Financial Statements

Companhia de Saneamento de Minas Gerais – COPASA

December 31, 2011 and 2010
with Independent Auditor's Report

Capital budget

Given the 2012 business growth projections, the Company will invest in expansion of water services, with production capacity expansion projects, expansion of service capacity, implementation of systems and well drilling and installation. Moreover, resources will be invested in wastewater collection systems, in works aimed at expanding the service capacity, implementation of systems, sewage treatment and proper disposal of wastewater under a specific program (*"Programa Caça-Esgoto"*), among others.

For these investments, the Company will use own funds in the amount of R$270,000, which must be applied in direct investments and in consideration for third-party funds, which amount to R$580,000. The investment programmed for 2012 totals R$850,000.

The following table summarizes the allocation of the Company's investments for 2012:

Investment program 2012	
Water	299,400
Wastewater	533,600
Other	17,000
Total	850,000

Fiscal council report

1. In a meeting held on 28 February 2012, the fiscal council of Companhia de Saneamento de Minas Gerais - MG COPASA, in exercising its legal and statutory duties, examined the Annual Report and the financial statements, which comprise the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement and the Statement of Value Added, the Notes to Financial Statements and the Independent Auditor's Report on the Financial Statements, for the Fiscal Year ended December 31, 2011.

2. The following proposals were studied, which are being submitted by COPASA Management for resolution of the Annual Shareholders' Meeting (AGM): 1) approve the Financial Statements of COPASA (Company and Consolidated) for the fiscal year 2011; and 2) approve the following allocation of income, totaling R$470,437 million: R$23,522 million to set up the Legal Reserve; R$9,409 million to set up the Tax Incentive Reserve; R$153,127 million, corresponding to the gross amount of R$1.33 per share, will be used to pay interest on equity capital imputed on the minimum dividend as follows: R $ 123,319 million was approved at meetings of the board of Director on 03/25/2011 and 06/27/2011 and 09/16/2011 and issued to shareholders; R$29,808 million will be distributed pro rata to the shareholders entitled to compensation; R$284,379 million will be used to set up the Retained Profits Reserve, as per the capital budget contained in the investment program (Law No. 6404/76).

3. Based on tests performed and in view of the unqualified opinion expressed by Ernst & Young Terco Auditores Independentes S/S, February 28, 2012, the Supervisory Board hereby expresses a favorable opinion on the approval of these proposals to be submitted for discussion and vote in the Annual Shareholders' Meeting of COPASA, to be held until april 11, 2012.

Belo Horizonte, february 28, 2012.

Paulo Elisiário Nunes
Supervisory Board Chairman

Carlos Eduardo Carvalho de Andrade
Director

Jair Siqueira
Supervisory Board Vice-Chairman

Maron Alexandre Mattar
Director

Rafael Rodrigues Alves da Rocha
Director

Declaration of review of the financial statements and of the independent auditor's report by directors

In accordance with article 25, sections V and VI, of CVM Rule No. 480, dated December 7, 2009, the CEO and other Directors of Companhia de Saneamento de Minas Gerais - COPASA MG, a publicly-held mixed capital corporation headquartered at Rua Mar de Espanha, 525, Belo Horizonte - MG, enrolled under Brazilian IRS Registry of Legal Entities (CNPJ) under No. 17.281.106/0001- hereby declare that:

1. they have reviewed, discussed and agree with the views expressed in the independent auditor's report prepared by Ernst & Young Terco Auditores Independentes on the financial statements of COPASA for the fiscal year ended December 31, 2011; and

2. they have reviewed, discussed and agree with the financial statements of COPASA for the fiscal year ended December 31, 2011.

Belo Horizonte, February 28, 2012.

Companhia de Saneamento de Minas Gerais - COPASA

Financial Statements

December 31, 2011 and 2010

Contents

A free translation from Portuguese into English of Independent Auditor's Report on individual financial statements in accordance with accounting practices adopted in Brazil and on consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

---

Independent auditor's report on financial statements

Shareholders, Board of Directors and Officers
Companhia de Saneamento de Minas Gerais - COPASA

We have audited the accompanying individual and consolidated financial statements of Companhia de Saneamento de Minas Gerais - COPASA, identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2011, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Saneamento de Minas Gerais - COPASA as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Companhia de Saneamento de Minas Gerais - COPASA as at December 31, 2011, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis of a matter

As mentioned in Note 2, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia de Saneamento de Minas Gerais - COPASA, these practices differ from the IFRS - applicable to the separate financial statements - solely with respect to the measurement of investments in subsidiaries, under the equity method, while such investments would be measured at cost or fair value for IFRS purposes, and to the monetary adjustment of intangible assets and property, plant and equipment through December 31, 1997, not recorded in accordance with accounting practices adopted in Brazil and recorded for IFRS purposes.

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

Our opinion is not qualified in respect to these matters.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2011, prepared under the management's responsibility, which presentation is required by Brazilian Corporation Law for publicly held companies and as supplementary information under the IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Belo Horizonte (MG), February 28, 2012.

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

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

Companhia de Saneamento de Minas Gerais – COPASA

Balance sheets
December 31, 2011 and 2010
(In thousands of reais)

ASSETS	Note	Company 2011	Company 2010 Reclassified	Consolidated 2011	Consolidated 2010 Reclassified
CURRENT ASSETS					
Cash and cash equivalents	06	241,536	75,793	242,371	77,652
Accounts receivable - customers	07	471,797	434,851	475,726	437,574
Held-to-maturity financial investments	07	-	56,365	-	56,365
Inventories		29,074	25,760	31,965	28,854
Taxes recoverable		36,236	30,879	37,009	31,804
Technical cooperation agreement	16	5,085	-	5,817	-
Banks and agreements' short-term		9,161	12,505	11,671	15,122
Other receivables		21,741	13,756	21,762	13,785
Total current assets		**814,630**	**649,909**	**826,321**	**661,156**
NON-CURRENT ASSETS					
Long-term receivables:					
Accounts receivable - customers	07	220,060	182,335	220,060	182,335
Financing collaterals	07	131,778	100,986	131,778	100,986
Deferred income and social contribution taxes	15	165,661	191,981	149,304	172,573
Receivables from subsidiaries	07/24	76,048	59,970	-	-
Restricted investment	07	328,891	41,621	328,891	41,621
Financial assets – concession agreements	05	321,179	280,053	325,493	284,339
Other receivables	07	16,534	14,982	17,241	15,952
		1,260,151	871,928	1,172,767	797,806
Investments	08	22,063	263	22,060	260
Intangible assets	09	6,015,805	5,631,731	6,060,461	5,684,387
Property, plant and equipment	10	161,552	111,864	185,699	137,693
Total non-current assets		**7,459,571**	**6,615,786**	**7,440,987**	**6,620,146**
TOTAL ASSETS		**8,274,201**	**7,265,695**	**8,267,308**	**7,281,302**

LIABILITIES AND EQUITY	Note	Company 2011	Company 2010 Reclassified	Consolidated 2011	Consolidated 2010 Reclassified
CURRENT LIABILITIES					
Loans and financing	12	371,225	149,960	371,225	149,960
Debentures	12	172,457	97,368	172,457	97,368
Suppliers	11	108,068	120,135	111,494	122,325
Taxes payable	11	49,801	43,535	50,122	43,818
Taxes installments	11	41,239	36,370	41,239	36,370
Accrued vacation pay	11	76,587	72,854	76,949	73,154
Employee profit sharing	14	28,317	27,132	28,317	27,132
Technical cooperation agreement	16	-	1,492	-	2,462
Supplemental pension plan	17	12,119	17,769	12,119	17,769
Interest on equity	18	26,921	66,859	26,921	66,859
Electric power	11	24,670	27,565	24,670	27,565
Other liabilities	11	56,558	27,953	56,742	28,082
Total current liabilities		**967,962**	**688,992**	**972,255**	**692,864**
NON-CURRENT LIABILITIES					
Loans and financing	12	1,248,370	1,161,079	1,248,370	1,161,079
Debentures	12	1,017,907	701,765	1,017,907	701,765
Taxes installments	11	220,060	192,868	220,060	192,868
Tax provision	13	44,619	54,538	44,619	54,538
Provision for contingencies	13	43,956	33,114	46,447	34,947
Supplemental pension plan	17	145,235	154,509	145,235	154,509
Electrical power	11	-	17,219	-	17,219
Other liabilities	11	84,415	77,283	38,811	49,328
Total non-current liabilities		**2,804,562**	**2,392,375**	**2,761,449**	**2,366,253**
EQUITY					
Paid-in capital	18	2,636,499	2,636,460	2,636,499	2,636,460
Capital reserves	18	3,782	3,782	3,782	3,782
Profit reserves	18	1,870,586	1,553,276	1,870,586	1,553,276
Treasury shares	18	(9,190)	(9,190)	(9,190)	(9,190)
Other comprehensive income	18	-	-	31,927	37,857
Total equity		**4,501,677**	**4,184,328**	**4,533,604**	**4,222,185**
TOTAL LIABILITIES AND EQUITY		**8,274,201**	**7,265,695**	**8,267,308**	**7,281,302**

See accompanying notes.

Companhia de Saneamento de Minas Gerais – COPASA

Income Statement
Years ended December 31, 2011 and 2010
(In thousands of reais)

	Note	Company 2011	Company 2010 Reclassified	Consolidated 2011	Consolidated 2010 Reclassified
GROSS REVENUE					
Water supply services		1,783,983	1,713,916	1,796,979	1.724.112
Sewage services		725,627	597,321	725,627	597.227
Construction revenue	05	701,256	915,508	701,256	915.508
Sales of goods		-	-	1,070	1.224
TOTAL NET REVENUE FROM SERVICES	20	**3,210,866**	**3,226,745**	**3,224,932**	**3.238.071**
Cost of services	21	(1,216,463)	(1,130,395)	(1,236,117)	(1.149.777)
Construction costs	05/21	(687,301)	(893,606)	(687,301)	(893.606)
		(1,903,764)	(2,024,001)	(1,923,418)	(2.043.383)
GROSS PROFIT		**1,307,102**	**1,202,744**	**1,301,514**	**1.194.688**
Selling expenses	21	(175,358)	(169,704)	(179,630)	(174.249)
Administrative expenses	21	(362,481)	(330,827)	(370,991)	(339.063)
Other operating income	20	78,702	390,561	81,770	391.375
Other operating expenses	21	(63,386)	(87,960)	(68,518)	(95.969)
Employee Profit sharing	21	(28,317)	(27,132)	(28,317)	(27.132)
Equity pickup	08/21	(18,537)	(20,430)	-	-
		(569,377)	**(245,492)**	**(565,686)**	**(245.038)**
OPERATING INCOME BEFORE FINANCIAL INCOME		**737,725**	**957,252**	**735,828**	**949.650**
Financial income	23	96,333	118,377	89,537	115.112
Financial expenses	23	(185,187)	(153,916)	(185,429)	(154.276)
		(88,854)	**(35,539)**	**(95,892)**	**(39.164)**
INCOME BEFORE TAXES AND CONTRIBUTIONS		**648,871**	**921,713**	**639,936**	**910.486**
Current income and social contribution taxes	15	(152,114)	(129,785)	(152,160)	(129.785)
Deferred income and social contribution taxes	15	(26,320)	(114,803)	(23,269)	(110.925)
		(178,434)	**(244,588)**	**(175,429)**	**(240.710)**
NET INCOME FOR THE YEAR		**470,437**	**677,125**	**464,507**	**669.776**
Number of shares outstanding at year end		114.930.584	114,929,328	114,930,584	114,929,328
Earnings per share					
Base EPS –net earnings attributable to Company common shareholders (Note 18)		4.09	5.89	4.04	5.83
Diluted EPS – net earnings attributable to Company common shareholders (Note 18)		4.01	5.73	3.96	5.67

See accompanying notes to financial statements.

