(A free translation of the original in Portuguese)

Companhia de Saneamento de Minas Gerais - COPASA MG

Quarterly Information (ITR) at
March 31, 2014
and report on review of
quarterly information

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Report on review of quarterly information - without exceptions

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

Introduction

We have reviewed the accompanying parent company and consolidated interim accounting information of Companhia de Saneamento de Minas Gerais - COPASA MG (the "Company"), included in the Quarterly Information Form (ITR) for the quarter ended March 31, 2014, comprising the balance sheet as at that date and the statements of income, comprehensive income, changes in equity and cash flows for the quarter then ended, and a summary of significant accounting policies and other explanatory information.

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

Scope of review

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

Conclusion on the parent company interim information

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

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Companhia de Saneamento de Minas Gerais – COPASA MG

Conclusion on the consolidated interim information

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

Other matters

Statements of value added

We have also reviewed the parent company and consolidated statements of value added for the quarter ended March 31, 2014. These statements are the responsibility of the Company's management, and are required to be presented in accordance with standards issued by the CVM applicable to the preparation of Quarterly Information (ITR) and are considered supplementary information under IFRS, which do not require the presentation of the statement of value added. These statements have been submitted to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they have not been prepared, in all material respects, in a manner consistent with the parent company and consolidated interim accounting information taken as a whole.

Belo Horizonte, May 6, 2014

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

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

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Contents

Company information
Capital composition 1
Parent company financial statements
Balance sheet - assets 2
Balance sheet - liabilities and equity 3
Statement of income 4
Statement of comprehensive income 5
Statement of cash flow - indirect method 6
Statement of changes in equity
1/1/2014 to 3/31/2014 7
1/1/2013 to 3/31/2013 8
Statement of value added 9
Consolidated financial statements
Balance sheet - assets 10
Balance sheet - liabilities and equity 11
Statement of income 12
Statement of comprehensive income 13
Statement of cash flow - indirect method 14
Statement of changes in equity
1/1/2014 to 3/31/2014 15
1/1/2013 to 3/31/2013 16
Statement of value added 17
Comments on company performance 18
Notes to the quarterly information 43
Comments on the behavior of business projections 86

Company information/Capital composition

Number of shares (In thousands)	Current quarter 3/31/2014
Paid-up capital	
Common shares	119,327
Preferred shares	0
Total	119,327
Treasury shares	
Common shares	357
Preferred shares	0
Total	357

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Parent company financial statements/balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 3/31/2014	Prior year 12/31/2013
1	Total assets	9,514,969	9,456,301
1.01	Current assets	1,024,522	1,079,708
1.01.01	Cash and cash equivalents	196,526	260,481
1.01.03	Accounts receivable	768,740	757,076
1.01.03.01	Trade receivables	711,839	697,105
1.01.03.02	Other receivables	56,901	59,971
1.01.03.02.01	Recoverable taxes	23,468	23,283
1.01.03.02.02	Technical cooperation agreements	629	0
1.01.03.02.03	Bank account - agreements	32,804	36,688
1.01.04	Inventories	34,327	34,486
1.01.08	Other current assets	24,929	27,665
1.01.08.03	Others	24,929	27,665
1.01.08.03.01	Advances to employees	8,396	11,286
1.01.08.03.02	Others	16,533	16,379
1.02	Non-current assets	8,490,447	8,376,593
1.02.01	Long-term receivables	1,303,261	1,270,102
1.02.01.03	Accounts receivable	482,342	497,894
1.02.01.03.01	Trade receivables	206,450	212,580
1.02.01.03.02	Other receivables	275,892	285,314
1.02.01.06	Deferred taxes	123,242	118,944
1.02.01.06.01	Deferred income and social contribution	123,242	118,944
1.02.01.08	Intercompany receivables	111,594	109,790
1.02.01.08.02	Receivables from subsidiaries	111,594	109,790
1.02.01.09	Other non-current assets	586,083	543,474
1.02.01.09.03	Financial assets - concession agreements	537,445	494,836
1.02.01.09.04	Financial assets available for sale	48,638	48,638
1.02.02	Investments	260	260
1.02.02.01	Investments in subsidiaries	260	260
1.02.02.01.04	Investments in other companies	260	260
1.02.03	Property, plant and equipment	207,242	205,478
1.02.03.01	Property, plant and equipment in operation	207,242	205,478
1.02.04	Intangible assets	6,979,684	6,900,753
1.02.04.01	Intangible assets	6,979,684	6,900,753
1.02.04.01.01	Concession agreements	5,255,274	5,128,887
1.02.04.01.02	Intangible assets in progress	1,724,410	1,771,866

Parent company financial statements / balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 3/31/2014	Prior year 12/31/2013
2	Total liabilities and equity	9,514,969	9,456,301
2.01	Current liabilities	941,789	914,633
2.01.02	Trade payables	130,189	135,338
2.01.02.01	Domestic suppliers	130,189	135,338
2.01.03	Tax obligations	58,637	53,764
2.01.03.01	Federal tax obligations	58,253	52,626
2.01.03.01.02	Other federal obligations	58,253	52,626
2.01.03.03	Municipal tax obligations	384	1,138
2.01.04	Borrowings	459,448	471,526
2.01.04.01	Borrowings	195,804	196,259
2.01.04.01.01	In local currency	192,685	194,251
2.01.04.01.02	In foreign currency	3,119	2,008
2.01.04.02	Debentures	263,644	275,267
2.01.04.02.01	Non-convertible	263,644	275,267
2.01.05	Other liabilities	112,700	87,751
2.01.05.02	Others	112,700	87,751
2.01.05.02.01	Dividends and interest on capital payable	66,391	31,646
2.01.05.02.04	Pension plan	21,429	26,409
2.01.05.02.05	Electrical energy	5,959	10,832
2.01.05.02.06	Technical cooperation agreements	0	6,547
2.01.05.02.07	Sundry obligations	18,921	12,317
2.01.06	Provisions	180,815	166,254
2.01.06.01	Provision for tax, social security, labor and civil contingencies	180,815	166,254
2.01.06.01.05	Taxes payable in installments	41,990	41,144
2.01.06.01.06	Provision for vacation pay and 13th month salary	99,433	92,023
2.01.06.01.07	Employee profit sharing	39,392	33,087
2.02	Non-current liabilities	3,157,319	3,204,309
2.02.01	Borrowings	2,632,522	2,684,741
2.02.01.01	Borrowings	1,222,292	1,192,469
2.02.01.01.01	In local currency	1,053,637	1,067,145
2.02.01.01.02	In foreign currency	168,655	125,324
2.02.01.02	Debentures	1,410,230	1,492,272
2.02.01.02.01	Non-convertible	1,410,230	1,492,272
2.02.02	Other liabilities	234,973	230,514
2.02.02.01	Related-party liabilities	88,848	86,346
2.02.02.01.02	Due to subsidiaries	88,848	86,346
2.02.02.02	Others	146,125	144,168
2.02.02.02.03	Pension plan	106,884	106,010
2.02.02.02.05	Deposits for construction	24,524	30,389
2.02.02.02.06	Sundry	14,717	7,769
2.02.04	Provisions	289,824	289,054
2.02.04.01	Provision for tax, social security, labor and civil contingencies	289,824	289,054
2.02.04.01.05	Taxes payable in installments	206,450	212,580
2.02.04.01.06	Litigation provision	83,374	76,474
2.03	Equity	5,415,861	5,337,359
2.03.01	Paid-up capital	2,773,985	2,773,985
2.03.02	Capital reserves	-8,576	-8,576
2.03.02.05	Treasury shares	-8,576	-8,576
2.03.04	Revenue reserves	2,508,330	2,508,330
2.03.04.01	Legal reserve	215,445	215,445
2.03.04.05	Profit retention reserve	2,265,400	2,265,400
2.03.04.07	Tax benefit reserve	27,485	27,485
2.03.05	Retained earnings/accumulated deficit	82,836	0
2.03.06	Carrying value adjustments	59,286	63,620

Parent company financial statements/statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
3.01	Revenue from sales and/or services	948,415	857,449
3.01.01	Water supply services	521,882	482,342
3.01.02	Sewage services	267,377	248,594
3.01.03	Construction revenue	159,156	126,513
3.02	Cost of sales and/or services	-574,314	-501,766
3.02.01	Cost of sales and/or services	-419,930	-379,148
3.02.02	Construction cost	-154,384	-122,618
3.03	Gross profit	374,101	355,683
3.04	Operating expenses/income	-178,643	-161,696
3.04.01	Selling expenses	-60,421	-51,704
3.04.02	General and administrative expenses	-102,830	-89,768
3.04.04	Other operating income	18,959	11,178
3.04.05	Other operating expenses	-31,849	-27,436
3.04.05.01	Other operating expenses	-25,221	-19,531
3.04.05.02	Employee profit sharing	-6,628	-7,905
3.04.06	Equity in the results of subsidiaries	-2,502	-3,966
3.05	Profit before finance result and taxation	195,458	193,987
3.06	Finance result	-44,165	-37,226
3.06.01	Finance income	22,924	22,255
3.06.02	Finance costs	-67,089	-59,481
3.07	Profit before income tax and social contribution	151,293	156,761
3.08	Income tax and social contribution	-34,680	-40,390
3.08.01	Current	-37,250	-45,522
3.08.02	Deferred	2,570	5,132
3.09	Profit for the period from continuing operations	116,613	116,371
3.11	Profit for the period	116,613	116,371
3.99	Earnings per share (R$)		
3.99.01	Basic earnings per share		
3.99.01.01	Common shares	0.98000	0.98000
3.99.02	Diluted earnings per share		
3.99.02.01	Common shares	0.98000	0.98000

(A free translation of the original in Portuguese)

Parent company financial statements/statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
4.01	Profit for the period	116,613	116,371
4.02	Other comprehensive income (loss)	-3,354	679
4.02.01	Fair value of investment in Foz de Jeceaba	0	679
4.02.02	Actuarial loss on retirement benefits	-3,354	0
4.03	Comprehensive income for the period	113,259	117,050

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

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
6.01	Net cash provided by operating activities	222,375	199,690
6.01.01	Cash from operations	304,478	293,636
6.01.01.01	Profit for the period	116,613	116,371
6.01.01.02	Provision for impairment of trade receivables	19,959	15,110
6.01.01.03	Recovery of accounts written-off	-9,602	-7,466
6.01.01.04	Interest and monetary and foreign exchange variations, net	42	1,104
6.01.01.05	Interest income and expenses	49,129	42,911
6.01.01.06	Deferred income tax and social contribution	-2,570	-5,132
6.01.01.07	Equity in the results of subsidiaries	2,502	3,966
6.01.01.08	Write-off of intangible assets and property, plant and equipment	3,016	7,073
6.01.01.09	Depreciation and amortization	113,869	99,743
6.01.01.10	Additions to provisions	7,961	7,106
6.01.01.11	Provision for actuarial liabilities	10,044	16,797
6.01.01.12	Financial assets	0	-52
6.01.01.14	Net margin of construction revenue	-4,772	-3,895
6.01.01.15	Deferred revenue	-1,713	0
6.01.02	Changes in assets and liabilities	-82,103	-93,946
6.01.02.01	Trade receivables	-13,096	-17,401
6.01.02.02	Inventories	159	992
6.01.02.03	Recoverable taxes	-185	-176
6.01.02.04	Bank account - agreements	3,884	-12,813
6.01.02.05	Collateral for financing	986	1,399
6.01.02.06	Receivables from subsidiaries	-1,127	-5,175
6.01.02.07	Other financial assets	-3,173	-7,023
6.01.02.08	Others	9,954	-3,408
6.01.02.09	Trade payables	-5,149	-17,263
6.01.02.10	Tax obligations	4,873	15,434
6.01.02.11	Provision for vacation pay and 13th month salary	7,410	6,552
6.01.02.12	Employee profit sharing	6,305	7,893
6.01.02.13	Technical cooperation agreements	-7,176	1,965
6.01.02.14	Contingencies	-1,061	-1,084
6.01.02.15	Pension plan	-14,148	-13,271
6.01.02.16	Electric energy/others	3,773	2,767
6.01.02.17	Interest paid	-62,473	-60,684
6.01.02.18	Payment of actuarial liability	-5,084	-5,623
6.01.02.19	Payment of tax installments	-10,357	-8,986
6.01.02.20	Redemptions of marketable securities/ restricted financial investments	3,582	21,959
6.02	Net cash used in investing activities	-218,378	-144,688
6.02.05	Purchases of intangible assets and property, plant and equipment	-218,378	-144,688
6.03	Net cash used in financing activities	-67,952	-42,656
6.03.01	Proceeds from borrowings and debentures	86,067	39,973
6.03.02	Repayment of borrowings and debentures	-154,007	-77,907
6.03.04	Interest on capital paid	-12	-2,449
6.03.08	Repayment of principal and interest on concession debts	0	-2,273
6.05	Increase (decrease) in cash and cash equivalents	-63,955	12,346
6.05.01	Cash and cash equivalents at the beginning of the period	260,481	496,425
6.05.02	Cash and cash equivalents at the end of the period	196,526	508,771

Parent company financial statements/statement of changes in equity - 1/1/2014 to 3/31/2014

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity
5.01	Opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359
5.03	Adjusted opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359
5.04	Capital transactions with stockholders	0	0	0	-34,757	0	-34,757
5.04.07	Interest on capital	0	0	0	-34,757	0	-34,757
5.05	Total comprehensive income (loss)	0	0	0	117,593	-4,334	113,259
5.05.01	Profit for the period	0	0	0	116,613	0	116,613
5.05.02	Other comprehensive income (loss)	0	0	0	980	-4,334	-3,354
5.05.02.07	Amortization of monetary adjustments on fixed assets 96/97	0	0	0	1,485	-1,485	0
5.05.05.08	Deferred income tax and social contribution on monetary adjustments on fixed assets 96/97	0	0	0	-505	505	0
5.05.05.09	Actuarial loss on retirement benefits	0	0	0	0	-5,082	-5,082
5.05.02.10	Deferred income tax and social contribution on actuarial loss on retirement benefits	0	0	0	0	1,728	1,728
5.07	Closing balances	2,773,985	-8,576	2,508,330	82,836	59,286	5,415,861

Parent company financial statements/statement of changes in equity - 1/1/2013 to 3/31/2013

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity
5.01	Opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888
5.03	Adjusted opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888
5.04	Capital transactions with stockholders	0	0	0	-38,054	0	-38,054
5.04.07	Interest on capital	0	0	0	-38,054	0	-38,054
5.05	Total comprehensive income (loss)	0	0	0	117,506	-456	117,050
5.05.01	Profit for the period	0	0	0	116,371	0	116,371
5.05.02	Other comprehensive income (loss)	0	0	0	1,135	-456	679
5.05.02.06	Fair value of investment in Foz de Jeceaba	0	0	0	0	679	679
5.05.02.07	Amortization of monetary adjustments on fixed assets 96/97	0	0	0	1,720	-1,720	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets 96/97	0	0	0	-585	585	0
5.07	Closing balances	2,773,985	-8,576	2,198,133	79,452	-29,110	5,013,884

Parent company financial statements/statement of value added

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
7.01	Revenue	1,028,153	928,959
7.01.01	Sales of products and services	869,997	806,398
7.01.02	Other revenue	9,357	3,692
7.01.03	Revenue from construction of Company assets	159,156	126,513
7.01.04	Provision for impairment of trade receivables	-10,357	-7,644
7.02	Inputs acquired from third parties	-381,098	-332,925
7.02.01	Cost of sales and services	-330,077	-284,305
7.02.02	Materials, energy, outsourced services and other	-34,483	-32,615
7.02.03	Impairment/recovery of assets	-16,538	-16,005
7.03	Gross value added	647,055	596,034
7.04	Retentions	-113,869	-99,743
7.04.01	Depreciation, amortization and depletion	-113,869	-99,743
7.05	Net value added generated	533,186	496,291
7.06	Value added received through transfers	20,422	18,289
7.06.01	Equity in the results of subsidiaries	-2,502	-3,966
7.06.02	Finance income	22,924	22,255
7.07	Total value added to distribute	553,608	514,580
7.08	Distribution of value added	553,608	514,580
7.08.01	Personnel	225,410	198,995
7.08.01.01	Payroll	142,161	129,003
7.08.01.02	Benefits	59,362	47,581
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	17,259	14,506
7.08.01.04	Others	6,628	7,905
7.08.01.04.01	Employee profit sharing	6,628	7,905
7.08.02	Taxes and contributions	143,355	138,831
7.08.02.01	Federal	134,540	135,300
7.08.02.02	State	8,358	2,885
7.08.02.03	Municipal	457	646
7.08.03	Remuneration of third-party capital	68,230	60,383
7.08.03.01	Interest	66,985	59,376
7.08.03.02	Rentals	1,245	1,007
7.08.04	Remuneration of own capital	116,613	116,371
7.08.04.01	Interest on capital	34,757	38,054
7.08.04.03	Profit reinvested	81,856	78,317

