Quarterly Information

Companhia de Saneamento de Minas Gerais - COPASA

Quarter ended June 30, 2011 with Special Review Report of Independent Auditors

"A free Translation from Portuguese into English"

Independent Auditors' Special Review Report on Quarterly Information

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

We have reviewed the individual and consolidated interim financial information of Companhia de Saneamento de Minas Gerais - COPASA, contained in the Quarterly Financial Information Form – ITR for the quarter ended June 30, 2011, which comprised the balance sheet at June 30, 2011 and the related statements of income for the three and six month periods then ended, and changes in equity and cash flows for the six month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual interim financial information in accordance with the Technical Pronouncement CPC 21 – Interim financial reporting, and of the consolidated interim financial information according to CPC 21 and the international standard IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this information consistently with the rules issued by Brazilian SEC (CVM) applicable to the preparation of the quarterly financial information – ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 – Review of the Interim Financial Information performed by the Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of the interim financial 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 auditing standards and accordingly does not allow 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 individual interim information

Based on our review, nothing has come to our attention that cause us to believe that the accompanying individual interim financial information included in the aforementioned quarterly financial information was not prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of Quarterly Financial Information – ITR, and presented consistently with the standards issued by the Brazilian SEC (CVM) applicable to quarterly information.

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 financial information included in the aforementioned quarterly financial information was not prepared, in all their material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of the Quarterly Financial Information – ITR, and presented consistently with standards issued by the Brazilian SEC (CVM) applicable to quarterly information.

Emphasis on a matter

As mentioned in Note 28, beginning September 20, 1989, the Company, as a taxpayer, has been under the special tax regime for State Value-Added Tax (ICMS) on treated water supply. Based on the opinion of its legal advisors, the referred to tax collection would require specific rules regulating the subject. To date, there has been no definition by the State Executive Branch concerning calculation criteria and required collection of such tax; also, such tax has not been included in the tariff calculation of the Company. Consequently, such tax has neither been collected from consumers, nor accrued by the Company or passed on to the State Government.

Other matters

Statements of value added

We have also reviewed the individual and consolidated interim statement of value added for the six month period ended June 30, 2011, prepared under the responsibility of management, whose presentation is required according to the rules issued by the Brazilian SEC (CVM) applicable to the preparation of Interim Financial Information and considered supplementary information under the IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same review procedures previously described and, in our review, are presented fairly, in all material respects, in relation to the interim individual and consolidated accounting information taken as a whole.

Belo Horizonte (MG), August 10, 2011.

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

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

Individual / Balance sheets Asset

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
1	Total assets	7,613,088	7,309,840
1.01	Current assets	715,260	649,909
1.01.01	Cash and cash equivalents	149,755	75,793
1.01.03	Accounts receivable	524,819	534,600
1.01.03.01	Accounts receivable - customers	478,645	434,851
1.01.03.02	Other accounts receivable	46,174	99,749
1.01.03.02.01	Recoverable taxes	33,249	30,879
1.01.03.02.02	Technical cooperation agreement	2,560	0
1.01.03.02.03	Bank account – agreements	10,365	12,505
1.01.03.02.04	Financing assets held-to-maturity	0	56,365
1.01.04	Inventory	27,371	25,760
1.01.08	Other current assets	13,315	13,756
1.01.08.03	Other	13,315	13,756
1.01.08.03.01	Advance to employees	0	11,068
1.01.08.03.02	Other	13,315	2,688
1.02	Noncurrent assets	6,897,748	6,659,931
1.02.01	Long-term assets	949,583	916,073
1.02.01.03	Accounts receivable	371,356	339,924
1.02.01.03.01	Accounts receivable - customers	210,056	182,335
1.02.01.03.02	Other accounts receivable	161,300	157,589
1.02.01.06	Deferred taxes	217,557	236,126
1.02.01.06.01	Deferred income tax and social security contribution	217,557	236,126
1.02.01.08	Intercompany credits	67,723	59,970
1.02.01.08.02	Receivables from subsidiaries	67,723	59,970
1.02.01.09	Other noncurrent assets	292,947	280,053
1.02.01.09.03	Financing assets - concession agreements	292,947	280,053
1.02.02	Investments	22,063	263
1.02.02.01	Investments in other companies	22,063	263
1.02.02.01.02	Investments in subsidiaries	3	3
1.02.02.01.04	Other investments	22,060	260
1.02.03	Property plant & equipment	103,951	111,864
1.02.03.01	Property plant & equipment in operation	103,951	111,864
1.02.04	Intangible	5,822,151	5,631,731
1.02.04.01	Intangibles	5,822,151	5,631,731
1.02.04.01.01	Concession agreements	3,209,312	3,169,888
1.02.04.01.02	Intangible in progress	2,612,839	2,461,843

Individual / Balance sheets Liabilities

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
2	Total liabilities	7,613,008	7,309,840
2.01	Current liabilities	792,618	688,992
2.01.02	Suppliers	113,592	120,135
2.01.02.01	Nacional suppliers	113,592	120,135
2.01.03	Taxes obligations	48,287	43,535
2.01.03.01	Federal taxes obligations	47,597	42,729
2.01.03.01.02	Other federal taxes obligations	47,597	42729
2.01.03.03	Municipal taxes obligations	690	806
2.01.03.03.01	ISSQN	690	806
2.01.04	Loans and financings	347,976	247,328
2.01.04.01	Loans and financings	180,991	149,960
2.01.04.01.01	In local currency	175,916	144,541
2.01.04.01.02	In foreign currency	5,075	5,419
2.01.04.02	Debentures	166,985	97,368
2.01.04.02.01	Non convertible	166,985	97,368
2.01.05	Other obligations	120,381	141,638
2.01.05.02	Other	120,381	141,638
2.01.05.02.01	Dividends and interest on equity capital payable	41,373	66,859
2.01.05.02.04	Pension plan	17,425	17,769
2.01.05.02.05	Electric power	27,846	27,565
2.01.05.02.06	Technical cooperation agreement	0	1,492
2.01.05.02.07	Sundry obligations	33,737	27,953
2.01.06	Provision	162,383	136,356
2.01.06.01	Provision for tax labor and civil	162,382	136,356
2.01.06.01.05	Taxes in installments	41,442	36,370
2.01.06.01.06	Accrual for vacation pay and 13th salary	92,476	72,854
2.01.06.01.07	Employee profit sharing	28,464	27,132
2.02	Noncurrent liabilities	2,472,106	2,436,520
2.02.01	Loans and financing	1,904,844	1,862,844
2.02.01.01	Loans and financing	1,247,172	1,161,079
2.02.01.01.01	Local currency	1,203,302	1,112,039
2.02.01.01.02	Foreign currency	43,870	49,040
2.02.01.02	Debentures	657,672	701,765
2.02.01.02.01	Non convertible	592,528	568,025
2.02.01.02.02	Convertible	65,144	133,740
2.02.02	Other obligations	223,252	249,011
2.02.02.01	Intercompany liabilities	36,238	27,957
2.02.02.01.02	Subsidiaries debts	36,238	27,957
2.02.02.02	Other	187,014	221,054
2.02.02.02.03	Pension plan	143,322	154,509
2.02.02.02.04	Electric power	6,101	17,219
2.02.02.02.05	Other	35,425	42,827
2.02.02.02.06	Deferred income	2,166	6,499

Individual / Balance sheets Liabilities

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
2.02.03	Deferred tax	48,428	44,145
2.02.03.01	Deferred income tax and social security contribution	48,428	44,145
2.02.04	Provision	295,582	280,520
2.02.04.01	Provision for tax, labor and civil	295,582	280,520
2.02.04.01.01	Provision for tax	43,709	54,538
2.02.04.01.05	Taxes in installment	213,567	192,868
2.02.04.01.06	Provision for contingencies	38,306	33,114
2.03	Shareholders' equity	4,348,284	4,184,328
2.03.01	Paid-in capital	2,636,460	2,636,460
2.03.02	Capital reserves	3,782	3,782
2.03.02.07	Convertible debentures	3,782	3,782
2.03.04	Profit reserves	1,554,086	1,544,086
2.03.04.01	Legal reserves	146,587	146,587
2.03.04.05	Retained profits reserves	1,395,821	1,395,821
2.03.04.07	Tax benefit reserves	10,868	10,868
2.03.04.09	Treasury shares	-9,190	-9,190
2.03.05	Retained earnings (accumulated losses)	163,956	0

Individual / Income Statements

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 04/01/2011 to 06/30/2011	Accumulated for the current year 01/01/2011 to 06/30/2011	Same quarter of previous year 04/01/2010 to 06/30/2010	Accumulated for the previous year 01/01/2010 to 06/30/2010
3.01	Gross revenue of sales and/or services	778,719	1,554,858	818,536	1,548,182
3.01.01	Water supply services	434,337	874,914	417,844	386,462
3.01.02	Sewage services	177,346	335,019	148,556	290,413
3.01.03	Construction revenue	167,036	344,925	252,136	421,307
3.02	Cost of services rendered	-457,811	-911,981	-524,712	-956,230
3.02.01	Cost of services rendered	-294,584	-573,834	-280,162	-547,497
3.02.02	Construction cost	-163,227	-338,147	-244,550	-408,733
3.03	Gross profit	320,908	642,877	293,824	591,952
3.04	Operating expenses/income	-145,534	-253,406	-141,492	-272,218
3.04.01	Sales expenses	-42,027	-81,874	-42,368	-84,725
3.04.02	Administrative expenses	-85,197	-162,487	-86,547	-163,268
3.04.04	Other operating income	14,314	48,383	6,413	18,511
3.04.05	Other operating expenses	-28,744	-49,147	-14,758	-32,808
3.04.05.01	Other operating expenses	-21,421	-34,080	-8,761	-19,247
3.04.05.02	Employee profit sharing	-7,323	-15,067	-5,997	-13,561
3.04.06	Equity pick up	-3,880	-8,281	-4,232	-9,928
3.05	Income before financial result and taxes result	175,374	389,471	152,332	319,734
3.06	Financial result	-14,821	-33,979	1,972	-7,961
3.06.01	Financial income	24,848	45,127	44,644	74,158
3.06.02	Financial expense	-39,669	-79,106	-42,672	-82,119
3.07	Income before income taxes	160,553	355,492	154,304	311,773
3.08	Income tax and social contribution	-46,049	-110,741	-33,232	-77,218
3.08.01	Current	-46,049	-110,741	-33,232	-77,218
3.09	Net profit from continuing operations	114,504	244,751	121,072	234,555
3.11	Net income for the period	114,504	244,751	121,072	234,555
3.99.01.01	ON	0.99000	2.13000	1.05000	2.04000
3.99.02	Diluted income per share				
3.99.02.01	ON	0.97000	2.08000	1.03000	2.00000
3.11	Net income for the period	114,504	244,751	121,072	234,555

Individual / Cash Flow Statement – Indirect Method

(In thousands of reais)

Account Code	Account Description	Accumulated of Actual Quarter – 01/01/2011 to 06/30/2011	Accumulated of Previous Year – 01/01/2010 to 06/30/2010
6.01	Cash flow from operating activities	512,901	546,589
6.01.01	Cash generated by operating activities	467,902	431,152
6.01.01.01	Net income for the period	244,751	234,555
6.01.01.02	Allowance for doubtful accounts	20,176	25,758
6.01.01.03	Recovery of written-off accounts	-15,813	-5,428
6.01.01.04	Monetary adjustments of accounts receivables	-6,849	-9,157
6.01.01.05	Deferred income tax and social contribution	22,852	6,157
6.01.01.06	Exchange variation on financing collaterals	1,448	-768
6.01.01.07	Interest on financing collaterals	-4,178	-2,459
6.01.01.08	Monetary variation on loans to subsidiaries	-3,323	-2,028
6.01.01.09	Equity pickup	8,281	9,928
6.01.01.10	Write off PP&E and intangibles assets, net	25,212	1,555
6.01.01.11	Depreciation and amortization	146,970	132,390
6.01.01.12	Interest on loans	45,391	40,355
6.01.01.13	Monetary and exchange variation on loans	1,989	5,088
6.01.01.14	Taxes in installments and provision	-10,830	7,764
6.01.01.15	Provision for Contingencies	5,192	-2,011
6.01.01.16	Pension plan for provision	-7,423	2,323
6.01.01.17	Interest/ monetary variation on cemig/previminas	13,585	11,865
6.01.01.18	Deferred revenue	-5,029	-288
6.01.01.19	Financial assets	-13,504	-20,777
6.01.01.20	Interest on collaterals NYB	-996	-3,670
6.01.02	Changes in assets and liabilities	44,999	115,437
6.01.02.01	Accounts receivable	-22,950	1,995
6.01.02.02	Inventory	-1,611	1,388
6.01.02.03	Recoverable taxes	-2,370	-10,014
6.01.02.04	Bank account - agreement	2,140	420
6.01.02.05	Colleteral guarantee	-2,655	-13,098
6.01.02.06	Restricted applications	2,699	508
6.01.02.07	Credit with subsidiaries	-4,430	-6,251
6.01.02.08	Other credits	412	-2,495
6.01.02.09	Suppliers	-6,543	-35,178
6.01.02.10	Taxes payable	4,752	-6,304
6.01.02.11	Accrual for vacation pay and 13th salary	19,622	24,372
6.01.02.12	Employee profit sharing	1,332	-3,631
6.01.02.13	Technical cooperation agreement	-4052	-2,167
6.01.02.14	Pension plan	-4,421	-3,291
6.01.02.15	Electric Power	-1,165	-1,457
6.01.02.16	Sundry obligation	7,874	13,140
6.01.02.17	Financial assets held-to-maturity	56,365	157,500

Individual / Cash Flow Statement – Indirect Method

(In thousands of reais)

Account Code	Account Description	Accumulated of Actual Quarter – 01/01/2011 to 06/30/2011	Accumulated of Previous Year – 01/01/2010 to 06/30/2010
6.02	Net cash from investment activities	-349,472	-404,896
6.02.01	Increase PP&E and intangible assets	-327,672	-404,896
6.02.02	Increase investments	-21,800	0
6.03	Net cash from financing activities	-89,467	-172,626
6.03.01	Proceeds from new loans	256,960	156,616
6.02	Net cash from investment activities	-349,472	-404,896
6.02.01	Increase PP&E and intangible assets	-327,672	-404,896
6.03.02	Loans - principal	-117,995	-85,756
6.03.03	Loans - interest	-80,185	-88,681
6.03.04	Repayment of interest on own capital	-106,281	-97,208
6.03.05	Repayment previminas/cemig - principal	-17,506	-13,349
6.03.06	Repayment of interest previminas/cemig	-4,153	-3,998
6.03.07	Taxes installments paid	-20,307	-40,250
6.05	Increase (decrease) cash and cash equivalent	73,962	-30,933
6.05.01	Cash and cash equivalents at beginning of the period	75,793	255,902
6.05.02	Cash and cash equivalents at the end of the period	149,755	224,969

Individual/Statements of Changes in Shareholders' Equity – 01/01/2011 to 06/30/2011

(In thousands of reais)

Account Code	Account Description	Capital	Capital reserve	Income reserve	Retained earnings (loss) accumulated	Other Comprehensive results	Equity
5.01	At the beginning of the period	2,636,460	3,782	1,544,086	0	0	4,184,328
5.03	Beginning of the period adjusted	2,636,460	3,782	1,544,086	0	0	4,184,328
5.04	Capital transaction with shareholders	0	0	0	-80,795	0	-80,795
5.04.07	Interest on equity	0	0	0	-80,795	0	-80,795
5.05	Other comprehensive income	0	0	0	244,751	0	244,751
5.05.01	Net income of the period	0	0	0	244,751	0	244,751
5.07	Total at the end of the period	2,636,460	3,782	1,544,086	163,956	0	4,348,284

Individual/Statements of Changes in Shareholders' Equity – 01/01/2010 to 06/30/2010

(In thousands of reais)

Account Code	Account Description	Capital	Capital reserve	Income reserve	Retained earnings (loss) accumulated	Other Comprehensive results	Equity
5.01	At the beginning of the period	2,636,460	3,782	1,091,174	0	0	3,731,416
5.03	Beginning of the period adjusted	2,636,460	3,782	1,091,174	0	0	3,731,416
5.04	Capital transaction with shareholders	0	0	0	-100,414	0	-100,414
5.04.07	Interest equity capital	0	0	0	-100,414	0	-100,414
5.05	Other comprehensive income	0	0	0	234,555	0	234,555
5.05.01	Net income of the period	0	0	0	234,555	0	234,555
5.07	Total at the end of the period	2,636,460	3,782	1,091,174	134,141	0	3,865,557

Individual / Statement of Value Added

(In thousands of reais)

Account Code	Account Description	Accumulated Actual Semester 01/01/2011 to 06/30/2011	Accumulated Previous Year 01/01/2010 to 06/30/201
7.01	Revenue	1,706,391	1,655,797
7.01.01	Sales of products and services	1,333,259	1,241,736
7.01.02	Other revenue	32,570	13,083
7.01.03	Construction revenue of own assets	344,925	421,308
7.01.04	Allowance for doubtful accounts	-4,363	-20,330
7.02	Manufacturing component purchased from third parties	-669,669	-720,515
7.02.01	Cost of services	-592,612	-660,756
7.02.02	Material, energy, third-party services and other	-46,566	-45,464
7.02.03	Loss/recovery of assets	-30,491	-14,295
7.03	Gross Value Added	1,036,722	935,282
7.04	Retention	-146,970	-132,390
7.04.01	Depreciation, amortization and exhaustion	-146,970	-132,390
7.05	Net value added	889,752	802,892
7.06	Value added received in transfer	36,846	64,230
7.06.01	Equity pickup	-8,281	-9,928
7.06.02	Financial income	45,127	74,158
7.07	Total value added to be distributed	926,598	867,122
7.08	Value added distribution	926,598	867,122
7.08.01	Personnel	328,004	312,788
7.08.01.01	Payroll	212,924	196,948
7.08.01.02	Benefits	82,072	79,674
7.08.01.03	FGTS	17,941	22,605
7.08.01.04	Other	15,067	13,561
7.08.01.04.01	Employee profit sharing	15,067	13,561
7.08.02	Taxes and contributions	275,586	238,896
7.08.02.01	Federal	271,420	234,586
7.08.02.02	State	3,846	3,886
7.08.02.03	Municipal	320	424
7.08.03	Third party remuneration	78,257	80,883
7.08.03.01	Interest	76,987	79,754
7.08.03.02	Rental	1,270	1,129
7.08.04	Equity remuneration	244,751	234,555
7.08.04.01	Interest on equity capital	80,795	100,414
7.08.04.03	Retained profits/ losses of the period	163,956	134,141

Consolidated/ Balance sheets Asset

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
1	Total assets	7,647,806	7,345,295
1.01	Current assets	737,015	661,156
1.01.01	Cash and cash equivalents	151,065	77,652
1.01.03	Accounts receivable	541,522	540,865
1.01.03.01	Accounts receivable - customers	482,028	437,574
1.01.03.02	Other accounts receivable	59,494	103,291
1.01.03.02.01	Recoverable taxes	34,173	31,804
1.01.03.02.02	Bank account – agreements	25,321	15,122
1.01.03.02.03	Financing assets held-to-maturity	0	56,365
1.01.04	Inventory	31,105	28,854
1.01.08	Other current assets	13,323	13,785
1.01.08.03	Other	13,323	13,785
1.01.08.03.01	Advance to employees	10,079	11,071
1.01.08.03.02	Other	3,244	2,714
1.02	Noncurrent assets	6,910,791	6,684,139
1.02.01	Long-term assets	889,790	861,799
1.02.01.03	Accounts receivable	372,326	340,894
1.02.01.03.01	Accounts receivable - customers	210,056	182,335
1.02.01.03.02	Other Accounts receivable	162,270	158,559
1.02.01.06	Deferred taxes	217,997	236,566
1.02.01.06.01	Deferred income tax and social security contribution	217,997	236,566
1.02.01.09	Other noncurrent assets	299,467	284,339
1.02.01.09.03	Financing assets - concession agreements	299,467	284,339
1.02.02	Investments	22,060	260
1.02.02.01	Investments subsidiaries	22,060	260
1.02.02.01.04	Other investments	22,060	260
1.02.03	Property plant & equipment	129,462	137,693
1.02.03.01	Property plant & equipment in operation	127,868	136,291
1.02.03.03	Property plant & equipment in progress	1,594	1,402
1.02.04	Intangible	5,869,479	5,684,387
1.02.04.01	Intangibles	5,869,479	5,684,387
1.02.04.01.01	Concession agreements	3,256,640	3,222,544
1.02.04.01.02	Intangible in progress	2,612,839	2,461,843

Consolidated / Balance sheets Liabilities

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
2	Total liabilities	7,647,806	7,345,295
2.01	Current liabilities	807,451	692,864
2.01.02	Suppliers	115,164	122,325
2.01.02.01	Nacional suppliers	115,164	122,325
2.01.03	Taxes obligations	49,825	43,818
2.01.03.01	Federal taxes obligations	49,135	43,012
2.01.03.01.02	Other federal taxes obligations	49,135	43,012
2.01.03.03	Municipal taxes obligations	690	806
2.01.03.03.01	ISSQN	690	806
2.01.04	Loans and financings	347,976	247,328
2.01.04.01	Loans and financings	180,991	149,960
2.01.04.01.01	In local currency	175,916	144,541
2.01.04.01.02	In foreign currency	5,075	5,419
2.01.04.02	Debentures	166,985	97,368
2.01.04.02.01	Non convertible	116,985	97,368
2.01.05	Other obligations	131,673	142,737
2.01.05.02	Other	131,673	142,737
2.01.05.02.01	Dividends and interest on equity capital payable	41,373	66,859
2.01.05.02.04	Pension plan	17,425	17,769
2.01.05.02.05	Electric power	27,846	27,565
2.01.05.02.06	Technical cooperation agreement	11,149	2,462
2.01.05.02.07	Sundry obligations	33,880	28,082
2.01.06	Provision	162,813	136,656
2.01.06.01	Provision for tax labor and civil	162,813	136,656
2.01.06.01.05	Taxes in installment	41,442	36,370
2.01.06.01.06	Accrual for vacation pay and 13th salary	92,907	73,154
2.01.06.01.07	Employee profit sharing	28,464	27,132
2.02	Noncurrent liabilities	2,457,023	2,430,246
2.02.01	Loans and financings	1,904,844	1,862,844
2.02.01.01	Loans and financings	1,247,172	1,161,079
2.02.01.01.01	Local currency	1,203,302	1,112,039
2.02.01.01.02	Foreign currency	43,870	49,040
2.02.01.02	Debentures	657,672	701,765
2.02.01.02.01	Non convertible	592,528	568,025
2.02.01.02.02	Convertible	65,144	133,740
2.02.02	Other obligations	187,016	221,056
2.02.02.02	Other	187,016	221,056
2.02.02.02.03	Pension plan	143,322	154,509
2.02.02.02.04	Electric power	6,101	17,219
2.02.02.02.05	Other	35,427	42,829
2.02.02.02.06	Deferred income	2,166	6,499

Consolidated / Balance sheets Liabilities

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 06/30/2011	Previous Year - 12/31/2010
2.02.03	Deferred tax	66,828	63,993
2.02.03.01	Deferred income tax and social security contribution	66,828	63,993
2.02.04	Provision	298,335	282,353
2.02.04.01	Provision for tax, labor and civil	298,335	282,353
2.02.04.01.01	Provision for tax	43,709	54,538
2.02.04.01.05	Taxes in installment	213,567	192,868
2.02.04.01.06	Provision for contingencies	41,059	34,947
2.03	Shareholders' Equity consolidated	4,383,332	4,222,185
2.03.01	Paid-in Capital	2,636,460	2,636,460
2.03.02	Capital reserves	3,782	3,782
2.03.02.07	Convertible debentures	3,782	3,782
2.03.04	Profit reserves	1,581,943	1,581,943
2.03.04.01	Legal reserves	146,587	146,587
2.03.04.05	Retained profits reserves	1,433,678	1,433,678
2.03.04.07	Tax benefit reserves	10,868	10,868
2.03.04.09	Treasury shares	-9,190	-9,190
2.03.05	Retained earnings (accumulated losses)	161,147	0

Consolidated / Income Statements

(In thousands of reais)

Account Code	Account Description	Actual Quarter - 04/01/2011 to 06/30/2011	Accumulated for the current year 01/01/2011 to 06/30/2011	Same quarter of previous year 04/01/2010 to 06/30/2010	Accumulated for the previous year 01/01/2010 to 06/30/2010
3.01	Gross revenue of sales and/or services	781,897	1,560,808	821,235	1,553,413
3.01.01	Water supply services	437,296	880,389	420,435	841,401
3.01.02	Sewage services	177,346	335,019	148,556	290,413
3.01.03	Construction revenue	167,036	344,925	252,136	421,307
3.01.04	Finish goods revenue	219	475	108	292
3.02	Cost of services rendered	-462,260	-920,766	-530,284	-965,556
3.02.01	Cost of services rendered	-299,033	-582,619	-285,734	-556,823
3.02.02	Construction cost	-163,227	-338,147	-244,550	-408,733
3.03	Gross profit	319,637	640,042	290,951	587,857
3.04	Operating Expenses/Income	-144,474	-251,905	-141,459	-272,506
3.04.01	Sales expenses	-42,470	-83,287	-42,836	-85,704
3.04.02	Administrative expenses	-87,263	-166,381	-88,616	-169,681
3.04.04	Other operating income	14,740	48,902	6,921	19,021
3.04.05	Other operating expenses	-29,481	-51,139	-16,928	-36,142
3.04.05.01	Other operating expenses	-22,158	-36,072	-10,931	-22,581
3.04.05.02	Employee profit sharing	-7,323	-15,067	-5,997	-13,561
3.05	Income before financial result and taxes	175,163	388,137	149,492	315,351
3.06	Financial result	-16,395	-36,883	1,087	-9,045
3.06.01	Financial income	23,343	42,313	43,828	73,270
3.06.02	Financial expense	-39,738	-79,196	-42,741	-82,315
3.07	Income before income taxes	158,768	351,254	150,579	306,306
3.08	Income tax and social contribution	-45,455	-109,312	-31,969	-75,364
3.08.01	Current	-45,455	-109,312	-31,969	-75,364
3.09	Net profit from continuing operations	113,313	241,942	118,610	230,942
3.11	Net income for the period	113,313	241,942	118,610	230,942
3.11.01	assigned to the partner company controlled	113,313	241,942	118,610	230,942
3.99	Income per share (R$)				
3.99.01	Basic income per share				
3.99.01	Basic income per share				
3.99.02	Income diluted per share				
3.99.02.01	ON	0.96000	2.06000	1.01000	1.97000

Consolidated / Cash Flow Statement

(In thousands of reais)

