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Companhia de Saneamento de Minas Gerais - Copasa MG

Quarterly Information (ITR) at
June 30, 2014
and report on review of
quarterly information

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Report on review of quarterly information

To the Board of Directors and Stockholders
Companhia de Saneamento de Minas Gerais - COPASA MG

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Companhia de Saneamento de Minas Gerais - COPASA MG, included in the Quarterly Information Form (ITR) for the quarter ended June 30, 2014, comprising the balance sheet as at that date and the statements of income and comprehensive income for the quarter and six-month period then ended, and the statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of the parent company interim accounting information in accordance with the accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC), and of the consolidated interim accounting information in accordance with accounting standard CPC 21 and International Accounting Standard (IAS) 34 - Interim Financial Reporting issued by the International Accounting Standards Board (IASB), as well as the presentation of this information in accordance with the standards issued by the Brazilian Securities Commission (CVM), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim accounting information based on our review.

Scope of review

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

Conclusion on the parent company interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying parent company interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

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Companhia de Saneamento de Minas Gerais – COPASA MG

Conclusion on the consolidated interim information

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim accounting information included in the quarterly information referred to above has not been prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Information, and presented in accordance with the standards issued by the CVM.

Other matters

Statement of value added

We have also reviewed the parent company and consolidated statements of value added for the six-month period ended June 30, 2014. These statements are the responsibility of the Company's management, and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Belo Horizonte, August 1, 2014

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" MG

Carlos Augusto da Silva
Contador CRC 1SP197007/O-2 "S" MG

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Company information/Capital composition

Number of shares (In thousands)	Current quarter 6/30/2014
Paid-up capital	
Common shares	119,327
Preferred shares	0
Total	119,327
Treasury shares	
Common shares	357
Preferred shares	0
Total	357

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Parent company financial statements/balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 6/30/2014	Prior year 12/31/2013
1	Total assets	9,634,103	9,456,301
1.01	Current assets	1,075,102	1,079,708
1.01.01	Cash and cash equivalents	234,414	260,481
1.01.03	Accounts receivable	772,474	757,076
1.01.03.01	Trade accounts receivable	696,141	697,105
1.01.03.02	Other receivables	76,333	59,971
1.01.03.02.01	Tax to be offset	23,283	23,283
1.01.03.02.02	Technical cooperation agreements	11,275	0
1.01.03.02.03	Banks and applications in connection with agreements	41,775	36,688
1.01.04	Inventories	36,915	34,486
1.01.08	Other current assets	31,299	27,665
1.01.08.03	Others	31,299	27,665
1.01.08.03.01	Advances to employees	13,152	11,286
1.01.08.03.02	Others	18,147	16,379
1.02	Non-current assets	8,559,001	8,376,593
1.02.01	Long-term receivables	1,222,744	1,270,102
1.02.01.03	Accounts receivable	469,828	497,894
1.02.01.03.01	Trade accounts receivable	199,898	212,580
1.02.01.03.02	Other receivables	269,930	285,314
1.02.01.06	Deferred taxes	131,364	118,944
1.02.01.06.01	Deferred income and social contribution	131,364	118,944
1.02.01.08	Intercompany receivables	15,630	109,790
1.02.01.08.02	Receivables from subsidiaries	15,630	109,790
1.02.01.09	Other non-current assets	605,922	543,474
1.02.01.09.03	Financial assets - concession agreements	556,161	494,836
1.02.01.09.04	Available-for-sale financial assets	49,761	48,638
1.02.02	Investments	18,621	260
1.02.02.01	Equity interests	18,621	260
1.02.02.01.02	Investments in subsidiaries	18,361	0
1.02.02.01.04	Investments in other companies	260	260
1.02.03	Property, plant and equipment	202,011	205,478
1.02.03.01	Property, plant and equipment in operation	202,011	205,478
1.02.04	Intangible assets	7,115,625	6,900,753
1.02.04.01	Intangible assets	7,115,625	6,900,753
1.02.04.01.01	Concession agreements	5,344,167	5,128,887
1.02.04.01.02	Intangible assets in progress	1,771,458	1,771,866

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Parent company financial statements / balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 6/30/2014	Prior year 12/31/2013
2	Total liabilities and equity	9,634,103	9,456,301
2.01	Current liabilities	938,786	914,633
2.01.02	Trade payables	148,980	135,338
2.01.02.01	Domestic suppliers	148,980	135,338
2.01.03	Tax obligations	55,065	53,764
2.01.03.01	Federal tax obligations	53,385	52,626
2.01.03.01.02	Other federal obligations	53,385	52,626
2.01.03.03	Municipal tax obligations	1,680	1,138
2.01.04	Borrowings	438,393	471,526
2.01.04.01	Borrowings	166,181	196,259
2.01.04.01.01	In local currency	158,683	194,251
2.01.04.01.02	In foreign currency	7,498	2,008
2.01.04.02	Debentures	272,212	275,267
2.01.04.02.01	Non-convertible	272,212	275,267
2.01.05	Other liabilities	107,624	87,751
2.01.05.02	Others	107,624	87,751
2.01.05.02.01	Dividends and interest on capital payable	33,431	31,646
2.01.05.02.04	Pension plan obligations	21,806	26,409
2.01.05.02.05	Electric energy	16,428	10,832
2.01.05.02.06	Technical cooperation agreements	0	6,547
2.01.05.02.07	Others	35,959	12,317
2.01.06	Provisions	188,724	166,254
2.01.06.01	Provision for tax, social security, labor and civil contingencies	188,724	166,254
2.01.06.01.05	Taxes payable in installments	42,835	41,144
2.01.06.01.06	Provision for vacation pay and 13th month salary	118,479	92,023
2.01.06.01.07	Employee profit sharing	27,410	33,087
2.02	Non-current liabilities	3,233,754	3,204,309
2.02.01	Borrowings	2,782,233	2,684,741
2.02.01.01	Borrowings	1,141,900	1,192,469
2.02.01.01.01	In local currency	969,213	1,067,145
2.02.01.01.02	In foreign currency	172,687	125,324
2.02.01.02	Debentures	1,640,333	1,492,272
2.02.01.02.01	Non-convertible	1,640,333	1,492,272
2.02.02	Other liabilities	160,938	230,514
2.02.02.01	Related-party liabilities	12,898	86,346
2.02.02.01.02	Due to subsidiaries	12,898	86,346
2.02.02.02	Others	148,040	144,168
2.02.02.02.03	Pension plan obligations	107,895	106,010
2.02.02.02.05	Deposits for construction	24,895	30,389
2.02.02.02.06	Sundry	15,250	7,769
2.02.04	Provisions	290,583	289,054
2.02.04.01	Provision for tax, social security, labor and civil contingencies	290,583	289,054
2.02.04.01.05	Taxes payable in installments	199,898	212,580
2.02.04.01.06	Litigation provision	90,685	76,474
2.03	Equity	5,461,563	5,337,359
2.03.01	Paid-up capital	2,773,985	2,773,985
2.03.02	Capital reserves	-8,576	-8,576
2.03.02.05	Treasury shares	-8,576	-8,576
2.03.04	Revenue reserves	2,508,330	2,508,330
2.03.04.01	Legal reserve	215,445	215,445
2.03.04.05	Profit retention reserve	2,265,400	2,265,400
2.03.04.07	Tax benefit reserve	27,485	27,485
2.03.05	Retained earnings	132,347	0
2.03.06	Carrying value adjustments	55,477	63,620

Parent company financial statements/statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Current quarter 4/1/2014 to 6/30/2014	Accumulated - current year 1/1/2014 to 6/30/2014	Same quarter of prior year 4/1/2013 to 6/30/2013	Accumulated - prior year 1/1/2013 to 6/30/2013
3.01	Revenue from sales and/or services	968,895	1,917,310	913,323	1,770,772
3.01.01	Water supply services	502,681	1,024,563	475,463	957,805
3.01.02	Sewage services	265,909	533,286	250,393	498,987
3.01.03	Construction revenue	200,305	359,461	187,467	313,980
3.02	Cost of sales and/or services	-625,669	-1,199,983	-578,544	-1,080,310
3.02.01	Cost of sales and/or services	-429,549	-849,479	-395,263	-774,411
3.02.02	Construction cost	-196,120	-350,504	-183,281	-305,899
3.03	Gross profit	343,226	717,327	334,779	690,462
3.04	Operating expenses	-190,304	-368,947	-182,520	-344,216
3.04.01	Selling expenses	-67,927	-128,348	-54,725	-106,429
3.04.02	General and administrative expenses	-110,781	-213,611	-111,998	-201,766
3.04.04	Other operating income	24,690	43,649	11,715	22,893
3.04.05	Other operating expenses	-34,419	-66,268	-22,824	-50,260
3.04.05.01	Other operating expenses	-29,653	-54,874	-17,344	-36,875
3.04.05.02	Employee profit sharing	-4,766	-11,394	-5,480	-13,385
3.04.06	Equity in the results of subsidiaries	-1,867	-4,369	-4,688	-8,654
3.05	Profit before finance result and taxation	152,922	348,380	152,259	346,246
3.06	Finance result	-43,611	-87,776	-43,202	-80,428
3.06.01	Finance income	24,846	47,770	21,873	44,128
3.06.02	Finance costs	-68,457	-135,546	-65,075	-124,556
3.07	Profit before income tax and social contribution	109,311	260,604	109,057	265,818
3.08	Income tax and social contribution	-27,388	-62,068	-32,836	-73,226
3.08.01	Current	-34,046	-71,296	-40,765	-86,287
3.08.02	Deferred	6,658	9,228	7,929	13,061
3.09	Profit for the period from continuing operations	81,923	198,536	76,221	192,592
3.11	Profit for the period	81,923	198,536	76,221	192,592
3.99	Earnings per share (R$)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0.69000	1.66000	0.64000	1.61000

Parent company financial statements/statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Current quarter 4/1/2014 to 6/30/2014	Accumulated - current year 1/1/2014 to 6/30/2014	Same quarter of prior year 4/1/2013 to 6/30/2013	Accumulated - prior year 1/1/2013 to 6/30/2013
4.01	Profit for the period	81,923	198,536	76,221	192,592
4.02	Other comprehensive income (loss)	-2,841	-6,195	0	679
4.02.01	Fair value of investment in Foz de Jeceaba	741	741	0	679
4.02.02	Actuarial loss on retirement benefits	-3,582	-6,936	0	0
4.03	Comprehensive income for the period	79,082	192,341	76,221	193,271

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Parent company financial statements/statement of cash flow - indirect method

(R$ thousand)*****

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 6/30/2014	Accumulated - prior year 1/1/2013 to 6/30/2013
6.01	Net cash provided by operating activities	489,904	419,190
6.01.01	Cash from operations	601,280	544,686
6.01.01.01	Profit for the period	198,536	192,592
6.01.01.02	Provision for impairment of trade receivables	45,196	32,534
6.01.01.03	Recovery of accounts written-off	-22,947	-16,265
6.01.01.04	Interest and monetary and foreign exchange variations, net	1,751	5,169
6.01.01.05	Interest income and expenses	98,889	89,822
6.01.01.06	Deferred income tax and social contribution	-9,228	-13,061
6.01.01.07	Equity in the results of subsidiaries	4,369	8,654
6.01.01.08	Write-off of intangible assets and property, plant and equipment	27,238	7,277
6.01.01.09	Depreciation and amortization	232,878	203,544
6.01.01.10	Additions to provisions	16,859	13,234
6.01.01.11	Provision for actuarial liabilities	20,167	29,279
6.01.01.12	Financial assets	0	-12
6.01.01.13	Deferred revenue	-3,471	0
6.01.01.14	Net margin of construction revenue	-8,957	-8,081
6.01.02	Changes in assets and liabilities	-111,376	-125,496
6.01.02.01	Trade receivables	3,919	-14,950
6.01.02.02	Inventories	-2,429	1,545
6.01.02.03	Recoverable taxes	0	-206
6.01.02.04	Banks and applications in connection with agreements	-5,087	-7,672
6.01.02.05	Collateral for financing	17,625	4,973
6.01.02.06	Redemption of financial assets/linked financial investment	5,582	22,644
6.01.02.07	Receivables from subsidiaries	-1,887	-6,888
6.01.02.08	Other financial assets	-6,506	-6,774
6.01.02.09	Others	-6,851	-16,669
6.01.02.10	Trade payables	13,642	15,478
6.01.02.11	Taxes, fees and contributions	1,301	9,018
6.01.02.12	Provision for vacation pay and 13th month salary	26,456	25,232
6.01.02.13	Employee profit sharing	-5,677	-669
6.01.02.14	Technical cooperation agreements	-17,822	1,105
6.01.02.15	Contingencies	-2,648	-299
6.01.02.16	Pension plan obligations	-22,885	-21,639
6.01.02.17	Electric energy/others	33,240	9,789
6.01.02.18	Interest paid	-109,914	-109,995
6.01.02.19	Payment of actuarial liability	-10,510	-11,348
6.01.02.20	Payment of tax installments	-20,925	-18,171
6.02	Net cash used in investing activities	-491,080	-383,695
6.02.05	Purchases of intangible assets and property, plant and equipment	-491,080	-383,695
6.03	Net cash used in financing activities	-24,891	-108,965
6.03.01	New borrowings and debentures	396,205	137,261
6.03.02	Repayment of borrowings and debentures	-354,744	-157,183
6.03.04	Interest on capital paid	-66,352	-84,485
6.03.08	Repayment of principal and interest on concession debts	0	-4,558
6.05	Decrease in cash and cash equivalents	-26,067	-73,470
6.05.01	Cash and cash equivalents at the beginning of the period	260,481	496,425
6.05.02	Cash and cash equivalents at the end of the period	234,414	422,955

Parent company financial statements/statement of changes in equity - 1/1/2014 to 6/30/2014

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income (loss)	Equity
5.01	Opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359
5.03	Adjusted opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359
5.04	Capital transactions with stockholders	0	0	0	-68,137	0	-68,137
5.04.07	Interest on capital	0	0	0	-68,137	0	-68,137
5.05	Total comprehensive income (loss)	0	0	0	200,484	-8,143	192,341
5.05.01	Profit for the period	0	0	0	198,536	0	198,536
5.05.02	Other comprehensive income (loss)	0	0	0	1,948	-8,143	-6,195
5.05.02.07	Amortization of monetary adjustments on fixed assets - 96/97	0	0	0	2,951	-2,951	0
5.05.05.08	Deferred income tax and social contribution on monetary adjustments on fixed assets - 96/97	0	0	0	-1,003	1,003	0
5.05.05.09	Actuarial loss on retirement benefits	0	0	0	0	-10,510	-10,510
5.05.02.10	Deferred income tax and social contribution on actuarial loss on retirement benefits	0	0	0	0	3,574	3,574
5.05.02.11	Fair value of available-for-sale financial assets	0	0	0	0	741	741
5.07	Closing balances	2,773,985	-8,576	2,508,330	132,347	55,477	5,461,563

Parent company financial statements/statement of changes in equity - 1/1/2013 to 6/30/2013

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income (loss)	Equity
5.01	Opening balances	2,773,985	-8,576	2,198,133	0	0	4,963,542
5.02	Prior-year adjustments	0	0	0	0	-28,654	-28,654
5.02.01	Recognition of actuarial liability (CPC 33)	0	0	0	0	-116,578	-116,578
5.02.02	Fair value of investment in Foz Jeceaba	0	0	0	0	7,050	7,050
5.02.03	Anticipated recognition of concession agreements	0	0	0	0	25,625	25,625
5.02.04	Monetary adjustment of assets - 96/97	0	0	0	0	40,397	40,397
5.02.05	Deferred income tax and social contribution on adjustments	0	0	0	0	14,852	14,852
5.03	Adjusted opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888
5.04	Capital transactions with stockholders	0	0	0	-74,439	0	-74,439
5.04.07	Interest on capital	0	0	0	-74,439	0	-74,439
5.05	Total comprehensive income (loss)	0	0	0	194,874	-1,603	193,271
5.05.01	Profit for the period	0	0	0	192,592	0	192,592
5.05.02	Other comprehensive income (loss)	0	0	0	2,282	-1,603	679
5.05.02.06	Fair value of investment in Foz de Jeceaba	0	0	0	0	679	679
5.05.02.07	Amortization of monetary adjustments on fixed assets - 96/97	0	0	0	3,457	-3,457	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets - 96/97	0	0	0	-1,175	1,175	0
5.07	Closing balances	2,773,985	-8,576	2,198,133	120,435	-30,257	5,053,720

(A free translation of the original in Portuguese)

Parent company financial statements/statement of value added

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 6/30/2014	Accumulated - prior year 1/1/2013 to 6/30/2013
7.01	Revenue	2,075,273	1,909,974
7.01.01	Sales of products and services	1,717,358	1,605,635
7.01.02	Other revenue	20,703	6,628
7.01.03	Revenue from construction of own assets	359,461	313,980
7.01.04	Provision for impairment of trade receivables	-22,249	-16,269
7.02	Inputs acquired from third parties	-817,438	-742,315
7.02.01	Cost of sales and services	-700,212	-637,273
7.02.02	Materials, energy, outsourced services and other	-78,703	-73,627
7.02.03	Impairment/recovery of assets	-38,523	-31,415
7.03	Gross value added	1,257,835	1,167,659
7.04	Retentions	-232,878	-203,544
7.04.01	Depreciation, amortization and depletion	-232,878	-203,544
7.05	Net value added generated	1,024,957	964,115
7.06	Value added received through transfers	43,401	35,474
7.06.01	Equity in the results of subsidiaries	-4,369	-8,654
7.06.02	Finance income	47,770	44,128
7.07	Total value added to distribute	1,068,358	999,589
7.08	Distribution of value added	1,068,358	999,589
7.08.01	Personnel	451,317	409,613
7.08.01.01	Payroll	290,293	267,024
7.08.01.02	Benefits	117,570	98,211
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	32,060	30,993
7.08.01.04	Others	11,394	13,385
7.08.01.04.01	Employee profit sharing	11,394	13,385
7.08.02	Taxes and contributions	280,545	271,371
7.08.02.01	Federal	264,031	265,702
7.08.02.02	State	15,682	4,844
7.08.02.03	Municipal	832	825
7.08.03	Remuneration of third-party capital	137,960	126,013
7.08.03.01	Interest	135,339	123,927
7.08.03.02	Rentals	2,621	2,086
7.08.04	Remuneration of own capital	198,536	192,592
7.08.04.01	Interest on capital	68,137	74,439
7.08.04.03	Profit reinvested	130,399	118,153

(A free translation of the original in Portuguese)

Consolidated financial statements/balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 6/30/2014	Prior year 12/31/2013
1	Total assets	9,629,923	9,388,470
1.01	Current assets	1,085,537	1,100,038
1.01.01	Cash and cash equivalents	234,814	261,938
1.01.03	Accounts receivable	781,543	775,733
1.01.03.01	Trade accounts receivable	701,775	702,205
1.01.03.02	Other receivables	79,768	73,528
1.01.03.02.01	Taxes to be offset	24,587	24,436
1.01.03.02.02	Technical cooperation agreements	12,594	12,298
1.01.03.02.03	Banks and applications in connection with agreements	42,587	36,794
1.01.04	Inventories	40,873	37,166
1.01.08	Other current assets	28,307	25,201
1.01.08.03	Others	28,307	25,201
1.01.08.03.01	Advances to employees	13,221	11,341
1.01.08.03.02	Others	15,086	13,860
1.02	Non-current assets	8,544,386	8,288,432
1.02.01	Long-term receivables	1,207,404	1,160,623
1.02.01.03	Accounts receivable	470,118	498,205
1.02.01.03.01	Trade accounts receivable	199,898	212,580
1.02.01.03.02	Other receivables	270,220	285,625
1.02.01.06	Deferred taxes	131,364	118,944
1.02.01.06.01	Deferred income tax and social contribution	131,364	118,944
1.02.01.09	Other non-current assets	605,922	543,474
1.02.01.09.03	Financial assets - concession agreements	556,161	494,836
1.02.01.09.04	Available-for-sale assets	49,761	48,638
1.02.02	Investments	260	260
1.02.02.01	Investments in subsidiaries	260	260
1.02.02.01.04	Investments in other companies	260	260
1.02.03	Property, plant and equipment	221,097	226,794
1.02.03.01	Property, plant and equipment in operation	221,097	226,794
1.02.04	Intangible assets	7,115,625	6,900,755
1.02.04.01	Intangible assets	7,115,625	6,900,755
1.02.04.01.01	Concession agreements	5,344,167	5,128,889
1.02.04.01.02	Intangible assets in progress	1,771,458	1,771,866

(A free translation of the original in Portuguese)