(A free translation of the original in Portuguese)

Consolidated financial statements/balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Current quarter 3/31/2014	Prior year 12/31/2013
1	Total assets	9,436,316	9,388,470
1.01	Current assets	1,037,010	1,100,038
1.01.01	Cash and cash equivalents	197,385	261,938
1.01.03	Accounts receivable	778,957	775,733
1.01.03.01	Trade receivables	716,643	702,205
1.01.03.02	Other receivables	62,314	73,528
1.01.03.02.01	Taxes to be offset	24,642	24,436
1.01.03.02.02	Technical cooperation agreements	4,126	12,298
1.01.03.02.03	Bank account - agreements	33,546	36,794
1.01.04	Inventories	37,890	37,166
1.01.08	Other current assets	22,778	25,201
1.01.08.03	Others	22,778	25,201
1.01.08.03.01	Advances to employees	8,427	11,341
1.01.08.03.02	Others	14,351	13,860
1.02	Non-current assets	8,399,306	8,288,432
1.02.01	Long-term receivables	1,191,968	1,160,623
1.02.01.03	Accounts receivable	482,643	498,205
1.02.01.03.01	Trade receivables	206,450	212,580
1.02.01.03.02	Other receivables	276,193	285,625
1.02.01.06	Deferred taxes	123,242	118,944
1.02.01.06.01	Deferred income tax and social contribution	123,242	118,944
1.02.01.09	Other non-current assets	586,083	543,474
1.02.01.09.03	Financial assets - concession agreements	537,445	494,836
1.02.01.09.04	Financial assets available for sale	48,638	48,638
1.02.02	Investments	260	260
1.02.02.01	Investments in subsidiaries	260	260
1.02.02.01.04	Investments in other companies	260	260
1.02.03	Property, plant and equipment	227,394	226,794
1.02.03.01	Property, plant and equipment in operation	227,394	226,794
1.02.04	Intangible assets	6,979,684	6,900,755
1.02.04.01	Intangible assets	6,979,684	6,900,755
1.02.04.01.01	Concession agreements	5,255,274	5,128,889
1.02.04.01.02	Intangible assets in progress	1,724,410	1,771,866

(A free translation of the original in Portuguese)

Consolidated financial statements/balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Current quarter 3/31/2014	Prior year 12/31/2013
2	Total liabilities and equity	9,436,316	9,388,470
2.01	Current liabilities	949,351	930,837
2.01.02	Trade payables	135,774	156,104
2.01.02.01	Domestic suppliers	135,774	156,104
2.01.03	Tax obligations	58,992	54,293
2.01.03.01	Federal tax obligations	58,608	53,154
2.01.03.01.02	Other federal obligations	58,608	53,154
2.01.03.03	Municipal tax obligations	384	1,139
2.01.04	Borrowings	459,855	471,930
2.01.04.01	Borrowings	196,211	196,663
2.01.04.01.01	In local currency	193,092	194,655
2.01.04.01.02	In foreign currency	3,119	2,008
2.01.04.02	Debentures	263,644	275,267
2.01.04.02.01	Non-convertible	263,644	275,267
2.01.05	Other liabilities	113,120	81,600
2.01.05.02	Others	113,120	81,600
2.01.05.02.01	Dividends and interest on capital payable	66,391	31,646
2.01.05.02.04	Pension plan	21,429	26,409
2.01.05.02.05	Electrical energy	6,325	11,202
2.01.05.02.07	Sundry obligations	18,975	12,343
2.01.06	Provisions	181,610	166,910
2.01.06.01	Provision for tax, social security, labor and civil contingencies	181,610	166,910
2.01.06.01.05	Taxes payable in installments	41,990	41,144
2.01.06.01.06	Provision for vacation pay and 13th month salary	100,228	92,679
2.01.06.01.07	Employee profit sharing	39,392	33,087
2.02	Non-current liabilities	3,071,104	3,120,274
2.02.01	Borrowings	2,633,451	2,685,770
2.02.01.01	Borrowings	1,223,221	1,193,498
2.02.01.01.01	In local currency	1,054,566	1,068,174
2.02.01.01.02	In foreign currency	168,655	125,324
2.02.01.02	Debentures	1,410,230	1,492,272
2.02.01.02.01	Non-convertible	1,410,230	1,492,272
2.02.02	Other liabilities	146,128	144,171
2.02.02.02	Others	146,128	144,171
2.02.02.02.03	Pension plan	106,884	106,010
2.02.02.02.05	Deposits for construction	24,527	30,392
2.02.02.02.06	Sundry	14,717	7,769
2.02.04	Provisions	291,525	290,333
2.02.04.01	Provision for tax, social security, labor and civil contingencies	291,525	290,333
2.02.04.01.05	Taxes payable in installments	206,450	212,580
2.02.04.01.06	Litigation provision	85,075	77,753
2.03	Consolidated equity	5,415,861	5,337,359
2.03.01	Paid-up capital	2,773,985	2,773,985
2.03.02	Capital reserves	-8,576	-8,576
2.03.02.05	Treasury shares	-8,576	-8,576
2.03.04	Revenue reserves	2,508,330	2,508,330
2.03.04.01	Legal reserve	215,445	215,445
2.03.04.05	Profit retention reserve	2,265,400	2,265,400
2.03.04.07	Tax benefit reserve	27,485	27,485
2.03.05	Retained earnings/accumulated deficit	82,836	0
2.03.06	Carrying value adjustments	59,286	63,620

Consolidated financial statements/statement of income

(R$ thousand unless otherwise stated)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
3.01	Revenue from sales and/or services	953,361	863,052
3.01.01	Water supply services	526,011	486,926
3.01.02	Sewage services	267,377	248,594
3.01.03	Construction revenue	159,156	126,513
3.01.04	Revenue from finished products	817	1,019
3.02	Cost of sales and/or services	-578,707	-506,922
3.02.01	Cost of sales and/or services	-424,323	-384,304
3.02.02	Construction cost	-154,384	-122,618
3.03	Gross profit	374,654	356,130
3.04	Operating expenses/income	-178,864	-161,831
3.04.01	Selling expenses	-61,234	-53,700
3.04.02	General and administrative expenses	-104,223	-91,171
3.04.04	Other operating income	19,467	11,733
3.04.05	Other operating expenses	-32,874	-28,693
3.04.05.01	Other operating expenses	-26,246	-20,788
3.04.05.02	Employee profit sharing	-6,628	-7,905
3.05	Profit before finance result and taxation	195,790	194,299
3.06	Finance result	-44,497	-37,431
3.06.01	Finance income	22,634	22,073
3.06.02	Finance costs	-67,131	-59,504
3.07	Profit before income tax and social contribution	151,293	156,868
3.08	Income tax and social contribution	-34,680	-40,497
3.08.01	Current	-37,250	-45,629
3.08.02	Deferred	2,570	5,132
3.09	Profit for the period from continuing operations	116,613	116,371
3.11	Consolidated profit for the period	116,613	116,371
3.11.01	Attributable to the owners of the Company		
3.99	Earnings per share (R$)		
3.99.01	Basic earnings per share		
3.99.01.01	Common shares	0.98000	0.98000
3.99.02	Diluted earnings per share		
3.99.02.01	Common shares	0.98000	0.98000

(A free translation of the original in Portuguese)

Consolidated financial statements/statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
4.01	Consolidated profit for the period	116,613	116,371
4.02	Other comprehensive income (loss)	-3,354	679
4.02.01	Fair value of investment in Foz de Jeceaba	0	679
4.02.02	Actuarial loss on retirement benefits	-3,354	0
4.03	Consolidated comprehensive income for the period	113,259	117,050
4.03.01	Attributable to owners of the Company	113,259	117,050

(A free translation of the original in Portuguese)

Consolidated financial statements/statement of cash flow - indirect method

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
6.01	Net cash provided by operating activities	222,058	200,403
6.01.01	Cash from operations	304,794	291,814
6.01.01.01	Profit for the period	116,613	116,371
6.01.01.02	Provision for impairment of trade receivables	20,639	15,469
6.01.01.03	Recovery of accounts written-off	-9,692	-7,510
6.01.01.04	Interest and monetary and foreign exchange variations, net	382	1,402
6.01.01.05	Interest income and expenses	49,157	42,911
6.01.01.06	Deferred income tax and social contribution	-2,570	-5,132
6.01.01.08	Write-off of intangible assets and property, plant and equipment	3,703	7,252
6.01.01.09	Depreciation and amortization	114,529	100,403
6.01.01.10	Additions to provisions	8,474	7,798
6.01.01.11	Provision for actuarial liabilities	10,044	16,797
6.01.01.12	Financial assets	0	-52
6.01.01.14	Net margin of construction revenue	-4,772	-3,895
6.01.01.15	Deferred revenue	-1,713	0
6.01.02	Changes in assets and liabilities	-82,736	-91,411
6.01.02.01	Trade receivables	-13,390	-18,672
6.01.02.02	Inventories	-724	793
6.01.02.03	Recoverable taxes	-205	-399
6.01.02.04	Bank account - agreements	3,248	-18,920
6.01.02.05	Collateral for financing	986	1,399
6.01.02.07	Other financial assets	-3,173	-7,023
6.01.02.08	Others	9,988	-3,402
6.01.02.09	Trade payables	-20,331	-27,775
6.01.02.10	Tax obligations	4,700	15,665
6.01.02.11	Provision for vacation pay and 13th month salary	7,548	6,628
6.01.02.12	Employee profit sharing	6,305	7,893
6.01.02.13	Technical cooperation agreements	8,172	17,291
6.01.02.14	Contingencies	-1,153	-1,101
6.01.02.15	Pension plan	-14,148	-13,271
6.01.02.16	Electric energy/other	3,798	2,817
6.01.02.17	Interest paid	-62,498	-60,684
6.01.02.18	Payment of actuarial liability	-5,084	-5,623
6.01.02.19	Payment of tax installments	-10,357	-8,986
6.01.02.20	Redemptions of marketable securities/ restricted financial investments	3,582	21,959
6.02	Net cash used in investing activities	-218,559	-145,606
6.02.03	Purchases of intangible assets through sale of treasury shares	-218,559	-145,606
6.03	Net cash used in financing activities	-68,052	-42,656
6.03.01	Proceeds from borrowings and debentures	86,067	39,973
6.03.02	Repayment of borrowings and debentures	-154,107	-77,907
6.03.04	Interest on capital paid	-12	-2,449
6.03.08	Repayment of principal and interest on concession debts	0	-2,273
6.05	Increase (decrease) in cash and cash equivalents	-64,553	12,141
6.05.01	Cash and cash equivalents at the beginning of the period	261,938	497,701
6.05.02	Cash and cash equivalents at the end of the period	197,385	509,842

Consolidated financial statements/statement of changes in equity - 1/1/2014 to 3/31/2014

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359	0	5,337,359
5.03	Adjusted opening balances	2,773,985	-8,576	2,508,330	0	63,620	5,337,359	0	5,337,359
5.04	Capital transactions with stockholders	0	0	0	-34,757	0	-34,757	0	-34,757
5.04.07	Interest on capital	0	0	0	-34,757	0	-34,757	0	-34,757
5.05	Total comprehensive income (loss)	0	0	0	117,593	-4,334	113,259	0	113,259
5.05.01	Profit for the period	0	0	0	116,613	0	116,613	0	116,613
5.05.02	Other comprehensive income (loss)	0	0	0	980	-4,334	-3,354	0	-3,354
5.05.02.07	Amortization of monetary adjustments on fixed assets 96/97	0	0	0	1,485	-1,485	0	0	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets 96/97	0	0	0	-505	505	0	0	0
5.05.02.09	Actuarial loss on retirement benefits	0	0	0	0	-5,082	-5,082	0	-5,082
5.05.02.10	Deferred income tax and social contribution on actuarial loss on retirement benefits	0	0	0	0	1,728	1,728	0	1,728
5.07	Closing balances	2,773,985	-8,576	2,508,330	82,836	59,286	5,415,861	0	5,415,861

Consolidated financial statements/statement of changes in equity - 1/1/2013 to 3/31/2013

(R$ thousand)

1 - Code	2 - Description	Paid-up capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888	0	4,934,888
5.03	Adjusted opening balances	2,773,985	-8,576	2,198,133	0	-28,654	4,934,888	0	4,934,888
5.04	Capital transactions with stockholders	0	0	0	-38,054	0	-38,054	0	-38,054
5.04.07	Interest on capital	0	0	0	-38,054	0	-38,054	0	-38,054
5.05	Total comprehensive income (loss)	0	0	0	117,506	-456	117,050	0	117,050
5.05.01	Profit for the period	0	0	0	116,371	0	116,371	0	116,371
5.05.02	Other comprehensive income (loss)	0	0	0	1,135	-456	679	0	679
5.05.02.06	Fair value of investment in Foz de Jeceaba	0	0	0	0	679	679	0	679
5.05.02.07	Amortization of monetary adjustments on fixed assets 96/97	0	0	0	1,720	-1,720	0	0	0
5.05.02.08	Deferred income tax and social contribution on monetary adjustments on fixed assets 96/97	0	0	0	-585	585	0	0	0
5.07	Closing balances	2,773,985	-8,576	2,198,133	79,452	-29,110	5,013,884	0	5,013,884

Consolidated financial statements/statement of value added

(R$ thousand)

1 - Code	2 - Description	Accumulated - current year 1/1/2014 to 3/31/2014	Accumulated - prior year 1/1/2013 to 3/31/2013
7.01	Revenue	1,034,120	935,393
7.01.01	Sales of products and services	875,528	812,636
7.01.02	Other revenue	10,383	4,203
7.01.03	Revenue from the construction of Company assets	159,156	126,513
7.01.04	Provision for impairment of trade receivables	-10,947	-7,959
7.02	Inputs acquired from third parties	-385,169	-339,665
7.02.01	Cost of sales and services	-332,171	-289,050
7.02.02	Materials, energy, outsourced services and other	-34,984	-34,893
7.02.04	Others	-18,014	-15,722
7.03	Gross value added	648,951	595,728
7.04	Retentions	-114,529	-100,403
7.04.01	Depreciation, amortization and depletion	-114,529	-100,403
7.05	Net value added generated	534,422	495,325
7.06	Value added received through transfers	22,634	22,073
7.06.02	Finance income	22,634	22,073
7.07	Total value added to distribute	557,056	517,398
7.08	Distribution of value added	557,056	517,398
7.08.01	Personnel	227,823	200,787
7.08.01.01	Payroll	144,023	130,612
7.08.01.02	Benefits	59,795	47,668
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	17,377	14,602
7.08.01.04	Others	6,628	7,905
7.08.01.04.01	Employee profit sharing	6,628	7,905
7.08.02	Taxes and contributions	144,337	139,798
7.08.02.01	Federal	135,218	136,005
7.08.02.02	State	8,654	3,143
7.08.02.03	Municipal	465	650
7.08.03	Remuneration of third-party capital	68,283	60,442
7.08.03.01	Interest	67,016	59,393
7.08.03.02	Rentals	1,267	1,049
7.08.04	Remuneration of own capital	116,613	116,371
7.08.04.01	Interest on capital	34,757	38,054
7.08.04.03	Profit reinvested	81,856	78,317

Comments on company performance

01 - Concessions and Operations

The number of municipalities with provision of water supply services, considering COPASA and subsidiary COPANOR, increased from 612, in March 2013, to 617 in March 2014. In the municipalities with sewage services, the increase was higher, from 201 to 224 in the same period, as follows:

Concessions and operations (March 2014)	Total *	COPASA	COPANOR
Number of municipalities - water concession	626	580	46
Number of municipalities - sewage concession	283	237	46
Number of municipalities - water operation	617	572	45
Number of municipalities - sewage operation	224	195	29

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

02 - Consolidated General Service Data

There was an increase of 147 thousand water connections, totaling 4.0 million, up 3.9% from 1Q13. The water distribution network was extended by 2,126 km, totaling 47,053 km, up 4.7% from 1Q13 (44,927 km).

The population covered by COPASA's water supply increased by 491 thousand people, totaling 14,664 thousand inhabitants in the first quarter of 2014.

As regards sewage services, there were 155 thousand new connections, representing a 6.8% increase compared to March 2013, and the number of people served increased by 531 thousand in the period, totaling 9,398 thousand people connected to the sewer network.

Treated sewage volume reached 62.8 million m³ in the quarter, up 7.4% from the same period of the previous year, mainly due to the commencement of operations of new Sewage Treatment Plants (ETEs).