Companhia de Saneamento de Minas Gerais – COPASA

Statements of changes in equity
Years ended December 31, 2011 and 2010
(in thousands of reais)

		Capital reserves		Income reserves						
	Capital social	Debent. convers.	Total	Legal	Tax incentives	Retained profits	Total	Treasury shares	Retained earnings	Total net equity
BALANCE AT DECEMBER 31, 2009	**2,636,460**	**3,782**	**3,782**	**112,731**	**8,207**	**979,426**	**1,100,364**	**(9,190)**	**-**	**3,731,416**
Net income for the year	-	-	-	-	-	-	-	-	677,125	677,125
Proposed allocation:										
. Legal reserve	-	-	-	33,856	-	-	33,856	-	(33,856)	-
. Tax incentive reserve	-	-	-	-	2,661	-	2,661	-	(2,661)	-
. Retained profits	-	-	-	-	-	416,395	416,395	-	(416,395)	-
. Interest on equity	-	-	-	-	-	-	-	-	(224,213)	(224,213)
BALANCE AT DECEMBER 31, 2010	**2,636,460**	**3,782**	**3,782**	**146,587**	**10,868**	**1,395,821**	**1,553,276**	**(9,190)**	**-**	**4,184,328**
Addition stemming from convertible debentures	39	-	-	-	-	-	-	-	-	39
Net income for the year	-	-	-	-	-	-	-	-	470,437	470,437
Proposed allocation:										
. Legal reserve	-	-	-	23,522	-	-	23,522	-	(23,522)	-
. Tax incentives	-	-	-	-	9,409	-	9,409	-	(9,409)	-
. Retained profits	-	-	-	-	-	284,379	284,379	-	(284,379)	-
. Interest on equity capital	-	-	-	-	-	-	-	-	(153,127)	(153,127)
BALANCE AT DECEMBER 31, 2011	**2,636,499**	**3,782**	**3,782**	**170,109**	**20,277**	**1,680,200**	**1,870,586**	**(9,190)**	**-**	**4,501,677**

See accompanying notes.

Companhia de Saneamento de Minas Gerais – COPASA

Consolidated statements of net equity
Years ended December 31, 2011 and 2010
(In thousands of reais)

	Capital	Capital reserves: Debent. convers	Capital reserves: Total	Income reserves: Legal	Income reserves: Tax incentives	Income reserves: Retained profit	Income reserves: Total	Treasury shares	Other comprehensive income	Retained earnings	Total net equity
BALANCE AT DECEMBER 31, 2009	**2,636,460**	**3,782**	**3,782**	**112,731**	**8,207**	**979,426**	**1,100,364**	**(9,190)**	**45,206**	**-**	**3,776,622**
Amortization of monetary assets restatement of 96/97	-	-	-	-	-	-	-	-	(11,135)	-	(11,135)
Deferred Income and Social contribution of monetary assets restatement 96/97	-	-	-	-	-	-	-	-	3,786	-	3,786
Net income for the year	-	-	-	-	-	-	-	-	-	677,125	677,125
Proposed allocation:											
. Legal reserve	-	-	-	33,856	-	-	33,856	-	-	(33,856)	-
. Tax incentive reserve	-	-	-	-	2,661	-	2,661	-	-	(2,661)	-
. Retained profits	-	-	-	-	-	416,395	416,395	-	-	(416,395)	-
. Interest on equity	-	-	-	-	-	-	-	-	-	(224,213)	(224,213)
BALANCE AT DECEMBER 31, 2010	**2,636,460**	**3,782**	**3,782**	**146,587**	**10,868**	**1,395,821**	**1,553,276**	**(9,190)**	**37,857**	**-**	**4,222,185**
Amortization of monetary assets restatement of 96/97	-	-	-	-	-	-	-	-	(8,981)	-	(8,981)
Deferred Income and Social contribution of monetary assets restatement 96/97	-	-	-	-	-	-	-	-	3,051	-	3,051
Inflows from convertible debentures	39	-	-	-	-	-	-	-	-	-	39
Net income for the year	-	-	-	-	-	-	-	-	-	470,437	470,437
Proposed allocation:											
. Legal reserve	-	-	-	23,522	-	-	23,522	-	-	(23,522)	-
. Tax incentive reserve	-	-	-	-	9,409	-	9,409	-	-	(9,409)	-
. Retained profits	-	-	-	-	-	284,379	284,379	-	-	(284,379)	-
. Interest on equity	-	-	-	-	-	-	-	-	-	(153,127)	(153,127)
BALANCE AT DECEMBER 31, 2011	**2,636,499**	**3,782**	**3,782**	**170,109**	**20,277**	**1,680,200**	**1,870,586**	**(9,190)**	**31,927**	**-**	**4,533,604**

See accompanying notes.

Companhia de Saneamento de Minas Gerais - COPASA

Cash flow statements
Years ended December 31, 2011 and 2010
(In thousands of reais)

	Company		Consolidated	
	2011	2010 Reclassified	2011	2010 Reclassified
Cash flows from operating activities:				
Net income for the year	**648,871**	**921,713**	**639,936**	**910,486**
Adjustments to reconcile net income to net cash				
Allowance for doubtful accounts	43,972	49,432	45,015	50,097
Recovery of written-off accounts	(30,420)	(43,918)	(30,534)	(43,953)
Interest/ monetary variation on accounts receivable	(23,463)	(36,313)	(23,463)	(36,313)
Deferred income and social contribution taxes	26,319	114,803	23,268	110,925
Exchange variation on financing collaterals	(3,281)	1,324	(3,281)	1,324
Interest on financing collateral	(13,876)	(6,191)	(13,876)	(6,191)
Capitalized interest on BNY collaterals	(7,272)	(3,214)	(7,272)	(3,214)
Monetary adjustment of loans to subsidiaries	(7,281)	(4,879)	-	-
Equity pickup	18,537	20,430	-	-
Written-off PP&E and intangible assets, net	48,953	1,572	49,031	2,061
Depreciation and amortization	304,497	268,928	315,696	322,297
Interest on loans	183,326	172,075	183,326	172,075
Monetary /exchange variation on loans	19,771	5,690	19,771	5,690
Tax in installments and tax provision	(9,919)	43,712	(9,919)	43,712
Provision for contingencies	10,842	2,667	11,500	4,359
Reversal of provision for actuarial liabilities	(2,429)	(315,897)	(2,429)	(315,897)
Interest/ MV on Previminas/Cemig/AFAC/Concessions	22,217	21,343	22,217	21,343
Deferred income	(9,409)	(2,661)	(9,409)	(2,661)
Adjusted income	**1,041,521**	**966,028**	**1,034,148**	**995,430**
Decrease (increase) in operating assets				
Accounts receivable customers	8,428	14,382	6,293	13,265
Financial assets held to maturity	56,365	101,135	56,365	101,135
Inventories	(3,314)	1,688	(3,113)	1,398
Taxes recoverable	(5,357)	(4,286)	(5,203)	(5,185)
Banks and agreements' short-term investments	3,344	3,591	3,450	3,935
Financing collaterals	(11,281)	(12,418)	(11,281)	(12,418)
Restricted investment	(278,833)	2,977	(278,833)	2,977
Receivables from subsidiaries	(8,797)	(9,933)	-	-
Financial assets	(41,126)	6,172	(41,152)	5,629
Sundry receivables	(9,536)	(1,438)	(9,266)	(40)
Increase (decrease) in operating liabilities				
Trade accounts payable	(12,067)	24,662	(10,832)	25,645
Taxes, charges and contributions	(23,587)	(120,414)	(20,496)	(116,315)
Accrued vacation pay	3,733	5,881	3,795	6,103
Employee profit sharing	1,185	(7,414)	1,185	(7,414)
Technical cooperation agreement	(6,577)	23,424	(8,278)	24,785
Supplemental pension plan	(9,830)	2,501	(9,830)	2,501
Electrical power	834	(1,029)	834	(1,029)
Concession liabilities	16,324	-	16,324	-
Other liabilities	8,300	16,897	8,354	16,908
Income and social contribution taxes paid	(148,581)	(119,204)	(148,627)	(119,367)
Net cash provided by operating activities	**759,582**	**1,137,790**	**759,266**	**1,178,653**
Cash flows from investing activities:				
Inflows from convertible debentures	39	-	39	-
Acquisition of investments	(22,687)	-	(21,800)	-
Acquisition of intangible assets and PP&E	(787,213)	(1,016,492)	(788,809)	(1,057,446)
Net cash used in financing activities	**(809,861)**	**(1,016,492)**	**(810,570)**	**(1,057,446)**
Cash flows from financing activities:				
Proceeds from new loans	909,163	395,860	909,163	395,860
Repayment of principal - loans	(243,616)	(201,875)	(243,616)	(201,875)
Repayment of interest – loans	(168,857)	(171,689)	(168,857)	(171,689)
Interest on equity capital paid	(193,065)	(210,894)	(193,065)	(210,894)
Repayment of principal - Previminas and Cemig	(35,624)	(27,727)	(35,624)	(27,727)
Repayment of interest - Previminas and Cemig	(8,787)	(7,804)	(8,787)	(7,804)
Tax installments paid	(41,127)	(77,278)	(41,127)	(77,278)
Concession liabilities paid	(2,065)	-	(2,065)	-
Net cash generated by (used) in financing activities	**216,022**	**(301,407)**	**216,022**	**(301,407)**
Increase (decrease) in cash and cash equivalents, net	**165,743**	**(180,109)**	**164,718**	**(180,200)**
Cash and cash equivalents at the beginning of the year	75,793	255,902	77,652	257,852
Cash and cash equivalents at the end of the year	241,536	75,793	242,370	77,652
Increase (decrease) cash and cash equivalents net	**165,743**	**(180,109)**	**164,718**	**(180,200)**