Consolidated financial statements/balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 6/30/2014	Prior year 12/31/2013
2	Total liabilities and equity	9,629,923	9,388,470
2.01	Current liabilities	944,801	930,837
2.01.02	Trade payables	152,815	156,104
2.01.02.01	Domestic suppliers	152,815	156,104
2.01.03	Tax obligations	55,401	54,293
2.01.03.01	Federal tax obligations	53,721	53,154
2.01.03.01.02	Other federal obligations	53,721	53,154
2.01.03.03	Municipal tax obligations	1,680	1,139
2.01.04	Borrowings	438,799	471,930
2.01.04.01	Borrowings	166,587	196,663
2.01.04.01.01	In local currency	159,089	194,655
2.01.04.01.02	In foreign currency	7,498	2,008
2.01.04.02	Debentures	272,212	275,267
2.01.04.02.01	Non-convertible	272,212	275,267
2.01.05	Other liabilities	108,073	81,600
2.01.05.02	Others	108,073	81,600
2.01.05.02.01	Dividends and interest on capital payable	33,431	31,646
2.01.05.02.04	Pension plan	21,806	26,409
2.01.05.02.05	Electric energy	16,887	11,202
2.01.05.02.07	Others	35,949	12,343
2.01.06	Provisions	189,713	166,910
2.01.06.01	Provision for tax, social security, labor and civil contingencies	189,713	166,910
2.01.06.01.05	Taxes payable in installments	42,835	41,144
2.01.06.01.06	Provision for vacation pay and 13th month salary	119,468	92,679
2.01.06.01.07	Employee profit sharing	27,410	33,087
2.02	Non-current liabilities	3,223,559	3,120,274
2.02.01	Borrowings	2,783,062	2,685,770
2.02.01.01	Borrowings	1,142,729	1,193,498
2.02.01.01.01	In local currency	970,042	1,068,174
2.02.01.01.02	In foreign currency	172,687	125,324
2.02.01.02	Debentures	1,640,333	1,492,272
2.02.01.02.01	Non-convertible	1,640,333	1,492,272
2.02.02	Other liabilities	148,043	144,171
2.02.02.02	Others	148,043	144,171
2.02.02.02.03	Pension plan	107,895	106,010
2.02.02.02.05	Deposits for construction	24,898	30,392
2.02.02.02.06	Sundry	15,250	7,769
2.02.04	Provisions	292,454	290,333
2.02.04.01	Provision for tax, social security, labor and civil contingencies	292,454	290,333
2.02.04.01.05	Taxes payable in installments	199,898	212,580
2.02.04.01.06	Litigation provision	92,556	77,753
2.03	Consolidated equity	5,461,563	5,337,359
2.03.01	Paid-up capital	2,773,985	2,773,985
2.03.02	Capital reserves	-8,576	-8,576
2.03.02.05	Treasury shares	-8,576	-8,576
2.03.04	Revenue reserves	2,508,330	2,508,330
2.03.04.01	Legal reserve	215,445	215,445
2.03.04.05	Profit retention reserve	2,265,400	2,265,400
2.03.04.07	Tax benefit reserve	27,485	27,485
2.03.05	Retained earnings/accumulated deficit	132,347	0
2.03.06	Carrying value adjustments	55,477	63,620

Consolidated financial statements/statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Current quarter 4/1/2014 to 6/30/2014	Accumulated - current year 1/1/2014 to 6/30/2014	Same quarter of prior year 4/1/2013 to 6/30/2013	Accumulated - prior year 1/1/2013 to 6/30/2013
3.01	Revenue from sales and/or services	973,828	1,927,189	917,277	1,780,329
3.01.01	Water supply services	507,080	1,033,091	478,604	965,530
3.01.02	Sewage services	265,909	533,286	250,393	498,987
3.01.03	Construction revenue	200,305	359,461	187,467	313,980
3.01.04	Revenue from finished products	534	1,351	813	1,832
3.02	Cost of sales and/or services	-629,808	-1,208,515	-583,365	-1,090,287
3.02.01	Cost of sales and/or services	-433,688	-858,011	-400,084	-784,388
3.02.02	Construction cost	-196,120	-350,504	-183,281	-305,899
3.03	Gross profit	344,020	718,674	333,912	690,042
3.04	Operating expenses/income	-190,715	-369,579	-181,318	-343,149
3.04.01	Selling expenses	-68,892	-130,126	-55,598	-109,298
3.04.02	General and administrative expenses	-111,802	-216,025	-114,016	-205,187
3.04.04	Other operating income	25,476	44,943	12,099	23,832
3.04.05	Other operating expenses	-35,497	-68,371	-23,803	-52,496
3.04.05.01	Other operating expenses	-30,731	-56,977	-18,323	-39,111
3.04.05.02	Employee profit sharing	-4,766	-11,394	-5,480	-13,385
3.05	Profit before finance result and taxation	153,305	349,095	152,594	346,893
3.06	Finance result	-43,994	-88,491	-43,580	-81,011
3.06.01	Finance income	24,537	47,171	21,552	43,625
3.06.02	Finance costs	-68,531	-135,662	-65,132	-124,636
3.07	Profit before income tax and social contribution	109,311	260,604	109,014	265,882
3.08	Income tax and social contribution	-27,388	-62,068	-32,793	-73,290
3.08.01	Current	-34,046	-71,296	-40,722	-86,351
3.08.02	Deferred	6,658	9,228	7,929	13,061
3.09	Profit for the period from continuing operations	81,923	198,536	76,221	192,592
3.11	Consolidated profit for the period	81,923	198,536	76,221	192,592
3.11.01	Attributable to the owners of the Company	81,923	198,536	76,221	192,592
3.99	Earnings per share (R$)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0.69000	1.66000	0.64000	1.61000

Consolidated financial statements/statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Current quarter 4/1/2014 to 6/30/2014	Accumulated - current year 1/1/2014 to 6/30/2014	Same quarter of prior year 4/1/2013 to 6/30/2013	Accumulated - prior year 1/1/2013 to 6/30/2013
4.01	Consolidated profit for the period	81,923	198,536	76,221	192,592
4.02	Other comprehensive income (loss)	-2,841	-6,195	0	679
4.02.01	Fair value of investment in Foz de Jeceaba	741	741	0	679
4.02.02	Actuarial loss on retirement benefits	-3,582	-6,936	0	0
4.03	Consolidated comprehensive income for the period	79,082	192,341	76,221	193,271
4.03.01	Attributable to owners of the Company	79,082	192,341	76,221	193,271

(A free translation of the original in Portuguese)

Consolidated financial statements/statement of cash flow - indirect method

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 6/30/2014	Accumulated - prior year 1/1/2013 to 6/30/2013
6.01	Net cash provided by operating activities	489,246	419,274
6.01.01	Cash from operations	602,059	539,704
6.01.01.01	Profit for the period	198,536	192,592
6.01.01.02	Provision for impairment of trade receivables	46,725	33,407
6.01.01.03	Recovery of accounts written-off	-23,099	-16,360
6.01.01.04	Interest and monetary and foreign exchange variations, net	2,424	5,803
6.01.01.05	Interest income and expenses	98,940	89,828
6.01.01.06	Deferred income tax and social contribution	-9,228	-13,061
6.01.01.08	Write-off of intangible assets and property, plant and equipment	28,351	7,347
6.01.01.09	Depreciation and amortization	234,121	204,858
6.01.01.10	Additions to provisions	17,550	14,104
6.01.01.11	Provision for actuarial liabilities	20,167	29,279
6.01.01.12	Financial assets	0	-12
6.01.01.13	Deferred revenue	-3,471	0
6.01.01.14	Net margin of construction revenue	-8,957	-8,081
6.01.02	Changes in assets and liabilities	-112,813	-120,430
6.01.02.01	Trade receivables	2,008	-15,902
6.01.02.02	Inventories	-3,706	1,324
6.01.02.03	Recoverable taxes	-150	-537
6.01.02.04	Banks and applications in connection with agreements	-5,794	-9,284
6.01.02.05	Collateral for financing	17,625	4,973
6.01.02.06	Redemption of financial assets/linked financial investment	5,582	22,644
6.01.02.08	Other financial assets	-6,506	-6,774
6.01.02.09	Others	-6,771	-16,575
6.01.02.10	Trade payables	-3,288	6,669
6.01.02.11	Taxes, fees and contributions	1,110	8,966
6.01.02.12	Provision for vacation pay and 13th month salary	26,789	25,532
6.01.02.13	Employee profit sharing	-5,677	-669
6.01.02.14	Technical cooperation agreements	-297	10,531
6.01.02.15	Contingencies	-2,747	-356
6.01.02.16	Pension plan obligations	-22,885	-21,639
6.01.02.17	Electric energy/other	33,293	10,182
6.01.02.18	Interest paid	-109,964	-109,996
6.01.02.19	Payment of actuarial liability	-10,510	-11,348
6.01.02.20	Payment of tax installments	-20,925	-18,171
6.02	Net cash used in investing activities	-491,278	-384,584
6.02.06	Addition to intangible assets and purchase of property, plant and equipment	-491,278	-384,584
6.03	Net cash used in financing activities	-25,091	-107,402
6.03.01	New borrowings and debentures	396,205	138,824
6.03.02	Repayment of borrowings and debentures	-354,944	-157,183
6.03.04	Interest on capital paid	-66,352	-84,485
6.03.08	Repayment of principal and interest on concession debts	0	-4,558
6.05	Decrease in cash and cash equivalents	-27,123	-72,712
6.05.01	Cash and cash equivalents at the beginning of the period	261,938	497,701
6.05.02	Cash and cash equivalents at the end of the period	234,815	424,989

Consolidated financial statements/statement of changes in equity - 1/1/2014 to 6/30/2014

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income (loss)	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359	0	5,337,359
5.03	Adjusted opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359	0	5,337,359
5.04	Capital transactions with stockholders	0	0	0	-68,137	0	-68,137	0	-68,137
5.04.07	Interest on capital	0	0	0	-68,137	0	-68,137	0	-68,137
5.05	Total comprehensive income (loss)	0	0	0	200,484	-8,143	192,341	0	192,341
5.05.01	Profit for the period	0	0	0	198,536	0	198,536	0	198,536
5.05.02	Other comprehensive income (loss)	0	0	0	1,948	-8,143	-6,195	0	-6,195
5.05.02.07	Amortization of monetary adjustments on fixed assets - 96/97	0	0	0	2,951	-2,951	0	0	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets - 96/97	0	0	0	-1,003	1,003	0	0	0
5.05.02.09	Actuarial loss on retirement benefits	0	0	0	0	-10,510	-10,510	0	-10,510
5.05.02.10	Deferred income tax and social contribution on actuarial loss on retirement benefits	0	0	0	0	3,574	3,574	0	3,574
5.05.02.11	Fair value of available-for-sale financial assets	0	0	0	0	741	741	0	741
5.07	Closing balances	2,773,985	-8,576	2,508,330	132,347	55,477	5,461,563	0	5,461,563

Consolidated financial statements/statement of changes in equity - 1/1/2013 to 6/30/2013

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income (loss)	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	2,773,985	-8,576	2,198,133	0	26,722	4,990,264	0	4,990,264
5.02	Prior-year adjustments	0	0	0	0	-55,376	-55,376	0	-55,376
5.02.01	Recognition of actuarial liability (CPC 33)	0	0	0	0	-116,578	-116,578	0	-116,578
5.02.02	Fair value of investment in Foz Jeceaba	0	0	0	0	7,050	7,050	0	7,050
5.02.03	Anticipated recognition of concession agreements	0	0	0	0	25,625	25,625	0	25,625
5.02.05	Deferred income tax and social contribution on adjustments	0	0	0	0	28,527	28,527	0	28,527
5.03	Adjusted opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888	0	4,934,888
5.04	Capital transactions with stockholders	0	0	0	-74,439	0	-74,439	0	-74,439
5.04.07	Interest on capital	0	0	0	-74,439	0	-74,439	0	-74,439
5.05	Total comprehensive income (loss)	0	0	0	194,874	-1,603	193,271	0	193,271
5.05.01	Profit for the period	0	0	0	192,592	0	192,592	0	192,592
5.05.02	Other comprehensive income (loss)	0	0	0	2,282	-1,603	679	0	679
5.05.02.06	Fair value of investment in Foz de Jeceaba	0	0	0	0	679	679	0	679
5.05.02.07	Amortization of monetary adjustments on fixed assets - 96/97	0	0	0	3,457	-3,457	0	0	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets - 96/97	0	0	0	-1,175	1,175	0	0	0
5.07	Closing balances	2,773,985	-8,576	2,198,133	120,435	-30,257	5,053,720	0	5,053,720

(A free translation of the original in Portuguese)

Consolidated financial statements/statement of value added

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 6/30/2014	Accumulated - prior year 1/1/2013 to 6/30/2013
7.01	Revenue	2.086.860	1.920.728
7.01.01	Sales of products and services	1.728.370	1.616.325
7.01.02	Other revenue	22.655	7.470
7.01.03	Revenue from the construction of own assets	359.461	313.980
7.01.04	Provision for impairment of trade receivables	-23.626	-17.047
7.02	Inputs acquired from third parties	-825.359	-753.477
7.02.01	Cost of sales and services	-704.361	-643.123
7.02.02	Materials, energy, outsourced services and other	-79.871	-76.872
7.02.03	Loss/recovery of assets	-41.127	-33.482
7.03	Gross value added	1.261.501	1.167.251
7.04	Retentions	-234.121	-204.858
7.04.01	Depreciation, amortization and depletion	-234.121	-204.858
7.05	Net value added generated	1.027.380	962.393
7.06	Value added received through transfers	47.171	43.625
7.06.02	Finance income	47.171	43.625
7.07	Total value added to distribute	1.074.551	1.006.018
7.08	Distribution of value added	1.074.551	1.006.018
7.08.01	Personnel	455.506	414.197
7.08.01.01	Payroll	293.557	270.513
7.08.01.02	Benefits	118.272	99.108
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	32.283	31.191
7.08.01.04	Others	11.394	13.385
7.08.01.04.01	Employee profit sharing	11.394	13.385
7.08.02	Taxes, fees and contributions	282.437	273.127
7.08.02.01	Federal	265.378	267.015
7.08.02.02	State	16.193	5.277
7.08.02.03	Municipal	866	835
7.08.03	Remuneration of third-party capital	138.072	126.102
7.08.03.01	Interest	135.411	123.950
7.08.03.02	Rentals	2.661	2.152
7.08.04	Remuneration of own capital	198.536	192.592
7.08.04.01	Interest on capital	68.137	74.439
7.08.04.03	Profit reinvested	130.399	118.153

Comments on company performance

1 - Concessions and Operations

During the second quarter of 2014 (2Q14), the Parent company took over the operations of water and sewage services in the municipalities of Datas and Guimarânia, while the subsidiary COPANOR took over the water and sewage operations in the municipalities of Couto de Magalhões de Minas, Felício dos Santos and Olhos D'Água.

Also during this period, the Company began to operate the sewage system in the municipalities of São João da Ponte and Timóteo. By the end of the quarter, COPASA and its subsidiary COPANOR provided water supply services to a total of 617 municipalities and sewage services to 226 municipalities, as shown in the table below:

Concessions and operations (June 2014)	Total *	COPASA	COPANOR
Number of municipalities - water concession	631	582	49
Number of municipalities - sewage concession	288	239	49
Number of municipalities - water operation	617	572	45
Number of municipalities - sewage operation	226	197	29

* Total number of municipalities where COPASA holds or operates concessions in capital cities, villages, towns or others.

2 - Consolidated General Service Data

There was an increase of 135 thousand water connections, approximately totaling 4.0 million, up 3.5% from 2Q13. The water distribution network was extended by 2,057 km, totaling 47,474 km, up 4.53% from 2Q13 (45,417 km).

The population covered by COPASA's water supply increased by 480 thousand people, totaling 14,746 thousand inhabitants in the second quarter of 2014.

As regards sewage services, there were 151 thousand new connections, representing a 6.5% increase compared to June 2013, and the number of people served increased by 536 thousand in the period, totaling 9,495 thousand people connected to the sewer network.

Treated sewage volume reached 62.0 million m³ in the quarter, up 7.3% from the same period of the previous year, mainly due to the commencement of operations of new Sewage Treatment Plants (ETEs).

Comments on company performance

Operating Highlights[1]:

ITEMS	UNITS	2Q14	2Q13	Changes	
				Amount	%
Population served - Water	thousand people	14,746	14,266	480	3.36
Population served - Sewage	thousand people	9,495	8,959	536	5.98
Number of connections - Water	thousand connections	3,972	3,837	135	3.52
Number of connections - Sewage	thousand connections	2,457	2,306	151	6.55
Network extension - Water	Km	47,474	45,417	2,057	4.53
Network extension - Sewage	Km	22,771	20,794	1,977	9.51
Billed volume - Water	1,000 m³/quarter	173,086	169,058	4,028	2.38
Billed volume - Sewage	1,000 m³/quarter	114,018	110,721	3,297	2.98
Volume produced - Water	1,000 m³/quarter	243,534	240,159	3,375	1.41
Volume treated - Sewage[2]	1,000 m³/quarter	62,061	57,825	4,236	7.33

1. Consolidated data includes the subsidiary COPANOR.
2. Parent company data only.

3 - Consolidated Performance Indicators

The volumes billed for water and sewage services increased by 7.3 million m³ compared to 2Q13. This increase was due to the increase in the number of people covered by water and sewage services in the locations where the Company already operated these systems, as well as the commencement of billing in new locations.

A key performance indicator is the productivity of employees, measured using the employees/1,000 connections (water + sewage) ratio, which decreased from 1.96 employees/1,000 connections in 2Q13 to 1.90 in 2Q14, especially considering the increased number of connections resulting from the Company's Expansion Plan.

COPASA MG
Operating/Commercial Performance Indicators
2nd quarter of 2014 and 2013

ITEMS	UNITS	2Q14	2Q13	Change	
				Amount	%
1 - Employees	Number	12,227	12,059	168	1.39
2 - Employees/connections (A+E)	employee/1,000 connections	1.90	1.96	-0.06	-3.06
3 - Billed Volume					
Water	1,000m³/quarter	173,086	169,058	4,028	2.38
Sewage	1,000m³/quarter	114,018	110,721	3,297	2.98
Total	1,000m³/quarter	287,104	279,779	7,325	2.62
4 - Water volume produced	1,000m³/quarter	243,534	240,159	3,375	1.41
5 - Water metering rate*	%	99.90	99.90	0	0
6 - Water not converted into revenue - ANCR (1) *	l/connection/day	234.59	236.07	-1.48	-0.63

(1) Average for the past 12 months.
* Parent company data only.

Comments on company performance

The rate of water metered connections, which reached 99.9% in June 2014, is one of the best rates recorded by any sanitation company.

The Water not Converted into Revenue (ANCR) rate, which represents the difference between the volume distributed and that actually used by consumers, reached 234.59 l/connection/day in 2Q14, that is, a decrease of 0.63% when compared to 2Q13. This is one of the lowest rates in the industry.

4 - Investments in the 2nd quarter of 2014

INVESTMENTS (IN R$MILLION)	Estimate - 2014	Actual - 2Q14	Accumulated up to June 2014
WATER	353.2	84.3	154.7
SEWAGE	610.5	160.9	294.6
OTHER	19.3	8.7	18.1
TOTAL	**983.0**	**253.9**	**467.4**

As regards investments in Water Supply Systems, we can highlight the following:

- Work to improve the connection of the Northwest water main in the metropolitan region of Belo Horizonte; expansion of the production capacity of the Rio das Velhas System in the metropolitan region of Belo Horizonte; and

- Expansion of the water supply system capacity in several municipalities, mainly: Alpinópolis, Arceburgo, Carmo do Paranaíba, Coromandel, Monte Sião, Prata, Santa Vitória, São Francisco de Paula and Varginha.

Regarding Sewage Systems (SES), we can highlight:

- Work to expand the Sewage Systems of Belo Horizonte/Contagem (2014 Target) and Vespasiano and the Sewage Treatment Plant of Ribeirão Arrudas (ETE Arrudas);

- Construction works of Sewage Treatment Plants in Camanducaia, Carmo do Rio Claro, Delfinópolis, Extrema, Santa Rita do Sapucaí, Santana da Vargem, São Gotardo e São Sebastião do Paraíso; and

- Implementation of the Sewage Systems of Cabo Verde, Fama and Limeira do Oeste.

Comments on company performance

5 - Financial Performance - Parent Company

The Company's net result in 2Q14 increased in comparison with the same period of the previous year, presenting a significant growth in costs, at lower levels, however, than the growth of the net operating revenue. The average increase in revenue from water- and sewage-related services was 5.89%, not including the construction costs. Both operating and finance income grew and contributed to this result, despite their lower share within the groups.