Operating Highlights[1]:

ITEMS	UNITS	1Q14	1Q13	Changes	
				Amount	%
Population served - Water	thousand people	14,664	14,173	491	3.46
Population served - Sewage	thousand people	9,398	8,867	531	5.99
Number of connections - Water	thousand connections	3,955	3,808	147	3.86
Number of connections - Sewage	thousand connections	2,434	2,279	155	6.80
Network extension - Water	Km	47,053	44,927	2,126	4.73
Network extension - Sewage	Km	22,459	20,216	2,243	11.10
Billed volume - Water	1,000 m³/quarter	175,942	170,685	5,257	3.08
Billed volume - Sewage	1,000 m³/quarter	114,563	109,876	4,687	4.27
Volume produced - Water	1,000 m³/quarter	248,801	240,276	8,525	3.55
Volume treated - Sewage[2]	1,000 m³/quarter	62,826	58,513	4,313	7.37

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

Comments on company performance

03 - Consolidated Performance Indicators

The volumes billed for water and sewage services increased by 9.9 million m³ compared to 1Q13. This increase was due to the increase in the number of people covered by water and sewage services in the locations where the Company already operated these systems, as well as the commencement of billing in new locations.

A key performance indicator is the productivity of employees, measured using the employees/1,000 connections (water + sewage) ratio, which increased from 1.93 employees/1,000 connections in 1Q13 to 1.90 in 1Q14, especially considering the increased number of connections resulting from the Company's Expansion Plan.

COPASA MG
Operating/Commercial Performance Indicators
1st quarter of 2014 and 2013

ITEMS	UNITS	1Q14	1Q13	Changes	
				Amount	%
1 - Employees	number	12,166	11,772	394	3.35
2 - Employees/connections (A+E)	employee/1,000 connections	1.90	1.93	-0.03	-1.55
3 - Billed Volume					
Water	1,000m³/quarter	175,942	170,685	5,257	3.08
Sewage	1,000m³/quarter	114,563	109,876	4,687	4.27
Total		290,505	280,561	9,944	3.54
4 - Water volume produced	1,000m³/quarter	248,801	240,276	8,525	3.55
5 - Water metering rate *	%	99.87	99.89	-0.02	-0.02
6 - Water not converted into revenue - ANCR (1) *	l/connection/day	237.69	232.98	4.71	2.02

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

The rate of water metered connections was maintained at 99.9% in March/2014, and it is one of the best rates recorded by any sanitation company.

The Water not Converted into Revenue (ANCR) rate, which represents the difference between the volume distributed and that actually billed to consumers, reached 237.69 l/connection/day in 1Q14

This rate, which basically measures the real water losses arising from ruptured piping, theft and imprecise measurement, interrupted its decreasing trend, but continues as one of the lowest rates in the sector.

Comments on company performance

04 - Investments in the 1st quarter of 2014

INVESTMENTS (IN R$ MILLION)	EXPECTED FOR 2014	1Q14	1Q13
WATER	353.2	70.4	53.0
SEWAGE	610.5	133.8	95.8
OTHER	19.3	9.3	2.6
TOTAL	**983.0**	**213.5**	**151.4**

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

- work to improve the connection of the Northwest water main in the metropolitan region of Belo Horizonte; expansion of the production capacity of the Rio das Velhas System in the metropolitan region of Belo Horizonte.
- expansion of the water supply system capacity in several municipalities, mainly: Areado, Caputira, Ibiracatu, Nova Serrana, Perdigão and Ribeirão das Neves.

Regarding Sewage Systems, we can highlight:

- work to expand the Sewage Systems of Belo Horizonte/Contagem (Meta 2014) and Vespasiano and the Sewage Treatment Plant of Ribeirão Arrudas (ETE Arrudas);
- construction work of Sewage Treatment Plants in Caratinga, Extrema, Ibirité, Mateus Leme, Monte Azul, Santos Dumont, São Gotardo, São Joaquim de Bicas; and
- implementation of the Sewage Systems of Camanducaia, Capitão Enéias, Carmo do Paranaíba, Francisco Dumont and Itacarambi.

05. Financial Performance - Parent Company

The Company's net result in the 1st quarter of 2014 showed no improvement, in comparison with the same period of the previous year, presenting a significant growth in costs, at levels higher than the growth of the net operating revenue. The average growth of 7.9% in the income from provision of services of water supply and sewage was not enough to produce more profit for the Company, since operating and finance costs grew 31.9%. The other sources of operating income grew 70% but did not contribute significantly to the result because they are not very material considering the net operating revenue from services.

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

Statement of income

Parent company	3/31/2014		3/31/2013		Change	
	R$	%	R$	%	R$	%
Revenue from water services	521,882	55.03	482,342	56.25	39,540	8.20
Revenue from sewage services	267,377	28.19	248,594	28.99	18,783	7.56
Construction revenue	159,156	16.78	126,513	14.76	32,643	25.80
Net operating revenue from services	**948,415**	**100.00**	**857,449**	**100.00**	**90,966**	10.61
Cost of services rendered	(419,930)	-44.28	(379,148)	-44.22	(40,782)	10.76
Construction costs	(154,384)	-16.28	(122,618)	-14.30	(31,766)	25.91
Cost of services	**(574,314)**	**-60.56**	**(501,766)**	**-58.52**	**(72,548)**	**14.46**
Gross profit	**374,101**	**39.44**	**355,683**	**41.48**	**18,418**	**5.18**

Comments on company performance

Statement of income

Parent company	3/31/2014		3/31/2013		Change	
	R$	%	R$	%	R$	%
Selling expenses	(60,421)	-6.37	(51,704)	-6.03	(8,717)	16.86
General and administrative expenses	(102,830)	-10.84	(89,768)	-10.47	(13,062)	14.55
Other operating income	18,959	2.00	11,178	1.30	7,781	69.61
Other operating expenses	(25,221)	-2.66	(19,531)	-2.28	(5,690)	29.13
Employee profit sharing	(6,628)	-0.70	(7,905)	-0.92	1,277	-16.15
Equity in the results of subsidiaries	(2,502)	-0.26	(3,966)	-0.46	1,464	-36.91
Operating income/expenses	**(178,643)**	**-18.83**	**(161,696)**	**-18.86**	**(16,947)**	**10.48**
Profit before finance income (costs) and taxation	**195,458**	**20.61**	**193,987**	**22.62**	**1,471**	**0.76**
Finance income	22,924	2.42	22,255	2.60	669	3.01
Finance costs	(67,089)	-7.07	(59,481)	-6.94	(7,608)	12.79
Finance result	**(44,165)**	**-4.65**	**(37,226)**	**-4.34**	**(6,939)**	**18.64**
Profit before income tax and social contribution	**151,293**	**15.96**	**156,761**	**18.28**	**(5,468)**	**-3.49**
Income tax and social contribution	**(34,680)**	**-3.66**	**(40,390)**	**-4.71**	**5,710**	**-14.14**
Current	(37,250)	-3.93	(45,522)	-5.31	8,272	-18.17
Deferred	2,570	0.27	5,132	0.60	(2,562)	-49.92
Profit for the period	**116,613**	**12.29**	**116,371**	**13.57**	**242**	**0.21**

a. Net operating revenue from services - The 7.98% increase in net revenue from water and sewage services in 1Q14 compared to 1Q13 was due to:

- ✓ the average tariff adjustment of 5.25% in the water supply and sewage services applied as from the consumption of May 13, 2013;
- ✓ the increase of 3.41% in the stock of connections of water and 5.08% of sewage, due to the natural growth and operation of new systems;
- ✓ the increase in the percentage of sewage tariff from 50% to 90% of the water tariff in some places as from June 2013;
- ✓ the return of sewage service revenue from 11,127 connections of the Brumadinho sewer system in April 2013, which was blocked as from September 2012;

This increase was offset by the decrease of the average volume per connection of water of 0.38% and 1.05% of sewage, as well as the migration of some places to the subsidiary Copanor as from March 2013, and the loss of income arising from the return of sewage service rate and the change of the sewage services in some places, as defined by the State Regulatory Water and Wastewater Agency (ARSAE), from sewage collection and treatment services to only collection services, thus decreasing the percentage of charges from 90% to 50% in these systems.

Comments on company performance

Besides these offsets, there was also the decrease of indirect revenue from collection of debit advices, in accordance with Resolution 040 of ARSAE/MG of October 3, 2013, which suspends the collection through a second debit advice, and from the sanctions of services of collection of sewage in accordance with the lesser number of fines on infractions committed by consumers of these services that use Copasa networks outside the parameters required.

b. Construction revenue - Considering the activities of COPASA MG in public utility concessions, construction revenue relates to the cost of investments in infrastructure, plus the profit margin established by the Company. While there is no immediate cash effect, construction revenue generates effects for the year in which it is recognized, given that it forms part of the basis for calculation of interest on capital/dividends and employee profit sharing. The increase in construction revenue was due to the increase in investments made in the period.

c. Cost of services - The total cost of services rendered, including expenses for the operation, upkeep and maintenance of water and sewage systems, as well as selling, administrative and construction costs, increased in the first quarter of 2014 compared to the same period of the previous year, as shown below:

Operating, selling and administrative costs

Parent company	3/31/2014		3/31/2013		Change	
	R$	%	R$	%	R$	%
Personnel	261,698	35.48	230,175	35.78	31,523	13.70
Materials	33,227	4.50	28,716	4.47	4,511	15.71
Electric power	61,596	8.35	52,438	8.15	9,158	17.46
Outsourced services	88,461	11.99	85,151	13.24	3,310	3.89
Tariffs transferred to municipalities	17,241	2.34	16,859	2.62	382	2.27
General costs	10,896	1.48	12,145	1.89	(1,249)	-10.29
Depreciation and amortization	113,869	15.44	99,743	15.51	14,126	14.16
Construction costs	154,384	20.93	122,618	19.06	31,766	25.91
Recovered tax credits (Social Integration Program (PIS)-Public Services Employee Savings Program (PASEP) / Social Contribution on Revenues (COFINS))	(23,881)	-3.24	(19,737)	-3.07	(4,144)	20.99
Impairment of trade receivables	19,959	2.71	15,130	2.35	4,829	31.92
Provision for losses	115	0.02	-	0.00	115	n.m.
*** Costs of the services rendered and expenses**	**737,565**	**100.00**	**643,238**	**100.00**	**94,327**	**14.66**

- **Personnel** - The increase of 13.7% in the personnel group was mainly due to the readjustment of salaries, also impacting directly the social charges and benefit programs. The most relevant factors are as follows:

  - ✓ Readjustment of 7.16% in the salaries and real increase of 1.22% in the bonus for corporate performance, besides functional changes and natural growth of 2.8%.

  - ✓ Higher amount of dismissals from January to March 2014 in relation to 2013, mainly through the Scheduled Voluntary Termination Program, increasing the indemnifications and causing an increase of 34.88% in the Government Severance Indemnity Fund for Employees (FGTS) expense, besides increase in the calculation basis for working environmental risks contribution.

Comments on company performance

- ✓ Increase in the High risk and Low risk health program due to the natural growth of 2.76% and readjustment of 11.42% in the High risk in July 2013, with more use of the plan in the period, besides increase of 10% in the Meal Voucher and Staple Food Basket benefits in accordance with the collective labor agreement 2013-2014.

- **Materials** - Although the relevance of this group was maintained in relation to the other Company costs, its increase was 15.71%, mainly impacted by the inputs related to the services of the water and sewage systems, as described below:

  - ✓ Increase in the amount of the materials for conservation and maintenance of systems in accordance with the increase of the related services and average readjustment of 15% in the treatment materials besides the increase of the consumption of products due to the decrease of the water quality in some regions and the increase in the use of odour neutralizers in some sewage treatment stations.

  - ✓ Increase in the expenditures with fuels and lubricants as a result of the increase in the fuel price and consumption, due to the replacement of the fleet of old trucks for other more powerful trucks that use specific and more expensive fuel.

- **Services** - The costs of this group relate to the services necessary for the operation of the systems of water and sewage and of the Company's administrative and commercial area, maintaining the communication and development of all the sectors internally, with the customer and the general public. The main developments were as follows:

  - ✓ Increase in the conservation and maintenance of systems and administrative assets due to the expansion of the Company and readjustments of contracts.

  - ✓ Increase in professional technical services due to acquisition of new software technologies as from March 2013, of planning of systems in November 2013 and telecommunications engineering in January 2014, as well as new licenses of use of SAP and contractual changes.

  - ✓ Increase in cleaning, surveillance and courier services, resulting from the 8.50% adjustment in salaries of outsourced employees, 29.50% in food purchase vouchers in January 2014, as well as average readjustment of 5.56% in the inputs such as uniforms and occupational safety equipment. In November 2013, new invitations to tender were carried out, which included in the contracts the supply of vehicles by the contractors in the Metropolitan Region, where there was an increase in the contract monthly cost.

  - ✓ Increase in the call center services due to the hiring of another 40 outsourced attendants and the readjustment of 6.49%, as from May 2013, in the earnings of attendants.

Comments on company performance

The increases mentioned above were offset by:

- ✓ decrease in mailing and pouch services due to the submission of debit advices together with the services bill, as from January 2014, thus eliminating the mailing expense for the first and second advices with Receipt Notice (AR);

- **Electric energy** - the energy expense in 1Q14 in comparison with 1Q13 presented an increase of 17.5%, due to the readjustment of the electric energy rates in April 2013 and the increase of 5.9% in the energy consumption. In addition, due to the National Electric Energy Agency (ANEEL) Resolution 414/2010, Cemig changed the criterion for classification of the hours defined as peak hours, applicable as from April 2013. Until then, the consumption recorded from 7:00 pm to 10:00 pm was considered, whereas it started to be from 5:00 pm to 8:00 pm, period during which the Company's energy consumption is higher, contributing to the increase in expenditures with this input.

d. Depreciation and amortization - this group had a significant increase of 14.2% between the quarters compared because of the depreciation of vehicles due to the renewal of the fleet with the acquisition of new vehicles and to the depreciation/amortization of assets which were "in progress" and became investments "in operation" upon termination of the construction works, mostly in the sewage systems.

e. Construction costs - the increase in construction revenue was due to the increase in investments made in the period.

f. Provision for impairment of trade receivables - the increase in this account refers to a higher number of invoices with write-off status in the period.

g. Recovered tax credits (PIS-PASEP/COFINS) - the increase of 21.0% in the tax credits occurred due to the change in the criterion of appropriation of those credits as from September 2013. Until then, the credits were appropriated upon the effective consumption of the products, and as from September 2013, they started to be considered upon the acquisition of the products, thus affecting comparability.

h. Other operating income/expenses

Other operating income/expenses

	3/31/2014		3/31/2013		Change	
Parent company	**R$**	**%**	**R$**	**%**	**R$**	**%**
Revenue from technical services	1,021	5.37	442	3.93	579	n.m.
Reversal of non-deductible provision	4,587	24.11	905	8.04	3,682	n.m.
Recovery of accounts written-off	9,602	50.47	7,466	66.36	2,136	28.61
Other income	3,749	19.71	2,365	21.02	1,384	58.52
Other operating income	**18,959**	**99.66**	**11,178**	**99.36**	**7,781**	**69.61**
Equity in the results of subsidiaries	65	0.34	72	0.64	(7)	-9.89
Total other operating income	**19,024**	**100.00**	**11,250**	**100.00**	**7,774**	**69.10**
Non-recurring or unusual losses	(14,203)	41.27	(9,297)	29.54	(4,906)	52.77
Other expenses	(11,018)	32.01	(10,234)	32.52	(784)	7.66
Other operating expenses	**(25,221)**	**73.28**	**(19,531)**	**62.05**	**(5,690)**	**29.13**
Employee profit sharing	(6,628)	19.26	(7,905)	25.12	1,277	-16.15

Comments on company performance

Other operating income/expenses

Parent company	3/31/2014 R$	%	3/31/2013 R$	%	Change R$	%
Equity in the results of subsidiaries - Águas Minerais	(2,522)	7.33	(4,038)	12.83	1,517	-37.56
Equity in the results of subsidiaries - Serviços Irrigação	(45)	0.13	-	-	(45)	100.00
Total other operating expenses	**(34,416)**	**26.72**	**(31,474)**	**37.95**	**(2,942)**	**9.35**
Total other operating income/expenses	**(15,392)**	**100.00**	**(20,224)**	**100.00**	**4,832**	**-23.89**

- Net operating income and expenses showed significant progress, decreasing the loss in relation to the 1st quarter of 2013, as a result of a higher increase of the revenues in relation to the growth of the expenses. The reasons are the following:

- **Other operating income** - The other operating income grew due to:

  - ✓ the reversals of provisions of lawsuits due to the reclassification of risks of various proceedings;

  - ✓ the reversal of the provision for actuarial liability;

  - ✓ the receipt of a higher amount of old outstanding customers' invoices;

  - ✓ the donations to and capital increase in ETE Betim of R$ 1,713 thousand in the first quarter of 2014.

  This growth of the other operating income was offset by the lack of gains on disposals of assets.

- **Other operating expenses** - The variation is due to the following:

  - ✓ The provisioning of proceedings referring to accounting reclassifications of the likelihood of losses in civil proceedings and those of the Public Prosecution Office of Minas Gerais, together totaling R$ 1,818 thousand.

  - ✓ The increase in losses in the operation of water and sewage systems due to the execution of emergency works and services of recovery of the water main in a system of the metropolitan area, amounting to R$ 729 thousand, in February 2014.