Companhia de Saneamento de Minas Gerais - COPASA

Statements of value added
Years ended December 31, 2011 and 2010
(In thousands of reais)

		Company		Consolidated	
		2011	2010	2011	2010
1	**GROSS REVENUE**	**3,501,396**	**3,803,454**	**3,519,540**	**3,816,450**
1.1	Water and Sewage services	2,765,410	2,546,818	2,781,529	2,559,664
1.2	Other revenue	48,282	346,642	51,236	347,422
1.3	Construction revenue	701,256	915,508	701,256	915,508
1.4	Allowance for doubtful accounts	(13,552)	(5,514)	(14,481)	(6,144)
2	**INPUTS PURCHASED FROM THIRD PARTIES**	**(1,397,888)**	**(1,593,211)**	**(1,416,252)**	**(1,571,751)**
2.1	Cost of services	(1,228,081)	(1,406,713)	(1,235,179)	(1,412,726)
2.2	Material, energy, third-party service and other	(109,396)	(104,804)	(115,154)	(110,559)
2.3	Other operating expenses	(60,411)	(81,694)	(65,919)	(48,466)
3	**GROSS VALUE ADDED**	**2,103,508**	**2,210,243**	**2,103,288**	**2,244,699**
4	**DEPRECIATION AND AMORTIZATION**	**(304,497)**	**(268,928)**	**(315,696)**	**(322,297)**
5	**NET VALUE ADDED**	**1,799,011**	**1,941,315**	**1,787,592**	**1,922,402**
6	**VALUE RECEIVED IN TRANSFER**	**77,796**	**97,947**	**89,537**	**115,112**
6.1	Equity pickup	(18,537)	(20,430)	-	-
6.2	Financial income	96,333	118,377	89,537	115,112
7	**TOTAL VALUE ADDED TO BE DISTRIBUTED**	**1,876,807**	**2,039,262**	**1,877,129**	**2,037,514**
8	**VALUE ADDED DISTRIBUTION**	**1,876,807**	**2,039,262**	**1,877,129**	**2,037,514**
8.1	**Personnel**	**708,890**	**638,142**	**715,149**	**644,514**
8.1.1	Payroll	454,206	403,703	459,820	409,488
8.1.2	Benefits	181,534	169,938	181,894	170,172
8.1.3	FGTS	44,833	37,369	45,118	37,722
8.1.4	Employee profit sharing	28,317	27,132	28,317	27,132
8.2	**Taxes charges and contributions**	**514,035**	**573,630**	**513,830**	**572,568**
8.2.1	Federal	508,237	567,841	507,508	566,405
8.2.2	State	5,390	5,261	5,890	5,627
8.2.3	Municipal	408	528	432	536
8.3	**Debt remuneration**	**183,445**	**150,365**	**183,643**	**150,656**
8.3.1	Interest and monetary adjustment	180,829	148,006	180,835	148,134
8.3.2	Rent	2,616	2,359	2,808	2,522
8.4	**Equity remuneration**	**470,437**	**677,125**	**464,507**	**669,776**
8.4.1	Interest in equity capital	153,127	224,213	153,127	224,213
8.4.2	Retained profits	317,310	452,912	311,380	445,563

01. Operations

Companhia de Saneamento de Minas Gerais - COPASA, (the "Company") headquartered in the city of Belo Horizonte at Rua Mar de Espanha 525, in Santo Antônio, 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 December 31, 2011, COPASA has the following wholly owned subsidiaries:

- COPASA Águas Minerais de Minas S/A, established by State Law No. 16693, dated January 11, 2007, is engaged in producing, bottling, distributing and selling mineral water from the springs it owns or has license to explore, and managing and exploiting the water 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.

(In thousands of reais – except when otherwise stated)

01. Operations--Continued

At December 31, 2011, the Company operates 875 locations in the State of Minas Gerais (879 in December 2010), in water supply and/or sanitary sewage activities, totaling 4,338,678 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	935,259	2034	Belo Horizonte	2034
Contagem	215,644	2073	Contagem	2073
Betim	125,419	2042	Montes Claros	2028
Montes Claros	118,187	2028	Betim	2042
Ribeirão das Neves	87,506	2034	Ipatinga	2022
Divinópolis	84,167	2041	Ribeirão das Neves	2034
Ipatinga	78,046	2022	Santa Luzia	2013
Santa Luzia	65,394	2023	Patos de Minas	2038
Patos de Minas	51,038	2038	Pouso Alegre	2046
Ibirité	48,291	2034	Varginha	2013
Pouso Alegre	47,118	2046	Conselheiro Lafaiete (2)	2010
Varginha	46,788	2013	Lavras	2034
Conselheiro Lafaiete (2)	45,445	2010	Ibirité	2034
Teófilo Otoni	39,316	2034	Araxá	2032
Sabará (1)	39,245	2007	Teófilo Otoni	2034
Lavras	38,078	2034	Itajubá	2034
Araxá	36,241	2032	Alfenas	2033
Ubá	33,057	2014	Coronel Fabriciano	2033
Itajubá	32,982	2034	Pará de Minas (2)	2009
Coronel Fabriciano	32,658	2033	Nova Serrana	2027

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 aim to resume Sewage services. The water supply revenue for Sabará in 2011 was R$18,054 (R$16,881 in 2010), or 0.61% (0.62% in 2010) of the Company's total revenue.
2) The concession agreements with the cities of Conselheiro Lafaiete and Pará de Minas terminated on July 23, 2010 and October 11, 2009, respectively. The water supply and sewage revenues in 2011 was R$27,211 and R$26,289 for Pará de Minas (R$23,513 and R$24,673 in 2010), or 0.92% and 0.89% (0.86% and 0.90% in 2010) of the Company's total revenues respectively. 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 financial statements of the Company as of December 31, 2011, was obtained on February 28, 2012.

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

(a) Basis of preparation

The individual and consolidated (also referred to as "Company" and "consolidated") financial statements were prepared at historical cost.

The financial statements of the Company were prepared and are presented in accordance with accounting practices adopted in Brazil, which comprise the rules established by the Brazilian Securities and Exchange Commission (CVM) and pronouncements issued by the Brazilian FASB (CPC).

The consolidated financial statements were prepared and are being presented in accordance with accounting practices adopted in Brazil, which comprise CVM rules and CPC pronouncements, which are in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Accounting practices adopted in Brazil applied differ from those applied to the accompanying consolidated financial statements under IFRS solely with respect to the measurement of investments in subsidiaries under the equity method, while such investments would be measured at cost or fair value for IFRS purposes (see Note 8), and to the monetary adjustment of intangible assets and property, plant and equipment for the years 1996 and 1997, not to be accounted for under Brazilian Corporation Law, but whose recognition is required under IAS and which, therefore, is recorded for IFRS purposes (see Note 2 "c").

As from January 1, 2011, the following accounting pronouncement and interpretations became effective: IAS 24 – Related Party Disclosures - State-Controlled Entities and the Definition of a Related Party (Revised); IFRIC 14 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction; and IFRC 19 - Extinguishing Financial Liabilities with Equity Instruments. The adoption of these accounting pronouncements and interpretations did not impact on the financial statements at December 31, 2011.

(In thousands of reais – except when otherwise stated)

02. Basis of preparation and presentation of financial statements -- Continued

(a) Basis of preparation--Continued

With regards to new accounting pronouncements IFRS 9 – Financial Instruments, Classification and Measurement, IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Ventures, IFRS 12 – Disclosure of Interest in Other Entities, IFRS 13 – Measurement at Fair Value, IAS 27 (R) – Consolidated and Separate Financial Statements IAS 28 (R) – Investments in Associates, which will become effective as from January 1, 2013, the company expects that the adoption of these pronouncement shall not have a significant impact on its financial statements.

(b) Consolidation

The consolidated financial statements include the operations of the Company and the following subsidiaries whose percentage ownership interests at the balance sheet date are 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.

02. Basis of preparation and presentation of financial statements--Continued

(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$31,927 and R$5,930, respectively, at December 31, 2011 (R$37,857 and R$7,349, respectively, in 2010).

(d) Reclassification of financial statements for 2010

For comparability purposes with financial statements of 2011, some date disclosed in 2010 was reclassified but this did not alter the final results as follows:

In the balance sheet in accordance with CPC 32 – Income Tax the heading “deferred income and social contribution taxes”, that in 2010 were presented as non-current assets and liabilities began to be presented by their net balance solely under current assets (Note 15).

In the income statements the item under “employee profit sharing” was transferred from “income before profit sharing” to the “operational expenses” group.

In the cash flow statements changes in receivables from customers was reclassified with the introduction of the item “Recovery of written-off accounts” and rectification of items under “Allowance for doubtful accounts”, “MV/ interest on accounts receivable from customers” and “Decrease/ increase in receivables from customers”. Capitalized interest amounts ceased to be reduced by the item “Additions to intangible assets and PP&E” and began to include the item “Interest on loans”. The “Financial assets” item left “Profit adjustments” and began to form part of the “Operating activities”, group of accounts due to a change in valuation criteria which impacted on the “Additions to intangible assets and PP&E” account. To meet requirement of CPC 03 Statements of Cash Flow, the first line of that statement is “Income before income and social contribution taxes”, substituting “Net income for the year”, in addition to creation of the line “Income and social contribution taxes paid” and adjustment of the line “taxes, charges and contributions”, both carried under “Operating activities”.

02. Basis of preparation and presentation of financial statements--Continued

(d) Reclassification of financial statements for 2010--Continued

The Statements of Value Added, the item “Construction revenues” was carried by the net value between the construction revenue and expenses in 2010. That item began to reflect solely revenue construction while construction expenses was included under the item “Cost of services”. In the “Personnel” group of accounts the line “employee profit sharing”, was included the value of which was carried under “Direct remuneration”.

In the first table of Note 07 the “Other” line was created.

The opening balances for cost and amortization/depreciation of Notes 09 and 10 of the Consolidated financial statements were reclassified by line and by column to correct carry the balances for each group but without altering the final net balance.