The analysis of the tables and explanations below will enable the understanding of the performance of the result of the Parent company in the period:

Statement of income

Parent company	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Revenue from water services	502,681	51.88	475,463	52.06	27,218	5.72
Revenue from sewage services	265,909	27.45	250,393	27.41	15,516	6.20
Construction revenue	200,305	20.67	187,467	20.53	12,838	6.85
Net operating revenue from services	**968,895**	**100.00**	**913,323**	**100.00**	**55,572**	**6.08**
Cost of services rendered	(429,549)	-44.33	(395,263)	-43.28	(34,286)	8.67
Construction costs	(196,120)	-20.24	(183,281)	-20.07	(12,839)	7.01
Cost of services rendered	**(625,669)**	**-64.57**	**(578,544)**	**-63.35**	**(47,125)**	**8.15**
Gross profit	**343,226**	**35.43**	**334,779**	**36.65**	**8,447**	**2.52**
Selling expenses	(67,927)	-7.01	(54,725)	-5.99	(13,202)	24.12
General and administrative expenses	(110,781)	-11.43	(111,998)	-12.26	1,217	-1.09
Other operating income	24,690	2.55	11,715	1.28	12,975	n.m.
Other operating expenses	(29,653)	-3.06	(17,344)	-1.90	(12,309)	70.97
Employee profit sharing	(4,766)	-0.49	(5,480)	-0.60	714	-13.03
Equity in the results of subsidiaries	(1,867)	-0.19	(4,688)	-0.51	2,821	-60.17
Operating expenses	**(190,304)**	**-19.63**	**(182,520)**	**-19.98**	**(7,784)**	**4.26**
Profit before finance result and taxation	**152,922**	**15.80**	**152,259**	**16.67**	**663**	**0.44**
Finance income	24,846	2.56	21,873	2.39	2,973	13.59
Finance costs	(68,457)	-7.07	(65,075)	-7.13	(3,382)	5.20
Finance result	**(43,611)**	**-4.51**	**(43,202)**	**-4.74**	**(409)**	**0.95**
Profit before income tax and social contribution	**109,311**	**11.29**	**109,057**	**11.93**	**254**	**0.23**
Provision for income tax	(19,618)	-2.02	(23,911)	-2.62	4,293	-17.95
Provision for social contribution on net income	(7,770)	-0.80	(8,925)	-0.98	1,155	-12.94
Profit for the period	**81,923**	**8.47**	**76,221**	**8.33**	**5,702**	**7.48**

a. Net operating revenue from services - the 5.9% increase in the Parent company's net revenue from water and sewage services in 2Q14 compared to 2Q13 was due to:

- ✓ increase in the billed volume of water and sewage by 2.2% and 2.7%, respectively, for the Parent company. This increase was below the average for prior years, when considering the reduction in the billed volume by connection, which led to the transfer of a number of the customers to lower-consumption levels, whose tariffs are also low;

Comments on company performance

- ✓ the average tariff adjustment of 5.25% in May 2013 and of 6.18% applied on a pro rata basis to consumption between May 13 and June 12, and on a full-basis as from June 13, 2014; and

- ✓ the increase in the percentage of the sewage tariff collection from 50% to 90% of the water tariff because of the beginning of operations of the Sewage Treatment Plants in the 12 following municipalities: Conceição do Mato Dentro and Santa Rita do Sapucaí (10/2013); Desterro do Melo and Resplendor (02/2014); Brasília de Minas, Campina Verde, Pedra Azul and Serra dos Aimorés (03/2014); and Bom Despacho, Borda da Mata, Nova Serrana and Santo Antônio do Monte (04/2014).

Regarding revenue from sewage services, it should be highlighted that, following the decision of the Regulatory Agency, COPASA MG modified the way it charges the sewage services from a portion of the customers located in the municipalities of Betim and from the customers of Coronel Fabriciano. The charged tariff changed from collection and treatment services to collection services only.

As disclosed in the 1Q14 Results Release, the charging for sewage services in the cities of Almenara and Três Corações was suspended due to judicial decisions. COPASA MG has challenged the decision regarding both of the cities. For Almenara, the charging from the services was reestablished in June 2014, while the decision regarding the charging in Três Corações is pending. This fact has a negative impact on the amount billed per sewage connection, taking into consideration that the number of connections in these municipalities is still included in the Company's connections base without the related billings.

The monthly average impact of these issues to COPASA MG revenue from sewage services amounts to R$ 1.4 million.

As a result of the State Regulatory Water and Sewage Agency (ARSAE) Resolution 40/2013, effective as from January 2014, the way the second notification of default is sent to the customer was changed and now is included directly in the customer's invoice. Because the debit notification will not be sent with a Receipt Notification, the indirect revenues with the offsetting entry of the expense accounted for in outsourced services will no longer be recorded.

Consequently, these amounts were not recorded in 2Q14 as indirect revenue or costs. In 2Q13, R$ 4.7 million was accounted for.

b. Costs of services rendered and expenses - Costs of services rendered and general and administrative expenses at 2Q14 totaled R$ 608.3 million, that is, an increase of 8.2% when compared to 2Q13 (R$ 562.0 million).

Comments on company performance

Operating, selling and administrative costs

Parent company	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Personnel	268,693	33.40	247,672	33.22	21,021	8.49
Materials	30,429	3.78	30,087	4.04	342	1.14
Electric power	63,451	7.89	53,430	7.17	10,021	18.76
Outsourced services	95,816	11.91	100,817	13.53	(5,001)	-4.96
Tariffs transferred to municipalities	18,361	2.28	18,126	2.43	235	1.30
General expenditures	11,552	1.44	9,318	1.25	2,234	23.98
Depreciation and amortization	119,009	14.80	103,801	13.93	15,208	14.65
Construction costs	196,120	24.38	183,281	24.59	12,839	7.01
Recovered tax credits (PIS-PASEP/COFINS)	(24,303)	-3.02	(18,669)	-2.50	(5,634)	30.18
Impairment of trade receivables	25,237	3.14	17,404	2.34	7,833	45.01
Provision for losses	12	0.00	-	0.00	12	n.m.
*** Cost of services rendered and expenses**	**804,377**	**100.00**	**745,267**	**100.00**	**59,110**	**7.93**

COFINS - Social Contribution on Revenues
PIS - Social Integration Program
PASEP - Public Services Employee Savings Program

- **Personnel** - the increase in personnel costs in 2Q14 when compared to 2Q13 is mainly a result of:

  - ✓ the increase of 0.8% in the number of the Company's employees from June 2013 to July 2014, and

  - ✓ the 2013 Collective Labor Agreement, whose base date is May 1. Regarding the 2014 Agreement, which is still under negotiation, provisions for all items comprising the payroll were recorded, based on the change in the National Consumer Price Index (INPC). These provisions were also recorded in the previous year, but they did not include the vacation pay and the related charges.

The expenditures and provisions related to the Scheduled Voluntary Termination Program for Retirees and/or Employees Eligible for Retirement (PDV) amounted to R$ 5.6 million in 2Q14, which represents 2.1% of personnel expenses for the period.

- **Materials** - Expenses with materials in 2Q14 increased when compared to 2Q13. Treatment-related materials increased because of price readjustment and because of the higher consumption of chemicals due to the deterioration of the quality of the water in certain regions. This increase was compensated by the decrease in expenditures with conservation materials and with system maintenance carried out in order to reduce preventive maintenances.

- **Services** - The decrease reflects the elimination of the expenditures with the second notification of default with Receipt Notification, as explained above. This decrease was partially compensated by the increase in expenditures with professional and technical services and with cleaning, security and reception.

Comments on company performance

- **Electric energy** - Expenses with electric energy in 2Q14 when compared to 2Q13 increased due to:

  - ✓ the readjustment of 14.6% in the electric energy tariffs in April 2014;

  - ✓ the increase in the consumption of energy due to the Company's growth, in addition to the current drought period, which leads to an increase in the energy used in water pumping; and

  - ✓ the change, by Cemig, of the criterion for classification of the hours defined as peak hours, applicable as from April 2013, due to ANEEL Resolution 414/2010. Until then, the consumption recorded from 7:00 pm to 10:00 pm was considered, whereas it started to be from 5:00 pm to 8:00 pm, period during which the Company's energy consumption is higher, contributing to the increase in expenditures with this input.

- **Depreciation and amortization** - The increase in depreciation and amortization in 2Q14 compared to 2Q13 is due to the start of depreciation/amortization of assets that were "under construction" and began to be recorded as investments "in operation" because the related construction work had been completed, which means that they were incorporated into the Company's asset base.

- **Provision for impairment of trade receivables** - The current increase in the provision for impairment of trade receivables is a result of the growth of accounts classified as potentially impaired mainly because of the changes made by the Regulatory Agency in the criteria for linking debts, which changed from the related property to the user.

- **Recovered tax credits (PIS-PASEP/COFINS)** - The increase in the tax credits occurred due to the change in the criterion of appropriation of the credits as from September 2013. Until then, those credits were appropriated upon the effective consumption of the products, and as from September 2013, they started to be considered upon the acquisition of the products, thus affecting comparability.

Comments on company performance

c. Other operating income/expenses

Other operating income/expenses

Parent company	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Revenue from technical services	306	1.24	661	5.64	(355)	-53.71
Reversal of non-deductible provisions	5,110	20.70	980	8.37	4,130	n.m.
Recovery of accounts written off	13,345	54.05	8,799	75.11	4,546	51.66
Other income	5,929	24.01	1,275	10.88	4,654	n.m.
Other operating income	**24,690**	**100.00**	**11,715**	**100.00**	**12,975**	**n.m.**
Equity in the results of investees	(56)	-0.23	(72)	-0.62	16	-22.22
Total other operating income	**24,634**	99.77	**11,643**	**99.39**	**12,991**	n.m.
Non-recurring or unusual losses	(19,375)	65.34	(13,023)	75.09	(6,352)	48.78
Other expenses	(10,278)	34.66	(4,321)	24.91	(5,957)	n.m.
Other operating expenses	**(29,653)**	**100.00**	**(17,344)**	**100.00**	**(12,309)**	**70.97**
Employee profit sharing	(4,766)	13.15	(5,480)	19.97	714	-13.03
Equity in the results of subsidiaries - COPANOR	-	0.00	(2,023)	43.15	2,023	-100.00
Equity in the results of subsidiaries - Águas Minerais	(1,596)	85.48	(2,365)	50.45	769	-32.52
Equity in the results of subsidiaries - Serviços de Irrigação	(215)	11.52	(228)	4.86	13	-5.70
Total equity in results of subsidiaries	**(1,867)**	**100.00**	**(4,688)**	**100.00**	**2,821**	**-60.17**
Total other operating expenses	**(36,230)**	**100.00**	**(27,440)**	**100.00**	**(8,790)**	**32.03**
Total other operating income/expenses	**(11,596)**	**100.00**	**(15,797)**	**100.00**	**4,201**	**-26.59**

Other operating income - the increase in 2Q14 when compared to 2Q13 is a result of:

- ✓ increase in the non-deductible provisions reversed due to the settlement of civil and labor lawsuits;
- ✓ reversal of provision for actuarial liability;
- ✓ donations and incentives for investments in the Betim Sewage Treatment Plan which referred to tax incentive funds from the Water Basin Depollution Program (PRODES), which did not happen in 2Q13;
- ✓ revenue from contractual fines applied to suppliers because of delayed material deliveries; and
- ✓ increase in the recovery of accounts written-off.

Other operating expenses - the increase in 2Q14 when compared to 2Q13 is mainly a result of:

- ✓ increase in the Inspection Fee of ARSAE MG, whose amount recorded in 2Q14 totaled R$ 6.1 million (R$ 821 thousand in 2Q13). This increase is a result of the amendment to the law which created ARSAE MG, as described in page 2 of the 4Q13 Results Release;

Comments on company performance

- ✓ increase in the provision for lawsuits due to new cases, in addition to the monetary readjustment of existing lawsuits;

- ✓ losses in the systems operation due to necessary emergency maintenance in the systems of the Belo Horizonte metropolitan area.

d. Finance income and costs

Finance income and costs

Parent company	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Monetary and foreign exchange variation	9,420	37.91	4,462	20.40	4,958	n.m.
Interest	1,363	5.49	3,403	15.56	(2,040)	-59.95
Income on short-term investments	7,901	31.80	9,951	45.49	(2,050)	-20.60
Capitalization of financial assets/other	6,162	24.80	4,057	18.55	2,105	51.89
Total finance income	**24,846**	**100.00**	**21,873**	**100.00**	**2,973**	**13.59**
Monetary and foreign exchange variation	(15,634)	22.84	(18,309)	28.14	2,675	-14.61
Interest expenses	(52,720)	77.01	(46,241)	71.05	(6,479)	14.01
Other expenses	(103)	0.15	(525)	0.81	422	-80.38
Total finance costs	**(68,457)**	**100.00**	**(65,075)**	**100.00**	**(3,382)**	**5.20**
Finance result, net	**(43,611)**	**100.00**	**(43,202)**	**100.00**	**(409)**	**0.95**

Finance income - The increase in finance income is mainly a result of gains with the foreign exchange depreciation of the U.S. dollar and the euro (Federal Government bonds- Bonus and KfW). This increase was partially offset because the related depreciation has a negative impact on foreign exchange rate gains with the adjustment of the bonus linked to the dollar and held in Banco do Brasil. The decreases in interest and actual gain on financial investments are related to the lower volume of cash available for investments in the comparative periods.

Finance costs - The increase in finance costs reflects also the increase in the Company's indebtedness, which is partially compensated by the foreign exchange depreciation of the U.S. dollar and the euro. It should also be pointed out that, in addition to the finance costs shown above, the Company recorded interest and other financial charges of R$ 10.7 million under permanent assets in 2Q14 (R$ 14.4 million in 2Q13), considering that the construction work related to these accounts is still in progress.

e. Income tax and social contribution

The reduction in income tax and social contribution is a result of a R$ 20.7 million understatement in the calculation basis of the 2Q13 taxation and which was related to Advance For Future Capital Increase (AFAC) of the subsidiary Águas Minerais. Accordingly, it increased the taxation for that quarter. The adjustment was made in July 2013.

Comments on company performance

f. Cash generation or EBITDA - The table below shows EBITDA calculations:

Parent company	6/30/2014	6/30/2013	Change	
	R$	R$	R$	%
Profit for the period	**81,923**	**76,221**	**5,702**	**7.48**
(+) Taxes on income	27,388	32,836	(5,448)	-16.59
(+) Net finance result	43,611	43,202	409	0.95
(+) Depreciation and amortization	119,009	103,801	15,208	14.65
(+) Non-operating result of subsidiaries	966	989	(23)	-2.33
(=) EBITDA	**272,897**	**257,049**	**15,848**	**6.17**
EBITDA margin	**27.31**	**27.66**	**-0.35**	

(1) EBITDA represents the profit (loss) before income tax and social contribution, net finance result and depreciation and amortization expenses. Given that interest (finance) income and expenses, income tax and social contribution and depreciation and amortization are not included in its calculation, EBITDA is an indicator of the Company's overall economic performance, which is not affected by changes in interest rates, in income tax and social contribution rates or depreciation and amortization levels. Accordingly, EBITDA is believed to be a useful tool for comparing the Company's operating performance on a regular basis, and serves as a basis for certain managerial decisions. We believe that EBITDA provides a better understanding not only of our financial performance but also of our capacity to meet our obligations and to obtain funds for capital expenditure and working capital requirements. However, there are limitations on the use of EBITDA as a measure of our profitability, since it does not take into account certain costs arising from our business activities, which could significantly affect our profits, such as finance costs, taxes, depreciation, capital expenses and other related charges.

(2) EBITDA margin is calculated with reference to net service revenue, which represents net operating revenue plus other operating income.

Comments on company performance

6 - Balance sheet - Parent company

Parent company	6/30/2014	12/31/2013	Change	
			R$	%
Current assets	1,075,102	1,079,708	(4,606)	-0.43
Non-current assets	8,559,001	8,376,593	182,408	2.18
Total assets	**9,634,103**	**9,456,301**	**177,802**	**1.88**
Current liabilities	938,786	914,633	24,153	2.64
Non-current liabilities	3,233,754	3,204,309	29,445	0.92
Equity	5,461,563	5,337,359	124,204	2.33
Total liabilities and equity	**9,634,103**	**9,456,301**	**177,802**	**1.88**

a. Current assets

Parent company	6/30/2014	12/31/2013	Change	
			R$	%
Cash and cash equivalents	234,414	260,481	(26,067)	-10.01
Trade receivables	696,141	697,105	(964)	-0.14
Inventories	36,915	34,486	2,429	7.04
Taxes recoverable	23,283	23,283	-	-
Technical cooperation agreements	11,275	-	11,275	n.m.
Banks and applications in connection with agreements	41,775	36,688	5,087	13.87
Others	31,299	27,665	3,634	13.14
Total current assets	**1,075,102**	**1,079,708**	**(4,606)**	**-0.43**

- **Cash and cash equivalents** - The decrease in cash and cash equivalents is basically a result of the redemptions having exceeded the new investments by R$ 27,764 thousand, with the purpose of meeting the Company's cash needs offset by the earnings of R$ 12,100 thousand.

- **Technical cooperation agreements** - The changes in agreements were due to the significant construction expenditure recorded mainly in 2Q14 in the amount of R$ 17,603 thousand, with agreements entered into with the Company for Development of São Francisco and Parnaíba Valleys (CODEVASF).

- **Banks and applications in connection with agreements** - The increase in this account is a result of a larger volume of investments made by agencies participating in the agreements, with R$ 6,545 thousand invested in June.

- **Others** - Changes in this account are mainly due to the increase in the number of lawsuits filed by the Company against contractors and service renderers, whose employees are claiming in court labor contingencies paid by COPASA MG as the consenting party, in addition to the recording of a provision for payment in advance of the 13th month salary to the Company's employees.

Comments on company performance

b. Non-current assets

Parent company	6/30/2014	12/31/2013	Change	
			R$	%
Trade receivables	199,898	212,580	(12,682)	-5.97
Collateral for financing	117,711	133,410	(15,699)	-11.77
Deferred income tax and social contribution	131,364	118,944	12,420	10.44
Receivables from subsidiaries	15,630	109,790	(94,160)	-85.76
Restricted investments	96,643	97,380	(737)	-0.76
Available-for-sale assets	49,761	48,638	1,123	2.31
Financial assets	556,161	494,836	61,325	12.39
Others	55,576	54,524	1,052	1.93
Total long-term assets	**1,222,744**	**1,270,102**	**(47,358)**	**-3.73**
Investments	18,621	260	18,361	n.m.
Intangible assets	7,115,625	6,900,753	214,872	3.11
Property, plant and equipment	202,011	205,478	(3,467)	-1.69
Total permanent assets	**7,336,257**	**7,106,491**	**229,766**	**3.23**
Total non-current assets	**8,559,001**	**8,376,593**	**182,408**	**2.18**

- **Trade receivables** - The changes in this account relate to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, with the transfer of R$ 22,616 thousand to current, net of monetary adjustment amounting to R$ 9,934 thousand.

- **Collateral for financing** - The decrease in this account is due to the redemptions made in June related to the collateral for debentures and of Caixa Econômica Federal (CEF), amounting to R$ 9,400 thousand and R$ 7,969 thousand, respectively, because of the repayment of debts amounting to R$ 78,168 thousand and R$ 117,300 thousand, respectively.

- **Deferred income tax and social contribution** - The changes are mainly related to the deferred taxation on temporary differences in connection with lawsuits as well as accounting adjustments for compliance with the international standards (difference of the amortization generated by the financial asset discount).

- **Receivables from subsidiaries** - The decrease in this account is due to the payment of capital of R$ 96,178 thousand in the subsidiary Águas Minerais made in April 2014 with funds from advances for capital increase.

- **Financial assets** - the increase in this account was due to the recognition of the right to reimbursement for investments made in concessions operated by the Company, in the amount of R$ 61,325 thousand.

- **Investments** - The change in this account is related to the payment of capital of R$ 96,178 thousand in the subsidiary Águas Minerais with funds from advances for capital increase, which was offset by the transfer of R$ 76,581 thousand from "provision for losses on investments" to the net balance of changes in this investment.

- **Intangible assets** - The increase in this account is due to the Company's investments in the necessary infrastructure for the provision of services, mainly in sewage systems.

Comments on company performance

c. Current liabilities

Parent company	6/30/2014	12/31/2013	Change	
			R$	%
Borrowings	166,181	196,259	(30,078)	-15.33
Debentures	272,212	275,267	(3,055)	-1.11
Trade payables	148,980	135,338	13,642	10.08
Taxes and contributions	55,065	53,764	1,301	2.42
Taxes payable in installments	42,835	41,144	1,691	4.11
Provision for vacation pay and 13th month salary	118,479	92,023	26,456	28.75
Employee profit sharing	27,410	33,087	(5,677)	-17.16
Technical cooperation agreements	-	6,547	(6,547)	-100.00
Retirement benefit obligations	21,806	26,409	(4,603)	-17.43
Interest on capital	33,431	31,646	1,785	5.64
Electric power	16,428	10,832	5,596	51.66
Other obligations	35,959	12,317	23,642	n.m.
Total current liabilities	**938,786**	**914,633**	**24,153**	**2.64**

- **Borrowings** - The decrease in this account is a result of the repayment of a debt amounting to R$ 215,477 thousand, with a highlight on the payment of R$ 117,300 thousand in May related to former CEF contracts and on the payment of interest amounting to R$ 48,656 thousand, as offset by new funds of R$ 4,433 thousand, provision for interest, fees and monetary and foreign exchange variation of R$ 48,642 thousand and the transfer of R$ 180,980 thousand from non-current.

- **Debentures** - The decrease in this account is a result of the repayment of principal amounting to R$ 139,267 thousand and of interest amounting to R$ 61,258 thousand, as offset by the provision for interest of R$ 74,175 thousand, for monetary variation of R$ 3,068 thousand, and the transfer of R$ 120,227 thousand from non-current.

