Quarterly Information

Companhia de Saneamento de Minas Gerais - COPASA.

Quarter ended June 30, 2010 with Special Review Report of Independent Auditors

"Free Translation from Portuguese into English"

Companhia de Saneamento de Minas Gerais – COPASA.

Quarterly Information

June 30, 2010

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"A free Translation from Portuguese into English"

Independent auditors' special review report on quarterly information

The Board of Directors and Shareholders
Companhia de Saneamento de Minas Gerais – COPASA MG
Belo Horizonte – MG

1. We have carried out a special review of the accompanying quarterly financial information (ITR) of Companhia de Saneamento de Minas Gerais – COPASA MG, parent company and consolidated for the quarter ended June 30, 2010, which comprise the balance sheets, the statements of income, changes in shareholders' equity and of cash flows, Management's performance report and related information of the parent company and consolidated. This quarterly financial information (ITR) is the responsibility of the Company's management.

2. We conducted our review in accordance with specific standards established by the Institute of Independent Auditors of Brazil (IBRACON) along with the Brazilian Federal Accounting Board ("Conselho Federal de Contabilidade"), which consisted principally of: (a) inquiries of and discussions with key personnel responsible for the accounting, financial and operating areas of the Company and its subsidiaries with respect to the criteria adopted in preparing the quarterly information; and, (b) review of information and subsequent events that have or could have material effects on the financial position and operations of the Company and its subsidiaries.

3. Based on our special review, we are not aware of any material modification that should be made to the quarterly information referred to in paragraph 1 for it to comply with accounting practices adopted in Brazil and rules established by the Brazilian Securities and Exchange Commission (CVM), applicable to the preparation of quarterly information.

4. As mentioned in Note 02, in 2009 the Brazilian Securities and Exchange Commission (CVM) approved several new Pronouncements, Interpretations and Guidance issued by the Brazilian Accounting Standards Board (CPC), with effectiveness as of 2010, which changed the accounting practices adopted in Brazil. Such changes were adopted by the Company in the preparation of its quarterly financial information for the quarter ended June 30, 2010 and disclosed in Note 05. The quarterly financial information referring to income statements and cash flows for the quarter ended June 30, 2009, presented for comparison purposes, was adjusted to include the changes in accounting practices adopted in Brazil effective as of 2010.

5. As mentioned in Note 29, effective September 20, 1989, the Company, began being taxed, under a special taxation regime, for State Value-Added Tax (ICMS) on water supply. Based on the opinion of its legal advisors, the referred to VAT tax would require specific rules regulating the subject. To date, there has been no definition by the State Executive Branch concerning the computation criteria and required collection of such tax; also, such tax has not been included in the Company's water and wastewater rates, which are determined by the State of Minas Gerais. Consequently, such tax has neither been collected from customers, nor provided for by the Company nor remitted to the State Government.

Belo Horizonte (MG), August 13, 2010

ERNST & YOUNG
Auditores Independentes S/S
CRC 2SP015199/0-6-F-MG

João Ricardo P. Costa
Accountant CRC - 1RJ 066.748/O-3-S-MG

Flávio de Aquino Machado
Accountant CRC - 1MG 065.899/O-2

01.01 – IDENTIFICATION

1 – CVM CODE	2 – COMPANY NAME	3 – National Corporate Taxpayers' Registration Number - CNPJ
01944-5	Companhia de Saneamento de Minas Gerais - COPASA	17.281.106/0001-03

02.01 - BALANCE SHEET - ASSETS (R$ thousand)

		Company	
ASSETS	**Note**	**06/30/2010**	**03/31/2010**
CURRENT ASSETS			
Cash and cash equivalents	07	**224,969**	**327,715**
Accounts receivable	08	**394,772**	**404,845**
Inventories		**26,060**	**26,426**
Technical cooperation agreement	17	**24,099**	**24,707**
Banks and short-term investments – agreements		**15,676**	**15,784**
Other receivables	08	**51,400**	**41,492**
Total current assets		**736,976**	**840,969**
NONCURRENT ASSETS			
Long-term receivables			
Accounts receivable	08	**192,829**	**199,081**
Collateral for financing	08	**100,482**	**81,776**
Deferred income and social contribution taxes	16	**342,720**	**338,373**
Receivables from subsidiaries	08/25	**53,437**	**50,405**
Committed financial investments	08	**44,090**	**43,418**
Financial assets	06	**271,671**	**273,611**
Other receivables	08	**15,002**	**15,053**
		1,020,231	**1,001,717**
Investments	09	**263**	**263**
Intangible assets	10	**5,259,623**	**5,044,632**
Property, plant and equipment	11	**93,161**	**90,365**
Total noncurrent assets		**6,373,278**	**6,136,977**
TOTAL ASSETS		**7,110,254**	**6,977,946**

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02.02 - BALANCE SHEET – LIABILITIES (R$ thousand)

		Company	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Note**	**06/30/2010**	**03/31/2010**
CURRENT LIABILITIES			
Suppliers	12	**60,295**	**53,080**
Loans and financing	13	**141,890**	**138,094**
Debentures	13	**93,907**	**79,469**
Taxes payable	12	**32,261**	**39,531**
Taxes in installments	12	**44,793**	**60,285**
Vacation accrual	12	**91,345**	**71,002**
Employee profit sharing	15	**30,915**	**42,110**
Technical cooperation agreement	17		**-**
Pension plan	18	**14,434**	**13,445**
Interest on equity capital	12/19	**56,746**	**91,149**
Electric power	12	**25,317**	**24,849**
Other payables	12	**25,992**	**13,449**
Total current liabilities		**617,895**	**626,463**
NONCURRENT LIABILITIES			
Loans and financing	13	**1,091,394**	**1,064,273**
Debentures	13	**659,441**	**612,306**
Taxes in installments	12	**192,829**	**199,266**
Provision for taxes	14	**47,234**	**46,632**
Provision for contingencies	14	**28,436**	**26,603**
Pension plan	18	**471,593**	**470,893**
Deferred income and social contribution taxes	16	**42,093**	**37,308**
Electric power	12	**26,423**	**30,372**
Other payables	12	**67,359**	**62,604**
Total noncurrent liabilities		**2,626,802**	**2,550,257**
SHAREHOLDERS' EQUITY			
Capital	19	**2,636,460**	**2,636,460**
Capital reserves		**3,782**	**3,782**
Income reserves	19	**1,091,174**	**1,091,174**
Proposed dividends	19	**-**	**-**
Net income for the year	19	**134,141**	**69,810**
Total shareholders' equity		**3,865,557**	**3,801,226**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,110,254**	**6,977,946**

See accompanying notes.

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03.01 – INCOME STATEMENTS (R$ thousand)

		Company	
	Note	**06/30/2010**	**06/30/2009**
GROSS REVENUE			
Water supply services		**417,844**	396,617
Sewage services		**148,556**	139,484
Revenue from the construction of assets		**252,136**	210,476
NET REVENUE	21	**818,536**	746,577
Cost of services rendered		**(280,162)**	(270,517)
Construction cost		**(244,550)**	(205,234)
GROSS PROFIT		**293,824**	270,826
Selling expenses		**(42,368)**	(42,426)
Administrative expenses		**(86,547)**	(76,939)
Equity pickup	09	**(4,232)**	(4,998)
Other operating income (expenses)		**(2,348)**	4,405
INCOME FROM OPERATIONS BEFORE FINANCIAL RESULT		**158,329**	150,868
Financial income	24	**44,644**	46,980
Financial expenses	24	**(99,413)**	(79,184)
INCOME BEFORE PROFIT SHARING		**103,560**	118,664
Profit sharing	15	**(5,997)**	(8,280)
INCOME BEFORE TAXES		**97,563**	110,384
Income and social contribution taxes	16	**(33,232)**	(44,049)
Interest on Equity Capital		**56,741**	43,651
NET INCOME FOR THE YEAR		**121,072**	109,986
Number of outstanding shares at year end		**114,929,328**	114,904,00
Earnings per share (R$)		**1.05**	0.96

The Company does not have other comprehensive income that should be separately disclosed in this statement of income.

See accompanying notes**.**

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital reserves					Income reserves							
	Capital	Donations and grants	Convertible debentures	Treasury stock	Total	Legal	Tax incentives	Profit retention	Treasury stock	Total	Proposed dividends	Retained earnings	Total shareholders' equity
BALANCE AT MARCH 31, 2010	2,636,460	-	3,782		3,782	112,731	8,207	979,426	(9,190)	1,091,174	69,810	-	3,801,226
Capital increase – convertible debentures	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends paid													
Asset valuations	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the quarter	-	-	-	-	-	-	-	-	-	-		121,072	121,072
Proposed allocation:													
. Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
. Tax incentive reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
. Profit retention	-	-	-	-	-	-	-	-	-	-	-	-	-
. Interest on equity capital	-	-	-	-	-	-	-	-	-	-	-	(56,741)	(56,741)
BALANCE AT JUNE 30, 2010	2,636,460	-	3,782		3,782	112,731	8,207	979,426	(9,190)	1,091,174	69,810	64,331	3,865,557

See accompanying notes.

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04.01 – CASH FLOWS – INDIRECT METOD (R$ thousand)

	Company	
	06/30/2010	**06/30/2009**
Cash flow from operating activities:		
Net income for the period	**121,072**	109,986
Adjustments to reconcile net income to net cash provided by operating activities		
Allowance for doubtful accounts	**3,360**	3,989
Interest income on accounts receivable	**(112)**	(3,136)
Monetary adjustment of receivables	**529**	(2,686)
Deferred income and social contribution taxes	**438**	(632)
Exchange variation on financing collaterals	**(247)**	5.558
Interest income on financing collaterals	**(1,321)**	(1,173)
Reversal of interest for the year on BNY collateral	**(3,670)**	4,262
Monetary variation of loans and financing to subsidiaries	**(1,110)**	-
Equity pickup and provision for investment losses	**4,232**	-
Investment disposal	**-**	-
Net fixed/intangible asset disposals	**66**	3,955
Depreciation and amortization	**65,722**	61,169
Interest on loans	**21,230**	16,377
Monetary and exchange adjustment on loans	**2,479**	(12,303)
Provision for taxes	**714**	1,414
Provision for contingencies	**1,833**	3,477
Provision for actuarial liabilities	**768**	(6,905)
Reversal of the provision for actuarial liabilities	**-**	-
Interest / Monetary variation of Previminas/Cemig	**6,047**	4,003
Deferred income	**(148)**	(2,047)
Financial assets	**(3,849)**	3,138
Adjusted income	**218,181**	188,707
Decrease (increase) in assets		
Increase in accounts receivable – current and noncurrent	**12,548**	2,145
Increase in inventories	**366**	(982)
Increase in taxes recoverable	**(7,645)**	(2,874)
Increase in financing collateral	**(13,468)**	(3,024)
Increase in judicial deposits	**50**	(507)
Increase in loans to subsidiaries	**(1,922)**	(3,482)
Decrease in other receivables – current and noncurrent	**(2,562)**	(2,977)

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04.01 – CASH FLOWS – INDIRECT METOD (R$ thousand)

Increase (decrease) in liabilities		
Increase in subcontractors and suppliers	**7,215**	22,831
Increase in taxes payable	**(7,270)**	(8,404)
Increase in provision for taxes	**9,184**	10,515
Increase in vacation accrual	**11,159**	10,332
Increase in employee profit sharing	**(11,195)**	(3,843)
Decrease in technical cooperation agreement	**608**	(16,859)
Increase in pension plan – current and noncurrent	**758**	518
Decrease in electric power – current and noncurrent	**(423)**	595
Increase in other payables – current and noncurrent	**13,215**	2,281
Net cash provided by operating activities	**228,651**	197,397
Cash flow from investing activities:		
Capital increase – convertible debentures	**-**	2,583
Acquisition of investments	**-**	(4,400)
Acquisition of property, plant and equipment /intangible assets	**(245,677)**	(230,411)
Net cash used in investing activities	**(245,677)**	(228,594)
Cash flow from financing activities:		
Proceeds from loans	**136,586**	106,867
Repayment of principal – loans	**(44,101)**	(45,316)
Repayment of interest – loans	**(55,813)**	(45,873)
Interest on equity capital paid in the year	**(91,408)**	(145,275)
IPI premium credit payment	**(22,041)**	-
Repayment of principal - Previminas/Cemig	**(6,813)**	(6,197)
Repayment of interest - Previminas/Cemig	**(2,130)**	(1,912)
Net cash provided by (used in) financing activities	**(85,720)**	(137,706)
Net decrease in cash and cash equivalents	**(102,746)**	(163,450)
Cash and cash equivalents at beginning of the trimester	**224,969**	762,124
Cash and cash equivalents at end of the trimester	**327,715**	925,574

See accompanying notes.

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08.01. CONSOLIDATED BALANCE SHEET - ASSETS (R$ thousand)

		Consolidated	
ASSETS	**Note**	**06/30/2010**	**03/31/2010**
CURRENT ASSETS			
Cash and cash equivalents	07	**227,496**	330,509
Accounts receivable	08	**397,909**	407,337
Inventories		**29,358**	29,317
Technical cooperation agreement	17	**13.031**	24,925
Banks and short-term investments – agreements		**30,987**	17,860
Other receivables	08	**51,735**	42,752
Total current assets		**750,516**	852,700
NONCURRENT ASSETS			
Long-term receivables			
Accounts receivable	08	**192,829**	199,081
Collateral for financing	08	**100,482**	81,776
Deferred income and social contribution taxes	16	**342,720**	338,373
Committed financial investment	08	**44,090**	43,418
Financial assets	06	**271,671**	273,611
Other receivables	08	**16,785**	16,100
		968,557	952,359
Investments	09	**260**	260
Intangible assets	10	**5,259,684**	5,044,693
Property, plant and equipment	11	**118,649**	117,161
Total non-current assets		**6,347,170**	6,114,473
TOTAL ASSETS		**7,097,686**	6,967,173

01.01 – IDENTIFICATION

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08.02. CONSOLIDATED BALANCE SHEET - LIABILITIES (R$ thousand)

		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Note**	**06/30/2010**	**03/31/2010**
CURRENT LIABILITIES			
Suppliers	12	**64,681**	55,211
Loans and financing	13	**141,890**	138,094
Debentures	13	**93,907**	79,469
Taxes payable	12	**32,112**	39,536
Taxes in installments	12	**44,793**	60,285
Vacation accrual	12	**91,581**	71,154
Employee profit sharing	15	**30,915**	42,110
Technical cooperation agreement	17	**-**	-
Pension plan	18	**14,434**	13,445
Interest on equity capital	12/19	**56,746**	91,149
Electric power	12	**25,317**	24,849
Other payables	12	**26,018**	13,512
Total current liabilities		**622,394**	628,814
NONCURRENT LIABILITIES			
Loans and financing	13	**1,091,394**	1,064,273
Debentures	13	**659,441**	612,306
Taxes in installments	12	**192,829**	199,266
Provision for taxes	14	**47,234**	46,632
Provision for contingencies	14	**28,822**	26,699
Pension plan	18	**471,593**	470,893
Deferred income and social contribution taxes	16	**42,093**	37,308
Electric power	12	**26,423**	30,372
Other payables	12	**49,906**	49,384
Total noncurrent liabilities		**2,609,735**	2,537,133
SHAREHOLDERS' EQUITY			
Capital	19	**2,636,460**	2,636,460
Capital reserves		**3,782**	3,782
Income reserves	19	**1,091,174**	1,091,174
Proposed dividends	19	**-**	-
Net income for the year	19	**134,141**	69,810
Total shareholders' equity		**3,865,557**	3,801,226
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**7,097,686**	6,967,173

See accompanying notes**.**

01.01 – IDENTIFICATION

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09.01. CONSOLIDATED INCOME STATEMENTS (R$ thousand)

		Consolidated	
	Note	**06/30/2010**	**06/30/2009**
GROSS REVENUE			
Water supply services		**420,378**	398,168
Sewage services		**148,553**	139,467
Revenue from the construction of assets		**252,136**	210,476
Product sales		**168**	394
NET REVENUE	21	**821,235**	748,505
Cost of goods/ services		**(526,511)**	(478,319)
Construction cost		**-**	-
GROSS PROFIT		**294,724**	270,186
Selling expenses		**(42,836)**	(42,650)
Administrative expenses		**(88,616)**	(79,821)
Other operating expenses		**(4,010)**	4,009
INCOME FROM OPERATIONS BEFORE FINANCIAL RESULT		**159,262**	151,724
Financial income	24	**43,785**	46,270
Financial expenses	24	**(99,482)**	(79,213)
INCOME BEFORE PROFIT SHARING		**103,565**	118,781
Profit sharing	15	**(5,997)**	(8,280)
INCOME BEFORE TAXES		**97,568**	110,501
Income and social contribution taxes	16	**(33,237)**	(44,166)
Interest on Equity Capital		**56,741**	43,651
NET INCOME FOR THE YEAR		**121,072**	109,986
Number of outstanding shares at year end		**114,929**	114,904
Earnings per share (R$)		**1.05**	0.96

The Company does not have other comprehensive income that should be separately presented in this statement of income.

See accompanying notes.

01.01 – IDENTIFICATION

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10.01. CONSOLIDATED CASH FLOW (R$ thousand)

	Consolidated	
Cash flow from operating activities:	**06/30/2010**	**06/30/2009**
Net income for the year	**121,072**	109,986
Adjustments to reconcile net income to net cash generated by operating activities		
Allowance for doubtful accounts	**3,456**	3,989
Interest on accounts receivable	**(112)**	(3,136)
Monetary adjustment on accounts receivable	**529**	(2,686)
Deferred income and social contribution taxes	**438**	(632)
Exchange variation on collateral for financing	**(247)**	5,558
Interest income on collateral for financing	**(1,321)**	(1,173)
Reversal of interest on BNY collateral	**(3,670)**	4,262
Investment disposal	**-**	-
Net fixed asset disposals	**555**	3,955
Depreciation and amortization	**65,830**	61,430
Interest on loans	**21,230**	16,377
Monetary and exchange adjustment of loans	**2,479**	(12,303)
Provision for taxes	**714**	1,414
Provision for contingencies	**2,123**	3,477
Provision for actuarial liabilities	**768**	(6,905)
Reversal of provision for actuarial liabilities	**-**	-
Interest/Monetary variation on Previminas/Cemig	**6,047**	4,003
Deferred income	**(148)**	(2,047)
Financial assets	**(3,849)**	3,138
Adjusted income	**215,894**	188,707
Decrease (increase) in assets		
Increase in accounts receivable – current and noncurrent	**11,807**	1,648
Increase in inventories	**(41)**	(851)
Increase in taxes recoverable	**(7,684)**	(2,872)
Increase in collateral for financing	**(13,468)**	(3,024)
Increase in judicial deposits	**50**	(507)
Decrease in other receivables – current and noncurrent	**(15,570)**	(6,100)

01.01 – IDENTIFICATION

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10.01. CONSOLIDATED CASH FLOW (R$ thousand)--Continued

Increase (decrease) in liabilities		
Increase in subcontractors and suppliers	**9,470**	17,092
Increase in taxes payable	**(7,424)**	(8,512)
Increase in vacation accrual	**20,426**	20,856
Increase in employee profit sharing	**(11,195)**	(3,843)
Increase in technical cooperation agreement	**11,895**	(8,469)
Increase in pension plan – current and noncurrent	**758**	518
Decrease in electric power – current and noncurrent	**(423)**	(595)
Increase in other liabilities – current and noncurrent	**13,179**	2,159
Provision for taxes	**-**	-
Net cash provided by operating activities	**227,674**	197,397
Cash flow from investing activities:		
Capital increase – convertible debentures	**-**	2,583
Acquisition of fixed/intangible assets	**(244,965)**	(225,742)
Reversal of write-off of deferred charges	**-**	-
Net cash used in investing activities	**(244,965)**	(223,159)
Cash flow from financing activities:		
Proceeds from new loans	**136,586**	106,867
Repayment of principal – loans	**(44,101)**	(45,316)
Repayment of interest - loans	**(55,813)**	(45,873)
Interest on equity capital	**(91,408)**	(145,275)
Payment of IPI premium credit	**(22,041)**	-
Repayment of principal - Previminas/Cemig	**(6,813)**	(6,197)
Repayment of interest - Previminas/Cemig	**(2,130)**	(1,912)
Net cash used in financing activities	**(85,720)**	(137,706)
Net decrease in cash and cash equivalents	**(103,011)**	(163,468)
Cash and cash equivalents at beginning of the year	**330,508**	926,816
Cash and cash equivalents at end of the year	**227,497**	763,348

See accompanying notes.

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated)

01. Operations

Companhia de Saneamento de Minas Gerais - COPASA (the “Company”) is a publicly-traded, mixed-capital company, controlled by the Minas Gerais State Government. The Company is engaged in planning, designing, performing, expanding, remodeling, managing and providing water supply and sanitary sewage services, 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.

As of June 30, 2010, the Company had the following wholly-owned subsidiaries:

- Copasa Águas Minerais de Minas S/A, established by State Law No. 16693, dated January 11, 2007, is engaged in producing, bottling, distributing and selling mineral water from the springs it owns or has license to explore, and managing and exploiting the Water 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 No. 16698, of April 17, 2007, is engaged in planning, designing, executing, expanding, remodeling and exploiting public utility services comprising water supply and sewage collection, 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 water basins of Jequitinhonha, Mucuri, São Mateus, Buranhém, Itanhém and Jucuruçu rivers planning region.

- Copasa Serviços de Irrigação S/A, established by State Law No. 16698, of April 17, 2007, is engaged in managing, executing and exploiting the irrigation systems of the Jaíba’s Project, and conducting its maintenance, using both own and outsourced personnel and resources. This Subsidiary may contract, when economically effective, through regular bidding processes, the execution of services and construction work necessary for the operation of the system, and purchase products, equipment and materials required to attain its purposes.

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

01. Operations--Continued

The Company operates in 874 locations in the State of Minas Gerais (unaudited) (872 as of March 31, 2010 - unaudited), in water supply and/or sanitary sewage activities, totaling 4,141,996 customers. The twenty major water and sewage concessions the Company holds are:

Water Concessions			Sewage Concessions	
Location	Nº. of customers	Expiration	Location	Expiration
Belo Horizonte	908,791	2032	Belo Horizonte	2032
Contagem	205,445	2073	Contagem	2073
Betim	119,245	2042	Montes Claros	2028
Montes Claros	111,654	2028	Betim	2042
Divinópolis	80,497	2033	Ipatinga	2022
Ribeirão das Neves	80,217	2034	Ribeirão das Neves	2034
Ipatinga	74,225	2022	Santa Luzia	2013
Santa Luzia	62,641	2013	Patos de Minas	2038
Patos de Minas	49,142	2038	Varginha	2013
Ibirité	44,893	2034	Pouso Alegre	2026
Varginha	44,756	2013	Conselheiro Lafaiete (2)	2009
Pouso Alegre	44,578	2026	Araxá	2032
Conselheiro Lafaiete (2)	42,951	2009	Teófilo Otoni	2034
Teófilo Otoni	37,868	2034	Ibirité	2034
Sabará (1)	37,847	2007	Lavras	2034
Lavras	35,643	2034	Itajubá	2034
Araxá	34,444	2032	Alfenas	2033
Itajubá	31,780	2034	Pará de Minas (2)	2009
Ubá	31,602	2014	Coronel Fabriciano	2033
Coronel Fabriciano	31,290	2033	Vespasiano	2034

1) The concession agreement with the municipality of Sabará terminated on August, 3, 2007, Another agreement has already been signed between such municipality and the state of Minas Gerais, and negotiations continue with a view to assuming the sewage services, Revenue from water supply services in 2Q10 in Sabará totaled R$4,048 (R$3,951 in 2009), or 0,60% (0,64% in 2009) of the Company's total revenue.

01. Operations--Continued

2) The concession agreement with the municipality of Conselheiro Lafaiete terminated on July 1, 2009 and was extended until July 23, 2010, and the agreement with the municipality of Pará de Minas terminated on October 1, 2009, Revenue from water supply and sewage services in 2Q10 in Conselheiro Lafaiete and Pará de Minas totaled R$5,692 and R$5,930, or 0,85% and 0,88%, respectively, of the Company's total revenue.

02. Basis of Preparation and Presentation of the Financial Statements

Authorization to complete the preparation of the Company and consolidated quarterly information as of June 30, 2010 was given by the Executive Board on August 10, 2010.

The Company and consolidated quarterly information as of March 31, 2010 is presented in thousands of Reais (R$ 000), except where otherwise indicated.

(a)Basis of preparation

The Company and consolidated financial statements were prepared based on historical cost.

The Company and consolidated financial statements were prepared and are being presented considering management's decision for the early adoption of all the Technical Pronouncements issued by the Brazilian FASB (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM) until December 31, 2009, in line with the international accounting standards (IFRS), issued by IASB, as from the Consolidated Financial Statements for the year ended December 31, 2009, Accordingly, and with the objective of enabling comparison between the years, the Statements of Income for the 2st quarter of 2009 are being presented with the adjustments arising from the new accounting practices, due to adoption of CPC 37 and CPC 43, as mentioned in Note 5.

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

02. Basis of Preparation and Presentation of the Financial Statements - - Continued

(b) Consolidated financial statements

The consolidated quarterly information include operations of the Company and the following subsidiaries, in which ownership interests at balance sheet date are as follows:

	Ownership interest - %	
	Total	Voting
Subsidiaries:		
Copasa Águas Minerais de Minas S/A	100	100
Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais S/A – COPANOR	100	100
Copasa Serviços de Irrigação S/A	100	100

Subsidiaries are all the entities whose financial and operating policies are controlled by the Company or in which the Company holds voting ownership interest of more than fifty percent or any other condition attributing controlling right to it. Currently, all subsidiaries are wholly-owned by the Company. These subsidiaries are fully consolidated as from the date control is transferred to the Company and stop being consolidated as from the date this control no longer exists.

The financial statements of subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. All intragoup balances, revenues, expenses, unrealized gains and losses arising from intragoup transactions are fully eliminated from consolidation.

A change in ownership interest in a subsidiary not resulting in control loss is recorded as a capital transaction.

The following criteria were followed in consolidation:

- Elimination of intercompany asset and liability balances;
- Elimination of investments and equity pickup in subsidiaries, against the investee's shareholders' equity; and
- Elimination of revenues and expenses from intercompany transactions.

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03. Summary of Significant Accounting Practices

(a) Cash and cash equivalents

These comprise cash, bank deposits, other highly-liquid short-term investments redeemable up to 90 days from balance sheet date and with immaterial risk of change in market value and used by the Company to meet its short term cash needs.

(b) Financial assets

(i) Classification

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which financial assets were acquired. Management determines classification of financial assets upon their initial recognition.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or calculable payments, which are not quoted in an active market. They are included in current assets, excepting those maturing within more than 12 months after balance sheet date (these are classified as noncurrent assets). The Company's loans and receivables comprise cash and cash equivalents, guarantee deposits, trade accounts receivable and other accounts receivable.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognized as of the trade date, which is the date on which the Company agrees to purchase or sell the asset. Investments are initially recognized at fair value, increased by transaction costs for all financial assets not measured at fair value through P&L. Financial assets are written off when the right to receive cash flow from the investments has expired or been transferred; in the latter case, as long as the Company has transferred all significant risks and rewards from title to such assets.

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03. Summary of Significant Accounting Practices--Continued

(c) Accounts receivable

(i) From customers

Accounts receivable from customers are initially recognized at fair value less a provision for impairment. The provision for impairment of accounts receivable from customers is set up when there is objective evidence that the Company will not be able to collect all receivables on their original maturity. Significant financial difficulties of debtors, probability of debtor to file a petition for bankruptcy or receivership and lack of or default on payment (of more than 180 days) are considered indication that accounts receivable may not be recovered.

The provision for impairment is calculated based on the analysis of receivables and set up for an amount considered by management to be sufficient to cover losses on receivables, according to the following criteria:

Receivables of up to R$5, overdue for more than 180 days:

These receivables, except those related to the Minas Gerais State Government and Belo Horizonte Municipal Government, are considered as loss when overdue for 180 days, being directly written off against the statement of income, in selling expenses account.

Receivables above R$5, overdue for more than 180 days:

A provision for impairment is set up for all receivables, except those related to the Minas Gerais State Government and Belo Horizonte Municipal Government, overdue from 180 to 360 days, credited to the allowance for doubtful accounts and charged against the statement of income.

Receivables overdue for more than 360 days are written off from accounts receivable and posted to the allowance for doubtful accounts.

Other receivables from Municipal and Federal Government Bodies:

Receivables from federal and municipal government bodies, resulting from agreements, contracts and other operations, overdue for more than 360 days are fully provisioned.

03. Summary of Significant Accounting Practices--Continued

(c) Accounts receivable--Continued

(i) From customers--Continued

Amounts receivable from Minas Gerais State and Belo Horizonte Municipal Government (PBH):

The Company has not set up a provision for impairment of receivables from the Minas Gerais State Government due to lack of a history of default. Receivables from PBH not paid until the date of transfer of tariff amounts to the Water and Sewage Municipal Fund are fully discounted from the amount to be transferred, with no need of setting up a provision for impairment of receivables.

Supplementary provision:

Management also sets up a supplementary provision for other receivables falling due and overdue for less than 180 days, for customers that have account(s) included in the allowance for doubtful accounts.

(ii) Concession granting authority

The Company recognizes a credit receivable from the granting authorities (municipal governments) when it holds unconditional right to receive cash at concession end, as indemnification for the investments made and not recovered through rendering of the concession-related services. These financial assets are recorded at present value of the right and are calculated based on the net value of infrastructure built assets that will be indemnified by the granting authority, discounted based on weighted average cost of Company capital.