In the first table of Note 11 the line “interest on equity capital” was withdrawn as this item is mentioned in Note 18.

Item “c” under note 12 in 2010, remuneration of the 2nd issue of subscriptions of the 4th emission of debentures was at the rate of IPC + 1.55% p.a., given that is included in a simple debenture subscription promissory agreement. However, in the private subscription instrument for the 4th issue, definitive remuneration rose to IPCA + 9.046555% p.a.

In the changes in provisions under Note 13 a column was added to separate tax provision stemming from judicial and administrative tax deposits.

In Note 15, Reclassified due to the realignment of the balance for donation and grants and other temporary differences.

In Note 18, letter “d” of accompanying notes for 2010, the amount of withholding income tax on interest on equity was stated at R$10,097. However in May 2011, R$1,303 more was paid relating to supplemental interest on equity capital for 2010. In letter “e” of that note, the item “Diluted earnings per share”, under “Adjustments from assumed conversion of convertible debit – thousands” under Company, was incorrectly carried at 377 when the correct figure should have been 4,520, and the item “Weighted average of common shares for diluted earnings per share – thousands” rose from 115,306 to 119,449.

02. Basis of preparation and presentation of financial statements--Continued

(d) Reclassification of financial statements of 2010--Continued

In Note 19, letter “b”, under tables for Company and Consolidated the percentage for “indices of third party capital” was changed due to this procedure, due to the fact that up to 2010 this item was obtained from “total loans” by “total net equity”, and in 2011 this sum was obtained from the division of “net debt” by “total net equity”.

The item “employee’s profit sharing” began to be included in Note 21, Company and Consolidated.

03. Summary of significant accounting practices

(a) Cash and cash equivalents

These include cash, bank deposits, other highly liquid short-term investments, redeemable within 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.

03. Summary of significant accounting practices--Continued

(b) Financial assets--Continued

(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.

(c) Accounts receivable

(i) Customers

Accounts receivable - 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.

03. Summary of significant accounting practices--Continued

(c) Accounts receivable--Continued

(i) Customers--Continued

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.

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.

03. Summary of significant accounting practices--Continued

(c) Customers--Continued

(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 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.

03. Summary of significant accounting practices--Continued

(g) intangible assets--Continued

Use rights--Continued

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

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

03. Summary of significant accounting practices--Continued

(h) Property, plant and equipment--Continued

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.

(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.

03. Summary of significant accounting practices--Continued

(i) Impairment of non-financial assets--Continued

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.

(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.

03. Summary of significant accounting practices--Continued

(j) Financial liabilities--Continued

(ii) Loans and financing and debentures--Continued

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.

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.

03. Summary of significant accounting practices--Continued

(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.

(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

03. Summary of significant accounting practices--Continued

(m) Taxation--Continued

(ii) Deferred taxes--Continued

- 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) Taxes--Continued

(ii) Sales taxes

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

Taxes	Rate %
PIS/PASEP – Social Contribution Tax on Gross Revenue for Social Integration Program	1.65
COFINS – Social Contribution Tax on Gross Revenue for Social Security Financing	7.6
ICMS – State VAT*	7 to 18

(*) Not levied on water supply or Sewage services.

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.

03. Summary of significant accounting practices--Continued

(n) Employee benefits--Continued

(i) Pension plan--Continued

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.

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.

03. Summary of significant accounting practices--Continued

(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 attached 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.

Where 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.

03. Summary of significant accounting practices--Continued

(q) Revenue recognition--Continued

(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 (IAS11), 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, 2009 this revenue was fully allocated based on the nominal weighted average of capital costs to costs incurred due to the administration of work contracts and by the result of the margin of investment return and the margin transferred to suppliers of services and materials.

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

03. Summary of significant accounting practices--Continued

(q) Revenue recognition--Continued

(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 is 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.

(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 ICPC01 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, 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.

03. Summary of significant accounting practices--Continued

(v) Statement of Value Added (SVA)

The statements of value added were prepared in accordance with CVM Rule No. 557, dated November 12, 2008, that approved accounting pronouncement CPC 09 – Statement of Value Added issued by the CPC.

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 year would increase by R$123,744. if this difference were less than 10% in relation to the management's estimates, the revenue recognized for the year would decrease by R$26,256.

(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.

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

(ii) Pension plan benefits--Continued

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.

(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.

(In thousands of reais – except when otherwise stated)

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

(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 December 31, 2011, the Company is the holder of public utility concessions for water supply and Sewage services in 875 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 year ended December 31, 2011 are described Note 01.

At December 31, 2011, the Company has accounts receivable from grantor (the municipalities) totaling R$321,179 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 year:

	2011	2010
Construction revenues	701,256	915,508
Construction costs	(687,301)	(893,606)

(In thousands of reais – except when otherwise stated)

06. Cash and cash equivalents

(a) Cash and cash equivalents

	Company	
	12/31/2011	12/31/2010
Cash and banks	34,632	40,318
Short-term bank deposit certificates	206,904	35,475
Total	**241,536**	**75,793**

	Consolidated	
	12/31/2011	12/31/2010
Cash and banks	35,174	41,509
Short-term bank deposit certificates	207,197	36,143
Total	**242,371**	**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 75% to 113% in 2011 (98.5% to 115% in 2010). Financial income in 2011 totaling R$27,077 (R$22,915 in 2010), where R$20,559 (R$16,096 in 2010) refers to investments redeemable within 90 days, and R$5,324 (R$3,865 in 2010) to those redeemable within more than 90 days, in addition to R$1,194 for pledging of debentures (R$2,954 in 2010).

In 2011 and 2010, 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**	**222,686**
New investments	1,879,004	1,857,203
Investment income	20,559	16,096
Redemption	(1,728,134)	(2,060,510)
At December 31	**206,904**	**35,475**

	Consolidated	
	2011	2010
At January 1	**36,143**	**222,910**
New investments	1,882,610	1,859,383
Investment income	20,610	16,130
Redemption	(1,732,166)	(2,062,280)
At December 31	**207,197**	**36,143**

(In thousands of reais – except when otherwise stated)

06. Cash and cash equivalents--Continued

(b) Changes in short-term investments--Continued

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	
	2011	2010	2011	2010
Falling due	74,096	64,719	75,530	68,054
Up to 30 days past due	66,010	62,918	66,395	62,918
From 31 to 60 days past due	30,040	28,289	30,266	28,289
From 61 to 90 days past due	15,753	12,594	15,915	12,594
From 91 to 180 days past due	25,322	21,230	25,683	21,230
Over 180 days past due	55,484	37,809	57,060	37,809
Billed amounts	266,705	227,559	270,849	230,894
Unbilled amounts	231,238	228,772	232,537	229,331
Accounts receivable - customers	497,943	456,331	503,386	460,225
(-) Allowance for doubtful accounts	(26,146)	(21,480)	(27,660)	(22,651)
	471,797	434,851	475,726	437,574
Accounts receivable – non-current	220,060	182,335	220,060	182,335
Accounts receivable customers, net	691,857	617,186	695,786	619,909
Held to maturity financial assets (a)	-	56,365	-	56,365
Pledging of loans and debentures (b)	131,778	100,986	31,778	100,986
Receivables from subsidiaries (c)	76,048	59,970	-	-
Restricted investment (d)	35,973	41,621	35,973	41,621
Restricted investment (e)	292,918	-	292,918	-
Other	16,534	14,982	17,241	15,952
Total	**1,245,108**	**891,110**	**1,173,696**	**834,833**
Non-current assets	**(773,311)**	**(399,894)**	**(697,970)**	**(340,894)**
Current assets	**471,797**	**491,216**	**475,726**	**493,939**

At December 31, 2011, the amount of R$525,394 out of total accounts receivable customers represented non-defaulting customers (R$475,826 at December 31, 2010).

(In thousands of reais – except when otherwise stated)

07. Accounts receivable - customers and other receivables--Continued

At December 31, 2011, accounts receivable- customers totaling R$123,484 (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:

	2011	2010
Up to three months	104,636	97,986
From 3 to 6 months	18,221	14,649
Minas Gerais State	627	536
Total	**123,484**	**113,171**

At December 31, 2011, accounts receivable - customers totaling R$26,146 (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:

	2011	2010
Falling due	728	770
Up to 30 days past due	905	526
From 31 to 60 days past due	930	737
From 61 to 90 days past due	975	716
From 91 to 180 days past due	3,053	2,502
From 181 to 360 days past due	5,219	4,516
Over 360 days past due	14,336	11,713
Total	**26,146**	**21,480**

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	43,972	45,015
Charge-off of uncollectible accounts receivable during the period	(39,306)	(40,006)
At December 31	**26,146**	**27,660**

07. Accounts receivable - Customers and other receivables--Continued

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 - 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. The Company maintains tariff revenues as a guarantee for financing (Note 19).

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

b) Pledged as guarantee of loans and debentures, as detailed in Note 12 “b”;

c) 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$57,541 refer to Águas Minerais, R$17,139 to COPANOR and R$1,368 refer to Serviços de Irrigação (R$43,441, R$14,916 and R$1,613 at December 31, 2010, respectively);

d) 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). From March to August 2011 four more installments referring to fulfillment of the second stage of ETE Onça were drawn down amounting to R$4,492 and R$4,674, respectively;

e) Funding raised by the 5th issue of debentures (Note 12 letter “c”) was deposited in favor of COPASA in a settlement account held by Caixa Econômica Federal. The drawdown of funds from the settlement account to the checking account shall be made in accordance with the physical financial chronology of each project through express request by COPASA. It will depend on prior approval by the Security Trustee and meeting the draw down conditions provided in that subscription. The amounts available in the settlement account that have not been allocated to the performance of projects shall be invested in investment fund units under *caixa corporativo II* linked to the long-term DI rate or in any other fixed income investment fund managed by the Caixa Econômica Federal.

(In thousands of reais – except when otherwise stated)

08. Investments

	Company	
	2011	**2010**
Subsidiaries accounted for under equity method		
Águas Minerais	1	1
Copanor	1	1
Serviços de Irrigação	1	1
	3	**3**
Subsidiaries accounted for under the cost method		
Foz de Jeceaba	21,800	-
Other	260	260
	22,060	**260**
Total	**22,063**	**263**

	Consolidated	
Subsidiaries accounts for under the cost method	**2011**	**2010**
Foz de Jeceaba	21,800	-
Other	260	260
Total	**22,060**	**260**

Significant information on subsidiaries is as follows:

Subsidiaries	Advance for future capital increase	Equity	Capital	Accumulated losses	Number of shares	COPASA interest (%)
12/31/2011						
Águas Minerais	(20,243)	(31,046)	13,929	(65,219)	13,929	100
Copanor	-	(13,665)	1	(13,664)	1	100
Serviços de Irrigação	-	(893)	1	(894)	1	100
12/31/2010		(15,442)				
Águas Minerais	(19,356)	(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

Main information on investments in subsidiaries is as follows:

	2010	Equity pickup	2011
Águas Minerais	1	-	1
Copanor	1	-	1
Serviços de Irrigação	1	-	1
Total	**3**	-	**3**

(In thousands of reais – except when otherwise stated)

08. **Investments**--Continued

At December 31, 2011, subsidiaries present a capital deficiency of R$45,607 (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”.