Account Code	Account Description	Accumulated of Actual Semester – 01/01/2011 to 06/30/2011	Accumulated of Previous Year – 01/01/2010 to 06/30/2010
6.01	Cash flow from operating activities	512,867	546,818
6.01.01	Cash generated by operating activities	463,992	424,394
6.01.01.01	Net income for the period	241,942	230,942
6.01.01.02	Allowance for doubtful accounts	20,676	25,913
6.01.01.03	Recovery of written-off accounts	-15,854	-5,430
6.01.01.04	Monetary adjustments of account receivable	-6,849	-9,157
6.01.01.05	Deferred income tax and social contribution	20,104	4,298
6.01.01.06	Exchange variation on financing collaterals	1,448	-768
6.01.01.07	Income financing collaterals	-4,178	-2,459
6.01.01.10	Write off PP&E and intangible assets, net	25,221	2,044
6.01.01.11	Depreciation and amortization	152,176	138,589
6.01.01.12	Interest on loans	45,391	40,355
6.01.01.13	Monetary and exchange variation on loans	1,989	5,088
6.01.01.14	Taxes in installments and provision	-10,830	7,764
6.01.01.15	Provision for contingencies	6,111	-1,766
6.01.01.16	Provision for pension plan	-7,423	2,323
6.01.01.17	Interest/ Monetary variation on cemig/previminas	13,585	11,865
6.01.01.18	Deferred revenue	-5,029	-288
6.01.01.19	Financial assets	-13,492	-21,249
6.01.01.20	Interest on collaterals NYB	-996	-3,670
6.01.02	Changes in assets and liabilities	48,875	122,424
6.01.02.01	Accounts receivable	-24,068	941
6.01.02.02	Inventory	-2,252	893
6.01.02.03	Recoverable taxes	-2,368	-10,063
6.01.02.04	Bank account – agreement	-10,199	420
6.01.02.05	Colleteral Guarantee	-2,655	-13,098
6.01.02.06	Restricted applications	2,699	508
6.01.02.08	Other credits	433	-14,492
6.01.02.09	Suppliers	-7,161	-31,999
6.01.02.10	Taxes payable	6,008	-6,677
6.01.02.11	Accrual for vacation pay and 13th salary	19,752	24,529
6.01.02.12	Employee profit sharing	1,332	-3,631
6.01.02.13	Technical cooperation agreement	8,688	9,293
6.01.02.14	Pension plan	-4,421	-3,291
6.01.02.15	Electric power	-1,165	-1,457
6.01.02.16	Sundry obligation	7,887	13,048
6.01.02.17	Financial assets held-to-maturity	56,365	157,500
6.02	Net cash from investment activities	-349,987	-404,547
6.02.01	Increase PP&E and intangible assets	-328,187	-404,547
6.02.02	Additions in investments	-21,800	0
6.03	Net cash from financing activities	-89,467	-172,626
6.03.01	Proceeds from new loans	256,960	156,616

Consolidated / Cash Flow Statement

(In thousands of reais)

Account Code	Account Description	Accumulated of Actual Semester – 01/01/2011 to 06/30/2011	Accumulated of Previous Year – 01/01/2010 to 06/30/2010
6.03.02	Loans – principal	-117,995	-85,756
6.03.03	Loans - interest	-80,185	-88,681
6.03.04	Repayment of interest on own capital	-106,281	-97,208
6.03.05	Repayment previminas/cemig - principal	-17,506	-13,349
6.03.06	Repayment of interest previminas/Cemig	-4,153	-3,998
6.03.07	Taxes installment paid	-20,307	-40,250
6.05	Increase (decrease) cash and cash equivalent	73,413	-30,355
6.05.01	Cash and cash equivalents at beginning of the period	77,652	257,852
6.05.02	Cash and cash equivalents at the end of the period	151,065	227,497

Consolidated / Statements of Changes in Shareholders' Equity – 01/01/2011 to 06/30/2011

(In thousands of reais)

Account Code	Account Description	Capital	Capital reserve	Income reserve	Retained earnings (loss) accumulated	Other Comprehensive results	Equity	Non controlling shareholders interest	Equity consolidated
5.01	At the beginning of the period	2,636,460	3,782	1,581,943	0	0	4,222,185	0	4,222,185
5.03	Beginning of the period adjusted	2,636,460	3,782	1,581,943	0	0	4,222,185	0	4,222,185
5.04	Capital transaction with shareholders	0	0	0	-80,795	0	-80,795	0	-80,795
5.04.07	Interest equity capital	0	0	0	-80,795	0	-80,795	0	-80,795
5.05	Other comprehensive income	0	0	0	241,942	0	241,942	0	241,942
5.05.01	Net income of the period	0	0	0	241,942	0	241,942	0	241,942
5.07	Total at the end of the period	2,636,460	3,782	1,581,943	161,147	0	4,383,332	0	4,383,332

Consolidated / Statements of Changes in Shareholders' Equity – 01/01/2010 to 06/30/2010

(In thousands of reais)

Account Code	Account Description	Capital	Capital reserve	Income reserve	Retained earnings (loss) accumulated	Other comprehensive results	Equity	Non controlling shareholders interest	Equity consolidated
5.01	At the beginning of the period	2,636,460	3,782	1,136,380	0	0	3,776,622	0	3,776,622
5.03	Beginning of the period adjusted	2,636,460	3,782	1,136,380	0	0	3,776,622	0	3,776,622
5.04	Capital transaction with shareholders	0	0	0	-100,414	0	-100,414	0	-100,414
5.04.07	Interest equity capital	0	0	0	-100,414	0	-100,414	0	-100,414
5.05	Other comprehensive income	0	0	0	230,942	0	230,942	0	230,942
5.05.01	Net income of the period	0	0	0	230,942	0	230,942	0	230,942
5.07	Total at the end of the period	2,636,460	3,782	1,136,380	130,528	0	3,907,150	0	3,907,150

Consolidated / Statement of Value Added

(In thousands of reais)

Account Code	Account Description	Accumulated Actual Semester 01/01/2011 to 06/30/2011	Accumulated Previous Year 01/01/2010 to 06/30/2010
7.01	Revenue	1,713,194	1,662,045
7.01.01	Sales of products and services	1,340,045	1,247,628
7.01.02	Other revenue	33,069	13,592
7.01.03	Construction revenue of own assets	344,925	421,308
7.01.04	Allowance for doubtful accounts	-4,845	-20,483
7.02	Manufacturing component purchased from third parties	-676,724	-730,973
7.02.01	Cost of services	-595,835	-663,871
7.02.02	Material, energy, third-party services and other	-48,559	-49,418
7.02.03	Loss/recovery of assets	-32,330	-17,648
7.03	Gross Value Added	1,036,470	931,072
7.04	Retention	-152,176	-138,589
7.04.01	Depreciation, amortization and exhaustion	-152,176	-138,589
7.05	Net value added	884,294	792,483
7.06	Value added received in transfer	42,313	73,270
7.06.02	Financial income	42,313	73,270
7.07	Total value added to be distributed	926,607	865,753
7.08	Value added distribution	926,607	865,753
7.08.01	Personnel	330,951	315,724
7.08.01.01	Payroll	215,579	199,610
7.08.01.02	Benefits	82,223	79,792
7.08.01.03	FGTS	18,082	22,761
7.08.01.04	Other	15,067	13,561
7.08.01.04.01	Employee profit sharing	15,067	13,561
7.08.02	Taxes and contributions	275,361	238,149
7.08.02.01	Federal	270,985	233,770
7.08.02.02	State	4,038	3,955
7.08.02.03	Municipal	338	424
7.08.03	Third party remuneration	78,353	80,938
7.08.03.01	Interest	76,987	79,755
7.08.03.02	Rental	1,366	1,183
7.08.04	Equity remuneration	241,942	230,942
7.08.04.01	Interest on equity capital	80,795	100,414
7.08.04.03	Retained profits/ losses of the period	161,147	130,528

01. Operations

Companhia de Saneamento de Minas Gerais - COPASA (the "Company") is a publicly-traded, mixed-capital company, controlled by the Government of the State of Minas Gerais. The Company is engaged in planning, designing, performing, expanding, remodeling, managing and providing public utility services comprising water supply and sewage services, and can 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 articles of incorporation.

At June 30, 2011, the Company has the following wholly-owned subsidiaries:

- Copasa Águas Minerais de Minas S/A, established by the State Law No. 16693, of January 11, 2007, is engaged in producing, bottling, distributing and selling mineral water from the springs it owns or has license to explore, and managing and exploiting the water 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 the State Law No. 16698, of April 17, 2007, is engaged in planning, designing, executing, expanding, remodeling, exploiting and providing public utility services comprising 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, established by the State Law No. 16698, of April 17, 2007, is engaged in managing, executing and exploiting the irrigation systems of the Jaíba Project, and conducting its maintenance, using both own and outsourced personnel and resources. This subsidiary may contract, when economically viable, through regular bidding processes, the execution of services and construction work necessary to the operation of the system, and purchase products, equipment and materials required for the execution of its purposes.

01. Operations--Continued

At June 30, 2011, the Company operates 881 locations in the State of Minas Gerais (879 in December 2010), in water supply and/or sanitary sewage activities, totaling 4,280,459 connections (4,214,755 in December 2010). The twenty major water and sewage concessions the Company holds are:

Water Concessions			Sewage concessions	
Location	**No. of connections**	**Expiration**	**Location**	**Expiration**
Belo Horizonte	928,942	2034	Belo Horizonte	2034
Contagem	212,009	2073	Contagem	2073
Betim	123,266	2042	Montes Claros	2028
Montes Claros	116,547	2028	Betim	2042
Ribeirão das Neves	84,159	2034	Ipatinga	2022
Divinópolis	83,110	2033	Ribeirão das Neves	2034
Ipatinga	77,057	2022	Santa Luzia	2013
Santa Luzia	64,595	2013	Patos de Minas	2038
Patos de Minas	50,453	2038	Pouso Alegre	2046
Ibirité	47,302	2034	Varginha	2013
Varginha	46,173	2046	Conselheiro Lafaiete (2)	2009
Pouso Alegre	46,109	2013	Lavras	2034
Conselheiro Lafaiete (2)	44,871	2010	Araxá	2032
Sabará (1)	38,740	2007	Ibirité	2034
Teófilo Otoni	38,651	2034	Teófilo Otoni	2034
Lavras	37,205	2034	Itajubá	2034
Araxá	35,724	2032	Alfenas	2033
Ubá	32,720	2014	Pará de Minas (2)	2009
Itajubá	32,601	2034	Coronel Fabriciano	2033
Coronel Fabriciano	32,213	2033	Vespasiano	2034

1) The concession agreement with the city of Sabará terminated on August 3, 2007. An agreement has already been entered into by the city of Sabará and the State of Minas Gerais, and the negotiations with the Company should proceed aiming at assumption of sewage services. The water supply revenue for Sabará in the 1º semester of 2011 was R$8,685 (R$8,234 in 2010), or 0.62% (0.62% in 2010) of the Company's total revenues.

2) The concession agreements with the cities of Conselheiro Lafaiete and Pará de Minas terminated on July 23, 2010 and October 1, 2009, respectively. The water supply and sewage revenues in the 1º semester of 2011 was R$12,851 for Conselheiro Lafaiete and R$ 12,969 for Pará de Minas (R$11,589 and R$11,919 for the 2nd quarter of 2010), or 0.91% and 0.92% of the Company's total revenues, respectively (0.87% and 0.90% in 2010). The Company is endeavoring to renew these concession agreements.

02. Basis of Preparation and Presentation of the Financial Statements

The Executive Board's authorization to complete the preparation of the individual and consolidated quarterly information of the Company as of June 30, 2011 was obtained on August 02, 2011.

The individual and consolidated quarterly information of the Company are presented in thousands of Reais (R$ 000), unless otherwise stated.

(a) Basis of preparation

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

The Company's interim individual and consolidated Quarterly Financial Information Report – ITR for the quarter ended June 30, 2011 were prepared and presented in accordance with the accounting practices adopted in Brazil, which comprise the resolutions set forth by Corporation Law, the pronouncements issued by the Brazilian FASB (CPC) and the rules issued by the Brazilian SEC (CVM), which are in conformity with the financial reports (IFRS) issued by the International Accounting Standards Board (IASB), except for valuation of investments in subsidiaries by the equity pick-up method; for IFRS purposes, however, that valuation would be made at cost or fair value (see Note 8), plus monetary gains of intangible and fixed assets for years 1996 and 1997, the recording of which is not allowed by Brazilian legislation, whereas required by IAS and, therefore, recorded for IFRS purposes (see Note 02 c).

The Company's quarterly report for the six-month period ended June 30, 2011 was prepared in accordance with technical pronouncement CPC 21 and IAS 34 – *Interim Financial Reporting* (consolidated).

As of January 1st , 2011, the following pronouncements and interpretations became effective: IAS 24 – Disclosure Requirements for State-owned Entities and Definition of a Related Party (Revised); IFRIC 14 – Prepayments of a Minimum Funding Requirement; and IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments. Adoption of these pronouncements and interpretations had no impact on the quarterly information of June 30, 2011.

The Company is currently analyzing IFRS 9 – Financial Instruments – Classification and Measurement, effective for fiscal years beginning January 1, 2013, aiming at verifying whether it will have significant impacts on the Company financial statements and quarterly information reports.

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

(b) Consolidation

The consolidated quarterly information include the operations of the Company and the following subsidiaries, whose percentage ownership interests at balance sheet date summarized as under:

	% of equity held	
	Total	**Voting**
Subsidiaries:		
Copasa Águas Minerais de Minas S/A	100	100
Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais S/A – COPANOR	100	100
Copasa Serviços de Irrigação S/A	100	100

Subsidiaries are all entities whose financial and operational policies can be directed by the Company and in which the equity interest held by the Company is typically more than half the voting power or any other condition that allows the holder to exercise control thereof. At present all subsidiaries are wholly owned by the Company. These subsidiaries are fully consolidated beginning the date on which their control is transferred to the Company, and they will no longer be consolidated as from the date on which such control ceases to exist.

The financial statements of the subsidiaries are prepared as of the same reporting date as those of the Company, and the Company's accounting practices are consistently adopted by the subsidiaries. All intercompany balances, revenues and expenses as well as unrealized gains and losses arising from intercompany transactions are fully eliminated.

Changes in a parent‟s ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions.

(c) Consolidated monetary adjustment

All intangible and property, plant and equipment assets are presented in the consolidated financial statements at their historical costs monetarily adjusted through December 31, 1997, date when the Brazilian economy ceased to be considered hyperinflationary, based on official indices, less depreciation. Book adjustments arising from such monetary restatement impacted the consolidated equity and the consolidated net income, net of deferred income and social contribution taxes amounting to R$35,048 and R$2,808, respectively, at June 30, 2011 (R$41,593 and R$3,613, respectively, at June 30, 2010).

03. Summary of Significant Accounting Practices

(a) Cash and cash equivalents

These include cash, bank deposits, other highly liquid short-term investments, redeemable within no longer than three months, posing immaterial risk of any change in market value and used by the Company to manage its short-term commitments.

(b) Financial Assets

(i) Classification

Financial assets are classified as loans and financing. Their classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which, however, are not traded in an active market. They are included as current assets, except for those maturing within more than 12 months from the balance sheet closing date (which are classified as non-current assets). Company's loans and receivables comprise cash and cash equivalents, held-to-maturity financial assets, guarantee deposits, accounts receivable - customers and other receivables.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognized at the negotiation date, when the Company commits to purchasing or selling these assets. Investments are initially recognized at fair value, plus transaction costs, for all financial assets not measured at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from such investments have expired or have been transferred; in the latter case, to the extent the Company has transferred, significantly, all risks and rewards of ownership thereto.

03. Summary of Significant Accounting Practices--Continued

(c) Accounts receivable

(i) Customers

Accounts receivable from customers are recognized initially at fair value and are subsequently measured less a provision for impaired receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or other financial reorganization and default or delinquency in making payments (over 180 days past due) are considered indicators that the receivable is impaired.

An allowance for doubtful accounts is calculated based on an analysis of receivables and recorded in an amount considered by management sufficient to cover possible losses on receivables, according to the following criteria:

Receivables up to R$5, over 180 days past due:

These receivables, except those related to the Minas Gerais State Government and the Belo Horizonte Municipal Government, are considered losses when they reach 180 days past due, and are directly written off against income, under selling expenses.

Receivables above R$5, over 180 days past due:

A provision for impairment of receivables is recognized for all receivables, except those related to the Minas Gerais State Government and the Belo Horizonte Municipal Government, from 180 to 360 days past due, as a credit to the allowance for doubtful accounts and as a charge to income.

When the receivables exceed 360 days past due, they are written off of the accounts receivable account and charged against the allowance for doubtful accounts.

Other receivables from the Municipal and Federal Governments:

Receivables from the Federal and Municipal Governments under agreements, contracts and other operations, over 360 days past due , are fully accrued.

Receivables from the Government of Minas Gerais and the Municipality of Belo Horizonte (PBH):

The Company does not set up any allowance for doubtful accounts in relation to receivables from the Minas Gerais State Government since there is no history of default. Receivables from PBH not paid until the date of the tariff transfer to the Municipal Water and Sewerage Fund are fully deducted from the amount to be transferred, reason why no provision for losses is required.

03. Summary of Significant Accounting Practices--Continued

(c) Accounts receivable--Continued

(i) Customers--Continued

Supplementary provision:

Management also recognized a supplementary provision for other receivables falling due and for receivables past due for less than 180 days, for specific customers included in the allowance for doubtful accounts.

(ii) Receivables from Grantor

The Company recognizes a receivable from grantor (municipal governments) when it has an unconditional right to receive cash at the end of the concession term as part of the consideration receivable from grantor for investments made but not recovered through provision of the concession-related services. These financial assets are recognized at the present value of such right and calculated on the net amount of the constructed assets that constitute the infrastructure that will be the subject of the consideration payable by grantor, discounted based on the weighted average capital cost (WACC) of the Company.

These accounts receivable are classified as current and non-current assets considering the expected receipt of such amounts, based on the end date of the service concession arrangements.

(d) Currency and translation into foreign currency

Functional and reporting currency

The items included in the financial statements of each one of the entities are measured using the currency current in the principal economic environment in which the entity operates (the “functional currency”). The reporting currency of the accompanying individual and consolidated financial statements is the Brazilian real (R$), which is the functional currency of the Company and its subsidiaries.

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

(e) Inventories

Inventories are carried at the lower of cost or net realizable value. Cost is determined using the average cost method. Net realizable value is the estimated selling price in the normal course of business, less applicable variable costs associated with the sale.

Provisions for slow-moving or obsolete inventories are set up when deemed necessary by management.

03. Summary of Significant Accounting Practices--Continued

(f) Investments

Investments in subsidiaries are accounted for using the equity method.

(g) Intangible assets

Service concession arrangements

The Company recognizes an intangible asset for its right to charge the users of water supply and sewage services provided under the service concession arrangements in accordance with Interpretation ICPC 01 (IFRIC 12) Service Concession Arrangements.

Intangible assets are determined as the residual value of the construction revenue earned for the construction or acquisition of the infrastructure established by the Company, recognized according to item (s) of this Note, and the financial asset referring to the unconditional right to receive cash at the end of the term of the arrangement, by way of consideration receivable, is recognized as set out in Note 5, plus monetary adjustment, when applicable according to IAS 29.

Intangible assets are amortized as from the date they are available for use, in the location and condition necessary for their use in operations as intended by the Company.

The amortization of intangible assets reflects the pattern in which the future economic benefits embodied in the asset are expected to be consumed by the Company, or the end of the arrangement, whichever comes first. The pattern of consumption of the assets relates to their useful life in that the assets constructed by the Company are included in the tariff calculation base for provision of the concession services.

Amortization of an intangible asset ceases when the asset has been fully consumed or written off, no longer being part of the tariff calculation base for provision of the concession services, whichever occurs first.
Use rights

Use rights refer to costs incurred with renewal of public concession arrangements, as the amount refundable by COPASA for the infrastructure investments made by the municipal governments, plus monetary adjustment, when applicable according to IAS 29. The amounts recorded in intangible assets refer to refunds already paid by the Company to the municipal governments as part of the renewal agreement for water supply and sewage service concession arrangements. These investments are not part of the Company tariff calculation base, but they represent the investment made by the Company for renewal of the concession arrangements.

These use rights are amortized on a straight-line basis over the term of the concession arrangements directly associated with them.

03. Summary of Significant Accounting Practices--Continued

(g) Intangible assets--Continued

Software licenses

Software licenses acquired are recognized based on the costs incurred to acquire them and make them available for use, plus monetary adjustment, when applicable according to IAS 29. These costs are amortized on a straight-line basis over their estimated useful life of five years.

(h) Property, plant and equipment

Property, plant and equipment is stated at historical cost, plus monetary adjustment, when applicable according to IAS 29, less depreciation and impairment loss, if appropriate. Historical cost includes costs directly attributable to the acquisition of such items, as well as interest expense on financing incurred in connection with their acquisition until the assets become operational. Capitalized financial charges are depreciated according to the same criteria and the useful life established for the item of property, plant and equipment in which they were included.

Subsequent costs are included in the book value of the asset, or recognized as a separate asset, as appropriate, only when future economic benefits embodied in the item are likely to flow to the Company, when the cost of the item can be reliably measured and its economic useful life exceeds 12 months. Book value of replaced items or parts is written off. All other repair and maintenance costs are matched against P&L for the year, when incurred.

Land is not depreciated. Property, plant and equipment is depreciated over the estimated useful life of each asset, taking into consideration the depreciation rates set out below:

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

The net book value and useful life of the assets are reviewed periodically, and adjusted prospectively, when applicable, at the beginning of each year.

The assets recognized in Property, plant and equipment are not related to public service concession arrangements and are represented substantially by general use items and buildings of the Company.

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

Gains and losses on disposals of assets are determined by comparing the selling price to the book value of the asset disposed of, less depreciation, and are recognized as "Other gains/losses, net" in the income statement.

03. Summary of Significant Accounting Practices--Continued

(i) Impairment of non-financial assets

The Company tests its assets at each year end in order to determine whether there is any indication of impairment. Where there is such indication, or when the annual test for impairment is required, the Company estimates the recoverable amount of the asset. The recoverable amount of an asset or a cash generating unit (CGU) is the higher of its fair value less costs to sell and its value in use based on a discounted cash flow method, and is determined for each individual asset, unless the asset does not generate cash flows independently from those generated by other assets or groups of assets. If the carrying amount or book value of an asset or CGU exceeds its recoverable amount, then that asset or CGU is considered impaired, and is written down to its recoverable amount. In estimating the value in use, estimated future cash flows are discounted to the asset's present value at a pre-tax discount rate that reflects current market valuations as to time value of money and risks specific to the asset. An appropriate valuation model is used to determine the asset's fair value less costs to sell. These calculations are confirmed using valuation multiples and other available indicators of fair value.

Impairment losses on present and future operations are booked in the income statement in the category of expenses consistent with the function of the affected asset.

For assets that exclude goodwill, every year-end a test is conducted to determine whether any indication of impairment losses earlier booked no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of the asset or CGU. Any impairment previously recognized is only reversed if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment was recognized. The reversal is limited so that the book value of the asset may not exceed its recoverable amount or the book value that would be determined, net of depreciation, if no impairment had been recognized for the asset in the previous years. This reversal is then recognized in the income statement.

(j) Financial liabilities

Financial liabilities are only recognized when the Company assumes a contractual obligation under a financial instrument. When recognized, they are initially measured at fair value, plus transaction costs directly attributable to their acquisition or issuance. The Company's financial liabilities are measured at amortized cost. The principal financial liabilities recognized by the Company are: suppliers, loans and financing, and debentures.

03. Summary of Significant Accounting Practices--Continued

(i) Suppliers

These refer to obligations maturing within 30 days or less, which are therefore recognized as financial liabilities measured at fair value.

(ii) Loans and financing and debentures

Loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period in which the loans are being paid, using the effective interest rate method.

The loan origination rates are recognized as transaction costs since the loan amount is likely to be withdrawn in total or in part.

The fair value of the installment payable under a convertible debt instrument is determined using the market interest rate for the same debt instrument had it been a non-convertible one, as informed by the financial institution that granted it. This value is recorded as a liability on an amortized cost basis until such obligation is extinguished by conversion or at the maturity of the respective debt instruments. This is recognized and included in equity, net of the effects of both income and social contribution taxes. The carrying amount of the conversion option is not remeasured in subsequent years.

Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(iii) Presentation on a net basis

Financial assets and liabilities are offset and the net amount reported in balance sheet only where there is a current enforceable legal right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(k) Provisions

Provisions for tax claims and litigation are recognized when the Company has a present (legal or constructive) obligation arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, in an amount that can be reliably estimated.

When there is a series of similar obligations, the Company's likelihood to settle them is assessed, taking into consideration the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class may be small.

03. Summary of Significant Accounting Practices--Continued

(k) Provisions--Continued

Where the effect of the time value of money is material, the amount of a provision is discounted to present value using a pre-tax interest rate that reflects, when appropriate, current market assessments of risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized as a financial expense.

(l) Interest on equity capital

Interest on equity capital payable to shareholders is treated as dividends, debited to retained earnings.

As provided for by relevant tax legislation, such interest payable to shareholders is calculated under the terms of Law No. 9249/95 and recorded as financial expenses in the income statement. For financial statement publication purposes, interest on equity capital is reversed against financial expenses, and disclosed as a debit to retained earnings.

(m) Taxation

Income taxes comprise both income and social contribution taxes, current and deferred. Tax charges are recognized in the income statement, except and to the extent they relate to items recognized directly in equity. In this case, the tax charge should also be recognized in equity.

(i) Current income tax

Measurement of current income tax assets and liabilities is based on provisions of the enacted, or substantially enacted, tax legislation, at the balance sheet date, for both Company and its profit-generating subsidiaries. Management reviews the position assumed per income tax returns periodically regarding situations where applicable tax regulation is open to diverse interpretations. Provisions are established, when appropriate, based on the amounts payable to competent tax authorities.

03. Summary of Significant Accounting Practices--Continued

(m) Taxation--Continued

(ii) Deferred taxes

Deferred taxes arise from temporary differences at the balance sheet date between the tax bases of assets and liabilities and their book value.

Deferred tax liabilities are recognized on all temporary tax differences, except:

- when a deferred tax liability arises upon initial recognition of goodwill or of an asset or liability in a transaction other than a business combination and, at the transaction date, has no impact on book income or tax income (loss); and

- on temporary tax differences related to investments in subsidiaries, when the period for reversal of the temporary differences can be controlled and the temporary differences are not likely to be reversed in the near future.

Deferred tax assets are recognized on all deductible temporary differences and unused tax credits and losses, to the extent that taxable profit will likely be available so that the deductible temporary differences can be realized, and unused tax credits and losses can be used, except:

- when a deferred income asset related to the deductible temporary difference arises upon initial recognition of an asset or liability in a transaction other than a business combination and, at the transaction date, has no impact on book income or tax income (loss); and

- on deductible temporary tax differences related to investments in subsidiaries, deferred tax assets are recognized to the extent that deductible temporary differences will likely be reversed in the near future and taxable profit will likely be available so that the temporary differences can be used.

The book value of deferred tax assets is reviewed at each balance sheet date and written off to the extent that taxable profits will not likely be available so that deferred tax assets can be used in total or in part. Deferred tax assets written off are reviewed at each balance sheet date and recognized to the extent that future taxable profits will likely allow recovery of deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rate likely to be applicable in the year in which the asset or liability will be realized or settled, based on the enacted tax rates (and tax law) at the balance sheet date.