  - ✓ The increase of the regulatory fee on water and sewage services payable to the State Regulatory Water and Sewage Agency (ARSAE) of R$ 6,086 thousand, due to its personnel restructuring, in accordance with State Law 20,822.

Comments on company performance

The increases mentioned above were offset by:

- ✓ absence of write-off of receivables from cooperation agreements amounting to R$ 1,786 thousand and provision for net actuarial liability of R$ 3,310 thousand.

i. Finance income and costs

Parent company	Finance income and costs 3/31/2014		3/31/2013		Change	
	R$	%	R$	%	R$	%
Monetary and foreign exchange variations	10,829	47.24	3,546	15.94	7,283	205.39
Interest	1,085	4.73	4,082	18.34	(2,997)	-73.42
Actual gain on financial investments	7,588	33.10	10,251	46.06	(2,663)	-25.98
Capitalization of financial assets/other	3,422	14.93	4,376	19.66	(954)	-21.80
Total finance income	**22,924**	**100.00**	**22,255**	**100.00**	**669**	**3.01**
Monetary and foreign exchange variations	(15,231)	22.70	(14,376)	24.17	(855)	5.95
Interest on financing	(51,755)	77.14	(45,001)	75.66	(6,754)	15.01
Other expenses	(103)	0.16	(104)	0.17	1	-0.96
Total finance costs	**(67,089)**	**100.00**	**(59,481)**	**100.00**	**(7,608)**	**12.79**
Finance costs, net	**(44,165)**	**100.00**	**(37,226)**	**100.00**	**(6,939)**	**18.64**

- The finance result worsened significantly, due to the increase of the finance costs of the 1st quarter of 2014 in relation to the same period of the previous year, caused mainly by the increase in the interest on financing. The main reasons for the finance result are as follows:

- **Finance income** - The variation is due to the following:

  - ✓ the increase of the foreign exchange variation referring to the Company's debt with German Bank KfW.

  The increases mentioned above were offset by:

  - ✓ the decrease of interest in accordance with the new criterion of interest income;

  - ✓ decrease of the real gain from the financial investments due to the redemption of investments to fund construction costs.

- **Finance costs**

  The increase of the finance costs was mainly due to the recording, as financial expenses, of the interest paid to National Bank for Economic and Social Development (BNDES) and Federal Savings and Loan Bank (CEF), upon the recent termination of various construction works with financed funds. It is important to note that the interest paid during the progress of these works is capitalized in permanent assets.

Comments on company performance

It should also be pointed out that, in addition to the finance costs shown above, the Company recorded interest and other financial charges of R$ 12.9 million under permanent assets in 1Q14 (R$ 14.5 million in 1Q13), considering that the construction work related to these accounts is still in progress.

j. Income tax and social contribution

The variation of current taxes was due to the lower taxable profit and the variation of the deferred taxes is due to a reversal of tax provisions of PIS, COFINS and Tax on Services of Any Kind (ISSQN), besides the increase of the operating expenses and decrease of the (deferred) operating revenues.

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

Parent company	3/31/2014	3/31/2013	Change	
	R$	R$	R$	%
Profit for the period	**116,613**	**116,371**	**242**	**0.21**
(+) Taxes on income	34,680	40,390	(5,710)	-14.14
(+) Net finance result	44,165	37,226	6,939	18.64
(+) Depreciation and amortization	113,869	99,743	14,126	14.16
(+) Non-operating result of subsidiaries	992	972	20	2.06
(=) EBITDA	**310,319**	**294,702**	**15,617**	**5.30**
EBITDA margin	**31.90**	**33.69**	**-1.79**	

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

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

Comments on company performance

06. Balance Sheet - Parent Company

Parent company	3/31/2014	12/31/2013	Change R$	Change %
Current assets	1,024,522	1,079,708	(55,186)	-5.11
Non-current assets	8,490,447	8,376,593	113,854	1.36
Total assets	**9,514,969**	**9,456,301**	**58,668**	**0.62**
Current liabilities	941,789	914,633	27,156	2.97
Non-current liabilities	3,157,319	3,204,309	(46,990)	-1.47
Equity	5,415,861	5,337,359	78,502	1.47
Total liabilities and equity	**9,514,969**	**9,456,301**	**58,668**	**0.62**

a. Current assets

Parent company	3/31/2014	12/31/2013	Change R$	Change %
Cash and cash equivalents	196,526	260,481	(63,955)	-24.55
Trade receivables	711,839	697,105	14,734	2.11
Inventories	34,327	34,486	(159)	-0.46
Recoverable taxes	23,468	23,283	185	0.80
Technical cooperation agreements	629	-	629	n.m.
Bank account - agreements	32,804	36,688	(3,884)	-10.59
Other	24,929	27,665	(2,736)	-9.89
Total current assets	**1,024,522**	**1,079,708**	**(55,186)**	**- 5.11**

- **Bank account - agreements** - the decrease in this account is mainly due to the use of resources for execution of construction work in 1Q14, deriving from agreements entered into.

- **Cash and cash equivalents** - the decrease in this account is due to redemptions of short-term investments for payment of the Company's various obligations.

- **Trade receivables** - this account increased due to the higher number of days in the billing period and the increase in the amount billable for water and sewage consumption in various municipalities.

- **Other** - the change in this account is due to the recognition of the achievement of the goals of the Water Basin Depollution Program (PRODES) in the first quarter of 2014.

Comments on company performance

b. Non-current assets

Parent company	3/31/2014	12/31/2013	Change	
			R$	%
Trade receivables	206,450	212,580	(6,130)	-2.88
Deferred income tax and social contribution	123,242	118,944	4,298	3.61
Restricted investment	96,318	97,380	(1,062)	-1.09
Collateral for financing	133,529	133,410	119	0.09
Receivables from subsidiaries	111,594	109,790	1,804	1.64
Net financial assets	537,445	494,836	42,609	8.61
Assets available for sale	48,638	48,638	-	-
Other	46,045	54,524	(8,479)	-15.55
Total long-term receivables	**1,303,261**	**1,270,102**	**33,159**	2.61
Investments	260	260	-	-
Intangible assets	6,979,684	6,900,753	78,931	1.14
Property, plant and equipment	207,242	205,478	1,764	0.86
Total permanent assets	**7,187,186**	**7,106,491**	**80,695**	**1.14**
Total non-current assets	**8,490,447**	**8,376,593**	**113,854**	**1.36**

- **Restricted investment -** the decrease in this account is mainly due to the redemption of debentures due to the execution of construction works.

- **Deferred income tax and social contribution -** the changes occurred in the period are mainly due to the temporary differences in the calculation basis of the taxes, among which the Company highlights: actuarial liability, construction income and capitalization of the discounted financial asset.

- **Net financial assets -** the increase in this account was due to the recognition of the right to reimbursement for investments made in concessions operated by the Company, in the amount of R$ 42,609 thousand.

- **Other -** the decrease in this account is due to the release of the blocked amounts of extra-judicial deposits of social contribution, in March 2014, at the approximated amount of R$ 8,800 thousand.

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

- **Property, plant and equipment -** the increase of this account is mainly due to the acquisition of IT equipment of the 2014 Computer Technology Program (PIC).

Comments on company performance

c. Current liabilities

Parent company	3/31/2014	12/31/2013	Change R$	Change %
Borrowings	195,804	196,259	(455)	-0.23
Debentures	263,644	275,267	(11,623)	-4.22
Trade payables	130,189	135,338	(5,149)	-3.80
Taxes and contributions	58,637	53,764	4,873	9.06
Taxes in installments	41,990	41,144	846	2.06
Provision for vacation pay and 13th month's salary	99,433	92,023	7,410	8.05
Employee profit sharing	39,392	33,087	6,305	19.06
Interest on capital	66,391	31,646	34,745	n.m.
Technical cooperation agreements	-	6,547	(6,547)	-100.00
Retirement benefit obligations	21,429	26,409	(4,980)	-18.86
Electric energy	5,959	10,832	(4,873)	-44.98
Other	18,921	12,317	6,604	53.62
Total current liabilities	**941,789**	**914,633**	**27,156**	**2.97**

- **Debentures -** the changes in this account were due to the transfer of long-term debentures amounting to R$ 90,789 thousand and repayments of R$ 102,608 thousand in the first quarter.

- **Taxes and contributions -** the increase in this account refers mainly to income tax and social contribution on net income at March/2014, payable in April/2014.

- **Interest on capital -** the increase in this account refers to accruals of Interest on capital of the 4th quarter of 2013 and 1st quarter of 2014, which will be paid in the 2nd quarter of 2014.

- **Technical cooperation agreements -** the changes in this account were due to a significant decrease in inflow of resources and increase in expenditures with construction works in 1Q14, relating to agreements signed with CODEVASF.

- **Pension plan -** this account decreased due to the payment of contributions in the period.

- **Electric energy** - this account decreased due to payment of invoices of the electric energy concessionaire, in January 2014.

Comments on company performance

d. Non-current liabilities

Parent company	3/31/2014	12/31/2013	Change	
			R$	%
Federal Savings and Loan Bank (CEF)	498,731	508,499	(9,768)	-1.92
State government/ Development Bank of Minas Gerais (BDMG)	-	1,032	(1,032)	-100.00
BNDES/BNE	470,852	485,572	(14,720)	-3.03
Finame	84,054	72,042	12,012	16.67
In local currency	**1,053,637**	**1,067,145**	**(13,508)**	-1.27
Federal government - bonds	57,012	59,654	(2,642)	-4.43
KfW Bank	111,643	65,670	45,973	70.01
In foreign currency	**168,655**	**125,324**	**43,331**	**34.58**
Total loans and financing	**1,222,292**	**1,192,469**	**29,823**	**2.50**
Non-convertible debentures	1,410,230	1,492,272	(82,042)	-5.50
Litigation provision	83,374	76,474	6,900	9.02
Taxes in installments	206,450	212,580	(6,130)	-2.88
Retirement benefit obligations	106,884	106,010	875	0.83
Provision for investment losses	88,848	86,346	2,502	2.90
Other	39,241	38,158	1,083	2.84
Total non-current liabilities	**3,157,319**	**3,204,309**	**(46,990)**	**- 1.47**

- **Borrowings** - in this group the receipt of R$ 50,000 thousand is highlighted, referring to the release of funds by Bank KfW, in the first quarter of 2014.

- **Provision for contingencies -** the increase in the provision for contingencies is due to the inclusion of the new proceedings and the reclassification of existing proceedings at the Civil and Labor Justice levels, as well as monetary restatements incurring in the period.

- **Debentures -** the decrease in this account was mainly due to the transfer of approximately R$ 90,789 thousand to the short-term.

- **Other** - the change in this group was mainly due to the reclassification of accounts relating to the Advances for Future Capital Increase (AFAC) of AGMM in the second quarter of 2013.

e. Equity

Parent company	3/31/2014	12/31/2013	Change	
			R$	%
Opening balance	**5,337,359**	**4,934,888**	**402,471**	**8.16**
Net income	116,613	419,795	(303,182)	-72.22
Interest on capital	-34,757	(139,582)	104,825	-75.10
Actuarial gain on retirement benefits	-3,354	100,485	(103,839)	n.m.
Early recognition of concession agreements	0	8,713	(8,713)	-100.00
Fair value of available-for-sale assets	0	13,060	(13,060)	-100.00
Closing balance	**5,415,861**	**5,337,359**	**78,502**	**1.47**

Comments on company performance

07. Financial Performance - Consolidated

The Company's and its subsidiaries' net result in the 1st quarter of 2014 showed no improvement, in comparison with the same period of the previous year, presenting a significant growth in costs, at higher levels than the growth of the net operating revenue. Considering the Parent company's performance, the analysis of the tables and explanations below will enable the understanding of the performance of the result of the Consolidated in the period:

Statement of income

Consolidated	3/31/2014		3/31/2013		Change	
						%
Revenue from water services	526,011	55.17	486,926	56.42	39,085	8.03
Revenue from sewage services	267,377	28.05	248,594	28.80	18,783	7.56
Construction revenue	159,156	16.69	126,513	14.66	32,643	25.80
Revenue from finished products	817	0.09	1,019	0.12	(202)	-19.82
Net operating revenue from services	**953,361**	**100.00**	**863,052**	**100.00**	**90,309**	**10.46**
Cost of services rendered	(424,323)	-44.51	(384,304)	-44.53	(40,019)	10.41
Construction costs	(154,384)	-16.19	(122,618)	-14.21	(31,766)	25.91
Cost of services	**(578,707)**	**-60.70**	**(506,922)**	**-58.74**	**(71,785)**	**14.16**
Gross profit	**374,654**	**39.30**	**356,130**	**41.26**	**18,524**	**5.20**
Selling expenses	(61,234)	-6.42	(53,700)	-6.22	(7,534)	14.03
General and administrative expenses	(104,223)	-10.93	(91,171)	-10.56	(13,052)	14.32
Other operating income	19,467	2.04	11,733	1.36	7,734	65.92
Other operating expenses	(26,246)	-2.75	(20,788)	-2.41	(5,458)	26.26
Employee profit sharing	(6,628)	-0.70	(7,905)	-0.92	1,277	-16.15
Operating income/expenses	**(178,864)**	**-18.76**	**(161,831)**	**-18.75**	**(17,033)**	**10.53**
Profit before finance income (costs) and taxation	**195,790**	**20.54**	**194,299**	**22.51**	**1,491**	**0.77**
Finance income	22,634	2.37	22,073	2.56	561	2.54
Finance costs	(67,131)	-7.04	(59,504)	-6.89	(7,627)	12.82
Finance result	**(44,497)**	**-4.67**	**(37,431)**	**-4.33**	**(7,066)**	**18.88**
Profit before income tax and social contribution	**151,293**	**15.87**	**156,868**	**18.18**	**(5,575)**	**-3.55**
Income tax and social contribution	**(34,680)**	**-3.64**	**(40,497)**	**-4.69**	**5,817**	**-14.36**
Current	(37,250)	-3.91	(45,629)	-5.29	8,379	-18.36
Deferred	2,570	0.27	5,132	0.59	-2,562	-49.92
Profit for the period	**116,613**	**12.23**	**116,371**	**13.49**	**242**	**0.21**

a. Net operating revenue from services - the 7.83% increase in net revenue from water and sewage services in 1Q14 compared to 1Q13 was due to:

- ✓ the average tariff adjustment of 5.25% in the water supply and sewage services applied as from the consumption of May 13, 2013;

- ✓ the increase of 3.41% in the stock of connections of water and 5.08% of sewage, due to the natural growth and operation of new systems;

Comments on company performance

- ✓ the increase in the percentage of the sewage tariff collection from 50% to 90% of the water tariff in some places as from June 2013;

- ✓ the return of sewage service revenue from 11,127 connections of the Brumadinho sewer system in April 2013, which was blocked as from September 2012;

  This increase was offset by the decrease of the average volume per connection of water of 0.38% and 1.05% of sewage, as well as the migration of some places to the subsidiary Copanor as from March 2013, and the loss of income arising from the return of sewage service rate and the change of the sewage services in some places, as defined by the State Regulatory Water and Wastewater Agency (ARSAE), from sewage collection and treatment services to only collection services, thus decreasing the percentage of charges from 90% to 50%, in these systems.

  Besides these offsets, there was also the decrease of indirect revenue from collection of debit advices, in accordance with Resolution 040 of ARSAE/MG of October 3, 2013, which suspends the collection through a second debit advice and from the sanctions of services of collection of sewage in accordance with the lesser number of fines on infractions committed by consumers of these services who use Copasa networks outside the parameters required.

b. Construction revenue - considering the activities of COPASA MG in public utility concessions, construction revenue relates to the cost of investments in infrastructure, plus the profit margin established by the Company. While there is no immediate cash effect, construction revenue generates effects for the year in which it is recognized, given that it forms part of the basis for calculation of interest on capital/dividends and employee profit sharing. The increase in construction revenue was due to the increase in investments made in the period.

c. Cost of services - the total cost of services rendered, including expenses for the operation, upkeep and maintenance of water and sewage systems, as well as selling, administrative and construction costs, increased in the first quarter of 2014 compared to the same period of the previous year, as shown below:

Operating, selling and administrative costs

Consolidated	3/31/2014		3/31/2013		Change	
						%
Personnel	264,563	35.55	232,270	35.64	32,293	13.90
Materials	33,799	4.54	29,212	4.48	4,587	15.70
Electric power	62,695	8.43	53,311	8.18	9,384	17.60
Outsourced services	89,109	11.97	88,022	13.50	1,087	1.23
Tariffs transferred to municipalities	17,241	2.32	16,859	2.59	382	2.27
General costs	11,119	1.49	12,974	1.99	(1,855)	-14.30
Depreciation and amortization	114,529	15.39	100,403	15.40	14,126	14.07
Construction costs	154,384	20.75	122,618	18.81	31,766	25.91
Cost of sales	75	0.01	572	0.09	(497)	-86.89
Recovered tax credits (PIS-PASEP/COFINS)	(24,113)	-3.24	(19,937)	-3.06	(4,176)	20.95
Impairment of trade receivables	20,639	2.77	15,489	2.38	5,150	33.25
Provision for losses	124	0.02	-	0.00	124	n.m.
*** Costs of the services rendered and expenses**	**744,164**	**100.00**	**651,793**	**100.00**	**92,371**	**14.17**

Comments on company performance

- **Personnel** - The increase of 13.9% in the personnel group was mainly due to the readjustment of salaries, also impacting directly the social charges and benefit programs. The most relevant factors are as follows:

  - ✓ Readjustment of 7.16% in the salaries and real increase of 1.22% in the bonus for corporate performance, besides functional changes and natural growth of 2.8%.