	2010	Advance for future capital increase	Equity pickup	2011
Águas Minerais	(15,443)	887	(16,491)	(31,047)
Copanor	(11,484)	-	(2,182)	(13,666)
Serviços de Irrigação	(1,030)	-	136	(894)
Total	**(27,957)**	**887**	**(18,537)**	**(45,607)**

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. The investment was made in January 2011, with payment of capital into that entity. The Company’s investment in FOZ JECEABA is recognized at cost due to the fact it holds only 15% of its capital and that it does not hold any influence over the business, financial or operational policies of that company.

(In thousands of reais – except when otherwise stated)

09. Intangible assets

	Company					
Cost	**Water systems**	**Sewage**	**Use rights**	**Other (*)**	**In development**	**Total**
Book balance at 12/31/2010	**3,823,739**	**2,260,213**	**276,835**	**(160,288)**	**2,461,843**	**8,662,342**
Additions	63,316	43,136	22,541	4,619	625,798	**759,410**
Write-offs	(12,816)	(1,523)	(12,258)	(1,567)	(27,582)	**(55,746)**
Transfers (**)	517,889	588,538	1,692	(21,001)	(1,132,587)	**(45,469)**
Book balance at 12/31/2011	**4,392,128**	**2,890,364**	**288,810**	**(178,237)**	**1,927,472**	**9,320,537**
Amortization						
Book balance at 12/31/2010	**(2,320,370)**	**(662,055)**	**(39,036)**	**(9,150)**	-	**(3,030,611)**
Additions	(166,433)	(108,504)	(15,379)	9,819	-	**(280,497)**
Write-offs	6,366	815	318	-	-	**7,499**
Transfers (**)	57	5	(34,219)	33,034	-	**(1,123)**
Book balance at 12/31/2011	**(2,480,380)**	**(769,739)**	**(88,816)**	**33,703**	**-**	**(3,304,732)**
Net balance at 12/31/2011	**1,911,748**	**2,120,625**	**200,494**	**(144,534)**	**1,927,472**	**6,015,805**
Net balance at 12/31/2010	**1,503,369**	**1,598,158**	**237,799**	**(169,438)**	**2,461,843**	**5,631,731**

Annual amortization, allocated to income, amounted to R$265,655 (R$235,305 in 2010) as cost of services rendered, to R$4,021 (R$4,039 in 2010) as selling expenses R$11,944 (R$11,569 in 2010) as administrative expenses.

(*) This refers mainly to reversal of donations .
(**) These amounts refer to changes in intangible assets and PP&E.

(In thousands of reais – except when otherwise stated)

09. **Intangible assets**--Continued

Consolidated						
Cost	**Water systems**	**Sewage**	**Use rights**	**Other (*)**	**In development**	**Total**
Balance at 12/31/2010	**4,138,579**	**2,289,715**	**229,561**	**(63,703)**	**2,461,843**	**9,055,995**
Additions	63,183	41,713	22,494	4,790	625,798	**757,978**
Write-offs	(14,380)	(832)	(12,258)	(1,567)	(27,582)	**(56,619)**
Transfers (**)	559,597	594,238	53,906	(119,153)	(1,132,587)	**(43,999)**
Book balance at 12/31/2011	**4,746,979**	**2,924,834**	**293,703**	**(179,633)**	**1,927,472**	**9,713,355**
Amortization						
Book balance at 12/31/2010	**(2,614,002)**	**(708,089)**	**(40,370)**	**(9,147)**	-	**(3,371,608)**
Additions	(173,893)	(107,446)	(15,137)	9,781	-	**(286,695)**
Write-offs	6,828	899	319	-		**8,046**
Transfers (**)	2,405	(4,244)	(34,993)	34,195	-	**(2,637)**
Book balance 12/31/2011	**(2,778,662)**	**(818,880)**	**(90,181)**	**34,829**	**-**	**(3,652,894)**
Net balance 12/31/2011	**1,968,317**	**2,105,954**	**203,522**	**(144,804)**	**1,927,472**	**6,060,461**
Net balance 12/31/2010	**1,524,577**	**1,581,626**	**189,191**	**(72,850)**	**2,461,843**	**5,684,387**

Annual amortization, allocated to income, amounted to R$273,242 (R$288,457 in 2010) as cost of services, to R$4,122 (R$3,090 in 2010) as selling expenses R$11,968 (R$8,627 in 2010) as administrative expenses.

In 2011, the Company capitalized interest and charges amounting to R$72,041 (R$86,558 in 2010).

(*) This refers mainly to the reversal of donations.

(**) These amounts refer to changes in intangible assets and PP&E.

(In thousands of reais – except when otherwise stated)

10. Property, plant and equipment

Cost	Company Land and buildings	Machinery and equipment	Vehicles	Other	Total
Account balance at 12/31/2010	**102,656**	**175,855**	**102,690**	**142**	**381,343**
Additions	5,690	22,027	1,434	-	29,151
Write-offs	(101)	(5,594)	(1,174)	-	(6,869)
Transfers (*)	2,034	42,087	-	-	44,121
Account balance at 12/31/2011	**110,279**	**234,375**	**102,950**	**142**	**447,746**
Depreciation					
Account balance at 12/31/2010	**(58,115)**	**(121,261)**	**(89,998)**	**(105)**	**(269,479)**
Additions	(2,485)	(14,288)	(7,219)	(8)	(24,000)
Write-offs	37	4,964	1,161	-	6,162
Transfers (*)	-	1,123	-	-	1,123
Account balance at 12/31/2011	**(60,563)**	**(129,462)**	**(96,056)**	**(113)**	**(286,194)**
Net balance at 12/31/2011	**49,716**	**104,913**	**6,894**	**29**	**161,552**
Net balance at 12/31/2010	**44,541**	**54,594**	**12,692**	**37**	**111,864**

Annual depreciation, allocated to income, amounted to R$21,580 (R$17,586 in 2010) as cost of services, to R$327 (R$275 in 2010) as selling expenses and to R$970 (R$789 in 2010) as administrative expenses.

(*) These amounts refer to changes in intangible assets and PP&E.

Cost	Consolidated Land and construction	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Account balance at 12/31/2010	**110,482**	**201,967**	**105,325**	**4,294**	**1,402**	**423,470**
Additions	5,718	22,489	2,098	82	349	30,736
Write-offs	(106)	(5,850)	(1,187)	(6)	(29)	(7,178)
Transfers (*)	5,278	42,338	(64)	(3,458)	-	44,094
Account balance at 12/31/2011	**121,372**	**260,944**	**106,172**	**912**	**1,722**	**491,122**
Depreciation						
Account balance at 12/31/2010	**(65,566)**	**(127,444)**	**(92,219)**	**(548)**	**-**	**(285,777)**
Additions	(2,638)	(16,060)	(7,430)	(127)	-	(26,255)
Write-offs	42	5,497	1,173	6	-	6,718
Transfers (*)	(4)	(429)	149	175	-	(109)
Account balance at 12/31/2011	**(68,166)**	**(138,436)**	**(98,327)**	**(494)**	**-**	**(305,423)**
Net balance 12/31/2011	**53,206**	**122,508**	**7,845**	**418**	**1,722**	**185,699**
Net balance 12/31/2010	**44,916**	**74,523**	**13,106**	**3,746**	**1,402**	**137,693**

(In thousands of reais – except when otherwise stated)

10. Property, plant and equipment--Continued

Annual depreciation allocated to income amounted to R$24,897 (R$20,023 in 2010) as cost of services to R$376 (R$552 in 2010) as selling expenses and R$1,091 (R$1,548 in 2010) as administrative expenses.

(*) These amounts refer to changes in intangible assets and PP&E.

11. Suppliers and other liabilities

	Company	
	12/31/2011	12/31/2010
Accounts payable to suppliers	108,068	120,135
Taxes, charges and contributions	49,801	43,535
Tax installments (a)	261,299	229,238
Accrued vacation pay	76,587	72,854
Electrical power (b)	24,670	44,784
Construction work (c)	27,875	34,030
Investiment valuation allowance (Note 08)	45,607	27,957
Other payables	67,491	43,249
Total	661,398	615,782
Non-current liabilities	(304,475)	(287,370)
Current liabilities	356,923	328,412

	Consolidated	
	12/31/2011	12/31/2010
Accounts payable to suppliers	111,494	122,325
Taxes, charges and contributions	50,122	43,818
Tax installments (a)	261,299	229,238
Accrued vacation play	76,949	73,154
Electric power (b)	24,670	44,784
Construction work (c)	27,878	34,032
Other payables	67,675	43,378
Total	620,087	590,729
Non-current liabilities	(258,871)	(259,415)
Current liabilities	361,216	331,314

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

(In thousands of reais – except when otherwise stated)

11. Suppliers and other liabilities--Continued

a) Tax installments

	Company/Consolidated	
	2011	2010
Tax installments (*)	10,533	24,576
ISS installments (**) (Note 25)	250,766	204,662
Total	261,299	229,238
Current portion	(41,239)	(36,370)
Non-current portion	220,060	192,868

(*) On November 27, 2009, the Company made a request for the installments of a Federal VAT premium tax credits that had been previously used to offset Federal Taxes amounting to R$54,492, in twelve installments, in accordance with the Provisional Executive Order (MP) No. 470, dated 2009. In September 2010, the Company made a new request for installments amounting to R$28,086, in twenty-four installments, as a supplement to the previous request maturing in September 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). At December 31, 2011, there are 98 installments remaining maturing in February 2020.

b) 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 December 31, 2011, there are 9 installments to be paid. The current portion also includes monthly invoices, in the amount of R$5,442 (R$4,607 in 2010).