03. Summary of Significant Accounting Practices--Continued

(m) Taxation--Continued

(iii) Sales taxes

Sales and service revenues are subject to the taxes and contributions below, at the following statutory rates:

Taxes	Tax rate %
PIS/PASEP – Social Contribution Tax on Gross Revenue for Social Integration Program	1,65
COFINS – Social Contribution Tax on Gross Revenue for Social Security Financing	7,60
ICMS – State VAT	7,00 a 18,00

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

(n) Employee benefits

(i) Pension plan

On October 29, 2010, the Company implemented a new pension plan strategy, determining that the Defined Benefit Plan would be closed to new members as from that date, and creating a Settled Benefit Plan and a New Defined Contribution Plan. The result of this strategy is disclosed in Note 17, which shows significant risk reduction for the Company and its employees, due to migration among plans.

The Settled Benefit Plan was established based on the cumulative right of each member calculated as of the new strategy implementation date. This plan will only receive contributions to meet administrative expenses and although the studies performed do not identify the possibility of financial insufficiency, thanks to surpluses generated in the plan assets, arising from the difference between the restated amount of benefits calculated by reference to Brazil's National Consumer Price Index (INPC) variation and the yields on plan assets calculated at market rates, any insufficiencies will be covered by additional matching contributions made by the sponsoring entity and plan members.

The New Defined Contribution Plan operates as an individual retirement savings account, receiving contributions made by members and the sponsoring entity that are deposited in each member's individual account. All contributions received are invested in the financial market. Furthermore, while with the Company, the member may schedule how this savings account will be built up according to his/her financial ability. The contribution made by the sponsoring entity will match the member's contribution, which, in its turn, corresponds to a percentage of the member's actual salary, varying between 3% and 10%, at the member's option.

03. Summary of Significant Accounting Practices--Continued

(n) Employee benefits--Continued

(i) Pension plan--Continued

Actuarial liabilities recognized in the balance sheet for the above plans correspond to the present value of such liabilities at the balance sheet date, less the fair value of the plan assets, adjusted by unrecognized past service costs. These liabilities are calculated yearly by independent actuaries, using the projected unit credit method. The present value of these liabilities is determined by discounting estimated future cash outflows, applying interest rates commensurate with prevailing market rates, which are denominated in the currency in which the benefits will be paid, having maturities that near those of the respective pension plan liabilities. The plan assets are measured at fair value.

Actuarial gains and losses are recognized as income or expenses if the net accumulated unrecognized actuarial gains or losses for each plan at the end of the prior reporting period exceed 10% of the greater of the defined contribution obligation or the fair value of plan assets. These gains or losses are recognized over the expected average remaining working lives of the participating employees.

(ii) Employee profit sharing

The Company accrues employee profit sharing according to operational and financial targets disclosed to its employees. These amounts are recorded as “Employee profit sharing” under current liabilities, and in the income statement. A provision is recorded when the Company has a legal contractual obligation or a constructive obligation arising from past events.

(o) Government grants and assistance

Government grants and assistance are recognized only when there is reasonable assurance that the Company has complied with the conditions attaching to them, and that such grants will be received. They are recognized as income over the period necessary to match them with the related costs which the government grant or assistance is intended to compensate.

When the Company receives non-monetary government grants, both asset and grant are recorded at a nominal amount and presented in the income statement over the useful life of the asset, in equal annual installments.

(p) Capital

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

03. Summary of Significant Accounting Practices--Continued

(p) Capital--Continued

When the Company purchases shares of its own issue (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related effect of both income and social contribution taxes, is included in equity attributable to the Company's equity holders.

(q) Revenue recognition

Revenue consists of the fair value of the consideration received or receivable from sales of goods and the rendering of services in the normal course of the Company's businesses. Revenue is stated net of taxes, returns, rebates, after elimination of intercompany sales.

The Company bases its estimates on historical experience, taking into consideration the type of customer, the type of transaction and the specifics of each sale.

(i) Rendering of services

Revenues and expenses are recorded on the accrual basis. Unbilled revenue from the rendering of water supply and sewage services as well as irrigation services is recognized on the service delivery date as unbilled accounts receivable - customers, based on monthly estimates, so that revenues are matched against the related costs in the proper accounting period in which they occur.

(ii) Construction contracts

A group of construction contracts is treated as a single construction contract when: i) the group of contracts was negotiated as a single package; ii) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin, and iii) the contracts are performed concurrently or in a continuous sequence.

Construction contract revenue is recognized in accordance with CPC 17 Construction Contracts, using the percentage-of-completion (POC) method. The percentage completed is defined as the stage of work executed based on the financial and work schedule for each contract.

Contract costs are recognized in the income statement, as cost of services, when incurred. All costs directly attributable to the contracts are taken into consideration when measuring revenue, using the cost-plus-margin method As from January 1, 2011, this revenue is fully recorded at nominal WACC – Weighted Average Cost of Capital, in costs incurred in the management of construction agreements, and calculated based upon the margin of return on investments and the margin transferred to suppliers of services and materials.

03. Summary of Significant Accounting Practices--Continued

(q) Revenue recognition--Continued

(ii) Construction contracts--Continued

When completion of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of the costs recognized that are recoverable.

(iii) Financial income

Financial income is recognized using the effective interest rate method. When impairment of a short-term investment or an account receivable is identified, the Company reduces its carrying amount to its recoverable amount, which corresponds to the estimated future cash flow discounted at the asset's original effective interest rate. Subsequently, as time passes, such interest is incorporated into the asset, and matched against financial income. This financial income is calculated at the same effective interest rate used to calculate the recoverable amount, i.e., the original rate of the short-term investment or account receivable.

(iv) Sales of goods

Sales revenues are presented net of taxes and discounts. Taxes on sales are recognized when sales are billed, and discounts on sales are recognized when known. Revenue from sales of goods are recognized when its amount is reliably measured, the Company no longer has control over the goods sold or any other responsibility related to their ownership, the costs incurred or to be incurred with the transaction can be reliably measured, economic benefits are likely to flow to the Company from their sale, and risks and rewards of ownership are fully transferred to the buyer. The related freight costs are included in cost of sales.

(r) Dividend payments

Dividends payable to Company's shareholders are recognized as a liability in the year-end financial statements, based on Brazilian Corporation Law and the Company's Articles of Incorporation. Any dividend amount in excess of the mandatory minimum dividend will only be recognized on the date of its approval by the competent bodies or of its payment, whichever comes earlier.

The amount corresponding to the mandatory minimum dividend is recorded as a liability under "Dividends and interest on equity capital payable" in that it is construed as a legal obligation provided for in the Company's Articles of Incorporation; however, the amount of dividends in excess of the mandatory minimum dividend, declared by management

subsequently to the accounting period which the accompanying financial statements refer to, but before the date on which their issuance was approved, is recorded under "Proposed additional dividend" in equity.

03. Summary of Significant Accounting Practices--Continued

(s) Service concession arrangements

The Company is the holder of public utility concessions for water supply and sewage services. These concession agreements are entered into with municipalities, with the Minas Gerais State as intervenor, and have been recognized in accordance with ICPC 01 (IFRIC 12) requirements.

The concession agreements represent a contractual right to charge users of the public services, by charging tariffs regulated by the Minas Gerais State Regulatory Water and Sewage Agency (ARSAE-MG), over the period of time established by the concession agreements. The Company recognizes its contractual right to charge users of the public services over the term of the concession arrangement as an intangible asset, and the amount is amortized as disclosed in item (g) of this Note.

Moreover, in all its concession agreements, except for those entered with the Municipalities of Ipatinga and Além Paraíba, the Company has an unconditional right to receive cash as a consideration for returning the assets to the grantor. In these cases, the Company recognized a financial asset, discounted to present value, considering the best estimate of the cash receipt at the end of the concession term, as disclosed in item (c) of this Note.

(t) Borrowing costs

Borrowing costs directly related to the acquisition or construction of an asset that requires a substantial time to get ready for its intended use are capitalized as these costs are regarded as forming part of the costs of the corresponding asset. All other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs consist of interest and other costs incurred by an enterprise in connection with the borrowing of funds.

As permitted by ICPC 01 (IFRIC 12), the Company capitalizes borrowing costs referring to intangible assets in connection with construction services under public service concession arrangements.

(u) Related Parties

The Company recognizes as related parties, in addition to business transactions carried out with its wholly-owned subsidiaries, financial transactions maintained with key management personnel, with its major shareholder and with enterprises and/or bodies connected with such shareholder either directly or indirectly, provided that there are formal contractual relations with these enterprises or bodies which generate financial transactions.

04. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the individual and consolidated financial statements of the Company require management make judgments and estimates and adopt assumptions that affect the amounts disclosed referring to revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities, as of the date of the financial statements. However, the relative uncertainty of such assumptions and estimates could lead to results that require a significant adjustment to the carrying amount of the assets or liabilities affected in future periods.

Significant items subject to judgments and estimates are set out as follows:

(i) Construction revenue recognition

The Company uses the percentage-of-completion (POC) method to account for its firm-fixed-price construction contracts. Use of the POC method requires management to estimate the services performed to the balance sheet date as a percentage of the total services to be performed. If the percentage ratio of the services performed to the total services to be performed showed a difference of more than 10% in relation to the management's estimates, the revenue recognized for the 2Q11 would increase by R$39,214; if this difference were less than 10% in relation to the management's estimates, the revenue recognized for the 2Q11 would decrease by R$1,714.

(ii) Pension plan benefits

The current amount of pension plan liabilities depends on a number of factors that are determined by actuarial calculations based on given assumptions. The assumptions used to determine net service cost (revenue) for the pension plans include, among others, the discount interest rate. Any changes to these assumptions may affect the carrying amount of the pension plan liabilities.

The Company calculates the appropriate discount (interest) rate at year end, which should be used to determine the present value of estimated future cash outflows required to settle the plans' liabilities. When determining the appropriate discount rate, the Company considers that the discount rate in Brazil, for complying with accounting standards, should be obtained from the returns on government securities (NTN-B) at the reporting date of the actuarial valuation, without any adjustments as a function of Brazil risk factors or expectations of future fluctuations in the profitability of these securities.

Other major assumptions regarding pension plan liabilities are partly based on current market conditions. Additional information is disclosed in Note 17.

04. Significant Accounting Judgments, Estimates and Assumptions-- Continued

(iii) Taxes

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

Given the diversity of business relations as well as the long-term nature and complexity of existing contractual instruments, differences between actual results and the assumptions adopted, or future changes in these assumptions, could require future adjustments to tax revenues and expenses already recorded. Based on reasonable estimates, the Company records provisions for contingencies that may arise as a result of tax audits by competent authorities. The amount of these provisions is based on various factors, such as past tax audit experience and different interpretations of tax regulations by the taxable entity and by the competent tax authority. These different interpretations may arise in a wide range of issues, depending on prevailing conditions.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized. Significant judgment calls are required of management in order to determine the amount of deferred tax assets that can be recognized, based on probable period and estimated level of future taxable profits, together with future tax planning strategies.

For further detail on deferred taxes, see Note 15.

(iv) Impairment of non-financial assets

Impairment loss exists when the book value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell the asset is based on available information about sales of similar assets or observable market prices less incremental costs to sell the asset. Value in use is calculated using the discounted cash flow method. Cash flows derive from the budget for the next 5 (five) years and do not include reorganization activities which the Company has not yet been committed to or significant future investments that will improve the asset base of the cash generating unit tested. The recoverable amount is sensitive to the discount rate used under the discounted cash flow method, as well as expected future cash receipts and the growth rate used to extrapolate cash flow projections.

05. Public Service Concession Agreements

At June 30, 2011, the Company is the holder of public utility concessions for water supply and sewage services in 881 locations in the State of Minas Gerais. The concession agreements are executed with each municipality, for periods ranging from 30 to 99 years, and all of them are quite similar in terms of rights and obligations of both holder and grantor.

The tariff system for water supply and sewage services is controlled by ARSAE – MG and reviewed annually, being designed to maintain the Company's financial and economic balance, considering both the investments made and its cost and expense structure. Services are charged directly to users, based on the volume of water consumed and sewage collected multiplied by the authorized tariff.

Major concession periods and major changes occurred for the quarter ended June 30, 2011 are described in Note 1.

At June 30, 2011, the Company has accounts receivable from grantor (the municipalities) totaling R$292,947, which corresponds to the expected amount to be received at the end of the term of the concession arrangements (R$280,053 at December 31, 2010). These amounts were discounted to present values upon initial recognition using weighted average capital cost (WACC) rates linked to the respective accounts receivable. Intangible assets were accounted for by the difference between fair value of the assets constructed or acquired for the purpose of the concession services and the book value of the financial assets recognized.

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

	3 months periods ended June 30 of		6 months periods ended June 30 of	
	2011	**2010**	**2011**	**2010**
Construction revenues	167,036	252,136	344,925	421,307
Construction costs	(163,227)	(244,550)	(338,147)	(408,733)

06. Cash and Cash Equivalents

(a) Cash and cash equivalents

	Company	
	06/30/2011	**12/31/2010**
Cash and banks	32,312	40,318
Short-term bank deposit certificates	117,443	35 ,475
Total	**149,755**	**75,793**

	Consolidated	
	06/30/2011	**12/31/2010**
Cash and banks	33,263	41,509
Short-term bank deposit certificates	117,802	36,143
Total	**151,065**	**77,652**

The Company maintains own funds from its business activity invested in Bank Deposit Certificates (CDBs), which consist of fixed-income securities substantially remunerated by reference to the variation in the Interbank Deposit Certificate (CDI), which ranged from 90% to 115% in the 1st semester of 2011 (98% to 115% in the 1st semester 2010). Financial income in the 1st semester of 2011 from these investments totaled R$ 7,414 (R$ 16,707 in the 1st semester of 2010), where the amount of R$6,220 refers to investments redeemable within 90 days (R$15,585 in the 1st semester of 2010), and R$1,194 for pledging of debentures (R$1,122 in the 1st semester of 2010).

At June 30 of 2011, the Company classified its marketable securities in “Cash and cash equivalents” since these are considered financial assets that are readily convertible to cash and subject to insignificant risk of any change in value.

(b) Changes in short-term investments

	Company	
	2011	**2010**
At January 1	35,475	380,186
New investments	1,010,912	908,604
Transfer of held to maturity financial assets	56,365	-
Investment income	6,220	15,585
Redemption	(991,529)	(1,117,816)
At June 30	**117,443**	**186,559**

	Consolidated	
	2011	**2010**
At January 1	36,143	380,410
New investments	1,012,891	908,701
Transfer of held to maturity financial assets	56,365	-
Investment income	6,248	15,589
Redemption	(993,845)	(1,118,038)
At June 30	**117,802**	**186,662**

Financial assets only include amounts in reais, there being no foreign currency investments.

None of these financial assets is overdue and no impairment loss was identified thereon.

07. Accounts Receivable – Customers and Other Receivables

Accounts receivable – customers mature as follows:

	Company		Consolidated	
	06/30/2011	12/31/2010	06/30/2011	12/31/2010
Falling due	70,151	64,719	73,719	68,054
Up to 30 days past due	65,964	62,918	65,964	62,918
From 31 to 60 days past due	29,543	28,289	29,543	28,289
From 61 to 90 days past due	13,481	12,594	13,481	12,594
From 91 to 180 days past due	26,103	21,230	26,103	21,230
Over 180 days past due	45,517	37,809	45,517	37,809
Billed amounts	250,759	227,559	254,327	230,894
Unbilled amounts	250,551	228,772	251,728	229,331
Accounts receivables – customers	501,310	456,331	506,055	460,225
(-) Allowance for doubtful accounts	(22, 665)	(21,480)	(24,027)	(22,651)
	478,645	434,851	482,028	437,574
Accounts receivables – non-current (Note 25)	210,056	182,335	210,056	182,335
Accounts receivables – customers, net	688,701	617,186	692,084	619,909
Held-to-maturity financial assets (c)	-	56,365	-	56,365
Pledging of loans and debentures (d)	107,367	100,986	107,367	100,986
Receivables from subsidiaries (a)	67,723	59,970	-	-
Restricted investment (b)	38,922	41,621	38,922	41,621
Others	15,011	14,982	15,981	15,952
Total	**917,724**	**891,110**	**854,354**	**834,833**
Non-current assets	**(439,079)**	**(399,894)**	**(372,326)**	**(340,894)**
Current assets	**478,645**	**491,216**	**482,028**	**493,939**

At June 30, 2011, accounts receivable - customers in the amount of R$119,318 (R$113,171 in December 2010) were overdue, but not provisioned. These accounts refer to a series of independent customers for whom there is no recent history of default. The aging list of these accounts receivable is:

	06/30/2011	12/31/2010
Up to three months	101,329	97,986
From three to six months	17,557	14,649
Minas Gerais State	432	536
Total	**119,318**	**113,171**

At June 30, 2011, accounts receivable - customers totaling R$22,665 (R$21,480 in December 2010) were overdue and considered likely to remain uncollectible. Accounts receivable individually considered uncollectible refer manly to health service providers to whom COPASA, consistent with its corporate policy and image, does not disrupt its water supply and sewage services. Based on management's assessment, a portion of these accounts receivable can be recovered. These accounts receivable mature as follows:

	06/30/2011	12/31/2010
Falling due	663	770
Up to 30 days past due	869	526
From 31 to 60 days past due	840	737
From 61 to 90 days past due	734	716
From 91 to 180 days past due	2,675	2,502
From 181 to 360 days past due	4,729	4,516
Over 360 days past due	12,155	11,713
Total	**22,665**	**21,480**

07. Accounts Receivable – Customers and Other Receivables-- Continued

The Company's accounts receivable - customers and other receivables are maintained only in reais, there being no foreign currency receivables.

Changes in the allowance for doubtful accounts were as follows:

	2011	
	Company	**Consolidated**
At January 1	**21,480**	**22,651**
Allowance for doubtful accounts	20,176	20,367
Charge-off of uncollectible accounts receivable during the period	(18,991)	(18,991)
At June 30	**22,665**	**24,027**

A provision for impairment of receivables was recognized in the income statement as "other expenses". The amounts debited to the provision are usually charged off when they are not expected to be collectible.

Other classes of accounts receivable from customers and other receivables do not contain impaired assets.

Maximum exposure to credit risk at the reporting date hereof is the book value of each class of accounts receivable mentioned above (Note 19). The Company maintains tariff revenues as a guarantee for financings.

a) This refers to loan agreements and payroll expenses (salary and social charges) relating to employees assigned by COPASA to its subsidiaries and which are being reimbursed as provided for contractually, out of which R$49,967 refer to Águas Minerais, R$16,119 to COPANOR, and R$1,637 to Serviços de Irrigação (R$43,441, R$14,916 and R$1,613 at December 31, 2010, respectively);

b) This refers to funds from Brazil's National Water Agency (ANA) held by COPASA under the Water Basin Depollution Program (PRODES), to be transferred as payment for the treated sewage from the Ribeirão do Onça sewage treatment plant, in the Municipality of Belo Horizonte, and from the Betim Central sewage treatment plant, in the Municipality of Betim, through the attainment of treated sewage and abatement of polluting emissions goals. Because these goals were only partially met, the Company also records these funds in long-term payables, under the caption Deposits for construction work (Note 11). In November 2009, February and August 2010, the ANA released the amounts of R$2,030, R$2,044 and R$4,264, respectively, referring to the four quarterly installments for fulfillment of the 1st stage of goals at Onça sewage treatment plant; In March 2011 the first two installments regarding the completion of the second stage were approved in ETE onça, adding up to R$4,492;

c) This refers to short-term investments redeemable within more than 90 days;

d) Pledged as guarantee of loans and debentures, as detailed in Note 12 "b".

08. Investments

	Company	
	06/30/2011	**12/31/2010**
Subsidiaries accounted for under the equity method		
Copasa Águas Minerais de Minas S.A.	1	1
Copanor	1	1
Copasa Serviços de Irrigação S.A.	1	1
	3	**3**
Subsidiaries accounted for under the cost method		
Foz de Jeceaba	21,800	-
Others	260	260
	22,060	**260**
Total	**22,063**	**263**

	Consolidated	
Subsidiaries accounted for under the cost method	**06/30/2011**	**12/31/2010**
Foz de Jeceaba	21,800	-
Others	260	260
Total	**22,060**	**260**

Main information on investments in subsidiaries is as follows:

Subsidiaries	Equity	Capital	Earnings (loss)	No. Of shares	Copasa Interest (%)
06/30/2011					
Águas Minerais	(41,780)	13,929	(55,709)	13,929	100
Copanor	(12,813)	1	(12,814)	1	100
Serviços de Irrigação	(999)	1	(1,000)	1	100
12/31/2010					
Águas Minerais	(34,799)	13,929	(48,728)	13,929	100
Copanor	(11,483)	1	(11,484)	1	100
Serviços de Irrigação	(1,029)	1	(1,030)	1	100

Changes in investments in subsidiaries are as follows:

	12/31/2010	Equity Pickup	**06/30/2011**
Águas Minerais	1	-	1
Copanor	1	-	1
Serviços de Irrigação	1	-	1
Total	3	-	**3**

At June 30, 2011, the subsidiaries present a capital deficiency of R$36,238 (R$27,957 in December 2010), for which the Company set up a valuation allowance. This allowance is recorded in non-current liabilities, under “Other liabilities”.

08. Investments--Continued

Additionally, the Company made a capital advance to Águas Minerais in the amount of R$ 19,356 that will be integralized as capital in the future.

	12/31/2010	Equity Pickup	06/30/2011
Águas Minerais	(15,443)	(6,981)	(22,424)
Copanor	(11,484)	(1,330)	(12,814)
Serviços de Irrigação	(1,030)	30	(1,000)
Total	**(27,957)**	(8,281)	**(36,238)**

Copasa Águas Minerais shows accumulated losses and working capital deficiency. The operations of this subsidiary started up in September 2008, and due to high costs it could not reach its projected sales targets.

This subsidiary is having its cost structure reviewed and feasibility studies are underway. Continuity of its business operations is contingent upon operational restructuring aiming at its adequacy to the market in which it operates, and financial support from its parent company. The financial statements of Copasa Águas Minerais, which serve as basis for the Company's equity pickup and consolidation were prepared assuming that this subsidiary will continue as a going concern. Accordingly, no adjustments were included related to the realization and classification of its assets or to the measurement of its liabilities that might be required should this subsidiary be unable to continue its business operations.

On January 28, 2010, the Board of Directors of COPASA MG authorized an investment in the amount of R$21,800 to be made, as a non-controlling investment, in a Special Purpose Entity (SPE) jointly with Odebrecht Engenharia Ambiental and Lumina Resíduos Industriais S.A., corresponding to a 15.5% equity interest therein. This investment was made in January 2011, through a capital contribution to the SPE.

09. Intangible Assets

	Company					
Cost	**Water systems**	**Sewage**	**Use rights**	**Others (*)**	**Indevelopment**	**Total**
Book balance at 12/31/2010	**3,823,739**	**2,260,213**	**276,835**	**(160,288)**	**2,461,843**	**8,662,342**
Additions	31,706	11,827	2,454	643	309,067	**355,697**
Write-offs	(6,951)	(726)	(10,377)	(71)	(14,888)	**(33,013)**
Transfers	67,503	81,634	1,210	(7,479)	(143,184)	**(316)**
Book balance at 06/30/2011	**3,915,997**	**2,352,948**	**270,122**	**(167,195)**	**2,612,838**	**8,984,710**
Amortization						
Book balance at 12/31/2010	**(2,320,370)**	**(662,055)**	**(39,036)**	**(9,150)**	-	**(3,030,611)**
Additions	(82,403)	(49,529)	(7,449)	4,697	-	**(134,684)**
Write-offs	1,629	806	294	5	-	**2,734**
Transfers	2	-	(34,272)	34,272	-	**2**
Net Balance 06/30/2011	**(2,401,142)**	**(710,778)**	**(80,463)**	**29,824**	**-**	**(3,162,559)**
Net Balance 06/30/2011	**1,514,855**	**1,642,170**	**189,659**	**(137,371)**	**2,612,838**	**5,822,151**
Saldo líquido 31/12/2010	**1,503,369**	**1,598,158**	**237,799**	**(169,438)**	**2,461,843**	**5,631,731**

The amortization in the 1st semester of 2011 , allocated to income, amounted to R$126,632 (R$116,696 in the 1st semester of 2010) as cost of services, to R$2,088 (R$2,030 in the 1st semester of 2010) as selling expenses, and to R$5,964 (R$5,963 in the 1st semester of 2010) as administrative expenses.

(*) This refers mainly to reversal of donations

	Consolidated					
Cost	**Water systems**	**Sewage**	**Use rights**	**Others (*)**	**Indevelopment**	**Total**
Book balance at 12/31/2010	**4,138,579**	**2,289,715**	**229,561**	**(63,703)**	**2,461,843**	**9,055,995**
Additions	34,232	12,275	3,000	(1,963)	309,068	**356,612**
Write-offs	(7,565)	(729)	(10,377)	(101)	(14,888)	**(33,660)**
Reclassification	67,503	81,634	46,207	(53,175)	(143,184)	**(1,015)**
Book balance at 06/30/2011	**4,232,749**	**2,382,895**	**268,391**	**(118,942)**	**2,612,839**	**9,377,932**
Amortization						
Book balance at 12/31/2010	**(2,614,002)**	**(708,089)**	**(40,370)**	**(9,147)**	**-**	**(3,371,608)**
Additions	(84,696)	(49,407)	(7,458)	2,496		**(139,065)**
Write-offs	1,542	678	-	-	-	**2,220**
Reclassification	-	-	(34,271)	34,271	-	**-**
Book balance at 06/30/2011	**(2,697,156)**	**(756,818)**	**(82,099)**	**27,620**	**-**	**(3,508,453)**
Net balance 06/30/2011	**1,535,593**	**1,626,077**	**186,292**	**(91,322)**	**2,612,839**	**5,869,479**
Net balance 12/31/2010	**1,524,577**	**1,581,626**	**189,191**	**(72,850)**	**2,461,843**	**5,684,387**

09. Intangible Assets--Continued

The amortization in the 1st semester of 2011, allocated to income, amounted to R$130,913 (R$122,019 in the 1st semester of 2010) as cost of services, to R$2,144 (R$2,094 in the 1st semester of 2010) as selling expenses, and to R$6,008 (R$6,001 in the 1st semester of 2010) as administrative expenses.

At the 1st semester of 2011, the Company capitalized interest and charges amounting to R$36,487 (approximately R$48,899 in the 1st semester of 2010) under the caption "Construction in progress".

(*) This refers mainly to the reversal of donations

10. Property, Plant and Equipment

Company					
Cost	**Land and construction**	**Machinery and equipment**	**Vehicles**	**Other**	**Total**
Book balance at 12/31/2010	**102,656**	**175,855**	**102,690**	**142**	**381,343**
Additions	1,536	2,557	130	-	4,223
Write-offs	-	(1,563)	(1,088)	-	(2,651)
Transfers	(64)	346	-	-	282
Book balance at 06/30/2011	**104,128**	**177,195**	**101,732**	**142**	**383,197**
Depreciation					
Book balance at 12/31/2010	**(58,115)**	**(121,261)**	**(89,998)**	**(105)**	**(269,479)**
Additions	(1,307)	(6,658)	(4,305)	(16)	(12,286)
Write-offs	-	1,453	1,069	-	2,522
Transfers	-	(3)	-	-	(3)
Book balance at 06/30/2011	**(59,422)**	**(126,469)**	**(93,234)**	**(121)**	**(279,246)**
Net balance at 06/30/2011	**44,706**	**50,726**	**8,498**	**21**	**103,951**
Net balance 12/31/2010	**44,541**	**54,594**	**12,692**	**37**	**111,864**

The depreciation in the 1st semester of 2011, allocated to income, amounted to R$11,742 (R$7,207 in the 1st semester of 2010) as cost of services, to R$141 (R$125 in the 1st semester of 2010) as selling expenses, and to R$403 (R$369 in 2010) as administrative expenses.