These accounts receivable are classified within current and noncurrent portions, considering expected receipt of these amounts, based on the concession end date.

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03. Summary of Significant Accounting Practices--Continued

(d) Currency and Currency Translation

Functional currency and reporting currency

The items included in the financial statements of each of the companies are measured using the currency prevailing in the main economic environment in which they operate ("the functional currency "). The consolidated financial statements are presented in Brazilian reais (R$), which is the functional currency of the Company and its subsidiaries.

Transactions in foreign currency are initially translated and recorded at the exchange rate to the functional currency of transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate to the functional currency of balance sheet date. All translation differences are recorded in the statement of income.

(e) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using average cost valuation method. Net realizable value is the estimated sales price in the normal course of business, less applicable variable selling expenses. Provision for slow-moving or obsolete inventories is set up when considered necessary by management.

(f) Investments

Investments in subsidiaries are stated using the equity pickup method.

(g) Intangible assets

Concessions

The Company recognizes as an intangible asset the right to charge to users the water supply and sewage services rendered, in accordance with ICPC 01 Interpretation – Concession Contracts.

03. Summary of Significant Accounting Practices--Continued

(g) Intangible assets--Continued

Intangible assets are considered to be the residual value of construction revenue for the construction or acquisition of infrastructure assets by the Company, recognized in accordance with the items of this note, and the amount of financial asset referring to the unconditional right to receive cash at concession end as indemnification, recognized according to Note 06.

Amortization of intangible assets is started when these are made available for use in the place and condition necessary to operate as intended by the Company.

Amortization of intangible assets reflects the pattern in which future economic benefits from the asset are expected to be consumed by the Company, or concession end date, whichever takes place first. Asset consumption pattern is related to their economic useful lives over which assets built by the Company integrate the calculation base for measurement of the tariff for rendering concession services.

Amortization of intangible assets ends when the asset has been fully consumed or written off, and no longer computed in the calculation base of the tariff to render concession services, whichever takes place first.

Use rights

Use rights refer to cost incurred to renew public concessions, as refund by COPASA for the investments in infrastructure made by municipal governments. The amounts recorded in intangible assets refer to refunds already made by the Company to municipal governments as part of the agreement to renew the concessions for rendering water supply and sewage services. These investments do not integrate the Company’s tariff base, however they represent the investment made by the Company to renew the concession.

These use rights are amortized by the straight line method over the related concession term.

Software Licenses

Acquired software licenses are recorded based on costs incurred to acquire and use them. These costs are amortized by the straight line method over estimated useful life of five years.

03. Summary of Significant Accounting Practices--Continued

(h) Property, plant and equipment

Property, plant and equipment are presented at historic cost less depreciation and impairment, if applicable. Historic cost includes expenses directly attributable to acquisition of items, as well as interest on financing incurred in the acquisition until the date of beginning of asset operation. Capitalized financial charges are depreciated considering the same criteria and useful life determined for the fixed asset item to which they are incorporated.

Subsequent costs are included in the book value of the asset or recognized as a separate asset, as applicable, only when it is probable that future economic benefits related to the item will probably be obtained, the cost of the item may be reliably measured and the economic useful life is in excess of 12 months. The book value of items or parts that are replaced is written off. All the remaining repairs and maintenance are recorded against the statement of income for the year as incurred.

Land is not depreciated, Property, plant and equipment are depreciated over the estimated useful life of each asset, at the following rates:

	Years
Buildings	25 – 40
Machinery	10 – 15
Vehicles	3 – 5
Furniture, fixtures and equipment	3 – 8

The residual value and the useful life of assets are periodically reviewed and adjusted, as applicable, at the beginning of each year, on a prospective basis.

Assets recorded in property, plant and equipment are not linked to the public service concessions and basically comprise assets for general use and Company buildings.

The book value of an asset or a cash generating unit is immediately written down to its recoverable value if the book value of the asset or group of assets to which it belongs exceeds its estimated recoverable value (according to item (i) of this note).

Gains and losses on asset disposals are determined comparing the sales price with the book value, net of depreciation, and are recognized in "Other gains /losses, net" in the statement of income.

03. Summary of Significant Accounting Practices--Continued

(i) Impairment of non-financial assets

The Company evaluates every balance sheet date where there is evidence of impairment of its assets. If there is such evidence, or when annual impairment testing of an asset is required, the Company estimates the asset recoverable value. An asset recoverable value corresponds to the lower of fair value of the asset or cash generating unit (CGU), less selling costs, or its value in use based on the discounted cash flow method, being determined for each asset, unless the asset does not generate cash inflows that are independent from those of other assets or group of assets. Asset impairment is considered to have occurred when the book value of an asset or CGU exceeds its recoverable value, which is then adjusted to its recoverable value. In estimating value in use, estimated future cash flows are discounted to present value, using a discount rate before taxes reflecting current time value of money and specific risks inherent to the asset. A proper valuation model is used to determine fair value less selling cost. These calculations are confirmed by valuation multiples and other fair value indicators available.

Impairment losses related to present and future operations are recognized in the statement of income in the category of expense consistent with the function of the affected asset.

For assets excluding goodwill, an evaluation is made every reporting date in relation to the existence of any evidence that impairment losses previously recognized no longer exist or may have been reduced. If such evidence exists, the Company estimates the recoverable value of the asset or cash generating unit. Impairment loss previously recognized is reversed only when there has been change in the assumptions used to determine the asset recoverable value, as long as the last impairment loss has been recognized. The reversal is limited so that the asset book value does not exceed its recoverable value, or its book value that would be determined, net of depreciation, if no impairment loss had been recognized for the asset in prior years. This reversal is recognized in the statement of income.

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03. Summary of Significant Accounting Practices--Continued

(j) Financial liabilities

Financial liabilities are recognized as from the date on which the Company assumes a contractual obligation of a financial instrument. They are initially recorded at fair value, plus transaction costs directly attributed to acquisition or issue thereof. The Company's financial liabilities are measured at amortized cost. The main financial liabilities recognized by the Company are accounts payable to suppliers, loans, financing and debentures.

(i) Accounts payable to suppliers

Accounts payable to suppliers mature within no longer than 30 (days), as such, are recognized at fair value.

(ii) Loans, financing and debentures

Loans are initially recognized at fair value, net of incurred transaction costs. Loans are subsequently measured at amortized cost. Any difference between amounts raised (net of transaction costs) and liquidation value is recognized in the statement of income for the period in which loans are in progress, using the effective interest rate method.

The charges paid to raise the loan are recognized as loan transaction costs if it is probable that the loan will be drawn down in full or in part.

The fair value of the convertible debt security liability is determined using market interest rate for the same debt security if this were not convertible, informed by the financial institution issuing it. This amount is recorded in liabilities based on amortized cost, until this obligation is extinguished upon debt security conversion or maturity. This is recognized and included in shareholders' equity, net of income and social contribution tax effects. The book value of the conversion option is not revaluated in subsequent years. Loans are classified in current liabilities, unless the Company has the unconditional right of deferring liability liquidation for at least 12 months after balance sheet date.

(iii) Presentation for the net amount

Financial liabilities and assets are only presented for the net amount in the balance sheet if there is a current and enforceable legal right of offsetting recognized amounts and if there is the intention of offset, or of concurrently realizing the asset and liquidating the liability.

03. Summary of Significant Accounting Practices--Continued

(k) Provisions

Provisions for taxes and judicial proceedings are recognized when the Company has a present obligation (constructive or not formalized) as a result of past events; it is probable that funds outflow will be necessary to settle the obligation; and the amount may be estimated with reasonable certainty.

When there is a series of similar obligations, the probability of the Company to settle them is determined taking into consideration the class of obligations as a whole. A provision is recognized even if the probability of settlement related to any individual item included in the same class of obligations is low.

If the time value of money is significant, provisions are discounted to present value using the current interest rate before tax reflecting, as applicable, the specific risks inherent to the obligation. When discount to present value is used, the increase in the provision due to elapsing of time is recognized as a financial expense.

(l) Interest on equity capital

Interest on equity capital payable to shareholders is treated as dividends, and charged against retained earnings.

Under tax legislation, interest payable to shareholders is calculated on the terms of Law No, 9249/95 and recorded in the statement of income, in financial expenses. For purposes of publication of the financial statements, interest on equity capital is reserved from financial expenses account and charged against retained earnings.

(m) Taxation

Income taxes comprise income and social contribution taxes – current and deferred. These taxes are recognized in the statement of income, except and in the proportion in which they are related to items directly recognized in shareholders' equity. In this case, the tax is also recognized in shareholders' equity.

03. Summary of Significant Accounting Practices--Continued

(m) Taxation--Continued

(i) Income tax – current

Current income tax is calculated based on ruling or substantially enacted tax legislation, at the balance sheet date, of the Company and its subsidiaries that generate taxable income. Management periodically evaluates the position assumed in income tax returns in relation to situations in which applicable tax regulations are subject to interpretation. Management establishes provisions, as applicable, based on the amounts that have to be paid to the tax authorities.

(ii) Deferred taxes

Deferred taxes are generated by temporary differences at balance sheet date considering differences between tax and accounting bases of assets and liabilities.
Deferred tax liabilities are recognized for all temporary tax differences, excepting:

- when deferred tax liabilities arise from initial recognition of goodwill or one asset or liability in a transaction which is not a business combination and that, on the transaction date, does not affect book profit or profit or loss for tax purposes; and
- in connection with temporary tax differences related to investments in subsidiaries, when the time for reversal of temporary difference may be controlled and it is probable that temporary differences will not be reversed in the near future.

Deferred tax assets are recognized for all temporary differences in connection with unused tax credits and tax losses, to the extent in which it is probable that there will be generation of taxable income for deductible temporary differences to be realized, and unused tax credits and losses may be used except:

- when deferred income tax asset related to the deductible temporary difference is generated upon initial recognition of the asset or liability in a transaction that is not considered to be a business combination and, on the transaction date, does not affect book profit or profit or loss for tax purposes; and

03. Summary of Significant Accounting Practices--Continued

(m) Taxation--Continued

(ii) Deferred taxes--Continued

- in connection with deductible temporary differences related to investments in subsidiaries, deferred tax assets are recognized only to the extent in which it is probable that temporary differences will be reversed in the near future and taxable income will be generated for temporary differences to be used.

  The book value of deferred tax assets is reviewed every balance sheet date and written off to the extent in which it is no longer probable that there will be generation of taxable income to allow use of deferred tax asset, in full or in part. Adjusted deferred tax assets are revaluated every balance sheet date and recognized to the extent in which it is probable that future taxable income will allow deferred tax assets to be recovered.

  Deferred tax assets and liabilities are measured at the tax rate that is expected to be applied in the year in which the asset is realized or the liability is settled, based on the tax rates (and tax legislation) in force at balance sheet date.

(iii) Sales taxes

Revenues from sales and services are subject to the taxes and contributions below at the following statutory rates:

Taxes	Rate %
PIS/PASEP – Social Contribution Tax on Gross Revenue for Social Integration Program	1.65
COFINS – Social Contribution Tax on Gross Revenue for Social Security Financing	7.60
ICMS – State VAT	7.00 to 18.00

These charges are presented as sales deductions in the statement of income. The credits resulting from non-cumulative PIS/COFINS are stated deducting cost of service in the statement of income. The debits from financial income and the credits from financial expenses are disclosed deductively in these lines in the statement of income.

03. Summary of Significant Accounting Practices--Continued

(n) Employee benefits

(i) Pension plan obligations

The Company has a pension plan for defined benefits, which establishes a pension amount to be received by an employee when retiring, which usually depends on one or more factors, such as age, length of service and remuneration.

The liability recognized in the balance sheet in relation to the pension plan for defined benefit is the present value of the defined benefit obligation at balance sheet date, less the fair value of plan assets, with the adjustments of unrecognized cost of past services. The defined benefit obligation is calculated on an annual basis by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined through the discount of future estimated cash outflows, using interest rates compatible with those prevailing in the market, which are denominated in the currency in which benefits will be paid and have maturity close to those of the pension plan obligation. The value of plan assets is measured based on fair value.

Actuarial gains and losses are recognized as revenue or expense when unrecognized net accumulated actuarial gains or losses for each plan at the end of prior reporting period exceed 10% of the higher of the obligation for defined benefits or fair value of plan assets as of that date. These gains or losses are recognized along remaining average length of work expected for employees participating in the plan.

(ii) Profit sharing

The Company provisions employee profit sharing, based on the operating and financial targets communicated to its employees. Such amounts are recorded in employee profit sharing account in current liabilities, and profit sharing account in the statement of income. The Company recognizes a provision when it is contractually obliged to or when a past practice created an obligation that is not formalized.

03. Summary of Significant Accounting Practices--Continued

(o) Government grants and government assistance

Government grants and assistance are recognized when there is reasonable assurance that the conditions established by the government have been met and that they will be earned. Initially they are recorded as revenue in income for the time necessary to compare with the expenditure that the government intends to compensate.
When the Company receives non-monetary benefits, the asset and the benefit are recorded for the nominal value and reflected in the statement of income along the expected useful life of the asset, in equal annual installments.

(p) Capital

Incremental costs directly attributable to issue of new shares or options are stated in shareholders' equity as a deduction from the raised amount, net of taxes.

When the Company buys shares issued by it (treasury stock), the amount paid, including any directly attributable additional costs (net of income tax), is deducted from capital attributable to the Company's shareholders until the shares are cancelled or re-issued. When these shares are subsequently re-issued, any amount received, net of any additional directly attributable transaction costs, net of income and social contribution tax effects, is included in capital attributable to Company shareholders.

(q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable mainly due to sale of products and rendering of services in the normal course of Company activities. Revenue is presented net of taxes, sales returns, rebates and discounts, as well as after eliminating intercompany sales.

The Company bases its estimates on historic results, taking into consideration the type of customer, the type of transaction and specifications of each sale.

(i) Services rendered

The result of operations is determined on the accrual basis of accounting. Unbilled revenue from water supply, sewage and irrigation services is recorded at service rendering date and unbilled accounts receivable from customers, based on monthly estimates, so that there is timely matching of revenues and costs.

03. Summary of Significant Accounting Practices--Continued

(q) Revenue recognition--Continued

(ii) Construction contracts

A group of construction contracts is treated as a sole construction contract when: i) the group of contracts was negotiated as a sole package; ii) the contracts are so directly interrelated that are, in fact, part of the sole project with overall profit margin, and; the contracts are executed concurrently or sequentially.

Revenue from construction contracts is recognized in accordance with CPC 17 – Construction Contracts, using the percentage of completion (POC) method. The percentage of completion is defined based on the stage of execution in the physical –financial schedule of each contract.

Contract costs are recognized in the statement of income, as cost of services rendered, when incurred. All the costs directly attributable to contracts are considered for measurement of revenue, following the cost plus margin method. Revenue is recognized at the contracted or estimated annual rates, as under:

	2010	2009
Subcontractors	1.04%	1.04%
Construction materials	4%	4%
Contract supervision – Expansion division	12%	12%
Interest	12%	12%

When the end of a construction contract may not be reliably estimated, revenue is recognized but limited to incurred costs that will be recovered.

(iii) Financial income

Financial income is recognized based on the period elapsed, using the effective interest rate method. When evidence of impairment is identified in relation to a financial investment or account receivable, the Company reduces the corresponding book value to recoverable value, which corresponds to the discounted estimated future cash flow using the original effective interest rate of the instrument. Subsequently, with time elapsing, interest is incorporated to the asset, the contra entry being to financial income. This revenue is calculated based on the effective interest rate used to determine the recoverable value, i.e., the original interest rate of the financial investment or accounts receivable.

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03. Summary of Significant Accounting Practices--Continued

(q) Revenue recognition--Continued

(iv) Sale of products

Sales revenue is presented net of taxes and applicable discounts. Sales taxes are recognized when sales are billed and sales discounts are recognized. Revenue from product sales is recognized when the amount of sales is reliably measured, the Company no longer holds control over the goods sold or any responsibility related to title to such goods, costs incurred or to be incurred in relation to the transaction may be reliably measured, it is probable that economic benefits will be received by the Company and the risks and rewards of products were fully transferred to buyer. Freight on sales is included in the cost of sales.

(r) Dividend distribution

Dividend distribution to Company shareholders is recognized as a liability in the financial statements at year end, based on Brazilian corporate legislation and the Company's by-laws. Any amount above minimum mandatory dividend is only provisioned as of the date it is approved by the general shareholders' meeting or paid, whichever takes place first.

The amount of minimum mandatory dividend is recorded in liabilities in "Dividends and interest on equity capital payable" account for being considered a legal obligation provided for by the Company's by-laws; however, the portion of dividends in excess of minimum mandatory dividend, declared by management after the accounting period to which the financial statements refer, but before the date of authorization of issue thereof, is recorded in "Proposed additional dividend" in shareholders' equity.

(s) Concession contracts

The Company has concession contracts for public water supply and sewage services. Concession contracts are executed with municipal governments, with Minas Gerais State intermediation. The concession contracts were recognized as required by ICPC 01.

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03. Summary of Significant Accounting Practices--Continued

(s) Concession contracts--Continued

Concession contracts represent right to charge to public service users, the amount of service tariff controlled by the Minas Gerais State Department Regulating Water Supply and Sewage Services – ARSAE-MG, during the period established in the concession agreements. The Company recognizes this right to charge service tariff to users in intangible assets during the concession period, and this amount is amortized as described in item (g) of this note.

In addition, the Company has in all of its contracts, except with the municipal government of Ipatinga and Além Paraíba, the unconditional right of receiving cash at concession period end as indemnification for having to return concession-related assets to the concession granting authorities. In these cases, the Company recognized a financial asset, discounted to present value, considering the best receipt estimate at concession end, as described in item c of this note.

See further information on concession contracts in Note 06.

(t) Cost of loans

Cost of loans directly related to acquisition or construction of an asset that requires significant time to be concluded and become operational is capitalized as part of the cost of the corresponding asset. All other costs of loans are recorded in expenses for the period in which they took place. Cost of loans includes interest and other costs incurred by an entity in connection with the loan.

As allowed by ICPC 01, the Company capitalizes cost of loans referring to intangible assets related to construction services related to public service concession contracts.

(u) Related parties

The Company recognizes in related parties the business relationships with its wholly-owned subsidiaries, financial transactions with key management members, with its controlling shareholder and with the companies and/or bodies related to it, whether directly or indirectly, as long as there are formal contractual relationships with these companies or bodies that generate financial transactions.

04. Professional Judgment, Accounting Estimates and Assumptions

Preparation of the quarterly financial information (Company and Consolidated) requires that management make professional judgment and estimates and adopt assumptions that affect the presented amounts of revenues, expenses, assets and liabilities, as well as contingent liabilities as of the reporting date. However, the uncertainty related to these assumptions and estimates could lead to results that require significant adjustment to the book value of the affected asset or liability in future periods.

The main matters subject to judgment and estimates are as under:

(i) Revenue recognition

The Company uses the percentage of completion (POC) method to record its fixed-price construction service contracts. Use of the POC method requires that the Company estimate services carried out until balance sheet date, as well as the percentage in relation to total contracted services. If the percentage of services carried out in relation to total contracted services differs from management estimates by more than 10%, revenue recognized in the second quarter would increase by R$ 16,917; if it differs by less than 10% from management estimates, revenue recognized in the second quarter would decrease by R$ 13,014.

(ii) Pension plan benefits

The current value of pension plan liabilities depends on several factors that are determined based on actuarial calculations that take into consideration certain assumptions. Among the assumptions considered in the determination of net cost (revenue) of pension plans, is the discount interest rate. Any change in these assumptions may affect the book value of pension plan liabilities.

The Company determines the applicable discount interest rate at each year end, to be used to determine the present value of estimated future cash outflows necessary to settle pension plan liabilities. In determining the applicable discount rate, the Company considers that the discount rate in Brazil, for purpose of abiding by applicable accounting standards, should be obtained based on return offered by government notes (NTN-B) as of the base date of the actuarial evaluation, without any adjustment for Brazil risk factors or expected future changes in yield of these notes.

Other important assumptions for pension plan liabilities are partially based on current market conditions. Additional information is presented in Note 18.

04. Professional Judgment, Accounting Estimates and Assumptions-- Continued

(iii) Taxes

There are uncertainties in relation to interpretation of complex tax regulations and the amount and timing of future taxable results.

Given the wide range of business relationships, as well as the long term nature and complexity of existing contractual instruments, differences between actual results and the adopted assumptions, or future changes in these assumptions could require future adjustments in tax revenue and expense already recorded. The Company records provisions based on applicable estimates for possible consequences of tax audits. The amount of such provisions is based on several factors, such as experience from previous tax audits and different interpretation of tax regulations between the taxed entity and the relevant tax authorities. These interpretation differences may arise in relation to several matters depending on conditions prevailing at the time.

Deferred tax assets are recognized for all unused tax losses to the extent in which it is probable that there will be generation of taxable income to allow use of the referred to tax losses. Significant professional judgment by management is required to determine the amount of deferred tax asset that may be recognized, based on the probable term and estimated amount of future taxable income, together with future tax planning strategies.

For further details, see Note 16.

(iv) Impairment of Non-financial Assets

Impairment occurs when the book value of an asset or cash generating unit exceeds recoverable value, which is the higher of fair value less selling costs and the value in use. Calculation of fair value less selling cost is based on information available on similar asset sale transactions or market prices less incremental costs for asset disposal. Calculation of the value in use is based on the discounted cash flow method. Cash flows derive from budget for the next 5 (five) years and do not include reorganization activities which the Company has not yet decided to perform or significant future investments that will improve the assets of the cash generating unit being tested. Recoverable value is affected by the discount rate used in the discounted cash flow method, as well as expected future cash receipts and the growth rate used for extrapolation purposes.

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05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40

As described in Note 02, the financial quarterly information (Company and Consolidated) for the period ended June 30, 2010 are being presented considering early adoption of all CPC issued accounting pronouncements.

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43

5.1.1 Reconciliation of consolidated statements of income – 2º quarter of 2009.

	Note	Recorded balances	Adjustments	Adjusted balances
REVENUES				
Revenue from water supply services		398,199	-	398,199
Revenue from sewage services		139,477	-	139,477
Revenue from construction	c	-	210,476	210,476
Revenue from finished products		353	-	353
NET REVENUE FROM SERVICES RENDERED		**538,029**	**210,476**	**748,505**
Cost of services	e	(268,239)	(4,846)	(273,085)
Construction cost	c	-	(205,234)	(205,234)
GROSS PROFIT		**269,790**	**396**	**270,186**
Selling expenses		(42,650)	-	(42,650)
Administrative expenses	b	(79,994)	173	(79,821)
Other operating income	d	2,334	1,675	4,009
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		**149,480**	**2,244**	**151,724**
Financial income	e	45,559	711	46,270
Financial expenses		(35,361)	(201)	(35,562)
FINANCIAL INCOME		**10,198**	**510**	**10,708**
Profit sharing		(8,280)	-	(8,280)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		**151,398**	**2,754**	**154,152**
Income and social contribution taxes	a	(43,230)	(936)	(44,166)
NET INCOME FOR THE QUARTER		**108,168**	**1,818**	**109,986**
Number of outstanding shares at the end of the quarter		114,795,524		114,795,524
Earnings per share		0.94		0.95

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43--Continued

5.1.2 Reconciliation of consolidated statements of income – 1º semester of 2009.

	Note	Recorded balances	Adjustments	Adjusted balances
REVENUES				
Revenue from water supply services		801,289	-	801,289
Revenue from sewage services		274,446	-	274,446
Revenue from construction	c	-	375,773	375,773
Revenue from finished products		200	-	200
NET REVENUE FROM SERVICES RENDERED		**1,075,935**	**375,773**	**1,451,708**
Cost of services	e	(509,397)	(9,540)	(518,937)
Construction cost	c	-	(365,884)	(365,884)
GROSS PROFIT		**566,538**	**349**	**566,887**
Selling expenses		(81,085)	-	(81,085)
Administrative expenses	b	(150,871)	360	(150,511)
Other operating income	d	4,849	3,350	8,199
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES)		**339,431**	**4,059**	**343,490**
Financial income	e	91,873	880	92,753
Financial expenses		(80,062)	(302)	(80,364)
FINANCIAL INCOME		**11,811**	**578**	**12,389**
Profit sharing		(16,471)	-	(16,471)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		**334,771**	**4,637**	**339,408**
Income and social contribution taxes	a	(93,896)	(1,577)	(95,473)
NET INCOME FOR THE QUARTER		**240,875**	**3,060**	**243,935**
Number of outstanding shares at the end of the quarter		114,795,524		114,795,524
Earnings per share		2.10		2.12

05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43--Continued

5.1.3 Reconciliation of consolidated cash flows – 2º quarter of 2009.

Cash flow from operating activities:	Note	Recorded balances	Adjustments	Adjusted balances
Net income for the quarter	a/b/c/d/e/f	108,168	1,818	109,986
Adjustments to reconcile net income and net cash				
Allowance for doubtful accounts		3,989	-	3,989
Interest accrued on trade accounts receivable		(3,136)	-	(3,136)
Monetary variation on trade accounts receivable		(2,686)	-	(2,686)
Deferred income and social contribution taxes	a	(1,568)	936	(632)
Exchange variation on collateral guarantee for financing		5,558	-	5,558
Gains on collateral guarantee for financing		(1,173)	-	(1,173)
Fixed assets disposed of, net		4,262	-	4,262
Depreciation and amortization		3,955	-	3,955
Interest on loans	f	61,430	-	61,430
Monetary and exchange variation on loans		16,176	201	16,377
Provision for taxes		(12,303)	-	(12,303)
Provision for contingencies		1,414	-	1,414
Reversal of provision for actuarial liabilities	d	3,477	-	3,477
Interest on Previminas/Cemig		(5,230)	(1,675)	(6,905)
Monetary variation on Previminas/Cemig		4,003	-	4,003
Financial assets	c	(2,047)	-	(2,047)
Deferred revenue		-	3,138	3,138
Adjusted income		**184,289**	**4,418**	**188,707**
Decrease (increase) in operating assets				
Increase in trade accounts receivable – current and non-current		1,648	-	1,648
Increase in inventories		(851)	-	(851)
Increase in taxes recoverable		(2,872)	-	(2,872)
Increase in collateral guarantee for financing		(3,024)	-	(3,024)
Decrease in judicial deposits		(507)	-	(507)
Decrease in sundry credits – current and non-current		(6,100)	-	(6,100)
Increase (decrease) in operating liabilities				
Increase in contractors and suppliers		17,092	-	17,092
Decrease in taxes, fees and contributions		(8,512)	-	(8,512)
Decrease in accrual for vacation pay		10,524	-	10,524
Increase in accrual for 13th monthly salary		10,332	-	10,332
Increase in employee profit sharing		(3,843)	-	(3,843)
Decrease in technical cooperation agreement		(8,469)	-	(8,469)
Decrease in supplementary pension plan – current and non-current		518	-	518
Decrease in electric energy – current and non-current		595	-	595
Increase sundry liabilities - current and non-current		2,159	-	2,159
Net cash from operating activities		**192,979**	**4,418**	**197,397**

05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43 --Continued

5.1.3 Reconciliation of consolidated cash flows – 2º quarter of 2009 -- Continued

Cash flow from investing activities:				
Funds from convertible debentures		2,583	-	2,583
Additions to fixed assets	b/c/e	(221,324)	(4,418)	(225,742)
Net cash used in investing activities		**(218,741)**	**(4,418)**	**(223,159)**
Cash flow from financing activities:				
Funding from new loans		106,867	-	106,867
Payment of principal - loans		(45,316)	-	(45,316)
Payment of interest on loans		(45,873)	-	(45,873)
Interest on equity paid in the quarter		(145,275)	-	(145,275)
Payment of principal - Previminas/Cemig		(6,197)	-	(6,197)
Payment of interest - Previminas/Cemig		(1,912)	-	(1,912)
Net cash from financing activities		**(137,706)**	**-**	**(137,706)**
Net increase in cash and cash equivalents		**(163,468)**	**-**	**(163,468)**
Cash and cash equivalents at beginning of the quarter		926,816		926,816
Cash and cash equivalents at end of the quarter		763,348		763,348

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05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43--Continued

5.1.4 Reconciliation of consolidated cash flows – 1º semester of 2009.

	Note	Recorded balances	Adjustments	Adjusted balances
Cash flow from operating activities:				
Net income for the quarter	a/b/c/d/e/f	240,875	3,060	243,935
Adjustments to reconcile net income and net cash				
Allowance for doubtful accounts		6,785	-	6,785
Interest accrued on trade accounts receivable		(6,254)	-	(6,254)
Monetary variation on trade accounts receivable		4,349	-	4,349
Deferred income and social contribution taxes	a	(2,195)	1,576	(619)
Exchange variation on collateral guarantee for financing		5,962	-	5,962
Gains on collateral guarantee for financing		(2,485)	-	(2,485)
Reversal of interest for the year on BNY collateral		4,262	-	4,262
Fixed assets disposed of, net		3,964	-	3,964
Depreciation and amortization		122,194	-	122,194
Interest on loans	f	44,099	302	44,401
Monetary and exchange variation on loans		(9,803)	-	(9,803)
Provision for taxes		11,012	-	11,012
Provision for contingencies		539	-	539
Reversal of provision for actuarial liabilities	d	(9,311)	(3,350)	(12,661)
Interest / Monetary variation on Previminas/Cemig		7,513	-	7,513
Deferred revenue		(3,922)	-	(3,922)
Financial assets	c	-	5,901	5,901
Adjusted income		**417,584**	**7,489**	**425,073**
Decrease (increase) in operating assets				
Increase in trade accounts receivable – current and non-current		(10,640)	-	(10,640)
Increase in inventories		(2,236)	-	(2,236)
Increase in taxes recoverable		(5,200)	-	(5,200)
Increase in collateral guarantee for financing		(4,333)	-	(4,333)
Decrease in judicial deposits		(486)	-	(486)
Decrease in sundry credits – current and non-current		(1,330)	-	(1,330)
Increase (decrease) in operating liabilities				
Increase in contractors and suppliers		38,870	-	38,870
Decrease in taxes, fees and contributions		(9,124)	-	(9,124)
Decrease in accrual for vacation pay		4,616	-	4,616
Increase in accrual for 13th monthly salary		19,282	-	19,282
Increase in employee profit sharing		4,348	-	4,348
Decrease in technical cooperation agreement		(17,853)	-	(17,853)
Decrease in supplementary pension plan – current and non-current		(3,977)	-	(3,977)
Decrease in electric energy – current and non-current		(4,924)	-	(4,924)
Increase sundry liabilities - current and non-current		4,377	-	4,377
Net cash from operating activities		**428,974**	**7,489**	**436,463**

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05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43--Continued

5.1.4 Reconciliation of consolidated cash flows – 1º semester of 2009 -- Continued

Cash flow from investing activities:				
Funds from convertible debentures		3,381	-	3,381
Additions to fixed assets	b/c/e	(400,806)	(7,489)	(408,295)
Net cash used in investing activities		**(397,425)**	**(7,489)**	**(404,914)**
Cash flow from financing activities:				
Funding from new loans		268,924	-	268,924
Payment of principal - loans		(84,049)	-	(84,049)
Payment of interest on loans		(79,775)	-	(79,775)
Interest on equity paid in the quarter		(148,222)	-	(148,222)
Payment of principal - Previminas/Cemig		(12,324)	-	(12,324)
Payment of interest - Previminas/Cemig		(3,791)	-	(3,791)
Net cash from financing activities		**(59,237)**	**-**	**(59,237)**
Net increase in cash and cash equivalents		**(27,688)**	**-**	**(27,688)**
Cash and cash equivalents at beginning of the quarter		791,036		791,036
Cash and cash equivalents at end of the quarter		763,348		763,348

There are no significant differences between the Company and consolidated statements of income and cash flows prepared and presented before and after the early adoption of the CPCs, As such, the Company is only presenting the reconciliation of the consolidated statements of income and cash flows.

a) **Deferred income and social contribution taxes**: deferred tax assets and liabilities were recorded on temporary differences between accounting and tax bases of assets and liabilities, including differences related to the transition tax regime.

b) **Write-off of pre-operating expenses**: According to the new Brazilian accounting practices issued by the CPC, as from January 1, 2008, pre-operating expenses no longer fall under the definition of assets, and are to be recorded in P&L for the year.