11. Suppliers and other liabilities--Continued

c) Construction work

In December 2003, the Company received funds from “Programa de Despoluição de Bacias Hidrográficas” - PRODES 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 Wastewater Treatment Plant of Ribeirão do Onça, in the city of Belo Horizonte. In accordance with clause 6 of Agreement 012/2003 signed on November 21, 2003, the payment for treated wastewater 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 the issuance of the certification was filed on July 1, 2009, as provided for in the 3rd Amendment to the contract signed on August 15, 2007. In November 2008, October 2010 and December 2011, the right of the amount passed to ANA was recognized for the total fulfillment of the 3 stages mentioned in the contract, amounting R$7,499, R$8,665 and R$9,018, respectively. In 2008, R6,249 was credited to deferred income and R$1,250 to financial income. In 2009, the financial income of R$6,249 was recognized referring to the deferred income recorded in 2008 plus R$708 referring to the 1/3 of income earned on the investment of the funds received. In 2010 R$6,499 was credited to deferred income and R$2,166 to financial income which was also credited in R$495 referring to the 1/3 of income earned on the investment of the funds received. In 2011, R$6,764 was credited to deferred income and R$2,254 to financial income which was also credited in R$6,499 referring income recorded in 2010 and R$708 referring to the 1/3 of income earned on the investment of the funds received. The Compliance with the schedule established as from the starting date of the certification process progresses normally, with the submission of quarterly reports to the ANA. The updated amount invested until December 31,2011, in relation to this transfer, is R$9,551 (R$17,501 in 2010)- Note 07.

11. Suppliers and other liabilities--Continued

c) Construction work--Continued

In December 2007, the Company received in the underlying restricted account R$18,720 referring to a new transfer of funds from Agência Nacional de Águas - ANA, in return for the Federal Government participation in the construction of the Wastewater Treatment Plant of “Betim Central”, in Betim. Under clause 6 of Agreement 039/2007, signed on December 11, 2007, settlement of treated wastewater will be made to the Company in twelve quarterly, successive installments, after certification of pollutant load reduction goals to be issued by that agency. The Company started the certification process of “ Programa de Despoluição de Bacias Hidrográficas” - PRODES 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. In 2011, the discussions on technical adjustment of the report continued, which are currently under analysis, in its final draft by the ANA. Once the approval for the first measurement is obtained, the company will be made available the equivalent to 1/12 of the funds existing in the underlying restricted account. 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 December 31, 2011, relating to this transfer of funds is R$26,422 (R$24,120 in 2010) - Note 07.

At December 21, 2011, the company signed an agreement for the transfer of funds by the National Water Agency - ANA, with the participation of the Federal Government participation in the construction of the Wastewater Treatment Plant ETEs, in Ibirité. As provided in clause 6 of the agreement 099/2011, signed on December 11, 2007, settlement of treated wastewater will be made to the Company in twelve quarterly, successive installments, after certification of pollutant load reduction goals to be issued by that agency. The agreement shall remain in force up to December 31, 2018.

(In thousands of reais – except when otherwise stated)

12. Loans and debentures

	Company/Consolidated	
	12/31/2011	**12/31/2010**
Current liabilities		
State Government/BDMG	4,717	5,429
Federal Savings and Loan Bank (CEF)	114,916	100,910
National Treasury	36,875	34,733
BNDES – BNE	54,074	3,469
Promissory Notes – Citibank	155,924	-
Federal Government – bonds	4,719	5,419
Bank loans and financing	371,225	149,960
Simple debentures	102,715	96,866
Convertible debentures	69,742	502
Debentures	172,457	97,368
Total current liabilities	543,682	247,328
Non-current liabilities		
State Government/BDMG	7,756	11,472
Federal Savings and Loan Bank (CEF)	613,804	652,225
National Treasury	41,806	77,397
BNDES – BNE	533,973	370,945
Federal Government – bonds	51,031	49,040
Bank loans and financing	1,248,370	1,161,079
Simple debentures	952,614	568,025
Convertible debentures	65,293	133,740
Debentures	1,017,907	701,765
Total non-current liabilities	2,266,277	1,862,844
Total current and non-current liabilities	**2,809,959**	**2,110,172**

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

	Book value 12/31/2011	**Fair value 12/31/2011**	**Book value 12/31/2010**	**Fair value 12/31/2010**
Bank loans and financing	1,619,595	1,719,016	1,311,039	1,209,374
Simple debentures	1,055,329	1,012,141	664,891	566,108
Convertible debentures	135,035	134,532	134,242	134,629
Total	**2,809,959**	**2,865,689**	**2,110,172**	**1,910,111**

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:

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

Credit facilities	Contractual rate	Period in months	Market rates	Remarks
State Government/ BDMG	9.03%	39	7.33%	CEF rate, as there is no similar market rate
CEF/FGTS	9.87%	198	7.33%	CEF rate quoted in Dec/11
National Treasury	5.38%	25	7.33%	CEF rate, as there is no similar market rate
BNDES/BNE	7.57%	121	7.55%	BNDES/BNE rate quoted in Dec/11
Promissory note	12.50%	09	12.50%	Contractual rate, as there is no similar market rate
Federal Government	4.70%	148	7.33%	CEF rate, as there is no similar market rate
Simple debentures	8.87%	122	9.95%	BNDES/BND rate quoted in Dec/11
Convertible debentures	8.30%	18	8.30%	BNDES/BNA rate quoted in Dec/11

a) Bank loans and financing

On July 18, 2011, the Company and Citibank entered into an agreement for the coordination, placement and public offering of the first issuance of COPASA MG Promissory Notes (Commercial Papers), under a firm guarantee. The amount of R$148,000 was divided into 37 Promissory Notes in a single series of R$4,000 each, maturing within 360 days, being subject to compensatory interest payable upon maturity, calculated on their unit par value, corresponding to the cumulative variation of 105.2% of average daily rates of one-day extra group overnight Interbank Deposits (DI).

The funds raised in this fashion will be used by the issuer to supplement its Investment Program.

Bank loans and financing mature until 2032 and have an average coupon rate of 8.70% per annum (8.46% per annum as at December 31, 2010). Non-current amounts mature as follows:

Maturity	2011	2010
2012	-	184,773
2013	212,188	185,705
2014	175,683	148,900
2015	141,171	115,919
2016	106,814	83,963
2017	72,858	51,583
2018 to 2032	539,656	390,236
Total	**1,248,370**	**1,161,079**

The book values of the Company foreign currency loans total R$55,750 (R$54,459 in 2010).

12. Loans and debentures--Continued

b) Guarantees for bank loans and financing

The Company offers the following guarantees for its financing arrangements:

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$35,192, restated through December 31, 2011 (R$24,639 in 2010), by applying the average price of the Zero Coupon Bond of the US Treasury, recorded under the caption “financing collateral”.

Local currency agreements

Financing arrangements involving assignments in trust and restricted credits:

- 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 involving assignments in trust and restricted credits 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:

  - Assignment in trust 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;

12. Loans and debentures--Continued

b) Guarantees for bank loans and financing--Continued

Local currency agreements --Continued

- Assignment in trust 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 December 31, 2011 is recorded as collateral for financing in the amount of R$25,862 (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 assignment in trust 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 December 31, 2011 is R$26,527 (R$7,049 in 2010).

  - 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 due. The balance of this account, recorded as collateral for financing at December 31, 2011, is R$555 (R$176 in 2010).

12. Loans and debentures--Continued

b) Guarantees for bank loans and financing--Continued

Other financing arrangements:

Loans and financing agreements entered into with 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 December 31, 2011 is R$9,918 (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.

Financing relating to the Promissory Notes obtained from Citibank does not require financial guarantees.

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures

		Company/Consolidated			
		2011		2010	
Subscription/series	Subscription date	Current	Non-current	Current	Non-current
Non-convertible debentures					
Subscription – 1st issuance					
1st and 2nd	6/30/2004	7,815	12,245	7,846	19,978
3rd and 4th	11/9/2004	7,815	12,245	7,846	19,978
5th and 6th	7/29/2004	7,815	12,245	7,846	19,978
7th	12/19/2005	3,907	6,122	3,923	9,989
8th and 9th	4/24/2006	7,815	12,244	7,847	19,978
10th	12/19/2006	3,907	6,122	3,923	9,989
11th and 12th	3/23/2007	7,815	12,244	7,847	19,978
Total 1st issuance		46,889	73,467	47,078	119,868
Subscription – 3rd issuance					
1st to 6th	12/6/2007	16,299	110,945	16,355	126,795
7th	9/25/2008	2,717	18,491	2,726	21,132
8th	12/6/2008	8,149	55,472	8,178	63,397
9th to 11th	3/30/2009	8,149	55,472	8,178	63,397
12th to 14th	11/27/2009	2,717	18,491	2,726	21,132
15th to 17th	5/26/2010	8,150	55,473	8,178	63,397
18th	7/2/2010	2,717	18,491	2,726	21,133
Total 3rd issuance		48,898	332,835	49,067	380,383
Subscription – 4th issuance					
1st	12/27/2010	3,395	222,210	721	67,774
2nd	11/24/2011	1,198	36,102	-	-
		4,593	258,312	721	67,774
Subscription – 5th issuance					
Single	10/27/2011	2,335	288,000	-	-
Total 5th issuance		2,335	288,000	-	-
Total non-convertible debentures		**102.715**	**952,614**	**96,866**	**568,025**
Convertible debentures					
Subscription – 2nd issuance					
Single	8/28/2007	43,313	39,050	316	81,255
Single	9/6/2007	25,180	25,002	177	50,004
Single	12/3/2007	1,249	1,241	9	2,481
Total convertible debentures		**69.742**	**65,293**	**502**	**133,740**
Total debentures		**172.457**	**1,017,907**	**97,368**	**701,765**

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures--Continued

Non-convertible debentures

Subscription – 1st issuance:

In June 2004, the Company placed 300 nonconvertible simple debentures of R$1,000 each, in a private issuance, 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 date of issuance to the effective subscription date, the contractual terms and conditions being the following:

Date of issuance	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 issuance 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 December 31, 2011, the amount pledged as collateral totaled R$14,205 (R$15,465 in 2010).

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

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures--Continued

Non-convertible debentures--Continued

Subscription – 3rd issuance:

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 issuance is being made in 18 (eighteen) series of R$25,000 each. The contractual terms and conditions were as follows:

Date of issuance	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 issuance 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 December 31, 2011, the amount pledged as collateral totaled R$19,519 (R$20,683 in 2010).

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures --Continued

Non-convertible debentures--Continued

Subscription – 4th issuance:

In July 2010, the Company placed nonconvertible simple debentures, in a private issuance 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:

Date of issuance	July 15, 2010
Term	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 + 9.046555% p.a. for 2nd series
Guarantee	Assignment in trust

This 4th issuance 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 the assignment in trust of receivables.