10. Property, Plant and Equipment--Continued

Consolidated

Cost	Land and construction	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Book balance at 12/31/2010	**110,482**	**201,967**	**105,325**	**4,294**	**1,402**	**423,470**
Additions	1,589	2,805	130	21	192	4,737
Write-offs	-	(1,685)	(1,088)	-	-	(2,773)
Transfers	(65)	351	-	-	-	286
Book balance at 06/30/2011	**112,006**	**203,438**	**104,367**	**4,315**	**1,594**	**425,720**
Depreciation						
Book balance at 12/31/2010	**(65,566)**	**(127,444)**	**(92,219)**	**(548)**	-	**(285,777)**
Additions	(1,369)	(7,313)	(4,364)	(65)	-	(13,111)
Write-offs	-	1,574	1,061	-	-	2,635
Transfers	-	(5)	-	-	-	(5)
Book balance at 06/30/2011	**(66,935)**	**(133,188)**	**(95,522)**	**(613)**	**-**	**(296,258)**
Net balance at 06/30/2011	**45,071**	**70,250**	**8,845**	**3,702**	**1,594**	**129,462**
Net balance at 12/31/2010	**44,916**	**74,523**	**13,106**	**3,746**	**1,402**	**137,693**

The depreciation in the 1st semester of 2011, allocated to income, amounted to R$12,549 (R$7,948 in the 1st semester of 2010) as cost of services, to R$148 (R$136 in the 1st semester of 2010) as selling expenses, and to R$414 (R$391 in the 1st semester of 2010) as administrative expenses.

11. Suppliers and Other Liabilities

	Company	
	06/30/2011	**12/31/2010**
Accounts payable to suppliers	113,592	120,135
Taxes payable	48,287	43,535
Taxes in installment (c)	255,009	229,238
Accrued vacation pay	92,476	72,854
Interest on equity capital (Note 18)	41,373	66,859
Electric power (a)	33,947	44,784
Construction work (b)	35,424	34,030
Investment valuation allowance	36,238	27,957
Other payables	35,904	43,249
Total	692,250	682,641
Non-current liabilities	(293,497)	(287,370)
Current liabilities	398,753	395,271

	Consolidated	
	06/30/2011	**12/31/2010**
Accounts payable to suppliers	115,164	122,325
Taxes payable	49,825	43,818
Taxes in installment (c)	255,009	229,238
Accrued vacation pay	92,907	73,154
Interest on equity capital (Note 18)	41,373	66,859
Electric power (a)	33,947	44,784
Construction work (b)	35,427	34,032
Other payables	36,046	43,378
Total	659,698	657,588
Non-current liabilities	(257,261)	(259,415)
Current liabilities	402,437	398,173

The non-current portion is mainly comprised of taxes in installment.

a) Electric power

This refers to the installment payment of the debt arising from past-due bills, in conformity with the Debt Agreement and Acknowledgement formally made with Companhia Energética de Minas Gerais - CEMIG as of October 4, 2004, whereby the Company has acknowledged a debt of R$78,495, which was agreed to be divided into 96 monthly consecutive installments until September 2012, restated based on the IGP-M, plus interest of 0.5% per month. As of June 30, 2011, there are 15 installments to be paid. The current portion also includes monthly invoices, in the amount of R$3,443 (R$4,607 in 2010).

11. Suppliers and Other Liabilities--Continued

b) Construction work

In December 2003, the Company received PRODES funds amounting to R$ 12,636 transferred by Brazil's National Water Agency - ANA, in return for the Federal Government participation in the construction of the Sewage Treatment Plant of Ribeirão do Onça, in the city of Belo Horizonte. In accordance with clause 6 of Agreement 012/2003 signed with the ANA as of November 21, 2003, the payment for treated sewage will be made to the Company in two quarterly consecutive installments after certification of pollutant load reduction goals to be issued by that agency. The term of contract originally agreed to as December 31, 2007 was amended to July 1, 2013, and the Company's request for issuance of the said certification was filed on July 1, 2009, as provided for in the 3rd Amendment to the contract signed on August 15, 2007. As the Company already has, since November 2008, studies that prove the fulfillment of the 1st stage of the goals, the right to 1/3 of the amount passed on by the ANA was recognized, corresponding to R$7,499. In October 2010, the right to another 1/3 of the amount passed on by the ANA was recognized for the fulfillment of the 2nd stage of the goals, corresponding to R$8,665, of which R$2,166 was credited to financial income and R$6,499 to deferred income. In the 1st semester of 2011 was registered as income the amount of R$4,333 referring to deferred income registered in 2010 and R$399 referring to 1/3 of income earned on the investments of the funds received (R$288 in the 1st semester of 2010). Compliance with the schedule established as from the starting date of the certification process has been found to progress normally, and quarterly reports have been submitted to the ANA. The amount invested in relation to this transfer of funds, restated through June 31, 2011, is R$13,703 (R$17,501 in 2010) - Note 7.

In December 2007, the Company received additional R$18,720 of a new transfer of funds from the ANA, in return for the Federal Government participation in the construction of the Sewage Treatment Plant of "Betim Central", in the municipality of Betim. Under clause 6 of Agreement 039/2007, signed with the ANA as of December 11, 2007, settlement of treated sewage will be made to the Company in 12 quarterly, successive installments, after certification of pollutant load reduction goals to be issued by that agency. The Company started the PRODES certification process on July 1, 2009 and, on October 15, 2009, it submitted the corresponding report for approval by the ANA, which made inquiries and technical considerations, scheduling a meeting for January 29, 2010 for further clarification and continuity of the planned schedule. Once the approval for the first measurement is obtained, the equivalent to 1/12 of the funds existing in the underlying restricted account will be made available to the Company. As such, every three months, the Company will be required to issue a measurement report and submit it for approval by the ANA, until the 12 measurements stipulated contractually are completed. Worth of mentioning, though, there is a possibility of renegotiating new measurement dates with the ANA, owing to non-completion of undertakings that will influence on the achievement of goals. The amount restated through June 30, 2011, related to this transfer of funds, is R$25,219 (R$24,120 in 2010) - Note 7.

11. Suppliers and Other Liabilities--Continued

c) Taxes in installments

	Company/Consolidated	
	06/30/2011	12/31/2010
Taxes in installments (*)	17,554	24,576
ISS in installments (**) (Note 25)	237,455	204,662
Total	255,009	229,238
Current portion	(41,442)	(36,370)
Non-current portion	213,567	192,868

(*) In 2001, the Company acquired from third parties, at a 15% discount, R$65,800 worth of premium-credit related to Federal VAT (IPI), an excise tax, used to offset other federal tax debts. These credits were purchased based on injunctions as the result of lawsuits brought by the entities assigning these credits. Although the Brazilian IRS (RFB) has issued the relevant documents evidencing the offsetting request, in other instances it has adopted the view that either because of the origin of the credits (IPI premium-credit) or because of the provisional nature of the assignment (a final and unappealable decision has not yet been obtained on these lawsuits), such IPI premium credits may not be offset. Until recently, the High Court of Justice (STJ) was recognizing the right to use the IPI premium-credit. Yet, there has been a recent change in the legal precedents of this court, which has become favorable to the theory that, given that this incentive is sectorial in nature, it would have been effective until October 5, 1990.

Considering the current legal scenario, despite our understanding that the subject depends upon conclusive judgment by the Federal Supreme Court, our outside lawyers assessed the chances of loss involving this matter as probable.

The Company decided to pay this contingency, and on November 27, 2009 it filed a request for debt installment arrangement, to be paid in 12 installments, in conformity with Provisional Executive Order (MP) No. 470, of 2009. At september 2010, the company asked for a new installments, in the amount of R$28,086, in 24 installments, adding the requirement before, with maturity in September of 2012.

(**) This refers to the Offset Agreement which establishes that tax and non-tax debts payable by COPASA shall be offset against its credits arising from water supply and sewage service invoices payable by the Belo Horizonte Municipal Government. The reciprocal debts shall be paid in 120 monthly and consecutive installments, bearing 1% interest and annual monetary restatement on the Special Extended Consumer Price Index (IPCA-E).

12. Loans and Debenturres

	Company/Consolidated	
	06/30/2011	**12/31/2010**
Current		
State Government/BDMG	5,006	5,429
Federal Savings and Loan Bank (CEF)	108,705	100,910
National Treasury	35,768	34,733
BNDES – BNE	26,437	3,469
Federal Government – bonds	5,075	5,419
Bank loans and financing	180,991	149,960
Simple debentures	97,633	96,866
Convertible debentures	69,352	502
Debentures	166,985	97,368
Total current	347,976	247,328
Non-current		
State Government/BDMG	10,759	11,472
Federal Savings and Loan Bank (CEF)	639,544	652,225
National Treasury	59,917	77,397
BNDES – BNE	493,082	370,945
Federal Government – bonds	43,870	49,040
Bank loans and financing	1,247,172	1,161,079
Simple debentures	592,528	568,025
Convertible debentures	65,144	133,740
Debentures	657,672	701,765
Total non-current	1,904,844	1,862,844
Total current and non-current	**2,252,820**	**2,110,172**

Book values compared to the respective estimated fair values are as follows:

	Book value		Fair value	
	06/30/2011	**12/31/2010**	**06/30/2011**	**12/31/2010**
Bank loans and financing	1,428,163	1,311,039	1,539,394	1,430,085
Simple debentures	690,161	664,891	672,283	649,480
Convertible debentures	134,496	134,242	134,496	134,242
Total	**2,252,820**	**2,110,172**	**2,346,173**	**2,213,807**

Market values of liabilities are calculated on a projected debt balance, restated at the contractual rate over the remaining months before repayment. The value arrived at is adjusted to current period, using the following market rates:

Credit facilities	Contractual rate	Period in months	Market rates	Remarks
State Government/BDMG	9.03%	48	7.33%	CEF rate, as there is no similar market
CEF/FGTS	9.93%	207	7.33%	CEF rate quoted in jun/11
Nacional Treasury	5.38%	34	7.33%	CEF rate, there is no similar market
BNDES/BNE	7.56%	128	7.52%	CEF rate quoted in jun/11
Federal Government	4.71%	157	7.33%	CEF rate, there is no similar market
Simple debêntures	8.41%	96	9.30%	CEF rate quoted in jun/11
Convertible debentures	8.30%	40	8.30%	CEF rate quoted in jun/11

12. Loans and Debenturres--Continued

a) Bank loans and financing

Bank loans and financing have maturity until 2031 and average coupon rates of 8.34% p.a. (8.46% p.a. as of December 31, 2010). The long-term portion matures as follows:

Maturity	06/30/2011	12/31/2010
2012	99,373	184,773
2013	200,738	185,705
2014	166,607	148,900
2015	132,626	115,919
2016	99,333	83,963
2017	65,518	51,583
After 2018	482,977	390,236
Total	**1,247,172**	**1,161,079**

The book values of the Company foreign currency loans total R$48,945 (R$54,459 in 2010).

b) Guarantees of bank loans and financing

As collateral for financing, the Company has pledged the following:

Foreign currency agreements

Federal Government - bonds:

These are backed up to the contract balance by the Minas Gerais State Government and by the Company tariff revenues, up to the limit sufficient for payment of the installments and other charges due on the maturity dates. As an accessory guarantee for Discount Bond and Par Bond, the Company keeps a reserve account at Banco do Brasil in the amount of R$24,187, restated through June 30, 2011 (R$24,639 in 2010), by applying the average price of the Zero Coupon Bond of the US Treasury, recorded under the caption “collateral for financing”.

12. Loans and Debenturres--Continued

b) Guarantees of bank loans and financing--Continued

Local currency agreements

Fiduciary transfer of receivables and restricted account agreement:

- In order to improve and expand the systems in operation, the Company had raised funds, between 1995 and 2001, with various financing agencies, and on October 29, 2002, these agreements were encompassed under the Restricted Account Agreement made between the Company, the Federal Savings and Loan Bank (CEF), designated as administrator, and Unibanco, as the financial agent, and whereby new funds were released under the Unemployment Compensation Fund (FGTS). New agreements for fiduciary transfer of receivables and restricted accounts for the release of new FGTS funds were entered into as of July 4, 2006, under the Sanitation for All Program ("Programa Saneamento Para Todos"), which superseded all previously existing programs, with Bradesco and Itaú, also acting as financial agents of the funds. The Company made the following pledges for these agreements:

  - Fiduciary collateral transfer of part of COPASA's receivables from water supply and sewage collection public utility services provided to its private consumers, in the minimum amounts of R$ 17,000 and R$ 15,300 per month, non-cumulative, adjusted based on the variation of IPCA (Extended Price Consumer Index) disclosed by FIP;

  - Fiduciary transfer of part of the assignors receivables from CEF, related to the temporary cash investment funds, comprised of funds deposited in the restricted account and reserve account, which shall correspond to 3 (three) times the amount of the installments falling due and whose balance at June 30, 2011 is recorded as collateral for financing in the amount of R$ 25,022 (R$ 24,158 in 2010).

- Loans and financing contracts with the Brazilian Development Bank (BNDES) for optimization and expansion of water supply systems and sanitation in the concession areas are guaranteed by the fiduciary transfer of part of the receivables for provision of public utility services - water supply and sewage services, in an amount equivalent to the minimum amounts of R$ 3,000 and R$ 23,000 per month, adjusted annually by the IPCA / IBGE, and by reserve account deposits on account of the minimum balance corresponding to 3 (three) times the amount of the installments falling due. The balance of this account recorded as collateral for financing, at June 30, 2011 is R$10,556 (R$7,049 in 2010).

12. Loans and Debenturres--Continued

b) Guarantees of bank loans and financing--Continued

- Loans and financing agreements entered into with CEF under the CAIXA PAC - 2009 program, for the expansion of the water supply and sewage treatment systems in the concession areas, are collateralized by concession receivables pledged as guarantee, in the form of deposits, referring to tariff revenues charged in the municipalities where the construction projects will be performed, whose minimum balance corresponds to 3 (three) times the value of the monthly charge, credited in a centralized account, and for reserve account deposits whose minimum balance corresponds to one (1) time the amount of the installments falling. The balance of this account, recorded as collateral for financing at June 30, 2011 is R$2,645 (R$176 in 2010).

Other financing:

Loans and financing agreements entered into with the CEF, for performance of construction projects and services for the expansion of the building supply grid, are collateralized by deposits in a collateral account whose minimum balance corresponds to one (1) time the value of the monthly charge, for the agreement executed as of December 9, 2003 and three (3) times the value of the monthly charge, for the agreement executed as of June 30, 2004, calculated based on the most recent collection available under these agreements. The balance of this account, recorded as collateral for financing at June 30, 2011 is R$9,668 (R$8,816 in 2010).

Other financing transactions related to both the State Government/BDMG and the National Treasury are collateralized by the Minas Gerais State Government and by the Company's tariff revenues.

12. Loans and Debenturres--Continued

c) Non-convertible and convertible debentures

		Company/Consolidated			
		06/30/2011		12/31/2010	
Series	Subscription date	Current	Non-current	Current	Non-current
Non-convertible debentures					
Subscriptions made – 1st issue					
1st and 2nd	06/30/2004	7,824	16,111	7,846	19,978
3rd and 4th	11/09/2004	7,824	16,111	7,846	19,978
5th and 6th	07/29/2004	7,825	16,111	7,846	19,978
7th	12/19/2005	3,912	8,056	3,923	9,989
8th and 9th	04/24/2006	7,825	16,111	7,847	19,978
10th	12/19/2006	3,912	8,056	3,923	9,989
11th and 12th	03/23/2007	7,825	16,112	7,847	19,978
Total 1st issue		46,947	96,668	47,078	119,868
Subscriptions made - 3rd issue					
1st to 6th	12/06/2007	16,297	118,869	16,355	126,795
7th	09/25/2008	2,716	19,811	2,726	21,132
8th	12/06/2008	8,149	59,435	8,178	63,397
9th to 11th	03/30/2009	8,149	59,435	8,178	63,397
12th to 14th	11/27/2009	2,716	19,812	2,726	21,132
15ª to 17th	05/26/2010	8,149	59,435	8,178	63,397
18th	07/02/2010	2,716	19,812	2,726	21,133
Total 3rd issue		48,892	356,609	49,067	380,383
Subscriptions made – 4th issue					
1st	12/27/2010	1,794	139,251	721	67,774
		1,794	139,251	721	67,774
Total non-convertible		**97,633**	**592,528**	**96,866**	**568,025**
Convertible debentures					
Subscriptions made – 2nd issue					
Single	08/28/2007	42,934	38,901	316	81,255
Single	09/06/2007	25,169	25,002	177	50,004
Single	12/03/2007	1,249	1,241	9	2,481
Total convertible		69,352	65,144	502	133,740
Total debentures		**166,985**	**657,672**	**97,368**	**701,765**

Non-convertible debentures

Subscriptions made – 1st issue:

In June 2004, the Company placed 300 nonconvertible simple debentures of R$1,000 each, in a private issue, through exclusive subscription by the BNDES. These debentures were issued in 12 (twelve) series of R$25,000 each. The subscription price of each series was equivalent to the nominal value plus the interest mentioned below, calculated on a pro rata basis from the issue date to the effective subscription date, the contractual terms and conditions being the following:

12. **Loans and Debenturres**—Continued

c) Non-convertible and convertible debentures --Continued

Issue date	June 15, 2004
Term	10 years
Grace period of the principal	36 months
Amortization	84 months
Final maturity	July 15, 2014
Yield	TJLP + 3.58% p.a.
Guarantee	20% of the revenue, plus reserve account

This 1st issue is guaranteed by 20% of the Company's tariff revenues and a reserve account, the minimum balance of which corresponds to three installments falling due, related to all debentures of all series issued and subscribed, deposited in an investment fund, recorded as collateral for financing. As of June 30, 2011, the amount pledged as collateral totaled R$15,007 (R$15,465 in December 31, 2010).

The funds from this issue are earmarked for financing of projects for expansion and modernization of water supply and sanitary sewage systems in the concession areas.

Subscription made – 3rd issue:

In December 2007, the simple debentures, not convertible into common shares, negotiated in a private deal under exclusive subscription by BNDES, are composed of 450 simple debentures of R$1,000 each, whose issue is being made in 18 (eighteen) series of R$25,000 each. The contractual terms and conditions were as follows:

Issue date	June 1, 2007
Term	12 years
Grace period of the principal	30 months
Amortization	114 months
Final maturity	December 15, 2019
Yield	TJLP + 2.3% p.a.
Guarantee	Floating, with assignment and restriction of funds receivable, plus reserve account.

This 3rd issue is guaranteed by monthly minimum deposits of R$18,000, related to tariff revenues of the Company, updated annually by the IPCA, and by a reserve account, in which the minimum balance must be equal to 3 (three) installments falling due, related to all debentures of all series issued and subscribed, deposited in a investment fund, recorded as collateral for financing. As of June 30, 2011, the amount pledged as collateral totaled R$20,282 (R$20,683 in December 31, 2010).

12. Loans and Debenturres--Continued

c) Non-convertible and convertible debentures --Continued

Subscription made – 4th issue:

In July 2010, the Company placed nonconvertible simple debentures, in a private issue to be carried out in 3 (three) series. The first and the third series, in the amount of R$222,210 and R$296,280, respectively, will be through exclusive subscription by the BNDES, and the second series, in the amount of R$222,210, will be through exclusive subscription by BNDES Participações S.A – BNDESPAR. The first and the second series will be comprised of 3,000 (three thousand) debentures each, and the third series of 4,000 (four thousand) debentures, totaling 10,000 (ten thousand) debentures of R$74.07 each, the contractual terms and conditions being the following:

Issue date	July 15, 2010
Issue date	144 months for 1st and 3rd series and 145 months for 2nd series
Grace period of the principal	36 months for 1st and 3rd series and 37 months for 2nd series
Amortization	108 months for 1st and 3rd series and 9 annual for 2nd series
Final maturity	December 15, 2022
Yield	TJLP + 1.55% p.a. for 1st and 3rd series, and IPCA + 1.55% p.a. for 2nd series
Guarantee	Fiduciary transfer

This 4th issue is guaranteed by the Company's tariff revenues corresponding to the monthly installment of R$32,000, updated annually by the IPCA , and Company's receivables from the "Depository Bank", related to the deposits to be made and funds existing in the "Restricted Account" earmarked for fiduciary transfer of receivables.

Convertible debentures

Subscriptions made – 2nd issue:

On July 16, 2007, the Company executed a Convertible Debentures Indenture in the amount of R$141,024 under the following terms and conditions:

Issue date	June 1, 2007
Number of debentures	1,130,000
Nominal unit amount in reais	R$124.80
Grace period of the principal	59 months
Amortization	June 1, 2012 and June 1, 2013
Yield	TJLP + 2.3% p.a.
Guarantee	Floating

The fair value of the financial component recorded in liabilities was calculated using the market interest rate applicable to a similar nonconvertible debt bond. The residual book value, corresponding to the equity conversion option, is included in equity as income reserves (Note 18).

12. Loans and Debenturres--Continued

c) Non-convertible and convertible debentures --Continued

The shareholders of the Company were granted the preemptive right to subscribe debentures on the same proportion to the number of COPASA shares held on July 30, 2007, so that to subscribe one (1) debenture, it would be necessary that a shareholder held 102 shares of COPASA. The deadline to exercise the preemptive right is 30 days after July 30, 2007, day of publication of the Notice to Shareholders, hence, matured at August 28, 2007. COPASA's shares (under the tick symbol CSMG3 at the São Paulo Stock Exchange) were traded ex-rights of debentures subscription since July 31, 2007.

The conversion option is available for the period between June 2, 2008 and May 31, 2012, when each debenture can be converted into four common shares of our issue, and between June 1, 2012 and May 31, 2013, when each debenture can be converted into two common shares of our issue, at the price of R$ 31.20 per share, as restated under the indenture terms. The following conversions were made through June 30, 2011:

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

The convertible debt bond recognized in the balance sheet is calculated as follows:

	06/30/2011	**12/31/2010**
Liability component at the beginning of the period	134,242	134,629
Financial expense	5,800	11,684
Interest paid	(5,657)	(12,071)
Liability component at the end of the period	**134,385**	**134,242**

The fair value of the financial component of the convertible debt bond at June 30, 2011 totals R$134,385. The fair value is determined using discounted cash flows at a rate applicable to a similar instrument without the conversion option, namely 2.8% p.a., in addition to the long-term interest rate (TJLP).

The funds provided by the 2nd and 3rd issues will be used in the Company's 2007/2010 Investment Program to modernize, expand and implement water and sewage treatment plants, optimize operations with improvements in the control of loss reduction and for water supply and sewage services studies and projects, as well as in investments in new concessions and institutional development.

12. Loans and Debenturres--Continued

d) Covenants requiring

Under its loan and debenture contracts, the Company has covenants requiring that the following specific ratios are met, as follows:

(a) Covenants in syndicated loans:

Ratio	Limit
Total debt/equity	Equal or greater than 1.0
EBITDA/debt service	Equal or greater than 1.55
Water and sewage connections/ no. of employees	Equal or greater than 350

(b) Covenants in agreement with CEF - the agreements originally signed with Unibanco, involving FGTS funds, were subsequently transferred to CEF (administrator), as described above in item 2 "Fiduciary transfer of receivables and restricted account agreement".

Ratio	Limit
Total debt/equity	Equal or greater than 1.0
EBITDA/debt service	Equal or greater than 1.7
Current liquidity (adjusted)	Above 0.9
Water and sewage connections/ no. of employees	Greater than 365

(c) Convenants in agreements with BNDES-BNA/BND/BNE:

Ratio	Limit
Net debt/EBITDA	Equal or less than 3.0
EBITDA/ROL	Equal or greater than 36%
EBITDA/debt service	Equal or greater than 1.5

(d) Convenants in agreements with BNDES/debentures:

Ratio	Limit
EBITDA/debt service	Equal or greater than 1.5
EBITDA margin	Equal or greater than 33%
Indebtedness	Equal or less than 70%

None of the covenants above had been breached through June 30, 2011.

13. Provisions for Other Liabilities and Charges

Provisions are recorded based on management's expectation that the settlement of an obligation is to result in an outflow of economic benefits. The provisions are recorded as current or non-current liabilities based on the dates when these outflows are expected to occur.

	Company	
	06/30/2011	**12/31/2010**
Tax provision	43,709	54,538
Provision for contingencies	38,306	33,114
Total	**82,015**	**87,652**

	Consolidated	
	06/30/2011	**12/31/2010**
Tax provision	43,709	54,538
Provision for contingencies	41,059	34,947
Total	**84,768**	**89,485**

The Company's criterion, based on the opinion of its legal counsel, is to accrue amounts for civil, labor and tax proceedings with probable likelihood of loss.

Changes in provisions can be shown as follows:

	Company					
	Provision					
	For contingencies					
	Civil	**Labor**	**Tax**	**Judicial/escrow deposits**	**Tax**	**Total**
December 31, 2010	**18,698**	**15,763**	**18**	**(1,765)**	**54,538**	**87,652**
Additions	9,297	3,986	301	(436)	862	14,010
Reversal	(2,776)	(3,959)	-	-	(11,691)	(18,426)
Use	(922)	(299)	-	-	-	(1,221)
June 30, 2011	**24,297**	**15,491**	**719**	**(2,201)**	**43,709**	**82,015**

	Consolidated					
	Provisions					
	For contingencies					
	Civil	Labor	Tax	Judicial/escrow deposits	Tax	Total
December 31, 2010	18,698	17,811	418	(1,980)	54,538	89,485
Additions	9,297	5,298	301	(513)	862	15,245
Reversal	(2,776)	(4,274)	-	56	(11,691)	(18,685)
Use	(922)	(355)	-	-	-	(1,277)
June 30, 2011	**24,297**	**18,480**	**719**	**(2,437)**	**43,709**	**84,768**

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

The amounts represent a provision for certain lawsuits brought against the Company, and related provision expenses are recognized in the income statement as "administrative expenses". Based on the opinion of its legal counsel, the outcome of these lawsuits will not result in any significant loss in addition to the amounts accrued at June 30, 2011.

13. Provisions for Other Liabilities and Charges--Continued

The Company is a party to various lawsuits arising in the normal course of its operations, including civil, labor and tax lawsuits.

a) Provisions

Provisions for civil proceedings

Reserves for civil lawsuits are related to claims for property damages or pain and suffering or claims for reimbursement of amounts paid to the Company due to overpayment or duplicate payment. The Company estimates the amounts to be accrued based on the billed amounts subject to questioning and on recent court decisions.

In 2003, the Public Prosecution Office of the State of Minas Gerais filed a public civil action questioning the tariff increase for the City of Belo Horizonte. The action questions the fact that the adjustment had been applied to the first bills issued after the increase date, rather than billing the consumption subsequent to the increase date. Thus, the Public Prosecution Office proposed the cancellation of the tariff increase. The final decision found the original claim partially valid and required the Company to return to customers the portion of the tariff increase corresponding to the consumption period preceding the increase date. At June 30, 2011, liquidation of the amount involved in the final judgment is estimated at R$317 (R$305 in 2010).