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05. CPC 37 43 First-time Adoption of Accounting Pronouncements CPC 15 to 40--Continued

5.1 Reconciliation resulting from adoption of CPC 37 and CPC 43--Continued

c) **Construction contracts**: due to adoption of ICPC 01 Concession Contracts as from January 1, 2008, the Company started to recognize construction costs and revenues as required by ICPC 01, in accordance with CPC 17, considering the construction margins defined in Note 03, Previously, these asset construction or acquisition costs were recorded as property, plant and equipment, at transaction cost. In addition, due to the fact that the financial asset receivable from the granting authorities has been initially recorded at fair value (present value) and subsequently adjusted to amortized cost, the Company recognized financial income through to the time elapsed.

d) **Employee benefits**: the Company opted to recognize previously unrecognized accumulated gains and losses in the quarterly financial statements. Previously such amounts were not recognized in the quarterly financial statements, and only the portion of amortization of such amounts was included in P&L, as part of pension plan expenses.

e) **Donations and grants**: the Company receives donated assets that integrate its infrastructure assets for service rendering. These assets are not computed in the Company's tariff base. Until January 1, 2008, the Company used to classify these assets in property, plant and equipment, depreciating them over the estimated useful life, recognizing them as contra entry to capital reserve in shareholders' equity. After January 1, 2008, the Company started to recognize these assets against a corresponding asset reducing account, as allowed by CPC 07, recognizing a credit in the statement of income in the same proportion as that for recorded depreciation. Due to the fact that these assets belong to infrastructure of the municipalities, they were reclassified to intangible assets and their balances were subsequently adjusted against capital reserve and income reserve accounts, aiming at eliminating these assets since they do not represent future economic benefits since they are not components of the Company's tariff base.

f) Convertible debentures: Loans are initially recognized at fair value, net of transaction costs incurred. They are subsequently measured at amortized cost. Any difference between the funds obtained (net of transaction costs) and the settlement amount is recognized in P&L in the period in which the loans are effective, using the effective interest rate method.

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06. Public Service Concession Contracts

The Company entered into utility concession contracts for supply of water and sewage services with 874 locations in the state of Minas Gerais. Concession contracts are signed with each municipality, for periods that vary between 30 and 99 years, all of which provide for similar rights and obligations on the part of the concessionaire and the granting authority.

The tariff system for water supply and sewage services is controlled by the Water Supply and Sewage Service Regulatory Agency – ARSEA – Minas Gerais State, being reviewed on an annual basis, aiming at maintaining the Company's economic and financial equilibrium, considering investments made as well as its cost and expense structure. Services are charged directly to users, based on consumed water and collected sewage volume times the authorized tariff.

The terms of the major concessions, as well as the most significant amendments made to the concession contracts for the quarter ended June 30, 2010 are described in Note 01.

At June 30, 2010, the Company records accounts receivable from the granting authorities (municipalities) in the amount of R$271,671, referring to the expected amount receivable at the end of the concession periods (R$273,611 at March 31, 2010). Such amounts were initially recognized at present value, having been discounted at the weighted average cost of capital (WAAC) associated with the related accounts receivable. Intangible assets were accounted for by the difference between fair value of assets constructed or acquired for purposes of provision of concession services and the book value of financial assets recognized.

The results of construction services carried out by the Company are as follows:

	06/30/2010	06/30/2009
Construction revenue	**252,136**	210,476
Construction cost	**244,550**	205,234

07. Cash and Cash Equivalents

(a) Cash and cash equivalents

	Company	
	06/30/2010	03/31/2010
Cash and banks	38,410	26,042
Short-term bank deposits	186,559	301,673
Total	**224,969**	**327,715**

	Consolidated	
	06/30/2010	03/31/2010
Cash and banks	40,834	28,742
Short-term bank deposits	186,662	301,767
Total	**227,496**	**330,509**

The Company maintains own funds from its activities invested in Bank Deposit Certificates - CDBs, which are fixed income securities of which the remuneration is substantially based on Interbank Deposit Certificate – CDI variation, which in 2010 second quarter, ranged from 98,50% to 115% (98% to 108% in 2009). Financial income in second quarter, arising from investment of own funds, totaled R$8,425 (R$19.372 from April to June 2009).

From April to June 2010 and 2009, the Company classified its securities as cash and cash equivalents for being considered financial assets for immediate redemption and subject to low risk of change in their market value.

(b) Movement of financial investments:

	Company	
	2010	2009
At March 31	**301,673**	783,735
New investments	**535,104**	420,410
Yield	**8,425**	19,372
Redemption	**(658,643)**	(510,997)
At June 30	**186,559**	712,520

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07. Cash and Cash Equivalents--Continued

(b) Movement of financial investments:--Continued

	Consolidated	
	2010	2009
At March 31	**301,767**	783,735
New investments	**535,201**	420,745
Yield	**8,428**	19,379
Redemption	**(658,734)**	(511,123)
At June 30	**186,662**	712,736

Financial assets only include amounts in Brazilian reais and there are no investments denominated in foreign currency.

None of these financial assets are overdue or involve impairment losses.

08. Trade Accounts Receivable and Other Accounts Receivable

Breakdown of trade accounts receivable by maturity is as follows:

	Company	
	06/30/2010	03/31/2010
Falling due	78,986	81,005
Overdue for up to 30 days	65,664	74,264
Overdue from 31 to 60 days	27,423	22,890
Overdue from 61 to 90 days	12,967	13,051
Overdue from 91 to 180 days	20,587	20,138
Overdue for more than 180 days	35,148	33,295
Billed amounts	240,775	244,643
Unbilled amounts	197,712	200,557
Trade accounts receivable	438,487	445,200
(-) Provision for losses on trade accounts receivable	(43,715)	(40,355)
	394,772	404,845
Long-term accounts receivable (Note 26)	192,829	199,081
Trade accounts receivable, net	587,601	603,926
Prepayments	9,663	7,796
Collateral and guarantees	100,482	81,776
Receivables from affiliates (*)	53,437	50,405
Committed financial investment (**)	44,090	43,419
Other receivables	56,739	48,748
	852,012	**836,070**
Noncurrent assets	**(405,840)**	**(389,733)**
Current assets	**446,172**	**446,337**

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08. Trade Accounts Receivable and Other Accounts Receivable-- Continued

	Consolidated	
	06/30/2010	03/31/2010
Falling due	83,104	84,625
Overdue for up to 30 days	65,664	74,264
Overdue from 31 to 60 days	27,423	22,890
Overdue from 61 to 90 days	12,967	13,051
Overdue from 91 to 180 days	20,587	20,138
Overdue for more than 180 days	35,148	33,295
Billed amounts	244,893	248,263
Unbilled amounts	197,900	200,598
Trade accounts receivable	442,793	448,861
(-) Provision for losses on trade accounts receivable	(44,884)	(41,524)
	397,909	407,337
Long-term accounts receivable (Note 26)	192,829	199,081
Trade accounts receivable, net	590,738	606,418
Prepayments	9,922	8,122
Collateral and guarantees	100,482	81,776
Committed financial investment (**)	44,090	43,419
Other receivables	58,598	50,729
	803,830	**790,464**
Noncurrent assets	**(354,186)**	**(340,375)**
Current assets	**449,644**	**450,089**

At June 30, 2010, out of total accounts receivable, R$469,527 were not overdue (R$480,643 in March 2010).

At June 30, 2010, trade accounts receivable in the amount of R$115,072 (R$120,427 in March 2010) were past due, but were not backed by provision for losses. These accounts refer to a series of independent customers that do not have a history of recent default. The aging analysis of these accounts receivable is set out below:

	06/30/2010	03/31/2010
Up to three months	98,942	104,802
From three to six months	15,725	15,131
Minas Gerais State Government	405	494
Total	**115,072**	**120,427**

08. Trade Accounts Receivable and Other Accounts Receivable-- Continued

On the 2010 second quarter, trade accounts receivable amounting to R$43,715 (R$40,335 in March 31, 2010) were overdue and impaired. Impaired accounts receivable mainly refer to customers that render health services, for which COPASA, following its social policy, does not interrupt water supply and sewage services. According to the evaluation made, a portion of these overdue accounts receivable is recoverable. Aging of these accounts receivable is as follows:

	06/30/2010	03/31/2010
Falling due	1,970	1,897
Overdue up to 30 days	2,158	1,761
Overdue from 31 to 60 days	2,316	1,389
Overdue from 61 to 90 days	2,233	1,738
Overdue from 91 to 180 days	4,862	5,071
Overdue from 181 to 360 days	10,126	9,790
Overdue for more than 360 days	20,050	18,709
Total	**43,715**	**40,355**

The Company's trade accounts receivable and other accounts receivable are denominated solely in Brazilian reais, and there are no accounts receivable in foreign currency.

Movement in the allowance for doubtful accounts receivable of the Company is as follows:

	2010
At March 31	40,355
Allowance for doubtful accounts receivable	13,611
Trade accounts receivable written off in the year as loss	(10,251)
At June 30	**43,715**

The provision for impairment of trade accounts receivable was recorded in the statement of income for the quarter as "other expenses ". The amounts debited to the provision accounts are usually written off when they are not expected to be recovered.

The other classes of trade accounts receivable and other accounts receivable do not contain assets for which there is evidence of impairment.

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08. Trade Accounts Receivable and Other Accounts Receivable-- Continued

The maximum exposure to risk at balance sheet date corresponds to the book value of each class of the aforementioned accounts receivable. The Company maintains tariff revenue as collateral for financing (Note 20).

(*) Refers to loan agreements and expenses with salaries and social charges of employees ceded by COPASA to its subsidiaries and that are being refunded as contractually provided for, R$39,474 (R$37,185 in March, 2010) referring to Águas Minerais, R$12.061 (R$11,252 in March 2010) referring to COPANOR and R$1,902 (R$1,968 in March 2010) refer to Serviços de Irrigação.

(**) Refers to funds from the National Water Agency - ANA, held by COPASA, in connection with the Program for Depolluting Hydrographic Basins - PRODES, to be transferred in the form of payment for sewage treatment services by the Ribeirão do Onça sewage treatment unit, in the municipality of Belo Horizonte and the Betim Central sewage treatment unit, in the municipality of Betim, upon meeting the target sewage treatment and depollution volumes. Due to partial attainment of targets, the Company also maintains such amounts in noncurrent liabilities, in deposit for works account (Note 12). In November 2009 and February 2010, ANA approved draw down of the amount of R$2,030 and R$2,044, respectively, referring to the two of four quarterly installments, related to attainment of the first stage of targets for Ribeirão do Onça sewage treatment unit.

09. Investments

	Company	
	06/30/2010	03/31/2010
In subsidiaries stated by the equity method		
Copasa Águas Minerais de Minas S.A.	1	1
Copanor	1	1
Copasa Serviços de Irrigação S.A.	1	1
Other	260	260
Total	**263**	**263**

	Consolidated	
	06/30/2010	03/31/2010
Other	260	260
Total	**260**	**260**

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

09. Investments--Continued

The main information on subsidiaries is as follows:

Subsidiaries	Shareholders' equity	Capital	AFCI	Net income (loss)	Number of shares	Copasa ownership interest (%)
06/30/2010						
Águas Minerais	(8,202)	13,929	19,357	(8,203)	13,929	100
Copanor	(1,740)	1	-	(1,741)	1	100
Serviços de Irrigação	15	1	-	16	1	100
03/31/2010						
Águas Minerais	(4,702)	13,929	19,357	(4,703)	13,929	100
Copanor	(940)	1	-	(941)	1	100
Serviços de Irrigação	(51)	1	-	(52)	1	100

Movement of investments in subsidiaries is as follow:

	03/31/2010	Equity pickup	AFCI	06/30/2010
Águas Minerais	1	-	-	1
Copanor	1	-	-	1
Serviços de Irrigação	1	-	-	1
Total	**3**	**-**	**-**	**3**

At June 30, 2010, subsidiaries recorded capital deficiency of R$17,456 (R$13,224 at March 31, 2010), for which the Company set up provision for losses. This provision is stated in Non-current liabilities, under Sundry obligation.

	03/31/2010	Equity pickup	AFCI	06/30/2010
Águas Minerais	(3,926)	(3,501)	-	(7,427)
Copanor	(7,989)	(799)	-	(8,788)
Serviços de Irrigação	(1,309)	68	-	(1,241)
Total	**(13,224)**	**(4,232)**	**-**	**(17,456)**

09. Investments--Continued

Copasa Águas Minerais presents accumulated losses and working capital deficiency. Operations of this subsidiary started in September 2008 and due to high costs it has not yet succeeded in meeting its targets for projected sales.

Copasa Águas Minerais is in the process of reviewing its structure of costs and business feasibility studies. Continuity of operations of this subsidiary will depend on the operating reorganization in order to adjust to the circumstances prevailing in the market in which it operates as well as support from the Company. The financial statements of Copasa Águas Minerais, the base for equity pickup and the consolidated financial statements of the Company, were prepared assuming that it will remain as a going concern and do not include adjustments related to realization and classification of its assets or valuation of its liabilities, which could be required should it not be possible for this subsidiary to continue operating.

On January 28, 2010, the Board of Directors of COPASA MG authorized a minority investment of R$21,8 million in a Special Purpose Entity, together with Odebrecht Engenharia Ambiental and Lumina Resíduos Industriais S.A., corresponding to 15,5% interest.

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

10. Intangible Assets

	Company					
INTANGIBLE ASSETS	**Water Systems**	**Sewage Systems**	**Use Rights**	**Other**	**Under Construction**	**Total**
Cost:						
Book balance at 03/31/10	**3,612,515**	**1,691,539**	**189,158**	**(99,395)**	**2,500,837**	**7,894,654**
Additions	43,640	13,421	32	30,318	192,035	279,446
Write-offs	(157)	(17)	(6)	(1,208)	-	(1,388)
Book balance at 06/30/10	**3,655,998**	**1,704,943**	**189,184**	**(70,285)**	**2,692,872**	**8,172,712**
Amortization and impairment:						
Book balance at 03/31/10	**(2,199,770)**	**(597,620)**	**(34,650)**	**(17,982)**	**-**	**(2,850,022)**
Write-offs:	(39,594)	(19,624)	(1,595)	(2,445)	-	(63,258)
Additions:	149	2	2	38	-	191
Book balance at 06/30/10	**(2,239,215)**	**(617,242)**	**(36,243)**	**(20,389)**	**-**	**(2,913,089)**
Net balance at 06/30/10	**1,416,783**	**1,087,701**	**152,941**	**(90,674)**	**2,692,872**	**5,259,623**
Net balance at 03/31/10	**1,412,745**	**1,093,919**	**154,508**	**(117,377)**	**2,500,837**	**5,044,632**

Amortization for the second quarter was recorded in the statement of income as cost of services rendered of R$56,018 (R$53,976 in 2009 second quarter), selling expenses of R$983 (R$1,089 in 2009 second quarter) and administrative expenses of R$6,257 (R$2,660 in 2009 second quarter).

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

10. Intangible Assets--Continued

	Consolidated					
INTANGIBLE ASSETS	**Water Systems**	**Sewage Systems**	**Use Rights**	**Other**	**Under Construction**	**Total**
Cost:						
Book balance at 03/31/10	**3,612,515**	**1,691,539**	**189,158**	**(98,162)**	**2,499,666**	**7,894,716**
Additions	43,640	13,421	32	30,318	192,035	279,446
Write-offs	(157)	(17)	(6)	(1,208)		(1,388)
Book balance at 06/30/10	**3,655,998**	**1,704,943**	**189,184**	**(69,052)**	**2,691,701**	**8,172,774**
Amortization and impairment:						
Book balance at 03/31/10	**(2,199,770)**	**(597,619)**	**(34,650)**	**(17,984)**	**-**	**(2,850,023)**
Write-offs:	(39,594)	(19,624)	(1,595)	(2,445)		(63,258)
Additions:	149	2	2	38		191
Book balance at 06/30/10	**(2,239,215)**	**(617,241)**	**(36,243)**	**(20,391)**	**-**	**(2,913,090)**
Net balance at 06/30/10	**1,416,783**	**1,087,702**	**152,941**	**(89,443)**	**2,691,701**	**5,259,684**
Net balance at 03/31/10	**1,412,745**	**1,093,920**	**154,508**	**(116,146)**	**2,499,666**	**5,044,693**

Amortization for the second quarter was recorded in the statement of income as cost of services rendered of R$56.018 (R$53.976 in 2009 second quarter), selling expenses of R$983 (R$1.085 in 2009 second quarter) and administrative expenses of R$6,257 (R$2,781 in 2009 second quarter).

In the second quarter, the Company capitalized interest and financial charges of R$32,109 (R$18,877 in 2Q09) in the Construction in progress account.

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

11. Property, Plant and Equipment

	Company				
PROPERTY, PLANT AND EQUIPMENT	**Land and Construction**	**Machinery and Equipment**	**Vehicles**	**Other**	**Total**
Cost:					
Book balance at 03/31/10	**91,253**	**155,831**	**99,680**	**173**	**346,937**
Additions	563	5,715	1,966	-	8,244
Write-offs	-	(77)	-	-	(77)
Book balance at 06/30/10	**91,816**	**161,469**	**101,646**	**173**	**355,104**
Amortization and impairment:					
Book balance at 03/31/10	**(57,091)**	**(114,709)**	**(84,599)**	**(173)**	**(256,572)**
Additions	(509)	(2,803)	(2,128)	-	(5,440)
Write-offs	-	69	-	-	69
Book balance at 06/30/10	**(57,600)**	**(117,443)**	**(86,727)**	**(173)**	**(261,943)**
Net balance at 06/30/10	**34,216**	**44,026**	**14,919**	**-**	**93,161**
Net balance at 03/31/10	**34,162**	**41,122**	**15,081**	**-**	**90,365**

Depreciation for the first quarter was recorded in the statement of income as cost of services rendered of R$5,008 (R$3,220 in 2009 second quarter), selling expenses of R$59 (R$65 in 2009 second quarter) and administrative expenses of R$373 (R$159 in 2009 second quarter).

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

11. Property, Plant and Equipment--Continued

	Consolidated					
PROPERTY, PLANT AND EQUIPMENT	**Land and Construction**	**Machinery and Equipment**	**Vehicles**	**WIP**	**Other**	**Total**
Cost:						
Book balance at 03/31/10	**91,274**	**155,830**	**99,729**	**4,544**	**22,502**	**373,879**
Additions	563	5,715	1,965	15	-	8,258
Write-offs	-	(77)	-	-	(3,589)	(3,666)
Book balance at 06/30/10	**91,837**	**161,468**	**101,694**	**4,559**	**18,913**	**378,471**
Amortization and impairment:						
Book balance at 03/31/10	**(57,091)**	**(114,780)**	**(84,646)**	**-**	**(201)**	**(256,718)**
Additions	(509)	(2,803)	(2,127)	-	(1)	(5,440)
Write-offs	-	69	-	-	2,267	2,336
Book balance at 06/30/10	**(57,600)**	**(117,514)**	**(86,773)**	**-**	**2,065**	**(259,822)**
Net balance at 06/30/10	**34,237**	**43,954**	**14,921**	**4,559**	**20,978**	**118,649**
Net balance at 03/31/10	**34,183**	**41,050**	**15,083**	**4,544**	**22,301**	**117,161**

Depreciation for the year was recorded in the statement of income as cost of services rendered of R$5,008 (R$3,403 in 2009 second quarter), selling expenses of R$59 (R$69 in 2009 second quarter) and administrative expenses of R$373 (R$176 in 2009 second quarter).

12. Suppliers and Other Obligations

	Company	
	06/30/2010	03/31/2010
Accounts payable to suppliers	60,295	53,080
Taxes payable	32,261	39,531
Taxes in installments	237,622	259,551
Vacation accrual	91,345	71,002
Interest on equity capital (Note 19)	56,746	91,149
Electric power	51,740	55,222
Deposit for construction works	41,106	40,583
Other accounts payable	52,245	35,469
	623,360	645,587
Noncurrent liabilities	(286,611)	(292,242)
Current liabilities	336,749	353,345

	Consolidated	
	06/30/2010	03/31/2010
Accounts payable to suppliers	64,681	55,211
Taxes payable	32,112	39,536
Taxes in installments	237,622	259,551
Vacation accrual	91,581	71,154
Interest on equity capital (Note 19)	56,746	91,149
Electric power	51,740	55,223
Deposit for construction works	41,109	40,586
Other accounts payable	34,815	22,308
	610,406	634,718
Noncurrent liabilities	(269,158)	(279,022)
Current liabilities	341,248	355,696

The noncurrent portion mainly comprises installment payment of debt to Companhia Energética de Minas Gerais – CEMIG and taxes paid in installments.

12. Suppliers and Other Obligations--Continued

- Electric power:

  This refers to payment in installments of debt arising from overdue bills, according to the formal debt acknowledgment document executed with Companhia Energética de Minas Gerais – CEMIG on October 4, 2004, in which the Company acknowledged debt of R$78,495, payable in 96 equal, monthly and successive installments up to September 2012, restated by reference to the IGP-M variation plus 0,5% interest p.m. At June 30, 2010, there were 27 remaining installments payable. The current portion also records the amount of monthly bills, amounting to R$4,179 (R$4,601 at March 31, 2010).

- Deposit for construction works:

  In December 2003, the Company received onlending of funds from the Program for Depollution of Hydrographic Basins - PRODES, amounting to R$12,636, made by the National Water Agency - ANA, as consideration for Federal Government participation in the construction of Ribeirão do Onça sewage treatment unit, in Belo Horizonte. As provided for in clause 6 of contract No, 012/2003, dated November 21, 2003, the Company will receive for sewage treatment in two successive quarterly installments, after confirmation of attainment of the depollution targets by the referred to agency. The contract was amended to extend the original validity of up to December 31, 2007 to July 1, 2013, also the requirement that Company obtain the referred to confirmation of attainment of targets was requested on July 1, 2009, as provided for in the 3rd Contractual Amendment, dated August 15, 2007, Since the Company already has, since November 2008, studies that confirm attainment of phase 1 targets, for July 2009, there was recognition of the corresponding right on the basis of one third of the amount passed on by ANA, totaling R$7,499, namely R$1,250 to financial income and R$6,249 to deferred revenue account at December 31, 2008. There has been normal compliance with the established target schedule, after confirmation of attainment of phase 1 targets, with quarterly filing of reports with ANA. Deferred revenue recorded in 2008 was recognized as revenue for 2009 in the amount of R$6,249, together with R$708 related to 1/3rd of revenue received in the year for the application of funds received. In 2Q10, R$148 was recognized as income relating to 1/3 of interest accrued in the quarter from investment of funds received. The amount updated to June 30, 2010 referring to such transfer is of R$20,978 (R$20,659 at March 31, 2010) (Note 07).

12. Suppliers and Other Obligations--Continued

- Deposit for construction works:--Continued

In December 2007, the Company received R$18,720 related to new onlending made by the National Water Agency - ANA, as consideration for participation of Federal Government in the construction of the Central Sewage Treatment Unit, in Betim. As provided for by clause 6 of contract No, 039/2007, dated December 11, 2007, the Company will receive for sewage treatment services in twelve successive quarterly installments, after confirmation of attainment of depollution targets by the referred to agency. The Company started the process of confirmation of attainment of targets of the Program for Depollution of Hydrographic Basins - PRODES on July 1, 2009 and submitted a report to ANA on October 15, 2009 for approval, however the agency made inquiries and presented technical considerations, scheduling a meeting for January 29, 2010 for clarifications to be provided and for continuity of the program. When receiving approval for first measurement, the Company will have made available 1/12th of the funds existing in the committed account. As such, every three months the Company will issue a measurement report and submit it to ANA for approval, until completing the twelve contractually provided for measurements. However, there is the possibility of renegotiating with the agency the date of new measurements, due to non-conclusion of works that will affect attainment of established targets, The amount applied including restatement through to June 30, 2010 related to this onlending totaled R$23,112 (R$22,760 at March 31, 2010) (Note 07).

- Taxes in installments:

	Company	
	06/30/2010	03/31/2010
Taxes in installments (*)	44,793	60,285
ISS in installments (**)	192,829	199,266
Total	237,622	259,551
Current portion	(44,793)	(60,285)
Noncurrent portion	192,829	199,266

12. Suppliers and Other Obligations--Continued

- Taxes in installments:--Continued

(*) In 2001, the Company acquired IPI premium credits of R$65,800 from third parties at a 15% discount, which were used for offset against own tax liabilities. The referred to credits were acquired based on injunctions obtained through judicial proceedings filed by the companies selling the credits. Although Brazilian IRS has issued the documents supporting application for tax offset, the tax authorities have considered on several occasions that acquired tax credits may not be used for tax offset purposes, whether due to their origin (credits assigned by third parties), their nature (IPI premium credit) or their provisional assignment (a final unappealable ruling has not yet been handed down on the legal proceedings). Higher Court used to recognize, until recently, right to the IPI premium credit. However, there has been recent change in Higher Court case law, to support the position that for being a sectorial tax incentive, it was valid until October 5, 1990.

In view of the currently prevailing case law scenario, despite the understanding that the matter depends on a final Supreme Court ruling, our outside legal advisors consider that this matter involves probable unfavorable outcome.

However, the Company decided to pay this contingency, and on November 27, 2009 applied for debt payment in twelve installments, in conformity with Provisional Executive Order No, 470, of 2009. For recording purposes, all the credits acquired were restated, totaling R$157,179. In view of this, the provision balance of R$70,299 was increased by R$86,880, and revenue in connection with adhesion to the installment payment was credited for R$91,788, thus remaining a balance of R$65,391 in the provision for IPI premium credit, which was the amount subject matter of payment in installments.

(**) Refers to the application for tax offset in which tax and non-tax debts of COPASA will be offset using tax credits on water supply and sewage service invoices due by the Municipal Government of Belo Horizonte. The debts shall be paid by both parties in 120 equal, consecutive monthly installments, with 1% interest and monetary restatement by reference to IPCA-E variation.