  - ✓ Higher amount of dismissals from January to March 2014 in relation to 2013, mainly through the Scheduled Voluntary Termination Program, increasing the indemnifications and causing an increase of 34.88% in the FGTS expense, besides increase in the calculation basis of the working environmental risks contribution.

  - ✓ Increase in the High risk and Low risk health program due to the natural growth of 2.76% and readjustment of 11.42% in the High risk in July 2013, with more use of the plan in the period, besides increase of 10% in the Meal Voucher and Staple Food Basket benefits in accordance with the collective labor agreement 2013-2014.

- **Materials** - Although the relevance of this group was maintained in relation to the other Company costs, its increase was 15.71%, mainly impacted by the inputs related to the services of the water and sewage systems, as described below:

  - ✓ Increase in the amount of the materials for conservation and maintenance of systems in accordance with the increase of the related services and average readjustment of 15% in the treatment materials besides the increase of the consumption of products due to the decrease of the water quality in some regions and the increase in the use of odour neutralizers in some sewage treatment stations.

  - ✓ Increase in the expenditures with fuels and lubricants as a result of the increase in the fuel price and consumption, due to the replacement of the fleet of old trucks for other more powerful trucks that use specific and more expensive fuel.

- **Services** - The costs of this group relate the services necessary for the operation of the systems of water and sewage and of the Company's administrative and commercial area, maintaining the communication and development of all the sectors internally, with the customer and the general public. The main developments were as follows:

  - ✓ Increase in the conservation and maintenance of systems and administrative assets due to the expansion of the Company and readjustments of contracts.

  - ✓ Increase in professional technical services due to acquisition of new software technologies as from March 2013, of planning of systems in November 2013 and telecommunications engineering in January 2014, as well as new licenses of use of SAP and contractual changes.

  - ✓ Increase in cleaning, surveillance and courier services, resulting from the 8.5% adjustment in salaries of outsourced employees, 29.50% in food purchase vouchers in January 2014, as well as average readjustment of 5.56% in the inputs such as uniforms and occupational safety equipment. In November 2013, new invitations to tender were carried out, which included in the contracts the supply of vehicles by the contractors in the Metropolitan Region, where there was an increase in the contract monthly cost.

Comments on company performance

- ✓ Increase in the call center services due to the hiring of another 40 outsourced attendants and the readjustment of 6.49%, as from May 2013, in the earnings of attendants.

The increases mentioned above were offset by:

- ✓ decrease in mailing and pouch services due to the submission of debit advices together with the services bill, as from January 2014, thus eliminating the mailing expense for the first and second advices with Receipt Notice (AR).

- **Electric energy**- The energy expense in 1Q14 in comparison with 1Q13 presented an increase of 17.5%, due to the readjustment of the electric energy rates in April 2013 and the increase of 5.9% in the energy consumption. In addition, due to ANEEL Resolution 414/2010, Cemig changed the criterion for classification of the hours defined as peak hours, applicable as from April 2013. Until then, the consumption recorded from 7:00 pm to 10:00 pm was considered, whereas it started to be from 5:00 pm to 8:00 pm, period during which the Company's energy consumption is higher, contributing to the increase in expenditures with this input.

d. Depreciation and amortization - this group had a significant increase of 14.07% between the quarters compared because of the depreciation of vehicles due to the renewal of the fleet with the acquisition of new vehicles and to the depreciation/amortization of assets which were "in progress" and became investments "in operation" upon the termination of construction works, mostly in the sewage systems.

e. Construction costs - the increase in construction revenue was due to the increase in investments made in the period.

f. Provision for impairment of trade receivables - the increase in this account refers to a higher number of invoices with write-off status in the period.

g. Recovered tax credits (PIS-PASEP/COFINS) - the increase of the 21.0% in the tax credits occurred due to the change in the criterion of appropriation of the credits as from September 2013. Until then, those credits were appropriated upon the effective consumption of the products, and as from September 2013, they started to be considered upon the acquisition of the products, thus affecting comparability.

h. Other operating income/expenses

Other operating income/expenses

	3/31/2014		3/31/2013		Change	
Consolidated						%
Revenue from technical services	1,021	5.24	442	4.00	579	n.m.
Reversal of non-deductible provision	4,686	24.07	1,049	9.00	3,637	n.m.
Recovery of accounts written-off	9,692	49.79	7,510	64.00	2,182	29.05
Other income	4,068	20.90	2,732	23.00	1,336	48.90
Total other operating income	**19,467**	**100.00**	**11,733**	**100.00**	**7,734**	**65.92**
Non-recurring or unusual losses	(14,854)	45.18	(10,070)	35.00	(4,784)	47.51

Comments on company performance

Other operating income/expenses

Consolidated	3/31/2014		3/31/2013		Change	
						%
Other expenses	(11,392)	34.65	(10,718)	37.00	(674)	6.29
Other operating expenses	**(26,246)**	**79.83**	**(20,788)**	**72.00**	**(5,458)**	**26.26**
Employee profit sharing	(6,628)	20.16	(7,905)	28.00	1,277	-16.15
Total other operating expenses	**(32,874)**	**100.00**	**(28,693)**	**100.00**	**(4,181)**	**14.57**
Total other operating income/expenses	**(13,407)**	**100.00**	**(16,960)**	**100.00**	**3,553**	**-20.95**

- Net operating income and expenses showed significant progress, decreasing the loss in relation to the 1st quarter of 2013, as a result of a higher increase of the revenues in relation to the growth of the expenses. The reasons are the following:

- **Other operating income** - the other operating income grew due to:

  - ✓ the reversals of provisions of lawsuits due to the reclassification of risks of various proceedings;

  - ✓ the reversal of the provision for the actuarial liability;

  - ✓ the receipt of a higher amount of old outstanding customers' invoices;

  - ✓ the donations to and capital increase in ETE Betim of R$ 1,713 thousand in the first quarter of 2014.

  This growth of the other operating income was offset by the lack of gains on disposals of assets.

- **Other operating expenses** - the variation is due to the following:

  - ✓ The provisioning of proceedings referring to accounting reclassifications of the likelihood of losses in civil proceedings and those of the Public Prosecution Office of Minas Gerais, together totaling R$ 1,818 thousand.

  - ✓ The increase in losses in the operation of water and sewage systems due to the execution of emergency works and services of recovery of the water main in a system of the metropolitan area, amounting to R$ 729 thousand, in February 2014.

  - ✓ The increase of the regulatory fee on water and sewage services payable to the State Regulatory Water and Sewage Agency (ARSAE) of R$ 6,086 thousand, due to its personnel restructuring, in accordance with State Law 20,822.

Comments on company performance

The increases mentioned above were offset by:

- ✓ absence of write-off of receivables from cooperation agreements amounting to R$ 1,786 thousand and provision for net actuarial liability of R$ 3,310 thousand.

i. Finance income and costs

Finance income and costs

Consolidated	3/31/2014		3/31/2013		Change	
						%
Monetary and foreign exchange variations	10,815	47.78	3,248	14.71	7,567	n.m.
Interest	808	3.57	4,198	19.02	(3,390)	-80.75
Actual gain on financial investments	7,589	33.53	10,251	46.44	(2,662)	-25.97
Capitalization of financial assets/other	3,422	15.12	4,376	19.83	(954)	-21.80
Total finance income	**22,634**	**100.00**	**22,073**	**100.00**	**561**	**2.54**
Monetary and foreign exchange variations	(15,231)	22.69	(14,387)	24.18	(844)	5.87
Interest on financing	(51,786)	77.14	(45,006)	75.64	(6,780)	15.06
Other expenses	(114)	0.17	(111)	0.19	(3)	2.70
Total finance costs	**(67,131)**	**100.00**	**(59,504)**	**100.00**	**(7,627)**	**12.82**
Finance costs, net	**(44,497)**	**100.00**	**(37,431)**	**100.00**	**(7,066)**	**18.88**

- The finance result worsened significantly, due to the increase of the finance costs of the 1st quarter of 2014 in relation to the same period of the previous year, caused mainly by the increase of the interest on financing. The main reasons for the finance result are as follows:

- **Finance income** - the variation is due to the following:

  - ✓ The increase of the foreign exchange variation referring to the Company's debt with German Bank KfW.

  The increases mentioned above were offset by:

  - ✓ the decrease of interest in accordance with the new criterion of interest income;

  - ✓ decrease of the real gain from the financial investments due to the redemption of investments to fund construction costs.

- **Finance costs**

  The increase of the finance costs was mainly due to the recording, as financial expenses, of the interest paid to BNDES and CEF, upon the recent termination of various construction works with financed funds. It is important to note that the interest paid during the progress of these works is capitalized in permanent assets.

  It should also be pointed out that, in addition to the finance costs shown above, the Company recorded interest and other financial charges of R$ 12.9 million under permanent assets in 1Q14 (R$ 14.5 million in 1Q13), considering that the construction work related to these accounts is still in progress.

Comments on company performance

j. Income tax and social contribution

The variation of current taxes was occurred due to the lower taxable profit and the variation of the deferred taxes is due to a reversal of tax provisions of PIS, COFINS and ISSQN, besides the increase of the operating expenses and decrease of the (deferred) operating revenues.

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

Consolidated	3/31/2014	3/31/2013	Change	
	R$	R$	R$	%
Profit for the period	**116,613**	**116,371**	**242**	**0.21**
(+) Taxes on income	34,680	40,497	(5,817)	-14.36
(+) Net finance result	44,497	37,431	7,066	18.88
(+) Depreciation and amortization	114,529	100,403	14,126	14.07
(=) EBITDA	**310,319**	**294,702**	**15,617**	**5.30**
EBITDA margin	**31.90**	**33.69**	**-1.79**	

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

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

08. Balance Sheet - Consolidated

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Current assets	1,037,010	1,100,038	(63,028)	-5.73
Non-current assets	8,399,306	8,288,432	110,874	1.34
Total assets	**9,436,316**	**9,388,470**	**47,846**	**0.51**
Current liabilities	949,351	930,837	18,514	1.99
Non-current liabilities	3,071,104	3,120,274	(49,170)	-1.58
Equity	5,415,861	5,337,359	78,502	1.47
Total liabilities and equity	**9,436,316**	**9,388,470**	**47,846**	**0.51**

Comments on company performance

a. Current assets

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Cash and cash equivalents	197,385	261,938	(64,553)	-24.64
Trade receivables	716,643	702,205	14,438	2.06
Inventories	37,890	37,166	724	1.95
Recoverable taxes	24,642	24,436	206	0.84
Technical cooperation agreements	4,126	12,298	(8,172)	-66.45
Bank account - agreements	33,546	36,794	(3,248)	-8.83
Other	22,778	25,201	(2,423)	-9.62
Total current assets	**1,037,010**	**1,100,038**	**(63,028)**	**- 5.73**

- **Bank account - agreements** - the decrease in this account is mainly due to the use of resources for execution of construction work in 1Q14, deriving from agreements entered into.

- **Cash and cash equivalents** - the decrease in this account is due to redemptions of short-term investments for payment of the Company's various obligations.

- **Trade receivables** - this account increased due to the higher number of days in the billing period and the increase in the amount billable for water and sewage consumption in various municipalities.

- **Other** - the change in this account is due to the recognition of the achievement of the goals of the Water Basin Depollution Program (PRODES) in the first quarter of 2014.

Comments on company performance

b. Non-current assets

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Trade receivables	206,450	212,580	(6,130)	-2.88
Deferred income tax and social contribution	123,242	118,944	4,298	3.61
Restricted investments	96,318	97,380	(1,062)	-1.09
Collateral for financing	133,529	133,410	119	0.09
Net financial assets	537,445	494,836	42,609	8.61
Assets available for sale	48,638	48,638	-	-
Other	46,346	54,835	(8,489)	-15.48
Total long-term receivables	**1,191,968**	**1,160,623**	**31,345**	**2.70**
Investments	260	260	-	0.04
Intangible assets	6,979,684	6,900,755	78,929	1.14
Property, plant and equipment	227,394	226,794	600	0.26
Total permanent assets	**7,207,338**	**7,127,809**	**79,529**	**1.12**
Total non-current assets	**8,399,306**	**8,288,432**	**110,874**	**1.34**

- **Restricted investment -** the decrease in this account is mainly due to the redemption of debentures due to the execution of construction works.

- **Deferred income tax and social contribution -** the changes occurred in the period are mainly due to the temporary differences in the calculation basis of the taxes, among which the Company highlights: actuarial liability, construction income and capitalization of the discounted financial asset.

- **Net financial assets -** the increase in this account was due to the recognition of the right to reimbursement for investments made in concessions operated by the Company, in the amount of R$ 42,609 thousand.

- **Other -** the decrease in this account is due, mainly, to the release of the amounts blocked of extra-judicial deposits of social contribution, in March 2014, at the approximated amount of R$ 8,800 thousand.

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

- **Property, plant and equipment -** the increase of this account is mainly due to the acquisition of IT equipment of the 2014 Computer Technology Program (PIC).

Comments on company performance

c. Current liabilities

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Borrowings	196,211	196,663	(452)	-0.23
Debentures	263,644	275,267	(11,623)	-4.22
Trade payables	135,774	156,104	(20,330)	-13.02
Taxes and contributions	58,992	54,293	4,699	8.65
Taxes in installments	41,990	41,144	846	2.06
Provision for vacation pay and 13th month's salary	100,228	92,679	7,549	8.15
Employee profit sharing	39,392	33,087	6,305	19.06
Interest on capital	66,391	31,646	34,745	n.m.
Retirement benefit obligations	21,429	26,409	(4,980)	-18.86
Electric energy	6,325	11,202	(4,877)	-43.54
Other	18,975	12,343	6,632	53.73
Total current liabilities	**949,351**	**930,837**	**18,514**	**1.99**

- **Debentures -** the changes in this account were due to the transfer of long-term debentures amounting to R$ 90,789 thousand and repayments of R$ 102,608 thousand in the first quarter.

- **Taxes and contributions -** the increase in this account refers mainly to income tax and social contribution on net income at March/2014, payable in April/2014.

- **Interest on capital -** the increase of this account refers to accruals of Interest on capital of the 4th quarter of 2013 and 1st quarter of 2014, which will be paid in the 2nd quarter of 2014.

- **Technical cooperation agreements -** the changes in this account were due to a significant decrease in inflow of resources and increase in expenditures with construction works in 1Q14, relating to agreements signed with CODEVASF.

- **Pension plan -** this account decreased due to the payment of contributions in the period.

- **Electric energy -** this account decreased due to payment of invoices of the electric energy concessionaire, in January 2014.

Comments on company performance

d. Non-current liabilities

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Federal Savings and Loan Bank (CEF)	498,731	509,061	(10,330)	-2.03
State government/BDMG	-	1,032	(1,032)	-100.00
BNDES/BNE	470,852	485,572	(14,720)	-3.03
Banco do Brasil	367	467	(100)	-21.48
Finame	84,616	72,042	12,574	17.45
In local currency	**1,054,566**	**1,068,174**	(13,608)	-1.27
Federal government - bonds	57,012	59,654	(2,642)	-4.43
KfW	111,643	65,670	45,973	70.01
In foreign currency	**168,655**	**125,324**	**43,331**	**34.58**
Total loans and financing	**1,223,221**	**1,193,498**	**29,723**	**2.49**
Non-convertible debentures	1,410,230	1,492,272	(82,042)	-5.50
Litigation provision	85,075	77,753	7,322	9.42
Taxes in installments	206,450	212,580	(6,130)	-2.88
Retirement benefit obligations	106,884	106,010	874	0.82
Other	39,244	38,161	1,083	2.84
Total non-current liabilities	**3,071,104**	**3,120,274**	**(49,170)**	**- 1.58**

- **Borrowings** - in this group the receipt of R$ 50,000 thousand is highlighted, referring to the release of funds by Bank KfW, in the first quarter of 2014.

- **Provision for contingencies** - the increase in the provision for contingencies is due to the inclusion of the new proceedings and the reclassification of existing proceedings at the Civil and Labor Justice levels, as well as monetary restatements incurring in the period.

- **Debentures** - the decrease in this account was mainly due to the transfer of approximately R$ 90,789 thousand to the short-term.