Environmental Protection Association Verde Gaia filed a public civil action against COPASA questioning the breach of Article 2 of State Law No. 12503/97, whereby water supply utilities are required to invest 0.5% of their operating revenue in environmental protection and conservation of the water basin explored. During the process, procedural changes, such as the lower court decision that was favorable to plaintiff, and the current position of the Minas Gerais State Court of Justice (TJMG) on the environmental matter under concern, the case had to be reassessed as probable loss.). Also, there are other 15 proceedings on the same matter filed by the same plaintiff. Since the amount to be paid by the Company as a result of the probable loss in these actions will correspond to 0.5% of its operating revenue from water supply services to the respective municipality involved in each action, and not the value of matter in dispute, the Company reduced the provision amount at June 30, 2011 to R$3,045 (R$1,114 in December 31, 2010).

Luciene Ricardo da Silva, et al. filed a claim for property damages and pain and suffering caused by a landslide that eventually buried the plaintiffs' property. This landslide was caused by a ruptured clandestine supply pipeline connected to an old water reservoir. At November 30, 2010, the defendant's pleading was filed and the provision amount at June 30, 2011 totals R$2,406 (R$2,311 in December 31, 2010).

13. Provisions for Other Liabilities and Charges--Continued

a) Provisions--Continued

Condomínio do Edifício Roma filed a claim for property damages and pain and suffering, with reimbursement of amounts from COPASA, on the allegation of undue suspension of water supply and air eliminator installation. On July 2, 2010 the trial court denied the plaintiff's claim for damages, but on July 19 the adverse party lodged and appeal and COPASA filed a brief of respondent on appeal on November 20, and no court ruling or final decision had been handed down until conclusion of this report. At June 30, 2011, the value of matter in dispute in this case totals R$1,499 (R$1,440 at December 31, 2010).

The Company is a party to an action for collection of liquidated damages and an obligation to do, under the TAC obligations executed with the Prosecution Office of the State of Minas Gerais in Betim. On October 8, 2010, a new TAC was executed, wherein COPASA assumed the commitment of paying two installments of five hundred thousand reias, the first paid off in February 28, 2011 and the second to be paid in October 2011. The agreement was homologated by the judge, thereby extinguishing the collection claim. As such, the provision amount was reduced to R$679 at June 30, 2011 (R$1,956 at December 31, 2010).

Maria José Gomes filed a claim for pain and suffering and property damages against COPASA, resulting from damages to its property caused by water leakage. To date no decision has been ruled out, and at June 30, 2011, the value of matter in dispute is R$910 (R$874 at December 31, 2010).

Provisions for labor claims

The claims in which the Company has direct responsibility relate, in the majority, to pain and suffering and material damages due to work related diseases or occupational accidents, overtime, commuting, unhealthy work conditions and hazard allowances, prior notice payments, salary differences deriving from job equality, and challenge of instances of termination for cause. COPASA has provisioned all labor claims where the outcome was considered a probable loss, which represents approximately 38,35% of the potential liabilities estimated for all labor claims.

COPASA also appears as a co-liable joint defendant, with the principal liability lying with outsourced contractors that provide maintenance and construction services. In these cases, if the claims are upheld, these contractors are usually liable for paying the award. However, if the contractors are financially unable to make payment, and consequently could potentially default, COPASA may be legally compelled to settle the labor liability. As such, the prospects for loss in these cases were considered probable, and at June 30, 2011 the Company recorded a provision for contingencies in the amount of R$2,648 (R$2,597 as of December 31,2010).

13. Provisions for Other Liabilities and Charges--Continued

a) Provisions--Continued

In addition, COPASA is currently a party to eighteen administrative proceedings initiated after an inspection by officials representing the Regional Labor Office, which resulted in infringement notices on the allegation that the Company failed to compute the effects of overtime worked on the employees' weekly time-off pay, and that this would represent undue salary reduction, leading to the notices and a fine for each employee found to be in the same situation. This fine, in turn, affected COPASA's contributions to the FGTS, leading to another fine per employee. Legal counselors assess the likelihood of loss in these cases as probable, and therefore a provision in the amount of R$4,347 was recorded at June 30, 2011 (R$4,154 at December 31, 2010).

There is also a labor claim related to a public civil lawsuit in course at the 24th labor court of Belo Horizonte, whereby SINDÁGUA and the Public Prosecution Office claim that the dismissal policy and motivational program adopted by the Company are discriminatory. Loss on this lawsuit was assessed as probable, and a provision was recorded at June 30, 2011 in the amount of R$1,291 (R$1,227 at December 31, 2010).

Tax provisions

The Company is a party to several tax claims, and the most significant of these claims refers to PIS/PASEP and COFINS matching credits regarding contributions made in the period between January 2004 and August 2007, totaling R$27,253, as restated through June 30, 2011 (R$38,082 at December 31, 2010). The Company understands that prevailing legislation fails to address whether such credits may be used with respect to inputs consumed in its core business. Based on a study conducted by independent consultants, which resulted in the refinement of the estimate of the tax bases, management decided to provide for the use of these tax credits until the legal basis of such credits is defined. The provision represents management's best estimate of future cash outflows required for settlement of this liability. In 2010, there was a write-off of R$10,051, related to 2004, due to the debt expiration and in March 2011, there was a write-off of R$11,691, related to 2005, due to the debt expiration.

In 2010, the Company excluded the IPI premium-credit amounts paid, mentioned in Note 11, from the calculation bases of income and social contribution taxes. As such, a provision was recorded in the amount of R$16,456 for the tax effect arising from that exclusion, until the legal basis of such credits is defined.

13. Provisions for Other Liabilities and Charges--Continued

b) Contingent liabilities

COPASA is a party to other lawsuits for which the likelihood of loss is possible. For these lawsuits, no provisions for contingencies were recognized to cover possible losses, as the Company believes it has a solid legal basis for the procedures adopted regarding its legal defense.

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

	Company	
Natureza	**06/30/2011**	**12/31/2010**
Civil (*)	382,707	371,276
Tax (**)	47,189	38,022
Total	**429,896**	**409,298**

(*) Refer to lawsuits for compensation for property damage, pain and suffering and loss of profits caused to third parties, and which are at various court levels, summarized as follows:

Individual lawsuits

The Company and its subsidiaries are parties to a significant number of individual lawsuits claiming damages for the disconnection of water service and damages caused by construction works. These lawsuits were filed in the normal course of the Company's and subsidiaries' business, and involve pain and suffering and material damages, such as for damages to property (real property or cars) and accidents caused during the operation of their activities, among other matters. Management does not believe that an unfavorable outcome in these legal actions, either individually or in the aggregate, would have a material adverse effect on results of operations, financial condition or business prospects of the Company and its subsidiaries.

Public Civil Actions and Class Actions

The Company is a party to public civil actions and class actions that challenge, and seek to annul, declare void or suspend 11 of its concession agreements, namely those executed with the municipalities of Almenara, Barbacena, Caratinga, Campina Verde, Cataguases, Divinópolis, Frutal, Nanuque, Ribeirão das Neves, São Roque de Minas and Três Corações. As of June 30, 2011, no judgment had been rendered on any of these lawsuits, except Caratinga, and the Company had not made any provisions because, based on the aforementioned criteria, it assessed the likelihood of loss as either remote or possible. Worthy of mention, a precedent of the Court of Appeals of the State of Minas Gerais concerning a similar case, as well as the opinions of renowned jurists are in favor of our position that the concession agreements are lawful instruments.

13. Provisions for Other Liabilities and Charges--Continued

b) Contingent liabilities--Continued

Environmental actions

The Company is a party to a number of public civil actions and class actions concerning environmental matters, which were filed against it in the normal course of its business. For the most part, these proceedings involve remediation of alleged environmental damages, construction of sewage treatment plants and investments in environmental conservation. Though these claims generally do not involve significant amounts, the Company may be required to make substantial investments in the construction of sewage treatment plants or to abstain from certain business practices.

In one of these environmental class actions, the matter in dispute refers to remediation of environmental damages caused by effluents discharged in the São Francisco River. Until the moment no decision has been issued for this case, which totals R$67,373 at June 30, 2011 (R$64,721 at December 31, 2010) and whose likelihood of loss has been assessed as possible according to management.

Formal Commitments to Action (TACs)

In the past several TACs were executed between COPASA and the Prosecution Office of the State of Minas Gerais concerning environmental issues arising out of administrative and civil investigations. Also, a public civil action was settled by means of a TAC entered into with the Prosecution Office, which provides for completion of the sanitary sewage system in the municipality of Paracatu in addition to payment of a civil indemnity.

In most cases, these TACs require us to implement or improve local sanitary sewage systems or sewage treatment plants in order to prevent discharges of untreated effluents into bodies of water. The investments required for compliance with our undertakings under these TACs are included in our Investment Program.

13. Provisions for Other Liabilities and Charges--Continued

b) Contingent liabilities--Continued

(**) Refers to several tax claims, the most significant of which are two disputes on a tax delinquency notice filed by Brazil's IRS, in April 2004 for the Company's failure to include, upon determination of the bases for assessment of PIS/PASEP and COFINS (taxes on revenue), the financial income from foreign exchange gains on liabilities, attributed to the decline in the US dollar rate. The tax liability, monetarily restated through June 30, 2011, totaled R$31,798 (R$28,085 at December 31, 2010) and was classified as a possible contingency. The Company filed an administrative appeal, in both cases, for rejection and contestation of the tax delinquency notice and related tax assessment. These administrative appeals, however, were denied by the Board of Tax Appeals.

Accordingly, COPASA lodged a civil action, in both cases, with the Federal Justice, challenging the validity of the tax notice and requesting a declaration of the nonexistence of such tax liability, given that Brazil's Supreme Court (STF) declared the unconstitutionality of Law No. 9718/98 in respect of the broadening of the basis for assessment of PIS/PASEP and COFINS. The cases have moved to appellate level, and the Company won the COFINS case at trial court, although a final and unappealable decision on the matter has not yet been issued, while the PIS/PASEP case is still awaiting judgment, in view of the appeal lodged by the Federal Government.

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 17.98% of the mandatory minimum dividends paid to shareholders, 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 profit.

Yet, the 2008/2010 Collective Agreement introduced changes to the previous regulation, which were approved at the meeting of July 25, 2008, establishing that the computed amount shall be linearly distributed among all employees, in two equal installments (50% each), the first one payable in April and the second one in October.

At June 30, 2011, the Company provided R$15,067 (R$13,561 in the 1st semester of 2010)refering to the employee profit sharing in the first semester of 2011.

15. Income and Social Contribution Taxes

a) Current income and social contribution taxes

In Brazil, income taxes comprise both federal income and social contribution taxes. The statutory tax rates applicable to income and social contribution taxes are 25% and 9%, respectively, which corresponds to a 34% rate for June 2011 and 2010. The amounts reported as income tax expenses in the income statements of the Company are reconciled to the statutory tax rates as follows:

	Company		Consolidated	
	06/30/2011	**06/30/2010**	**06/30/2011**	**06/30/2010**
Income before taxes	160,553	154,304	355,492	311,773
Statutory rate	34%	34%	34%	34%
Expected expense at the statutory rate	(54,588)	(52,463)	(120,867)	(106,003)
Income and social contribution taxes on:				
(Additions) /exclusions				
Equity pickup	(1,320)	(1,510)	(2,816)	(3,076)
Realization of the special monetary adjustment reserve	(614)	(863)	(1,407)	(1,910)
Donations and grants	799	(195)	1,609	98
ISS write-off of provision installments	(69)	-	(3,186)	-
Employee profit sharing	(2,825)	(2,039)	(5,123)	(4,611)
	(2,582)	-	(14,673)	-
Other (additions) /exclusions	117	4,831	(127)	(4,201)
Other reconciliation items:				
Interest on equity capital	14,067	19,292	27,470	34,141
Tax incentives	966	(285)	2,007	(58)
Income and social contribution taxes	(46,049)	(33,232)	(110,741)	(77,218)
Current income and social contribution	(41,597)	(32,793)	(87,889)	(71,061)
Deferred income and social contribution taxes	(4,452)	(439)	(22,852)	(6,157)
	(46,049)	(33,232)	(110,741)	(77,218)
Effective rate	28.68%	21.54%	31.15%	24.77%

b) Deferred income and social contribution taxes

Deferred taxes are recognized on tax losses, social contribution tax loss carryforwards and corresponding temporary differences between the tax bases of assets and liabilities and their book value. The tax rates applicable to these taxes, currently defined for calculating deferred assets, are 25% for income tax and 9% for social contribution tax.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be used, based on projections of future results prepared and based on Company assumptions and future economic scenarios which may, therefore, be subject to changes.

The offset amounts are as follows:

	Company		Consolidated	
Asset and liability balances	**06/30/2011**	**12/31/2010**	**06/30/2011**	**12/31/2010**
In long-term receivables				
Temporary differences:				
Allowance for doubtful accounts	63,172	56,360	63,172	56,360
Reserve for actuarial liabilities	14,673	64,161	14,673	64,161
Provisions for adjustments required under CPC's	299,196	294,007	299,196	294,007
Tax provision	238,610	271,997	238,610	271,997
Other temporary provisions - sundry	24,223	7,964	25,517	9,258
Total	639,874	694,489	641,168	695,783
Deferred income tax	159,969	173,622	160,292	173,946
Deferred social contribution tax	57,588	62,504	57,705	62,620
	217,557	236,126	217,997	236,566
In non-current liabilities				
Temporary differences:				
Deferred exchange gains (losses) (on financing transactions)	14,671	16,003	14,671	16,003
Provisions for adjustments required under CPC's	127,765	113,836	181,881	172,211
Total	142,436	129,839	196,552	188,214
Deferred income tax	35,609	32,460	49,138	47,054
Deferred social contribution tax	12,819	11,685	17,690	16,939
	48,428	44,145	66,828	63,993

	Period of 3 months ended in June 30 of 2011		Period of 6 months ended in June 30 of 2011	
	Company	**Consolidated**	**Company**	**Consolidated**
Net income				
1. Increase / (decrease) in deferred assets				
Deferred income tax	(1,969)	(1,969)	(13,654)	(13,654)
Deferred social contribution tax	(709)	(709)	(4,915)	(4,915)
	(2,678)	(2,678)	(18,569)	(18,569)
2. Decrease / (increase) in deferred liabilities				
Deferred income tax	(1,305)	(853)	(3,149)	(2,085)
Social contribution tax	(470)	(307)	(1,134)	(750)
	(1,775)	(1,160)	(4,283)	(2,835)
Result of deferred taxes for the quarter (1 - 2)				
(Increase) /decrease in tax expenses	(4,453)	(3,838)	(22,852)	(21,404)

15. Income and Social Contribution Taxes--Continued

In a meeting convened for March 11, 2011, the Supervisory Board and the Board of Directors approved a technical study prepared by the Investor Relations and Finance Board. This study addresses the projection of future profitability adjusted to present value, which demonstrates the ability to have the Company's deferred tax assets realized.

According to the aforementioned technical study, the future taxable profits will allow realization of deferred tax assets existing at June 30, 2011, as estimated below:

Expected realization of deferred tax assets	
In 2011	12,264
In 2012	9,315
In 2013	6,905
In 2014	3,477
In 2015	3,477
After 2015	182,119
	217,557

In case relevant events occur that modify these projections, these will be revised on a timely basis.

16. Technical Cooperation Agreements

These refer mainly to funds received, after July 2006, under agreements entered into by the Company with the State Regional Development and Urban Policy Department (SEDRU), the main purpose of which is the technical and financial cooperation for the expansion of the public sanitation system in the regions of Vale do Jequitinhonha, Estrada Real (in Ouro Preto) and other regions in the countryside of the state of Minas Gerais.

The amounts thus received are used in specified construction works on the terms of said agreements, and their amounts, when received, are recognized as Technical cooperation agreement accounts in Current liabilities, and when used, in Current assets pending matching of accounts.

The net balance of these agreements is as follows:

	Company		
	Receivables (assets)	Advance (liabilities)	Net
June 30, 2011			
State	206,609	(203,487)	**3,122**
Other	16,271	(16,833)	**(562)**
Total	222,880	(220,320)	**2,560**
December 31, 2010			
Estado	221,447	(222,468)	**(1,021)**
Outros	16,137	(16,608)	**(471)**
Total	237,584	(239,076)	**(1,492)**

16. Technical Cooperation Agreements--Continued

	Consolidated		
	Receivables (assets)	Advance (liabilities)	Net
June 30, 2011			
State	443,214	(453,801)	**(10,587)**
Other	16,271	(16,833)	**(562)**
Total	459,485	(470,634)	**(11,149)**
December 31, 2010			
State	428,943	(430,934)	**(1,991)**
Other	16,137	(16,608)	**(471)**
Total	445,080	(447,542)	**(2,462)**

17. Pension Plan

	06/30/2011	12/31/2010
Non-current liabilities	143,322	154,509
Current liabilities	11,361	7,417
	154,683	161,926
Normal contributions and interest	6,064	10,352
Total liabilities recognized in the balance sheet	160,747	172,278

Changes in net liabilities are as follows:

Company	
Net liabilities – In December 31, 2010	172,278
Expenses (income) recognized in the income statement – actuarial liabilities	(7,423)
Expenses recognized in the income statement – Contributions from Copasa	15,850
Reserve for monthly contributions	17,548
Monetary restatement	5,844
Debt amortization	(5,530)
Amortization of monthly contribution	(37,820)
Net liabilities – In June 30, 2011	160,747
Current liabilities	17,425
Non-current liabilities	143,322

On December 7, 1982, the Company signed an agreement and became sponsor of Fundação de Seguridade Social de Minas Gerais - FUNDASEMG, whose rights and obligations were later assumed by PREVIMINAS, which was created with the purpose of supplementing the retirement of participating employees, ensuring the maintenance of their benefit plan in said Foundation. The Company's contribution matches the one made by participating employees, pursuant to Supplementary Laws No. 108 and 109, of May 29, 2001 and its amount is determined based on actuarial reports previously prepared.

Since 2002, the supplemental Defined Benefit - DB pension plan sponsored by the Company has presented actuarial deficit, which has required increases in contributions made by the sponsoring entity and its employees, which up to November 2008 total approximately 127%, according to the actuarial valuation statement (DRAAs).

17. Pension Plan--Continued

With the resolution by the Company's Board of Directors aimed at clearing the Company's plan deficit, and the approval, on June 23, 2010, by Brazil's Supervisory Board of Supplemental Pension Plans (PREVIC), of the new pension plan strategy of the Company, in the period between August 2 and October 29, 2010, all active employees, employees on leave from work and inherited members, had the opportunity to access a simulator to get to know the alternatives of the proposed Pension Plan and choose one of them. Beginning November 1, 2010, the Company started to have three different plans: a) the current DB plan, which was closed to new members, but remained in effect, receiving contributions from those who elected not to migrate to the other plans, b) the closed-end settled DB plan, created solely to administer employee benefits from settlement; and c) the DC plan, created to receive all members and inherited members migrating from the former DB plan as well as new employees and directors. Once the migration process was completed, in December 2010, the DB plan had 317 payees and 279 inherited members, the Settled Benefit Plan had 2,091 payees and 1,603 inherited members, and the DC plan had 10,698 payees and 546 inherited members.

The benefits offered in the defined benefit plan currently closed to new members are: supplementary retirement payouts (due either to disability, age or years of contribution and special retirement), as well as sickness benefits, pension, imprisonment benefit and death benefit.

The benefits offered in the Settled Benefit Plan are: a) payees, self-sponsored and inherited members: settled scheduled retirement benefit payments; b) beneficiaries of payees migrated from the defined benefit plan: settled death benefit and settled death annuity; and c) nonpaying members or their beneficiaries: settled benefit arising from the option for the deferred vested benefits.

The benefits offered in the defined contribution plan are: a) for members who migrated from the DB plan to this DC plan, including contribution for meeting the grace period requirements of the new plan; b) for new members, guaranteed benefits are deferred vested benefits, disability retirement, death benefit, imprisonment benefit and annual bonus.

The Company's actuarial assumptions are reviewed regularly and may differ significantly from current results due to changes in market and economic conditions, regulatory events, court decisions, increase or decrease on termination rates and on expected participants' lifespan. Such differences may significantly impact Company's expenses recorded under the pension plan caption.

18. Equity and Dividends

(a) Capital

The number of authorized common shares total 115,300 thousand shares. All shares issued have been paid up, without par value.

The Company is controlled by the State of Minas Gerais, which holds 53.07% of the Company's shares. The remaining 46.93% thereof are held by sundry shareholders.

The Company holds 370 thousand own common shares in treasury, in the amount of R$9,190, mainly acquired from the State of Minas Gerais, through transactions related to settlement of debts originated from the provision of water and sewage services and technical cooperation agreements. The actions are recorded as "treasury shares". The Company has the right to reissue these shares on a subsequent date. All shares issued by the Company were paid up.

On August 4, 2008, March 6 and 12, April 1, June 18 and 2 and July 21, 2009 several debenture holders had, respectively, 188, 5,396, 973, 20,595, 2,039, 4,208 and 240 debentures converted into 134,556 common shares, when each debenture was converted into 4 common shares, as established in the Indenture for the 2nd issue of convertible debentures (Note 12). The Company's Free Float at June 30, 2011 is 46.6%.

(b) Retained profits

Management proposes retained profits of R$416,395 for future investments by the Company, in line with the "action plan" approved by the Board of Directors on april 15, 2011, to be performed in the long term.

(c) Tax incentive reserve

It consists of the allocation of tax incentives deriving from government grants and donations appropriated to income for the year as from January 1, 2008.

In 2010, R$2,661 (R$6,957 in 2009) was allocated to income relating to the incentive for fulfillment of the 1st and 2nd stages of the pollutant load reduction goals at the Ribeirão do Onça sewage treatment plant (Note 11), issued by the ANA, using PRODES funds.

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18. Equity and Dividends--Continued

(d) Shareholders' compensation

Under the Bylaws, shareholders of any type are entitled to a mandatory minimum dividend of 25% of net income, adjusted by reducing or increasing the amounts specified in Article 202, items I, II and III of Law No. 6404/76. The approved dividends bear no interest and the amounts not claimed within 3 years from the date of the Shareholders' General Meeting that approved them become time-barred in favor of the Company

At a meeting on March 25, 2011 and in accordance with resolution made at the General Special Meeting of April 26, 2009, the Company Board of Directors approved the 2011 dividend distribution, as Interest on Equity Capital, at 35% on budgeted profit.

The Company Board of Directors approved credit to shareholders of Interest on Equity Capital, as decided in the following meetings:

Data	Gross value stated	Earnings per share
03/25/2011	39,420	0.34
06/27/2011	41,375	0.36
	80,795	

Stated Interest on Equity Capital will be incurred on mandatory dividends referring to year 2011.

As provided for in Article 9 of Law No. 9249/95, and based on the Long-Term Interest Rate – TJLP, interest was recorded as financial expenses deductible when calculating both income and social contribution taxes, generating a tax benefit of R$27,470. For corporate purposes, interest on equity is disclosed as a debit to retained earnings, under equity.

Changes in the balance of interest on equity are as follows:

	06/30/2011	**12/31/2010**
Begining balance	66,859	53,276
Proposed dividends and interest on equity capital	80,795	224,213
Withholding income tax antecipated	(7,042)	(12,797)
Paid dividends and interest on equity capital	(99,239)	(198,097)
Transfer to taxes recoverable	-	264
Balance of interest on equity capital in current liabilities	41,373	66,859

(e) Earnings per share

- Base earnings

  Base earnings per share is reached after dividing the income attributed to the Company common shareholders, by the weighted average of common shares issued during the year, net of common shares purchased by the Company and recorded as treasury shares.

18. Equity and Dividends--Continued

(e) Earnings per share--Continued

- Base earnings--Continued

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Income attributed to the Company shareholders	114,504	121,072	244,751	234,555
Weighted average of common shares issued – thousand	114,929	114,929	114,929	114,929
Base earnings per share	0.99	1.05	2.13	2.04

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Income attributed to the Company shareholders	113,313	118,610	241,942	230,942
Weighted average of common shares issued – thousand	114,929	114,929	114,929	114,929
Base earnings per share	0.99	1.03	2.11	2.01

- Diluted earnings

Diluted earnings per share is reached after adjusting the weighted average of common shares outstanding, assuming conversion of all potential diluted common shares. The Company has a category of potential diluted common shares: convertible debt. It is assumed that the convertible debt has been converted into common shares and that the net income is adjusted so as to eliminate the financial expense less relevant tax effect.

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Income				
Income attributed to the Company	114,504	121,072	244,751	234,555
Financial expense on convertible debt (net of tax effect)	1,936	1,936	3,824	3,824
Income used to determine diluted earnings per share	116,440	123,008	248,575	238,379
Weighted average of common shares issued – thousands	114,929	114,929	114,929	114,929
Adjustments from assumed conversion of the convertible debt – thousands	4,520	4,520	4,520	4,520
Weighted average of common shares for diluted earnings per share – thousands	119,449	119,449	119,449	119,449
Diluted earnings per share	0.97	1.03	2.08	2.00

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Income				
Income attributed to the Company	113,313	118,610	241,942	230,942
Financial expense on convertible debt (net of tax effect)	1,936	1,936	3,824	3,824
Income used to determine diluted earnings per share	115,249	120,546	245,766	234,766
Weighted average of common shares issued – thousands	114,929	114,929	114,929	114,929
Adjustments from assumed conversion of the convertible debt – thousands	4,520	4,520	4,520	4,520
Weighted average of common shares for diluted earnings per share – thousands	119,449	119,449	119,449	119,449
Diluted earnings per share	0.96	1.01	2.06	1.97

19. Financial Risk Management Objectives and Policies

(a) Financial risk management

Major financial liabilities recognized by the Company are loans payable, accounts payable and other payables. The main purpose of these financial liabilities is to raise funds necessary for Company operations. The Company has loans and other receivables, accounts receivable - customers and other receivables and demand and short-term cash deposits, arising directly from its operations.

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

The Company's financial oversight board oversees the management of these controls, supported by the executive board which provides advice on financial risks and proper financial risk governance for the Company. The executive board provides assurance to the Company's financial oversight board that the Company's activities in which financial risks are assumed follow proper policies and procedures and that the financial risks are identified, assessed and managed in accordance with the Company's policies and the Group's risk appetite. The Company's policy is not to engage in any derivative transactions.

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

(i) Market risk

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

The sensitivity analyses in the following sections refer to the Company's position at June 30, 2011 and December 31, 2010.

The sensitivity analyses considered the net debt amount, fixed to floating interest rate ratio, and the percentage of financial instruments in foreign currency, all of which are constant values.

These analyses did not include changes from the impact of market variables on the book value of pension and post-employment plan liabilities, provisions and non-financial assets and liabilities from foreign transactions.

The sensitivity analysis of the corresponding income statement item is the effect of assumed changes in the underlying market risks. It is based on financial assets and liabilities recorded at June 30, 2011 and December 31, 2010.

19. Financial Risk Management Objectives and Policies--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Interest rate risks

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument may vary due to changes in market interest rates. The Company's exposure to market interest rate risk substantially refers to its non-current liabilities subject to floating interest rates.

The Company is exposed to risk of increase in international interest rates, with impact on loans and financing in foreign currency at floating interest rate (mainly the basket of interest rates on agreements related to the Federal Government - Bonds).