- **Technical cooperation agreements** - These are related to non-onerous agreements mainly entered into with the Company for Development of São Francisco and Parnaíba Valleys (CODEVASF), which are related to the investment in sewage-related works in a number of locations in the countryside of the State of Minas Gerais. The decrease in the amounts is related to the growth in the construction expenditures, mainly in 2Q14.

- **Taxes payable in installments** - The change in this account, which is related to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, reflects the transfer of R$ 22,616 thousand from non-current, as offset by payments of R$ 20,925 thousand.

- **Interest on capital** - The increase in this account is due to declarations of R$ 68,137 thousand offset by payments to stockholders amounting to R$ 63,788 thousand and payment of Withholding Income Tax (IRRF) amounting to R$ 2,564 thousand.

- **Electric energy** - The balance on this account increased because the concessionaire delayed the sending of the bills to be paid by the customers and, as a result, the maturity date changed to July.

Comments on company performance

- **Other obligations** - The increase in this account is due to the provision for the collective bargaining agreement amounting to R$ 15,160 thousand, since the Company and the related Unions have not yet reached consensus about the 2014 Agreement, whose base date is in May.

d. Non-current liabilities

Parent company	6/30/2014	12/31/2013	Change	
			R$	%
Caixa Econômica Federal	406,004	508,499	(102,495)	-20.16
State government/BDMG	-	1,032	(1,032)	n.m.
BNDES/BNE Bank	470,575	485,572	(14,997)	-3.09
FINAME	92,634	72,042	20,592	28.58
In local currency	**969,213**	**1,067,145**	**(97,932)**	**-9.18**
Federal government - bonds	55,138	59,654	(4,516)	-7.57
KfW Bank	117,549	65,670	51,879	n.m.
In foreign currency	**172,687**	**125,324**	**47,363**	**37.79**
Total borrowings	**1,141,900**	**1,192,469**	**(50,569)**	**-4.24**
Debentures	1,640,333	1,492,272	148,061	9.92
Taxes payable in installments	199,898	212,580	(12,682)	-5.97
Provision for contingencies	90,685	76,474	14,211	18.58
Retirement benefit obligations	107,895	106,010	1,885	1.78
Provision for investment losses	12,898	86,346	(73,448)	-85.06
Other	40,145	38,158	1,987	5.21
Total non-current liabilities	**3,233,754**	**3,204,309**	**29,445**	**0.92**

BDMG - Bank for the Development of Minas Gerais
BNDES - National Bank for Economic and Social Development
FINAME - Government Agency for Machinery and Equipment Financing

- **Borrowings** - The decrease in this account is a result of the foreign exchange gains related to the contracts with Banco de Nova Iorque and KfW amounting to R$ 12,977 thousand, as well as the transfer to current amounting to R$ 180,980 thousand, of which R$ 111,403 thousand is related to the CEF, as offset by new funds amounting to R$ 141,772, and the monetary variation of R$ 1,616 thousand.

- **Debentures** - The increase in this account is related to the funds from the 7th issue of debentures amounting to R$ 250,000 thousand and to the monetary variation of R$ 18,288 thousand, as offset by the transfer of R$ 120,227 thousand to current.

- **Taxes payable in installments** - The change in this account, which is related to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, reflects the transfer of R$ 22,616 thousand to current, as offset by the monetary adjustment of R$ 9,934 thousand.

- **Provision for contingencies** - The increase in this account is due to the new civil and labor lawsuits amounting to R$ 13,647 thousand and R$ 7,363 thousand, respectively, as offset by the reversal of provisions amounting to R$ 4,188 thousand and the losses on lawsuits amounting to R$ 2,412 thousand.

Comments on company performance

- **Provision for losses on investments** - The decrease is due to the transfer of R$ 76,581 thousand from this provision related to the subsidiary Águas Minerais to the investment account, in permanent assets.

e. Equity

Parent company	6/31/2014	12/31/2013	Change	
			R$	%
Previous balance	**5,337,359**	**4,934,888**	**402,471**	**8.16**
Profit	198,536	419,795	(221,259)	-52.71
Interest on capital	(68,137)	(139,582)	71,445	-51.18
Actuarial loss on retirement benefits	(10,510)	100,485	(110,995)	n.m.
Income tax and social contribution on actuarial loss - retirement benefits	3,574	-	3,574	n.m.
Other changes in equity	-	8,713	(8,713)	-100.00
Fair value of available-for-sale assets	741	13,060	(12,319)	-94.33
Closing balance	**5,461,563**	**5,337,359**	**124,204**	**2.33**

7 - Financial Performance - Consolidated

The consolidated profit in 2Q14 increased in comparison with the same period of the previous year, presenting a significant growth in costs, at lower levels, however, than the growth of the net operating revenue. The average increase in revenue from water- and sewage-related services was 5.99%, not including the construction costs. Both operating and finance income grew and contributed to this result, despite their lower share within the groups.

The analysis of the tables and explanations below will enable the understanding of the performance of the consolidated result in the period:

Statement of income

Consolidated	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Revenue from water services	507,080	52.07	478,604	52.18	28,476	5.95
Revenue from sewage services	265,909	27.31	250,393	27.30	15,516	6.20
Construction revenue	200,305	20.57	187,467	20.44	12,838	6.85
Revenue from finished products	534	0.05	813	0.09	(279)	-34.32
Net operating revenue from services	**973,828**	**100.00**	**917,277**	**100.00**	**56,551**	**6.17**
Cost of services rendered	(433,688)	-44.53	(400,084)	-43.62	(33,604)	8.40
Construction costs	(196,120)	-20.14	(183,281)	-19.98	(12,839)	7.01
Cost of services rendered	**(629,808)**	**-64.67**	**(583,365)**	**-63.60**	**(46,443)**	**7.96**
Gross profit	**344,020**	**35.33**	**333,912**	**36.40**	**10,108**	**3.03**
Selling expenses	(68,892)	-7.07	(55,598)	-6.06	(13,294)	23.91
General and administrative expenses	(111,802)	-11.48	(114,016)	-12.43	2,214	-1.94
Other operating income	25,476	2.62	12,099	1.32	13,377	n.m.
Other operating expenses	(30,731)	-3.16	(18,323)	-2.00	(12,408)	67.72

Comments on company performance

Statement of income

Consolidated	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Employee profit sharing	(4,766)	-0.49	(5,480)	-0.60	714	-13.03
Operating income/expenses	**(190,715)**	**-19.58**	**(181,318)**	**-19.77**	**(9,397)**	**5.18**
Profit before finance income (costs) and taxation	**153,305**	**15.74**	**152,594**	**16.64**	**711**	**0.47**
Finance income	24,537	2.52	21,552	2.35	2,985	13.85
Finance costs	(68,531)	-7.04	(65,132)	-7.10	(3,399)	5.22
Finance result	**(43,994)**	**-4.52**	**(43,580)**	**-4.75**	**(414)**	**0.95**
Profit before income tax and social contribution	**109,311**	**11.22**	**109,014**	**11.88**	**297**	**0.27**
Provision for income tax	(19,618)	-2.01	(23,881)	-2.60	4,263	-17.85
Provision for social contribution on net income	(7,770)	-0.80	(8,912)	-0.97	1,142	-12.81
Profit for the period	**81,923**	**8.41**	**76,221**	**-3.57**	**5,702**	**7.48**

a. Net operating revenue from services - The 5.9% increase in the Parent company's net revenue from water and sewage services in 2Q14 compared to 2Q13 was due to:

- ✓ increase in the billed volume of water and sewage by 2.2% and 2.7%, respectively, for the Parent company. This increase was below the prior-years average, when considering the reduction in the billed volume by connection, which led to the transfer of a number of the customers to lower-consumption levels, whose tariffs are low;

- ✓ the average tariff adjustment of 5.25% in May 2013 and of 6.18% applied on a pro rata basis to consumption between May 13 and June 12, and on a full-basis as from June 13, 2014; and

- ✓ the increase in the percentage of the sewage tariff collection from 50% to 90% of the water tariff because of the beginning of operations of the Sewage Treatment Plants in the 12 following municipalities: Conceição do Mato Dentro and Santa Rita do Sapucaí (10/2013); Desterro do Melo and Resplendor (02/2014); Brasília de Minas, Campina Verde, Pedra Azul and Serra dos Aimorés (03/2014); and Bom Despacho, Borda da Mata, Nova Serrana and Santo Antônio do Monte (04/2014).

Regarding revenue from sewage services, it should be highlighted that, following the decision of the Regulatory Agency, COPASA MG modified the way it charges the sewage services from a portion of the customers located in the municipalities of Betim and from the customers of Coronel Fabriciano. The charged tariff changed from collection and treatment services to collection services only.

As disclosed in the 1Q14 Results Release, the charging for sewage services in the cities of Almenara and Três Corações was suspended due to judicial decisions. COPASA MG has challenged the decision regarding both of the cities. For Almenara, the charging from the services was reestablished in June 2014, while the decision regarding the charging in Três Corações is pending. This fact has a negative impact on the amount billed per sewage connection, taking into consideration that the number of connections in these municipalities is still included in the Company's connections base without the related billings.

The monthly average impact of these issues on COPASA MG revenue from sewage services amounts to R$ 1.4 million.

Comments on company performance

As a result of the State Regulatory Water and Sewage Agency (ARSAE) Resolution 40/2013, effective as from January 2014, the way the second notification of default is sent to the customer was changed and now is included directly in the customer's invoice. Because the debit notification will not be sent with a Receipt Notification, the indirect revenues with the offsetting entry of the expense accounted for in outsourced services will no longer be recorded.

Consequently, these amounts were not recorded in 2Q14 as indirect revenue or costs. In 2Q13, R$ 4.7 million was accounted for.

b. Costs of services rendered and expenses - Costs of services rendered and general and administrative expenses in 2Q14 totaled R$ 608.3 million, that is, an increase of 8.2% when compared to 2Q13 (R$ 562.0 million).

Operating, selling and administrative costs

Consolidated	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Personnel	270,865	33.42	250,845	33.31	20,020	7.98
Materials	30,952	3.82	30,774	4.09	178	0.58
Electric energy	64,759	7.99	54,443	7.23	10,316	18.95
Outsourced services	96,604	11.92	101,908	13.54	(5,305)	-5.21
Tariffs transferred to municipalities	18,361	2.26	18,126	2.41	235	1.30
General expenditures	11,715	1.45	9,806	1.30	1,909	19.47
Depreciation and amortization	119,592	14.75	104,455	13.87	15,137	14.49
Construction costs	196,120	24.20	183,281	24.34	12,839	7.01
Cost of products sold	(40)	0.00	240	0.03	(280)	n.m.
Recovered tax credits (PIS-PASEP/COFINS)	(24,523)	-3.03	(18,817)	-2.50	(5,706)	30.32
Impairment of trade receivables	26,086	3.22	17,918	2.38	8,169	45.59
Provision for losses	11	0.00	-	0.00	11	n.m.
*** Cost of services rendered and expenses**	**810,502**	**100.00**	**752,979**	**100.00**	**57,523**	**7.64**

- **Personnel** - The increase in personnel costs in 2Q14 when compared to 2Q13 is mainly a result of:

  - ✓ the increase of 0.8% in the number of the Company's employees from June 2013 to July 2014, and

  - ✓ the 2013 Collective Labor Agreement, whose base date is May 1. Regarding the 2014 Agreement, which is still under negotiation, provisions for all items comprising the payroll were recorded, based on the change in the National Consumer Price Index (INPC). These provisions were also recorded in the previous year, but they did not include the vacation pay and the related charges.

The expenditures and provisions related to the Scheduled Voluntary Termination Program for Retirees and/or Employees Eligible for Retirement (PDV) amounted to R$ 5.6 million in 2Q14, which represents 2.1% of personnel expenses for the period.

Comments on company performance

- **Materials** - Expenses with materials in 2Q14 increased when compared to 2Q13. Treatment-related materials increased because of price readjustment and because of the higher consumption of chemicals due to the deterioration of the quality of the water in certain regions. This increase was compensated by the decrease in expenditures with conservation materials and with system maintenance carried out in order to reduce preventive maintenances.

- **Services** - The decrease reflects the elimination of the expenditures with the second notification of default with Receipt Notification, as explained above. This decrease was partially compensated by the increase in expenditures with professional and technical services and with cleaning, security and reception;

- **Electric energy** - Expenses with electric energy in 2Q14 when compared to 2Q13 increased due to:

  - ✓ the readjustment of 14.6% in the electric energy tariffs in April 2014;

  - ✓ the increase in the consumption of energy due to the Company's growth, in addition to the current drought period, which leads to an increase in the energy used in water pumping; and

  - ✓ the change, by Cemig, of the criterion for classification of the hours defined as peak hours, applicable as from April 2013, due to ANEEL Resolution 414/2010. Until then, the consumption recorded from 7:00 pm to 10:00 pm was considered, whereas it started to be from 5:00 pm to 8:00 pm, period during which the Company's energy consumption is higher, contributing to the increase in expenditures with this input.

c. Depreciation and amortization - The increase in depreciation and amortization in 2Q14 compared to 2Q13 is due to the start of depreciation/amortization of assets that were "under construction" and began to be recorded as investments "in operation" because the related construction work had been completed, which means that they were incorporated into the Company's asset base.

d. Provision for impairment of trade receivables - The current increase in the provision for impairment of trade receivables is a result of the growth of accounts classified as potentially impaired mainly because of the changes made by the Regulatory Agency in the criteria for linking the debts, which changed from the related property to the user.

e. Recovered tax credits (PIS-PASEP/COFINS) - The increase in the tax credits occurred due to the change in the criterion of appropriation of the credits as from September 2013. Until then, those credits were appropriated upon the effective consumption of the products. As from September 2013, they started to be considered upon the acquisition of the products, thus affecting comparability.

Comments on company performance

f. Other operating income/expenses

Other operating income/expenses

Consolidated	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Revenue from technical services	306	1.20	661	5.46	(355)	-53.71
Reversal of non-deductible provisions	5,285	20.75	1,152	9.52	4,133	n.m.
Recovery of accounts written off	13,407	52.63	8,850	73.15	4,557	51.49
Other income	6,478	25.43	1,436	11.87	5,042	n.m.
Total other operating income	**25,476**	**100.00**	**12,099**	**100.00**	**13,377**	**n.m.**
Non-recurring or unusual losses	(20,012)	56.38	(13,754)	57.78	(6,258)	45.50
Other expenses	(10,719)	30.20	(4,569)	19.20	(6,150)	n.m.
Other operating expenses	**(30,731)**	**86.57**	**(18,323)**	**76.98**	**(12,408)**	**67.72**
Employee profit sharing	(4,766)	13.43	(5,480)	23.02	714	-13.03
Total other operating expenses	**(35,497)**	**100.00**	**(23,803)**	**100.00**	**(11,694)**	**49.13**
Total other operating income/expenses	**(10,021)**	**100.00**	**(11,704)**	**100.00**	**1,683**	**-14.38**

Other operating income - The increase in 2Q14 when compared to 2Q13 is a result of:

- ✓ increase in the non-deductible provisions reversed due to the settlement of civil and labor lawsuits;
- ✓ reversal of provision for actuarial liability;
- ✓ donations and incentives for investments in the Betim Sewage Treatment Plan referring to tax incentive funds from the Water Basin Depollution Program (PRODES), which did not happen in 2Q13;
- ✓ revenue from contractual fines applied to suppliers because of delayed delivery of materials; and
- ✓ increase in the recovery of accounts written-off.

Other operating expenses - The increase in 2Q14 when compared to 2Q13 is mainly a result of:

- ✓ increase in the Inspection Fee of ARSAE MG, whose amount recorded in 2Q14 totaled R$ 6.1 million (R$ 821 thousand in 2Q13). This increase is a result of the amendment to the law which created ARSAE MG, as described in page 2 of the 4Q13 Results Release;
- ✓ increase in the provision for lawsuits due to new cases, in addition to the monetary readjustment of existing lawsuits; and
- ✓ losses in the systems operation due to necessary emergency maintenance in the systems of the Belo Horizonte metropolitan area.

Comments on company performance

g. Finance income and costs

Finance income and costs

Consolidated	6/30/2014		6/30/2013		Change	
	R$	%	R$	%	R$	%
Monetary and foreign exchange variation	9,409	38.35	4,103	19.04	5,306	n.m.
Interest	1,065	4.34	3,440	15.96	(2,375)	-69.04
Income on short-term investments	7,901	32.20	9,951	46.17	(2,050)	-20.60
Capitalization of financial assets/other	6,162	25.11	4,058	18.83	2,104	51.85
Total finance income	**24,537**	**100.00**	**21,552**	**100.00**	**2,985**	**13.85**
Monetary and foreign exchange variation	(15,633)	22.81	(18,309)	28.11	2,676	-14.62
Interest expenses	(52,762)	76.99	(46,249)	71.01	(6,513)	14.08
Other expenses	(136)	0.20	(574)	0.88	438	-76.31
Total finance costs	**(68,531)**	**100.00**	**(65,132)**	**100.00**	**(3,399)**	**5.22**
Finance result, net	**(43,994)**	**100.00**	**(43,580)**	**100.00**	**(414)**	**0.95**

Finance income - The increase in finance income is mainly a result of gains with the foreign exchange depreciation of the U.S. dollar and the euro (Federal Government bonds- Bonus and KfW). This increase was partially offset because the related depreciation has a negative impact on foreign exchange rate gains with the adjustment of the bonus linked to the dollar and held in Banco do Brasil. The decreases in interest and actual gain on financial investments are related to the lower volume of cash available for investments in the comparative periods.

Finance costs - The increase in finance costs reflects also the increase in the Company's indebtedness, which is partially compensated by the foreign exchange depreciation of the U.S. dollar and the euro. It should also be pointed out that, in addition to the finance costs shown above, the Company recorded interest and other financial charges of R$ 10.7 million under permanent assets in 2Q14 (R$ 14.4 million in 2Q13), considering that the construction work related to these accounts is still in progress.

h. Provision for income tax and social contribution on net income

The reduction in income tax and social contribution is a result of a R$ 20.7 million understatement in the calculation basis of the 2Q13 taxation and which was related to Advance For Future Capital Increase (AFAC) of the subsidiary Águas Minerais. Accordingly, it increased the taxation for that quarter. The adjustment was made in July 2013.

Comments on company performance

i. Cash generation or EBITDA - The table below shows EBITDA calculations:

Consolidated	6/30/2014	6/30/2013	Change	
	R$	R$	R$	%
Profit for the period	**81,923**	**76,221**	**5,702**	**7.48**
(+) Taxes on income	27,388	32,793	(5,405)	-16.48
(+) Net finance result	43,994	43,580	414	0.95
(+) Depreciation and amortization	119,592	104,455	15,137	14.49
(=) EBITDA	**272,897**	**257,049**	**15,848**	**6.17**
EBITDA margin	**27.31**	**27.66**	**- 0,35**	

(1) EBITDA represents the profit (loss) before income tax and social contribution, net finance result and depreciation and amortization expenses. Given that interest (finance) income and expenses, income tax and social contribution and depreciation and amortization are not included in its calculation, EBITDA is an indicator of the Company's overall economic performance, which is not affected by changes in interest rates, in income tax and social contribution rates or depreciation and amortization levels. Accordingly, EBITDA is believed to be a useful tool for comparing the Company's operating performance on a regular basis, and serves as a basis for certain managerial decisions. We believe that EBITDA provides a better understanding not only of our financial performance but also of our capacity to meet our obligations and to obtain funds for capital expenditure and working capital requirements. However, there are limitations on the use of EBITDA as a measure of our profitability, since it does not take into account certain costs arising from our business activities, which could significantly affect our profits, such as finance costs, taxes, depreciation, capital expenses and other related charges.

(2) EBITDA margin is calculated with reference to net service revenue, which represents net operating revenue plus other operating income.

8 - Balance sheet - Consolidated

Consolidated	6/30/2014	12/31/2013	Change	
			R$	%
Current assets	1,085,537	1,100,038	(14,501)	-1.32
Non-current assets	8,544,386	8,288,432	255,954	3.09
Total assets	**9,629,923**	**9,388,470**	**241,453**	**2.57**
Current liabilities	944,801	930,837	13,964	1.50
Non-current liabilities	3,223,559	3,120,274	103,285	3.31
Equity	5,461,563	5,337,359	124,204	2.33
Total liabilities and equity	**9,629,923**	**9,388,470**	**241,453**	**2.57**

a. Current assets

Consolidated	6/30/2014	12/31/2013	Change	
			R$	%
Cash and cash equivalents	234,814	261,938	(27,124)	-10.36
Trade receivables	701,775	702,205	(430)	-0.06
Inventories	40,873	37,166	3,707	9.97
Taxes recoverable	24,587	24,436	151	0.62
Technical cooperation agreements	12,594	12,298	296	2.41
Banks and applications in connection with agreements	42,587	36,794	5,793	15.74
Others	28,307	25,201	3,106	12.32
Total current assets	**1,085,537**	**1,100,038**	**(14,501)**	**-1.32**

Comments on company performance

- **Cash and cash equivalents** - The decrease in cash and cash equivalents with the purpose of meeting the Company's cash needs is basically a result of the redemptions having exceeded the new investments by R$ 27,764 thousand, which was offset by the earnings of R$ 12,100 thousand.