13. Loans and Debentures

	Company / Consolidated	
	06/30/2010	03/31/2010
Current		
State Government /BDMG	7,375	7,286
Savings and Loans Bank – CEF	93,341	90,089
National Treasury	33,748	33,313
BNDES – BNE	1,520	746
Federal Government – bonus	5,906	6,660
Bank loans and financing	141,890	138,094
Simple debentures	93,450	76,203
Convertible debentures	457	3,266
Debentures	93,907	79,469
	235,797	217,563
Noncurrent		
State Government /BDMG	13,788	13,664
Savings and Loans Bank – CEF	655,519	662,156
National Treasury	94,276	102,624
BNDES – BNE	272,048	228,276
Federal Government – bonus	55,763	57,553
Bank loans and financing	1,091,394	1,064,273
Simple debentures	524,772	478,258
Convertible debentures	134,669	134,048
Debentures	659,441	612,306
	1,750,835	1,676,579
Total loans	**1,986,632**	**1,894,142**

13. Loans and Debentures--Continued

The comparison between book and fair values is as follows:

	Book Value		Fair Value	
	06/30/2010	03/31/2010	06/30/2010	03/31/2010
Bank loans and financing	1,233,284	1,202,367	1,227,153	1,343,051
Simple debentures	618,222	554,461	606,123	570,883
Convertible debentures	135,126	137,314	133,102	142,495
Total loans	**1,986,632**	**1,894,142**	**1,966,378**	**2,056,429**

The market value of these liabilities is calculated through the projection of the debt balance, restated by the contractual rate, over the remaining payment months. The amount arrived at is discounted, on a retroactive basis to current period, using the following market rates:

Lines	Contractual rate	Period-months	Market rate	Observations
State Government /BDMG	8.93%	57	9.30%	Taxa CEF por não existir similar
CEF/FGTS	10.06%	213	9.30%	Cotação da taxa da CEF em mar/10
National Treasury	5.38%	43	9.30%	Taxa CEF por não existir similar
BNDES/BNE	7.52%	123	9.33%	Cotação taxa do BNDES em mar/10
Federal Government	4.83%	166	9.30%	Taxa CEF por não existir similar
Simple Debentures	8.69%	82	9.33%	Cotação taxa do BNDES em mar/10
Convertible Debentures	8.30%	36	9.33%	Cotação taxa do BNDES em mar/10

13. Loans and Debentures--Continued

a) Bank loans and financing

Bank loans and financing mature until 2030 with average coupon of 8.50% p.a. (8.54% p.a. at March 31, 2010), The noncurrent maturity schedule is as follows:

Maturity	06/30/2010	03/31/2010
2011	72,076	104,435
2012	170,366	163,132
2013	170,628	163,270
2014	133,625	126,211
2015	101,257	93,976
2016	70,995	64,554
2017 onwards	372,447	348,695
Total	1,091,394	1,064,273

The book value of the Company's loans in foreign currency totaled R$ 61,669 (R$ 64,213 at March 31, 2010).

b) Collateral for bank loans and financing

In relation to financing, the Company offers the following guarantees:

Federal Government - bonus:

These are guaranteed until the amount of contract balance by collateral signature from the Minas Gerais State Government and the Company's tariff revenue, until the limit sufficient for payment of installments and other charges due on each maturity date.

Discount Bond and Par Bond:

As additional guarantee for this financing, the Company maintains pledge with Banco do Brasil over the amount of R$27,188, including restatement until June 30, 2010 (R$23,270 in March 31, 2009), applying average price for USA Treasury Coupon Zero Bonus, recorded in collateral for financing account.

13. Loans and Debentures--Continued

b) Collateral for bank loans and financing--Continued

Contract for assignment and commitment of credit rights:

In order to ensure fulfillment of Company obligations, assumed in the contracts for onlending of FGTS funds, under the "Sanitation for All" Program, executed by and between the Loans and Savings Bank – CEF, as managing agent, and Unibanco, contracts were entered into for the assignment and commitment of credit rights, on July 4, 2006, with the managing agents Bradesco, Itaú and CEF, as set out below:

			Guarantees		
Contract	Number	Principal	Assignment of credit rights	Committed account	Reserve account
Credit opening I		256,428			
Assignment of credit rights	2006 1637		17,000	17,000	24,025
Amendment I	2006 2933		17,000	17,000	
Credit opening II		284,593			
Assignment of credit rights	2006 1639		15,300	15,300	
Amendment I	2006 2934		15,300	15,300	
Total		**541,021**			**24,025**

For these contracts the Company provided the following guarantees:

Assignment of a portion of credit rights resulting from public water supply and sewage services rendered by COPASA to its private consumers, for the minimum amounts of R$17,000 and R$15,300 per month, on a non-cumulative basis, restated by reference to IPC-A variation informed by FIP.

Assignment of assignor's credit rights against CEF, related to the funds deposited in the committed account and the reserve account, maintained in investment funds, short-term investments or held in any other form, resulting from payment of assigned credit rights.

At June 30, 2010, the short-term investment fund comprising the reserve account balance, which should correspond to 3 (three) times the amount of the installments falling due, recorded in collateral for financing account, amounted to R$ 24,025 (R$23,247in March 31, 2010).

13. Loans and Debentures--Continued

b) Collateral for bank loans and financing--Continued

Other financing:

The loan and financing agreements entered into with CEF, destined to perform construction works and network and building connection expansion services, are guaranteed by deposits in pledge account of which the minimum balance corresponds to 1 (one) time the amount of the monthly charge, for the agreement executed on December 9, 2003, and 3 (three) times the monthly charge, for the contract executed on June 30, 2004, calculated based on the amount of last collection available for these agreements. This account balance, recorded in collateral for financing, at June 30, 2010, amounted to R$8,014 (R$7,327in March 31, 2010).

The loan and financing agreements executed with the National Bank for Economic and Social Development – BNDES, for optimization and expansion of water supply and sewage systems in the concession areas, are secured by assignment of part of credit rights resulting from public water supply and sewage services rendered, for the minimum amounts of R$3,000 and R$23,000 per month, restated on an annual basis by reference to IPCA/IBGE variation, and by deposits in pledge account of which the minimum balance corresponds to 3 (three) times the amount of the installments falling due. The balance of this account, recorded in collateral for financing account, at June 30, 2010, amounted to R$5,161 (R$4,299 in March 31, 2010).

Other financing are secured by collateral signature from the Minas Gerais State Government and the Company’s tariff revenue.

13. Loans and Debentures—Continued

c) Simple and convertible debentures

		06/30/2010		03/31/2010	
Subscription / series	Subscriptiond ate	Current	Non-current	Current	Non-current
Non-convertible debentures					
Subscription 1st Issue					
1st and 2nd	06/30/2004	**7,854**	**23,845**	7,870	25,778
3rd and 4th	11/09/2004	**7,854**	**23,845**	7,870	25,778
5th and 6th	07/29/2004	**7,854**	**23,845**	7,870	25,778
7th	12/19/2005	**3,927**	**11,922**	3,935	12,889
8th and 9th	04/24/2006	**7,854**	**23,845**	7,870	25,778
10th	12/19/2006	**3,927**	**11,922**	3,935	12,889
11th and 12th	03/23/2007	**7,854**	**23,844**	7,870	25,778
		47,124	**143,068**	47,220	154,668
Subscription 3rd, Issue					
1st to 6th	12/06/2007	**16,351**	**134,719**	12,421	138,681
7th	09/25/2008	**2,725**	**22,453**	2,070	23,114
8th	12/06/2008	**8,175**	**67,360**	6,211	69,341
9th to 11th	03/30/2009	**8,175**	**67,360**	6,211	69,341
12th to 14th	11/27/2009	**2,725**	**22,453**	2,070	23,113
15th to 17th	05/26/2010	**8,175**	**67,359**	-	-
		46,326	**381,704**	28,983	323,590
Total non-convertible		**93,450**	**524,772**	76,203	478,258
Convertible debentures					
Subscription - 2nd Issue					
Sole	08/28/2007	**283**	**82,183**	2,020	81,563
Sole	09/06/2007	**166**	**50,005**	1,187	50,004
Sole	12/03/2007	**8**	**2,481**	59	2,481
Total convertible		**457**	**134,669**	3,266	134,048
Total		**93,907**	**659,441**	**79,469**	**612,306**

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13. Loans and Debentures—Continued

c) Simple and convertible debentures--Continued

Nonconvertible debentures

Subscription - 1st issue:

In June 2004, the Company carried out private issue and placement of simple debentures, not convertible into shares, through exclusive subscription by the National Bank for Economic and Social Development - BNDES, A total of 300 (three hundred) debentures of R$1,000 each were issued in 12 (twelve) series of R$25,000 each, The subscription price for each series was equivalent to the nominal value plus interest described below, calculated on a pro rata temporis basis, from issue date until effective subscription date, The contractual terms and conditions were as follows:

Issue date	June 15, 2004
Term	10 years
Grace period for the amount of principal	36 months
Amortization	84 months
Final maturity	July 15, 2014
Remuneration	Long-term interest rate - TJLP + 3.58% p.a.
Guarantee	20% of revenue received, plus reserve account

This 1st issue is secured by 20% of the Company’s tariff revenue and a reserve account of which the minimum balance corresponds to the payment of three monthly installments falling due, related to the debentures of all series placed and subscribed, deposited in an investment fund, recorded in collateral for financing account, At June 30, 2010, the pledged amount totaled R$16,078 (R$16,514 in March 31, 2010).

The funds from this debenture issue are destined to projects for the expansion and modernization of water supply and sewage systems in the concession areas.

13. Loans and Debentures—Continued

c) Simple and convertible debentures--Continued

Nonconvertible debentures--Continued

Subscription - 3rd issue:

In December 2007, the Company carried out private issue and placement of simple debentures not convertible into shares, through exclusive subscription by the National Bank for Economic and Social Development – BNDES, comprising 450 (four hundred and fifty) debentures of R$1,000, issued in 18 (eighteen) series of R$25,000 each, The contractual terms and conditions were as follows:

Issue date	June 1, 2007
Term	12 years
Grace period for the amount of principle	30 months
Amortization	114 months
Final maturity	December 15, 2019
Remuneration	Long-term interest rate - TJLP + 2.3% p.a.
Guarantee	Variable, with assignment and commitment of receivables, plus the reserve account

This 3rd issue of debentures is secured by the minimum monthly amount of R$18,000, restated on an annual basis by reference to IPCA variation, related to the Company's tariff revenue and a reserve account, of which the minimum balance corresponds to the payment of three monthly installments falling due, related to the debentures of all series placed and subscribed, deposited in an investment fund, recorded in collateral for financing account, At June 30, 2010, the pledged amount totaled R$20,016 (R$7,285 in March 2010).

Convertible debentures

Subscription – 2nd issue:

On July 16, 2007, the Company entered into a Private Agreement for Issue of Debentures Convertible into Shares, in the amount of R$141,024, with the following terms and conditions:

Issue date	June 1, 2007
Number of debentures	1,130,000
Unit nominal value in reais	R$124,80
Grace period for the amount of principal	59 months
Amortization	June 1, 2012 and June 1, 2013
Remuneration	Long-term interest rate - TJLP + 2.3% p.a.
Guarantee	Variable

13. Loans and Debentures—Continued

c) Simple and convertible debentures--Continued

Convertible debentures--Continued

Subscription – 2nd issue:--Continued

The fair value of the financial component recorded in liabilities was calculated using market interest rate for an equivalent non-convertible debt security, The residual value, representing the value of the capital conversion option, is included in shareholders' equity in income reserves (Note 19).

Company shareholders have right of first refusal for debenture subscription purposes in proportion to the number of shares issued by COPASA and held by them on July 30, 2007, and to subscribe to 01 (one) debenture, shareholder would have to hold 102 (one hundred and two) shares of COPASA, The right of first refusal was to be exercised within 30 days as from July 30, 2007, the date of publication of the related Communication to Shareholders, as such elapsed on August 28, 2007, COPASA shares (CSMG3) were negotiated on a debenture subscription ex right basis since July 31, 2007.

The conversion option shall be made between June 2, 2008 and May 31, 2012, when each debenture may be converted into four common shares issued by the Company, and between June 1, 2012 to May 31, 2013, when each debenture may be converted into two common shares of the Company, for the price of R$31,20 per share, restated on the agreement terms, At June 30, 2010, the following conversion had been made:

	Number	
Date	**Converted Debentures**	**Common Shares**
08/04/2008	188	752
03/06/2009	5,396	21,584
03/12/2009	973	3,892
04/01/2009	20,595	82,380
06/18/2009	2,039	8,156
07/02/2009	4,208	16,832
07/21/2009	240	960
Total	**33,639**	**134,556**

13. Loans and Debentures—Continued

c) Simple and convertible debentures--Continued

Convertible debentures--Continued

Subscription – 2nd issue:--Continued

The convertible debt security recognized in the balance sheet is calculated as under:

	06/30/2010	03/31/2010
Liability component	**137,101**	**134,366**
Financial expense	**3,225**	**2,735**
Interest paid	**(5,657)**	**-**
Liability component at the end of the period	**134,669**	**137,101**

The fair value of the liability component of the convertible debt bond at June 30, 2010 totals R$133,102, The fair value is calculated by using the cash flows discounted at the rate of a similar instrument without option of conversion, of 2.8% p.a., plus TJLP.

The funds from 2nd and 3rd debenture issue are being used in the Company's investment plan for the period 2007/2010, being earmarked for modernization, expansion and implementation of water supply and sewage systems, optimization of operations, with improvement in the control over reduction of losses, as well as studies and projects related to water supply and sewage services and investments in new concession and institutional development.

d) Contractual covenants

The Company has covenants in its loan and financing agreements requiring enforcement of special guarantees, as described below:

(a) Covenants of syndicated loan agreements:

Index	Limit
Total liabilities /shareholders' equity	Equal to or lower than 1.0
EBITDA/debt service	Equal to or higher than 1.55
Water and sewage connections /number of employees	Equal to or higher than 350

13. Loans and Debentures—Continued

d) Contractual covenants--Continued

(b) Covenants of CEF contracts - contracts originally entered into with Unibanco, involving FGTS funds, were subsequently transferred to be managed by CEF, as described in item 2 “Contract for assignment and commitment of credit rights” above.

Index	Limit
Total liabilities /shareholders’ equity	Equal to or lower than 1.0
EBITDA/debt service	Equal to or higher than 1.7
Current ratio (adjusted)	Higher than 0.9
Water and sewage connections / employees headcount	Higher than 365

(c) Covenants of contracts with BNDES - BNA/BND/BNE:

Index	Limit
Net debt /EBITDA	Equal to or lower than 3.0
EBITDA/ROL	Equal to or higher than 36%
EBITDA/debt service	Equal to or higher than 1.5

(d) BNDES/debentures contract covenants:

Index	Limit
EBITDA/debt service	Equal or higher than 1.5
EBITDA margin	Equal or higher than 33%
Level of indebtedness	Equal or lower than 70%

At June 30, 2010, there was no breach of the above covenants relating to loans and debentures.

14. Provisions for Other Payables and Charges

Provisions are recorded by the Company based on probable cash outlay expected by management. Provisions are recorded in current or noncurrent liabilities based on the time such cash outlays are expected to take place.

	Company	
	06/30/2010	03/31/2010
Provision for taxes	47,234	46,632
Provision for contingencies	28,436	26,603
	75,670	**73,235**

	Consolidated	
	06/30/2010	03/31/2010
Provision for taxes	47,234	46,632
Provision for contingencies	28,822	26,699
	76,056	**73,331**

The criterion adopted by the Company, after consulting the opinion of its legal advisors, is to set up provision for civil, tax and labor proceedings as well as legal obligations considered as involving probable losses.

14. Provisions for Other Payables and Charges--Continued

Movement of provisions is as under:

	Company				
	Provisions			Judicial	
	Civil	Labor	Tax	Deposits	Total
March 31, 2010	13,022	14,181	48,252	(2,220)	73,235
Additions	2,416	1,399	-	(9)	3,806
Reversals	(157)	(46)	(1,059)	-	(1,262)
Monetary restatement	-	-	602	-	602
Used	(1,492)	(314)	-	1,095	(711)
June 30, 2010	**13,789**	**15,220**	**47,795**	**(1,134)**	**75,670**

	Consolidated				
	Provisions			Judicial	
	Civil	Labor	Tax	Deposits	Total
March 31, 2010	13,022	14,323	48,252	(2,266)	73,331
Additions	2,416	1,711	-	(31)	4,096
Reversals	(157)	(46)	(1,059)	-	(1,262)
Monetary restatement	-	-	602	-	602
Used	(1,492)	(314)	-	1,095	(711)
June 30, 2010	**13,789**	**15,674**	**47,795**	**(1,202)**	**76,056**

Used amounts refer to liquidated provisions or terminated proceedings with an unfavorable outcome for the Company, which were classified as accounts payable.

The amounts represent a provision for certain judicial proceedings filed against the Company, and the charges on the provision are posted to the statement of income in "administrative expenses". In the opinion of the Company's legal advisors, these judicial proceedings will not probably generate any significant loss besides the amounts provisioned at June 30, 2010.

Movement of provisions is as under:

The Company is a party in several judicial proceedings arisen in the normal course of its activities, of civil, labor and tax nature.

14. Provisions for Other Payables and Charges--Continued

(a) Provisions

Civil provisions

Civil provisions relate to proceedings for indemnification for pain, suffering and damages or for refund of amounts overpaid or paid in duplicate, COPASA estimates the provision based on billed amounts subject to be questioned and on recent court rulings.

The Minas Gerais State prosecution unit filed a civil proceeding questioning tariff escalation applied in the municipality of Belo Horizonte in 2003.

The proceeding questions the fact that the escalation has been applied to bills issued after tariff adjustment and not consumption period, and claims its reversal, The final ruling partially granted the initial claim, and established that the Company must refund to consumers the portion paid referring to consumption period before the date on which the adjustment was enacted. The case is in the phase of liquidation of final judgment amount, estimated at June 30, 2010 at R$295 (reviewed by the Company's legal advisors).

Associação Verde Gaia de Proteção Ambiental filed a civil proceeding against COPASA questioning noncompliance with article 2 of State Law No, 12503/97, related to the obligation of concessionaires of public water supply services to invest 0,5% of their operating revenue in environment protection and preservation of the explored hydrographic basin. The lower court ruling in favor of claimant and the current Minas Gerais State Court position on the environmental matter involved, led the proceeding to be considered as involving probable loss, In view of this, the Company set up a provision sufficient to cover probable losses from this proceeding, amounting at June 30, 2010 to R$30 (reviewed by the Company's legal advisors) (the same amount at March 31, 2010).

The Edifício Roma apartment complex filed a pain and suffering and property damage lawsuit with refund of amounts against COPASA, claiming undue collection of water tariff, as consumption reduced after installation of an air eliminator. No decision has been handed down to date based on court records. At June 30, 2010, the case totaled R$1,366 (the same amount at March 31, 2010).

14. Provisions for Other Payables and Charges--Continued

(a) Provisions--Continued

Civil provisions--Continued

Maria José Gomes filed a pain and suffering and property damage lawsuit against COPASA, due to damages caused to her property resulting from water leakage, No decision has been handed down to date based on court records. At June 30, 2010, the case totaled R$773 (the same amount at March 31, 2010).

Construtora Leme Engenharia filed a lawsuit challenging the restatement of contracted values with COPASA, and the claim was deemed partially valid, with a final decision having been rendered. At June 30, 2010, the case totaled R$1,021, (the same amount at March 31, 2010).

Labor provisions

The proceedings in which the Company holds direct liability mostly refer to pain and suffering and damages due to occupational disease or accident, overtime, and "*in itinere*" hours, health exposure and hazard exposure additional, on-call-additional, salary differences arising from salary parity for the same function, questioning of dismissal for cause, continuity of health care and basket of food staple benefits. The Company set up a provision for all labor claims classified as involving probable loss, which corresponds to approximately 36% of the amount of estimated risk of all labor proceedings.

The Company is also a party in judicial proceedings as jointly liable defendant, being main liability attributed to subcontractors hired by the Company to render maintenance and construction services. In these cases, when claimant prevails, the referred to subcontractors usually bear the penalties established in the handed down rulings. However, if it is not financially possible for them to pay such penalties, the Company may be judicially requested to pay the labor debt, as such these proceedings are considered as involving probable loss. In these cases, the Company sets up a provision for adventitious penalties, amounting at June 30, 2010 to R$2,222 (R$2,108 at March 31, 2010), further taking into consideration existence of subcontractors facing financial difficulties, as such, considered potential defaulters on their debts.

14. Provisions for Other Payables and Charges--Continued

(a) Provisions--Continued

Labor provisions--Continued

In addition, the Company is a party in seventeen administrative proceedings arisen from a labor audit, which led to a labor assessment notice being drawn against the Company for failing to include the effects of overtime on weekly paid rest, considering that this represents salary underpayment. Infraction notices were issued applying penalty for each employee in this situation. This penalty generated FGTS deposit adjustments and monetary fine. These proceedings are considered by the legal advisors to involve probable losses, therefore a provision was set up at June 30, 2010, in the amount of R$3,834 (R$3,821 at March 31, 2010).

There still is a labor proceeding in connection with the civil proceeding, pending judgment by the 24th labor court of Belo Horizonte, in which SINDÁGUA and the Ministry of Labor allege discrimination in the Company's dismissal and motivation policy. This proceeding is considered to involve probable loss, as such, a provision was set up at June 30, 2010 in the amount of R$1,118 (the same amount at March 31, 2010).

Provisions for taxes

The Company is a party in several tax proceedings. The main such proceeding refers to PIS/PASEP and COFINS assumed credits for the period January 2004 to August 2007. totaling R$47.234. including restatement through to June 30. 2010 (R$46.632 at March 31. 2010). The Company believes that ruling legislation is silent about determination of tax credits on the purchase of inputs used in rendering its services. Based on the conclusion from the study conducted by independent consultants, which reconstructed the estimated calculation base of the referred to taxes, management decided to set up the referred to provision until the legal base of these credits is defined. The provision considers the best estimate of future cash outlays to settle this liability.

(b)Contingent liabilities

COPASA is also a party in other proceedings involving possible losses. For these proceedings no provision was set up for adventitious losses, since the Company considers to have solid legal base supporting the procedures adopted in the judicial opposition, and that they involve remote risk of loss.

14. Provisions for Other Payables and Charges--Continued

(b) Contingent liabilities--Continued

Administrative and judicial proceedings pending judgment against the Company are as follows:

	Company and Consolidated	
Nature	**06/30/2010**	**03/31/2010**
Civil (*)	415,713	418,629
Tax (**)	40,867	40,871
Total	**456,580**	**459,500**

(*) Refer to indemnification suits filed by customers claiming indemnification for damages, pain and suffering and loss of profit, pending judgment of several court levels, which may be divided as under:

Individual actions

The Company and its subsidiaries are parties to a significant number of individual indemnification suits due to water supply disconnection and damages caused to construction works. Such suits were filed in the normal course of Company business activities and involve indemnification for pain and suffering and damages, such as indemnification for damage to properties and vehicles and accidents occurred in the course of Company activities, among others. Management does not believe that such judicial proceedings will materially affect, whether individually or together, the business activities of the Company and its subsidiaries, their result of operations, financial situation or prospects.

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14. Provisions for Other Payables and Charges--Continued

(b) Contingent liabilities--Continued

Class actions

The Company is a party in civil suits and class actions claiming revocation, suspension or rejection of 12 of the Company's concession contracts entered into with the municipalities of Almenara, Caratinga, Campina Verde, Cataguases, Divinópolis, Frutal, Lavras, Leopoldina, Nanuque, Ribeirão das Neves, São Gotardo and Três Corações, In addition, the Company, the Municipality of Belo Horizonte and the Department for the Development of the Capital City - SUDECAP are defendants in a class action claiming declaration of invalidity of the cooperation agreement entered into by them. This action is pending judgment, and the final reasons have already been presented claiming that a class action does not apply because the agreement is lawful and, as such, the proceeding should be extinguished. At June 30, 2010, no ruling had been handed down on these proceedings and, excepting for Caratinga, no provision has been set up for the referred to proceedings, since based on the aforementioned criteria the cases involve remote and possible, but not probable, chances of an unfavorable outcome. There is also Minas Gerais State Court case law in favor of the Company, related to a similar case, as well as favorable opinion of renowned jurists in relation to the Company's opinion that the concession contracts and the cooperation agreement with the municipality of Belo Horizonte are lawful.

The Company is also a party in a collection suit involving a defined amount and the obligation to do arising from the obligations provided for in the conduct agreement entered into with the State Public Prosecution Department in Betim, amounting at June 30, 2010 to R$36,025 (the same amount at March 31, 2010). A petition for stay of execution was filed in order to prove that the construction works subject matter of the referred to agreement were carried out as a consequence of the disorderly population growth in the municipality and that infrastructure works that were not carried out are the responsibility of the municipal government. The referred to proceeding is in the phase of finding of facts to confirm the allegations. This case is considered to involve possible but not probable unfavorable outcome, as such, no related provision has been set up.

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14. Provisions for Other Payables and Charges--Continued

(b) Contingent liabilities--Continued

Environmental suits

The Company is a party in several civil suits and class actions involving environmental matters arising in the normal course of its activities. These judicial proceedings are mostly related to environmental recovery of damaged areas, construction of sewage treatment units and investments for environment protection. Although most of these proceedings do not individually involve significant amounts, the Company may come to have to invest significant amounts in the construction of sewage treatment units and/or review some of its business practices.

A significant class environmental action involving the Company amounted to R$61,386 at June 30, 2010 (the same amount at March 31, 2010). This class action claims environmental recovery of a damaged area due to sewage discharge into São Francisco River. This action is pending judgment and the Company considers that the case involves a possible unfavorable outcome.

Conduct Agreement – TAC

Several Conduct Agreements (TAC) were entered into with the Minas Gerais State Public Prosecution Department about environmental matters. resulting from civil and administrative inquests. A TAC has also been entered into in the course of a civil suit filed by Public Prosecution Department, which provides for implementation of a complete sewage system in the municipality of Paracatu, as well as civil indemnification.

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14. Provisions for Other Payables and Charges--Continued

(b) Contingent liabilities--Continued

Conduct Agreement – TAC--Continued

The obligations arising from these TAC's mostly comprise the conduction of works for the implementation or improvement of the basic sanitation networks, as well as the construction of sewage treatment units, to avoid collected sewage to be discharged into rivers without any treatment. The funds required by TAC's entered into by the Company are included in its investment program.

(**) These refer to several tax proceedings. The most significant is in connection with a Brazilian IRS tax notice received in April 2004, since the Company failed to include in the calculation base of PASEP and COFINS, financial income from exchange variation on obligations generated by the decrease in the exchange rate to the US dollar. The tax notice including restatement through to June 30, 2010 amounts to R$26,834 (the same amount at March 31, 2010) and involves possible contingent loss since there is no case law related to the matter. However, the Company, lodged an appeal with the administrative authorities against the referred to tax notice, and will support its opposition in higher court levels until a final ruling is handed down on the case. Based on the opinion of the Company's legal advisors, management believes that no provision related to this notice should be set up.

In relation to COFINS, the appeal lodged with the administrative authorities was dismissed on June 14, 2005. In relation to PIS/PASEP, the appeal filed with the administrative authorities is pending judgment by the second Board of Appeals. However, a recent Supreme Court ruling considered that Law No, 9718/98 is unconstitutional in relation to the expansion of the calculation base of these contributions. In view of this, the Company intends to file a judicial proceeding claiming revocation of the tax notice that was issued based on unconstitutional legislation.

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15. Employee Profit Sharing

Company management, abiding by the Collective Agreement 2005/2007 entered into with the Labor Union, approved the Company's Employee Profit Sharing Program, as decided by the meeting held on October 28, 2005, and in conformity with ruling legislation. The amount to be distributed corresponds to 25% of minimum mandatory dividends paid to shareholders, i,e, 6,25% of net income for the first quarter, after deduction of the legal reserve, based on performance in attaining targets, the percentage of completion of the Company's Investment Program approved for the first quarter, the number of water connections per employee and operating results.

However, the Collective Agreement 2008/2010 introduced certain changes, approved by the meeting held on July 25, 2008, establishing that profit sharing shall be distributed on a linear basis to all employees and paid in two installments of 50% each, the first included in payroll for April and the second in payroll for October.

At June 30, 2010, the Company set up a provision for employee profit sharing for the trimester of R$5,997 (R$7,564 at March 31, 2009).

16. Income and Social Contribution Taxes

Deferred income and social contribution taxes are calculated on income and social contribution tax losses, and temporary differences between tax and accounting bases, The tax rates currently considered to determine such deferred tax credits are of 25% for income tax and 9% for social contribution tax.

Deferred tax assets are recognized to the extent in which it is probable that future taxable income will be generated to allow offset of temporary differences, based on projections of future results, prepared based on internal assumptions and future economic scenarios that are subject to change.

Deferred tax assets are as follows:

	06/30/2010	03/31/2010
Deferred income and social contribution tax assets	**342,720**	**338,373**
Deferred income and social contribution tax liabilities	**(42,093)**	**(37,308)**
Deferred income and social contribution tax assets, net	**300,627**	**301,065**

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

16. Income and Social Contribution Taxes--Continued

Gross movement of deferred income and social contribution taxes is as follows:

	2010	2009
At March 31, 2010	**301,065**	282,061
Charge in the statement of income	**(438)**	1,568
At June 30, 2010	**300,627**	283,629

Movement of deferred income tax assets and liabilities in the second quarter is set out below:

Deferred income tax asset	Temporary Differences	Total
At March 31, 2010	338,373	338,373
Debited (credited) to the statement of income	4,347	4,347
At June 30, 2010	**342,720**	**342,720**

Deferred income tax liability	Exchange Variation	Temporary Differences	Total
At March 31, 2010	(8,115)	(29,193)	(37,308)
Debited (credited) to the statement of income	(923)	(3,862)	(4,785)
At June 30, 2010	**(9,038)**	**(33,055)**	**(42,093)**

Income taxes in Brazil include income tax and social contribution tax on net income.