- **Other** - the change in this group was mainly due to the reclassification of accounts relating to the Advances for Future Capital Increase (AFAC) of AGMM in the second quarter of 2013.

e. Equity

Consolidated	3/31/2014	12/31/2013	Change	
			R$	%
Opening balance	**5,337,359**	**4,934,888**	402,471	**8.16**
Net income	116,613	419,795	(303,182)	-72.22
Interest on capital	-34,757	-139,582	104,825	-75.10
Actuarial gain on retirement benefits	-3,354	100,485	(103,839)	n.m.
Early recognition of concession agreements	-	8,713	(8,713)	-100.00
Fair value of available-for-sale assets	-	13,060	(13,060)	-100.00
Closing balance	**5,415,861**	**5,337,359**	**78,502**	**1.47**

Companhia de Saneamento de Minas Gerais - COPASA - MG

Notes to the quarterly information at March 31, 2014 and 2013
All amounts in thousands of reais unless otherwise stated

01. Operations

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

At March 31, 2014, COPASA MG had the following wholly-owned subsidiaries:

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

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

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

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

Explanatory Notes

At March 31, 2014, the Company operates in 889 places in the State of Minas Gerais (889 in December 2013) providing water supply or sewage services, totaling approximately 4,690,977 connections (4,647,083 in December 2013). The twenty main water supply and sewage service concessions that the Company holds are as follows:

Water concessions			Sewage concessions		
Location	Number of connections	Expiry	Location	Number of connections	Expiry
Belo Horizonte	982,953	2034	Belo Horizonte	945,720	2034
Contagem	233,254	2073	Contagem	203,118	2073
Betim	137,779	2042	Montes Claros	131,573	2028
Montes Claros	132,121	2028	Betim	111,993	2042
Ribeirão das Neves	98,801	2034	Ipatinga	89,350	2022
Divinópolis	90,422	2041	Divinópolis	80,725	2041
Ipatinga	83,186	2022	Ribeirão das Neves	74,602	2034
Santa Luzia (1)	69,446	2013	Patos de Minas	54,964	2038
Patos de Minas	55,425	2038	Santa Luzia	54,372	2013
Ibirité	52,869	2034	Pouso Alegre	50,375	2046
Pouso Alegre	50,788	2046	Varginha (1)	49,199	2013
Varginha (1)	50,314	2013	Conselheiro Lafaiete (1)	43,055	2010
Conselheiro Lafaiete (1)	49,733	2010	Ibirité	40,451	2034
Teófilo Otoni	42,297	2034	Araxá	38,583	2034
Sabará	41,952	2042	Lavras	38,347	2032
Lavras	40,401	2034	Teófilo Otoni	36,363	2034
Araxá	39,453	2032	Itajubá	33,491	2042
Ubá	35,912	2014	Sabará	32,958	2034
Itajubá	35,765	2034	Alfenas	32,155	2033
Nova Lima	35,336	2028	Pará de Minas (1)	30,389	2009

1) The concession agreements entered into with the municipalities of Pará de Minas, Conselheiro Lafaiete, Varginha and Santa Luzia were terminated on October 11, 2009, July 23, 2010, September 1, 2013 and December 1, 2013, respectively. The water supply and sewage service revenue in the first quarter of 2014 was R$ 8,629 in Pará de Minas, R$ 7,935 in Conselheiro Lafaiete, R$ 12,638 in Varginha and R$ 12,367 in Santa Luzia (R$ 7,547, R$ 7,322, R$ 11,153 and 11,671 in the 1st quarter of 2013), or 0.96%, 0.88%, 1.41% and 1.37% (0.89%, 0.86%, 1.31% and 1.37% in the 1st quarter of 2013) of the Company's total revenues, respectively. The Company is using its best efforts to renew these concessions, and it is in the process of negotiation with the referred to municipalities.

At March 31, 2014, 70 concessions have expired, which represented 7.87% of the Company's total connections and whose renewal procedures are currently under negotiation with the related municipalities. Management estimates that new concession agreements will be entered into for all expired concessions that are yet to be renewed. Therefore, there is no risk of discontinuation of water supply and sewage services rendered in these municipalities.

Explanatory Notes

The Executive Board of the Company authorized on May 5, 2014 the issue of the parent company and consolidated quarterly information at March 31, 2014.

02. Presentation of interim accounting information

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

2.1. Basis of preparation

a) Parent company interim accounting information - Parent Company

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

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

b) Consolidated interim accounting information -Consolidated

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

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

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

03. Summary of significant accounting policies

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

Explanatory Notes

04. Evaluation of the impacts of Provisional Measure (MP) 627

Provisional Measure (MP) 627 was issued on November 11, 2013. This MP repeals the Transitional Tax System (RTT) and (i) amends Decree-law 1,598/77, which deals with the corporate income tax, as well as the legislation related to the social contribution on net income; (ii) provides that future changes in or adoption of accounting methods and criteria will have no effects on the calculation of federal taxes unless and until the tax law addresses those changes; (iii) establishes a specific approach for the potential taxation of profits or dividends; (iv) addresses certain aspects of the calculation of interest on capital; and provides considerations about investments recorded on the equity accounting method.

The MP becomes effective as from 2015. Voluntary early adoption of this MP in 2014 may eliminate certain possible tax effects, especially those related to dividends and interest on capital effectively paid prior to the issuance date of this MP, as well as those related to investments under the equity accounting method. The Company prepared a study of the possible effects that could arise from the early or normal adoption of this new MP and concluded that the effects on the financial statements would be immaterial in either case, especially with respect to interest on capital. Management is monitoring current discussions and negotiations of possible amendments to the MP before deciding whether to elect early adoption of the MP or not.

The Company's conclusions consider our best interpretation of the current wording of MP 627. A large number of amendments to this MP have already been proposed in the Congress, and it is possible that the final text of the permanent law will differ from the original wording of the MP. Management may need to reconsider its conclusions in the light of that final text.

05. Public service concession agreements

At March 31, 2014, the Company holds public utility concessions for water supply and sewage services in 889 locations in the State of Minas Gerais. The concession agreements and/or program agreements are executed with each municipality for periods ranging from 30 to 99 years, and all are fairly similar in terms of the rights and obligations of the holder and concession authority.

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

The main concession terms and major changes in concession agreements for the period ended March 31, 2014 are described in Note 1.

Explanatory Notes

At March 31, 2014, the Company had accounts receivable from the concession authorities (the municipalities) totaling R$ 537,445, which correspond to the amounts expected to be received at the end of the concession period (R$ 494,836 at December 31, 2013) for assets which were not depreciated over the concession period. These amounts were discounted to their present value upon initial recognition using the weighted average cost of capital (WACC) rates linked to the respective accounts receivable. Intangible assets were accounted for based on the difference between the fair value of the assets constructed or acquired for the purpose of the concession services and the carrying value of the financial assets recognized.

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

	Parent Company/Consolidated	
	3/31/2014	**3/31/2013**
Construction revenue	159,156	126,513
Construction costs	(154,384)	(122,618)

06. Cash and cash equivalents

	Parent company	
	3/31/2014	**12/31/2013**
Cash and banks	52,880	40,125
Short-term bank deposit certificates	143,646	220,356
Total	**196,526**	**260,481**

	Consolidated	
	3/31/2014	**12/31/2013**
Cash and banks	53,739	41,582
Short-term bank deposit certificates	143,646	220,356
Total	**197,385**	**261,938**

As at March 31, 2014 there were no changes in the nature and conditions of cash and cash equivalents compared to the disclosures made in Note 6 to the financial statements for the year ended December 31, 2013. Accordingly, management has decided not to repeat these as part of this interim accounting information.

Explanatory Notes

07. Trade and other receivables

(a) Trade receivables

The aging of trade receivables is as follows:

Parent company		
	3/31/2014	**12/31/2013**
Not yet due	218,222	253,415
Up to 30 days past due	71,749	51,071
From 31 to 60 days past due	36,072	32,778
From 61 to 90 days past due	20,746	22,598
From 91 to 180 days past due	30,886	32,919
Over 180 days past due	15,838	16,186
Billed amounts	393,513	408,967
Unbilled amounts	343,049	311,474
Trade receivables	736,562	720,441
(-) Provision for impairment of trade receivables	(24,723)	(23,336)
	711,839	697,105
Accounts receivable - non-current	206,450	212,580
Trade receivables, net	**918,289**	**909,685**

Consolidated		
	3/31/2014	**12/31/2013**
Not yet due	220,901	256,176
Up to 30 days past due	72,285	51,627
From 31 to 60 days past due	36,391	33,135
From 61 to 90 days past due	20,956	22,844
From 91 to 180 days past due	31,393	33,278
Over 180 days past due	15,886	16,362
Billed amounts	397,812	413,422
Unbilled amounts	344,316	312,787
Trade receivables	742,128	726,209
(-) Provision for impairment of trade receivables	(25,485)	(24,004)
	716,643	702,205
Accounts receivable - non-current	206,450	212,580
Trade receivables, net	**923,093**	**914,785**

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

Explanatory Notes

At March 31, 2014, trade receivables of the parent company of R$ 792,687 (R$ 777,469 at December 31, 2013) and consolidated trade receivables of R$ 796,118 (R$ 781,543 at December 31, 2013) were fully performing.

At March 31, 2014, trade receivables of the parent company totaling R$ 180,429 (R$ - 176,440 at December 31, 2013) and consolidated trade receivables totaling R$ 182,646 (R$ 178,414 at December 31, 2013) were past due, but not provisioned. These include a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Parent company	
	3/31/2014	**12/31/2013**
Up to 3 months	143,128	141,266
3 to 6 months	36,815	34,614
Over 6 months	486	560
Total	**180,429**	**176,440**

	Consolidated	
	3/31/2014	**12/31/2013**
Up to 3 months	144,592	142,721
3 to 6 months	37,564	35,129
Over 6 months	490	564
Total	**182,646**	**178,414**

At March 31, 2014, parent company trade receivables, in the total of R$ 24,723 (R$ 23,336 at December 31, 2013) and consolidated trade receivables of R$ 25,485 (R$ 24,004 at December 31, 2013) are impaired. The individually impaired receivables mainly relate to customers who are healthcare providers and for whom COPASA, in accordance with current legislation, cannot interrupt water supply and sewage services. Based on management's assessment, a portion of these accounts receivable may be recovered.

The aging of these receivables is as follows:

	Parent company	
	3/31/2014	**12/31/2013**
Not yet due	1,582	1,650
Up to 30 days past due	1,859	1,423
Overdue from 31 to 60 days	1,700	1,418
Overdue from 61 to 90 days	1,210	1,333
Overdue from 91 to 180 days	4,635	4,432
Overdue from 181 to 360 days	9,306	8,431
Over 360 days past due	4,431	4,649
Total	**24,723**	**23,336**

Explanatory Notes

	Consolidated	
	3/31/2014	**12/31/2013**
Not yet due	1,631	1,697
Up to 30 days past due	1,917	1,463
Overdue from 31 to 60 days	1,753	1,458
Overdue from 61 to 90 days	1,247	1,373
Overdue from 91 to 180 days	4,778	4,559
Overdue from 181 to 360 days	9,593	8,671
Over 360 days past due	4,566	4,783
Total	**25,485**	**24,004**

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

	Parent company	
	3/31/2014	**12/31/2013**
At January 1	**23,336**	**19,517**
Provision for impairment of trade receivables	19,958	73,672
Receivables written off during the period/year as uncollectible	(18,571)	(69,853)
At March 31	**24,723**	**23,336**

	Consolidated	
	3/31/2014	**12/31/2013**
At January 1	**24,004**	**19,910**
Provision for impairment of trade receivables	20,639	75,648
Receivables written off during the period/year as uncollectible	(19,158)	(71,554)
At March 31	**25,485**	**24,004**

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

(b) Other receivables

The other classes of receivables have no impaired assets.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivables mentioned above. The Company has pledged tariff revenues as a guarantee for financing (Note 20).

Explanatory Notes

	Parent company	
	3/31/2014	**12/31/2013**
Collateral for borrowings and debentures	133,529	133,410
Receivables from subsidiaries	111,594	109,790
Restricted investments - PRODES	29,690	28,936
Restricted investments - debentures	66,628	68,444
Available-for-sale financial assets	48,638	48,638
Other	46,045	54,524
Total	**436,124**	**443,742**
Non-current assets	**(436,124)**	**(443,742)**
Current assets	**-**	**-**

	Consolidated	
	3/31/2014	**12/31/2013**
Collateral for borrowings and debentures	133,529	133,410
Restricted investments - PRODES	29,690	28,936
Restricted investments - debentures	66,628	68,444
Available-for-sale financial assets	48,638	48,638
Other	46,346	54,835
Total	**324,831**	**334,263**
Non-current assets	**(324,831)**	**(334,263)**
Current assets	**-**	**-**

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

08. Investments

At March 31, 2014, the subsidiaries had a net capital deficiency of R$ 88,848 (R$ 86,346 at December 31, 2013), for which the parent company recorded a provision for losses in non-current related-party liabilities as "Provision for investment losses".

The changes in the provision for investment losses are as follows:

	12/31/2013	**Equity accounting**	**3/31/2014**
Águas Minerais	(73,699)	(2,522)	(76,221)
COPANOR	(11,884)	65	(11,819)
Serviços de Irrigação	(763)	(45)	(808)
Total	**(86,346)**	**(2,502)**	**(88,848)**

Explanatory Notes

As at March 31, 2014, there were no other changes in the nature and conditions of investments in relation to the disclosures made in Note 8 to the Financial Statements as at December 31, 2013,

09. Intangible assets

The changes in intangible assets were as follows:

	Parent company						
	Systems of						
	Water	Sewage	Common use (i)	Use rights	Other	In progress	Total
At December 31, 2013	**2,078,741**	**2,575,420**	**183,288**	**221,320**	**70,118**	**1,771,866**	**6,900,753**
Additions	15,204	15,195	8,913	3,889	3,664	171,827	**218,692**
Reductions	(27)	-	(37)	-	(932)	(1,803)	**(2,799)**
Amortization	(40,882)	(43,556)	(15,938)	(3,256)	(676)	-	**(104,308)**
Capitalized interest	-	-	-	-	-	12,942	**12,942**
Transfers to financial assets	1,617	(40,328)	(761)	50	(14)	-	**(39,436)**
Transfers	4,255	213,286	5,832	285	(307)	(230,435)	**(7,084)**
Other	154	729	11	12	5	13	**924**
At March 31, 2014	**2,059,062**	**2,720,746**	**181,308**	**222,300**	**71,858**	**1,724,410**	**6,979,684**

The amortization for the first quarter of 2014, allocated to the statement of income, amounted to R$ 103,629 (R$ 91,540 in the first quarter of 2013) as cost of services rendered, R$ 60 (R$ 49 in the first quarter of 2013) as selling expenses, and R$ 619 (R$ 240 in the first quarter of 2013) as administrative expenses.

Explanatory Notes

	Consolidated						
	Systems of						
	Water	Sewage	Common use (i)	Use rights	Other	In progress	Total
At December 31, 2013	**2,078,741**	**2,575,420**	**183,288**	**221,322**	**70,118**	**1,771,866**	**6,900,755**
Additions	15,204	15,195	8,913	3,889	3,664	171,827	**218,692**
Reductions	(27)	-	(37)	-	(932)	(1,803)	**(2,799)**
Amortization	(40,882)	(43,556)	(15,938)	(3,258)	(676)	-	**(104,310)**
Capitalized interest	-	-	-	-	-	12,942	**12,942**
Transfers to financial assets	1,617	(40,328)	(761)	50	(14)	-	**(39,436)**
Transfers	4,255	213,286	5,832	285	(307)	(230,435)	**(7,084)**
Other	154	729	11	12	5	13	**924**
At March 31, 2014	**2,059,062**	**2,720,746**	**181,308**	**222,300**	**71,858**	**1,724,410**	**6,979,684**

The amortization for the first quarter of 2014, allocated to the statement of income, amounted to R$ 103,629 (R$ 91,540 in the first quarter of 2013) as cost of services rendered, R$ 60 (R$ 49 in the first quarter of 2013) as selling expenses, and R$ 621 (R$ 243 in the first quarter of 2013) as administrative expenses.

At March 31, 2014, the additions to intangible assets amounting to R$ 218,692 substantially referred to (i) the construction works for the expansion of the sewage treatment plant of Ribeirão Arrudas; (ii) the implementation of the sewage treatment system of Ibirité, and (iii) improvements in the sewage system of Caratinga, Contagem and Betim.

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

Explanatory Notes

10. Property, plant and equipment

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

	Parent company					
	Land and buildings	**Machinery and equipment**	**Vehicles**	**Other**	**Construction in progress**	**Total**
At December 31, 2013	**82,815**	**87,429**	**35,215**	**19**	**-**	**205,478**
Additions	-	4,458	-	-	-	**4,458**
Disposals	(18)	(199)	-	-	-	**(217)**
Depreciation	(884)	(6,058)	(2,618)	(1)	-	**(9,561)**
Transfers	460	3,571	3,053	-	-	**7,084**
At March 31, 2014	**82,373**	**89,201**	**35,650**	**18**	**-**	**207,242**

The depreciation for the first quarter of 2014, allocated to the statement of income, amounted to R$ 5,454 (R$ 4,948 in the first quarter of 2013) as cost of services rendered, R$ 1,421 (R$ 920 in the first quarter of 2013) as selling expenses, and R$ 2,686 (R$ 2,046 in the first quarter of 2013) as administrative expenses.