- **Banks and applications in connection with agreements** - The increase in this account is a result of a larger volume of investments made by agencies participating in the agreements, with R$ 6,545 thousand invested in June.

- **Others** - Changes in this account are mainly due to the increase in the number of lawsuits filed by the Company against contractors and service renderers, whose employees are claiming in court labor contingencies paid by COPASA MG as the consenting party, in addition to the recording of a provision for payment in advance of the 13th month salary to the Company's employees.

b. Non-current assets

Consolidated	6/30/2014	12/31/2013	Change	
			R$	%
Trade receivables	199,898	212,580	(12,682)	-5.97
Collateral for financing	117,711	133,410	(15,699)	-11.77
Deferred income tax and social contribution	131,364	118,944	12,420	10.44
Restricted investments	96,643	97,380	(737)	-0.76
Available-for-sale assets	49,761	48,638	1,123	2.31
Financial assets	556,161	494,836	61,325	12.39
Others	55,866	54,835	1,031	1.88
Total long-term assets	**1,207,404**	**1,160,623**	**46,781**	**4.03**
Investments	260	260	-	-
Intangible assets	7,115,625	6,900,755	214,870	3.11
Property, plant and equipment	221,097	226,794	(5,697)	-2.51
Total permanent assets	**7,336,982**	**7,127,809**	**209,173**	**2.93**
Total non-current assets	**8,544,386**	**8,288,432**	**255,954**	**3.09**

- **Trade receivables** - The changes in this account relate to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, with the transfer of R$ 22,616 thousand to current, net of monetary adjustment amounting to R$ 9,934 thousand.

- **Collateral for financing** - The decrease in this account is due to the redemptions made in June related to the collateral for debentures and of Caixa Econômica Federal, amounting to R$ 9,400 thousand and R$ 7,969 thousand, respectively, because of the repayment of debts amounting to R$ 78,168 thousand and R$ 117,300 thousand, respectively.

- **Deferred income tax and social contribution** - The changes are mainly related to the deferred taxation on temporary differences in connection with lawsuits as well as accounting adjustments for compliance with international standards (difference of the amortization generated by the financial asset discount).

- **Financial assets** - the increase in this account was due to the recognition of the right to reimbursement for investments made in concessions operated by the Company, in the amount of R$ 61,325 thousand.

Comments on company performance

- **Intangible assets** - The increase in this account is due to the Company's investments in the necessary infrastructure for the provision of services, mainly in sewage systems.

c. Current liabilities

Consolidated	6/30/2014	12/31/2013	Change	
			R$	%
Borrowings	166,587	196,663	(30,076)	-15.29
Debentures	272,212	275,267	(3,055)	-1.11
Trade payables	152,815	156,104	(3,289)	-2.11
Taxes and contributions	55,401	54,293	1,108	2.04
Taxes payable in installments	42,835	41,144	1,691	4.11
Provision for vacation pay and 13th month salary	119,468	92,679	26,789	28.90
Employee profit sharing	27,410	33,087	(5,677)	-17.16
Retirement benefit obligations	21,806	26,409	(4,603)	-17.43
Interest on capital	33,431	31,646	1,785	5.64
Electric energy	16,887	11,202	5,685	50.75
Others	35,949	12,343	23,606	n.m.
Total current liabilities	**944,801**	**930,837**	**13,964**	**1.50**

- **Borrowings** - The decrease in this account is a result of the repayment of a debt amounting to R$ 215,677 thousand, with a highlight on the payment of R$ 117,300 thousand in May related to former CEF contracts and on the payment of interest amounting to R$ 48,706 thousand, as offset by new funds of R$ 4,433 thousand, provision for interest, fees and monetary and foreign exchange variation of R$ 48,694 thousand and the transfer of R$ 181,180 thousand from non-current.

- **Debentures** - The decrease in this account is a result of the repayment of principal amounting to R$ 139,267 thousand and of interest amounting to R$ 61,258 thousand, as offset by the provision for interest of R$ 74,175 thousand, for monetary variation of R$ 3,068 thousand, and the transfer of R$ 120,227 thousand from non-current.

- **Taxes payable in installments** - The change in this account, which is related to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, reflects the transfer of R$ 22,616 thousand from non-current, as offset by payments of R$ 20,925 thousand.

- **Interest on capital** - The increase in this account is due to declarations of R$ 68,137 thousand offset by payments to stockholders amounting to R$ 63,788 thousand and payment of Withholding Income Tax (IRRF) amounting to R$ 2,564 thousand.

- **Electric energy** - The balance on account increased because the concessionaire delayed the sending of the bills to be paid by the customers and, as a result, the maturity date changed to July.

- **Others** - The increase in this account is due to the provision for the collective bargaining agreement amounting to R$ 15,160 thousand, since the Company and the related Unions have not yet reached consensus about the 2014 Agreement, whose base date is in May.

Comments on company performance

d. Non-current liabilities

Consolidated	6/30/2014	12/31/2013	Change	
			R$	%
Caixa Econômica Federal	406,566	509,061	(102,495)	-20.13
State government/BDMG	-	1,032	(1,032)	-100.00
BNDES/BNE	470,575	485,572	(14,997)	-3.09
FINAME	92,634	72,042	20,592	28.58
Banco do Brasil	267	467	(200)	-42.83
In local currency	**970,042**	**1,068,174**	**(98,132)**	**-9.19**
Federal government - bonds	55,138	59,654	(4,516)	-7.57
KfW Bank	117,549	65,670	51,879	79.00
In foreign currency	**172,687**	**125,324**	**47,363**	**37.79**
Total borrowings	**1,142,729**	**1,193,498**	**(50,769)**	**-4.25**
Debentures	1,640,333	1,492,272	148,061	9.92
Taxes payable in installments	199,898	212,580	(12,682)	-5.97
Provision for contingencies	92,556	77,753	14,803	19.04
Retirement benefit obligations	107,895	106,010	1,885	1.78
Other	40,148	38,161	1,987	5.21
Total non-current liabilities	**3,223,559**	**3,120,274**	**103,285**	**3.31**

- **Borrowings** - The decrease in this account is a result of the foreign exchange gains related to the contracts with Banco de Nova Iorque and KfW amounting to R$ 12,977 thousand, as well as the transfer to current amounting to R$ 181,180 thousand, of which R$ 111,403 thousand is related to the CEF, as offset by new funds amounting to R$ 141,772, and the monetary variation of R$ 1,616 thousand.

- **Debentures** - The increase in this account is related to the funds from the 7th issue of debentures amounting to R$ 250,000 thousand and to the monetary variation of R$ 18,288 thousand, as offset by the transfer of R$ 120,227 thousand to current.

- **Taxes payable in installments** - The change in this account, which is related to the offsetting of accounts between the Government of the City of Belo Horizonte and the Company, reflects the transfer of R$ 22,616 thousand to current, as offset by the monetary adjustment of R$ 9,934 thousand.

- **Provision for contingencies** - The increase in this account is due to the new civil and labor lawsuits amounting to R$ 13,647 thousand and R$ 8,112 thousand, respectively, as offset against the reversal of provisions amounting to R$ 4,240 thousand and the losses on lawsuits amounting to R$ 2,439 thousand.

Comments on company performance

e. Equity

Consolidated	6/30/2013	12/31/2013	Change R$	Change %
Previous balance	**5,337,359**	**4,934,888**	**402,471**	**8.16**
Profit	198,536	419,795	(221,259)	-52.71
Interest on capital	(68,137)	(139,582)	71,445	-51.18
Actuarial loss on retirement benefits	(10,510)	100,485	(110,995)	n.m.
Income tax and social contribution on actuarial loss - retirement benefits	3,574	-	3,574	n.m.
Other changes in equity	-	8,713	(8,713)	-100.00
Fair value of available-for-sale assets	741	13,060	(12,319)	-94.33
Closing balance	**5,461,563**	**5,337,359**	**124,204**	**2.33**

Explanatory Notes

01. Operations

Companhia de Saneamento de Minas Gerais ("COPASA MG", "Parent Company" or "Company") is a publicly-traded, corporation with state and private capital, controlled by the Government of the State of Minas Gerais, having its registered office in the city of Belo Horizonte at Rua Mar de Espanha 525, Bairro Santo Antônio. The Company is engaged in planning, designing, performing, expanding, remodeling, managing and providing public services comprising water supply and sewage services, and is permitted to operate in Brazil and abroad. The Company is subject to the arbitration of São Paulo Stock Exchange's Market Arbitration Chamber, as set forth in an arbitration clause included in its Bylaws.

At June 30, 2014, COPASA MG had the following wholly-owned subsidiaries:

Copasa Águas Minerais de Minas S/A ("Águas Minerais") - established by State Law 16,693, of January 11, 2007, is engaged in the production, bottling, distribution and sale of mineral water from the springs it owns or has license to explore, and managing and exploring the water and spring parks of Caxambu, Araxá, Cambuquira and Lambari.

Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais S/A ("COPANOR") - established by State Law 16,698, of April 17, 2007, is engaged in planning, designing, executing, expanding, remodeling, exploring and providing public services including water supply and sewage treatment, collection, recycling, treatment and final disposal of urban, domestic and industrial waste, draining and management of rain water in urban areas in cities of the North of Minas Gerais and the water basins of the Jequitinhonha, Mucuri, São Mateus, Buranhém, Itanhém and Jucuruçu rivers.

Copasa Serviços de Irrigação S/A ("Serviços de Irrigação") - established by State Law 16,698, of April 17, 2007, is engaged in managing, executing and exploring the irrigation systems of the Jaíba Project, and conducting its maintenance, using both its own and outsourced personnel and resources. This subsidiary may contract, whenever economically viable, through regular bidding processes, services and construction work necessary to the operation of the system, and may purchase products, equipment and materials required for the performance of its activities.

In compliance with Minas Gerais State Government Decree 46,080, dated November 12, 2012, the Executive Board of COPASA Serviços de Irrigação considered that the responsibilities imposed by State Law 16,698, dated April 17, 2007, had been met. Therefore, the necessary measures for the transfer of management of the Jaíba II Project to Distrito de Irrigação do Jaíba - DIJ were concluded on March 2, 2013, upon termination of service agreement 460/12 entered into with RURALMINAS on September 3, 2012. Complete termination of the activities is pending because of labor lawsuits and judicial claims against customers, in which this subsidiary is the defendant and the plaintiff, respectively.

Explanatory Notes

At June 30, 2014, the Company operates in 905 places in the State of Minas Gerais (888 in December 2013) providing water supply or sewage services, totaling approximately 4,712,707 connections (4,647,083 in December 2013). The twenty main water supply and sewage service concessions that the Company holds are as follows:

Water concessions			Sewage concessions		
Location	Number of connections	Expiry	Location	Number of connections	Expiry
Belo Horizonte	985,853	2034	Belo Horizonte	951,014	2034
Contagem	233,566	2073	Contagem	206,109	2073
Betim	138,797	2042	Montes Claros	133,491	2028
Montes Claros	133,178	2028	Betim	113,176	2042
Ribeirão das Neves	99,642	2034	Ipatinga	89,689	2022
Divinópolis	91,345	2041	Divinópolis	81,469	2041
Ipatinga	83,080	2022	Ribeirão das Neves	75,621	2034
Santa Luzia (i)	69,673	2013	Patos de Minas	55,550	2038
Patos de Minas	55,967	2038	Santa Luzia (i)	54,608	2013
Ibirité	52,952	2034	Pouso Alegre	50,925	2046
Pouso Alegre	51,372	2046	Varginha (i)	49,477	2013
Varginha (i)	50,448	2013	Conselheiro Lafaiete (i)	43,565	2010
Conselheiro Lafaiete (i)	50,270	2010	Ibirité	41,058	2034
Teófilo Otoni	42,362	2034	Araxá	39,309	2032
Sabará	42,146	2042	Lavras	38,369	2034
Lavras	40,495	2034	Teófilo Otoni	36,859	2034
Araxá	40,312	2032	Itajubá	33,757	2034
Ubá (i)	36,017	2014	Sabará	32,920	2042
Itajubá	36,004	2034	Alfenas	32,216	2033
Nova Lima	35,535	2028	Pará de Minas (i)	30,875	2009

(i) The concession agreements entered into with some aforementioned municipalities have expired, and the Company is currently negotiating the renewal of these agreements with the related municipalities. The data related to the water and sewage billing in these municipalities is as follows:

Municipality	Maturity	1st six-month period			
		Water and sewage billing (R$)		% on billing	
		2014	2013	2014	2013
Pará de Minas	10/11/2009	16,606	15,283	0.92	0.89
Conselheiro Lafaiete	7/23/2010	15,913	14,857	0.88	0.87
Varginha	9/1/2013	24,764	22,692	1.37	1.33
Santa Luzia	12/1/2013	24,823	23,510	1.37	1.37
Ubá	2/1/2014	8,910	12,158	0.49	0.50

Explanatory Notes

At June 30, 2014, 73 concessions had expired, which represented 8.07% of the Company's total connections and whose renewal procedures are currently under negotiation with the related municipalities. Management expects that new concession agreements will be entered into for all expired concessions that are yet to be renewed. Therefore, there is no risk of discontinuation of water supply and sewage services rendered in these municipalities.

The Executive Board of the Company authorized on July 29, 2014 the issue of the parent company and consolidated quarterly information for the quarter ended June 30, 2014.

02. Presentation of interim accounting information

The parent company and consolidated quarterly information is presented in thousands of Brazilian Reais (R$000), unless otherwise stated.

2.1. Basis of preparation

a) Individual interim accounting information - Parent company

The individual interim accounting information of COPASA MG, presented as "Parent Company", has been prepared in accordance with the accounting standard CPC 21, "Interim Financial Reporting", issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the standards issued by the Brazilian Securities Commission (CVM).

This interim accounting information should be read in conjunction with the financial statements of the Company for the year ended December 31, 2013.

b) Consolidated interim accounting information - Consolidated

The consolidated interim accounting information, referred to herein as "Consolidated", has been prepared and is being presented in accordance with the accounting standard CPC 21, "Interim Financial Reporting" issued by the Brazilian Accounting Pronouncements Committee (CPC), as well as according to the standards issued by the Brazilian Securities Commission (CVM).

The consolidated interim accounting information, referred to herein as "Consolidated", has also been prepared in accordance with the International Accounting Standard (IAS) 34, "Interim Financial Reporting", as well as according to the standards issued by the Brazilian Securities Commission (CVM).

This interim accounting information should be read in conjunction with the financial statements of the Company for the year ended December 31, 2013.

03. Summary of significant accounting policies

The main accounting policies applied to the preparation of this interim accounting information are consistent with the policies described in Note 3 to the financial statements of the Company for the year ended December 31, 2013, filed with the CVM. These policies have been consistently applied in the periods presented, unless otherwise stated.

Explanatory Notes

04. Evaluation of the impacts of Law 12,973/14

On May 13, 2014, Provisional Measure (MP) 627 was converted into Law 12,973/14, revoking the Transitional Tax System (RTT), among other provisions. It is effective as from 2015, but may be early adopted in 2014. The Company prepared a study of the possible effects that could arise from the early or normal adoption of this new MP and concluded that the effects on its financial information would be immaterial in either case, especially with respect to interest on capital.

Accordingly, and within the established period, the Company is assessing the impacts of early adoption in 2014 or normal adoption in 2015.

05. Public service concession agreements

At June 30, 2014, the Company holds public utility concessions for water supply and sewage services in 905 locations in the State of Minas Gerais. The concession agreements and/or program agreements are executed with each municipality for periods ranging from 30 to 99 years, and all are fairly similar in terms of the rights and obligations of the holder and grantor.

The tariff system for water supply and sewage services is controlled by the Minas Gerais State Regulatory Water and Wastewater Agency (ARSAE-MG). These tariffs are intended to maintain the Company's financial and economic balance, pursuant to Federal Law 11,445/07. Therefore, ARSAE-MG is responsible for periodically reviewing these tariffs and for annually determining any required readjustments, in order to realign tariff prices with inflation. Services are charged directly to users, based on the volume of water consumed and sewage collected multiplied by the authorized tariff.

The main concession terms and major changes in concession agreements for the period ended June 30, 2014 are described in Note 1.

At June 30, 2014, the Company had accounts receivable from grantors (the municipalities) totaling R$ 556,161, which correspond to the amounts expected to be received at the end of the concession period (R$ 494,836 at December 31, 2013) for assets which were not depreciated over the concession period. These amounts were discounted to their present value upon initial recognition using the weighted average cost of capital (WACC) rates linked to the respective accounts receivable. Intangible assets were accounted for based on the difference between the fair value of the assets constructed or acquired for the purpose of the concession services and the carrying value of the financial assets recognized.

Explanatory Notes

Below are the results of the construction services performed by the Company during the periods:

	Parent company/Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Construction revenue	200,305	187,467	359,461	313,980
Construction costs	(196,120)	(183,281)	(350,504)	(305,899)

06. Cash and cash equivalents

	Parent company	
	6/30/2014	12/31/2013
Cash and banks	38,010	40,125
Short-term bank deposit certificates	196,404	220,356
Total	**234,414**	**260,481**

	Consolidated	
	6/30/2014	12/31/2013
Cash and banks	38,410	41,582
Short-term bank deposit certificates	196,404	220,356
Total	**234,814**	**261,938**

At June 30, 2014 there were no changes in the nature and conditions of cash and cash equivalents compared to the disclosures made in Note 6 to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these in this interim accounting information.

Explanatory Notes

07. Trade and other receivables

a) Trade receivables

The aging of trade receivables is as follows:

Parent company		
	6/30/2014	**12/31/2013**
Not yet due	201,789	253,415
Overdue up to 30 days	77,956	51,071
Overdue from 31 to 60 days	36,082	32,778
Overdue from 61 to 90 days	23,163	22,598
Overdue from 91 to 180 days	33,008	32,919
Overdue for more than 180 days	17,966	16,186
Billed amounts	389,964	408,967
Unbilled amounts	333,284	311,474
Trade receivables	723,248	720,441
(-) Provision for impairment of trade receivables	(27,107)	(23,336)
	696,141	697,105
Accounts receivable - non-current	199,898	212,580
Trade receivables, net	**896,039**	**909,685**

Consolidated		
	6/30/2014	**12/31/2013**
Not yet due	204,974	256,176
Overdue up to 30 days	80,087	51,627
Overdue from 31 to 60 days	36,142	33,135
Overdue from 61 to 90 days	23,186	22,844
Overdue from 91 to 180 days	33,697	33,278
Overdue for more than 180 days	18,100	16,362
Billed amounts	396,186	413,422
Unbilled amounts	333,766	312,787
Trade receivables	729,952	726,209
(-) Provision for impairment of trade receivables	(28,177)	(24,004)
	701,775	702,205
Accounts receivable - non-current	199,898	212,580
Trade receivables, net	**901,673**	**914,785**

Trade and other receivables are denominated only in Brazilian reais, and there are no accounts receivable in foreign currencies.

Explanatory Notes

At June 30, 2014, trade receivables of the parent company of R$ 734,971 (R$ 777,469 at December 31, 2013) and consolidated trade receivables of R$ 738,638 (R$ 781,543 at December 31, 2013) were fully performing.

At June 30, 2014, trade receivables of the parent company totaling R$ 162,792 (R$ 133,866 at December 31, 2013) and consolidated trade receivables totaling R$ 164,827 (R$ 134,939 at December 31, 2013) were past due, but not provisioned. These include a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Parent company	
	6/30/2014	**12/31/2013**
Up to 3 months	131,898	110,152
3 to 6 months	27,920	22,420
Over 6 months	2,974	1,294
Total	**162,792**	**133,866**

	Consolidated	
	6/30/2014	**12/31/2013**
Up to 3 months	133,904	111,267
3 to 6 months	28,408	22,694
Over 6 months	2,515	978
Total	**164,827**	**134,939**

At June 30, 2014, parent company trade receivables, in the amount of R$ 27,107 (R$ 23,336 at December 31, 2013) and consolidated trade receivables of R$ 28,177 (R$ 24,004 at December 31, 2013) are impaired. The individually impaired receivables mainly relate to customers who are healthcare providers and for whom COPASA, in accordance with current legislation, cannot interrupt water supply and sewage services. Based on management's assessment, a portion of these accounts receivable may be recovered.