	06/30/2010	06/30/2009
Income tax – current	**71,061**	**106,810**
Temporary differences	**6,157**	**(11,576)**
Income tax revenue (expense)	**77,218**	**95,234**

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16. Income and Social Contribution Taxes--Continued

Income taxes in Brazil include income tax and social contribution tax on net income,--Continued

Statutory tax rates applicable to income and social contribution taxes are of 25% and 9%, respectively, which represents a composite tax rate of 34%, for 2010 and 2009. The amounts reported as income tax expense in the Company's statement of income are reconciled with the statutory rates as under:

	06/30/2010	06/30/2009
Income before income and social contribution taxes	**224,920**	274,762
Income and social contribution taxes at statutory composite rate of 34%	**(76,473)**	(93,419)
(Additions)/exclusions		
Income and social contribution taxes on equity pickup		
Income and social contribution taxes on realization of special monetary restatement		
Income and social contribution taxes on donations and nondeductible sponsoring	**(5,621)**	(3,010)
Income and social contribution taxes on actuarial provision balance	**(1,910)**	(3,236)
Income and social contribution taxes on other nondeductible expenses	**(3,076)**	(3,281)
Income and social contribution taxes on Transition Tax Regime – RTT adjustments	**98**	1,407
Income and social contribution taxes on taxes under suspended collection	**(58)**	-
Other reconciliation items:	**10,748**	6,338
Interest on equity capital	**(926)**	(33)
Tax incentives		
Income and social contribution taxes for the year	**(77,218)**	(95,234)
Effective rate	**34.33%**	34.66%

The Supervisory Board meeting of March 25, 2010 and the Board of Directors' meeting of March 26, 2010 approved the technical study prepared by the Executive Finance and Investor Relations Board, referring to projected future profits adjusted to present value, which evidences deferred tax asset realization capacity.

16. Income and Social Contribution Taxes--Continued

Income taxes in Brazil include income tax and social contribution tax on net income,--Continued

According to the technical study, future taxable income allows realization of deferred tax assets existing at June 30, 2010, as under:

	Company
Year	**Expected realization**
2010	54,884
2011	24,090
2012	25,665
2013	23,440
2014	20,293
After 2015	194,348
Total	**342,720**

Projections are reviewed on an annual basis to reflect existence of significant factors affecting them.

17. Technical Cooperation Agreements

These refer to funds received as from July 2006, in connection with the agreement entered into by the Company with the State Department for Regional Development and Urban Policy - SEDRU, aiming at technical and financial cooperation to expand public sanitation systems, in the Jequitinhonha river valley region, Estrada Real (in Ouro Preto) and other regions in the interior of the Minas Gerais State.

The funds received in connection with this agreement are used in works specified by the agreements, being recorded in technical cooperation agreement account in current liabilities when received and in current assets, when used, for subsequent matching of accounts.

17. Technical Cooperation Agreements--Continued

Breakdown of the net balance of agreements is set out below:

	Company		
	Receivable (asset)	Advance (liability)	Net
June 30, 2010			
State	218,621	(207,962)	**10,659**
Other	30,037	(16,597)	**13,440**
Total	248,658	(224,559)	**24,099**
March 31, 2010			
State	211,120	(199,811)	**11,309**
Other	29,990	(16,592)	**13,398**
Total	241,110	(216,403)	**24,707**

	Consolidated		
	Receivable (assets)	Advance (liability)	Net
June 30, 2010			
State	375,059	(375,468)	**(409)**
Other	30,037	(16,597)	**13,440**
Total	405,096	(392,065)	**13,031**
March 31, 2010			
State	338,812	(327,285)	**11,527**
Other	29,990	(16,592)	**13,398**
Total	368,802	(343,877)	**24,925**

18. Pension Plan

On December 7, 1982, the Company entered into an agreement and started sponsoring the Social Security Foundation of Minas Gerais - FUNDASEMG, of which the rights and liabilities were subsequently assumed by PREVIMINAS, which was created to provide pension plan benefits to participating employees, ensuring maintenance of their plan for defined benefits with the referred to Foundation, Contribution to the plan by the Company and employees are on an equal basis, in accordance with Complementary Law No, 108 and No,109, dated May 29, 2001, of which the amount is determined based on prior actuarial studies.

The plan supplements pensions for disability, age, length of service and special pensions, and also offers supplementation benefits related to health care, pension, benefit to dependents of incarcerated plan participants and one-time death benefit payment.

Contributions to the pension plan for defined benefits for the next year are estimated at R$ 44,863.

Movement of current liabilities is set out below:

Company		
	06/30/2010	03/31/2010
Liabilities – Initial	**484,338**	**486,666**
Amounts recognized in the statement of income - actuarial liabilities	**768**	**1,555**
Contributions of Copasa	**8,320**	**7,535**
Provision of monthly contribution	**10,980**	**10,143**
Financial cost	**1,842**	**1,785**
Pension plan amortization	**(1,679)**	**(1,620)**
Amortization of monthly contribution	**(18,542)**	**(21,726)**
Liabilities – Ending	**486,027**	**484,338**
Long-term liabilities	**14,434**	**13,445**
Short-term liabilities	**471,593**	**470,893**

Strategy of private pension to be offered to Company employees:

Since 2002, the private pension plan for defined benefit (DB) sponsored by the Company has presented actuarial deficit, which has required increases in contributions on the part of the Company and its employees, which up to November 2008 total approximately 127%, according to the statements of actuarial evaluation results – DRAAs, In December 2009, this plan had 10,656 active participants and 2,520 participants receiving benefits.

18. Pension Plan --Continued

In accordance with the Company's Board of Directors decision and aiming at clearing the Company's pension plan deficit, the following initiatives are scheduled for 2010: (i) not allow admission of new participants in the current plan for defined benefits (DB), (ii) create a new plan with no deficit, allowing all participants and beneficiaries of the current DB plan to migrate to this plan and (iii) create a new plan for defined contribution (DC) to be offered to all employees and directors, also allowing migration of all participants and beneficiaries of the current DB plan. Due to the various stages and approvals involved, the migration process will take place in the second six-month period and management estimates adhesion of approximately 90% of participants.

After conclusion of this process, the Company estimates that it will have three different plans; to wit: a) the current DB plan closed for new participants, but which will continue active and receiving contributions, b) the DB plan with no deficit created solely to manage resulting employee benefits; and c) the DC plan allowing admission of new employees and directors.

On June 23, 2010, the National Superintendency of Pension Funds - Previc adopted a new strategy for the Company Post Retirement, including the closing of the current Post Retirement Benefit Plan, the creation of Plan COPASA Liquided and New Plan Copasa, in the form of Defined Contribution. In the period from August 2, 2010 to October 20, 2010, all active employees, away from the job, and assisted should access the simulator to know and choose an alternative to the proposed Post Retirement Benefit Plan, which will be implemented on November 01, 2010.

19. Shareholders' Equity and Dividends

(a) Capital

	Number of shares – in thousands	Capital
At March 31, 2010	115,300	2,636,460
Issued shares – convertible debentures	-	-
At June 30, 2010	115,300	2,636,460

Authorized common shares total 115,300 thousand shares (115,300 thousand in March 2010), All issued shares have been paid in, Shares have no par value.

The Company is controlled by the Minas Gerais State Government, which holds 53,07% ownership interest in the Company. The remaining 46,93% ownership interest is held by other shareholders.

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19. Shareholders' Equity and Dividends--Continued

(a) Capital--Continued

The Company has 370 thousand common shares of own issue in treasury, in the amount of R$9,190, mainly acquired from the Minas Gerais State Government, through operations related to payment of debts arising from water supply and sewage services and technical cooperation agreements. These shares are maintained as "treasury stock ". The Company has the right to re-issue such shares on a later date. All shares issued by the Company have been paid in.

On August 4, 2008, March 6 and 12, April 1, June 18 and July 2 and 21, 2009 several debenture holders converted 188, 5,396, 973, 20,595, 2,039, 4,208 and 240 debentures, respectively into 134,556 common shares of the Company, on the basis of one debenture to four common shares, as established in the 2nd Convertible Debenture Issue Document (Note 12). The Company's Free Float at June 30, 2010 was of 46,6%.

On May 5, 2008, Mackenzie Financial Corporation, as managing mutual fund advisor and/or sub-advisor, informed that such funds had reached 5,02% of the Company's total capital.

(b) Profit retention

At the Annual Shareholders' Meeting held on April 27, 2010 approval was given to the profit retention proposal in the amount of R$319,733 (R$136,653 in 2008) for future Company investments. in line with the "action plan" approved by the Board of Directors, to be carried out in the long term.

(c) Tax incentive reserve

This reserve was constituted using a portion of tax incentives resulting from donations and government grants, and recorded in the statement of income for the year as from January 1, 2008.

In 2009, the amount of R$6,957 (R$1,250 in 2008) was recorded in the statement of income in connection with the incentive for attaining 1st phase targets for the Ribeirão do Onça sewage treatment unit (Note 12), granted by the National Water Agency - ANA, with funds from the Program for Depollution of Hydrographic Basins - PRODES.

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19. Shareholders' Equity and Dividends--Continued

(d) Dividends

Pursuant to the Company's Articles of Incorporation, shareholders are entitled to minimum mandatory dividends corresponding to 25% of net profit for the year, adjusted by decrease or increase in the amounts specified in items I, II and III, article 202 of Law No, 6404/76. Approved dividends are not subject to interest, and the amounts not claimed within three years of the Annual Shareholders' Meeting that approved them will be forfeited in favor of the Company.

The payment of dividends relating to 2010 was approved at the meeting held on March 26, 2010 by the Board of Directors and decided at the Special General Meeting of April 28, 2010, in the form of interest on equity, in the percentage of 50%.

The Company's Board of Directors approved the payment of interest on equity to shareholders in the meeting below:

Date	Gross amount declared	Value per share
03/26/2010	43,673	0.38
06/28/2010	56,741	0.49
	100,414	

Interest on equity declared will be attributed to mandatory dividends relating to 2010.

As allowed by Law No, 9249/95, article 9 and observing the Long-Term Interest Rate – TJLP, interest was recorded as financial expenses for deductibility purposes in the determination of income and social contribution taxes, generating tax benefit of R$58,600. Interest on equity capital is being charged against retained earnings, in shareholders' equity.

Movement of interest on equity capital payable account balance is as follows:

	06/30/2010	03/31/2010
Balance at the beginning	91,149	53,276
Dividends and interest on equity capital approved in prior year	56,741	43,673
Proposed dividends and interest on equity capital	-	(5,800)
Withholding income tax on interest on equity capital	(91,144)	-
Dividends and interest on equity capital paid in the year	-	-
Proposed dividends (Note 20 (e))	-	-
Balance of interest on equity capital in current liabilities	**56,746**	**91,149**

20. Financial Risk Management Policy and Objective

(a) Financial risk management

The Company's main financial liabilities refer to loans and payable, accounts payable and other payables. The main purpose of these financial liabilities is to raise funds necessary for Company operations. The Company has loans and other credits, trade accounts receivable and other receivables and demand and short-term cash deposits directly resulting from its operations.

The Company is exposed to market, credit and liquidity risks.

The Company's financial department manages these risks, supported by the executive board, which provides advice on financial risks and proper financial risk governance for the Company. The executive board provides assurance to the Company's financial department that the Company activities in which financial risks are assumed follow proper policies and procedures and that financial risks are identified, evaluated and managed in accordance with the Company's policy on Group risk. The Company follows the policy of not carrying out operations with derivatives.

The Board of Directors reviews and establishes policies for managing each of these risks, as summarized below.

20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(i) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument may float due to market price changes. Market price involves three risks; to wit, interest rate, exchange rate and commodities price and other price risks, such as share price risk. Financial instruments affected by the market risk include loans payable, deposits and instruments available for sale.

The sensibility analysis in the following sections refers to the position at June 30, 2010 and March 31, 2010.

The sensibility analysis was prepared based on net debt amount, considering constant fixed to variable interest rate ratio of debt and the percentage of financial instruments in foreign currency.

The analyses exclude changes from the impact on market variables and on the book value of pension and post-employment plan liabilities, provisions, non-financial assets and liabilities from foreign operations.

Sensibility analysis for the corresponding statement of income item is the effect of presumed changes on the related market risks. It is based on financial assets and liabilities presented at June 30, 2010 and March 31, 2010.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument may float due to changes in market interest rates. The Company's exposure to changes in market interest rates mainly refers to the Company's long-term liabilities subject to variable interest rates.

The Company is exposed to the risk of increase in international interest rates, with impact on loans and financing in foreign currency with variable interest rate (mainly the basket of interest rates of contracts linked to Federal Government -Bonus).

20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Interest rate risk--Continued

Several scenarios are simulated taking into consideration refinancing, renewal of existing positions and financing. Based on these scenarios, the Company defines a reasonable interest rate change and calculates the impact on net income. The scenarios are prepared only considering main financial assets and liabilities.

Sensibility to interest rate

The table below evidences sensibility to a possible change in interest rates in this loans payable portion. Keeping all the other variables unchanged, the Company's net income before taxes is affected by the impact on loans payable subject to variable interest rates, as under:

	Increase /decrease in base points	Effects on income before taxes
June 30, 2010		
R$	+ 0.5%	(9,049)
R$	- 0.5%	9,049
March 31, 2010		
R$	+ 0.5%	(8,696)
R$	- 0.5%	8,696

Presumed movement in base points for the interest rate sensibility analysis is based on the current interest rates prevailing in the market, indicating volatility significantly higher than that in prior years.

20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Foreign exchange risk

Foreign exchange rate risk is the risk that the fair value of future cash flows of a financial instrument may float due to changes in exchange rates. The Company's exposure to the risk of exchange rate variation mainly refers to equipment import operations, short-term investments and loans and financing, basically in relation to the US dollar.

Financing in foreign currency is destined to specific works for the improvement and expansion of water supply and sewage systems. The Company does not have instruments providing hedge against these exchange rate risks.

The Company's exposure in foreign currency, represented by its indebtedness in US dollars, totaled R$61,669 at June 30, 2010 (R$64,213 in March 31, 2010), 3.1 % of its total indebtedness (3,4% in March 31, 2010). The Company presented at June 30, 2010, collateral of R$27,188 (R$23,270 in March 31, 2010) for part of financing in foreign currency (Note 13).

Sensibility to exchange rate

The table below presents sensibility to reasonable variation that may occur in the exchange rate to the US dollar, maintaining all the other variables unaltered, of the Company's income before taxes and shareholders' equity.

	Change in US$ exchange rate	Effect on income before taxes
June 30, 2010	+ 20%	(12,206)
	- 20%	12,206
	+10%	(6,103)
	-10%	6,103
March 31, 2010	+ 20%	(12,553)
	- 20%	12,553
	+10%	(6,276)
	-10%	6,276

Changes in net income and shareholders' equity originate in changes in loans denominated in US dollars.

20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(ii) Credit risk

Credit risk is the risk of a business counterparty of not fulfilling an obligation provided for in a financial instrument or contract with customer, which would generate financial loss. The Company is exposed to credit risk in its operating and financing activities, including bank deposits, foreign exchange operations and other financial instruments.

Accounts receivable

Customer credit risk is subject to procedures, controls and policy established by the Company in relation to this risk. Credit limits are established for all customers based on internal credit rating criteria. A significant portion of sales is spread to several customers. In the case of these customers, there is low credit risk due to portfolio pulverization and the control procedures monitoring such risk. Doubtful accounts receivable are adequately covered by a provision for any losses on the realization of such receivables.

Financial instruments and cash deposits

The credit risk related to balances with banks is managed by the Company's treasury department in accordance with the policy established by it. Cash surplus is invested only with approved banks and within the limits established for each of them. Counterparty credit risk is reviewed on an annual basis. The Company's funds are mainly invested in securities of independent entities fitting at least into rating "A".

Quality of financial assets that are not overdue or impaired may be evaluated by reference to external credit rating or historic information on counterparty default.

	Company	
	06/30/2010	03/31/2010
Total trade accounts receivable	587,601	603,926
Current account, bank deposits and short-term investments		
AAA	94,711	219,926
AA	56,017	10,981
BBB	74,241	96,808
	224,969	327,715

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20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(ii) Credit risk--Continued

	Consolidated	
	06/30/2010	03/31/2010
Total trade accounts receivable	590,738	606,418
Current account, bank deposits and short-term investments		
AAA	97,237	222,720
AA	56,017	10,981
BBB	74,242	96,808
	227,496	330,509

(iii) Liquidity risk

The Company monitors the risk of funds shortage through a liquidity planning tool.

Prudent liquidity risk management entails maintenance of sufficient cash and securities and capacity to settle market positions.

Management monitors the Company's liquidity risk, considering expected cash flow as well as cash and cash equivalents (Note 07). Generally, this is made locally by the Company's operating companies, in accordance with the practice and the limits established by the Company. These limits vary depending on the locality in order to take into consideration liquidity in the market in which the entity operates. In addition, the Company's liquidity management policy involves projection of cash flows and analysis of level of net assets required to reach such projections, monitoring of liquidity risks in the balance sheet in relation to internal and external regulatory requirements and maintenance of debt financing plan.

The table below presents financial liabilities settled for net value, by maturity bracket, corresponding to the remaining period in the balance sheet in relation to the contractual maturity date. The amounts presented in the table correspond to contractual undiscounted cash flows. The balances due within up to 12 months equal carry over balances since the discount impact is not significant.

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20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(iii) Liquidity risk--Continued

	Maturity brackets (i)			
	Up to 01 year	**From 1 to 3 years**	**From 3 to 5 years**	**Above 5 years**
At June 30, 2010				
Amortization	227,841	688,058	430,247	753,862
Interest	143,222	181,926	111,880	135,938
Loans and financing	**371,063**	**869,984**	**542,127**	**889,800**
Suppliers and other liabilities	**94,080**	**51,716**	**25,293**	**66,557**
At March 31, 2010				
Amortization	206,512	542,616	480,051	657,406
Interest	136,742	217,767	126,845	193,998
Loans and financing	**343,254**	**760,383**	**606,896**	**851,404**
Suppliers and other liabilities	**85,741**	**55,198**	**24,827**	**71,375**

(i) Maturity analysis only applies to financial instruments, therefore legal and statutory liabilities such as taxes, dividends, interest on equity capital, pension plan and provisions, among others, are not included.

The Company does not have operations with derivative instruments.

20. Financial Risk Management Policy and Objective--Continued

(a) Financial risk management--Continued

(iii) Liquidity risk--Continued

The table below sets out collateral provided by COPASA for financing contracts.

Institution	Collateral (committed revenue)	06/30/2010	03/31/2010
CEF until 1998 and National Treasury	22% of receivables	100,078	86,102
Unibanco 2002 and syndicated loans 2004	R$17 MM annually restated by IPCA since 07/04/06	20,542	20,338
Syndicated loans II – 2006	R$15,3 MM monthly restated by IPCA, since 07/04/06	18,488	18,804
BNDES 2004 (debenture issue I)	20% of receivables	90,980	78,274
BNDES 2007 (debenture issue III)	R$18 MM annually restated by IPCA, since 12/12/07	20,650	20,445
BNDES PAC 2007/2008	Committed revenue of R$26 MM, restated by IPCA, since 05/20/08	29,006	28,718

(b) Capital risk management

The main objective of the Company's capital risk management is to ensure maintenance of solid credit rating and free capital ratio allowing continuous conduction of business activities to maximize value generation for shareholders.

Capital structure is managed and adjusted by the Company considering changes in economic conditions. In order to maintain or adjust capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

There was no change in the objectives, policies or processes in the years ended June 30, 2010 and March 31, 2010.

20. Financial Risk Management Policy and Objective--Continued

(b) Capital risk management--Continued

Alike other companies in the sector, the Company monitors capital based on financial leverage and third-party capital (indebtedness) indices. Financial leverage index corresponds to net debt divided by total capital. Net debt, in turn, corresponds to total loans (including short and long-term loans, as disclosed in the consolidated balance sheet), less cash and cash equivalents. Total capital is determined adding shareholders' equity, as disclosed in the consolidated balance sheet, with net debt.

In 2010, the Company's strategy, which remained unaltered in relation to 2009, was that of maintaining the financial leverage and third-party capital indices below 100%. The total liabilities to shareholders' equity ratio at June 30, 2010 and March 31, 2010 may be summarized as under:

	Company	
	06/30/2010	**03/31/2010**
Total loans (Note 13)	1,986,632	1,894,142
Less: cash and cash equivalents (Note 07)	(224,969)	(327,715)
Net debt	1,761,663	1,566,427
Total shareholders' equity	3,865,557	3,801,226
Total capital	**5,627,220**	**5,367,653**
Financial leverage index - %	31	29
Indebtedness index - %		
	51	50

	Consolidated	
	06/30/2010	**03/31/2010**
Total loans (Note 13)	1,986,632	1,894,142
Less: cash and cash equivalents (Note 07)	(227,496)	(330,509)
Net debt	1,759,136	1,563,633
Total shareholders' equity	3,865,557	3,801,226
Total capital	**5,624,693**	**5,364,859**
Financial leverage index - %	31	29
Indebtedness index - %		
	51	50

The decrease in the 2010 index is due to the increase in total net debt and the decrease in short-term financial investments (Notes 07 and 13).

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20. Financial Risk Management Policy and Objective--Continued

(c) Fair value estimate

The Company does not have financial assets or liabilities measured at fair value, The Company's financial assets and liabilities, presented in Note 3, are classified as loans and receivables at amortized cost.

21. Revenues

The Company's operating revenues for the trimesters ended June 30, 2010 and 2009 are set out below:

	Company		Consolidated	
	06/30/2010	06/30/2009	06/30/2010	06/30/2009
Revenue from water supply and sewage services	635,351	598,332	638,206	600,114
Revenue from product sales	-	-	168	394
Construction revenue	252,136	210,476	252,136	210,476
Revenue from other services	-	-	-	-
Total billing	887,487	808,808	890,510	810,984
Sales taxes	(57,733)	(54,644)	(58,057)	(54,877)
Other deductions	(11,218)	(7,587)	(11,218)	(7,602)
Net revenue	**818,536**	**746,577**	**821,235**	**748,505**

22. Expenses by Nature

	Company	
	06/30/2010	06/30/2009
Salaries and charges	191,488	171,113
Materials	22,030	24,748
Outsourced services	111,328	111,041
General	19,095	19,625
Uncollectible accounts	65,722	61,169
Provisions (*)	11,450	13,722
Depreciation and amortization	244,550	205,234
Equity method	4,418	7,000
Construction Costs	4,248	4,998
Other	4,347	2,848
Total	**678,676**	**621,498**

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22. Expenses by Nature--Continued

	Consolidated	
	06/30/2010	06/30/2009
Salaries and charges	192,986	172,191
Materials	22,409	24,946
Outsourced services	113,004	108,872
General	19,624	20,210
Uncollectible accounts	65,830	61,307
Provisions	11,547	13,946
Depreciation and amortization	244,550	205,234
Construction Costs	4,418	7,000
Other	5,619	3,117
Total	**679,987**	**616,823**

23. Expenses with Employee Benefits

	Company	
	06/30/2010	06/30/2009
Salaries	104,566	95,941
Social security costs	33,631	29,175
Employee Terminal Benefit	14,540	8,826
Defined benefit pension plan costs (Note 18)	8,320	7,010
Workers' meal program	19,572	18,660
Workers' healty program	8,396	8,379
Other benefits	2,463	3,122
Total	**191,488**	**171,113**
Employees headcount (not audited)	11,465	11,273

	Consolidated	
	06/30/2010	06/30/2009
Salaries	105,658	96,692
Social security costs	33,866	29,332
Employee Terminal Benefit	14,609	8,880
Defined benefit pension plan costs (Note 18)	8,320	7,010
Workers' meal program	19,615	18,723
Workers' healthy program	8,410	8,387
Other benefits	2,508	3,167
Total	**192,986**	**172,191**
Employees headcount (not audited)	11,738	11,279

24. Financial Income (Expenses)

The changes in financial income (expense), net for 2010 as compared to the same 2009 period is as under:

	Company		
	4/1/2010 to 06/30/2010	4/1/2009 to 06/30/2009	Variation
Interest receivable	28,702	9,567	19,135
Financial investments yield	8,425	16,186	(7,761)
Monetary and exchange variation revenue	3,674	17,329	(13,655)
Other revenues	3,843	3,898	(55)
Total revenue	**44,644**	**46,980**	**(2,336)**
Interest payable on financing	(34,017)	(23,085)	(10,932)
Monetary and exchange variation expense	(7,074)	(11,033)	3,959
Other expenses	(1,581)	(1,415)	(166)
Total expense	**(42,672)**	**(35,533)**	**(7,139)**
Financial income (expense), net	**1,972**	**11,447**	**(9,475)**

	Consolidated		
	4/1/2010 to 06/30/2010	4/1/2009 to 06/30/2009	Variation
Interest receivable	28,743	9,569	19,174
Financial investments yield	8,425	16,193	(7,768)
Monetary and exchange variation revenue	2,565	16,610	(14,045)
Other revenues	4,052	3,898	154
Total revenue	**43,785**	**46,270**	**(2,485)**
Interest payable on financing	(34,017)	(23,106)	(10,911)
Monetary and exchange variation expense	(7,074)	(11,033)	3,959
Other expenses	(1,650)	(1,423)	(227)
Total expense	**(42,741)**	**(35,562)**	**(7,179)**
Financial income (expense), net	**1,044**	**10,708**	**(9,664)**

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25. Transactions with Related Parties

The Company is controlled by the Minas Gerais State, which holds 53,07% ownership interest in the Company, The remaining 46,93% ownership interest is held by several shareholders.

In addition to the balance payable to CEMIG, presented in Note 12, and the agreements described in Note 17, the remaining transactions with related parties are basically those with the Minas Gerais State Government and the subsidiaries. The main such balances and operations are set out below:

	Company			
	06/30/2010			
	Subsidiaries			Other
	Águas Minerais	Copanor	Serviços Irrigação	Minas Gerais State
Assets				
Current assets				
Trade accounts receivable				
Billed amounts	-	-	-	6,963
Agreements	-	-	-	10,659
Noncurrent assets				
Loans	39,474	12,061	1,902	-
Investments	1	1	1	-
Total assets	**39,475**	**12,062**	**1,903**	**17,622**
Liabilities				
Current liabilities				
Dividends	-	-	-	30,209
Impairment	7,427	8,788	1,241	-
Total liabilities	**7,427**	**8,788**	**1,241**	**30,209**
		2Q 2010		
Statement of income				
Revenue from water supply and sewage services	-	-	-	20,573
Monetary variation revenue	849	221	40	-

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06.01 – NOTES (in thousands of Brazilian reais – R$, unless otherwise stated) – Continued

25. Transactions with Related Parties--Continued

	Company			
	03/31/2010			
	Subsidiaries			Other
	Águas Minerais	Copanor	Serviços Irrigação	Minas Gerais State
Assets				
Current assets				
Trade accounts receivable				
Billed amounts	-	-	-	6,722
Agreements	-	-	-	11,308
Noncurrent assets				
Loans	37,185	11,252	1,968	-
Investments	1	1	1	-
Total assets	**37,186**	**11,253**	**1,969**	**18,030**
Liabilities				
Current liabilities				
Agreements	-	-	-	23,252
Dividends	3,926	7,989	1,309	-
Total liabilities	**3,926**	**7,989**	**1,309**	**23,252**
		2Q 2009		
Statement of income				
Revenue from water supply and sewage services	-	-	-	19,331
Monetary variation revenue	460	218	41	-

25. Transactions with Related Parties--Continued

Balances and transactions with related parties are conducted under prices and conditions considered by Management as compatible with those prevailing in the market, except concerning the form of financial settlement, which may occur through special negotiations (offset of accounts).

The Company's Board of Directors meeting of May 29, 2009, authorized write-off of assets, including chattels and properties, existing at April 30, 2009 related to the systems of concessions operated by COPASA MG, which will be transferred to subsidiary COPANOR, with proposed indemnification for the amount estimated based on discounted cash flow, totaling R$39,929, to be paid by the Minas Gerais State Government, through subsidiary Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais S/A – COPANOR. The payment will take place as the formal documents for revocation of concession contracts are executed by and between COPASA MG and the municipal governments. The net book value of all the assets to be transferred at April 30, 2009 aggregated R$14,726. Depreciation and amortization charges stopped being generated for these transferred assets. In 2009, transferred assets totaled R$ 6,004 and revenue from the disposal thereof aggregated R$ 6,080. In 2010 first quarter, transferred assets summarized R$1,303, however did not represent any disposal'revenue.

- Electric power supply

  COPASA is one of the major consumers of electric power in the State of Minas Gerais, where electricity is supplied primarily by the Minas Gerais electric power utility company CEMIG, controlled by COPASA's controlling shareholder, i,e,, the State of Minas Gerais. More than 300 electric power supply agreements were signed, each one for a specific consumer unit, as mentioned in Note 12.

- Financing agreements with BDMG

  Varying financing agreements were made with BDMG during the normal course of business.

- Agreements with CODEMIG

  As of March 22, 2006, the Company signed an intention protocol for technical cooperation and, as of June 30, 2006, a lease agreement was made to take over the rights related to mineral waters of Araxá, Cambuquira, Caxambu and Lambari, as mentioned in Note 01.

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25. Transactions with Related Parties--Continued

- Agreements with the Brazilian Federal Government guaranteed by the State of Minas Gerais:

  Debt acknowledgement and settlement agreement with the Federal Government as of January 20, 1994: in case of default, the Federal Government was authorized by the State of Minas Gerais to: (i) offset any amounts with own revenues and portions of certain taxes collected, in amounts sufficient to settle any past due installments; and (ii) request the transfer of existing balances in the State's revenue centralizing accounts maintained in a certain financial institution, in amounts sufficient to settle any installment in default. As of June 30, 2010, the outstanding balance under these agreements totals R$128,024, as mentioned in Note 13.

  Debt acknowledgement and consolidation agreement with the Federal Government as of August 5, 1998: the State of Minas Gerais assigned and transferred to the Federal Government credits from certain taxes collected, in amounts sufficient to pay installments and charges due on each maturity date. As of June 30, 2010, the outstanding balance of these agreements is R$61,669, as mentioned in Note 13.