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures--Continued

Non-convertible debentures--Continued

Subscription – 5th issuance:

In August 2011, the Company placed nonconvertible simple debentures, in a private issuance, through exclusive subscription by Planner Trust DTVM Ltda., consisting of 288,000 (two hundred eighty-eight thousand) debentures of R$ 1,000 each, issued in a single series of R$ 288,000, under the following contractual terms and conditions:

Funds will be transferred from the “settlement account” to the “freely traded account” in accordance with the financial and physical schedule of each project, subject to explicit request by the issuer, and to evidence of compliance with the contractual conditions to be provided by the trustee.

Date of issuance	September 20, 2011
Term	240 months
Grace period of the principal	42 months
Amortization	198 months
Final maturity	September 30, 2031
Yield	TR + 9% p.a.
Guarantee	Assignment and restriction of receivables

This 5th issuance is guaranteed by part of the Company's tariff revenue, which is equivalent to the monthly amount not less than 4.5% of the outstanding balance of the debentures as at December 31 each year, by the accounts assigned and by all of the shares held by the Company in permitted investments.

The funds from this issuance will be used to develop the Company’s basic sanitation projects.

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures--Continued

Convertible debentures

Subscription – 2nd issuance:

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

Date of issuance	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).

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 issuance, and between June 1, 2012 and May 31, 2013, when each debenture can be converted into two common shares of our issuance, at the price of R$ 31.20 per share, as restated under the indenture terms. The following conversions were made through December 31, 2011:

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

c) Simple and convertible debentures--Continued

Convertible debentures--Continued

Subscription – 2nd issuance:--Continued

Data	Number 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
11/29/2011	314	1,256
Total	**33,853**	**135,812**

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

	2011	2010
Liability component at the beginning of the period	134,242	134,629
Debenture conversion	-	-
Financial expense	11,683	11,684
Interest paid	(10,890)	(12,071)
Liability component at the end of the period	**135,035**	**134,242**

The fair value of the financial component of the convertible debt bond at December 31, 2011 totals R$135,035. 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 issuances 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.

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

d) Covenants

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 to or less than 1.0
EBITDA/debt service	Equal to or greater than 1.55
Water and sewage connections/no. of employees	Equal to or greater than 350

(b) Covenants in agreement with CEF - the agreements originally entered into with Unibanco, involving FGTS funds, were subsequently transferred to CEF (administrator), as described above in item 2 "Financing arrangements involving assignments in trust and restricted credits".

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

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

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

(d) Covenants in agreements with BNDES/debentures:

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

(In thousands of reais – except when otherwise stated)

12. Loans and debentures--Continued

d) Covenants--Continued

(e) Covenants in agreements with CEF/debentures:

Ratio	Limit
Net debt/equity	Equal to or less than 1.0
EBITDA/debt service	Equal to or greater than 1.5
Total debt/equity	Equal to or less than 1.0
Net debt/EBITDA	Equal to or less than 3.0
EBITDA/ROL (net operating revenue)	Equal to or greater than 36%

None of the covenants above had been breached through December 31, 2011.

13. Provisions for tax and legal claims

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	
	2011	**2010**
Provision for tax claims (IPI premium credit)	**44,619**	54,538
Provision for legal claims	**43,956**	33,114
Total	**88,575**	87,652

	Consolidated	
	2011	**2010**
Provision for tax claims (IPI premium credit)	**44,619**	54,538
Provision for legal claims	**46,447**	34,947
Total	**91,066**	89,485

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

(In thousands of reais – except when otherwise stated)

13. Provisions for tax and legal claims--Continued

Changes in provisions can be shown as follows:

	Company Provisions For legal claims Civil	Labor	Tax	Judicial/ escrow deposits	IPI premium credit	Total
December 31, 2010	**18,698**	**15,763**	**418**	**(1,765)**	**54,538**	**87,652**
Additions	20,694	7,551	1,801	(573)	1,772	31,245
Reversals	(6,594)	(7,331)	-	-	(11,691)	(25,616)
Use	(3,325)	(1,367)	(138)	124	-	(4,706)
December 30, 2011	**29,473**	**14,616**	**2,081**	**(2,214)**	**44,619**	**88,575**

	Consolidated Provisions For legal claims Civil	Labor	Tax	Judicial/ escrow deposits	IPI premium credit	Total
December 31, 2010	**18,698**	**17,811**	**418**	**(1,980)**	**54,538**	**89,485**
Additions	20,694	10,731	1,801	(1,448)	1,772	33,550
Reversals	(6,594)	(8,977)	-	56	(11,691)	(27,206)
Use	(3,325)	(1,946)	(138)	646	-	(4,763)
December 30, 2011	**29,473**	**17,619**	**2,081**	**(2,726)**	**44,619**	**91,066**

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 “other operating 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 December 31, 2011.

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

13. Provisions for tax and legal claims--Continued

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.

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 in 2003. 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. The appraiser informed the amounts but the case is being examined by the Prosecution Office. At December 31, 2011, liquidation of the amount involved in the final judgment is estimated at R$324 (R$305 at December 31, 2010).

Environmental Protection Association Verde Gaia has been filing public civil actions 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 various procedural stages within the Judiciary Branch, courts of first and second instances handed down favorable decisions to the plaintiff, and most of the cases had to be reassessed as probable losses. 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 provision for the 47 actions amounts to R$5,777 at December 31, 2011 (R$1,114 at 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. In September 2011, in fact-finding stage, COPASA required expert evidence and the hearing of witnesses; in December 2011, the Judge summoned AGF Brasil S/A to present a response to the impleader. By the completion of this report, the hearing date had not been set, and the provision amounts to R$2,454 at December 31, 2011 (R$2,311 at December 31, 2010).

13. Provisions for tax and legal claims--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 an appeal and COPASA filed a brief of respondent on appeal on November 20, 2010. On June 30, 2011, a decision was handed down by a court of second instance (appellate court) rejecting the appeal filed by the plaintiff. Thus, the Company won the case and no provision is recorded at December 31, 2011 (R$1,440 at December 31, 2010).

The Company was 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, an amendment to the previous TAC was executed, wherein COPASA agreed to make two payments of five hundred thousand reais, one paid on February 28, 2011 and another in August 2011. The agreement was officially approved by the judge, thereby extinguishing the collection claim. As such, no provision is recorded at December 31, 2011 (R$1,956 at December 31, 2010).

Provisions for labor claims

Most of the claims for which the Company is directly liable relate to pain and suffering and material damages due to occupational illnesses or accidents, overtime, commuting, risk and health exposure premiums, 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 33.61% 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 December 31, 2011 the Company recorded a provision for contingencies in the amount of R$2,594 (R$2,597 as of December 31, 2010).

13. Provisions for tax and legal claims--Continued

a) Provisions--Continued

Provisions for labor claims

In addition, COPASA is currently a party to twenty-two 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$ 4,408 was recorded at December 31, 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 December 31, 2011 in the amount of R$1,342 (R$1,227 at December 31, 2010).

Provisions for tax claims

The Company is a party to a significant tax claim that refers to PIS/PASEP and COFINS matching credits regarding contributions made in the period between January 2004 and August 2007. 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 record a provision considering the best estimate of future cash outflows required to settle this liability, amounting to R$ 28,163 in 2011 (R$38,082 in 2010) until the legal basis of such credits is defined. In 2010, write-off of R$10,051, related to 2004, and in March 2011 there was a write-off of R$ 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.

(In thousands of reais – except when otherwise stated)

13. Provisions for tax and legal claims--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	
Nature	**12/31/2011**	**12/31/2010**
Civil (*)	402,021	371,276
Tax (**)	55,623	38,022
Total	**457,644**	**409,298**

(*) This refers to lawsuits filed by customers, State and Federal prosecutors, municipalities, associations, etc.., that seek jurisdictional protection with respect to different matters, except for tax- and labor-related claims, which are at various court levels, judicial courts and small claims courts, 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.

13. Provisions for tax and legal claims--Continued

b) Contingent liabilities--Continued

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 19 of its concession agreements, namely those executed with the municipalities of Almenara, Barbacena, Campina Verde, Caratinga, Cataguases, Divinópolis, Frutal, Guidoval, Itajubá, Lavras, Leopoldina, Luz, Mateus Leme, Nanuque, Patos de Minas, Ribeirão das Neves, São Gotardo, Serra da Saudade and Três Corações. Except for Caratinga and São Gotardo, all other actions were classified as possible or remote losses and, accordingly, no provisions were recognized. 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.

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$68,717 at December 31, 2011 (R$64,721at 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.

13. Provisions for tax and legal claims --Continued

b) Contingent liabilities--Continued

Formal Commitments to Action (TACs)--Continued

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.

(**) This 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 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. The tax liability, adjusted through December 31, 2011, amounts to R$32,432 (R$28,085 at December 31, 2010) and was classified as a possible contingency.

14. Employee profit sharing

As resolved by the Company's Board of Directors in a meeting held on March 1, 2011 and in accordance with prevailing legislation, the amount to be distributed as Employee Profit Sharing is equivalent to 25% of the mandatory minimum dividends paid to 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.

The 2008/2010 Collective Agreement, executed in a meeting held on July 25, 2008, as ratified by the 2011 Collective Agreement, executed on August 8, 2011, determines 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.

(In thousands of reais – except when otherwise stated)

14. Employee profit sharing--Continued

At December 31, 2011, the Company recognized R$28,317 as a provision for the year's profit sharing (R$27,132 in 2010).

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 December 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	
	2011	**2010 (*) Reclassified**	**2011**	**2010 (*) Reclassified**
Income before taxes	648,871	921,713	639,936	910,486
Statutory rate	34%	34%	34%	34%
Expected expense at the statutory rate	(220,616)	(313,382)	(217,578)	(309,565)
Income and social contribution taxes on:				
(Additions) /exclusions				
Equity pickup	(6,001)	(6,946)	-	-
Realization of the special monetary adjustment reserve	(2,570)	(3,433)	(2,570)	(3,433)
Donations and grants	3,199	905	3,199	905
Other (additions) /exclusions	(11,818)	(3,675)	(17,852)	(10,560)
Other reconciliation items				
Interest on equity capital	52,063	76,232	52,063	76,232
Tax incentives	7,309	5,711	7,309	5,711
Income and social contribution taxes	(178,434)	(244,588)	(175,429)	(240,710)
Current income and social contribution taxes	(152,114)	(129,785)	(152,160)	(129,785)
Deferred income and social contribution taxes	(26,320)	(114,803)	(23,269)	(110,925)
	(178,434)	(244,588)	(175,429)	(240,710)
Effective rate	27.5%	26.5%	27.4%	26.5%

(*) Reclassified due to changes in the balance of donations and grants and of other temporary differences.