Several scenarios are simulated considering refinancing, renewal of existing positions and loans. Based on these scenarios, the Company defines a reasonable interest rate change and calculates its impact on income. The scenarios are prepared only for major financial assets and liabilities.

Sensitivity to interest rates

The following table shows the sensitivity to a possible change in interest rates for this portion of loans payable. Assuming that all other variables remain constant, the Company's income before taxes is affected by the impact on loans payable subject to floating rates, as under.

	Increase /decrease in base points	Effects on income before taxes
06/30/2011		
R$	+ 0.5%	(10,045)
R$	- 0.5%	10,045
12/31/2010		
R$	+ 0.5%	(9,484)
R$	- 0.5%	9,484

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 prior years.

Currency risk

Currency risk is the risk that the fair value of future cash flows from a financial instrument may float due to changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates substantially refers to equipment imports, short-term investments and loans and financing, basically in relation to US dollar.

19. Financial Risk Management Objectives and Policies--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Financing in foreign currency are intended for specific works to improve and expand water supply and sewage collection and treatment systems. The Company does not hedge against currency risks.

The Company's exposure in foreign currency, represented by its US dollar-denominated debt, amounts to R$48,945 at June 30, 2011 (R$54,459 at December 31, 2010), i.e., 2.2% of its total debt (2.6% at December 31, 2010). As of June 30, 2011, the Company maintains collateral of R$24,187 (R$24,639 at December 31, 2010) for part of its financing in foreign currency (Note 12).

Foreign exchange sensitivity

The following table shows the sensitivity to a reasonable change that may occur in the US$ exchange rate, assuming that all other variables remain constant, on the Company's income before taxes and equity.

	Change in US$ rate	Effect on income before taxes
06/30/2011	+ 20%	(9,689)
	- 20%	9,689
	+10%	(4,845)
	-10%	4,845
12/31/2010	+ 20%	(10,780)
	- 20%	10,780
	+10%	(5,390)
	-10%	5,390

Change in income and equity originate from changes in loans and financing denominated in US dollars.

19. Financial Risk Management Objectives and Policies--Continued

(a) Financial risk management--Continued

(ii) Credit risk

Credit risk is the risk of financial loss due to a counterparty's failure to perform on an obligation under a financial instrument or customer contract. The Company is exposed to credit risk from its operating and financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Accounts receivable

Credit risk on accounts receivable is subject the Company's established procedures, controls and policy. Credit limits are established for all customers based on internal rating criteria. A significant portion of sales is distributed among a large number of customers. For these customers, credit risk is minimal as a result of the large and diverse nature of the Company's customer base and its control procedures over such risk. Doubtful accounts are adequately covered by an allowance for losses on their realization.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Company's Treasury in accordance with the policy established by that department. Cash surplus is invested only with approved counterparties and within the credit limits assigned to each of them. Counterparty credit limits are reviewed on annual basis. For banks and financial institutions, the Company's funds are mainly invested in securities of entities independently awarded a minimum "A" rating.

Quality of financial assets that are not overdue or impaired may be assessed by reference to external credit ratings or historical information on counterparty default rates.

	Company	
	06/30/2011	**12/31/2010**
Total accounts receivable - customers	688,701	617,186
Current account, bank deposits and short-term investments		
AAA	134,238	50,501
AA	10,372	3,248
BBB	5,145	22,044
	149,755	75,793

	Consolidated	
	06/30/2011	**12/31/2010**
Total accounts receivable - customers	692,084	619,909
Current account, bank deposits and short-term investments		
AAA	135,548	52,360
AA	10,372	3,248
BBB	5,145	22,044
	151,065	77,652

19. Financial Risk Management Objectives and Policies--Continued

(a) Financial risk management--Continued

(iii) Liquidity risk

The Company monitors the risk of cash shortage using a recurring liquidity planning tool.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the ability to close out market positions.

Management monitors the Company's liquidity level by considering its expected cash flows as well as its cash and cash equivalents (Note 6). Generally, this is performed locally by the Company's operating companies, in accordance with the Company's established practice and limits. These limits vary by location as they consider the liquidity of the market in which the entity operates. Also, the liquidity management policy adopted by the Company requires projection of cash flows and analysis of the level of net assets required to meet these projections, monitoring of liquidity ratios in the balance sheet in relation to internal and external regulatory requirements, and maintenance of debt financing plans.

The following table analyzes financial liabilities settled for net value, by maturity bracket, corresponding to the remaining period in the balance sheet in relation to the contractual maturity date. The amounts disclosed below are the contractual undiscounted cash flows. Balances falling due within 12 months are equal to carry-over balances since the discount impact is not significant.

	Maturity brackets (i)			
	Up to 1 year	**From 1 to 3 years**	**From 3 to 5 years**	**More thans 5 years**
At June 30, 2011				
Amortization	60,272	657,733	405,248	844,441
Interest	438,255	238,054	150,694	232,668
Loans and financing	**498,527**	**895,787**	**555,942**	**1,077,109**
Suppliers and other liabilities	**156,853**	**43,219**	**36,321**	**82,027**
At December 31, 2010				
Amortization	238,629	699,055	402,043	765,549
Interest	151,415	230,202	138,493	211,229
Loans and financing	**390,044**	**929,257**	**540,536**	**976,778**
Suppliers and other liabilities	**151,982**	**43,082**	**25,863**	**64,659**

(i) The maturity analysis applies solely to financial instruments, therefore, legal and statutory obligations, including, among others, taxes, dividends, interest on equity capital, supplemental pension plan and provisions are not included.

The Company does not have operations with derivative instruments.

19. Financial Risk Management Objectives and Policies--Continued

(a) Financial risk management--Continued

(iii) Liquidity risk--Continued

The following table sets out collaterals pledged by COPASA for financing agreements.

Institution	Collateral (committed revenue)	06/30/2011	12/31/2010
CEF until 1998 and National Treasury	10% receivables	21,220	45,071
CEF 2003, 2004, 2007, 2008 and 2009	Committed revenue equal to 3 times the monthly debt service	11,425	10,281
Unibanco 2002 and syndicated agreements 2004	R$17 MM annually restated by IPCA since July 4, 2006	20,544	20,544
Syndicated agreements II – 2006	R$15.3 MM annually restated by IPCA since July 4, 2006	18,489	18,489
BNDES 2004 (I issue of debentures) 300MM	R$18 MM annually restated by IPCA, since February 1, 2009	20,115	18,973
BNDES 2007 (III issue of debentures) 450MM	R$18 MM annually restated by IPCA, since December 12, 2007	21,215	21,215
BNDES PAC 2007/2008	R$26 MM annually restated by IPCA, since may 20, 2008	30,907	29,006
BNDES 181 MM	R$7 MM annually restated by IPCA, since april 22, 2010	7,498	7,000
BNDES simple debentures 740 MM	R$26 MM annually restated by IPCA, since july 1, 2010.	32,000	32,000

(b) Capital risk management

The primary objective of the Company's capital risk management is to ensure that it maintains a strong credit rating and a sound capital ratio in order to support is businesses and maximize shareholder value.

Capital structure is managed and adjusted by the Company in light of changes to economic conditions. To maintain or adjust its capital structure, the Group may adjust the dividend payment to shareholders, return capital to them, or issue new shares.

No changes were made in the objectives, policies or processes in the years ended June 30, 2011 and December 31, 2010.

Alike other sector companies, COPASA monitors its capital based on financial leverage and indebtedness ratios. Financial leverage ratio corresponds to net debt divided by total capital. Net debt, in turn, corresponds to total loans (including short and long-term loans, as disclosed in the consolidated balance sheet), less cash and cash equivalents. Total capital is determined adding equity, as disclosed in the consolidated balance sheet, to net debt.

19. Financial Risk Management Objectives and Policies--Continued

(b) Capital risk management--Continued

In 2011, the Company's strategy, which remained unaltered in relation to 2010, was that of maintaining the financial leverage and debt ratios below 100%. Total liabilities to equity ratio at June 30, 2011 and 2010 can be summarized as under:

	Company	
	06/30/2011	**12/31/2010**
Total loans (Note 12)	2,252,820	2,110,172
Less: cash and cash equivalents (Note 6)	(149,755)	(75,793)
Net debt	2,103,065	2,034,379
Total equity	4,348,284	4,184,328
Total capital	**6,451,349**	**6,218,707**
Financial leverage ratio - %	33	33
Indebtedness ratio - %	48	49

	Consolidated	
	06/30/2011	**12/31/2010**
Total loans (Note 12)	2,252,820	2,110,172
Less: cash and cash equivalents (Note 6)	(151,065)	(77,652)
Net debt	2,101,755	2,032,520
Total equity	4,383,332	4,222,185
Total capital	**6,485,087**	**6,254,705**
Financial leverage ratio - %	32	32
Indebtedness ratio - %	48	48

(c) Fair value estimate

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

20. Revenues

The Company's operating revenues for the years ended June 30, 2011 and 2010 are set out below:

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Revenue from water supply and sewage services	683,833	635,351	1,353,396	1,263,766
Construction revenue	167,036	252,136	344,925	421,307
Total annual revenue	850,869	887,487	1,698,321	1,685,073
Sales taxes	(62,348)	(57,733)	(123,326)	(114,861)
Other deductions	(9,802)	(11,218)	(20,137)	(22,030)
Net revenue	**778,719**	**818,536**	**1,554,858**	**1,548,182**

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Revenue from water supply and sewage services	687,097	638,206	1,359,431	1,269,207
Sales of goods	352	168	764	451
Construction revenue	167,036	252,136	344,925	421,307
Total annual revenue	854,485	890,510	1,705,120	1,690,965
Sales taxes	(62,779)	(58,057)	(124,161)	(115,522)
Other deductions	(9,809)	(11,218)	(20,151)	(22,030)
Net revenue	**781,897**	**821,235**	**1,560,808**	**1,553,413**

21. Expenses by Nature

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Salaries and charges	197,786	191,487	380,356	362,945
Materials	24,897	22,031	48,637	45,696
Outsourced services	114,454	111,327	212,062	215,502
General	20,623	19,095	41,602	37,417
Depreciation and amortization	70,484	65,722	146,970	132,390
Uncollectible accounts	10,206	11,451	20,176	25,758
Provisions for losses	23	-	693	-
Construction costs	163,227	244,550	338,147	408,733
Provisions for contingencies	9,066	4,418	14,446	8,584
Equity pickup	3,880	4,232	8,281	9,928
Employee profit sharing	7,323	5,997	15,067	13,561
Other	12,355	4,343	19,634	10,663
Operacional expenses	**634,324**	**684,653**	**1,246,071**	**1,271,177**
(-) Tax credit	**(16,665)**	**(12,036)**	**(32,301)**	**(24,218)**
Net operacional expenses	**617,659**	**672,617**	**1,213,770**	**1,246,959**

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Salaries and charges	199,449	193,167	383,710	366,411
Materials	25,404	22,406	49,681	46,433
Outsourced services	116,018	113,006	215,376	220,925
General	21,160	19,624	42,556	38,378
Depreciation and amortization	73,066	69,603	152,176	138,589
Uncollectible accounts	10,468	11,547	20,676	25,914
Provisions for losses	23	-	693	-
Construction costs	163,227	244,550	338,147	408,733
Provisions for contingencies	9,357	4,740	15,758	8,931
Employee profit sharing	7,323	5,997	15,067	13,561
Other	12,801	6,191	20,314	13,650
Operacional expenses	**638,296**	**690,831**	**1,254,154**	**1,281,525**
(-) Tax credit	**(16,822)**	**(12,167)**	**(32,581)**	**(24,442)**
Net operacional expenses	**621,474**	**678,664**	**1,221,573**	**1,257,083**

22. Expenses with Employee Benefits

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Salaries	112,278	104,566	213,826	196,951
Social security costs	35,872	33,631	67,419	63,719
FGTS	9,264	14,539	17,941	22,605
Pension plan contribution	7,755	8,320	15,850	15,854
Workers' meal program	21,001	19,572	42,007	40,285
Health program	8,831	8,396	17,233	17,584
Other benefits	2,785	2,463	6,080	5,947
Total	**197,786**	**191,487**	**380,356**	**362,945**
Employee headcount (unaudited)	11,429	11,465	11,429	11,465

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Salaries	113,576	105,841	216,479	199,615
Social security costs	36,094	33,891	67,826	64,248
FGTS	9,333	14,609	18,089	22,747
Pension plan contribution	7,755	8,320	15,850	15,854
Workers' meal program	21,044	19,614	42,089	40,366
Health program	8,851	8,409	17,262	17,611
Other benefits	2,796	2,483	6,115	5,970
Total	**199,449**	**193,167**	**383,710**	**366,411**
Employee headcount (unaudited)	11,660	11,738	11,660	11,738

23. Financial Income / Expenses

The changes in financial income (expenses), net for the 2nd quarter of 2011 as compared to the same period in 2010 is as under:

	Company			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Interest income	8,007	28,702	14,620	36,610
Effective investments yield	3,746	8,425	7,414	16,707
Monetary and foreign exchange gains	9,634	3,674	16,360	13,327
Capitalization of financial/other assets	3,461	3,843	6,733	7,514
Total financial income	**24,848**	**44,644**	**45,127**	**74,158**
Interest expense	(31,059)	(34,017)	(61,088)	(59,285)
Monetary and foreign exchange losses	(7,937)	(7,074)	(15,898)	(20,469)
Other expenses	(673)	(1,581)	(2,120)	(2,365)
Total financial expenses	**(39,669)**	**(42,672)**	**(79,106)**	**(82,119)**
Financial income (expenses), net	**(14,821)**	**1,972**	**(33,979)**	**(7,961)**

	Consolidated			
	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	2010	2011	2010
Interest income	8,062	28,743	14,723	36,704
Effective investments yield	3,758	8,426	7,442	16,711
Monetary and foreign exchange gains	7,871	2,565	13,038	11,300
Capitalization of financial/other assets	3,652	4,094	7,110	8,555
Total financial income	**23,343**	**43,828**	**42,313**	**73,270**
Interest expense	(31,060)	(34,017)	(61,089)	(59,288)
Monetary and foreign exchange losses	(7,937)	(7,074)	(15,898)	(20,469)
Other expenses	(741)	(1,650)	(2,209)	(2,558)
Total financial expenses	**(39,738)**	**(42,741)**	**(79,196)**	**(82,315)**
Financial income (expenses), net	**(16,395)**	**1,087**	**(36,883)**	**(9,045)**

24. Transactions with Related Parties

The Company is controlled by the State of Minas Gerais, which holds 53.07% ownership interest in the Company. The remaining 46.93% thereof are held by sundry shareholders.

In addition to the balance payable to CEMIG, disclosed in Note 11, and the agreements described in Note 16, the remaining transactions with related parties are substantially those carried out with the State of Minas Gerais and subsidiaries. Significant balances and transactions with related parties are set out below:

	Company				
	06/30/2011				
	Subsidiaries				Other
	Águas Minerais	Copanor	Serviços Irrigação	Total	MG State
Assets					
Current Assets					
Accounts Receivables - Customers					
Billed amounts	-	-	-	-	12,285
Agreements	-	-	-	-	3,122
Non-current assets					
Loans	49,967	16,119	1,637	67,723	-
Investments	1	1	1	3	-
Total assets	**49,968**	**16,120**	**1,638**	**67,726**	**15,407**
Liabilities					
Current liabilities					
Interest on equity capital	-	-	-	-	22,028
Non-current liabilities					
Provision for loss in investments	22,424	12,814	1,000	36,238	-
Total liabilities	**22,424**	**12,814**	**1,000**	**36,238**	**22,028**
Income statement					
	Period of 3 months ended in June 30 of 2011				
Revenue from water supply and sewage services	-	-	-	-	22,486
Gains on monetary variation	1,335	382	46	1,763	-
	Period of 6 months ended in June 30 of 2011				
Revenue from water supply and sewage services	-	-	-	-	42,444
Gains on monetary variation	2,501	733	88	3,322	-

24. Transactions with Related Parties--Continued

	Company				
	12/31/2010				
	Subsidiaries				Other
	Águas Minerais	Copanor	Serviços Irrigação	Total	MG State
Assets					
Current Assets					
Accounts Receivables - Customers					
Billed amounts	-	-	-	-	9,780
Non-current assets					
Loans	43,441	14,916	1,613	59,970	-
Investments	1	1	1	3	-
Total assets	**43,442**	**14,917**	**1,614**	**59,973**	**9,780**
Liabilities					
Current liabilities					
Agreements	-	-	-	-	1,021
Interest on equity capital	-	-	-	-	35,958
Non-current liabilities					
Provision for loss in investments	15,443	11,484	1,030	27,957	-
Total liabilities	**15,443**	**11,484**	**1,030**	**27,957**	**36,979**
Income statement					
	Period of 3 months ended in June 30 of 2010				
Revenue from water supply and sewage services	-	-	-	-	20,573
Gains on monetary variation	849	221	40	1,110	-
	Period of 6 months ended in June 30 of 2010				
Revenue from water supply and sewage services	-	-	-	-	38,398
Gains on monetary variation	1,541	411	76	2,028	-

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

- Electric Power supply

  COPASA is one of the major consumers of electric power in the State of Minas Gerais, where electricity is supplied primarily by the Minas Gerais electric power utility company CEMIG, controlled by COPASA's controlling shareholder, i.e., the State of Minas Gerais. More than 300 electric power supply agreements were signed, each one for a specific consumer unit, as mentioned in Note 11.

- Financing Agreements with BDMG

  The Company entered into various financing agreements with BDMG in the normal course of business.

24. Transactions with Related Parties--Continued

- Agreements with CODEBMIG

  As of March 22, 2006, the Company signed an intention protocol for technical cooperation and, as of June 30, 2006, a lease agreement was made to take over the rights related to mineral waters of Araxá, Cambuquira, Caxambu and Lambari, as mentioned in Note 1.

- Guarantee of the State of Minas Gerais in Company's agreements with Brazilian Federal Government:

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

  Debt acknowledgement and settlement agreement with the Federal Government as of January 20, 1994: in case of default, the Federal Government was authorized by the State of Minas Gerais to: (i) offset any amounts with own revenues and portions of certain taxes collected, in amounts sufficient to settle any past due installments; and (ii) request the transfer of funds existing in the State's revenue centralizing accounts maintained in a certain financial institution, in amounts sufficient to settle any installment in default. As of June 30, 2011, the outstanding balance under these agreements totals R$95,685, as mentioned in Note 12.

  Debt acknowledgement and consolidation agreement with the Federal Government as of August 5, 1998: the State of Minas Gerais assigned and transferred to the Federal Government credits from certain taxes collected, in amounts sufficient to pay installments and charges due on each maturity date. As of June 30, 2011, the outstanding balance of these agreements is R$48,945, as mentioned in Note 12.

- Key management personnel compensation

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

	Period of 3 months ended in June 30 of		Period of 6 months ended in June 30 of	
	2011	**2010**	**2011**	**2010**
Salaries and other short-term benefits to employees	1,206	750	2,155	1,763
Post-employment benefits	-	-	-	28
	1,206	750	2,155	1,791

25. Water Supply and Sewage Services in Belo Horizonte

The Minas Gerais State Government and the Belo Horizontal Municipal Government entered into a cooperation agreement as of November 13, 2002, whereby the Company was ensured the right to continue rendering water supply and sewage services in Belo Horizonte for another 30 years.

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

1º) The municipality declared and recognized the debt for which it is responsible, in the total amount of R$70,662 as of November 30, 2002, corresponding to water supply and sewage service bills issued until November 2002 still pending payment. This debt was being paid in 335 monthly and consecutive installments equivalent to 202,838.77 m3 of water each, since January 2005. The amount of each installment in current currency was obtained by multiplying the volume to be settled by the value of the average tariff billed per m3 in Belo Horizonte, plus simple compensatory interest of 0.5% per month, as from November 2002. However, as of February 24, 2010, with the signing of a mutual debts compensation agreement, the debt has been paid in 120 consecutive monthly installments, with interest of 1% and annual IPCA-E inflation adjustment (Notes 7 and 11). At June 30, 2011, the balance receivable totaled R$237,454, of which R$27,398 is recorded in current assets and R$210,056 in non-current assets (R$204,662 at December 31, 2010, of which R$22,327 is recorded in current assets and R$182,335 in non-current assets).

2º) The Company has partly assumed the costs of the Program for Environmental Recovery and Sanitation of River Valleys and Streams in Belo Horizonte (DRENURBS), in the interest of the municipality, by way of Belo Horizonte concession rights, whose amount initially contracted of R$170,000 is being restated based on the Extended Consumer Price Index (IPCA). In June 2011, the Municipality of Belo Horizonte presented measurements of expenses incurred with the program until December 2009. Considering the commitment to reimburse part of the amount of these measurements beginning January 2008, its amount was restated up to the referred to date and written off at the total amount of reimbursements due in the period, thereby representing a balance of R$237,251. Upon presentation of new measurements of the expenses incurred by the Municipality, the remaining 240 (two hundred forty) installments are to be reimbursed, each installment capped at R$855, restated based on IPCA, abd at the restated balance of the commitment.

26. Commitments

Copasa entered into new venture construction contracts, under which obligations are recorded as services are rendered. The main outstanding contracts with subcontractors and suppliers at June 30, 2011 are listed below:

Subcontractor	Amount	Execution date	Term in days (1)
Egesa Engenharia S/A.	42,121	09/13/2010	1,080
Prefisan Ltda.	36,869	02/05/2010	540
SONEL Soc. Nacional Elétrica Hidr. Ltda.	23,650	08/11/2010	540
Construtora R. Fonseca	22,731	06/30/2009	1,080
Consorcio Ecosan	19,642	10/01/2010	600
Socienge Construções Ltda.	16,707	02/05/2010	840
Prefisan Ltda.	13,675	05/24/2010	720
Concremat Engenharia Ltda.	13,632	05/03/2010	720
SONEL Soc. Nacional Elétrica Hidr. Ltda.	11,662	02/03/2010	540
CFL – Construtora Ferreira Lima Ltda.	7,509	02/08/2011	720

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

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

The main committed amounts refer to the following municipalities:

	Amounts		
Municipality	Committed	Realized	% realization
Betim	80,286	73,521	91.57
Belo Horizonte	261,140	23,889	9.15
Contagem	81,363	81,059	99.63
Montes Claros	121,941	61,017	50.04
Ribeirão das Neves	86,411	70,977	82.14
Teófilo Otoni	54,360	-	-

27. Insurance

The Company and its subsidiaries contracted services of third party liability insurance for directors, officers and managers of commercial companies in order to ensure them the right to compensation in the event of judicial and extrajudicial agreements, arbitral awards made by courts , final court decisions, including attorneys' fees and court costs, in the course of proceedings based on civil liability for acts of management committed by these individuals while carrying out their duties.

The Company does not have insurance to cover damages caused to its buildings and/or installations on the closing date of the financial statements for the quartley information ended in June 30, 2011.

28. ICMS Levy (State VAT)

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

01. General Data on Customer Services

Copasa's operating performance in the second quarter of 2011 (2Q11) evidences that the population served by water supply increased by 435 thousand people, thus reaching 13.4 million inhabitants with water supply connection, as compared to 12.9 million in the second quarter of 2010 (2Q10). The number of municipalities with water services increased from 603 in June 2010 to 605 in June 2011.

COPASA MG
General Data on Water Supply Services
2nd quarter of 2011 and 2010

Items	Units	2Q11	2Q10	Variation	
				Amount	%
Municipalities with concession (1) (*)	number	618	613	5	0.8
Municipalities with operation (2) (*)	Number	605	603	2	0.3
Population served (3) (*)	Thousand inhabitants	13,371	12,936	435	3.4
Billed connections (*)	Thousand connections	3,565	3,436	129	3.8
Network length (*)	km	43,325	42,653	672	1.6
Billed water supply volume (*)	1,000 m³/quarter	159,346	153,367	5,979	3.9
Produced water volume (**)	1,000 m³/quarter	223,511	219,028	4,483	2.0

(1) Total of municipalities in which the Company holds any concession: capitals, villages, settlements or others.

(2) Total of municipalities in which the Company carries any operation: capitals, villages, settlements or others.

(3) Population with water supply connection.

(*) Consolidated Data, including subsidiary COPANOR.

(**) Only Company Data COPASA.

In relation to billed water connections there was an increase of 129 thousand connections, totaling 3.6 million new connections, representing an increase of 3.8% in relation to the second quarter of 2010. The water distribution network was expanded by 672 km, totaling 43,325 km, up 1.6% as compared to the 2Q10 (42,653 km).

In relation to sewage systems the number of served municipalities increased by 7.7%, from 155 in June 2010 to 167 in the 2Q11, thus resulting in total population of 7.9 million people with sewage connection (7.6 million in the 2Q10), representing a 5.3% increase (401 thousand people).

01. General Data on Customer Services--Continued

COPASA MG
General Data on Sewage Service
2nd quarter of 2011 and 2010

Items	Units	2Q11	2Q10	Variation	
				Amount	%
Municipalities with concession (1) (*)	number	220	203	17	8.4
Municipalities with operation (2) (*)	Number	167	155	12	7.7
Population served (3) (**)	Thousand inhabitants	7,989	7,588	401	5.3
Billed connections (**)	Thousand connections	2,012	1,907	105	5.5
Network length (**)	km	16,499	16,057	442	2.8
Billed sewage treatment service (**)	1,000 m³/quarter	98,754	93,997	4,757	5.1
Treated sewage volume (**)	1,000 m³/quarter	43,567	38,929	4,638	11.9

(1) Total of municipalities in which the Company holds any concession: capitals, villages, settlements or others.

(2) Total of municipalities in which the Company carries any operation: capitals, villages, settlements or others.

(3) Population with sewage supply connection.

(*) Consolidated Data, including subsidiary COPANOR.

(**) Only Company Data COPASA.

These services are rendered through 2 million billed sewage connections (1.91 million in the 2Q10), representing an increase of 105 thousand connections (5.5%). The sewage collection network was expanded by 442 km, totaling 16,499 km, up 2.8% in relation to the 2Q10.

Treated sewage volume reached 43.6 million m³ in the quarter, up 11.9% in relation to the same prior year period, mainly due to the beginning of operation of the new Sewage Treatment Stations (ETEs), among them Curvelo and Itajubá.

02. Performance Indicators

The Company's expansion in the period led to an increase in billed water supply and sewage service volume by 10.7 million m³ in relation to the 2Q10. This result was due to the increase in the population served by water supply and sewage services in the areas in which the Company operates and the beginning of billing sewage in Sarzedo.

In relation to the performance indicators, remains as highlight the productivity of the staff, which is measured by the employee ratio /1,000 connections (water + sewage) which decreased from 2.18 employees/1000 connections in the the second quarter of 2010 to 2.08 in the second quarter of 2011 mainly due to growth in the number of connections.