- Remuneration of key management members

  Key management members include Board of Directors and Executive Board members, Executive Committee members and the Internal Audit Officer. Remuneration paid or payable to key management members, for employee services rendered by them, is as follows:

	06/30/2010	06/30/2009
Salaries and other short-term benefits to employees	**750**	720
Post-employment benefits	**-**	-
	750	720

26. Water Supply and Sewage Services in Belo Horizonte

The Minas Gerais State Government and the Belo Horizontal Municipal Government entered into on November 13, 2002, a cooperation agreement, ensuring to the Company the right to continue rendering water supply and sewage services in Belo Horizonte for other 30 years.

The first amendment to this agreement was made on April 30, 2004. The main items of the consolidated amended cooperation agreement are as follows:

1º) All water and sewage network pipes owned by the Municipal Government, existing on May 23, 2000, were sold and transferred to the Company, after being duly appraised, through payment in the form of Municipal Government ownership interest in the Company, observing the provisions of Municipal Law No, 8754, dated January 16, 2004. Purchase of the referred to assets for R$280,220 was approved by the Special Shareholders' Meeting of April 30, 2004, as per the valuation report prepared by independent specialized appraisers.

2º) At the end of this cooperation agreement, the assets sold to the Company and incorporated to its assets shall be returned to the Municipal Government, through repurchase, after being appraised at the time.

3º) The assets resulting from investments made by the Company, from May 24, 2000 to the end of the cooperation agreement, shall also be returned to Municipal Government and refunded to the Company, after being appraised at the time.

4º) The municipality declared and recognized the debt for which it is responsible, in the total amount of R$70,662 on November 30, 2002, corresponding to water and sewage service bills issued until November 2002 still pending payment. This debt is being paid in 335 monthly and consecutive installments equivalent to 202,838,77 m^3 of water each, since January 2005. The amount of each installment in current currency is obtained by multiplying the volume to be settled by the value of the average tariff billed per m^3 in Belo Horizonte, plus simple compensatory interest of 0,5% per month, as from November 2002. At June 30, 2010, the balance receivable totaled R$215,825, of which R$22,996 is recorded in current assets and R$192,829, in non-current assets (R$221,407 at March 31, 2010, of which R$22,327 is recorded in current assets and R$199,080, in non-current assets).

26. Water Supply and Sewage Services in Belo Horizonte--Continued

5º) The Company will assume the costs of the Program for Environmental Recovery and Sanitation of River Valleys and Streams in Belo Horizonte - DRENURBS, until the maximum amount of R$170,000. The Company and the Municipal Government are negotiating the index to restate the installments and a new date to start the payments, which contractually should have started in January 2008, in monthly installments for 24 months, however, to balance sheet date said negotiation had not been concluded. The amounts will be monetarily restated by an index to be established by the parties before beginning of payments.

6º) Operating Agreement with the Municipal Government of Belo Horizonte

The Company entered into a cooperation agreement with the Municipal Government of Belo Horizonte to render water supply and sewage services.

On February 7, 2006, the Company entered into an operating agreement with the Municipal Government of Belo Horizonte for integration and compatibilization of planning, control and execution of ventures of the Capital City Development Department - SUDECAP, other municipal bodies and COPASA, aiming at preparation of projects, execution of implementation works and maintenance of water supply and sewage infrastructure, as well as conduction of urbanization, river valley treatment, rain water drainage and sanitary hygiene related education activities. Under paragraph 1 and 2 of clause 2, in situations previously agreed upon, services under the responsibility of COPASA may be rendered by SUDECAP, and conversely, services under the responsibility of SUDECAP may be rendered by COPASA, Matching of accounts shall be carried out by the parties on an annual basis, referring to cost of services rendered by each of them, with payment of updated computed debts within 30 (thirty) days after such matching of accounts. However, the first amendment to the agreement, dated March 20, 2007, included a new paragraph in clause 5, establishing that debts arising from social programs shall be paid 30 (thirty) days after approval of measured services, and no longer upon annual matching of accounts. Due to the change introduced by the 1st amendment to the agreement, the Company paid R$1,257 to SUDECAP on May 8, 2007, R$1,816 on November 9, 2007, and R$1,836 on March 10, 2008. These payments refer to works carried out by SUDECAP related to construction of water and sewage network construction in Aglomerado da Serra region, in Belo Horizonte, which were incorporated to the Company's assets. On November 17, 2008, two matching of accounts were carried out, which resulted in receipt by COPASA of R$51 and R$315 on December 30, 2008, which were recorded in the statement of income. In 2009, there were no such amounts to be recorded.

27. Commitments

Copasa entered into new venture construction contracts, under which obligations are recorded as services are rendered. The main outstanding contracts with subcontractors and suppliers at June 30, 2010 are listed below:

Subcontractor	Amount	Execution Date	Term in days (1)
Comim Construtora Ltda.	118,956	11/25/2008	720
Construtora EMCCAMP Ltda.	41,330	12/30/2008	540
Comim Construtora Ltda.	40,951	11/28/2008	720
Construtora Barbosa Mello S.A.	40,300	08/04/2009	420
Mecanorte Construcções Empreendimentos Ltda.	38,710	05/22/2009	540
Mecanorte Construcções Empreendimentos Ltda.	37,033	05/08/2009	540
Prefisan Ltda.	36,869	02/05/2010	540
SONEL Soc. Nacional Elétrica Hidr. Ltda.	30,851	12/29/2008	720
Goetze Lobato Engenharia Ltda.	28,399	10/01/2009	540
Construtora R. Fonseca	22,731	06/30/2009	1.080
Socienge Construções Ltda.	16,707	02/05/2010	840
Prefisan Ltda.	13,675	05/24/2010	720

1) As from the date established in the first service order.

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

The main committed amounts refer to the following municipalities:

	Amount		
Municipality	Committed	Realized	% realization
Betim	80,286	73,521	91.57
Belo Horizonte (nota 26)	170,000	-	-
Contagem	81,363	73,728	90.62
Montes Claros	121,941	59,620	48.89
Ribeirão das Neves	86,411	70,977	82.14
Teófilo Otoni	54,360	-	-

28. Insurance

The Company does not have insurance to cover damages caused to its buildings and/or installations on the closing date of the quarterly financial information as of June 30, 2010.

29. ICMS Levy (State VAT)

According to State Law No, 9944 of September 20, 1989, and State Decree No, 38104/96, the Company started paying ICMS (State VAT) under a special tax regime, whereby this tax was levied and collected on the supply of piped water from years 1989 to 1991. In 1991, the Company suspended the tax collection as a result of a preliminary decision on Direct Unconstitutionality Proceeding (ADIN) No, 567-7, which established that this collection needed a particular law to regulate it, ADIN was declared impaired by loss of the subject matter, and this issue has been clearly provided for by a Supreme Court decision awarded on Direct Unconstitutionality Proceeding No, 2224, published on March 21, 2007, whereby the supply of treated water to final consumers is an essential public service, by express constitutional determination. However, as the merits of the action have not yet been judged, and although there are pronouncements from the STF (Supreme Court) and the STJ (Higher Court of Justice), and repeated understanding of the state law that there would be no impact of ICMS (State VAT) on the supply of drinking water by companies that provide this public service, so far there is no definitive Judicial Branch position. Due to the suspension of the tax collection, the amount of the referred to tax is not currently included in the calculation of tariffs of the Company, and it is not being charged either from customers or passed on to the State Government. Furthermore, there is no tax deficiency notice from the state tax authorities that would render the establishment of a provision for this tax justifiable.

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EXECUTIVE BOARD

RICARDO AUGUSTO SIMÕES CAMPOS	Chief Executive Officer
LUIZ OTÁVIO MOTA VALADARES	Vice Chief Executive Officer
CARLOS GONÇALVES DE OLIVEIRA SOBRINHO	Technical and Environment Officer
DIEGO LEONARDO DE ANDRADE CARVALHO	Southwest Operations Officer
GELTON PALMIERI ABUD	Corporate Management Officer
JUAREZ AMORIM	Metropolitan Operations Officer
MARCIO LUIZ MURTA KANGUSSU	North Operations Officer
MARCOS ANTÔNIO TEIXEIRA	Planning and Venture Management Officer
PAULA VASQUES BITTENCOURT	Finance and Investor Relations Officer

ACCOUNTANT IN CHARGE

GERALDO MAGELA MOREIRA CALÇADO	Accountant - CRCMG - 36,109
PACÍFICO AUGUSTO VIEIRA	Accounting, Cost and Assets Superintendent CRCMG – 55,682

1- Financial Performance

The charts below present the Company's financial performance for the second quarter of 2010 as compared to the same prior year quarter:

	Company						
2nd quarter	**2010**		**2009**			**Variation**	
Statement of income		**%**		**%**	**Adjustments**	**R$**	**%**
Water supply services	468,710		442,657		-	26,053	5.89
Sewage services	166,641		155,675		-	10,966	7.04
Construction of assets	252,136		210,476		210,476	41,660	19.79
Gross revenue	**887,487**		**808,808**		**210,476**	**78,679**	**9.73**
Deductions	(68,951)		(62,231)		-	(6,720)	10.80
Net revenue	**818,536**	**100.00**	**746,577**	**100.00**	**210,476**	**71,959**	**9.64**
Cost of services rendered	(280,162)	-34.23	(270,517)	-36.23	(4,846)	(9,645)	3.57
Construction cost	(244,550)	-29.88	(205,234)	-27.49	(205,234)	(39,316)	19.16
Gross profit	**293,824**	**35.90**	**270,826**	**36.28**	**396**	**22,998**	**8.49**
Selling expenses	(42,368)	-5.18	(42,426)	-5.68	-	58	(0.14)
Administrative expenses	(86,547)	-10.57	(76,939)	-10.31	173	(9,608)	12.49
Other operating income (expenses)	(2,348)	-0.29	4,405	0.59	1,675	(6,753)	n.m.
Equity pickup	(4,232)	-0.52	(4,998)	-0.67		766	(15.33)
Financial result, net	1,972	0.24	11,447	1.53	510	(9,475)	(82.77)
Interest on equity capital	(56,741)	-6.93	(43,651)	-5.85	-	(13,090)	29.99
Income before taxes	**103,560**	**12.65**	**118,664**	**15.89**	**2,754**	**(15,104)**	**(12.73)**
Income and social contribution taxes	(33,232)	-4.06	(44,049)	-5.90	(936)	10,817	(24.56)
Employees' profit sharing	(5,997)	-0.73	(8,280)	-1.11		2,283	(27.57)
Reversal of interest on equity capital	56,741	6.93	43,651	5.85	-	13,090	29.99
Net income for the quarter	**121,072**	**14.79**	**109,986**	**14.73**	**1,818**	**11,086**	**10.08**

- **Gross revenue** – Gross revenue increased R$78,679 or 9.73%, thus reaching R$887,487 in the 2nd quarter of 2010, as compared to R$808,808 in the 2nd quarter of 2009.

Main variations and reasons:

- **Water supply –** The increase of R$26,053 in revenue from water supply services corresponds to 33.11% of gross revenue. This increase is due to the average tariff increase of 3.96%, in force as from March 2010, 289,275 new water connections due to population increase and the assumption of new systems. The increase in billed water volume supplied in the period was of 5,511,288 m^3, from 146,919,889 m^3 to 152,431,177 m^3 and the increase in billed water volume supplied per water connection was of 1.33%, from 12.14 m^3 in 2009 to 12.30 m^3 in 2010.

- **Sewage –** The increase of R$10,966 in revenue from sewage services corresponds to 13.94% of gross revenue. This increase is due to average tariff increase of 3.96% as from March 2010 as well as the increase of 7.38% in water connections due to population increase and the assumption of new systems. The increase in billed consumption for the period was of 6,947,069 m^3, from 87,049,062 m^3 to 93,996,131m^3 and the increase in billed volume per water connection was of 0.56%, from 12.64 m^3 in 2009 to 12.71 m^3 in 2010.

- **Revenue from construction of assets** – Revenue from construction of assets increased R$41,660 or 19.79%, from R$210,476 in the 2nd quarter of 2009 to R$252,136 in the same 2010 period. In relation to gross revenue, there was increase of 52.95%. The change is due to the increase in cost of construction of water supply and sewage infrastructure in the 2nd quarter of 2010.

- **Gross revenue deductions**– The increase is due to the increase in PIS/PASEP and COFINS payments as a direct consequence of the increase in gross revenue, which is the calculation base of these taxes.

  Unconditional discounts are discounts granted to our large consumers as well as not for profit philanthropic entities. The increase in discounts and rebates in the 2nd quarter of 2010 as compared to the same 2009 period is due to adjustments made in 2009 in the interface between the accounting and commercial systems.

Company						
2nd quarter	2010		2009		Variation	
		%		%	R$	%
PIS/PASEP	10,299	14.94	9,747	15.66	551	5.65
COFINS	47,434	68.79	44,897	72.14	2,537	5.65
Unconditional discounts	11,218	16.27	7,587	12.19	3,631	47.86
Revenue deductions	**68,951**	**100.00**	**62,231**	**100.00**	**6,719**	**10.80**

- **Net revenue** – Net revenue increased by R$210,476 or 9.64%.

- **Operating costs and expenses**

Costs of services rendered – The cost of services rendered, comprising water and sewage system operation, conservation and maintenance expenses, increased R$48,961 or 10.29%, as set out in the chart below:

	Company				
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Personnel	**108,128**	97,020	-	11,108	11.45
Materials	**19,941**	22,545	-	(2,604)	-11.55
Electric energy	**52,812**	52,206	-	606	1.16
Outsourced services	**35,868**	30,513	-	5,355	17.55
Tariff transfer to municipal government	**14,156**	14,734	-	(578)	-3.92
General expenses	**3,244**	2,993	-	251	8.39
Depreciation and amortization	**58,050**	62,042	4,846	(3,992)	-6.43
Construction costs	**244,550**	205,234	205,234	39,316	19.16
Taxes recoverable and tax credits *(PIS-PASEP/COFINS)*	**(12,037)**	(11,536)	-	(501)	4.34
Cost of services rendered	**524,712**	**475,751**	**205,234**	**48,961**	**10.29**

- **Personnel –** The increase in personnel costs by R$11,108 or 11.45% is mainly due to the 5.49% salary raise provided for by the 2010/2011 collective labor agreement and the inclusion of approximately 50% of the institutional performance bonus (GDI) in salary of employees as from August 2009. In addition, we noted the following variation:

Heading	06/30/2010	06/30/2009	Variation	
	R$	R$	R$	%
Salary- normal	43,967	38,198	5,769	15.10
Salary – overtime	3,214	3,455	(241)	-6.98
Function bonus	538	474	64	13.50
Vacation pay	9,274	9,187	87	0.95
13th monthly salary	4,876	4,474	402	8.99
Health exposure premium	1,208	981	227	23.14
Sickness allowance	-	1	(1)	-100.00
Institutional performance bonus	3,433	5,045	(1,612)	-31.95
Social security	17,039	15,853	1,186	7.48
FGTS	8,270	5,407	2,863	52.95
Occupational accident insurance	2,808	1,364	1,444	n.m.
Severance pay and prior notice	587	147	440	n.m.
Professional training	2	-	2	-
Standard lunch	281	246	35	14.23
Transportation voucher	1,160	1,477	(317)	-21.46
Supplementary programs – COPASS	1,452	1,304	148	11.35
Health program	2,084	2,397	(313)	-13.06
Meal program	12,613	12,583	30	0.24
Social security program	4,508	3,784	724	19.13
Other assistance programs	96	79	17	21.52
Managerial performance bonus	272	239	33	13.81
Training of technical professionals	278	16	262	n.m.
Professional training – seminars/congresses	23	1	22	n.m.
Professional training – managerial training	4	-	4	-
Extended maternity leave	8	-	8	-
Expansion costs	(7,244)	(6,984)	(260)	3.72
DVHM cost	(10)	(137)	127	-92.70
Population increase – own labor	(2,613)	(2,571)	(42)	1.63
*** Personnel cost**	**108,128**	**97,020**	**11,108**	**11.45**

- Increase of R$2,863 or 52.95% in FGTS due to labor contract termination fines in connection with the employee voluntary resignation program.

- Increase of R$1,444 in the occupational accident insurance (RAT) due to RAT insurance rate increase from 2% to 4.24%, levied on employees' salary as from January 2010.

- Increase of R$724, or 19.13%, in the social security program due to the adjustment by 5.45% of employees profit sharing, calculated on salaries above the Previminas cap; and extraordinary contribution of 11% calculated on the contribution amount as from March 2010, ruling until November 2010.

➢ **Materials** – The decrease of R$2,604 or 11.55% in materials is due to the decrease by R$2,202 or 22.49% in treatment materials mainly due to the decrease in clot price, increase in untreated water quality due to fewer rains in the 2nd quarter of 2010, and by R$506 in systems conservation and maintenance materials, offset by the increase in expenses with parts, accessories and components for vehicles of R$297.

➢ **Third party services** – Expenses with outsourced services increased by R$5,360 or 17.30%. The main variation in the period is due to the following factors:

- Increase by R$2,482 or 13.08% in preventive and corrective maintenance services of water and sewage treatment systems mainly due to the beginning of execution of new contracts, addition of new contractual items such as "construction work site maintenance, consulting and inspection charge by professional involved in the contract and digging machine services", renewal of contracts in relation to which input price increased much more than inflation based on price indices for the period, also new contracts provide for price escalation. In addition, some expenses were not recorded on the accrual basis of accounting, thus affecting comparative amounts.

- Increase of R$1,393 or 58.89% in cleaning, vigilance, courier and reception services due to the process of distribution of costs of administrative units, which started to be more adequately allocated to the units.

- Increase of R$422 in collection services due to contract renewal with tariff increase on receipt of water and sewage service bills collected by the collecting agents, in addition to the increase in the number of collected bills.

- Increase of R$398 in technical professional services mainly related to recording of measurements referring to definition for land purchase purposes.

- **Tariff transfer** – The decrease by 3.92%, or R$578, in the 2nd quarter of 2010 as compared to the same prior year period is due to change in the criterion for payment of PBH debt in installments, with extinction of the agreement based on m³ as from March 2010.

Selling expenses – The Company's selling expenses decreased R$58 or 0.14% in the 2nd quarter of 2010 as compared to the same prior year period. Breakdown of the Company's selling expenses is set out below:

Company				
2nd quarter	2010	2009	Variation	
			R$	%
Personnel	24,781	22,657	2,124	9.37
Materials	893	654	239	36.54
Outsourced services	3,952	4,048	(96)	-2.37
General expenses	250	192	58	30.21
Depreciation and amortization	1,042	1,154	(112)	-9.71
Allowance for doubtful accounts	11,450	13,721	(2,271)	-16.55
Selling expenses	**42,368**	**42,426**	**(58)**	**-0.14**

- **Personnel** – The increase in personnel expenses by R$2,124 or 9.37%, is mainly due to the 5.49% salary increase provided for by the 2010/2011 collective labor agreement and inclusion of approximately 50% of the institutional performance bonus (GDI) in employees' salary as from August 2009. In addition, we noted the following variation:

Heading	06/30/2010	06/30/2009	Variation	
Salaries and wages – normal	9,835	8,489	1,346	15.86
Salaries and wages –overtime	431	464	(33)	-7.11
Function bonus	21	35	(14)	-40.00
Vacation pay	2,101	2,106	(5)	-0.24
13th monthly salary	1,025	932	93	9.98
Health exposure premium	3	5	(2)	-40.00
Institutional performance bonus	791	1,139	(348)	-30.55
Social security	3,566	3,318	248	7.47
FGTS	1,417	1,058	359	33.93
Occupational accident insurance	504	217	287	n.m.
Severance pay /prior notice	57	12	45	n.m.
Standard lunch	223	191	32	16.75
Transportation voucher	198	296	(98)	-33.11
Supplementation program – COPASS	304	277	27	9.75
Health program	522	542	(20)	-3.69
Meal program	2,818	2,845	(27)	-0.95
Social security program	822	672	150	22.32
Other assistance programs	42	40	2	5.00
Managerial performance bonus	24	18	6	33.33
Technical professional training	73	1	72	n.m.
Extended maternity leave	2	-	2	-
*** Personnel cost**	**24,781**	**22,657**	**2,124**	**9.37**

- Increase of R$287 in occupational accident insurance (RAT) due to the increase in RAT insurance rate from 2% to 4.24% calculated on employees' salary as from January 2010.

➢ **Allowance for doubtful accounts** – The decrease by R$2,271 or 6.55% is due to the undue curtailment of approximately R$1,900 from total write-off of impaired receivables in the 2nd quarter of 2010, which will be adjusted in the Quarterly Financial Information - ITR for the 3rd quarter.

Administrative expenses – The expenses with the Company's management, including the Board of Directors, Supervisory Board, and executive board offices, increased by R$9,608 or 12.49%, as set out below:

Company					
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Personnel	**58,610**	51,226	-	7,384	14.41
Materials	**1,196**	1,587	-	(391)	-24.64
Outsourced services	**18,666**	19,614	-	(948)	-4.83
General expenses	**1,445**	1,866	-	(421)	-22.56
Depreciation and amortization	**6,630**	2,646	(173)	3,984	150.57
Administrative expenses	**86,547**	**76,939**	**(173)**	**9,608**	**12.49**

- **Personnel** – The increase in personnel expenses by R$7,384 or 14.41% is due to the salary increase of 5.49% provided for by the 2010/2011 collective labor agreement and the inclusion of approximately 50% of the institutional performance bonus – GDI in salary of employees as from August 2009. Further variation is set out in the chart below:

Heading	06/30/2010	06/30/2009	Variation	
	R$	R$	R$	%
Wages and salaries – normal	22,322	19,680	2,642	13.42
Wages and salaries – overtime	236	212	24	11.32
Function bonus	861	853	8	0.94
Management fees	427	490	(63)	-12.86
Vacation pay	5,041	4,601	440	9.56
13th monthly salary	2,424	2,206	218	9.88
Health exposure premium	32	28	4	14.29
Supplemental sickness allowance	1	2	(1)	-50.00
Institutional performance bonus– GDI	1,794	2,671	(877)	-32.83
Social security	8,511	7,912	599	7.57
FGTS	4,852	2,364	2,488	n.m.
Occupational accident insurance	1,203	522	681	n.m.
Severance pay /prior notice	510	71	439	n.m.
Professional training	190	445	(255)	-57.30
Standard lunch	201	216	(15)	-6.94
Transportation voucher	1	607	(606)	-99.84
Supplementation program – COPASS	680	662	18	2.72
Health program	3,353	3,198	155	4.85
Meal program	3,435	2,589	846	32.68
Social security program	2,990	2,556	434	16.98
Other assistance programs	192	205	(13)	-6.34
Refund related to subcontracted labor	(1,410)	(1,386)	(24)	1.73
Managerial performance bonus – GDG	569	488	81	16.60
Technical professional training	120	33	87	n.m.
Professional training – graduate and university extension courses	31	-	31	-
Professional training – seminars /congresses	14	1	13	n.m.
Professional training – managerial training	13	-	13	-
Extended maternity leave	17	-	17	-
*** Personnel cost**	**58,610**	**51,226**	**7,384**	**14.41**

- The increase by R$2,488 in FGTS is due to labor contract termination fines in connection with the employees' voluntary resignation program.

- The increase of R$846 in the meal program is due to the 9.37% escalation in meal tickets and basket of food staples.

- The decrease of R$606 in transportation voucher is related to the application of the ABSCARD system. Transportation voucher request allows consulting transportation voucher cards balance to make such purchases on a supplementary basis.

- **Outsourced services** – Expenses with outsourced services decreased by R$2,419 mainly in connection with expenses with cleaning, vigilance, courier and reception services of R$1,269, due to the process of distribution of costs of administrative units, which started to be more adequately classified in the units as from May 2009, as well as advertising and promotion services of R$1,172 due to the reduction in advertising campaigns in the 2nd quarter of 2009 that were not recurrent in the 2nd quarter of 2010, mainly the health campaign, offset by the increase in professional technical services of R$1,545 mainly due to hiring of electronic printing services in July 2009, also expenses related to the period and other prior period expenses were recorded in the 2nd quarter of 2010.

- **Depreciation and amortization** – The increase of R$3,984 in the 2nd quarter of 2010 as compared with the same prior year period is due to the increase of R$6,297 with amortization of financial asset discount to present value, offset by the decrease of R$2,520 in the reversal of depreciation and amortization of donated assets and subventions.

- **Other operating income (expenses)**

Company					
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Revenue from technical services	616	249	-	367	n.m.
Reversal of nondeductible provision	1,263	7,247	1,675	(5,984)	-82.57
Recovery of accounts written off as loss	2,695	2,573	-	122	4.74
Other revenues	1,839	4,178	-	(2,339)	-55.98
Equity pickup – Copasa Serv. Irrigação	16	-	-	16	-
Total other operating revenues	**6,429**	**14,247**	**1,675**	**(7,818)**	**-54.87**
Adventitious or windfall losses	(5,712)	(8,720)	-	3,008	-34.50
Other expenses	(3,049)	(1,122)	-	(1,927)	n.m.
Equity pickup – Copanor	(800)	(1,780)	-	980	-55.06
Equity pickup – Águas Minerais	(3,500)	(2,949)	-	(551)	-18.68
Equity pickup – Copasa Serv. Irrigação	52	(269)	-	321	n.m.
Total other operating expenses	**(13,009)**	**(14,840)**	**-**	**1,831**	**-12.34**
Total other operating income (expenses)	**(6,580)**	**(593)**	**1,675**	**(5,987)**	**n.m.**

Variations and reasons:

- **Other operating income** – Other operating income decreased by R$7,818 or 54.87% mainly due to non-recurrent actuarial liability reversal expenses of R$5,230 and donations and funding of Hydrographic Basin Depollution Program – ANA/PRODES, in the amount of RR1,900 in the 2nd quarter of 2010.

- **Other operating expenses** – The decrease of R$1,831 in other operating expenses is due to the decrease of R$2,582 in provisions for judicial proceedings and provisions for contingencies, and of R$750 in equity pickup losses, offset in the 2nd quarter of 2010 by the provision for net actuarial liability of R$768, payment to the Regional Water and Sewage Service Agency –ARSAE of the charge of R$596 and increase IPTU expense of R$299.

- **Financial income (expenses)** – These reflect the results related to financial investments, amounts receivable, loans, financing and debentures. Analysis of variation is conducted based on the net result of financial income and expenses of the same nature, as set out in the chart below:

Company					
2nd quarter	**2010**	**2009**		**Variation**	
			Adjustment	**R$**	**%**
Monetary and exchange variation	3,674	17,329	-	(13,655)	-78.80
Interest	28,702	9,567	-	19,135	n.m.
Actual financial investment yield	8,425	16,186	(3,186)	(7,761)	-47.95
Other revenues	3,843	3,898	3,897	(55)	-1.41
Total financial income	**44,644**	**46,980**	**711**	**(2,336)**	**-4.97**
			-		
Monetary and exchange variation	(7,074)	(11,033)	-	3,959	-35.88
Interest on financing	(34,017)	(23,085)	(201)	(10,932)	47.36
Other expenses	(1,581)	(1,415)	-	(166)	11.73
Total financial expenses	**(42,672)**	**(35,533)**	**(201)**	**(7,139)**	**20.09**
Net financial result	**1,972**	**11,447**	**510**	**(9,475)**	**-82.77**

Main variations and reasons:

- **Monetary and exchange variation** – Expenses and revenues from monetary and exchange variation presented a net variation of R$9,696 basically due to the financing and guarantee from BNY, which was significantly impacted by restatement in the 2nd quarter of 2009 due to the international financial slowdown, which led to a marked US dollar devaluation, fact that did not occur in the 2nd quarter of 2010, in which there was a slight US dollar appreciation. In the 2nd quarter of 2009, the marked US dollar devaluation generated a liability reversal of R$13,626 and in the 2nd quarter of 2010 updating of the financing from BNY generated an expense of R$587, a net variation of R$14,213. The guarantee from BNY, which in the 2nd quarter of 2009 involved asset reversal of R$5,558, generated revenue of R$247 in the 2nd quarter of 2010, a net variation of R$5,805. Thus, the net result between exchange variation expense and revenue of the financing and guarantee from BNY amounted to R$8,408.

- **Interest** – This item records interest expenses on financing, revenue from guarantee in foreign currency and interest on municipal taxes paid in installments. Interest receivable increased R$19,135 mainly due to remuneratory interest and restatement of BNDES debentures of R$16,932 and gain from trading of guarantee in the New York Stock Exchange of R$3,670 offset by the decrease of R$4,003 from the renegotiation of the criterion applied to restate the debt to the municipal government of Belo Horizonte, which used to be restated based on billed cubic meter. There was an increase in interest payable by R$10,932 due to the variation of R$10,380 in interest on debentures, mainly related to reclassification from grace period to return period in the quarter.

- **Actual financial investment yield** – The decrease of R$7,761 is due to the decrease in the balance of the Company's financial investments from R$19,372 in June 2009 to R$8,425 in June 2010.

  - **Interest on equity capital** – In the 2nd quarter of 2010 the Company recorded interest on equity capital of R$56,741 as compared to R$43,651 in the 2nd quarter of 2009, a variation of R$13,090 due to the provisioning of 50% of interest on equity capital payable to shareholders as compared to 35% in 2009.

  - **Pretax income** – There was decrease in pretax income by R$15,103 or 12.73% from R$118,663 to R$103,560 in the 2nd quarter of 2010.

  - **Provision for income and social contribution taxes** – Income and social contribution taxes in the 2nd quarter of 2010 totaled R$33,232 as compared to R$44,049 in the 2nd quarter of 2009. The variation amounted to R$10,817 or 24.56%.

- **Employees' profit sharing –** In the 2nd quarter of 2010, a provision was set up of R$5,997 for employees' profit sharing, as compared to R$8,280 in 2009, a decrease by R$2,283 or 27.57%.