The ageing of these receivables is as follows:

	Parent company	
	6/30/2014	**12/31/2013**
Not yet due	1,724	1,650
Overdue up to 30 days	1,813	1,423
Overdue from 31 to 60 days	1,806	1,418
Overdue from 61 to 90 days	1,685	1,333
Overdue from 91 to 180 days	5,087	4,432
Overdue from 181 to 360 days	9,912	8,431
Overdue for more than 360 days	5,080	4,649
Total	**27,107**	**23,336**

Explanatory Notes

	Consolidated	
	6/30/2014	**12/31/2013**
Not yet due	1,792	1,697
Overdue up to 30 days	1,885	1,463
Overdue from 31 to 60 days	1,877	1,458
Overdue from 61 to 90 days	1,751	1,373
Overdue from 91 to 180 days	5,287	4,559
Overdue from 181 to 360 days	10,303	8,671
Overdue for more than 360 days	5,282	4,783
Total	**28,177**	**24,004**

The following table summarizes the changes in the provision for impairment of trade receivables:

	Parent company	
	6/30/2014	**12/31/2013**
Opening balance	**23,336**	**19,517**
Provision for impairment of trade receivables	45,196	73,672
Receivables written off during the period as uncollectible	(41,425)	(69,853)
Closing balance	**27,107**	**23,336**

	Consolidated	
	6/30/2014	**12/31/2013**
Opening balance	**24,004**	**19,910**
Provision for impairment of trade receivables	46,726	75,648
Receivables written off during the period as uncollectible	(42,553)	(71,554)
Closing balance	**28,177**	**24,004**

The provision for impairment of receivables was recognized in the statement of income as selling expenses. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

b) Other receivables

The other classes of receivables have no impaired assets.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The Company maintains revenue from tariffs as a guarantee for borrowings (Note 20.1 (e) of the Company's financial statements for the year ended December 31, 2013).

Explanatory Notes

	Parent company	
	6/30/2014	**12/31/2013**
Collateral for financing	117,711	133,410
Receivables from subsidiaries **(i)**	15,630	109,790
Restricted investments - PRODES	28,866	28,936
Restricted investments - debentures	67,777	68,444
Available-for-sale financial assets	49,761	48,638
Other	55,576	54,524
Total	**335,321**	**443,742**
Non-current assets	**(335,321)**	**(443,742)**
Current assets	**-**	**-**

	Consolidated	
	6/30/2014	**12/31/2013**
Collateral for financing	117,711	133,410
Restricted investments - PRODES	28,866	28,936
Restricted investments - debentures	67,777	68,444
Available-for-sale financial assets	49,761	48,638
Other	55,866	54,835
Total	**319,981**	**334,263**
Non-current assets	**(319,981)**	**(334,263)**
Current assets	**-**	**-**

PRODES - Water Basin Depollution Program (PRODES)

(i) In accordance with the General Meeting of Stockholders of the subsidiary Águas Minerais held on April 14, 2014, the amount of the "Receivables from subsidiaries" account decreased by R$ 96,178 as a result of the payment of capital in this subsidiary through the balance of advances for capital increase existing at December 31, 2013.

At June 30, 2014, there were no other changes in the nature and conditions of trade and other receivables compared to the disclosures made in Note 7 to the Company's financial statements for the year ended December 31, 2013.

08. Investments

At June 30, 2014, the equity of the subsidiary Águas Minerais amounted to R$ 18,361 and was recorded in the "investments" account within permanent assets (at December 31, 2013 - net capital deficiency of R$ 73,699 recorded in the "provision for losses on investments" account within non-current liabilities). The subsidiaries COPANOR and Serviços de Irrigação had a net capital deficiency of R$ 12,898 (R$ 12,647 at December 31, 2013), for which the parent company recorded a provision for losses in non-current related-party liabilities as "Provision for investment losses".

Explanatory Notes

The changes in the investments and in the provisions for losses on investments are as follows:

	12/31/2013	Transfer of advances for capital increase	Equity in the results	6/30/2014
Águas Minerais	(73,699)	96,178	(4,118)	18,361
COPANOR	(11,884)	-	9	(11,875)
Serviços de Irrigação	(763)	-	(260)	(1,023)
Total	**(86,346)**	**96,178**	**(4,369)**	**5,463**

In accordance with the General Meeting of Stockholders of the subsidiary Águas Minerais held on April 14, 2014, the capital of this subsidiary was increased with the balance of advances for capital increase existing at December 31, 2013, in the amount of R$ 96,178.

At June 30, 2014, there were no other changes in the nature and conditions of investments in relation to the disclosures made in Note 8 to the financial statements for the year ended December 31, 2013.

09. Intangible assets

The changes in intangible assets were as follows:

	Parent company						
	Systems of						
	Water	Sewage	Common use (i)	Rights of use	Other	In development	Total
At December 31, 2013	**2,078,741**	**2,575,420**	**183,288**	**221,320**	**70,118**	**1,771,866**	**6,900,753**
Additions	32,842	35,191	16,729	7,411	6,282	394,446	**492,901**
Reductions	(27)	-	(199)	-	(1,043)	(25,751)	**(27,020)**
Amortization	(83,483)	(89,251)	(32,431)	(6,765)	(1,540)	-	**(213,470)**
Capitalized interest	-	-	-	-	-	23,596	**23,596**
Transfers to financial assets	(985)	(53,527)	(1,358)	74	977	-	**(54,819)**
Transfers	17,533	352,215	13,859	637	(568)	(392,699)	**(9,023)**
Other	1,554	850	58	23	222	-	**2,707**
At June 30, 2014	**2,046,175**	**2,820,898**	**179,946**	**222,700**	**74,448**	**1,771,458**	**7,115,625**

Explanatory Notes

The amortization for the first six-month period of 2014, allocated to the statement of income, amounted to R$ 211,867 (R$ 186,379 in the first six-month period of 2013) as cost of services rendered, R$ 120 (R$ 100 in the first six-month period of 2013) as selling expenses, and R$ 1,483 (R$ 481 in the first six-month period of 2013) as administrative expenses.

	Consolidated						
	Systems of						
	Water	Sewage	Common use (i)	Rights of use	Other	In development	Total
At December 31, 2013	**2,078,741**	**2,575,420**	**183,288**	**221,322**	**70,118**	**1,771,866**	**6,900,755**
Additions	32,842	35,191	16,729	7,411	6,282	394,446	**492,901**
Reductions	(27)	-	(199)	-	(1,043)	(25,751)	**(27,020)**
Amortization	(83,483)	(89,251)	(32,431)	(6,767)	(1,540)	-	**(213,472)**
Capitalized interest	-	-	-	-	-	23,596	**23,596**
Transfers to financial assets	(985)	(53,527)	(1,358)	74	977	-	**(54,819)**
Transfers	17,533	352,215	13,859	637	(568)	(392,699)	**(9,023)**
Other	1,554	850	58	23	222	-	**2,707**
At June 30, 2014	**2,046,175**	**2,820,898**	**179,946**	**222,700**	**74,448**	**1,771,458**	**7,115,625**

The amortization for the first six-month period of 2014, allocated to the statement of income, amounted to R$ 211,867 (R$ 186,379 in the first six-month period of 2013) as cost of services rendered, R$ 120 (R$ 100 in the first six-month period of 2013) as selling expenses, and R$ 1,485 (R$ 486 in the first six-month period of 2013) as administrative expenses.

In the six-month period to June 30, 2014, the additions to intangible assets amounting to R$ 492,901 substantially referred to (i) the construction works for the expansion of the sewage treatment plant of Ribeirão Arrudas; (ii) the implementation of the sewage treatment system of Ibirité, and (iii) improvements in the sewage system of Caratinga, Contagem and Betim.

(i) Considering that common use systems have specific economic useful lives, these assets are controlled in a separate group as from 2012.

Explanatory Notes

10. Property, plant and equipment

The changes in property, plant and equipment were as follows:

	Parent company				
	Land and buildings	**Machinery and equipment**	**Vehicles**	**Other**	**Total**
At December 31, 2013	**82,815**	**87,429**	**35,215**	**19**	**205,478**
Purchases	-	7,136	-	-	**7,136**
Disposals	(18)	(200)	-	-	**(218)**
Depreciation	(1,749)	(12,413)	(5,244)	(2)	**(19,408)**
Transfers	535	4,864	3,624	-	**9,023**
At June 30, 2014	**81,583**	**86,816**	**33,595**	**17**	**202,011**

The depreciation for the first six-month period of 2014, allocated to the statement of income, amounted to R$ 11,012 (R$ 10,375 in the first six-month period of 2013) as cost of services rendered, R$ 2,933 (R$ 1,873 in the first six-month period of 2013) as selling expenses, and R$ 5,463 (R$ 4,336 in the first six-month period of 2013) as administrative expenses.

	Consolidated				
	Land and buildings	**Machinery and equipment**	**Vehicles**	**Other**	**Total**
At December 31, 2013	**87,855**	**103,654**	**35,232**	**53**	**226,794**
Purchases	180	7,154	-	-	**7,334**
Disposals	(18)	(1,313)	-	-	**(1,331)**
Depreciation	(1,918)	(13,479)	(5,248)	(4)	**(20,649)**
Transfers	535	4,864	3,624	-	**9,023**
Other	(22)	(53)	(1)	2	**(74)**
At June 30, 2014	**86,612**	**100,827**	**33,607**	**51**	**221,097**

The depreciation for the first six-month period of 2014, allocated to the statement of income, amounted to R$ 12,209 (R$ 11,595 in the first six-month period of 2013) as cost of services rendered, R$ 2,933 (R$ 1,873 in the first six-month period of 2013) as selling expenses, and R$ 5,507 (R$ 4,425 in the first six-month period of 2013) as administrative expenses.

Explanatory Notes

11. Trade and other payables

	Parent company		Consolidated	
	6/30/2014	**12/31/2013**	**6/30/2014**	**12/31/2013**
Trade payables	148,980	135,338	152,815	156,104
Taxes and contributions	55,065	53,764	55,401	54,293
Taxes payable in installments	242,733	253,724	242,733	253,724
Provision for vacation pay and 13th month salary	118,479	92,023	119,468	92,679
Electric energy	16,428	10,832	16,887	11,202
Deposit for construction **(i)**	24,895	30,389	24,898	30,392
Provision for investment losses (Note 8)	12,898	86,346	-	-
Others	51,209	20,086	51,199	20,112
Total	**670,687**	**682,502**	**663,401**	**618,506**
Non-current liabilities	**(252,941)**	**(337,084)**	**(240,046)**	**(250,741)**
Current liabilities	**417,746**	**345,418**	**423,355**	**367,765**

The non-current portion is mainly comprised of taxes to be paid in installments.

At June 30, 2014, except for the item described below, there were no other changes in the nature and conditions of obligations in relation to the disclosures made in Note 11 to the financial statements for the year ended December 31, 2013.

(i) In the first six-month period of 2014, the right to the amount transferred by the National Water Agency (ANA) was recognized, with credit of R$ 6,542 in deferred income, of which R$ 1,367 being related to the remaining amount of the ETE Onça, and R$ 5,175 upon compliance of the 1st phase established in the agreement referring to ETE Betim Central.

12. Borrowings and debentures

These accounts did not change significantly compared to the disclosures made in Note 12 to the financial statements for the year ended December 31, 2013, except for the borrowings of the subsidiaries Águas Minerais and COPANOR as described below. Accordingly, management has decided not to include them in this interim accounting information at June 30, 2014.

Explanatory Notes

a) Borrowings

At June 30, 2014, the book values of the Company's borrowings in foreign currency total R$ 180,185 (R$ 127,332 at December 31, 2013), of which R$ 55,643 is in U.S. dollars and R$ 124,542 in euros (R$ 61,658 in U.S. dollars and R$ 65,674 in euros at December 31, 2013).

Amounts recorded under non-current liabilities fall due as follows:

	Parent company		Consolidated	
Maturity year	**6/30/2014**	**12/31/2013**	**6/30/2014**	**12/31/2013**
2015	80,052	173,935	80,316	174,399
2016	133,839	137,345	133,977	137,483
2017	103,582	100,523	103,652	100,593
2018	104,315	101,708	104,385	101,778
2019	104,060	103,395	104,130	103,465
2020	97,931	97,934	98,001	98,004
2021 to 2036	518,121	477,629	518,268	477,776
Total	**1,141,900**	**1,192,469**	**1,142,729**	**1,193,498**

Changes in loans and financing are as follows:

Parent company	
At December 31, 2013	**1,388,728**
New borrowings	146,205
Accrued charges	48,338
Monetary and exchange variation	(11,057)
Repayment of principal	(215,477)
Payment of charges	(48,656)
At June 30, 2014	**1,308,081**
Current liabilities	**(166,181)**
Non-current liabilities	**1,141,900**

Consolidated	
At December 31, 2013	**1,390,161**
New borrowings	146,205
Accrued charges	48,390
Monetary and exchange variation	(11,057)
Repayment of principal	(215,677)
Payment of charges	(48,706)
At June 30, 2014	**1,309,316**
Current liabilities	**(166,587)**
Non-current liabilities	**1,142,729**

Explanatory Notes

Bank loans and financing mature through 2036 and bear average coupons of 7.61% p.a. (7.66% p.a. as at December 31, 2013). The balances of financing lines are subject to specific rates, as follows:

	Parent company/Consolidated
Financing lines	**Rates**
State government/BDMG	IGP-M
Caixa Econômica Federal	Referential Rate (TR)
National Treasury	Referential Rate (TR)
BNDES - BNE	Exceeding 6% of Long-Term Interest Rate (TJLP)
Federal government - bonus	U.S. dollar
KfW Bank	Euro
Banco do Brasil - COPANOR	CDI
Debentures	**(i)**

(i) See item "c" of Note 12 to the financial statements for the year ended December 31, 2013.

b) Debentures

Changes in debentures are as follows:

	Parent company/Consolidated
At December 31, 2013	**1,767,539**
Proceeds from debentures	250,000
Accrued charges	74,175
Monetary variation	21,356
Repayment of principal	(139,267)
Payment of charges	(61,258)
At June 30, 2014	**1,912,545**
Current liabilities	**(272,212)**
Non-current liabilities	**1,640,333**

On April 15, 2014, the Company issued 25,000 unsecured non-convertible simple debentures of R$ 10,000 each, in a public placement, through exclusive subscription by Pentágono Distribuidora de Títulos e Valores Mobiliários. These debentures were issued in a series of 13,000 (1st series) and another series of 12,000 (2nd series), totaling R$ 250,000, under the following contractual terms and conditions:

Explanatory Notes

Date of issue	April 15, 2014
Term	60 months for the 1st series and 84 months for the 2nd series
Grace period of the principal	36 months
Repayment	Single installment at the maturity date for the 1st series, and 5 equal and consecutive annual installments for the 2nd series
Final maturity	April 15, 2019 for the 1st series and April 15, 2021 for the 2nd series
Finance charges	Interest of 108.50% of the Interbank Deposit (ID) rate for the 1st series, and Consumer Price Index (IPCA) plus fixed interest of 7.39% p.a., with a basis of 252 business days, for the 2nd series.
Guarantee	Unsecured

The funds from this issue will be used in the Company's investment program, being allocated to non-financed investments, such as the acquisition of land, indemnities of assets from new concessions and in the debt rescheduling process.

c) Other significant information on borrowings

Guarantees for bank borrowings

There were no significant changes in the guarantees provided by the Company for its borrowings in relation to those disclosed in the financial statements for the year ended December 31, 2013. Accordingly, management has decided not to include them in this interim accounting information at June 30, 2014.

Restrictive contractual clauses - Covenants

The Company has loan and financing agreements that contain restrictive covenants requiring it to maintain certain financial ratios, as specified below:

- Net debt/EBITDA
- EBITDA/net operating revenue
- EBITDA/debt service

None of the covenants above had been breached through June 30, 2014.

Explanatory Notes

13. Provision for contingencies

a) Probable loss contingencies

Provisions are as follows:

	Parent company					
	6/30/2014			12/31/2013		
	Contingencies	Judicial deposits	Net balance	Contingencies	Judicial deposits	Net balance
Civil	46,612	(1,194)	45,418	37,164	(1,153)	36,011
Labor	38,082	(1,000)	37,082	33,542	(824)	32,718
Tax	865	(432)	433	828	(414)	414
Environmental	7,752	-	7,752	7,331	-	7,331
Total	**93,311**	**(2,626)**	**90,685**	**78,865**	**(2,391)**	**76,474**

	Consolidated					
	6/30/2014			12/31/2013		
	Contingencies	Judicial deposits	Net balance	Contingencies	Judicial deposits	Net balance
Civil	46,642	(1,194)	45,448	37,194	(1,153)	36,041
Labor	40,616	(1,693)	38,923	35,406	(1,439)	33,967
Tax	865	(432)	433	828	(414)	414
Environmental	7,752	-	7,752	7,331	-	7,331
Total	**95,875**	**(3,319)**	**92,556**	**80,759**	**(3,006)**	**77,753**

The changes in provisions are as follows:

	Parent company	Consolidated
Balance at December 31, 2013 net of judicial deposits	**76,474**	**77,753**
Additions	21,046	21,795
Uses	(2,412)	(2,439)
Reversals	(4,188)	(4,240)
(-) Offsetting of judicial deposits	(235)	(313)
At June 30, 2014	**90,685**	**92,556**

Uses refer to provisions settled or cases dismissed which were lost by the Company and classified as accounts payable.

Explanatory Notes

The provisions for contingencies recorded are considered sufficient by management to cover probable losses on administrative and judicial proceedings involving tax, labor and civil matters, taking into account the advice of the legal advisors.

b) Possible contingent liabilities

COPASA MG is a party to other lawsuits for which the likelihood of loss is estimated as possible. No provision for losses on these lawsuits was recognized, as the Company believes it has a solid, legitimate defense.

Ongoing proceedings at various administrative and judicial levels in which the Company is a defendant are as follows:

	Parent company/Consolidated	
Nature	**6/30/2014**	**12/31/2013**
Civil	392,019	376,057
Tax	53,738	34,239
Environmental	5,805	-
Total	**451,562**	**410,296**

At June 30, 2014 the information concerning the status of proceedings, the likelihood of loss and the contingent assets had not changed significantly compared to the disclosures made in Note 13 to the financial statements at December 31, 2013 and accordingly management has decided not to include these in this interim accounting information.

14. Profit sharing

As resolved by the Company's Board of Directors in a meeting held on March 1, 2011 and in accordance with prevailing legislation, the amount to be distributed as Employee Profit Sharing is equivalent to 25% of the mandatory minimum dividends paid to stockholders, after deduction of the legal reserve, and will have as computation basis for measurement of goals achievement, the percentage of completion of the Investment Program approved by the Company for the year, the number of connections per employee and its operating income.

The 2008/2010 Collective Agreement, formally approved at the meeting held on July 25, 2008 and ratified by the 2013 Collective Agreement, signed on July 10, 2013, determines that the computed amount of profit sharing shall be distributed among all employees, in two equal installments (50% each), the first payable in April and the second in October.

Up to June 30, 2014, the Company recognized R$ 11,394 as a provision for the employee profit sharing (R$ 13,385 - in the first six-month period of 2013).

Explanatory Notes

15. Income tax and social contribution

a) Current income tax and social contribution

In Brazil, income taxes include both federal income tax and social contribution. The statutory tax rates applicable to income tax and social contribution are 25% and 9%, respectively, giving a combined 34% rate for June 2014 and 2013. The amounts reported as income tax expenses in the income statements of the Company are reconciled with the statutory tax rates as follows:

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Profit before income tax and social contribution	109,311	109,057	260,604	265,818
Statutory rate	34%	34%	34%	34%
Estimated expenses at statutory rate	**(37,166)**	**(37,079)**	**(88,605)**	**(90,378)**
Income tax and social contribution on:				
(Additions)/exclusions				
Equity in the results of investees	(636)	(8,175)	(1,486)	(9,523)
Realization of special monetary restatement reserve	(8)	(141)	(69)	(406)
Donations and subsidies	598	-	1,180	-
Other (additions)/exclusions	(3,493)	(694)	1,046	18
Other reconciling items				
Interest on capital	11,349	12,371	23,167	25,309
Tax incentives	1,968	882	2,699	1,754
Income tax and social contribution	**(27,388)**	**(32,836)**	**(62,068)**	**(73,226)**
Current income tax and social contribution	(34,046)	(40,765)	(71,296)	(86,287)
Deferred income tax and social contribution	6,658	7,929	9,228	13,061
	(27,388)	**(32,836)**	**(62,068)**	**(73,226)**
Effective rate	25.1%	30.1%	23.8%	27.5%

Explanatory Notes

	Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Profit before income tax and social contribution	109,311	109,014	260,604	265,882
Statutory rate	34%	34%	34%	34%
Estimated expenses at statutory rate	**(37,166)**	**(37,065)**	**(88,605)**	**(90,400)**
Income tax and social contribution on:				
(Additions)/exclusions				
Realization of special monetary restatement reserve	(8)	(141)	(69)	(406)
Donations and subsidies	598	-	1,180	-
Other (additions)/exclusions	(4,129)	(8,840)	(440)	(9,547)
Other reconciling items				
Interest on capital	11,349	12,371	23,167	25,309
Tax incentives	1,968	882	2,699	1,754
Income tax and social contribution	**(27,388)**	**(32,793)**	**(62,068)**	**(73,290)**
Current income tax and social contribution	(34,046)	(40,722)	(71,296)	(86,351)
Deferred income tax and social contribution	6,658	7,929	9,228	13,061
	(27,388)	**(32,793)**	**(62,068)**	**(73,290)**
Effective rate	25.1%	30.1%	23.8%	27.6%

b) Deferred income tax and social contribution

Deferred taxes are calculated on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The currently enacted tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available to utilize temporary differences and/or tax losses, considering projections of future results based on internal assumptions and future economic scenarios, which are, therefore, subject to change.