02. Performance Indicators--Continued

COPASA MG
Indicators of Operacional/Comercial Performance
2nd quarter of 2011 and 2010

Items	Units	2Q11	2Q10	Variação	
				Valor	%
1 - Employees (*)	Number	11,596	11,623	-27	-0.2
2 – Employees/Connections (A+E)	employee/1,000 connections	2.08	2.18	-0.10	-4.6
3 – Billed Volume					
Water	1,000m³/quarter	159,346	153,367	5,979	3.9
Sewage	1,000m³/quarter	98,754	93,997	4,757	5.1
Total	1,000 m³/quarter	258,100	247,364	10,736	4.3
4 – Produced water volume	1,000 m³/quarter	223,511	219,028	4,483	2.0
5 – Water metering index	%	99,96	99,92	0.04	0.0
6 – Water not converted into revenue - ANCR (1)	l/connection/Day	232,41	243,1	-10,69	-4.4

(1) Average for the last 12 months

(*) Consolidated data, including subsidiary COPANOR.

The percentage of water metered connections was maintained high, reaching 99.96% in June/2011, higher than that in the 2Q10 (99.92%), which is one of the best among sanitation companies.

Another highlight was the Water not Converted into Revenue (ANCR) index, which corresponds to the difference between distributed volume and the volume effectively billed to consumers, which reached 232.41 l/connection/day in the 2Q11, down 4.4% in relation to the 2Q10 (243.1).

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

03. Investments in the second quarter of 2011

In the the second quarter of 2011, investments were mainly destined to construction work for interlinking the Rio das Velhas and Paraopeba systems (Blue Line), the expansion of production capacity of the Rio das Velhas system in Nova Lima, the expansion of the Water Supply System of the Teófilo Otoni Sewage Treatment Station, expansion of Sewage System of Esmeraldas, Ribeirão das Neves, Santa Luzia e Pouso Alegre and implementation of Sewage Treatment of Pará de Minas, Patos de Minas and Teófilo Otoni.

INVESTMENTS (IN MILLION R$)	2010	2Q11	2Q10
WATER	358.7	56.9	97.0
SEWAGE	457.5	93.7	116.0
OTHER	22.1	6.0	8.9
TOTAL	**838.3**	**156.6**	**221.9**

04. Financial Performance - Company

The charts below present the Company's financial performance for the second quarter of 2011 as compared to the same prior year quarter:

Statement Income

Company	06/30/2011	%	06/30/2010	%	Variation	%
Water supply services	434,337	55.78	417,844	51.05	16,493	3.95
Sewage services	177,346	22.77	148,556	18.15	28,790	19.38
Construction of assets	167,036	21.45	252,136	30.80	-85,100	-33.75
Gross revenue	**778,719**	**100.00**	**818,536**	**100.00**	**-39,817**	**-4.86**
Cost of services rendered	-294,584	-37.83	-280,162	-34.23	-14,422	5.15
Construction cost	-163,227	-20.96	-244,550	-29.88	81,323	-33.25
Cost of services rendered	-457,811	-58.79	-524,712	-64.10	66,901	-12.75
Gross profit	**320,908**	**41.21**	**293,824**	**35.90**	**27,084**	**9.22**
Selling expenses	-42,027	-5.40	-42,368	-5.18	341	-0.80
Administrative expenses	-85,197	-10.94	-86,547	-10.57	1,350	-1.56
Other operating income	14,314	1.84	6,413	0.78	7,901	n.m.
Other operating expenses	-21,421	-2.75	-8,761	-1.07	-12,660	n.m.
Employee profit sharing	-7,323	-0.94	-5,997	-0.73	-1,326	22.11
Interest on equity pickup	-3,880	-0.50	-4,232	-0.52	352	-8.32
Operating income/expenses	**-145,534**	**-18.69**	**-141,492**	**-17.29**	**-4,042**	**2.86**
Income before financial result and taxes	**175,374**	**22.52**	**152,332**	**18.61**	**23,042**	**15.13**
Financial income	24,848	3.19	44,644	5.45	-19,796	-44.34
Financial expenses	-39,669	-5.09	-42,672	-5.21	3,003	-7.04
Financial result	**-14,821**	**-1.90**	**1,972**	**0.24**	**-16,793**	**n.m.**
Income before taxes	**160,553**	**20.62**	**154,304**	**18.85**	**6,249**	**4.05**
Tax provision	-33,601	-4.31	-25,045	-3.06	-8,556	34.16
Social contribution provision	-12,448	-1.60	-8,187	-1.00	-4,261	52.05
Net income for the period	**114,504**	**14.70**	**121,072**	**14.79**	**-6,568**	**-5.42**

a. Gross revenue – Gross revenue decreased R$39,817 or 4.86%, thus reaching R$778.719 in the 2nd quarter of 2011, as compared to R$818,536 in the 2nd quarter of 2010, due to the reduction in construction revenue due to changes in criteria in its calculation started in January 2011 and the reduction in the Company's investments in the period. On the other hand, the water and sewage services revenue increased by R $ 45,283 or 7.99%, influenced mainly by the growth of sewage economies in the quarter, highlighting more than 7,000 new points of service in new locations operated, and raising the percentage of sewage charging to 45% and 75% due to the entry into operation of sewage treatment in some localities, as well as the increase in billed volume period.

04. Financial Performance – Company--Continued

b. Costs of services rendered – The cost of services rendered, comprising water and sewage system operation, conservation and maintenance expenses, decreased in R$68,592, as set out in the chart below:

Operacional, comercial and administrative cost:

Company	06/30/2011	%	06/30/2010	%	Variation	%
Personnel	197,786	33.81	191,487	29.30	6,299	3.29
Materials	24,897	4.26	22,031	3.37	2,866	13.01
Electric power	53,214	9.10	53,526	8.19	-312	-0.58
Outsourced services	61,240	10.47	57,801	8.84	3,439	5.95
Tariff transfer to municipal government	15,610	2.67	14,156	2.17	1,454	10.27
General expenses	5,013	0.86	4,939	0.76	74	1.50
Depreciation and amortization	70,484	12.05	65,722	10.05	4,762	7.25
Construction costs	163,227	27.90	244,550	37.41	-81,323	-33.25
Taxes recoverable and tax credits (PIS-PASEP/COFINS)	-16,665	-2.85	-12,036	-1.84	-4,629	38.46
Provision for doubtful accounts	10,206	1.74	11,451	1.75	-1,245	-10.87
Provision for losses	23	0.00	0	0.00	23	n.m
*** Cost of services rendered**	**585,035**	**100.00**	**653,627**	**100.00**	**-68,592**	**-10.49**

- **Personnel –** There was an increase in personnel cost in R$6,299 or 3.29% as set out in the chart below:

Operating costs of commercial and administrative staff

Company	06/30/2011	%	06/30/2010	%	Variation	%
Salary Normal	83,486	42.21	76,788	40.10	6,698	8.72
Salary overtime	4,593	2.32	3,881	2.03	712	18.35
Function bonus	1,476	0.75	1,420	0.74	56	3.94
Fees for the board of director and council	491	0.25	427	0.22	64	14.99
Vacation pay	14,855	7.51	16,416	8.57	-1,561	-9.51
13th monthly salary	8,099	4.09	8,325	4.35	-226	-2.71
Health exposure premium	1,344	0.68	1,243	0.65	101	8.13
Sickness allowance	419	0.21	2	0.00	417	n.m.
Institutional performance bonus	6,713	3.39	6,017	3.14	696	11.57
Social security	31,675	16.01	29,116	15.21	2,559	8.79
FGTS	9,264	4.68	14,540	7.59	-5,276	-36.29
Occupational accident insurance	4,197	2.12	4,514	2.36	-317	-7.02
Severance pay and prior notice	196	0.10	1,154	0.60	-958	-83.02
Professional training	28	0.01	192	0.10	-164	-85.42
Standard lunch	736	0.37	706	0.37	30	4.25
Transportation voucher	2,029	1.03	1,359	0.71	670	49.30
Supplementary programs – COPASS	3,066	1.55	2,436	1.27	630	25.86
Health program	5,765	2.91	5,960	3.11	-195	-3.27
Meal program	20,265	10.25	18,866	9.85	1,399	7.42
Social security program	7,755	3.92	8,320	4.34	-565	-6.79
Other assistance programs	410	0.21	331	0.17	79	23.90
Employee compensation agreement	-792	-0.40	-1,410	-0.74	618	-43.83
Managerial performance bonus	904	0.46	865	0.45	39	4.51
Training of technical professionals	219	0.11	470	0.25	-251	-53.40
Professional training – graduate courses.	0	0.00	31	0.02	-31	n.m.
Professional training – seminars/congresses	8	0.00	36	0.02	-28	-77.78
Professional training – managerial training	1	0.00	17	0.01	-16	-94.12
Extended maternity leave	91	0.05	27	0.01	64	n.m.
Expansion costs	-9,507	-4.81	-10,552	-5.51	1,045	-9.90
DVHM cost	0	0.00	-10	-0.01	10	n.m.
*** Personnel cost**	**197,786**	**100.00**	**191,487**	**100.00**	**6,299**	**3.29**

04. Financial Performance – Company--Continued

b. Costs of services rendered--Continued

- **Personnel--**Continued

  - ✓ **Salary Normal –** the increase of R$6,698 or 8.72% in this account is mainly due to the readjustment salary provision in 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **Social security –** the increase of R$2,559 or 8.79% is mainly due to the readjustment salary provision of 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **Meal program** – the increase of R$1,399 or 7.42% is due to the readjustment provision of 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **FGTS –** the decrease of R$5,276 or 36.29% is due to the termination penalties by the dismissal of employees who adhered to the membership of voluntary resignation plan, which occurred in the second quarter of 2010, non-recurring items in 2011.

- **Materials** – There was an increase of R$2,866 or 13.01% in material costs as shown R$22,031 in the second quarter of 2010 and R$24,897 in the 2Q11, due to the increase the material price in the period.

- **Services** – The increase in services in R$3,439 or 5.95% is due to several reasons:

  - ✓ **Maintenance of systems** – increase of R$4,277 due to the new water and sewage services contract in Verde Grande County with variation of R$835, new contracts and maintenance work on water networks and sewage in the north, northwest and central south of Belo Horizonte, impacting a variation of R$1,477;
  - ✓ **Data Transmission –** increase of R$826 due to new mobile contracts and equipments for reading invoices for provided services by the Company, since April 2011;
  - ✓ **Collection** – increase of R$596 due to the adjustment of 5.26% in the rate of service revenues held by Caixa Economica Federal agencies, started in December 2010, and the increase of 235,477 collection documents, influenced by the vegetative growth period.
  - ✓ **Cleaning, security and messengers** – increase of R$847 due to the adjustment of 12% in wages and benefits, agreed in January 2011, as the average readjustment of 5.46% on manufacturing components such as uniforms and safety equipments;
  - ✓ **Administrative technical services** – increase of R$672 due to the growth of billed referring to the demands met by SAP company, whose submission does not follow the accrual basis, increasing or decreasing balances consecutive quarters;
  - ✓ **Advertising and promotion –** decrease of R$3,570 in advertising, due to the non recurrence of institutional campaigns in the 2nd quarter of 2010 due to anticipation because of elections period.

04. Financial Performance – Company--Continued

b. Costs of services rendered--Continued

- **Tariff transfer to municipalities** – This account increased in R$1,454 (10.27%) due to the revenue growth in the city of Belo Horizonte in the period, and its balance was R$6,418 in the 2nd quarter of 2010 and R$7,547 in the second quarter of 2011, representing an increase of R$1,129 or 17.59%.

- **Construction Costs** – The reduction in this account of R$81,323 or 33.25% is due to the company's investments reduction in the period.

- **Recovery and credits (PIS-PASEP/COFINS)** – The increase of R$4,629 or 38.46% is due to the incorporation of assets and finished works in property plant and equipment of the company, which started in December 2010.

- **Provision for doubtful accounts** – The reduction of R$1,245 or 10.87% in this account is due to changes in the criteria for determining the balance of PDA, which was previously calculated manually, being parameterized through system information from the second half of 2010.

c. Other operacional revenues/expenses:

Company	06/30/2011	%	06/30/2010	%	Variation	%
Technical services revenue	157	1	617	10	-460	-74.55
Reversal of nondeductible provision	3,225	23	1,263	20	1,962	n.m.
Recovery of accounts written off as loss	8,142	57	2,695	42	5,447	n.m.
Other revenues	2,790	19	1,838	29	952	51.81
Total other operating revenues	**14,314**	**100**	**6,413**	**100**	**7,901**	**n.m.**
Adventitious or windfall losses	-19,301	105	-5,712	45	13,589	n.m.
Other expenses	-2,120	12	-3,049	24	929	-30.47
Employee profit sharing	-7,323	40	-5,997	48	-1,326	22.11
Total other operating expenses	**-28,744**	**157**	**-14,758**	**117**	**13,986**	**94.77**
Equity pickup – Copanor	-550	3	-800	6	250	-31.25
Equity pickup - Águas Minerais	-3,468	19	-3,500	28	32	-0.91
Equity pickup - Serviços Irrigação	138	-1	68	-1	70	n.m.
Equity pickup income	**-3,880**	**21**	**-4,232**	**33**	**352**	**8.32**
Total other operating income/expenses	**-18,310**	**100**	**-12,577**	**100**	**-5,733**	**45.58**

- **Technical services revenue –** The decrease of R$460 or 74.55% in this account is due to decreased demand for technical services in the period, in the second quarter of 2011 there was only the technical services of SEDRU against water sales, SEDRU and Copanor in the same period in 2010.

- **Reversal of nondeductible provision** – This account increased R$1,962 in the 2nd quarter of 2011 in relation to the same period of 2010. This increase is due to the decrease of the risk of loss in relation to pension plan, due to the accessions to the new benefit plan.

04. Financial Performance – Company--Continued

c. Other operacional revenues/expenses:--Continued

- **Recovery of accounts written off as loss –** The increase of R$5,447 in this account is due to the change in criteria for determining for determining the balance of PDA, which was previously calculated manually, being parameterized through system information from the second semester of 2010.

- **Other revenues** – This account increased R$952 or 51.81% in the second quarter of 2011 in relation to the second quarter of 2010 and its due to the recognition of grant revenue referring to the achieved goals of the river basins, due to the operation of ETE ONÇA . This recognition occurred from October 2010, totaling R$8,665 in 12 installments. That is, in the period analyzed, there is the presence of 06 installments referring to this recognition, which did not occur in 2010.

- **Adventitious or windfall losses** – This account increased by R$ 5,594 due to the growth of proceedings and R$827 in judicial labor, in addition to updates in the period; as well as the growth of write off projects which totals R$8,069, which were not utilized in the works execution, because they were considered impractical, and because of the rains occurred in western state, there were loss of physical structure of the Company's operating systems, requiring emergency recovery works, amounting R$1,192, which funds were only released in January 2011 and recorded during the quarter.

- **Other expenses** – This account decreased R$929 or 30.47% in the second quarter of 2011 in relation to the same period of 2010, due to the revenue reversal of the actuarial liability in R$768 on the basis of membership of the new plan Previminas DB.

- **Employee profit sharing** – There was an increase of R$1,326 or 22.11% due to the increase of the company's profit in the period.

d. Financial income/expenses:

	06/30/2011		06/30/2010		Variation	
Company		**%**		**%**		**%**
Monetary and exchange variation	9,634	39	3,674	8	5,960	162.22
Interest	8,007	32	28,702	64	-20,695	-72.10
Actual financial investment yield	3,746	15	8,425	19	-4,679	-55.54
Financial assets capitalized/other	3,461	14	3,843	9	-382	-9.94
Total financial income	**24,848**	**100**	**44,644**	**100**	**-19,796**	**-44.34**
Monetary and exchange variation	-7,937	54	-7,074	-359	-863	12.20
Interest on financing	-31,059	210	-34,017	-1.725	2,958	-8.70
Other expenses	-673	5	-1,581	-80	908	-57.43
Total financial expenses	**-39,669**	**268**	**-42,672**	**-2.164**	**3,003**	**-7.04**
Net Financial result	**-14,821**	**100**	**1,972**	**100**	**-16,793**	**-851.57**

04. Financial Performance – Company--Continued

d. Financial income/expenses:--Continued

- **Monetary and Exchange variation** – This account increased R$5,960 and is due to the monetary adjustments of customers debts of R$2,135, change of the currency in terms of financial contracts and investment funds of guarantees of R$1,572 and applications for loan guarantees with the Treasury/BNY – Bank of New York.

- **Interest** – This account decreased R$20,695 due to the exchange rate that was R$1,806 in the second quarter of 2010 and now, in the second quarter of 2011 is R$1,569, influencing the interest of the Bank of New York. Also decreased due to the fewer negotiations with default customers, generating interest of installment of debts in the period.

- **Actual financial investment yield** – The decreased in this balance of R$4,679 or 55.54% is due to the reduction of financial investments in the period.

- **Other expenses** – The decreased of R$908 or 57.43% is due to the payment of fines and interest on taxes, due to the accounting adjustments of the net income, in April 2010, non-recurring in 2011.

e. Provision for income tax and social contribution on net profits – This group had its balance increased in R$ 12,817 in the second quarter of 2011 over the same period last year. The growth in this group is due to primarily to rebates or deductions in the calculation of taxes, such as: interest on employee profit sharing with value lower than the previous one, the non-deduction of equity in the tax calculation, which will be made only in end of the 2011 and, in relation to deferred taxes, the growth was due to the lower exclusions than in 2010, such as: calculated margin construction revenue and deferred revenue of foreign exchange. There was also in 2011, a bigger addition of contingencies from proceedings, which raises taxes deferred. Its balance was in the second quarter of 2010, R$33,232, rising to R$ 46,049 in the second quarter of 2011.

Income generation or EBITDA – There was income generation of R$251,743 in the second quarter of 2011 against R$217,507 in the second quarter of 2010 representing an increase of R$34,236. EBITDA was of 39.98 in this quarter, compared to 37.76 in 2010, corresponding to a 2.22 p.p. increase.

04. Financial Performance – Company--Continued

The table below presents the EBITDA calculation:

Company	06/30/2011	06/30/2010	Variation	%
(+) Net income of water and sewage	611,683	566,400	45,283	7.99
(+) Other operational revenue	14,314	6,413	7,901	n.m.
(a) Net income of services	625,997	572,813	53,184	9.28
Operacional costs and commercial/administrative expenses	-421,808	-409,077	-12,731	3.11
Other operacional expenses	-21,421	-8,761	-12,660	n.m.
Depreciation and amortization	70,484	65,722	4,762	7.25
(b) Total Costs and operacional expenses (without depreciation)	-372,745	-352,116	-20,629	5.86
(c) Operacional income of subsidiaries	-1,509	-3,190	1,681	-52.70
(=) EBITDA (a) + (b) + (c)	251,743	217,507	34,236	15.74
Margin EBTIDA	39.98	37.76	2.22	

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

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

05. Balance sheet – Company

Company	06/30/2011	12/31/2010	Variation	%
Current assets	715,260	649,909	65,351	10.06
Non-current assets	6,897,748	6,659,931	237,817	3.57
Total assets	**7,613,008**	**7,309,840**	**303,168**	**4.15**
Current liabilities	792,618	688,992	103,626	15.04
Non-current liabilities	2,472,106	2,436,520	35,586	1.46
Shareholders' Equity	4,348,284	4,184,328	163,956	3.92
Total liabilities and Shareholders' Equity	**7,613,008**	**7,309,840**	**303,168**	**4.15**

a. Current Assets

Company	06/30/2011	12/31/2010	Variation	%
Cash and Cash equivalent	149,755	75,793	73,962	97.58
Trade accounts receivable	478,645	434,851	43,794	10.07
Financial assets held to maturity	0	56,365	(56,365)	n.m.
Inventories	27,371	25,760	1,611	6.25
Taxes recoverable	33,249	30,879	2,370	7.68
Technical cooperation agreement	2,560	0	2,560	n.m
Banks and agreements	10,365	12,505	(2,140)	(17.11)
Sundry receivables	13,315	13,756	(441)	(3.21)
Total current assets	**715,260**	**649,909**	**65,351**	**10.06**

05. Balance sheet – Company--Continued

a. Current Assets--Continued

- **Cash and cash equivalent –** This account balance increased R$73,962 or 97.58% in June 2011 in relation to December 2010 due to the reclassification of previously investments recorded in assets held to maturity.

- **Trade accounts receivable –** This account balance increased R$43,794 or 10.07% in June 2011 in relation to December 2010 due to: (i) the increase of billed days; (ii) the increase in the value of sewage consumption as of January 2011 in Cruzília and São João de Bicas; (iii) the increase in the value of sewage consumption of several locations.

- **Financial assets held to maturity –** This account has reduced R$56,365 due to the financial investments that reached their maturity date and were transferred to the cash equivalent balance.

- **Banks and agreements** – This account has reduced R$ 2,140 or 17.11% in the first semester of 2011 due to the redemptions for suppliers' payments purposes.

b. Non-current assets

Company	06/30/2011	12/31/2010	Variation	%
Trade accounts receivable	210,056	182,335	27,721	15.20
Deferred income and social contribution taxes	217,557	236,126	(18,569)	(7.86)
Judicial deposits	38,922	41,621	(2,699)	(6.48)
Financing guarantee	107,367	100,986	6,381	6.32
Credit with subsidiaries	67,723	59,970	7,753	12.93
Financial assets	292,947	280,053	12,894	4.60
Sundry receivables	15,011	14,982	29	0.19
Total noncurrent assets	**949,583**	**916,073**	33,510	3.66
Investments	22,063	263	21,800	n.m.
Intangibles assets	5,822,151	5,631,731	190,420	3.38
Property, plant and equipment	103,951	111,864	(7,913)	(7.07)
Total permanent assets	**5,948,165**	**5,743,858**	204,307	3.56
Total noncurrent assets	**6,897,748**	**6,659,931**	**237,817**	**3.57**

- **Trade accounts receivable –** This account balance increased R$27,721 or 15.20% in June 2011 in relation to December 2010. This variation is due to the annual monetary restatement based on the IPCA index, realized in the accounts receivable debs payable by the City of Belo Horizonte, referring to the debts of water and sewer bills, offset by the transfer from the long-term to short-term.

- **Deferred income and social contribution taxes –** This account decreased R$18.569 ou 7,86% no semestre. This variation occurred mainly by the reversals of deferred assets: IPI credit, PASEP /COFINS ISSQN and Previminas pension funds.

05. Balance sheet – Company--Continued

b. Non-current assets--Continued

- **Credit with subsidiaries** – This account ranged R$7,753 or 12.93% in June 2011 compared to December 2010 due to the increase of disbursements made to the Águas Minerais of R$4,034, plus interest of R$3,222.
- **Investiments** – This account increased R$21,800 in the semester, due to the paid-up capital in specific purpose company, Foz de Jeceaba, held in January 2011.
- **Intangible** – This account increased R$190,420 or 3.38% in the semester. This change mainly refers to the Company's investments in sewage systems and water supply.

c. Current liabilities

Company	06/30/2011	12/31/2010	Variation	%
Loans and financing	180,991	149,960	31,031	20.69
Debentures	166,985	97,368	69,617	71.50
Contractors and suppliers	113,592	120,135	(6,543)	(5.45)
Taxes, charges and contributions	48,287	43,535	4,752	10.92
Taxes in installments	41,442	36,370	5,072	13.95
Accrual for vacation pay and 13th salary	92,477	72,854	19,623	26.93
Employee profit sharing	28,464	27,132	1,332	4.91
Interest on equity capital	41,373	66,859	(25,486)	(38.12)
Technical Cooperation Agreements	0	1,492	(1,492)	n.m.
Pension plan	17,425	17,769	(344)	(1.94)
Electric Power	27,846	27,565	281	1.02
Sundry obligations	33,737	27,953	5,784	20.69
Total current liabilities	**792,618**	**688,992**	**103,626**	**15.04**

- **Loans and financing** – The variation of R$31,031 or 20.69% in the semester is due to the increase on the contracts in return phase period.
- **Debentures** – The variation of R$69,617 or 71.50% in the semester is due to the transfers of long-term to short-term due to contracts to amortization phase.
- **Taxes in installments** – This group increased in R$5,072 or 13.95% in the semester. This variation is due to the transfers of long-term to short-term of R$25,379, offset by the debt amortization of ISSQN of R$ 13,286 and the IPI tax credit of R $ 7,023.
- **Interest on equity capital –** This account was reduced by R $ 25,486 or 38.12% in the semester, due to the payment of interest on equity for the fourth quarter of 2010 amounting R$ 65,540 and the first quarter of 2011 amounting R$ 40,740, offset by provision of interest on equity for the 1st and 2nd quarter of 2011 amounting R$ 39,421 and R$ 41,374 respectively.

05. Balance sheet – Company--Continued

c. Current liabilities--Continued

- **Sundry obligations** – This group increased by R $ 5,784 or 20.69% in the semester. This variation is due to the provision of labor agreement in 2011 in the amount of R $ 5,758, since the wage agreement has not yet been made between the Company and the unions.

	06/30/2011	12/31/2010	Variation	%
Tariff transfer	3	0	3	n.m
Concession debts	20,677	22,535	(1,858)	(8.24)
Total local governments	20,680	22,535	(1,855)	(8.23)
Outher	13,057	5,418	7,639	n.m.
Total sundry obligations	**33,737**	**27,953**	**5,784**	**20.69**

d. Non-current liabilities

Company	06/30/2011	12/31/2010	Variation	%
Caixa Econômica Federal	639,544	652,226	(12,682)	(1.94)
State government / BDMG	10,759	11,472	(713)	(6.22)
Nacional Treasury	59,917	77,397	(17,480)	(22.58)
BNDES/BNE	493,081	370,945	122,136	32.93
In local currency	**1,203,301**	**1,112,039**	91,262	8.21
Federal government – bonus	43,870	49,040	(5,170)	(10.54)
In foreign currency	**43,870**	**49,040**	(5,170)	(10.54)
Total loans financing	**1,247,172**	**1,161,079**	86,093	7.41
Non-convertible debentures	592,528	568,025	24,503	4.31
Convertible debentures	65,144	133,740	(68,596)	(51.29)
Total of debentures	**657,672**	**701,765**	(44,093)	(6.28)
Provision for contingencies	38,306	33,114	5,192	15.68
Provision for taxes	43,709	54,538	(10,829)	(19.86)
Taxes in installments	213,567	192,868	20,699	10.73
Pension plan	143,322	154,509	(11,187)	(7.24)
Electric power	6,101	17,219	(11,118)	(64.57)
Deferred income and social contribution taxes	48,428	44,145	4,283	9.70
Other obligations	73,829	77,283	(3,454)	(4.47)
Total noncurrent liabilities	**2,472,106**	**2,436,520**	**35,586**	**1.46**

- **Loans and financing –** This group has increased in R$86,093 or 7.41% in the semester due to new disbursements by BNDES / BNE in the period, offset by the transfers to the short term due to the amortizations.

- **Debentures** – This group decreased R$44,093 or 6.28% in semester, due to the transfers to short-term, due to the amortization of contract.

- **Provision for contingencies –** This account increased R$5,192 or 15.68% in June 2011 compared to December 2010. This variation refers to the provision of new proceedings.