- **Net income for the quarter** – Net income for the 2nd quarter of 2010 increased by R$11,087 or 10.08% as compared to the same 2009, namely from R$109,985 to R$121,072.

- **Income generation or EBITDA** – There was income generation of R$216,465 in the 2nd quarter of 2010 as compared to R$211,468 in the same 2009 period, or an increase by R$4,997 or 2.36%. EBITDA was of 37.79 in the 2nd quarter of 2010 as compared to 38.42 in 2009, a decrease of 0.64 p.p.

The table below sets out EBITDA calculation:

	Company			
2nd quarter	**2010**	**2009**	**Variation**	
			R$	**%**
Net income	**121,072**	**109,986**	**11,086**	**10.08**
(-) Revenue (expense) from the construction of assets	(7,586)	(5,242)	(2,344)	44.72
Net income not considering revenue(expense) from construction of assets	**113,486**	**104,744**	**8,742**	**8.35**
Provision for IRPJ and CSLL	33,232	44,049	(10,817)	-24.56
Amortization and depreciation	65,722	65,842	(120)	-0.18
Employees profit sharing	5,997	8,280	(2,283)	-27.57
Financial result	(1,972)	(11,447)	9,475	-82.77
EBTIDA (1)	**216,465**	**211,468**	**4,997**	**2.36**
EBTIDA margin (2)	**37,79**	**38,42**		**-0.64 p.p.**

(1) EBITDA means net income (loss) before income and social contribution taxes, net financial expenses and depreciation and amortization charges. Since financial income (expenses), income and social contribution taxes and amortization and depreciation are not considered, EBITDA indicates our overall economic performance, which is not affected by changes in interest rates, in income and social contribution tax rates or depreciation and amortization levels. Consequently, we believe that EBITDA is a significant tool for periodic comparison of our operating performance, and serves as a base for certain administrative decisions. We believe that EBITDA allows attaining of better understanding of our financial performance as well as our capacity to meet our obligations and obtain funds for our capital expenditures and to meet our working capital needs. EBITDA, however, presents limitations for use thereof as a measure of our profitability since it does not consider certain costs arising from our business activities, which could significantly affect our profits, such as financial expenses, taxes, depreciation, capital expenses and other related charges.

(2) EBITDA margin is calculated based on net revenue from services, which corresponds to net operating revenue plus other operating revenues.

2- Balance Sheet

Company

• Balance sheet

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Current assets	736,976	840,969	(103,994)	(12.37)
Noncurrent assets	6,373,278	6,136,977	236,301	3.85
Total assets	**7,110,254**	**6,977,946**	**132,309**	**1.90**
Current liabilities	617,895	626,463	(8,569)	(1.37)
Noncurrent liabilities	2,626,802	2,550,257	76,545	3.00
Shareholders' equity	3,865,557	3,801,226	64,331	1.69
Total liabilities and shareholders' equity	**7,110,254**	**6,977,946**	**132,308**	**1.90**

Company

• Current assets

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Cash	224,970	327,715	(102,746)	(31.35)
Trade accounts receivable	394,772	404,845	(10,074)	(2.49)
Inventories	26,060	26,426	(366)	(1.39)
Taxes recoverable	36,607	28,698	7,909	27.56
Technical cooperation agreement	24,099	24,707	(608)	(2.46)
Sundry receivables	30,469	28,578	1,891	6.62
Total current assets	**736,976**	**840,969**	**(103,994)**	**(12.37)**

» Cash

Balance at 03/31/10:	327,715	Variation ($):	(102,746)
Balance at 06/30/10:	224,970	Variation (%):	(31.35)
Situation:	**Decrease**		

This account balance decreased in the period due to redemption of financial investments to current bank account in order to pay dividends to shareholders and the state government, as well as to make payments to Company suppliers.

» Trade accounts receivable

Balance at 03/31/10:	404,845	Variation ($):	(10,074)
Balance at 06/ 30/10:	394,772	Variation (%):	(2.49)
Situation:	**Decrease**		

This account balance decreased due to the increase in billing of debts in installments in the period from May to June, in the amount of R$2,480 (variation being analyzed by the IT and Commercial Departments), the inclusion of new customers in the ADA (allowance for doubtful accounts), the most significant being the Santa Casa de Misericórdia, and the increase in bank "float" on April 29 and 30, with collection of R$17,180.

»Taxes recoverable

Balance at 03/31/10:	28,698	Variation ($):	7,909
Balance at 06/30/10:	36,607	Variation (%):	27.56
Situation:	**Increase**		

This account balance increased due to the provision for employee profit sharing and interest on equity capital calculated based on quarterly result of operations, adjusting prior month overstated balances.

Company

• **Noncurrent assets**

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Trade accounts receivable	192,829	199,081	(6,252)	(3.14)
Deferred income and social contribution taxes	342,720	338,373	4,348	1.28
Judicial deposits	8,769	8,819	(50)	(0.57)
Financing guarantee	100,482	81,776	18,706	22.87
Receivables from subsidiaries	53,437	50,405	3,032	6.01
Financial assets	271,671	273,611	(1,940)	(0.71)
Sundry receivables	50,323	49,652	671	1.35
Total noncurrent assets	**1,020,231**	**1,001,718**	**18,513**	**1.85**
Investments	263	263	0	0.00
Intangible assets	5,259,623	5,044,632	214,991	4.26
Property, plant and equipment	93,162	90,365	2,797	3.10
Total permanent assets	**5,353,048**	**5,135,260**	**217,788**	**4.24**
Total noncurrent assets	**6,373,278**	**6,136,977**	**236,301**	**3.85**

» Financing guarantee

Balance at 03/31/10:	81,776	Variation ($):	18,706
Balance at 06/30/10:	100,482	Variation (%):	22.87
Situation:	**Increase**		

This account balance increase is due to the end of the grace period of the debenture financing agreement with BNDES, this resulted in increase of R$5,281 and reserve increase due to new applications on May 11, 2010 (contracts in the repayment phase).

Company

• **Current liabilities**

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Loans and financing	141,890	138,094	3,796	2.75
Debentures	93,907	79,469	14,437	18.17
Contractors and suppliers	60,296	53,080	7,215	13.59
Taxes, charges and contributions	32,261	39,531	(7,271)	(18.39)
Taxes in installments	44,793	60,285	(15,492)	(25.70)
Provision for vacation pay and 13th salary	91,345	71,002	20,343	28.65
Employees profit sharing	30,915	42,110	(11,195)	(26.59)
Interest on equity capital	56,746	91,149	(34,403)	(37.74)
Private pension plan	14,434	13,445	989	7.35
Electric energy	25,317	24,850	467	1.88
Sundry obligations	25,992	13,448	12,544	93.28
Total current liabilities	**617,895**	**626,463**	**(8,569)**	**(1.37)**

» Debentures

Balance at 03/31/10:	79,469	Variation ($):	14,437
Balance at 06/ 30/10:	93,907	Variation (%):	18.17
Situation:	**Increase**		

This account balance increase is due to the end of the grace period related to interest on financing in the current and noncurrent portions, the provision for remuneratory interest and normal interest on new cash outlays and contracts transferred to the current portion for having reached the repayment phase.

» Contractors and suppliers

Balance at 03/31/10:	53,080	Variation ($):	7,215
Balance at 06/30/10:	60,296	Variation (%):	13.59
Situation:	**Increase**		

This account balance increase is due to the increase in Company investments, mainly using funds from BNDES, by approximately R$44,000, thus resulting in increase in the amount payable, as well as due to entry of new goods for the conduction of construction works.

» Taxes, charges and contributions

Balance at 03/31/10:	39,531	Variation ($):	(7,271)
Balance at 06/30/10:	32,261	Variation (%):	(18.39)
Situation:	**Decrease**		

The variation is due to revenue deferral, as provided for by the Transition Tax Regime – R.T.T.

» Taxes in installments

Balance at 03/31/10:	60,285	Variation ($):	(15,492)
Balance at 06/ 30/10:	44,793	Variation (%):	(25.70)
Situation:	**Decrease**		

This account balance decrease is due to amortization of IPI payable to Brazilian IRS, of which the total amount was renegotiated to be paid in 12 monthly installments of R$5,449, offset by the transfer of R$6,549 from the noncurrent to the current portion of the provision for taxes payable to the Belo Horizonte municipal government, which up to March 2010 were classified in the tax provision group and, after accounting reclassifications, the balance thereof is stated individually.

» Provision for vacation pay and 13th salary

Balance at 03/31/10:	71,002	Variation ($):	20,343
Balance at 06/30/10:	91,345	Variation (%):	28.65
Situation:	**Increase**		

The increase in the provision for vacation pay and 13th monthly salary is mainly due to salary raise of 5.49% provided for by the 2010/2011 collective labor agreement, the inclusion of approximately 50% of the institutional performance bonus – GDI in employee salary as from August 2009 and normal increase in the balance of the 13th monthly salary account, of which the payment starts being made as from November 2010.

» Employees' profit sharing

Balance at 03/31/10:	42,110	Variation ($):	(11,195)
Balance at 06/ 30/10:	30,915	Variation (%):	(26.59)
Situation:	**Decrease**		

This account balance decrease refers to payment of the 1st portion of employee profit sharing, in the amount of R$17,133 in April 2010.

» Interest on equity capital

Balance at 03/31/10:	91,149	Variation ($):	(34,403)
Balance at 06/30/10:	56,746	Variation(%):	(37.74)
Situation:	**Decrease**		

This account balance decrease is due to payment of interest on equity capital referring to the 4th quarter of 2009, in the amount of R$50,367 and the amount provisioned in March 2010.

Company

» Sundry obligations

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Concession debts	19,303	8,644	10,659	n.m.
Other	6,689	4,804	1,885	39.24
Total sundry obligations	**25,992**	**13,448**	**12,544**	**93.28**

» Sundry obligations

Balance at 03/31/10:	13,448	Variation ($):	12,544
Balance at 06/30/10:	25,992	Variation (%):	93.28
Situation:	**Increase**		

This account balance increase is due to the agreement entered into by the Company with Ribeirão das Neves municipal government for the incorporation by Copasa of public system assets resulting from water supply and sewage related construction works. The balance increase is due to matching of accounts which resulted in debt difference of R$15,271, of which R$4,500 has already been paid by the Company.

Company

• Noncurrent liabilities

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Caixa Econômica Federal	655,519	662,156	(6,637)	(1.00)
State government / BDMG	13,788	13,664	124	0.91
National Treasury	94,276	102,624	(8,348)	(8.13)
BNDES/BNE	272,048	228,276	43,772	19.18
In local currency	**1,035,631**	**1,006,720**	**28,912**	**2.87**
Federal Government – bonus	55,763	57,554	(1,791)	(3.11)
In foreign currency	**55,763**	**57,554**	**(1,791)**	**(3.11)**
Total loans and financing	**1,091,394**	**1,064,273**	**27,121**	**2.55**
Non-convertible debentures	524,772	478,258	46,514	9.73
Convertible debentures	134,669	134,048	621	0.46
Total debentures	**659,441**	**612,306**	**47,135**	**7.70**
Provision for contingencies	28,436	26,603	1,832	6.89
Provision for taxes	47,234	46,632	602	1.29
Taxes in installments	192,829	199,266	(6,438)	(3.23)
Private pension plan	471,593	470,893	700	0.15
Electric energy	26,423	30,372	(3,950)	(13.00)
Advance for future capital increase	8,797	8,797	0	0.00
Deferred income and social contribution taxes	42,093	37,308	4,785	12.83
Other liabilities	58,562	53,807	4,756	8.84
Total noncurrent liabilities	**2,626,802**	**2,550,257**	**76,545**	**3.00**

» Loans and financing

Balance at 03/31/10:	1,064,273	Variation ($):	27,121
Balance at 06/30/10:	1,091,394	Variation (%):	2.55
Situation:	**Increase**		

This account balance increase is due to transfer of financing that was in the grace period phase in the amount of R$44,354, offset by transfer of financing to the current portion in the amount of R$288.

» Nonconvertible debentures

Balance at 03/31/10:	478,258	Variation ($):	46,514
Balance at 06/30/10:	524,772	Variation (%):	9.73
Situation:	**Increase**		

This account balance increase is due to the new BNDES cash outlay on May 26, 2010 in the amount of R$75,000 offset by transfer from noncurrent to current portion.

» Taxes in installments

Balance at 03/31/10:	199,266	Variation ($):	(6,438)
Balance at 06/30/10:	192,829	Variation (%):	(3.23)
Situation:	**Decrease**		

This account balance refers to provision for Company debt to the Belo Horizonte municipal government, which until March 2010 was classified in the provision for taxes group and after accounting reclassifications, the balance thereof is stated individually. The balance decrease is due to transfer from noncurrent to current portion in the amount of R$6,549.

» Electric energy

Balance at 03/31/10:	30,372	Variation ($):	(3,950)
Balance at 06/ 30/10:	26,423	Variation (%):	(13.00)
Situation:	**Decrease**		

It mainly refers to repayment of debt related to CEMIG concessionaire, recorded in the referred to period.

» Deferred income and social contribution taxes

Balance at 03/31/10:	37,308	Variation ($):	4,785
Balance at 06/30/10:	42,093	Variation(%):	12.83
Situation:	**Increase**		

The variation is due to revenue deferral, as provided for by the Transition Tax Regime – R.T.T.

Company

• Shareholders' equity

2ª ITR	**06/30/10**	**03/31/10**	**Variation**	
			R$	**%**
Beginning balance	**3,801,226**	**3,731,416**	**69,810**	**1.87**
Net income	121,072	113,483	7,589	6.69
Interest on equity capital	(56,741)	(43,673)	(13,068)	29.92
Ending balance	**3,865,557**	**3,801,226**	**64,331**	**1.69**

» Interest on equity capital

Balance at 03/31/10:	(43,673)	Variation ($):	(13,068)
Balance at 06/30/10:	(56,741)	Variation (%):	29.92
Situation:	**Increase**		

The increase in interest on equity capital is due to the increase in Company's profit for the period.

The increase in shareholders' equity is also due to the increase in the Company's profit, as shown above.

Report on Operating Performance for CVM

2Q10- Second quarter of 2010

3- General Data on Customer Services

Copasa's operating performance in the second quarter of 2010 (2Q10) evidences that the Company continued growing. Population served by water supply increased by 336 thousand people, thus reaching 12.9 million inhabitants with water supply connection, as compared to 12.6 million in the second quarter of 2009 (2Q09). The number of municipalities receiving water supply services increased from 602 in June /2009 to 603 in June 2010.

COPASA MG

General Data on Water Supply Services
2nd quarter of 2010 and 2009

Items	Units	2Q10	2Q09	Variation	
				Amount	%
Municipalities with concession (1) (*)	number	613	611	2	0.3
Municipalities with operation (2) (*)	number	603	602	1	0.2
Population served (3) (*)	ıousand inhabitant	12,936	12,600	336	2.7
Billed connections (*)	ousand connectior	3,436	3,327	109	3.3
Network length (*)	km	42,653	41,122	1,531	3.7
Billed water supply volume (*)	1.000 m³/quarter	153,367	147,253	6,114	4.2
Produced water volume (**)	1.000 m³/quarter	219,028	212,008	7,020	3.3

(1) - Total of municipalities in which the Company holds any concession: capitals, villages, settlements or others
(2) - Total of municipalities in which the Company carries any operation: capitals, villages, settlements or others
(3) - Population with water supply connection.
(*) - Consolidated data, including subsidiary COPANOR
(**) - Only Company data (COPASA)

In relation to billed water connections there was an increase of 109 thousand connections, totaling 3.44 million new connections, representing an increase of 3.3% in relation to 2Q09. The water distribution network was expanded by 1,531 km, totaling 42,653 km, up 3.7% as compared to the 2Q09 (41,122 km).

In relation to sewage systems, the expansion was higher as a result from the endeavor to increase in the percentage of served population in the areas in which the Company operates. The number of served municipalities increased by 6.9%, from 145 in June 2009 to 155 in the 2Q10, thus resulting in total population of 7.6 million people with sewage connection (7.1 million in 2Q09), representing a 6.8% increase (481 thousand people).

COPASA MG

General Data on Sewage Services
2nd quarter of 2010 and 2009

Items	Units	2Q10	2Q09	Variation	
				Amount	%
Municipalities with concession (1) (*)	number	203	194	9	4.6
Municipalities with operation (2) (*)	number	155	145	10	6.9
Served population (3) (**)	ıousand inhabitant:	7,588	7,107	481	6.8
Billed connections (**)	ousand connection	1,907	1,767	140	7.9
Network extension (**)	km	16,057	15,039	1,018	6.8
Billed sewage treatment service (**)	1.000 m³/quarter	93,997	87,049	6,948	8.0
Treated sewage volume (**)	1.000 m³/quarter	38,929	30,484	8,445	27.7

(1) - Total of municipalities in which the Company has any type of concession: capitals, villages, settlements or others
(2) - Total of municipalities in which the Company operates: capitals, villages, settlements or others
(3) - Population with sewage connection.
(*) - Consolidated data, including subsidiary COPANOR
(**) - Only Company data (COPASA)

These services are rendered through 1.91 million billed sewage connections (1.77 million in 2Q09), representing an increase of 140 thousand connections (7.9%). The sewage collection network was expanded by 1,018 km, totaling 16,057 km, up 6.8% in relation to the 2Q09.

Treated sewage volume reached 38.9 million m³ in the quarter, up 27.7% in relation to the same prior year period, mainly due to the beginning of operation of the new Sewage Treatment Stations (ETEs), such as ETE Montes Claros, which started operating in the 1Q09 and increased sewage treatment volume in the 2Q09.

4- Performance Indicators

The Company's expansion in the period led to an increase in billed water supply and sewage service volume by 13.1 million m³ in relation to the 2Q09. This result was due to the increase in the population served by water supply and sewage services in the areas in which the Company operates and the beginning of services in other areas. In the second quarter of 2010, the Company started billing sewage services provided in the city of Buritis, Divino, Itacarambi and Natércia.

In relation to performance indicators, the highlight is employee productivity, which is measured based on the ratio given by the number of employees/1,000 connections (water + sewage) which decreased from 2.22 employees/1,000 connections in the 2Q09 to 2.18 in the 2Q10, mainly due to the increase in the number of connections.

COPASA MG
Operating/Commercial Performance Indicators
2nd quarter of 2010 and 2009

Items	Units	2Q10	2Q09	Variation	
				Amount	%
1-Employees (*)	No.	11,623	11,324	299	2.6
2-Employees/connections (A+E)	mp/1.000 connections	2.18	2.22	-0.04	-1.8
3-Billed volume					
Water	1.000 m³/quarter	153,367	147,253	6,114	4.2
Sewage	1.000 m³/quarter	93,997	87,050	6,947	8.0
Total	1.000 m³/quarter	247,364	234,303	13,061	5.6
4-Produced water volume	1.000 m³/quarter	219,028	212,008	7,020	3.3
5-Water metering index	%	99.92	99.76	0.16	0.2
6-Water not converted into revenue - ANCR (1)	l/connection /day	243.1	246.3	-3.20	-1.3

(1) - Average for the last 12 months
(*) - Consolidated data, including subsidiary COPANOR.

The percentage of water metered connections was maintained high, reaching 99.92% in June/2010, higher than that in the 2Q09 (99.76%), which is one of the best among sanitation companies.

Another highlight was the Water not Converted into Revenue (ANCR) index, which corresponds to the difference between distributed volume and the volume effectively billed to consumers, which reached 243.1 l/connection/day in the 2Q10, down 1.3% in relation to the 2Q09 (246.3). The studies have shown that such indicator, which includes actual water losses resulting from pipe leakages, theft and incorrect measurement, is one of the lowest among sanitation companies in Brazil.

This performance is the result of the Program to Reduce Water Losses (PRPA) implemented by the Company and which it has developed since 2003 based on concepts from the National Program Against Water Waste (PNCDA) and the International Water Association (IWA).

5- Investments in the 2Q10

In the 2Q10, investments were mainly destined to the expansion of the water supply system and construction of the Teófilo Otoni Sewage Treatment Station, as well as to give continuity to the construction work for interlinking the Rio das Velhas and Paraopeba systems (Blue Line), expand production capacity of the Rio das Velhas system, which belongs to the Integrated System of the Metropolitan Region of Belo Horizonte and expansion of water sewage services of Pedro Leopoldo.

INVESTMENTS (IN MILLION R$)	2009	2Q10	2Q09
WATER	516,1	97,0	118,0
SEWAGE	495,0	116,0	108,9
OTHER	21,2	8,9	3,5
TOTAL	**1.032,3**	**221,9**	**230,4**

6- Financial Performance

The charts below present the consolidated financial performance for the second quarter of 2010 as compared to the same prior year period:

	Consolidated						
2nd quarter	**2010**		**2009**			**Variation**	
Statement of income		**%**		**%**	**Adjustments**	**R$**	**%**
Water supply services	471,565		444,439			27,126	6.10
Sewage services	166,641		155,675			10,966	7.04
Construction of assets	252,136		210,476		210,476	41,660	19.79
Revenue from finished products	168		394			(226)	-57.36
Gross revenue	**890,510**		**810,984**		**210,476**	**79,526**	**9.81**
Deductions	(69,275)		(62,479)			(6,796)	10.88
Net revenue	**821,235**	**100.00**	**748,505**	**100.00**	**210,476**	**72,730**	**9.72**
Cost of services rendered	(281,961)	-34.33	(273,085)	-36.48	(4,846)	(8,876)	3.25
Construction cost	(244,550)	-29.78	(205,234)	-27.42	(205,234)	(39,316)	19.16
Gross profit	**294,724**	**35.89**	**270,186**	**36.10**	**396**	**24,538**	**9.08**
Selling expenses	(42,836)	-5.22	(42,650)	-5.70	-	(186)	0.44
Administrative expenses	(88,616)	-10.79	(79,821)	-10.66	173	(8,795)	11.02
Other operating income (expenses)	(4,010)	-0.49	4,009	0.54	1,675	(8,019)	200.02
Financial result, net	1,044	0.13	10,708	1.43	510	(9,664)	-90.25
Interest on equity capital	(56,741)	-6.91	(43,651)	-5.83	-	(13,090)	29.99
Income before taxes	**103,565**	**12.61**	**118,781**	**15.87**	**2,754**	**(15,216)**	**-12.81**
Income and social contribution taxes	(33,237)	-4.05	(44,166)	-5.90	(936)	10,929	-24.75
Employees' profit sharing	(5,997)	-0.73	(8,280)	-1.11		2,283	-27.57
Reversal of interest on equity capital	56,741	6.91	43,651	5.83	-	13,090	29.99
Net income for the quarter	**121,072**	**14.74**	**109,986**	**14.69**	**1,818**	**11,086**	**10.08**

- **Gross revenue** – Gross revenue increased R$79,526 or 9.81%, thus reaching R$890,510 in the 2nd quarter of 2010, as compared to R$810,984 in the 2nd quarter of 2009.

Main variations and reasons:

- **Water supply –** Revenue from water supply services increased R$27,126 in the 2Q10 as compared to same prior year period. This increase is due to the average tariff increase of 3.96%, in force as from March 2010, 289,275 new water connections due to population increase and the assumption of new systems. The increase in billed water volume supplied in the period was of 5,511,288 m^3, from 146,919,889 m^3 to 152,431,177 m^3 and the increase in billed water volume supplied per water connection was of 1.33%, from 12.14 m^3 in 2009 to 12.30 m^3 in 2010.

- **Sewage –** Revenue from sewage services increased R$10,967 in the 2Q10 as compared to same prior year period. This increase is due to average tariff increase of 3.96% as from March 2010 as well as the increase of 7.38% in water connections due to population increase and the assumption of new systems. The increase in billed consumption for the period was of 6,947,069 m^3, from 87,049,062 m^3 to 93,996,131m^3 and the increase in billed volume per water connection was of 0.56%, from 12.64 m^3 in 2009 to 12.71 m^3 in 2010.

- **Revenue from construction of assets** – Revenue from construction of assets increased R$41,660 or 19.79%, from R$210,476 in the 2nd quarter of 2009 to R$252,136 in the same 2010 period. In relation to gross revenue, there was increase of 52.95%. The change is due to the increase in cost of construction of water supply and sewage infrastructure in the 2nd quarter of 2010.

  - **Gross revenue deductions** – The increase is due to the increase in PIS/PASEP and COFINS payments as a direct consequence of the increase in gross revenue, which is the calculation base of these taxes.

    Unconditional discounts are discounts granted to our large consumers as well as not-for-profit philanthropic entities. The increase in discounts and rebates in the 2nd quarter of 2010 as compared to the same 2009 period is due to adjustments made in 2009 in the interface between the accounting and commercial systems.

	Consolidated					
2nd quarter	**2010**		**2009**		**Variation**	
		%		**%**	**R$**	**%**
PIS/PASEP	10,351	14.94	9,779	15.65	572	5.85
COFINS	47,678	68.82	45,044	72.10	2,634	5.85
Unconditional discounts	11,221	16.20	7,602	12.17	3,619	47.61
ICMS	26	0.04	53,00	0.08	(27)	-50.94
Revenue deductions	**69,276**	**100.00**	**62,478**	**100.00**	**6,798**	**10.88**

- **Net revenue** – Net revenue increased by R$210,476 or 10.05%.

- **Operating costs and expenses**

Costs of services rendered – The cost of services rendered, comprising water and sewage system operation, conservation and maintenance expenses, increased R$48,192, as set out in the chart below:

	Consolidated				
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Personnel	108,339	97,965	-	10,374	10.59
Materials	20,207	22,676	-	(2,469)	-10.89
Electric energy	53,365	52,596	-	769	1.46
Outsourced services	36,335	30,974	-	5,361	17.31
Tariff transfer to municipal government	14,156	14,734	-	(578)	-3.92
General expenses	3,623	3,634	-	(11)	-0.30
Depreciation and amortization	58,103	62,042	4,846	(3,939)	-6.35
Construction costs	244,550	205,234	205,234	39,316	19.16
Taxes recoverable and tax credits *(PIS-PASEP/COFINS)*	(12,167)	(11,536)	-	(631)	5.47
Cost of services rendered	**526,511**	**478,319**	**210,080**	**48,192**	**10.08**

- **Personnel –** The increase in personnel costs by R$10,374 or 10.59% is mainly due to the 5.49% salary raise provided for by the 2010/2011 collective labor agreement and the inclusion of approximately 50% of the institutional performance bonus – GDI in salary of employees as from August 2009. In addition, we noted the following variation:

Heading	06/30/2010	06/30/2009	Variation	
	R$	R$	R$	%
Salary- normal	44,157	39,143	5,014	12.81
Salary – overtime	3,214	3,455	(241)	-6.98
Function bonus	538	474	64	13.50
Vacation pay	9,274	9,187	87	0.95
13th monthly salary	4,876	4,474	402	8.99
Health exposure premium	1,208	981	227	23.14
Sickness allowance	-	1	(1)	-100.00
Institutional performance bonus	3,433	5,045	(1,612)	-31.95
Social security	17,040	15,853	1,187	7.49
FGTS	8,271	5,407	2,864	52.97
Occupational accident insurance	2,808	1,364	1,444	n.m.
Severance pay and prior notice	587	147	440	n.m.
Professional training	2	-	2	-
Standard lunch	283	246	37	15.04
Transportation voucher	1,160	1,477	(317)	-21.46
Supplementary programs – COPASS	1,452	1,304	148	11.35
Health program	2,087	2,397	(310)	-12.93
Meal program	12,627	12,583	44	0.35
Social security program	4,508	3,784	724	19.13
Other assistance programs	96	79	17	21.52
Managerial performance bonus	272	239	33	13.81
Training of technical professionals	278	16	262	n.m.
Professional training – graduate courses	16	2	14	n.m.
Professional training – seminars/congresses	23	1	22	n.m.
Professional training – managerial training	4	-	4	-
Extended maternity leave	8	-	8	-
Expansion costs	(7,244)	(6,984)	(260)	3.72
DVHM cost	(10)	(137)	127	-92.70
Population increase – own labor	(2,613)	(2,571)	(42)	1.63
*** Personnel cost**	**108,339**	**97,965**	**10,374**	**10.59**

- Increase of R$2,864 or 52.97% in FGTS due to labor contract termination fines in connection with the employee voluntary resignation program.

- Increase of R$1,444 in the occupational accident insurance (RAT) due to RAT insurance rate increase from 2% to 4.24%, levied on employees' salary as from January 2010.

- Increase of R$724, or 19.13%, in the social security program due to the adjustment by 5.45% of employees profit sharing, calculated on salaries above the Previminas cap; and extraordinary contribution of 11% calculated of the contribution amount as from March 2010, ruling until November 2010.

- **Materials** – The decrease of R$2,469 or 10.89% in materials is due to the decrease by R$2,199 or 22.46% in treatment materials mainly due to the decrease in clot price, increase in untreated water quality due to fewer rains in the 2nd quarter of 2010, and by R$428 in systems conservation and maintenance materials, offset by the increase in expenses with parts, accessories and components for vehicles of R$298.

- **Third party services** – Expenses with outsourced services increased by R$5,361 or 17.31%. The main variation in the period is due to the following factors:

  - Increase by R$2,458 or 12.94% in preventive and corrective maintenance services of water and sewage treatment systems mainly due to the beginning of execution of new contracts, addition of new contractual items such as "construction work site maintenance, consulting and inspection charge by professional involved in the contract and digging machine services", renewal of contracts in relation to which input price increased much more than inflation based on price indices for the period, also new contracts provide for price escalation. In addition, some expenses were not recorded on the accrual basis of accounting, thus affecting comparative amounts.