	Consolidated					
	Land and buildings	**Machinery and equipment**	**Vehicles**	**Other**	**Construction in progress**	**Total**
At December 31, 2013	**87,855**	**103,654**	**35,232**	**53**	**-**	**226,794**
Additions	180	4,459	-	-	-	**4,639**
Disposals	(18)	(886)	-	-	-	**(904)**
Depreciation	(977)	(6,621)	(2,619)	(2)	-	**(10,219)**
Transfers	460	3,571	3,053	-	-	**7,084**
At March 31, 2014	**87,500**	**104,177**	**35,666**	**51**	**-**	**227,394**

The depreciation for the first quarter of 2014, allocated to the statement of income, amounted to R$ 6,090 (R$ 5,558 in the first quarter of 2013) as cost of services rendered, R$ 1,421 (R$ 920 in the first quarter of 2013) as selling expenses, and R$ 2,708 (R$ 2,093 in the first quarter of 2013) as administrative expenses.

Explanatory Notes

11. Trade and other payables

	Parent company		Consolidated	
	3/31/2014	**12/31/2013**	**3/31/2014**	**12/31/2013**
Trade payables	130,189	135,338	135,774	156,104
Taxes and contributions	58,637	53,764	58,992	54,293
Taxes payable in installments	248,440	253,724	248,440	253,724
Provision for vacation pay and 13th month salary	99,433	92,023	100,228	92,679
Electric power	5,959	10,832	6,325	11,202
Deposit for construction (a)	24,524	30,389	24,527	30,392
Provision for investment losses (Note 8)	88,848	86,346	-	-
Sundry obligations	33,638	20,086	33,692	20,112
Total	**689,668**	**682,502**	**607,978**	**618,506**
Non-current liabilities	**(334,539)**	**(337,084)**	**(245,694)**	**(250,741)**
Current liabilities	**355,129**	**345,418**	**362,284**	**367,765**

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

As at March 31, 2014, except for the item described below, there were no other changes in the nature and conditions of obligations in relation to the disclosures made in Note 11 to the Financial Statements as at December 31, 2013.

a) In the 1st quarter of 2014, the right to the amount transferred by the National Water Agency (ANA) was recognized, upon compliance of the 1st phase established in the agreement referring to ETE Betim Central, with credit of the amount of R$ 6,542 in deferred income and credit of R$ 1,635 in finance income which was also credited in R$ 78 related to 1/3 of the revenue earned by the investment of the funds received.

12. Borrowings and debentures

These accounts did not change significantly compared to the disclosures made in Note 12 to the financial statements for the year ended December 31, 2013. Accordingly, management decided not to repeat such disclosures in this interim accounting information as at March 31, 2014.

Explanatory Notes

a) Borrowings

At March 31, 2014, the book values of the Company's borrowings in foreign currency total R$ 171,774 (R$ 127,332 at December 31, 2013), of which R$ 59,605 is in US dollars and R$ 112,169 in euros (R$ 61,658 in U.S. dollars and R$ 65,674 in euros at December 31, 2013).

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

	Parent company		Consolidated	
Maturity year	**3/31/2014**	**12/31/2013**	**3/31/2014**	**12/31/2013**
2015	136,488	173,935	136,853	174,399
2016	145,857	137,345	145,994	137,483
2017	108,465	100,523	108,535	100,593
2018	109,694	101,708	109,764	101,778
2019	110,549	103,395	110,619	103,465
2020	105,137	97,934	105,207	98,004
2021 to 2036	506,102	477,629	506,249	477,776
Total	**1,222,292**	**1,192,469**	**1,223,221**	**1,193,498**

Changes in borrowings were as follows:

Parent company	
At December 31, 2013	**1,388,728**
Proceeds from borrowings	86,067
Provision for interest and financial charges	25,057
Monetary and exchange variations	(6,376)
Repayment of principal	(51,399)
Payment of financial charges	(23,981)
At March 31, 2014	**1,418,096**
Current liabilities	**(195,804)**
Non-current liabilities	**1,222,292**

Consolidated	
At December 31, 2013	**1,390,161**
Proceeds from borrowings	86,067
Provision for interest and financial charges	25,085
Monetary and exchange variations	(6,376)
Repayment of principal	(51,499)
Payment of financial charges	(24,006)
At March 31, 2014	**1,419,432**
Current liabilities	**(196,211)**
Non-current liabilities	**1,223,221**

Explanatory Notes

Bank loans and financing mature through 2036 and bear average coupons of 7.70% p.a. (7.66% p.a. as at December 31, 2013). In addition, the balances of financing lines are subject to specific rates, as follows:

	Parent Company/Consolidated
Financing lines	**Rates**
State government/BDMG	IGP-M
Federal Savings and Loan Bank (CEF)	TR
National Treasury	TR
BNDES - BNE	Long-Term Interest Rate (TJLP) plus 6%
Government Agency for Machinery and Equipment Financing (FINAME)	-
Federal government - bonds	Dollar
KfW Bank	Euro
FINAME - Águas Minerais	-
Banco do Brasil - COPANOR	CDI
Debentures	(*)

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

b) Debentures

Changes in debentures were as follows:

	Parent Company/Consolidated
At December 31, 2013	**1,767,539**
Provision for interest and financial charges	37,014
Monetary variation	10,421
Repayment of principal	(102,608)
Payment of financial charges	(38,492)
At March 31, 2014	**1,673,874**
Current liabilities	**(263,644)**
Non-current liabilities	**1,410,230**

Explanatory Notes

c) Other significant information on loans and financing

Guarantees for bank loans and financing

There were no significant changes in the guarantees provided by the Company for its borrowings in relation to those disclosed in the financial statements as at December 31, 2013. Accordingly, management decided not to repeat such disclosures in this interim accounting information as at March 31, 2014.

Fair value

The carrying values and fair values of borrowings and debentures are disclosed in Note 20.

Restrictive covenants

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

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

None of the covenants above had been breached through March 31, 2014.

13. Provisions for contingencies

(a) Probable loss contingent liabilities

Provisions are as follows:

	Parent company					
	3/31/2014			12/31/2013		
	Contingencies	Court deposits	Net balance	Contingencies	Court deposits	Net balance
Civil	41,058	(1,168)	39,890	37,164	(1,153)	36,011
Labor	36,103	(839)	35,264	33,542	(824)	32,718
Tax	851	(334)	517	828	(414)	414
Environmental	7,703	-	7,703	7,331	-	7,331
Total	**85,715**	**(2,341)**	**83,374**	**78,865**	**(2,391)**	**76,474**

Explanatory Notes

	Consolidated					
	3/31/2014			12/31/2013		
	Contingencies	Court deposits	Net balance	Contingencies	Court deposits	Net balance
Civil	41,089	(1,168)	39,921	37,194	(1,153)	36,041
Labor	38,453	(1,519)	36,934	35,406	(1,439)	33,967
Tax	851	(334)	517	828	(414)	414
Environmental	7,703	-	7,703	7,331	-	7,331
Total	**88,096**	**(3,021)**	**85,075**	**80,759**	**(3,006)**	**77,753**

The changes in provisions for contingencies were as follows:

	Parent company	Consolidated
Net balance at December 31, 2013	**76,474**	**77,753**
Additions	9,887	10,434
Use	(1,110)	(1,137)
Reversals	(1,926)	(1,961)
(-) Offsetting of judicial deposits	49	(14)
Net balance at March 31, 2014	**83,374**	**85,075**

Use refers to provisions utilized or cases which were lost by the Company and classified as accounts payable.

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

(b) Possible loss contingent liabilities

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

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

Explanatory Notes

	Parent Company/Consolidated	
Nature	**3/31/2014**	**12/31/2013**
Civil	384,454	376,057
Tax	35,172	34,239
Environmental	3,152	-
Total	**422,778**	**410,296**

As at March 31, 2014 the information concerning the status of proceedings, the likelihood of loss and the contingent assets had not changed significantly compared to the disclosures made in Note 13 to the financial statements as of December 31, 2013 Accordingly, management has decided not to repeat such disclosures as part of this interim accounting information.

14. Employee profit sharing

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

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

At March 31, 2014, the Company recognized R$ 6,628 as a provision for the employee profit sharing (R$ 7,905 - in the first quarter of 2013).

15. Income tax and social contribution

(a) Current income tax and social contribution

In Brazil, income taxes include both federal income tax and social contribution. The statutory tax rates applicable to income tax and social contribution are 25% and 9%, respectively, resulting in a combined 34% rate for December 2013 and 2012. The amounts reported as income tax expenses in the income statements of the Company are reconciled with the statutory tax rates as follows:

Explanatory Notes

	Parent company	
	3/31/2014	**3/31/2013**
Profit before income tax and social contribution	151,293	156,761
Statutory rate	34%	34%
Estimated expenses at statutory rate	**(51,440)**	**(53,299)**
Income tax and social contribution on:		
(Additions)/exclusions		
Equity accounting	(850)	(1,348)
Realization of special monetary restatement	(61)	(265)
Donations and subsidies	582	-
Foreign exchange variations - Cash basis	-	307
Other (additions)/exclusions	4,540	405
Other reconciling items		
Interest on capital	11,818	12,938
Tax incentives	731	872
Income tax and social contribution	**(34,680)**	**(40,390)**
Current income tax and social contribution	(37,250)	(45,522)
Deferred income tax and social contribution	2,570	5,132
	(34,680)	**(40,390)**
Effective rate	22.9%	25.8%

	Consolidated	
	3/31/2014	**3/31/2013**
Profit before income tax and social contribution	151,293	156,868
Statutory rate	34%	34%
Estimated expenses at statutory rate	**(51,440)**	**(53,335)**
Income tax and social contribution on:		
(Additions)/exclusions		
Realization of special monetary restatement	(61)	(265)
Donations and subsidies	582	-
Foreign exchange variations - Cash basis	-	307
Other (additions)/exclusions	3,690	(1,014)
Other reconciling items		
Interest on capital	11,818	12,938
Tax incentives	731	872
Income tax and social contribution	**(34,680)**	**(40,497)**
Current income tax and social contribution	(37,250)	(45,629)
Deferred income tax and social contribution	2,570	5,132
	(34,680)	**(40,497)**
Effective rate	22.9%	25.8%

Explanatory Notes

(b) Deferred income tax and social contribution

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

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

The deferred tax amounts are as follows:

	Parent Company/Consolidated	
Balances	**3/31/2014**	**12/31/2013**
In non-current assets		
Temporary differences:		
Allowance for doubtful accounts and litigation provision	110,438	102,200
Provisions for adjustments required under CPCs	415,815	403,141
Provision for adjustments of CPSs in the comprehensive income	1,720	1,720
Provisions for actuarial liabilities	5,082	-
Tax provisions	120,621	125,717
Other temporary provisions - sundry	24,182	24,069
Total	**677,858**	**656,847**
Deferred income tax	169,465	164,212
Deferred social contribution	61,007	59,116
	230,472	**223,328**
In non-current liabilities		
Temporary differences:		
Provisions for adjustments required under CPCs	212,652	204,281
Provision for adjustments of CPSs in the comprehensive income	67,060	67,060
Provisions for actuarial liabilities	35,672	35,672
Total	**315,384**	**307,013**
Deferred income tax	78,846	76,753
Deferred social contribution	28,384	27,631
	107,230	**104,384**
Deferred income tax and social contribution, net	**123,242**	**118,944**

Explanatory Notes

As at March 31, 2014 there were no changes in the nature and conditions of income tax and social contribution compared to the disclosures made in Note 15 to the financial statements as at December 31, 2013 Accordingly, management has decided not to repeat such disclosures as part of this interim accounting information.

16. Technical cooperation agreements

The net balance of these agreements is as follows:

	Parent company		
	Receivables (assets)	**Advances (liabilities)**	**Net**
March 31, 2014			
State	219,817	(206,102)	**13,715**
Other	87,166	(100,252)	**(13,086)**
Total	**306,983**	**(306,354)**	**629**
December 31, 2013			
State	229,229	(217,981)	**11,248**
Other	68,823	(86,618)	**(17,795)**
Total	**298,052**	**(304,599)**	**(6,547)**

	Consolidated		
	Receivables (assets)	**Advances (liabilities)**	**Net**
March 31, 2014			
State	679,599	(662,387)	**17,212**
Other	87,166	(100,252)	**(13,086)**
Total	**766,765**	**(762,639)**	**4,126**
December 31, 2013			
State	674,359	(644,266)	**30,093**
Other	68,823	(86,618)	**(17,795)**
Total	**743,182**	**(730,884)**	**12,298**

As at March 31, 2014 there were no changes in the nature and conditions of technical cooperation agreements compared to the disclosures made in Note 16 to the financial statements as at December 31, 2013. Accordingly, management has decided not to repeat such disclosures as part of this interim accounting information.

Explanatory Notes

17. Pension plan obligations

	Parent Company/Consolidated	
	3/31/2014	**12/31/2013**
Obligations - Long term	106,884	106,010
Obligations - Short term	14,956	14,342
	121,840	**120,352**
Normal contributions	6,473	12,067
Total obligations recorded in the balance sheet	**128,313**	**132,419**

Changes in net liabilities are as follow:

	Parent Company/Consolidated
Net liabilities as at December 31, 2013	**132,419**
Amounts recognized in the statement of income	1,490
Actuarial losses recognized directly in other comprehensive income (losses)	5,082
Amortization of interest on debt	(1,511)
Amortization of the principal	(3,573)
Expenses recognized in the income statement - Contributions from COPASA	8,554
Provision for monthly contributions	10,882
Monthly contributions	(25,030)
Net liabilities as at March 31, 2014	**128,313**
Current liabilities	**(21,429)**
Non-current liabilities	**106,884**

As at March 31, 2014 there were no other changes in the nature and conditions of retirement benefit plans compared to the disclosures made in Note 17 to the financial statements as at December 31, 2013.

18. Equity and dividends

(a) Share capital

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

Explanatory Notes

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

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

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

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

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

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

At March 31, 2014, the capital is held as follows:

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

Explanatory Notes

(b) Revenue reserves

As at March 31, 2014, there were no changes in the nature and conditions of reserves in relation to the disclosures made in Note 18(b) to the financial statements as at December 31, 2013, Accordingly, management has decided not to repeat such disclosures as part of this interim accounting information.

(c) Carrying value adjustments

Carrying value adjustments refer to:

(i) Actuarial gains and losses: calculated in conformity with CPC 33 (R1) and IAS 19 (R1) (Note 17). At March 31, 2014, the credit balance on this account was R$ 20,189 (R$ 23,543 at December 31, 2013).

(ii) Monetary restatement of assets: application of IAS 29 for the period during which it was considered that Brazil had a hyper-inflationary economy. This restatement is amortized based on the useful lives of property, plant and equipment items and intangible assets against retained earnings. At March 31, 2014, the credit balance on this account was R$ 21,384 (R$ 22,364 at December 31, 2013).

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

(d) Dividends and interest on capital to stockholders

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

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

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

Explanatory Notes

Date	Gross amount declared	Amount per share
3/21/2014	34,757	0.29
	34,757	

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

As provided for in Article 9 of Law 9,249/95, and based on the Long-term Interest Rate (TJLP), interest on capital was recorded as finance costs deductible for income tax and social contribution purposes, thereby generating a tax benefit of R$ 11,817. Under Brazilian corporation law, interest on capital is disclosed as a reduction of retained earnings in equity.

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

	3/31/2014	12/31/2013
Opening balance	**31,646**	**46,469**
Proposed interest on capital	34,757	139,582
Withholding Income Tax (IRRF) on interest on capital	-	(12,971)
Interest on capital paid	(12)	(141,434)
Balance of interest on capital in current liabilities	**66,391**	**31,646**

(e) Earnings per share

- Basic

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

	Parent Company/Consolidated	
	3/31/2014	3/31/2013
Profit attributable to stockholders of the Company	116,613	116,371
Weighted average number of outstanding common shares (thousands)	119,327	119,327
Basic earnings per share - R$	**0.98**	**0.98**

Explanatory Notes

- Diluted

  At March 31, 2014 and 2013, diluted earnings per share were equivalent to the basic earnings per share, as in September 2012 the convertible debentures were converted into shares, eliminating the potential dilutive common shares.