05. Balance sheet – Company--Continued

d. Non-current liabilities--Continued

- **Provision for taxes –** This group decreased of R$ 10,829 or 19.86% due to reversal of presumed tax credit of PIS / PASEP and COFINS in the amount of R$ 11,691, offset by updating the presumed tax credit of R$ 861.
- **Taxes in installments** – This group has increased in R$20,699 or 10.73%. This variation is due to debt restatement of ISSQN of R$ 45,882 offset by the transfer from long-term to short-term value of R$25,379.
- **Pension Plan** – This group had a reduction of R$11,187 or 7.24% in the semester. This variation is due to the reversal of the actuarial liabilities, amounting to R$7,422, the transfer of R$9,204 to the short term, offset by monetary exchange of R$ 5,439.
- **Electric power** – This account had a reduction of R$11,118 ou 64.57% in the semester, due to the amortization of the debt installments within CEMIG.
- **Sundry obligation** – This group decreased R$ 3,454 or 4.47% in the semester. This variation refers to the decrease of R$ 8,797 on the future capital contribution transferred to intangible due to the settling of accounts with the Municipality of Belo Horizonte, the reduction of R$ 4,332 of deferred revenue on the PRODES transferred to the revenue from donations and grants, offset by increased R$ 8,280 provision for losses on investments.

e. Shareholders' equity

Company	06/30/2011	12/31/2010	Variation	%
Beginning balance	**4,184,328**	**3,731,416**	**452,912**	**12.14**
Net income	244,751	677,125	(432,374)	(63.85)
Interest on equity capital	(80,795)	(224,213)	143,418	(63.97)
Ending balance	**4,348,284**	**4,184,328**	**163,956**	**3.92**

The increase in the shareholders' equity balance is due to the increase of the Company's profit for the period.

06. Financial Performance - Consolidated

The charts below present the consolidated financial performance for the second quarter of 2011 as compared to the same prior year period:

Statement of income

Consolidated	06/30/2011	%	06/30/2010	%	Variation	%
Water supply services	437,296	55.93	420,435	51.20	16,861	4.01
Sewage services	177,346	22.68	148,556	18.09	28,790	19.38
Construction of assets	167,036	21.36	252,136	30.70	-85,100	-33.75
Revenue from finished products	219	0.03	108	0.01	111	n.m.
Gross operating revenue	**781,897**	**100.00**	**821,235**	**100.00**	**-39,338**	**-4.79**
Cost of services rendered	-299,033	-38.24	-285,734	-34.79	-13,299	4.65
Construction cost	-163,227	-20.88	-244,550	-29.78	81,323	-33.25
Cost of services rendered	**-462,260**	**-59.12**	**-530,284**	**-64.57**	**68,024**	**-12.83**
Gross profit	**319,637**	**40.88**	**290,951**	**35.43**	**28,686**	**9.86**
Selling expenses	-42,470	-5.43	-42,836	-5.22	366	-0.85
Administrative expenses	-87,263	-11.16	-88,616	-10.79	1,353	-1.53
Other operating income	14,740	1.89	6,921	0.84	7,819	n.m.
Other operating expenses	-22,158	-2.83	-10,931	-1.33	-11,227	n.m.
Employee profit shering	-7,323	-0.94	-5,997	-0.73	-1,326	22.11
Operating income/expenses	**-144,474**	**-18.48**	**-141,459**	**-17.23**	**-3,015**	**2.13**
Income before financial result and taxes	**175,163**	**22.40**	**149,492**	**18.20**	**25,671**	**17.17**
Financial income	23,343	2.99	43,828	5.34	-20,485	-46.74
Financial expenses	-39,738	-5.08	-42,741	-5.20	3,003	-7.03
Financial result	-16,395	-2.10	1,087	0.13	-17,482	n.m.
Income before taxes	**158,768**	**20.31**	**150,579**	**18.34**	**8,189**	**5.44**
Tax provision	-33,163	-4.24	-24,116	-2.94	-9,047	37.51
Social contribution provision	-12,292	-1.57	-7,853	-0.96	-4,439	56.53
Net income for the quarter	**113,313**	**14.49**	**118,610**	**14.44**	**-5,297**	**-4.47**

a. Gross revenue – Gross revenue decreased R$39,338 or 4.79%, thus reaching R$781.897 in the 2nd quarter of 2011, as compared to R$821,235 in the 2nd quarter of 2010, due to the reduction in construction revenue due to changes in criteria in its calculation started in January 2011 and the reduction in the Company's investments in the period. On the other hand, the water and sewage services revenue increased by R $ 45,651 or 8.02%, influenced mainly by the growth of sewage economies in the quarter, highlighting more than 7,000 new points of service in new locations operated, and raising the percentage of sewage charging to 45% and 75% due to the entry into operation of sewage treatment in some localities, as well as the increase in billed volume period.

b. Cost and expenses – The cost of services rendered, comprising water and sewage system operation, conservation and maintenance expenses, decreased in R$69,745, influenced mainly by the decrease of construction costs in the period, as set out in the chart below:

06. Financial Performance – Consolidated--Continued

b. Cost and expenses--Continued

Operacional, comercial and administrative cost:

Consolidated	06/30/2011	%	06/30/2010	%	Variation	%
Personnel	199,449	33.69	193,167	29.19	6,282	3.25
Materials	25,404	4.29	22,406	3.39	2,998	13.38
Electric power	53,824	9.09	54,112	8.18	-288	-0.53
Outsourced services	62,194	10.51	58,894	8.90	3,300	5.60
Tariff transfer to municipal government	15,610	2.64	14,156	2.14	1,454	10.27
General expenses	5,550	0.94	5,468	0.83	82	1.50
Depreciation and amortization	73,066	12.34	69,603	10.52	3,463	4.98
Construction costs	163,227	27.57	244,550	36.96	-81,323	-33.25
Taxes recoverable and tax credits (PIS-PASEP/COFINS)	-16,822	-2.84	-12,167	-1.84	-4,655	38.26
Provision for doubtful accounts	10,468	1.77	11,547	1.74	-1,079	-9.34
Provision for losses	23	0.00	0	0.00	23	n.m
*** Cost of services rendered**	**591,993**	**100.00**	**661,736**	**100.00**	**-69,743**	**-10.54**

- **Personnel –** There was an increase in personnel cost in R$6,282 or 3.25% as set out in the chart below:

Operating costs of commercial and administrative staff:

Consolidated	06/30/2011	%	06/30/2010	%	Variation	%
Salary Normal	84,450	42.34	77,041	39.88	7,409	9.62
Salary overtime	4,598	2.31	3,879	2.01	719	18.54
Function bonus	1,476	0.74	1,422	0.74	54	3.80
Fees for the board of director and council	494	0.25	523	0.27	-29	-5.54
Vacation pay	14,925	7.48	16,554	8.57	-1,629	-9.84
13th monthly salary	8,166	4.09	8,380	4.34	-214	-2.55
Health exposure premium	1,344	0.67	1,242	0.64	102	8.21
Sickness allowance	420	0.21	2	0.00	418	n.m.
Institutional performance bonus	6,713	3.37	6,016	3.11	697	11.59
Social security	31,894	15.99	29,361	15.20	2,533	8.63
FGTS	9,333	4.68	14,607	7.56	-5,274	-36.11
Occupational accident insurance	4,200	2.11	4,529	2.34	-329	-7.26
Severance pay and prior notice	205	0.10	1,188	0.62	-983	-82.74
Professional training	28	0.01	192	0.10	-164	-85.42
Standard lunch	750	0.38	718	0.37	32	4.46
Transportation voucher	2,034	1.02	1,359	0.70	675	49.67
Supplementary programs – COPASS	3,066	1.54	2,435	1.26	631	25.91
Health program	5,781	2.90	5,972	3.09	-191	-3.20
Meal program	20,294	10.18	18,893	9.78	1,401	7.42
Social security program	7,755	3.89	8,320	4.31	-565	-6.79
Other assistance programs	410	0.21	331	0.17	79	23.90
Employee compensation agreement	-612	-0.31	-1,372	-0.71	760	-55.39
Managerial performance bonus	904	0.45	865	0.45	39	4.51
Training of technical professionals	223	0.11	472	0.24	-249	-52.75
Professional training – graduate courses.	0	0.00	31	0.02	-31	n.m.
Professional training – seminars/congresses	8	0.00	36	0.02	-28	-77.78
Professional training – managerial training	5	0.00	17	0.01	-12	-70.59
Extended maternity leave	91	0.05	27	0.01	64	n.m.
Expansion costs	-9,506	-4.77	-9,863	-5.11	357	-3.62
DVHM cost	0	0.00	-10	-0.01	10	n.m.
*** Personnel cost**	**199,449**	**100.00**	**193,167**	**100.00**	**6,282**	**3.25**

06. Financial Performance – Consolidated--Continued

b. Cost and expenses--Continued

- **Personnel**--Continued

  The accounts that had increasing and decreasing in the personnel group were:

  - ✓ **Salary Normal –** the increase of R$7,409 or 9.62% in this account is mainly due to the readjustment salary provision in 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **Social security –** the increase of R$2,533 or 8.63% is mainly due to the readjustment provision of 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **Meal program –** the increase of R$1,401 or 7.42% is due to the readjustment provision of 6.3% proposed by the Company for the 2011/2012 labor agreement.
  - ✓ **FGTS –** the decrease of R$5,274 or 36.11% is due to the termination penalties by the dismissal of employees who adhered to the membership of voluntary resignation plan, which occurred in the second quarter of 2010, non-recurring items in 2011.

- **Materials** – There was an increase of R$2,998 or 13.38% in material costs as shown R$22,406 in the second quarter of 2010, and R$25,404 in the second quarter of 2011, , due to the increase material costs in the period.

- **Services** – The increase in services in R$3,300 or 5.6% is due to several reasons:

  - ✓ **Maintenance of systems** – increase of R$4,277 due to the new water and sewage services contract in Verde Grande County with variation of R$835, new contracts and maintenance work on water networks and sewage in the north, northwest and central south of Belo Horizonte, impacting a variation of R$1,477;
  - ✓ **Data Transmission –** increase of R$826 due to new mobile contracts and equipments for reading invoices for provided services by the Company, since April 2011;
  - ✓ **Collection** – increase of R$596 due to the adjustment of 5.26% in the rate of service revenues held by Caixa Economica Federal agencies, started in December 2010, and the increase of 235,477 collection documents, influenced by the vegetative growth period.
  - ✓ **Cleaning, security and messengers** – increase of R$847 due to the adjustment of 12% in wages and benefits, agreed in January 2011, as the average readjustment of 5.46% on manufacturing components such as uniforms and safety equipments;

06. Financial Performance – Consolidated--Continued

b. Cost and expenses--Continued

- **Services**--Continued

  - ✓ **Administrative technical services** – increase of R$672 due to the growth of billed referring to the demands met by SAP company, whose submission does not follow the accrual basis, increasing or decreasing balances consecutive quarters;
  - ✓ **Advertising and promotion –** decrease of R$3,570 in advertising, due to the non recurrence of institutional campaigns in the 2nd quarter of 2010 due to anticipation because of elections period.

- **Tariff transfer to municipalities** – This account increased in R$1,454 (10.27%) due to the revenue growth in the city of Belo Horizonte in the period, and its balance was R$6,418 in the 2nd quarter of 2010 and R$7,547 in the second quarter of 2011, representing an increase of R$1,129 or 17.59%.

- **Construction Costs** – The reduction in this account of R$81,323 or 33.25% is due to the company's investments reduction in the period.

- **Recovery and credits (PIS-PASEP/COFINS)** – The increase of R$4,655 or 38.26% is due to the incorporation of assets and finished works in property plant and equipment of the company, which started in December 2010.

- **Provision for doubtful accounts** – The decreased of R$1,079 or 9.34% in this account is due to changes in the criteria for determining the balance of PDA, which was previously calculated manually, being parameterized through system information from the second half of 2010.

c. Other operacional revenues/expenses:

Consolidated	06/30/2011		06/30/2010		Variation	
		%		%		%
Technical services revenue	157	1	617	9	-460	-74.55
Reversal of nondeductible provision	3,225	22	1,263	18	1,962	n.m.
Recovery of accounts written off as loss	8,142	55	2,695	39	5,447	n.m.
Other revenues	3,216	22	2,346	34	870	37.09
Total other operating revenues	**14,740**	**100**	**6,921**	**100**	**7,819**	**n.m.**
Adventitious or windfall losses	-19,301	87	-5,712	52	-13,589	n.m.
Other expenses	4,466	-20	778	-7	3,688	n.m.
Employee profit sharing	-7,323	33	-5,997	55	-1,326	22.11
Total other operating expenses	**-22,158**	**299**	**-10,931**	**273**	**-11,227**	**n.m.**
Total other operating income/expenses	**-7,418**	**100**	**-4,010**	**100**	**-3,408**	**84.99**

06. Financial Performance – Consolidated--Continued

c. Other operacional revenues/expenses:--Continued

- **Technical services revenue** – The decrease of R$460 or 74.55% in this account is due to decreased demand for technical services in the period, in the second quarter of 2011 there was only the technical services of SEDRU against water sales, SEDRU and Copanor in the same period in 2010.

- **Reversal of nondeductible provision** – This account increased R$1,962 in the 2nd quarter of 2011 in relation to the same period of 2010. This increase is due to the decrease of the risk of loss in relation to pension plan, due to the accessions to the new benefit plan.

- **Recovery of accounts written off as loss –** The increase of R$5,447 in this account is due to the change in criteria for determining for determining the balance of PDA, which was previously calculated manually, being parameterized through system information from the second half of 2010.

- **Other revenues** – This account increased R$870 or 37.09% in the second quarter of 2011 in relation to the second quarter of 2010 and its due to the recognition of grant revenue referring to the achieved goals of the river basins, due to the operation of ETE ONÇA . This recognition occurred from October 2010, totaling R$8,665 in 12 installments. That is, in the period analyzed, there is the presence of 06 installments referring to this recognition, which did not occur in 2010.

- **Adventitious or windfall losses** – This account increased by R$ 5,594 due to the growth of proceedings and R$827 in judicial labor, in addition to updates in the period; as well as the growth of write off projects which totals R$8,069, which were not utilized in the works execution, because they were considered impractical, and because of the rains occurred in western state, there were loss of physical structure of the Company's operating systems, requiring emergency recovery works, amounting R$1,192, which funds were only released in January 2011 and recorded during the quarter.

- **Employee profit sharing** – There was an increase of R$1,326 or 22.11% due to the increase of the company's profit in the period.

06. Financial Performance – Consolidated--Continued

d. Financial income/expenses:

Consolidated	06/30/2011	%	06/30/2010	%	Variation	%
Monetary and exchange variation	7,871	34	2,565	6	5,306	n.m.
Interest	8,062	35	28,743	66	-20,681	-71.95
Actual financial investment yield	3,758	16	8,425	19	-4,667	-55.39
Financial assets capitalized/other	3,652	16	4,095	9	-443	-10.82
Total financial income	**23,343**	**100**	**43,828**	**100**	**-20,485**	**-46.74**
Monetary and exchange variation	-7,937	48	-7,074	-651	-863	12.20
Interest on financing	-31,060	189	-34,017	-3.129	2,957	-8.69
Other expenses	-741	5	-1,650	-152	909	-55.09
Total financial expenses	**-39,738**	**242**	**-42,741**	**-3.932**	**3,003**	**-7.03**
Net Financial result	**-16,395**	**100**	**1,087**	**100**	**-17,482**	**n.m.**

- **Monetary and Exchange variation** – This account increased R$5,306 and is due to the monetary adjustments of customers debts of R$2,135, change of the currency in terms of financial contracts and investment funds of guarantees of R$1,572 and applications for loan guarantees with the Treasury/BNY – Bank of New York.

- **Interest** – This account decreased R$20,681 due to the exchange rate that was R$1,806 in the second quarter of 2010 and now, in the second quarter of 2011 is R$1,569, influencing the interest of the Bank of New York. Also decreased due to the fewer negotiations with default customers, generating interest of installment of debts in the period.

- **Actual financial investment yield** – The decreased in this balance of R$4,667 or 55.39% is due to the reduction of financial investments in the period.

- **Other expenses** – The decreased of R$909 or 55.09% is due to the payment of fines and interest on taxes, due to the accounting adjustments of the taxable income, in April 2010, non-recurring in 2011.

e. Provision for income tax and social contribution on net profit – This group had its balance increased in R$ 13,486 in the second quarter of 2011 over the same period last year. The growth in this group is due to primarily to rebates or deductions in the calculation of taxes, such as: interest on equity with value lower than the previous one, the non-deduction of equity in the tax calculation, which will be made only in end of the 2011 and, in relation to deferred taxes, the growth was due to the lower exclusions than in 2010, such as: calculated margin construction revenue and deferred revenue of foreign exchange. There was also in 2011, a bigger addition of contingencies from proceedings, which raises taxes deferred. Its balance was in the second quarter of 2010, R$31,969, rising to R$ 45,455 in the second quarter of 2011.

06. Financial Performance – Consolidated--Continued

e. Provision for income tax and social contribution on net profit--Continued

Income generation or EBITDA – There was income generation of R$251,743 in in the second quarter of 2011, against R$217,507 in the second quarter of 2010, , representing an increase of R$34,236. EBITDA was of 39.98 in this quarter, compared to 37.76 in 2010, corresponding to a 2.22 p.p. increase.

The table below presents the EBITDA calculation:

Consolidated	06/30/2011	06/30/2010	Variation	%
(+) Net income of water and sewage	614,861	569,100	45,761	8.04
(+) Other operational revenue	14,740	6,921	7,819	n.m.
(a) Net income of services	629,601	576,021	53,580	9.30
Operacional costs and commercial/administrative expenses	-428,766	-417,188	-11,578	2.78
Other operacional expenses	-22,158	-10,931	-11,227	n.m.
Depreciation and amortization	73,066	69,605	3,461	4.97
(b) Total Costs and operacional expenses (without depreciation)	-377,858	-358,514	-19,344	5.40
(=) EBITDA (a) + (b)	251,743	217,507	34,236	15.74
Margin EBITDA	39.98	37.76	2.22	

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

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

07. Balance sheet – Consolidated

Consolidated	06/30/2011	12/31/2010	Variation	%
Current assets	737,015	661,156	75,859	11.47
Non-current assets	6,910,791	6,684,139	226,652	3.39
Total assets	**7,647,806**	**7,345,295**	**302,511**	**4.12**
Current liabilities	807,451	692,864	114,587	16.54
Non-current liabilities	2,457,023	2,430,246	26,777	1.10
Shareholders' Equity	4,383,332	4,222,185	161,147	3.82
Total liabilities and Shareholders' Equity	**7,647,806**	**7,345,295**	**302,511**	**4.12**

a. Current Assets

Consolidated	06/30/2011	12/31/2010	Variation	%
Cash and Cash equivalent	151,065	77,652	73,413	94.54
Trade accounts receivable	482,028	437,574	44,454	10.16
Financial assets held to maturity	0	56,365	(56,365)	n.m.
Inventories	31,105	28,854	2,251	7.80
Taxes recoverable	34,173	31,804	2,369	7.45
Banks and agreements	25,321	15,122	10,199	67.44
Sundry receivables	13,323	13,785	(462)	(3.35)
Total current assets	**737,015**	**661,156**	**75,859**	**11.47**

- **Cash and cash equivalent –** This account balance increased R$73,413 or 94.54% in June 2011 in relation to December 2010 due to the reclassification of previously investments recorded in assets held to maturity.

- **Trade accounts receivable –** This account balance increased R$44,454 or 10.16% in June 2011 in relation to December 2010 due to: (i) the increase of billed days; (ii) the increase in the value of sewage consumption as of January 2011 in Cruzília and São João de Bicas; (iii) the increase in the value of sewage consumption of several locations.

- **Financial assets held to maturity –** This account has reduced R$56,365 due to the financial investments that reached their maturity date and were transferred to the cash equivalent balance.

- **Banks and agreements** – This group increased R$10,199 or 67.44% in the 1st semester of 2011, due to the investments due to the increase of fund-raising of Copanor agreements.

07. Balance sheet – Consolidated--Continued

b. Non-current assets

Consolidated	06/30/2011	12/31/2010	Variation	%
Trade accounts receivable	210,056	182,335	27,721	15.20
Deferred income and social contribution taxes	217,997	236,566	(18,569)	(7.85)
Restricted applications	38,922	41,621	(2,699)	(6.48)
Financing guarantee	107,367	100,986	6,381	6.32
Financial assets	299,467	284,339	15,128	5.32
Sundry receivables	15,981	15,952	29	0.18
Total noncurrent assets	**889,790**	**861,799**	27,991	3.25
Investments	22,060	260	21,800	n.m.
Intangibles assets	5,869,479	5,684,387	185,092	3.26
Property, plant and equipment	129,462	137,693	(8,231)	(5.98)
Total permanent assets	**6,021,001**	**5,822,340**	198,661	3.41
Total noncurrent assets	**6,910,791**	**6,684,139**	**226,652**	**3.39**

- **Trade accounts receivable –** This account balance increased R$27,721 or 15.20% in June 2011 in relation to December 2010. This variation is due to the annual monetary restatement based on the IPCA index, realized in the accounts receivable debs payable by the City of Belo Horizonte, referring to the debts of water and sewer bills, offset by the transfer from the long-term to short-term.

- **Deferred income and social contribution taxes** – This account decreased R$18,569 ou 7.85% no semestre. This variation occurred mainly by the reversals of deferred assets: IPI credit, PASEP /COFINS ISSQN and Previminas pension fund..

- **Investiments** – This account increased R$21,800 in the semester, due to the paid-up capital in specific purpose company, Foz de Jeceaba, held in January 2011.

- **Intangible** – This account increased R$185,092 or 3.26% in the semester. This change mainly refers to the Company's investments in sewage systems and water supply.

c. Current liabilities

Consolidated	06/30/2011	12/31/2010	Variation	%
Loans and financing	180,991	149,960	31,031	20.69
Debentures	166,985	97,368	69,617	71.50
Contractors and suppliers	115,164	122,325	(7,161)	(5.85)
Taxes, charges and contributions	49,825	43,818	6,007	13.71
Taxes in installments	41,442	36,370	5,072	13.95
Accrual for vacation pay and 13th salary	92,907	73,154	19,753	27.00
Employee profit sharing	28,464	27,132	1,332	4.91
Interest on equity capital	41,373	66,859	(25,486)	(38.12)
Technical Cooperation Agreements	11,149	2,462	8,687	n.m.
Pension plan	17,425	17,769	(344)	(1.94)
Electric power	27,846	27,565	281	1.02
Sundry obligations	33,880	28,082	5,798	20.65
Total current liabilities	**807,451**	**692,864**	**114,587**	**16.54**

07. Balance sheet – Consolidated--Continued

c. Current liabilities--Continued

- **Loans and financing** – The increased of R$31,031 or 20.69% in the semester is due to the increase on the contracts in return phase period.

- **Debentures** – The increased of R$69,617 or 71.50% in the semester is due to the transfers of long-term to short-term due to contracts to amortization phase.

- **Taxes in installments** – This group increased in R$5,072 or 13.95% in the semester. This variation is due to the transfers of long-term to short-term of R$25,379, offset by the debt amortization of ISSQN of R$ 13,286 and the IPI tax credit of R $ 7,023.

- **Interest on equity capital –** This account decreased by R$ 25,486 or 38.12% in the semester, due to the payment of interest on equity for the fourth quarter of 2010 amounting R$ 65,540 and the first quarter of 2011 amounting R$ 40,740, offset by provision of interest on equity for the 1st and 2nd quarter of 2011 amounting R$ 39,421 and R$ 41,374 respectively.

- **Technical Cooperation Agreements** – This account increased R$ 8,687, due to the increase in fund-raising agreements of Copanor of R$ 12,074.

- **Sundry obligations** – This group increased by R $ 5,798 or 20.65% in the semester. This variation is due to the provision of labor agreement in 2011 in the amount of R $ 5,758, since the wage agreement has not yet been made between the Company and the unions.

Consolidated	06/30/2011	12/31/2010	Variation	%
Tariff transfer	3	0	3	n.m
Concession debts	20,677	22,535	(1,858)	(8.24)
Total local governments	20,680	22,535	(1,855)	(8.23)
Outher	13,200	5,547	7,653	n.m.
Total sundry obligations	**33,880**	**28,082**	**5,798**	**20.65**

07. Balance sheet – Consolidated--Continued

d. Non-current liabilities

Consolidated	06/30/2011	12/31/2010	Variation	%
Caixa Econômica Federal	639,544	652,226	(12,682)	(1.94)
State government / BDMG	10,759	11,472	(713)	(6.22)
Nacional Treasury	59,917	77,397	(17,480)	(22.58)
BNDES/BNE	493,081	370,945	122,136	32.93
In local currency	**1,203,302**	**1,112,040**	91,262	8.21
Federal government – bonus	43,870	49,040	(5,170)	(10.54)
In foreign currency	**43,870**	**49,040**	(5,170)	(10.54)
Total loans financing	**1,247,172**	**1,161,080**	86,092	7.41
Non-convertible debentures	592,528	568,025	24,503	4.31
Convertible debentures	65,144	133,740	(68,596)	(51.29)
Total of debentures	**657,672**	**701,765**	(44,093)	(6.28)
Provision for contingencies	41,059	34,947	6,112	17.49
Provision for taxes	43,709	54,538	(10,829)	(19.86)
Taxes in installments	213,567	192,868	20,699	10.73
Pension plan	143,322	154,509	(11,187)	(7.24)
Deferred income and social contribution taxes	66,828	63,993	2,835	4.43
Electric power	6,101	17,219	(11,118)	(64.57)
Other obligations	37,593	49,328	(11,735)	(23.79)
Total noncurrent liabilities	**2,457,023**	**2,430,246**	**26,777**	**1.10**

- **Loans and financing –** This group has increased in R$86,092 or 7.41% in the semester due to new disbursements by BNDES / BNE in the period, offset by the transfers to the short term due to the amortizations.

- **Debentures** – This group decreased R$44,093 or 6.28% in semester, due to the transfers to short-term, due to the amortization of contract.

- **Provision for contingencies –** This account increased R$6,112 or 17.49% in June 2011 compared to December 2010. This variation refers to the provision of new proceedings.

- **Provision for taxes –** This group had a reduction of R$ 10,829 or 19.86% due to reversal of presumed tax credit of PIS / PASEP and COFINS in the amount of R$ 11,691, offset by updating the presumed tax credit of R$ 861.

- **Taxes in installments** – This group has increased in R$20,699 or 10.73%. This variation is due to debt restatement of ISSQN of R$ 45,882 offset by the transfer from long-term to short-term value of R$25,379.

- **Pension Plan** – This group had a reduction of R$11,187 or 7.24% in the semester. This variation is due to the reversal of the actuarial liabilities, amounting to R$7,422, the transfer of R$9,204 to the short term, offset by monetary exchange of R$ 5,439.

07. Balance sheet – Consolidated--Continued

d. Non-current liabilities--Continued

- **Electric energy** – This account had a reduction of R$11,118 ou 64.57% in the semester, due to the amortization of the debt installments within CEMIG.

- **Sundry obligation** – This group decreased R$11,735 or 23.79% in the semester. This variation refers to the reduction of R$ 8,797 on the future capital contribution transferred to intangible due to the settling of accounts with the Municipality of Belo Horizonte, the reduction of R$ 4,332 of deferred revenue on the PRODES transferred to the revenue from donations and grants.

e. Sharehoders' equity

Consolidated	06/30/2011	12/31/2010	Variation	%
Beginning balance	**4,222,185**	**3,776,622**	**445,563**	**11.80**
Net income	241,942	669,776	(427,834)	(63.88)
Interest on equity capital	(80,795)	(224,213)	143,418	(63.97)
Ending balance	**4,383,332**	**4,222,185**	**161,147**	**3.82**

The increase in the shareholders' equity is due to the growth of the Company's profit for the period.