Explanatory Notes

The amounts of temporary differences and related deferred taxes are as follows:

	Parent company/Consolidated	
Balances	**6/30/2014**	**12/31/2013**
In non-current assets		
Temporary differences:		
Provision for impairment of trade receivables and litigation provision	120,419	102,200
Provisions for adjustments required under CPCs	421,608	403,141
Provision for adjustments of CPCs in the comprehensive income	1,720	1,720
Provision for actuarial liabilities	10,509	-
Tax provisions	115,524	125,717
Other temporary provisions - sundry	41,516	24,069
Total	**711,296**	**656,847**
Deferred income tax	177,824	164,212
Deferred social contribution	64,017	59,116
	241,841	**223,328**
In non-current liabilities		
Temporary differences:		
Provisions for adjustments required under CPCs	221,080	204,281
Provision for adjustments of CPCs in the comprehensive income	68,182	67,060
Provision for actuarial liabilities	35,672	35,672
Total	**324,934**	**307,013**
Deferred income tax	81,233	76,753
Deferred social contribution	29,244	27,631
	110,477	**104,384**
Deferred income tax and social contribution, net	**131,364**	**118,944**

At June 30, 2014 there were no changes in the nature and conditions of income tax and social contribution compared to the disclosures made in Note 15 to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these in this interim accounting information.

Explanatory Notes

16. Technical cooperation agreements

The net balance of these agreements is as follows:

	Parent company		
	Receivables (assets)	**Advances (liabilities)**	**Net**
June 30, 2014			
State of Minas Gerais	232,363	(219,320)	**13,043**
Other	92,250	(94,018)	**(1,768)**
Total	**324,613**	**(313,338)**	**11,275**
December 31, 2013			
State of Minas Gerais	229,229	(217,981)	**11,248**
Other	68,823	(86,618)	**(17,795)**
Total	**298,052**	**(304,599)**	**(6,547)**

	Consolidated		
	Receivables (assets)	**Advances (liabilities)**	**Net**
June 30, 2014			
State of Minas Gerais	705,890	(691,528)	**14,362**
Other	92,250	(94,018)	**(1,768)**
Total	**798,140**	**(785,546)**	**12,594**
December 31, 2013			
State of Minas Gerais	674,359	(644,266)	**30,093**
Other	68,823	(86,618)	**(17,795)**
Total	**743,182**	**(730,884)**	**12,298**

At June 30, 2014 there were no changes in the nature and conditions of technical cooperation agreements compared to the disclosures made in Note 16 to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these in this interim accounting information.

17. Pension plan

	Parent company/Consolidated	
	6/30/2014	**12/31/2013**
Non-current liabilities	107,895	106,010
Current liabilities	15,436	14,342
	123,331	**120,352**
Normal contributions	6,370	12,067
Total obligations recorded in the balance sheet	**129,701**	**132,419**

Explanatory Notes

Changes in net liabilities are as follows:

	Parent company/Consolidated
Net liabilities at December 31, 2013	**132,419**
Amounts recognized in the statement of income	2,979
Actuarial losses recognized directly in other comprehensive income	10,510
Amortization of interest on debt	(3,361)
Amortization of the principal	(7,149)
Expenses recognized in the statement of income - contributions from COPASA	17,188
Provision for monthly contributions	21,374
Amortization of monthly contributions	(44,259)
Net liabilities at June 30, 2014	**129,701**
Current liabilities	**(21,806)**
Non-current liabilities	**107,895**

At June 30, 2014 there were no other changes in the nature and conditions of retirement benefit plans compared to the disclosures made in Note 17 to the financial statements for the year ended December 31, 2013.

18. Equity and dividends

a) Capital

The Company is authorized to increase its capital up to the limit of R$ 3 billion after approval of the Board of Directors. The Company's subscribed and paid-up capital amounts to R$ 2,773,985,614.66, represented by 119,684,430 registered common shares with no par value.

The Company is allowed to issue common shares, debentures convertible into common shares and subscription warrants within the authorized capital limit. Capital increases over the authorized capital are subject to approval at General Meetings of Stockholders based on capital increase proposals submitted by the Board of Directors. This procedure is also adopted when payment is made with assets.

Concerning the Company's capital increases, the stockholders may exclude at the General Meetings the preferential rights or reduce the period for them to be exercised in the issue of shares, debentures convertible into shares and subscription warrants, placed through sale in stock markets or public subscription, according to the pertinent legislation, and within the authorized capital limit.

Explanatory Notes

Stockholders have preference in the subscription of capital increases according to the number of shares they hold, pursuant to articles 171 and 172 of Law 6,404/76.

In addition, in accordance with the Constitution of the State of Minas Gerais, if the Company's controlling stockholder - that is, the State of Minas Gerais - includes COPASA MG in a privatization process, such process will only occur after a public referendum approves it. After the privatization is approved through this public referendum, the State Legislature of the State of Minas Gerais will enact a law authorizing the transfer of ownership control by the State, according to the applicable state legislation.

The Company is controlled by the Government of Minas Gerais, which holds 51.1% of the Company's shares. The Company also holds 357 thousand common shares of its own shares in treasury, amounting to R$ 8,576, mostly acquired from the State of Minas Gerais through transactions related to the settlement of debts originating from the provision of water supply and sewage services and technical cooperation agreements. The Company has the right to reissue these shares on a subsequent date.

The remaining 48.6% of the shares, which represent the Company's free float, are held by various stockholders.

At June 30, 2014, the breakdown of capital is as follows:

Stockholders	Number of shares	Percentage of interest
State of Minas Gerais	61,189	51.13
Management	2	-
Other stockholders	58,136	48.57
Treasury shares	357	0.30
Total	**119,684**	**100.00**

b) Revenue reserves

At June 30, 2014, there were no changes in the nature and conditions of reserves in relation to the disclosures made in Note 18(b) to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these in this interim accounting information.

c) Carrying value adjustments

Carrying value adjustments are related to:

(i) Actuarial gains and losses: calculated in conformity with CPC 33 (R1) and IAS 19 (R1) (Note 17). At June 30, 2014, the credit balance on this account was R$ 16,607 (R$ 23,543 at December 31, 2013).

Explanatory Notes

(ii) Monetary restatement of assets: application of IAS 29 for the period during which it was considered that Brazil had a hyper-inflationary economy. This restatement is amortized based on the useful lives of property, plant and equipment items and intangible assets against retained earnings. At June 30, 2014, the credit balance on this account was R$ 20,416 (R$ 22,364 at December 31, 2013).

(iii) Fair value of available-for-sale financial assets: fair value of the investments without significant influence relating to Foz Jeceaba. At June 30, 2014, the credit balance on this account was R$ 18,454 (R$ 17,713 at December 31, 2013).

d) Dividends and interest on capital to stockholders

Under the bylaws, stockholders of any class are entitled to a mandatory minimum dividend of 25% of the profit for the year, adjusted for the deduction or addition of the amounts specified in items I, II and III of Article 202 of Law 6,404/76. The approved dividend amounts bear no interest and any dividends not claimed within three years after the date when they are made available to the stockholders become time-barred in favor of the Company.

As resolved at the Extraordinary General Meeting of Stockholders held on April 28, 2009, the Company's Board of Directors has the power to define the annual percentage to be paid as interest on capital. Accordingly, the Company's Board of Directors approved on March 21, 2014 the dividend distribution for 2014 as interest on capital equivalent to 35% of the profit for the year adjusted by the deduction or addition of the amounts specified in Items I, II and III of Article 202 of Law 6,404/76.

The Company's Board of Directors approved the payment of interest on capital to stockholders, as resolved at the following meetings:

Date	Gross amount declared	Value per share
3/21/2014	34,757	0.29
6/23/2014	33,380	0.28
	68,137	

Declared interest on capital will be deducted from the mandatory dividends for 2014.

As provided for in Article 9 of Law 9,249/95, and based on the Long-term Interest Rate (TJLP), interest on capital was recorded as finance costs deductible for income tax and social contribution purposes, thereby generating a tax benefit of R$ 23,167. Under Brazilian corporation law, interest on capital is reclassified as a charge to retained earnings, in equity, for financial statement purposes.

Explanatory Notes

Changes in the balance of interest on capital payable are as follows:

	6/30/2014	12/31/2013
Opening balance	**31,646**	**46,469**
Proposed interest on capital	68,137	139,582
Withholding Income Tax (IRRF) on interest on capital	(2,564)	(12,971)
Interest on capital paid	(63,788)	(141,434)
Balance of interest on capital in current liabilities	**33,431**	**31,646**

e) Earnings per share

(i) Basic

Basic earnings per share are calculated by dividing the profit attributable to the stockholders of the Company by the weighted average number of outstanding common shares during the year, excluding common shares purchased by the Company and held as treasury shares (item "a" of this Note).

	Parent company/Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Profit attributable to stockholders of the Company	81,923	76,221	198,536	192,592
Weighted average number of outstanding common shares (thousands)	119,327	119,327	119,327	119,327
Basic earnings per share	**0.69**	**0.64**	**1.66**	**1.61**

(ii) Diluted

At June 30, 2014 and 2013, diluted earnings per share were equivalent to the basic earnings per share, as in September 2012 the convertible debentures were converted into shares, eliminating the potential dilutive common shares.

Explanatory Notes

19. Segment information

The Company's management defined the operating segments used for the strategic decision-making as water supply and sewage treatment and sales of products.

	Consolidated		
	First six-month period of 2014		
	Water and sewage	Sales of products	Financial statement balance
Gross sales and services revenue	2,086,235	1,597	2,087,832
Deductions from gross revenue	(160,397)	(246)	(160,643)
Net sales and services revenue	1,925,838	1,351	1,927,189
Costs and selling and administrative expenses	(1,550,666)	(4,000)	(1,554,666)
Operating profit (loss) before other net operating expenses	375,172	(2,649)	372,523
Other operating expenses, net			(23,428)
Finance result, net			(88,491)
Operating profit before taxes			260,604

Explanatory Notes

	Consolidated		
	2nd quarter of 2014		
	Water and sewage	Sales of products	Financial statement balance
Gross sales and services revenue	1,052,518	631	1,053,149
Deductions from gross revenue	(79,224)	(97)	(79,321)
Net sales and services revenue	973,294	534	973,828
Costs and selling and administrative expenses	(808,687)	(1,815)	(810,502)
Operating profit (loss) before other net operating expenses	164,607	(1,281)	163,326
Other operating expenses, net			(10,021)
Finance result, net			(43,994)
Operating profit before taxes			109,311

	Consolidated		
	First six-month period of 2013		
	Water and sewage	Sales of products	Financial statement balance
Gross sales and services revenue	1,928,163	2,141	1,930,304
Deductions from gross revenue	(149,666)	(309)	(149,975)
Net sales and services revenue	1,778,497	1,832	1,780,329
Costs and selling and administrative expenses	(1,397,981)	(6,791)	(1,404,772)
Operating profit (loss) before other net operating expenses	380,516	(4,959)	375,557
Other operating expenses, net			(28,664)
Finance result, net			(81,011)
Operating profit before taxes			265,882

Explanatory Notes

	Consolidated		
	2nd quarter of 2013		
	Water and sewage	Sales of products	Financial statement balance
Gross sales and services revenue	990,200	955	991,155
Deductions from gross revenue	(73,736)	(142)	(73,878)
Net sales and services revenue	916,464	813	917,277
Costs and selling and administrative expenses	(750,319)	(2,660)	(752,979)
Operating profit (loss) before other net operating expenses	166,145	(1,847)	164,298
Other operating expenses, net			(11,704)
Finance result, net			(43,580)
Operating profit before taxes			109,014

20. Financial risk management

At June 30, 2014, there were no changes in the financial risk policies and management in relation to the disclosures made in Note 20 to the financial statements for the year ended December 31, 2013.

The information relating to: (a) liabilities subject to foreign exchange rate variations, (b) the credit quality of financial assets, (c) the cash flow from financial instruments, and (d) financial leverage ratios did not change significantly compared to the disclosures made in Note 20 to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these items in the interim accounting information at June 30, 2014.

20.1 Sensitivity analysis

a) Interest rate sensitivity

The Company analyzed the sensitivity to the effects of possible changes in interest rates to which loans and financing payables are subject. With all other variables held constant, the Company's profit before tax is affected by the impact on loans payable subject to floating rates, as shown below:

Explanatory Notes

	Parent company	
	Increase/decrease in basis points	**Effect on profit before taxes (R$)**
6/30/2014		
	+ 0.5%	(12,441)
	- 0.5%	12,441
12/31/2013		
	+ 0.5%	(12,329)
	- 0.5%	12,329

	Consolidated	
	Increase/decrease in basis points	**Effect on profit before taxes (R$)**
6/30/2014		
	+ 0.5%	(12,446)
	- 0.5%	12,446
12/31/2013		
	+ 0.5%	(12,333)
	- 0.5%	12,333

The change in basis points assumed in the analysis of sensitivity to interest rates is based on current interest rates prevailing in the market, indicating volatility significantly higher than in previous years.

b) Foreign exchange sensitivity

The Company analyzed the sensitivity to the effects of fluctuations in the U.S. dollar and Euro exchange rates on the Company's income and equity. With all other variables held constant, the Company's profit before taxes is affected by the impact on loans payable subject to foreign exchange rate variations, as shown below:

	Parent Company/Consolidated	
	Change in U.S. Dollar/Euro rate	**Effect on profit before taxes (R$)**
6/30/2014	+ 20%	(24,893)
	- 20%	24,893
	+10%	(12,446)
	-10%	12,446
12/31/2013	+ 20%	(25,363)
	- 20%	25,363
	+10%	(12,682)
	-10%	12,682

Changes in income and equity derive from U.S. Dollar and Euro borrowings.

Explanatory Notes

20.2 Fair value estimation

The carrying values of trade receivables and payables, less an impairment provision in the case of trade receivables, are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flow at the current market interest rate that is available to the Company for similar financial instruments.

a) Financial instruments measured in the balance sheet at fair value

The Company and its subsidiaries adopted CPC 40/IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires the disclosure of fair value measurements according to their level of the following hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Company's and its subsidiaries' assets and liabilities measured at fair value at June 30, 2014 and December 31, 2013:

	Parent company/Consolidated	
	6/30/2014	
	Assets	
	Available-for-sale financial assets	Total assets
Prices quoted in active markets (Level 1)	-	-
Other significant observable data (Level 2)	-	-
Significant data not observable (Level 3)	49,761	49,761
Total balance	**49,761**	**49,761**

	Parent company/Consolidated	
	12/31/2013	
	Assets	
	Available-for-sale financial assets	Total assets
Prices quoted in active markets (Level 1)	-	-
Other significant observable data (Level 2)	-	-
Significant data not observable (Level 3)	48,638	48,638
Total balance	**48,638**	**48,638**

Explanatory Notes

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. At June 30, 2014 and December 31, 2013, the Company and its subsidiaries did not have financial instruments whose fair value had been measured at Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data when available, and rely as little as possible on Company-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. At June 30, 2014 and December 31, 2013, the Company and its subsidiaries did not have financial instruments whose fair value had been measured at Level 1.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine the fair values of the remaining financial instruments.

b) Fair value of borrowings

The carrying amounts compared to the respective fair values are as follows:

	Parent company			
	Amounts			
	Carrying amount	Fair value	Carrying amount	Fair value
	6/30/2014	6/30/2014	12/31/2013	12/31/2013
Bank borrowings	1,308,081	1,327,639	1,388,728	1,430,504
Simple debentures	1,912,545	1,893,205	1,767,539	1,727,836
Total	**3,220,626**	**3,220,844**	**3,156,267**	**3,158,340**

	Consolidated			
	Amounts			
	Carrying amount	Fair value	Carrying amount	Fair value
	6/30/2014	6/30/2014	12/31/2013	12/31/2013
Bank borrowings	1,309,316	1,328,873	1,390,161	1,431,932
Simple debentures	1,912,545	1,893,205	1,767,539	1,727,836
Total	**3,221,861**	**3,222,078**	**3,157,700**	**3,159,768**

Explanatory Notes

The market values of liabilities are calculated on a projected debit balance, restated at their contractual rates over the remaining months up to maturity. The amount arrived at is adjusted to the present value, using the following market rates:

	Parent company/Consolidated			
Lines	**Contractual rate**	**Period (months)**	**Market rate**	**Comments**
State government/BDMG	9.03%	09	7.33%	CEF rate since there is no similar one
CEF/FGTS	8.64%	126	7.33%	Quoted CEF rate in June 2014
BNDES/BNE	6.57%	95	6.55%	Quoted BNDES/BNE rate in June 2014
FINAME	3.32%	116	3.00%	Quoted FINAME rate in June 2014
Federal government	4.27%	119	7.33%	CEF rate since there is no similar one
Simple debentures	8.33%	80	8.72%	Quoted BNDES/BND rate in June 2014
KfW Bank	2.07%	115	2.07%	Quoted KfW rate in June 2014
FINAME - AGMM	2.50%	104	3.00%	Quoted FINAME rate in June 2014
Banco do Brasil - COPANOR	12.15%	20	7.33%	CEF rate since there is no similar one

FGTS - Government Severance Indemnity Fund for Employees

21. Financial instruments by category

a) Parent company

	6/30/2014		
	Loans and receivables	**Available-for -sale assets**	**Total**
Assets			
Cash and cash equivalents	234,414	-	234,414
Trade receivables	896,039	-	896,039
Banks and applications in connection with agreements	41,775	-	41,775
Restricted investments	96,643	-	96,643
Financial assets - concession agreements	556,161	-	556,161
Equity securities	-	49,761	49,761
Receivables from subsidiaries	15,630	-	15,630
Other receivables (excluding prepayments)	149,010	-	149,010
Total	**1,989,672**	**49,761**	**2,039,433**

	6/30/2014	
	Other financial liabilities	**Total**
Liabilities		
Borrowings and debentures	3,220,626	3,220,626
Trade payables	148,980	148,980
Finance lease	7,769	7,769
Total	**3,377,375**	**3,377,375**

Explanatory Notes

	12/31/2013		
	Loans and receivables	**Available-for -sale assets**	**Total**
Assets			
Cash and cash equivalents	260,481	-	260,481
Trade receivables	909,685	-	909,685
Banks and applications in connection with agreements	36,688	-	36,688
Restricted investments	97,380	-	97,380
Financial assets - concession agreements	494,836	-	494,836
Equity securities	-	48,638	48,638
Receivables from subsidiaries	109,790	-	109,790
Other receivables (excluding prepayments)	161,075	-	161,075
Total	**2,069,935**	**48,638**	**2,118,573**

	12/31/2013	
	Other financial liabilities	**Total**
Liabilities		
Borrowings and debentures	3,156,267	3,156,267
Trade payables	135,338	135,338
Finance leases	7,769	7,769
Total	**3,299,374**	**3,299,374**

b) Consolidated

	6/30/2014		
	Loans and receivables	**Available-for -sale assets**	**Total**
Assets			
Cash and cash equivalents	234,814	-	234,814
Trade receivables	901,673	-	901,673
Banks and applications in connection with agreements	42,587	-	42,587
Restricted investments	96,643	-	96,643
Financial assets - concession agreements	556,161	-	556,161
Equity securities	-	49,761	49,761
Other receivables (excluding prepayments)	146,018	-	146,018
Total	**1,977,896**	**49,761**	**2,027,657**

Explanatory Notes

	6/30/2014	
	Other financial liabilities	**Total**
Liabilities		
Borrowings and debentures	3,221,861	3,221,861
Trade payables	152,815	152,815
Finance lease	7,769	7,769
Total	**3,382,445**	**3,382,445**

	12/31/2013		
	Loans and receivables	**Available-for -sale assets**	**Total**
Assets			
Cash and cash equivalents	261,938	-	261,938
Trade receivables	914,785	-	914,785
Banks and applications in connections with agreements	36,794	-	36,794
Restricted investments	97,380	-	97,380
Financial assets - concession agreements	494,836	-	494,836
Equity securities	-	48,638	48,638
Other receivables (excluding prepayments)	158,611	-	158,611
Total	**1,964,344**	**48,638**	**2,012,982**

	12/31/2013	
	Other financial liabilities	**Total**
Liabilities		
Borrowings and debentures	3,157,700	3,157,700
Trade payables	156,104	156,104
Finance leases	7,769	7,769
Total	**3,321,573**	**3,321,573**

Explanatory Notes

22. Revenue

The reconciliation between gross and net revenue is as follows:

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Revenue from water supply and sewage services	847,361	799,236	1,717,358	1,605,635
Construction revenue	200,305	187,467	359,461	313,980
Total revenue	1,047,666	986,703	2,076,819	1,919,615
Taxes on sales and services	(78,771)	(73,380)	(159,509)	(148,843)
Net revenue	**968,895**	**913,323**	**1,917,310**	**1,770,772**

	Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Revenue from water supply and sewage services	852,213	802,733	1,726,774	1,614,183
Revenue from sales of products	631	955	1,597	2,142
Construction revenue	200,305	187,467	359,461	313,980
Total revenue	1,053,149	991,155	2,087,832	1,930,305
Taxes on sales and services	(79,321)	(73,878)	(160,643)	(149,976)
Net revenue	**973,828**	**917,277**	**1,927,189**	**1,780,329**