19. Segment information

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

	Consolidated		
	1st quarter of 2014		
	Water and sewage	**Sale of products**	**Financial statement balance**
Gross sales and services revenue	1,033,717	966	1,034,683
Deductions from gross revenue	(81,173)	(149)	(81,322)
Net sales and services revenue	952,544	817	953,361
Costs and selling and administrative expenses	(741,979)	(2,185)	(744,164)
Operating profit (loss) before other net operating expenses	210,565	(1,368)	209,197
Other operating expenses, net			(13,407)
Finance result, net			(44,497)
Profit before taxes			151,293

Explanatory Notes

	Consolidated		
	1st quarter of 2013		
	Water and sewage	Sale of products	Financial statement balance
Gross sales and services revenue	937,963	1,187	939,150
Deductions from gross revenue	(75,930)	(168)	(76,098)
Net sales and services revenue	862,033	1,019	863,052
Costs and selling and administrative expenses	(647,662)	(4,131)	(651,793)
Operating profit (loss) before other net operating expenses	214,371	(3,112)	211,259
Other operating expenses, net			(16,960)
Finance result, net			(37,431)
Profit before taxes			156,868

20. Financial risk management

As at March 31, 2014, there were no changes in the financial risk policies and management in relation to the disclosures made in Note 20 to the financial statements as at December 31, 2013.

The information relating to: (a) liabilities subject to foreign exchange variations; (b) the credit quality of financial assets; (c) the cash flow from financial instruments; and (d) financial leverage ratios did not change significantly compared to the disclosures made in Note 20 to the financial statements as at December 31, 2013, and accordingly management decided not to repeat such disclosures as part of the interim accounting information as at March 31, 2014.

Explanatory Notes

20.1 Sensibility analysis

(i) Interest rate sensitivity

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

	Parent company	
	Increase/decrease in basis points	**Effect on profit before taxes (R$)**
3/31/2014		
	+ 0.5%	(12,149)
	- 0.5%	12,149
12/31/2013		
	+ 0.5%	(12,329)
	- 0.5%	12,329

	Consolidated	
	Increase/decrease in basis points	**Effect on profit before taxes (R$)**
3/31/2014		
	+ 0.5%	(12,155)
	- 0.5%	12,155
12/31/2013		
	+ 0.5%	(12,333)
	- 0.5%	12,333

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

(ii) Foreign exchange sensitivity

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

Explanatory Notes

	Parent Company/Consolidated	
	Change in U.S. Dollar rate	**Effect on profit before taxes (R$)**
3/31/2014	+ 20%	(34,016)
	- 20%	34,016
	+10%	(17,008)
	-10%	17,008
12/31/2013	+ 20%	(25,363)
	- 20%	25,363
	+10%	(12,682)
	-10%	12,682

Changes in income and equity derive from changes in US Dollar and Euro borrowings.

20.2. Fair value estimation

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

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

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

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

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

Explanatory Notes

Parent Company/Consolidated		
	3/31/2014	
	Assets	
	Available-for-sale financial assets	**Total assets**
Prices quoted in active markets (Level 1)	-	-
Other significant observable data (Level 2)	-	-
Significant data not observable (Level 3)	48,638	48,638
Total balance	**48,638**	**48,638**

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

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

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

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

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

Explanatory Notes

- Other techniques, such as discounted cash flow analysis, are used to determine the fair values of the remaining financial instruments.

(b) Fair value of borrowings

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

	Parent company			
	Amounts			
	Carrying amount	Fair value	Carrying amount	Fair value
	3/31/2014	3/31/2014	12/31/2013	12/31/2013
Bank borrowings and financing	1,418,096	1,456,459	1,388,728	1,430,504
Simple debentures	1,673,874	1,651,779	1,767,539	1,727,836
Total	**3,091,970**	**3,108,238**	**3,156,267**	**3,158,340**

	Consolidated			
	Amounts			
	Carrying amount	Fair value	Carrying amount	Fair value
	3/31/2014	3/31/2014	12/31/2013	12/31/2013
Bank borrowings and financing	1,419,432	1,457,799	1,390,161	1,431,932
Simple debentures	1,673,874	1,651,779	1,767,539	1,727,836
Total	**3,093,306**	**3,109,578**	**3,157,700**	**3,159,768**

The market values of liabilities are calculated on the projected balances, restated at their contractual rates over the remaining months before payment. These values are adjusted to present value using the following market rates:

	Parent Company/Consolidated			
Financing lines	Contractual rate	Period (months)	Market rate	Comments
State government/BDMG	9.03%	12	7.33%	CEF rate, since there is no similar one
CEF/FGTS	9.14%	130	7.33%	Quoted CEF rate in Mar/2014
BNDES/BNE	6.57%	98	6.55%	Quoted BNDES/BNE rate in Mar/2014
FINAME	3.43%	119	3.00%	Quoted FINAME rate in Mar/2014
Federal government	4.37%	122	7.33%	CEF rate, since there is no similar one
Simple debentures	8.26%	85	8.75%	Quoted BNDES/BND rate in Mar/2014
KfW Bank	2.07%	118	2.07%	Quoted KfW rate in Mar/2014
FINAME - AGMM	2.50%	107	3.00%	Quoted FINAME rate in Mar/2014
Banco do Brasil - COPANOR	11.87%	23	7.33%	CEF rate, since there is no similar one

Explanatory Notes

21. Financial instruments by category

(a) Parent company

	3/31/2014		
	Loans and receivables	Assets available for sale	Total
Assets			
Cash and cash equivalents	196,526	-	196,526
Trade receivables	918,289	-	918,289
Bank account - agreements	32,804	-	32,804
Restricted investments	96,318	-	96,318
Financial assets - concession agreements	537,445	-	537,445
Equity securities	-	48,638	48,638
Receivables from subsidiaries	111,594	-	111,594
Other receivables (excluding prepayments)	158,458	-	158,458
Total	**2,051,434**	**48,638**	**2,100,072**

	3/31/2014	
	Other financial liabilities	Total
Liabilities		
Borrowings and debentures	3,091,970	3,091,970
Trade payables	130,189	130,189
Financial leasing	7,769	7,769
Total	**3,229,928**	**3,229,928**

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

Explanatory Notes

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

(b) Consolidated

	3/31/2014		
	Loans and receivables	**Assets available for sale**	**Total**
Assets			
Cash and cash equivalents	197,385	-	197,385
Trade receivables	923,093	-	923,093
Bank account - agreements	33,546	-	33,546
Restricted investments	96,318	-	96,318
Financial assets - concession agreements	537,445	-	537,445
Equity securities	-	48,638	48,638
Other receivables (excluding prepayments)	156,307	-	156,307
Total	**1,944,094**	**48,638**	**1,992,732**

	3/31/2014	
	Other financial liabilities	**Total**
Liabilities		
Borrowings and debentures	3,093,306	3,093,306
Trade payables	135,774	135,774
Financial leasing	7,769	7,769
Total	**3,236,849**	**3,236,849**

Explanatory Notes

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

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

22. Revenue

The reconciliation between gross and net revenue is as follows:

	Parent company	
	3/31/2014	**3/31/2013**
Gross revenue from water supply and sewage services	869,997	806,399
Construction revenue	159,156	126,513
Total gross revenue	**1,029,153**	**932,912**
Taxes on sales and services	(80,738)	(75,463)
Net revenue	**948,415**	**857,449**

Explanatory Notes

	Consolidated	
	3/31/2014	**3/31/2013**
Gross revenue from water supply and sewage services	874,561	811,450
Gross revenue from the sale of products	966	1,187
Construction revenue	159,156	126,513
Total gross revenue	**1,034,683**	**939,150**
Taxes on sales and services	(81,322)	(76,098)
Net revenue	**953,361**	**863,052**

The Company's other operating income for the periods ended March 31, 2014 and 2013 is set out below:

	Parent company	
	3/31/2014	**3/31/2013**
Reversal of non-deductible provision	4,587	905
Recovery of accounts written-off	9,602	7,466
Other income	4,770	2,807
Total other operating income	**18,959**	**11,178**

	Consolidated	
	3/31/2014	**3/31/2013**
Reversal of non-deductible provision	4,686	1,049
Recovery of accounts written-off	9,692	7,510
Other income	5,089	3,174
Total other operating income	**19,467**	**11,733**

Explanatory Notes

23. Expenses by nature

	Parent company		Consolidated	
	3/31/2014	**3/31/2013**	**3/31/2014**	**3/31/2013**
Salaries and social charges	261,698	230,175	264,563	232,270
Materials	33,227	28,716	33,799	29,212
Outsourced services	150,057	137,589	151,804	141,333
General expenses	28,137	29,004	28,360	29,833
Depreciation and amortization	113,869	99,743	114,529	100,403
Impairment of trade receivables	19,959	15,130	20,639	15,489
Provision for obsolescence	115	-	124	-
Construction costs (*)	154,384	122,618	154,384	122,618
Cost of sales	-	-	75	572
Litigation provision	9,886	7,991	10,434	8,066
Equity accounting	2,502	3,966	-	-
Employee profit sharing	6,628	7,905	6,628	7,905
Other	15,335	11,540	15,812	12,722
Operating expenses	**795,797**	**694,377**	**801,151**	**700,423**
(-) Recovery of tax credits	**(23,881)**	**(19,737)**	**(24,113)**	**(19,937)**
Net operating expenses	**771,916**	**674,640**	**777,038**	**680,486**
Costs	**574,314**	**501,766**	**578,707**	**506,922**
Expenses	**197,602**	**172,874**	**198,331**	**173,564**

(*) Breakdown of construction costs:

	Parent Company/Consolidated	
	3/31/2014	**3/31/2013**
Salaries and social charges	6,795	7,031
Materials	13,900	11,672
Equipment	27,234	9,968
Outsourced services	92,407	77,570
Financing costs	12,821	14,906
Other	1,227	1,471
Total construction costs	**154,384**	**122,618**

Explanatory Notes

24. Employee benefit expenses

Parent company		
	3/31/2014	**3/31/2013**
Salaries	142,161	129,496
Social security costs	42,916	39,085
FGTS	17,259	14,507
Pension plan contributions	8,554	7,996
Workers' meal program	29,624	26,334
Healthcare plan	12,620	9,027
Other benefits	8,564	3,730
Total	**261,698**	**230,175**
Number of employees (unaudited)	12,066	11,548

Consolidated		
	3/31/2014	**3/31/2013**
Salaries	144,023	131,105
Social security costs	43,368	39,387
FGTS	17,377	14,603
Pension plan contributions	8,554	7,996
Workers' meal program	30,020	26,384
Healthcare plan	12,645	9,057
Other benefits	8,576	3,738
Total	**264,563**	**232,270**
Number of employees (unaudited)	12,438	11,856

Explanatory Notes

25. Finance income and costs

Finance income (costs) can be summarized as follows:

Parent company		
	3/31/2014	**3/31/2013**
Interest income	1,085	4,082
Income from financial investments	7,588	10,251
Monetary and foreign exchange gains	10,829	3,546
Capitalization of financial assets/other	3,422	4,376
Total income	**22,924**	**22,255**
Interest on financing	(51,755)	(45,001)
Monetary and foreign exchange costs	(15,231)	(14,376)
Other expenses	(103)	(104)
Total costs	**(67,089)**	**(59,481)**
Finance result	**(44,165)**	**(37,226)**

Consolidated		
	3/31/2014	**3/31/2013**
Interest income	808	4,198
Income from financial investments	7,589	10,251
Monetary and foreign exchange gains	10,815	3,248
Capitalization of financial assets/other	3,422	4,376
Total income	**22,634**	**22,073**
Interest on financing	(51,786)	(45,006)
Monetary and foreign exchange costs	(15,231)	(14,387)
Other expenses	(114)	(111)
Total costs	**(67,131)**	**(59,504)**
Finance result	**(44,497)**	**(37,431)**

Explanatory Notes

26. Related-party transactions

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

(a) Assets, liabilities, income and expenses

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

Significant balances and transactions with related parties are set out below:

	Parent company						
	3/31/2014						
	Subsidiaries				Other		
	Águas Minerais	COPANOR	Serviços de Irrigação	Total	State of Minas Gerais	CEMIG	Foz de Jeceaba
Assets							
Current assets							
Trade receivables							
Billed amounts	-	-	-	-	42,978	-	-
Agreements	-	-	-	-	13,715	-	-
Other receivables							
Receivables from subsidiaries	138	2,048	-	2,186	-	-	-
Non-current assets							
Loans	-	12,734	902	13,636	-	-	-
Advances for Future Capital Increase (AFAC)	97,958	-	-	97,958	-	-	-
Assets available for sale	-	-	-	-	-	-	48,638
Total assets	**98,096**	**14,782**	**902**	**113,780**	**56,693**	**-**	**48,638**
Liabilities							
Current liabilities							
Interest on capital	-	-	-	-	17,823	-	-
Electric power	-	-	-	-	-	5,959	-
Non-current liabilities							
Provision for investment losses	76,221	11,819	808	88,848	-	-	-
Total liabilities	**76,221**	**11,819**	**808**	**88,848**	**17,823**	**5,959**	**-**
Income statement							
Revenue from water supply and sewage services	-	-	-	-	25,709	-	-
Interest and income from monetary variations	-	317	23	340	-	-	-
Dividends received	-	-	-	-	-	-	618

Explanatory Notes

	Parent company						
	12/31/2013						
	Subsidiaries				Other		
	Águas Minerais	COPANOR	Serviços de Irrigação	Total	State of Minas Gerais	CEMIG	Foz de Jeceaba
Assets							
Current assets							
Trade receivables							
Billed amounts	-	-	-	-	47,072	-	-
Other receivables							
Receivables from subsidiaries	398	2,125	-	2,523	-	-	-
Non-current assets							
Loans	-	12,734	878	13,612	-	-	-
AFAC	96,178	-	-	96,178	-	-	-
Assets available for sale	-	-	-	-	-	-	48,638
Total assets	**96,576**	**14,859**	**878**	**112,313**	**47,072**	**-**	**48,638**
Liabilities							
Current liabilities							
Agreements	-	-	-	-	11,248	-	-
Interest on capital	-	-	-	-	17,476	-	-
Electric power	-	-	-	-	-	10,832	-
Non-current liabilities							
Provision for investment losses	73,699	11,884	763	86,346	-	-	-
Total liabilities	**73,699**	**11,884**	**763**	**86,346**	**28,724**	**10,832**	**-**
	3/31/2013						
Income statement							
Revenue from water supply and sewage services	-	-	-	-	24,564	-	-
Interest and income from monetary variations	-	282	16	298	-	-	-
Dividends received	-	-	-	-	-	-	1,199

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

As at March 31, 2014 there were no changes in the nature and conditions of related-party transactions compared to the disclosures made in Note 26 to the financial statements for the year ended December 31, 2013, Accordingly, management has decided not to repeat such disclosures as part of this interim accounting information.

Explanatory Notes

(b) Key management compensation

	3/31/2014	3/31/2013
Salaries	1,265	1,162
Employee benefits	162	150
Total	**1,427**	**1,312**

27. Commitments

The Company has entered into contracts for new construction works, under which obligations are recorded as the services are rendered. The main outstanding contracts with contractors and suppliers at March 31, 2014 are listed below:

Contractors	Amount	Signed on	Term in days (1)
Odebrecht Ambiental	693,731	12/20/2013	5,475
Construtora Andrade Gutierrez S.A.	186,404	8/25/2011	1,080
Consórcio Orteng/Sonel	71,075	2/21/2013	990
Mendes Junior Trading e Engenharia S.A.	60,339	11/30/2012	810
Prefisan Ltda.	28,797	5/23/2013	720
Infracon Engenharia e Comércio Ltda.	26,353	8/8/2012	630
Prefisan Engenharia S.A.	21,624	3/14/2012	1,080
Infracon Engenharia e Comércio Ltda.	21,170	8/28/2013	540
Construtora Integral Ltda.	19,597	3/18/2014	720
Comim Construtora Ltda.	19,541	8/9/2013	720
Construtora Penchel Ltda.	19,239	4/19/2013	720

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

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

Explanatory Notes

The main committed amounts refer to the following municipalities:

Municipalities	Amounts		% realization
	Committed	Realized	
Belo Horizonte	261,140	96,370	36.90
Betim	80,286	73,521	91.57
Contagem	83,707	83,707	100.00
Montes Claros	121,941	61,417	50.37
Ribeirão das Neves	86,411	70,977	82.14
Teófilo Otoni	54,360	-	-

28. Transactions not involving cash and cash equivalents

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

	Parent Company/Consolidated	
	3/31/2014	**3/31/2013**
Proposed dividends (Note 18)	34,757	38,054
Transfer of PRODES/ANA agreement (Notes 7 and 11)	754	8,725

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

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

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

Explanatory Notes

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

Comments on the behavior of business projections

Comments on the behavior of business projections

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

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

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

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

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

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

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

- Group of municipalities with population over 15 thousand inhabitants:

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

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

Comments on the behavior of business projections

Group of municipalities with population below 15 thousand inhabitants:

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

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

II - Increase the number of water and sewage concessions

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

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

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

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

Comments on the behavior of business projections

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

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

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

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

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

Comments on the behavior of business projections

exceed the provisions recorded. Where the economic value of these lawsuits exceeds the amount attributed by the parties, or if the total amount provided for is not sufficient to cover the contingencies, the costs incurred may exceed those expected and, if the amounts are material, the Company's results may be negatively affected.

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

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

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

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

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

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

Comments on the behavior of business projections

Additional information

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

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

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

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

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