)

The management together with the (actuarial) specialists at the end of the year evaluated the Benefit plan, in order to verify if the contribution rates are sufficient for the formation of reserves necessary for the current and future payments commitments.

The tax effects arising from this provision are recorded in note 12.

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

As of December 31, 2019, the weighted average duration of the defined benefit obligation was 16.5 years (2018, 13.8 years).

Sensitivity analysis

Changes in the discount rate for the balance sheet date in one of the relevant actuarial assumptions, while maintaining other assumptions, would have affected the defined benefit obligation as shown below:

Discount rate	
Increase	**Decrease**
0.5%	**-0.5%**
(42,525)	48,426

There was no change from previous years in the methods and assumptions used in the elaboration of the sensitivity analysis.

22 Share-based payment

Accounting practice:

Transactions settled with shares
The cost of transactions with executives shares is measured by reference for fair value of the equity instruments on the date they are granted and is recognized as expense during the vesting period, which ends on the date the employees are entitled to the benefit. The credit relating to this benefit is recognized in stockholders' equity.

The Black-Scholes model was used to estimate the fair value of options traded without rights acquisition restrictions. The model requires the use of subjective assumptions, including the expected stock price volatility, the expected life of the stock option or the granting of shares and dividends.

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

				Number of December 31, 2019				
Program Date	**Exercise expectative (years)**	**Interest rate**	**Volatility**	**Shares granted**	**Shares exercised / canceled**	**On December 31, 2019**	**Market price on the grant date**	**Fair value on grant date R$ (i)**
04/20/2017	5	12.16%	27.20%	61,300	(4,725)	56,575	47,80	37,29
08/12/2017	5	10.09%	30.00%	97,780	(6,000)	91,780	54,25	36,37
08/01/2018	5	10.56%	32.38%	96,787	-	96,787	59,66	37,45
07/31/2019	5	10.56%	32.38%	83,683	-	83,683	79,00	78,58
				339,550	**(10,725)**	**328,825**		

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

Measurement of fair values

The weighted average fair value of the programs granted during the fiscal years ended December 31, 2019 and 2018 and the main assumptions used in the application of the Black-Scholes model were as follows:

	Stock-based compensation plan	
	December 31, 2019	December 31, 2018
Weighted average fair value at grant	78.58	37.45
Weighted average of key assumptions:		
Share price at grant date	79.00	59.66
Risk-free interest rate	6.82%	10.56%
Dividend yield	(5.39)	(7.19)
Volatility factor	32.81%	32.38%

The expected volatility was estimated considering the historical volatility of the Company's share price in a period proportional to the expected term. The expected maturity of the instruments was based on the historical experience and the general behavior of the option holder.

Reconciliation of outstanding stock options

The movement in the number of outstanding premiums and their related weighted average strike prices are as follows:

	Share-based payment plan
January 1, 2018	**159,080**
Granted	96,787
December 31, 2018	**255,867**
Granted	83,683
Exercised	(10,725)
December 31, 2019	**328,825**

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

Expenses recognized in income

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

	Share-based payment plan
December 31, 2018	1,699
December 31, 2019	2,603

23 Subsequent events

On January 14, 2020, the Company announced to shareholders and the market in general that Cosan contributed to the share capital of its subsidiary Distribuidora de Gás Participações SA (DG) the totality of the shares it held in Comgás, that is, 103,699,333 common shares and 27,682,044 preferred shares, equivalent to 99.14% of Comgás total share capital. Such contribution does not change the composition of the control or management of Comgás, since Cosan, as the holder of all the shares issued by DG, will be indirect controller of Comgás.

On January 28, 2020, the payment of interim dividends in the amount of R$ 135,907 was approved and approved based on the financial statements of the fiscal year ended on December 31, 2019 to the account of the net profit of the referred period. The payment was made on February 10, 2020.