The Company's other operating income for the periods ended June 30, 2014 and 2013 is set out below:

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Reversal of non-deductible provisions	5,110	980	9,696	1,885
Recovery of accounts written off	13,345	8,799	22,947	16,265
Other income	6,235	1,936	11,006	4,743
Total other operating income	**24,690**	**11,715**	**43,649**	**22,893**

Explanatory Notes

	Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Reversal of non-deductible provisions	5,285	1,152	9,972	2,201
Recovery of accounts written off	13,407	8,850	23,099	16,360
Other income	6,784	2,097	11,872	5,271
Total other operating income	**25,476**	**12,099**	**44,943**	**23,832**

23. Expenses by nature

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Salaries and social charges	268,693	247,672	530,391	477,847
Materials	30,429	30,087	63,656	58,803
Outsourced services	159,267	154,247	309,324	291,836
General expenses	29,913	27,444	58,050	56,448
Depreciation and amortization	119,009	103,801	232,878	203,544
Impairment of trade receivables	25,237	17,404	45,196	32,534
Provision for obsolescence	12	-	127	-
Construction costs **(i)**	196,120	183,281	350,504	305,899
Litigation provision	11,160	9,272	21,046	17,263
Equity in the results of investees	1,867	4,688	4,369	8,654
Employee profit sharing	4,766	5,480	11,394	13,385
Other	18,493	8,072	33,828	19,612
Operating expenses	**864,966**	**791,448**	**1,660,763**	**1,485,825**
(-) Tax credits	**(24,303)**	**(18,669)**	**(48,184)**	**(38,406)**
Operating expenses, net	**840,663**	**772,779**	**1,612,579**	**1,447,419**
Costs	**625,669**	**578,544**	**1,199,983**	**1,080,310**
Expenses	**214,994**	**194,235**	**412,596**	**367,109**

Explanatory Notes

	Consolidated			
	Quarters ended June 30		Six month periods ended June 30	
	2014	2013	2014	2013
Salaries and social charges	270,865	250,845	535,428	483,115
Materials	30,952	30,774	64,751	59,986
Outsourced services	161,363	156,351	313,167	297,684
General expenses	30,076	27,932	58,436	57,765
Depreciation and amortization	119,592	104,455	234,121	204,858
Impairment of trade receivables	26,086	17,918	46,725	33,407
Provision for obsolescence	11	-	135	-
Construction costs **(i)**	196,120	183,281	350,504	305,899
Cost of products sold	(40)	240	35	812
Litigation provision	11,361	9,518	21,795	17,584
Employee profit sharing	4,766	5,480	11,394	13,385
Other	19,370	8,805	35,182	21,527
Operating expenses	**870,522**	**795,599**	**1,671,673**	**1,496,022**
(-) Tax credits	**(24,523)**	**(18,817)**	**(48,636)**	**(38,754)**
Operating expenses, net	**845,999**	**776,782**	**1,623,037**	**1,457,268**
Costs	**629,808**	**583,365**	**1,208,515**	**1,090,287**
Expenses	**216,191**	**193,417**	**414,522**	**366,981**

(i) Breakdown of construction costs:

	Parent company/Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Salaries and social charges	7,309	7,608	14,104	14,638
Materials	23,725	20,958	37,624	32,631
Equipment	15,093	7,361	42,327	17,329
Outsourced services	138,340	128,498	230,748	206,068
Financing costs	11,384	15,863	24,204	30,769
Other	269	2,993	1,497	4,464
Total construction costs	**196,120**	**183,281**	**350,504**	**305,899**

Explanatory Notes

24. Employee benefit expenses

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Salaries	148,132	138,560	290,293	268,057
Social security costs	47,552	42,534	90,468	81,619
FGTS	14,801	16,487	32,060	30,993
Pension plan contributions	8,634	8,360	17,188	16,356
Workers' meal program	31,062	27,121	60,686	53,455
Healthcare plan	11,701	11,177	24,321	20,204
Other benefits	6,811	3,433	15,375	7,163
Total	**268,693**	**247,672**	**530,391**	**477,847**
Number of employees (not reviewed by the independent accountants)	12,115	11,827	12,115	11,827

	Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Salaries	149,534	140,442	293,557	271,546
Social security costs	47,949	42,916	91,316	82,303
FGTS	14,906	16,588	32,283	31,191
Pension plan contributions	8,634	8,360	17,188	16,356
Workers' meal program	31,308	27,895	61,328	54,279
Healthcare plan	11,717	11,203	24,363	20,260
Other benefits	6,817	3,441	15,393	7,180
Total	**270,865**	**250,845**	**535,428**	**483,115**
Number of employees (not reviewed by the independent accountants)	12,483	12,121	12,483	12,121

Explanatory Notes

25. Finance income and costs

Finance income and costs can be summarized as follows:

	Parent company			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Interest income	1,363	3,403	2,448	7,484
Income on short-term investments	7,901	9,951	15,490	20,202
Monetary and foreign exchange gains	9,420	4,462	20,248	8,007
Capitalization of financial assets/other	6,162	4,057	9,584	8,435
Total income	**24,846**	**21,873**	**47,770**	**44,128**
Interest expenses	(52,720)	(46,241)	(104,475)	(91,242)
Monetary and foreign exchange losses	(15,634)	(18,309)	(30,864)	(32,685)
Other expenses	(103)	(525)	(207)	(629)
Total costs	**(68,457)**	**(65,075)**	**(135,546)**	**(124,556)**
Finance result	**(43,611)**	**(43,202)**	**(87,776)**	**(80,428)**

	Consolidated			
	Quarters ended June 30		Six-month periods ended June 30	
	2014	2013	2014	2013
Interest income	1,065	3,440	1,873	7,638
Income on short-term investments	7,901	9,951	15,490	20,202
Monetary and foreign exchange gains	9,409	4,103	20,224	7,351
Capitalization of financial assets/other	6,162	4,058	9,584	8,434
Total income	**24,537**	**21,552**	**47,171**	**43,625**
Interest expenses	(52,762)	(46,249)	(104,547)	(91,254)
Monetary and foreign exchange losses	(15,633)	(18,309)	(30,864)	(32,696)
Other expenses	(136)	(574)	(251)	(686)
Total costs	**(68,531)**	**(65,132)**	**(135,662)**	**(124,636)**
Finance result	**(43,994)**	**(43,580)**	**(88,491)**	**(81,011)**

Explanatory Notes

26. Related-party transactions

The Company is controlled by the State of Minas Gerais, which holds 51.13% of its shares (Note 18).

a) Assets, liabilities, income and expenses

In addition to the agreements described in Note 16, other transactions with related parties substantially represent those carried out with the State of Minas Gerais, CEMIG, Foz de Jeceaba and subsidiaries. Significant balances and transactions with related parties are set out below:

	Parent company						
	6/30/2014						
	Subsidiaries				Other		
	Águas Minerais	COPANOR	Serviços de Irrigação	Total	State MG	CEMIG	Foz de Jeceaba
Assets							
Current assets							
Trade receivables							
Billed amounts	-	-	-	-	22,521	-	-
Agreements	-	-	-	-	13,043	-	-
Others							
Receivables from subsidiaries	223	2,842	-	3,065	-	-	-
Non-current assets							
Borrowings	-	12,220	940	13,160	-	-	-
Advances for capital increase	2,470	-	-	2,470	-	-	-
Available-for sale assets	-	-	-	-	-	-	49,761
Total assets	**2,693**	**15,062**	**940**	**18,695**	**35,564**	**-**	**49,761**
Liabilities							
Current liabilities							
Interest on capital	-	-	-	-	17,117	-	-
Electric energy	-	-	-	-	-	16,428	-
Non-current liabilities							
Provision for investment losses	-	11,875	1,023	12,898	-	-	-
Total liabilities	**-**	**11,875**	**1,023**	**12,898**	**17,117**	**16,428**	**-**
Results							
	Quarter ended June 30, 2014						
Revenue from water supply and sewage services	-	-	-	-	29,616	-	-
Interest and income from monetary variations	-	310	23	333	-	-	-
Dividends/interest on capital received	-	-	-	-	-	-	2,641
	Six-month period ended June 30, 2014						
Revenue from water supply and sewage services	-	-	-	-	55,325	-	-
Interest and income from monetary variations	-	627	46	673	-	-	-
Dividends/interest on capital received	-	-	-	-	-	-	3,259

Explanatory Notes

	Parent company						
	12/31/2013						
	Subsidiaries				Other		
	Águas Minerais	COPANOR	Serviços de Irrigação	Total	State MG	CEMIG	Foz de Jeceaba
Assets							
Current assets							
Trade receivables							
Billed amounts	-	-	-	-	47,072	-	-
Others							
Receivables from subsidiaries	398	2,125	-	2,523	-	-	-
Non-current assets							
Borrowings	-	12,734	878	13,612	-	-	-
Advances for capital increase	96,178	-	-	96,178	-	-	-
Available-for-sale assets	-	-	-	-	-	-	48,638
Total assets	**96,576**	**14,859**	**878**	**112,313**	**47,072**	**-**	**48,638**
Liabilities							
Current liabilities							
Agreements	-	-	-	-	11,248	-	-
Interest on capital	-	-	-	-	17,476	-	-
Electric energy	-	-	-	-	-	10,832	-
Non-current liabilities							
Provision for investment losses	73,699	11,884	763	86,346	-	-	-
Total liabilities	**73,699**	**11,884**	**763**	**86,346**	**28,724**	**10,832**	**-**
Results							
	Quarter ended June 30, 2013						
Revenue from water supply and sewage services	-	-	-	-	28,192	-	-
Interest and income from monetary variations	-	341	17	358	-	-	-
Dividends received	-	-	-	-	-	-	1,066
	Six-month period ended June 30, 2013						
Revenue from water supply and sewage services	-	-	-	-	52,756	-	-
Interest and income from monetary variations	-	623	33	656	-	-	-
Dividends received	-	-	-	-	-	-	2,265

Balances and transactions with related parties are conducted at prices and under conditions considered by management to be similar to those prevailing in the market, except for the financial settlement, which may occur through special negotiations (offsetting of accounts).

At June 30, 2014 there were no changes in the nature and conditions of related-party transactions compared to the disclosures made in Note 26 to the financial statements for the year ended December 31, 2013 and accordingly management has decided not to include these data in this interim accounting information.

Explanatory Notes

b) Key management compensation

	Quarters ended June 30		Six-month periods ended June 30	
	2014	**2013**	**2014**	**2013**
Salaries	1,210	1,038	2,475	2,200
Employee benefits	159	157	321	307
Post-employment benefits	48	-	48	-
Total	**1,417**	**1,195**	**2,844**	**2,507**

27. Commitments

The Company has entered into contracts for new construction works, under which obligations are recorded as the services are rendered. The main outstanding contracts with contractors and suppliers at June 30, 2014 are listed below:

Contractors	Amount	Date of signature	Term in days (a)
Odebrecht Ambiental	693,731	12/20/2013	5,475
Construtora Andrade Gutierrez S.A.	186,404	8/25/2011	1,080
Consórcio Orteng/Sonel	71,075	2/21/2013	990
Mendes Junior Trading e Engenharia S/A	60,339	11/30/2012	810
Prefisan Ltda.	46,287	5/15/2014	600
Socienge Construções Ltda.	39,088	6/17/2014	540
Prefisan Ltda.	28,797	5/23/2013	720
Prefisan Engenharia S/A	21,624	3/14/2012	1,080
Infracon Engenharia e Comércio Ltda.	21,170	8/28/2013	540
Construtora Integral Ltda.	19,597	3/18/2014	720
Comim Construtora Ltda.	19,541	8/9/2013	720

(a) As from the date set in the first service order.

Upon renewal or revision of some concession agreements, the Company assumed commitments to participate financially in sewage network construction and river valley treatment works, to be carried out by the municipal governments. Among the works to be carried out, those in public sites (stream channeling, open sewage channels) are treated as intangible assets - "concession rights", and amortized over the remaining concession term. Sewage interceptors are recorded in the Company's intangible assets.

Explanatory Notes

The main committed amounts refer to the following municipalities:

	Amounts		
Municipalities	**Committed**	**Realized**	**% realization**
Belo Horizonte	261,140	79,998	30.63
Betim	80,286	73,521	91.57
Contagem	83,707	83,707	100.00
Montes Claros	121,941	61,417	50.37
Ribeirão das Neves	86,411	70,977	82.14
Teófilo Otoni	54,360	-	-

28. Transactions not involving cash and cash equivalents

During the first six-month periods of 2014 and 2013, the Company and its subsidiaries carried out the following non-cash investing and financing activities which are not reflected in the statement of cash flows:

	Parent Company/Consolidated	
Event	**6/30/2014**	**6/30/2013**
Proposed dividends (Note 18)	68,137	74,439
Transfer of PRODES/ANA agreement (Notes 7 and 11)	1,456	5,162

29. Notes attached to the annual financial statements that are not repeated in this interim accounting information

Pursuant to Circular CVM/SNC/SEP 003/2011, the Company has disclosed the explanatory notes considered to be relevant in the context of the "Basic Accounting Pronouncement - Conceptual Framework for Financial Statements". All of the information whose omission or distortion that could influence a user's economic decisions has been duly disclosed in this interim accounting information, which should be read in conjunction with the financial statements for the year ended December 31, 2013.

An index to the exact location of the explanatory notes in respect of which the information was not repeated in this interim financial information, because it was redundant or not significant, is set out below:

Note 4 - Critical accounting estimates and judgments
Note 27 - Water supply and sewage services in Belo Horizonte
Note 29 - Insurance
Note 30 - Value-added Tax on Sales and Services (ICMS)

Comments on the behavior of business projections

Comments on the behavior of business projections

If the issuer has disclosed, during the three last years, projections on the trends of its business indicators:

a. Inform which ones are being replaced with new projections included in the CVM form and which of them are being repeated in the form.

b. With respect to projections relating to current periods, inform whether the projections remain valid at the date the form is submitted and, when applicable, explain the reason why they have been eliminated or replaced.

c. In relation to projections for periods already ended, the data projected should be compared to the effective performance of the indicators and any deviation from the initial projections should be clearly explained.

Market expansion: Goals to increase the number of concessions for the period from 2010 to 2013:

In October 2010, goals for expansion of water and sewage systems concessions were disclosed for the period from 2010 to 2013, as follows:

I- Expand the sewage concessions in locations where the Company already has water supply concessions

- Group of municipalities with population over 15 thousand inhabitants:

Concessions to be signed up to 2013	Total
Number of municipalities	31
Population (in thousands)	1,500

Of this group, eight concessions were signed up to December 2013, including a population of approximately 600 thousand inhabitants. Concerning the others, two already have their authorizing Law voted and 21 are in the negotiation process.

Comments on the behavior of business projections

Group of municipalities with population below 15 thousand inhabitants:

Concessions to be signed up to 2013	Total
Number of municipalities	93
Population (in thousands)	600

Of this group, twenty concessions were signed up to December 2013, including a population of approximately 115 thousand inhabitants. Concerning the others, 32 already have their authorizing Law voted and 41 are in the negotiation process.

II - Increase the number of water and sewage concessions

- **Group of municipalities with population over 15 thousand inhabitants, where concessions are being negotiated.**

Concessions to be signed up to 2013	Total
Number of municipalities	31
Population (in thousands)	1,400

It should be pointed out that COPASA MG does not disclose guidance about its revenue, costs and results. Accordingly, in order to provide a better understanding of the Company, the table below shows some of the indicators recorded for the past three years by COPASA MG:

Water (Parent company)	unit	2013	2012	2011
Population served	thousand (annual average)	14,054	13,600	13,197
Number of connections	unit (annual average)	4,575,197	4,423,219	4,281,626
Billed volume	m³	676,420,786	660,581,099	644,529,379
Total revenue	R$ thousand	1,980,672	1,858,366	1,783,983
Average tariff	R$/m³	2.93	2.81	2.77
Inhabitant by connection	unit (annual average)	3.07	3.07	3.08
Revenue by connection	R$/conn (annual average)	432.92	420.14	416.66

Sewage (Parent company)	unit	2013	2012	2011
Population served	thousand (annual average)	8,971	8,516	8,008
Number of connections	unit (annual average)	2,953,393	2,798,293	2,610,770
Billed volume	thousand m³	443,820,398	427,667,059	402,551,660
Total revenue	R$ thousand	1,027,064	909,999	725,627
Average tariff	R$/	2.31	2.13	1.80
Inhabitant by connection	unit (annual average)	3.04	3.04	3.07
Revenue by connection	R$/conn (annual average)	347.76	325.20	277.94

Comments on the behavior of business projections

Water + Sewage (Parent company)*	unit	2013	2012	2011
Total costs and expenses	R$ thousand	2,286,482	2,012,471	1,754,301
Total costs and expenses without depreciation	R$ thousand	1,858,448	1,635,129	1,449,804
Total costs and expenses by connection	R$/conn (annual average)	303.71	278.68	254.53
Costs and expenses without depreciation by connection	R$/conn (annual average)	246.85	226.42	210.35

*Water + sewage costs are stated together, since these costs are not recorded separately.

In preparing the projections, it is important to note that operating results may be materially affected by various factors, among which the following are to be highlighted:

- **Operating revenues:** revenues may change due to tariff adjustments, changes in the consumption billed and operation of new water supply and sanitary sewage systems, expansion of existing systems, and the start of sewage treatment services in locations where only sewage collection services were previously provided.
- **Cost of products and services, administrative and selling expenses:** in accordance with the Brazilian regulations for the sanitation sector, the regulatory agency is in charge of authorizing the inclusion of such costs in the tariffs, within the limits related to inflation indices and according to the tariff adjustment methodology, which became effective in March 2011. Therefore, occasional increases in costs and expenses that exceed the limits authorized by ARSAE MG may affect adversely the Company's operating results.
- **Tax policies:** the rules on taxes levied on the services rendered by the Company, mainly as regards the Social Contribution on Revenues (COFINS) and Social Integration Program (PIS) / Public Services Employee Savings Program (PASEP) may undergo changes over the years, which may have a direct impact on the Company's revenues, particularly if the transfer of such changes to the tariffs is not allowed.
- **Lawsuits or litigation proceedings:** in the course of its business, the Company is a party to various proceedings, which may or may not have a favorable outcome. Furthermore, the amount currently provided for may not correspond to the amounts involved in the proceedings, which may substantially exceed the provisions recorded. Where the economic value of these lawsuits exceeds the amount attributed by the parties, or if the total amount provided for is not sufficient to cover the contingencies, the costs incurred may exceed those expected and, if the amounts are material, the Company's results may be negatively affected.

In relation to the goals of market expansion, various factors affected their achievement, mainly as follows:

- Since Federal Law 11,445 - Marco Legal do Saneamento (Sanitation Regulation) started to be effective, in February 2007, the process of negotiation of concessions became more complex, requiring the realization of various steps, many of which are a responsibility of the municipalities, for the formalization of the Program's Contracts. A great part of the municipalities has difficulties carrying out some of these actions, such as the approval of Law, preparation of the Municipal Plan of Basic Sanitation (PMSB) and realization of inquiries and public hearings.

Comments on the behavior of business projections

- The possibility of access of the municipalities to non-onerous resources from the Federal Government also contributes to the delay in the negotiations of concessions, because many municipalities suspend negotiations while awaiting the definition of their requests (Consultation Letter) with Federal Bodies which hold the resources to be released.

- Law 11,445/2007 also brought the requirement of preparation of Plans of Municipal Sanitation, making this document mandatory for the Program Contracts and a condition for their validation. Most municipalities do not have the necessary structure to prepare these plans, whether due to the costs involved or the lack of personnel skilled in their preparation. Some municipalities have opted to seek support from the Basins Committees and contract the preparation of the PMS.

- The suspension of negotiations in periods of municipal, state or federal elections has become more serious in the last years, because most mayors have opted to totally paralyze their actions relating to concessions. In 2012, for example, various negotiations were stagnated up to the end of the election period. Besides this, when mayors are substituted, usually the new representatives require a relatively significant time until they are able to start contacts for the resumption of the negotiation process with COPASA.

In relation to the Company's expansion plan, new goals are being discussed, taking into consideration the Company's financial position, as well as the macroeconomic scenario, the regulatory environment and the sanitation sector's policies. These goals, when approved by management, will be disclosed to the market.

Additional information

For each concession to be contracted, an economic and financial feasibility study is prepared specifically for the concession, and the impact of this concession on the Company's overall return is verified to confirm that, as a whole, the concessions provide the Company with a minimum return equal or superior to its capital cost.

The Executive Board is responsible for approving new concessions, except for those that may present a negative Net Present Value (VPL<0), which must be submitted to the approval of the Board of Directors.

In the preparation of the feasibility study for each project, the Company adopts the criterion of income and expenses at nominal amounts, restated by indices of specific prices over the period of the concession, which is 30 years.

The present amount of the cash flows of the concession projects is calculated by discounting the expected nominal cash flows using projected inflation rates and then bringing the resulting cash flows to present value by applying the Weighted Average Cost of Capital (WACC) (real, after taxes). For the calculation of this cost, COPASA MG adopted the Capital Asset Pricing Model (CAPM) methodology.

The capital cost of the Company will be recalculated whenever there is significant change in its variables.