  - Increase of R$1,393 or 58.89% in cleaning, vigilance, courier and reception services due to the process of distribution of costs of administrative units, which started to be more adequately allocated to the units.

  - Increase of R$422 in collection services due to contract renewal with tariff increase on receipt of water and sewage service bills collected by the collecting agents, in addition to the increase in the number of collected bills.

  - Increase of R$381 in technical professional services mainly related to recording of measurements referring to definition for land purchase purposes.

- **Tariff transfer** – The decrease by 3.93%, or R$578, in the 2nd quarter of 2010 as compared to the same prior year period is due to change in the criterion for payment of PBH debt in installments, with extinction of the agreement based on m^3 as from March 2010.

Selling expenses – The Company's selling expenses decreased R$58 or 0.14% in the 2nd quarter of 2010 as compared to the same prior year period. Breakdown of the Company's selling expenses is set out below:

Consolidated				
2nd quarter	2010	2009	Variation	
			R$	%
Personnel	25,079	22,657	2,422	10.69
Materials	910	654	256	39.14
Outsourced services	3,962	4,048	(86)	-2.12
General expenses	266	192	74	38.54
Depreciation and amortization	1,072	1,154	(82)	-7.11
Allowance for doubtful accounts	11,547	13,945	(2,398)	-17.20
Selling expenses	**42,836**	**42,650**	**186**	**0.44**

- **Personnel** – The increase in personnel expenses by R$2,422 or 10.69%, is mainly due to the 5.49% salary increase provided for by the 2010/2011 collective labor agreement and inclusion of approximately 50% of the institutional performance bonus – GDI in employees' salary as from August 2009. In addition, we noted the following variation:

Heading	06/30/2010	06/30/2009	Variation	
Salaries and wages – normal	10,001	8,489	1,512	17.81
Salaries and wages –overtime	431	464	(33)	-7.11
Function bonus	21	35	(14)	-40.00
Vacation pay	2,135	2,106	29	1.38
13th monthly salary	1,031	932	99	10.62
Health exposure premium	3	5	(2)	-40.00
Institutional performance bonus	791	1,139	(348)	-30.55
Social security	3,616	3,318	298	8.98
FGTS	1,431	1,058	373	35.26
Occupational accident insurance	510	217	293	n.m.
Severance pay /prior notice	68	12	56	n.m.
Standard lunch	224	191	33	17.28
Transportation voucher	198	296	(98)	-33.11
Supplementation program – COPASS	304	277	27	9.75
Health program	526	542	(16)	-2.95
Meal program	2,826	2,845	(19)	-0.67
Social security program	822	672	150	22.32
Other assistance programs	42	40	2	5.00
Managerial performance bonus	24	18	6	33.33
Technical professional training	73	1	72	n.m.
Extended maternity leave	2	-	2	-
*** Personnel cost**	**25,079**	**22,657**	**2,422**	**10.69**

- Increase of R$293 in occupational accident insurance (RAT) due to the increase in RAT insurance rate from 2% to 4.24% calculated on employees' salary as from January 2010.

- **Allowance for doubtful accounts** – The decrease by R$2,398 or 17.20% is due to the undue curtailment of approximately R$1,900 from total write-off of impaired receivables in the 2nd quarter of 2010, which will be adjusted in the Quarterly Financial Information - ITR for the 3rd quarter.

  - **Administrative expenses** – The expenses with the Company's management, including the Board of Directors, Supervisory Board, and executive board offices, increased by R$17,925 or 25.36%, as set out below:

	Consolidated				
2nd quarter	**2010**	**2009**		**Variation**	
			Adjustment	**R$**	**%**
Personnel	59,779	52,302	-	7,477	14.30
Materials	1,289	1,658	-	(369)	-22.26
Outsourced services	19,314	21,268	-	(1,954)	-9.19
General expenses	1,579	1,809	-	(230)	-12.71
Depreciation and amortization	6,655	2,784	(173)	3,871	139.04
Administrative expenses	**88,616**	**79,821**	**(173)**	**8,795**	**11.02**

- **Personnel** – The increase in personnel expenses by R$7,477 or 14.30% is due to the salary increase of 5.49% provided for by the 2010/2011 collective labor agreement and the inclusion of approximately 50% of the institutional performance bonus (GDI) in salary of employees as from August 2009. Further variation is set out in the chart below:

Heading	06/30/2010	06/30/2009	Variation	
	R$	R$	R$	%
Wages and salaries – normal	22,871	20,305	2,566	12.64
Wages and salaries – overtime	236	219	17	7.76
Function bonus	864	853	11	1.29
Management fees	523	490	33	6.73
Vacation pay	5,148	4,619	529	11.45
13th monthly salary	2,475	2,218	257	11.59
Health exposure premium	32	28	4	14.29
Supplemental sickness allowance	1	3	(2)	-66.67
Institutional performance bonus– GDI	1,794	2,671	(877)	-32.83
Social security	8,708	8,071	637	7.89
FGTS	4,907	2,419	2,488	n.m.
Occupational accident insurance	1,212	538	674	n.m.
Severance pay /prior notice	534	71	463	n.m.
Professional training	190	445	(255)	-57.30
Standard lunch	212	221	(9)	-4.07
Transportation voucher	1	607	(606)	-99.84
Supplementation program – COPASS	680	662	18	2.72
Health program	3,359	3,206	153	4.77
Meal program	3,443	2,644	799	30.22
Social security program	2,990	2,558	432	16.89
Other assistance programs	192	219	(27)	-12.33
Refund related to subcontracted labor	(1,372)	-1,366	(6)	0.44
Managerial performance bonus – GDG	569	488	81	16.60
Technical professional training	121	33	88	100.00
Professional training – graduate and university extension courses	31	-	31	100.00
Professional training – seminars /congresses	14	1	13	100.00
Professional training – managerial training	13	0	13	100.00
Extended maternity leave	17	0	17	100.00
Management fees	-	65	(65)	-100.00
Union dues	14	14	-	100.00
*** Personnel cost**	**59,779**	**52,302**	**7,477**	**14.30**

- The increase by R$2,488 in FGTS is due to labor contract termination fines in connection with the employees' voluntary resignation program.

- The increase of R$799 in the meal program is due to the 9.37% escalation in meal tickets and basket of food staples.

- The decrease of R$606 in transportation voucher is related to the application of the ABSCARD system. Transportation voucher request allows consulting transportation voucher cards balance to make such purchases on a supplementary basis.

- **Outsourced services** – Expenses with outsourced services decreased by R$1,954 mainly in connection with expenses with advertising and promotion services of R$2,288, which decreased due to non-recurrent advertising expenses in the 2Q10, mainly the health campaign, expenses with cleaning, vigilance, courier and reception services of R$1,263 due to the process of distribution of costs of administrative units, which started to be more adequately classified in the units as from May 2009, offset by the increase in professional technical services of R$1,672 mainly due to hiring of electronic printing services in July 2009, also expenses related to the period and other prior period expenses were recorded in the 2nd quarter of 2010.

- **Depreciation and amortization** – The increase of R$3,871 in the 2nd quarter of 2010 as compared with the same prior year period is due to the increase of R$6,297 with amortization of financial asset discount to present value, offset by the decrease of R$2,520 in the reversal of depreciation and amortization of donated assets and subventions.

- **Other operating income (expenses)**

	Consolidated				
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Revenue from technical services	616	249	-	367	n.m.
Reversal of nondeductible provision	1,263	7,247	1,675	(5,984)	-82.57
Recovery of accounts written off as loss	2,695	2,573	-	122	4.74
Other revenues	2,347	4,880	-	(2,533)	-51.91
Total other operating revenues	**6,921**	**14,949**	**1,675**	**(8,028)**	**-53.70**
Adventitious or windfall losses	(5,712)	(8,720)	-	3,008	-34.50
Other expenses	(5,219)	(2,220)	-	(2,999)	n.m.
Total other operating expenses	**(10,931)**	**(10,940)**	**-**	**9**	**-0.08**
Total other operating income (expenses)	**(4,010)**	**4,009**	**1,675**	**(8,019)**	**n.m.**

Variations and reasons:

- **Other operating income** – Other operating income decreased by R$8,028 or 51.91% mainly due to non-recurrent actuarial liability reversal expenses of R$5,230 and donations and funding of Hydrographic Basin Depollution Program – ANA/PRODES, in the amount of RR1,900 in the 2nd quarter of 2010.

- **Other operating expenses** – The decrease of R$9 in other operating expenses is due to the decrease of R$2,343 in provisions for judicial proceedings and provisions for contingencies, offset by reversal of costs related to revaluation of materials of subsidiary Copasa Águas Minerais de Minas S/A in the amount of R$2,404 recorded in the 2Q09, but not occurring in the 2Q10.

- **Financial income (expenses)** – These reflect the results related to financial investments, amounts receivable, loans, financing and debentures. Analysis of variation is conducted based on the net result of financial income and expenses, as set out in the chart below:

Consolidated					
2nd quarter	2010	2009		Variation	
			Adjustment	R$	%
Monetary and exchange variation	2,565	16,610	-	(14,045)	-84.56
Interest	28,743	9,569	-	19,174	n.m.
Actual financial investment yield	8,425	16,193	(3,186)	(7,768)	-47.97
Other revenues	4,052	3,898	3,897	154	3.95
Total financial income	**43,785**	**46,270**	**711**	**(2,485)**	**-5.37**
Monetary and exchange variation	(7,074)	(11,033)	-	3,959	-35.88
Interest on financing	(34,017)	(23,106)	(201)	(10,911)	47.22
Other expenses	(1,650)	(1,423)	-	(227)	15.95
Total financial expenses	**(42,741)**	**(35,562)**	**(201)**	**(7,179)**	**20.19**
Net financial result	**1,044**	**10,708**	**510**	**(9,664)**	**-90.25**

Main variations and reasons:

- **Monetary and exchange variation** – Expenses and revenues from monetary and exchange variation presented a net variation of R$10,086 basically due to the financing and guarantee from BNY, which was significantly impacted by restatement in the 2nd quarter of 2009 due to the international financial slowdown, which led to a marked US dollar devaluation, fact that did not occur in the 2nd quarter of 2010, in which there was a slight US dollar appreciation. In the 2nd quarter of 2009, the marked US dollar devaluation generated a liability reversal of R$13,626 and in the 2nd quarter of 2010 updating of the financing from BNY generated an expense of R$587, a net variation of R$14,213. The guarantee from BNY, which in the 2nd quarter of 2009 involved asset reversal of R$5,558, generated revenue of R$247 in the 2nd quarter of 2010, a net variation of R$5,805. Thus, the net result between exchange variation expense and revenue of the financing and guarantee from BNY amounted to R$8,408.

- **Interest** – This item records interest expenses on financing, revenue from guarantee in foreign currency and interest on municipal taxes paid in installments. Interest receivable increased R$19,174 mainly due to remuneratory interest and restatement of BNDES debentures of R$16,932 and gain from trading of guarantee in the New York Stock Exchange of R$3,670, offset by the decrease of R$4,003 from the renegotiation of the criterion applied to restate the debt to the municipal government of Belo Horizonte, which used to be restated based on billed cubic meter. There was an increase in interest payable by R$10,911 due to the variation of R$10,380 in interest on debentures, mainly related to reclassification from grace period to repayment period in the quarter.

- **Actual financial investment yield** – The decrease of R$7,768 is due to the decrease in the balance of the Company's financial investments from R$23,276 in June 2009 to R$8,425 in June 2010.

  - **Interest on equity capital** – In the 2nd quarter of 2010 the Company recorded interest on equity capital of R$56,741 as compared to R$43,651 in the 2nd quarter of 2009, a variation of R$13,090 due to the provisioning of 50% of interest on equity capital payable to shareholders as compared to 35% in 2009.

  - **Pretax income** – There was decrease in pretax income by R$15,215 or 12.81% from R$118,780 to R$103,565 in the 2nd quarter of 2010.

  - **Provision for income and social contribution taxes** – Income and social contribution taxes in the 2nd quarter of 2010 totaled R$33,237 as compared to R$44,166 in the 2nd quarter of 2009. The variation amounted to R$10,929 or 24.75%.

  - **Employees' profit sharing –** In the 2nd quarter of 2010, a provision was set up of R$5,997 for employees' profit sharing, as compared to R$8,280 in 2009, a decrease by R$2,283 or 27.57%.

  - **Net income for the quarter** – Net income for the 2nd quarter of 2010 increased by R$11,087 or 10.08% as compared to the same 2009, namely from R$109,985 to R$121,072.

  - **Income generation or EBITDA** – There was income generation of R$217,506 in the 2nd quarter of 2010 as compared to R$212,462 in the same 2009 period, or an increase by R$5,044 or 2.37%. EBITDA was of 37.76 in the 2nd quarter of 2010 as compared to 38.42 in 2009, a decrease of 0.66 p.p.

The table below sets out EBITDA calculation:

	Consolidated			
2nd quarter	**2010**	**2009**	**Variation**	
			R$	**%**
Net income – Revenue (expense) from construction of assets	**121,072**	**109,986**	**11,086**	**10.08**
(-) Revenue (expense) from construction of assets	(7,586)	(5,242)	(2,344)	44.72
Net income not considering revenue (expense) from construction of assets	**113,486**	**104,744**	**8,742**	**8.35**
Provision for IRPJ and CSLL	33,237	44,166	(10,929)	-24.75
Amortization and depreciation	65,830	65,980	(150)	-0.23
Employees' profit sharing	5,997	8,280	(2,283)	-27.57
Financial result	(1,044)	(10,708)	9,664	-90.25
EBTIDA [(1)]	**217,506**	**212,462**	**5,044**	**2.37**
EBTIDA margin [(2)]	**37.76**	**38.42**		**-0.66 p.p.**

(1) EBITDA means net income (loss) before income and social contribution taxes, net financial expenses and depreciation and amortization charges. Since financial income (expenses), income and social contribution taxes and amortization and depreciation are not considered, EBITDA indicates our overall economic performance, which is not affected by changes in interest rates, in income and social contribution tax rates or depreciation and amortization levels. Consequently, we believe that EBITDA is a significant tool for periodic comparison of our operating performance, and serves as a base for certain administrative decisions. We believe that EBITDA allows attaining better understanding of our financial performance as well as our capacity to meet our obligations and obtain funds for our capital expenditures and to meet our working capital needs. EBITDA, however, presents limitations for use thereof as a measure of our profitability since it does not consider certain costs arising from our business activities, which could significantly affect our profits, such as financial expenses, taxes, depreciation, capital expenses and other related charges.

(2) EBITDA margin is calculated based on net revenue from services, which corresponds to net operating revenue plus other operating revenue.

7- Balance Sheet

CONSOLIDATED

• Balance sheet

2ND ITR	06/30/10	03/31/10	Variation R$	Variation %
Current assets	750,516	852,700	(102,184)	(11.98)
Noncurrent assets	6,347,170	6,114,473	232,697	3.81
Total assets	**7,097,686**	**6,967,173**	**130,514**	**1.87**
Current liabilities	622,394	628,814	(6,421)	(1.02)
Noncurrent liabilities	2,609,735	2,537,133	72,602	2.86
Shareholders' equity	3,865,557	3,801,226	64,331	1.69
Total liabilities and shareholders' equity	**7,097,686**	**6,967,173**	**130,513**	**1.87**

CONSOLIDATED

• Current assets

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Cash	227,497	330,509	(103,012)	(31.17)
Trade accounts receivable	397,909	407,337	(9,428)	(2.31)
Inventories	29,358	29,317	41	0.14
Taxes recoverable	36,683	28,735	7,948	27.66
Technical cooperation agreement	13,031	24,925	(11,894)	(47.72)
Sundry receivables	46,039	31,877	14,163	44.43
Total current assets	**750,516**	**852,700**	**(102,184)**	**(11.98)**

» Cash

Balance at 03/31/10:	330,509	Variation ($):	(103,012)
Balance at 06/30/10:	227,497	Variation (%):	(31.17)
Situation:	**Decrease**		

This account balance decreased in the period due to redemption of financial investments to current bank account in order to pay dividends to shareholders and the state government, as well as to make payments to Company suppliers.

» Trade accounts receivable

Balance at 03/31/10:	407,337	Variation ($):	(9.428)
Balance at 06/30/10:	397,909	Variation (%):	(2.31)
Situation:	**Decrease**		

This account balance decreased due to the increase in billing of debts in installments in the period from May to June, in the amount of R$2,480 (variation being analyzed by the IT and Commercial Departments), the inclusion of new customers in the ADA (allowance for doubtful accounts), the most significant being the Santa Casa de Misericórdia, and the increase in bank "float" on April 29 and 30, with collection of R$17,180.

»Taxes recoverable

Balance at 03/31/10:	28,735	Variation ($):	7,948
Balance at 06/30/10:	36,683	Variation (%):	27.66
Situation:	**Increase**		

This account balance increased due to increased payment on an estimate basis of income and social contribution taxes in the period from January to May 2010.

» Technical cooperation agreement

Balance at 03/31/10:	24,925	Variation ($):	(11,894)
Balance at 06/30/10:	13,031	Variation (%):	(47.72)
Situation:	**Decrease**		

The variation is due to refund of expenses with agreements entered into, as such the amount receivable from agreement participants decreased from R$24,925 in the 1Q10 to R$13,031 in the 2Q10.

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• Noncurrent assets

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Trade accounts receivable	192,829	199,081	(6,252)	(3.14)
Deferred income and social contribution taxes	342,720	338,373	4,348	1.28
Judicial deposits	8,769	8,819	(50)	(0.57)
Financing guarantee	100,482	81,776	18,706	22.87
Financial assets	271,671	273,611	(1,940)	(0.71)
Sundry receivables	52,106	50,699	1,408	2.78
Total noncurrent assets	**968,577**	**952,360**	**16,218**	**1.70**
Investments	260	260	0	0.00
Intangible assets	5,259,684	5,044,693	214,990	4.26
Property, plant and equipment	118,649	117,161	1,487	1.27
Total permanent assets	**5,378,592**	**5,162,115**	**216,477**	**4.19**
Total noncurrent assets	**6,347,170**	**6,114,473**	**232,697**	**3.81**

» Financing guarantee

Balance at 03/31/10:	81,776	Variation ($):	18,706
Balance at 06/30/10:	100,482	Variation (%):	22.87
Situation:	**Increase**		

This account balance increase is due to the end of the grace period of the debenture financing agreement with BNDES, this resulted in increase of R$5,281 and reserve increase due to new applications on May 11, 2010 (contracts in the repayment phase).

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• **Current liabilities**

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Loans and financing	141,890	138,094	3,796	2.75
Debentures	93,907	79,469	14,437	18.17
Contractors and suppliers	64,681	55,211	9,470	17.15
Taxes, charges and contributions	32,112	39,536	(7,424)	(18.78)
Taxes in installments	44,793	60,285	(15,492)	(25.70)
Provision for vacation pay and 13th salary	91,581	71,154	20,428	28.71
Employees profit sharing	30,915	42,110	(11,195)	(26.59)
Interest on equity capital	56,746	91,149	(34,403)	(37.74)
Private pension plan	14,434	13,445	989	7.35
Electric energy	25,317	24,850	467	1.88
Sundry obligations	26,018	13,511	12,508	92.58
Total current liabilities	**622,394**	**628,814**	**(6,421)**	**(1.02)**

» Debentures

Balance at 03/31/10:	79,469	Variation ($):	14,437
Balance at 06/30/10:	93,907	Variation (%):	18.17
Situation:	**Increase**		

This account balance increase is due to the end of the grace period related to interest on financing in the current and noncurrent portions, the provision for remuneratory interest and normal interest on new cash outlays and contracts transferred to the current portion for having reached the repayment phase.

» Contractors and suppliers

Balance at 03/31/10:	55,211	Variation ($):	9,470
Balance at 06/30/10:	64,681	Variation (%):	17.15
Situation:	**Increase**		

This account balance increase is due to the increase in Company investments, mainly using funds from BNDES, thus resulting in increase in the amount payable, as well as due to entry of new goods for the conduction of construction works.

» Taxes, charges and contributions

Balance at 03/31/10:	39,536	Variation ($):	(7,424)
Balance at 06/30/10:	32,112	Variation (%):	(18.78)
Situation:	**Decrease**		

The variation is due to revenue deferral, as provided for by the Transition Tax Regime – R.T.T.

» Taxes in installments

Balance at 03/31/10:	60,285	Variation ($):	(15,492)
Balance at 06/30/10:	44,793	Variation (%):	(25.70)
Situation:	**Decrease**		

This account balance decrease is due to amortization of IPI payable to Brazilian IRS, of which the total amount was renegotiated to be paid in 12 monthly installments of R$5,449, offset by the transfer of R$6,549 from the noncurrent to the current portion of the provision for taxes payable to the Belo Horizonte municipal government, which up to March 2010 were classified in the tax provision group and, after accounting reclassifications, the balance thereof is stated individually.

» Provision for vacation pay and 13th monthly salary

Balance at 03/31/10:	71,154	Variation ($):	20,428
Balance at 06/30/10:	91,581	Variation (%):	28.71
Situation:	**Increase**		

The increase in the provision for vacation pay and 13th monthly salary is mainly due to salary raise of 5.49% provided for by the 2010/2011 collective labor agreement, the inclusion of approximately 50% of the institutional performance bonus – GDI in employee salary as from August 2009 and normal increase in the balance of the 13th monthly salary account, of which the payment starts being made as from November 2010.

» Employees' profit sharing

Balance at 03/31/10:	42,110	Variation ($):	(11,195)
Balance at 06/30/10:	30,915	Variation (%):	(26.59)
Situation:	**Decrease**		

This account balance decrease refers to payment of the 1st portion of employee profit sharing, in the amount of R$17,133 in April 2010.

» Interest on equity capital

Balance at 03/31/10:	91,149	Variation ($):	(34,403)
Balance at 06/30/10:	56,746	Variation (%):	(37.74)
Situation:	**Decrease**		

This account balance decrease is due to payment of interest on equity capital referring to the 4th quarter of 2009, in the amount of R$50,367 and the amount provisioned in March 2010.

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» Sundry obligations

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Concession debts	19,303	8,644	10,659	n.m.
Other	6,715	4,867	1,849	37.98
Total sundry obligations	**26,018**	**13,511**	**12,508**	**92.58**

» Sundry obligations

Balance at 03/31/10:	13,511	Variation ($):	12,508
Balance at 06/30/10:	26,018	Variation (%):	92.58
Situation:	**Increase**		

This account balance increase is due to the agreement entered into by the Company with Ribeirão das Neves municipal government for the incorporation by Copasa of public system assets resulting from water supply and sewage related construction works. The balance increase is due to matching of accounts which resulted in debt difference of R$15,271, of which R$4,500 has already been paid by the Company.

CONSOLIDATED

• Noncurrent liabilities

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Caixa Econômica Federal	655,519	662,156	(6,637)	(1.00)
State government / BDMG	13,788	13,664	124	0.91
National Treasury	94,276	102,624	(8,348)	(8.13)
BNDES/BNE	272,048	228,276	43,772	19.18
In local currency	**1,035,631**	**1,006,720**	**28,912**	**2.87**
Federal Government – bonus	55,763	57,554	(1,791)	(3.11)
In foreign currency	**55,763**	**57,554**	**(1,791)**	**(3.11)**
Total loans and financing	**1,091,394**	**1,064,273**	**27,121**	**2.55**
Non-convertible debentures	524,772	478,258	46,514	9.73
Convertible debentures	134,669	134,048	621	0.46
Total debentures	**659,441**	**612,306**	**47,135**	**7.70**
Provision for contingencies	28,822	26,699	2,122	7.95
Provision for taxes	47,234	46,632	602	1.29
Taxes in installments	192,829	199,266	(6,438)	(3.23)
Pension plan	471,593	470,893	700	0.15
Electric energy	26,423	30,373	(3,951)	(13.01)
Advance for future capital increase	8,797	8,797	0	0.00
Deferred income and social contribution taxes	42,093	37,308	4,785	12.83
Other liabilities	41,109	40,586	523	1.29
Total noncurrent liabilities	**2,609,735**	**2,537,133**	**72,602**	**2.86**

» Loans and financing

Balance at 03/31/10:	1,064,273	Variation ($):	27,121
Balance at 06/30/10:	1,091,394	Variation (%):	2.55
Situation:	**Increase**		

This account balance increase is due to transfer of financing that was in the grace period phase in the amount of R$44,354, offset by transfer of financing to the current portion in the amount of R$288.

» Nonconvertible debentures

Balance at 03/31/10:	478,258	Variation ($):	46,514
Balance at 06/30/10:	524,772	Variation (%):	9.73
Situation:	**Increase**		

This account balance increase is due to the new BNDES cash outlay on May 26, 2010 in the amount of R$75,000 offset by transfer from noncurrent to current portion.

» Taxes in installments

Balance at 03/31/10:	199,266	Variation ($):	(6,438)
Balance at 06/30/10:	192,829	Variation (%):	(3.23)
Situation:	**Decrease**		

This account balance refers to provision for Company debt to the Belo Horizonte municipal government, which until March 2010 was classified in the provision for taxes group and after accounting reclassifications, the balance thereof is stated individually. The balance decrease is due to transfer from noncurrent to current portion in the amount of R$6,549.

» Electric energy

Balance at 03/31/10:	30,373	Variation ($):	(3,951)
Balance at 06/30/10:	26,423	Variation (%):	(13.01)
Situation:	**Decrease**		

It mainly refers to repayment of debt related to CEMIG concessionaire, recorded in the referred to period.

» Deferred income and social contribution taxes

Balance at 03/31/10:	37,308	Variation ($):	4,785
Balance at 06/30/10:	42,093	Variation (%):	12.83
Situation:	**Increase**		

The variation is due to revenue deferral, as provided for by the Transition Tax Regime – R.T.T.

07.01 – COMMENTS ON THE COMPANY'S PERFORMANCE FOR THE QUARTER

CONSOLIDATED

• **Shareholders' equity**

2nd ITR	06/30/10	03/31/10	Variation R$	Variation %
Beginning balance	**3,801,226**	**3,731,416**	**69,810**	**1.87**
Net income	121,072	113,483	7,589	6.69
Interest on equity capital	(56,741)	(43,673)	(13,068)	29.92
Ending balance	**3,865,557**	**3,801,226**	**64,331**	**1.69**

» Interest on equity capital

Balance at 03/31/10:	(43,673)	Variation ($):	(13,068)
Balance at 06/30/10:	(56,741)	Variation (%):	29.92
Situation:	**Increase**		

The increase in interest on equity capital is due to the increase in Company's profit for the period.

The increase in shareholders' equity is also due to the increase in the Company's profit, as shown above.

20.01 - 20.01 – OTHER INFORMATION DEEMED RELEVANT BY THE COMPANY

In compliance with the New Market Regulations, we present below the Additional Requirements for Quarterly Financial Information (ITR) as of June 30, 2010:

Position of shareholders holding more than 5% of Company shares of each type and class, up to the individual level		
Companhia de Saneamento de Minas Gerais - COPASA MG	**Position as of 6/30/2010 (in units)**	
	Common shares	
Shareholders	**Number**	**%**
State of Minas Gerais	61,188,867	53.07
Mackenzie Financial Corporation*	5,778,000	5.01
The Bank of New York Mellon Corporation**	5,787,002	5.02
Management	619	0.00
Treasury stock	370,176	0.32
Other	42,174,840	36.58
Total	**115,299,504**	**100.00**

Position of shareholders holding more than 5% of Company shares of each type and class, up to the individual level		
Companhia de Saneamento de Minas Gerais - COPASA MG	**Position as of 6/30/2009 (in units)**	
	Common shares	
Shareholders	**Number**	**%**
State of Minas Gerais	61,188,867	53.08
Mackenzie Financial Corporation*	5,778,000	5.01
Management	34,621	0.03
Treasury stock	370,176	0.32
Other	47,901,892	41.55
Total	**115,273,556**	**100.00**

* Foreign capital company. Number of shares informed by Mackenzie Financial Corporation to the Company, in the capacity of administrator, advisor and/or sub-advisor of mutual funds, as per Communication received by the Company on May 5, 2008 and disclosed through Statement to the Market on May 6, 2008.

** Number of shares informed by The Bank of New York Mellon Corporation to the Company, as per Official Letter received on February 11, 2010 and disclosed through Statement to the Market on February 11, 2008.

*** It is not included in the position of 06/30/2009 the 8,156 common shares of the Company resulting from conversion of 2,039 debentures made in 06/18/2009, whose approval ocurred after 06.30.2009.

2) Position of controlling entities, management and outstanding shares

Consolidated shareholding position of Controlling Entities, Management and outstanding shares as of 6/30/2010 (in units)		
	Common shares	
Shareholders	Number	%
Controlling entity – State of Minas Gerais	61,188,867	53.07
Management		-
Board of Directors	41	-
Executive Board	578	-
Supervisory Board	4	-
Treasury stock	370,176	0.32
Other shareholders	53,739,838	46.61
Total	115,299,504	100.00
Outstanding shares	**53,739,842**	**46.61**

Consolidated shareholding position of Controlling Entities, Management and outstanding shares as of 3/31/2009 (in units)		
	Common shares	
Shareholders	Number	%
Controlling entity – State of Minas Gerais	61,188,867	53.12
Management		
Board of Directors	34,040	0.03
Executive Board	581	-
Supervisory Board	8	-
Treasury stock	370,176	0.32
Other shareholders	53,679,888	46.57
Total	**115,273,556**	**100.00**
Outstanding shares	**53,679,892**	**46.57**

3) Arbitration Clause

Companhia de Saneamento de Minas Gerais - COPASA MG is bound to arbitration by the Market Arbitration Chamber, pursuant to Arbitration Clause provided for in the Company's Articles of Incorporation.