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.

(In thousands of reais – except when otherwise stated)

15. Income and social contribution taxes--Continued

b) Deferred income and social contribution taxes--Continued

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	**2011**	**2010**	**2011**	**2010**
In long-term receivables				
Temporary differences:				
Allowance for doubtful accounts and litigation losses	72,316	56,360	72,316	56,360
Reserve for actuarial liabilities	29,743	64,161	29,743	64,161
Provisions for adjustments required under CPC's	330,904	294,007	330,904	294,007
Tax provisions	200,138	271,997	200,138	271,997
Other temporary provisions - sundry	7,645	7,964	8,941	9,258
Total	640,746	694,489	642,042	695,783
Deferred income tax	160,187	173,622	160,510	173,946
Deferred social contribution tax	57,667	62,504	57,784	62,620
	217,854	236,126	218,294	236,566
In non-current liabilities				
Temporary differences:				
Deferred exchange gains (losses) (on financing transactions)	5,072	16,003	5,072	16,003
Provisions for adjustments required under CPC's	148,436	113,836	197,841	172,211
Total	153,508	129,839	202,913	188,214
Deferred income tax	38,377	32,460	50,728	47,054
Deferred social contribution tax	13,816	11,685	18,262	16,939
	52,193	44,145	68,990	63,993
Deferred income and social contribution taxes, net	165,661	191,981	149,304	172,573

In the income statement from January 1 to December 31	Company 2011	Consolidated 2011
1. Increase / (decrease) in deferred assets		
Deferred income tax	(13,435)	(13,436)
Deferred social contribution tax	(4,837)	(4,836)
	(18,272)	(18,272)
2. Decrease / (increase) in deferred liabilities		
Deferred income tax	5,917	3,674
Deferred social contribution tax	2,131	1,323
	8,048	4,997
Result of deferred taxes for the year (1 - 2) (Increase) /decrease in tax expenses	(26,320)	(23,269)

(In thousands of reais – except when otherwise stated)

15. Income and social contribution taxes--Continued

b) Deferred income and social contribution taxes --Continued

In meetings held by the fiscal council on February 28, 2012, and by the Board of Directors on February 29, 2012, approval was given to 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 December 31, 2011, as estimated below:

Expected realization of deferred tax assets	
In 2012	20,964
In 2013	15,592
In 2014	13,262
In 2015	9,940
In 2016	9,940
2017 to 2021	148,156
	217,855

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

(In thousands of reais – except when otherwise stated)

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**
December 31, 2011			
State	211,111	(206,370)	4,741
Other	12,446	(12,102)	344
Total	223,557	(218,472)	5,085
December 31, 2010			
State	221,447	(222,468)	(1,021)
Other	16,137	(16,608)	(471)
Total	237,584	(239,076)	(1,492)

	Consolidated		
	Receivables (Assets)	**Advance (Liabilities)**	**Net**
December 31, 2011			
State	484,400	(478,927)	5,473
Other	12,446	(12,102)	344
Total	496,846	(491,029)	5,817
December 31, 2010			
State	428,943	(430,934)	(1,991)
Other	16,137	(16,608)	(471)
Total	445,080	(447,542)	(2,462)

(In thousands of reais – except when otherwise stated)

17. Pension plan

	12/31/2011	12/31/2010
Non-current liabilities	145,235	154,509
Current liabilities	12,072	7,417
	157,307	161,926
Normal contributions and interest	47	10,352
Total liabilities recognized in the balance sheet	157,354	172,278
Expenses (income) recognized in income statement with pension plan benefits:		
Benefits Plan RP1 – DB	2,734	(407,563)
COPASA Settled Plan	11,860	121,183
COPASA New Plan – DC	2,260	12,186

Changes in net liabilities are as follows:

Company / Consolidated	12/31/2011	12/31/2010
Net liabilities - opening balance	172,278	486,666
Expenses (income) recognized in the income statement – actuarial liabilities	(2,429)	(313,073)
Expenses recognized in the income statement –		
Contributions from COPASA	33,655	34,183
Reserve for monthly contributions	40,265	44,494
Monetary restatement	8,173	5,788
Debt amortization	(10,839)	(6,781)
Amortization of monthly contribution	(83,749)	(78,999)
Net liabilities - closing balance	157,354	172,278
Current liabilities	12,119	17,769
Non-current liabilities	145,235	154,509

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 2011, the DB plan had 150 payees and 183 inherited members, the Settled Benefit Plan had 2,018 payees and 1,364 inherited members, and the DC plan had 10,621 payees and 476 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.

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

In accordance with paragraph 93 of CPC 33, the entity has adopted a policy to include the amortization of actuarial gains and losses as a component of annual expenses. If at the beginning of the year, net gains and losses exceed 10% of the greater of the defined benefit obligation and the fair value of plan assets, the amortization amount shall be the excess amount divided by the average remaining service of the plan's active participants. The minimum amortization amount is the excess, if any, of net gains and losses above 10% of the greater of the defined benefit obligation and the fair value of plan assets reported at the end of the previous fiscal year divided by the average remaining service of the plan's active participants.

The amounts recognized in the balance sheet are as follows:

a) Benefits Plan RP1 – DB

	2011*	2010*	2009	2008
Present value of actuarial liabilities	**(36,398)**	(29,920)	(1,228,735)	(972,586)
Fair value of the plan assets	**8,518**	-	862,794	698,195
Present value of liabilities in excess of fair value of the plan assets	**(27,880)**	(29,920)	(365,941)	(274,391)
Actuarial (gain) loss not recognized	**(1,096)**	(1,342)	(110,047)	(223,764)
Accrued actuarial assets (liabilities)	**(28,976)**	(31,262)	(475,988)	(498,155)

(*) The decrease in accrued actuarial liabilities after year 2010 was due to the defined benefit plan restructuring in October 2010

Changes in defined benefit liabilities for the year are as follows:

	2011	2010
At January 1	**29,920**	1,228,735
Current service cost	**(397)**	8,066
Financial cost	**3,112**	113,551
Contributions from plan members	**446**	27,283
Actuarial (gains) losses	**5,828**	54,744
Benefits paid	**(2,511)**	(33,722)
Prepaid liabilities	**-**	(296,833)
Early settlement of liabilities	**-**	(1,071,904)
At December 31	**36,398**	29,920

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

a) Benefits Plan RP1 – DB--Continued

Changes in the fair value of the plan assets in the reporting periods are as follows:

	2011	2010
At January 1	-	862,794
Effective return on plan assets	**5,563**	80,970
Employer's contributions	**5,019**	37,163
Employees' contributions	**447**	27,283
Benefits paid	**(2,511)**	(33,722)
Early settlement of liabilities	**-**	(974,488)
At December 31	**8,518**	-

Estimated payment of contributions to defined benefit pension plan for the next financial year totals R$5,371.

The amounts recognized in the income statement are:

	2011	2010
Current service cost	**(397)**	8,066
Financial cost	**3,112**	113,551
Recognition of actuarial (gain) / loss	**-**	-
Expected return on plan assets	**19**	(83,630)
Cost of prepayment of plan liabilities	**-**	(307,959)
Cost of early settlement of plan liabilities	**-**	(137,591)
	2,734	(407,563)

Pension plan (income) expenses totaling R$2,734 (R$407,563 in 2010) were recognized under "administrative expenses".

Effective return on plan assets in 2011 totaled R$5,563 (R$80,970 in 2010).

The weighted average allocation of assets per asset category is as follows:

	Defined benefit pension plan		
	Allocation of assets up to December 31 in %		Allocation of assets per resolution of PREVIMINAS Board of Trustees – percentage rate or bracket
	2011	2010	
Fixed income	84.16	-	Up to 100%
Floating income	6.22	-	Up to 50%
Real estate portfolio	6.15	-	Up to 8%
Other	3.47	-	Up to 15%
Total	100.00	-	

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

a) Benefits Plan RP1 – DB--Continued

Investment strategies:

- The PREVIMINAS Board of Trustees sets forth the investment guidelines;
- Investment objectives: achieve the minimum actuarial yield (INPC plus 6% p.a.), within short and long term;
- Types of allowed investments: fixed income – low-risk credit assets, shares, properties and loans to plan members;
- Types of investments not allowed: medium and high-risk credit assets, foreign currency and others according to Brazilian legislation;
- Use of derivatives: for hedging purposes.

Benchmarks for the investment plan assets:

- Debt bonds: CDI;
- Equity securities: Average IBOVESPA;
- Real estate: INPC + 6% p.a.;
- Loans to plan members: INPC + 6% p.a.

The following assumptions were used by the Company (percentage, including projected annual inflation of 4.5%):

	Projected unit credit	
	2011	**2010**
Annual discount rate	**10.81% p.a.**	10.75% p.a.
Expected annual return on plan assets	**11.24% p.a.**	10.50% p.a.
Annual salary increase	**7.00% p.a.**	6.50% p.a.
Annual increase in benefits	**5.00% p.a.**	4.50% p.a.
Inflation rate	**5.00% p.a.**	4.50% p.a.
Mortality table	**AT – 2000 Basic**	AT – 2000 Basic
Disability table	**Light Média**	Light Média
Morbidity table	**GAMA-Previminas Experience**	GAMA-Previminas Experience
Disabled mortality table	**AT-1949 rated up by 100%**	AT-1949 rated up by 100%
Turnover rate	**4.5%/(service length + 1)**	4.5%/(service length + 1)

The expected return on plan assets was determined by the plan manager, based on the estimated expected return for each type of investment, as well as plan asset allocation target, defined based on the investment policy for 2011.

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

a) Benefits Plan RP1 – DB --Continued

Expected annual return on plan assets:

Average IPCA over 10 years: 5.00%

Type of Asset	Current share in the portfolio	Share in the portfolio in the long term	Effective expected return in the long term	Nominal return on IPCA in the long term
Fixed income	84.16%	84.16%	5.54%	10.82%
CDI	84.16%	84.16%	5.54%	10.82%
Floating income	6.22%	6.22%	11.30%	16.86%
Loans to plan members	1.07%	1.07%	6.00%	11.30%
Real estate	6.15%	6.15%	6.00%	11.30%
Other assets I	2.40%	2.40%	6.00%	11.30%
Portfolio	100.00%	100.00%	5.95%	11.24%

- Column "Current share in the portfolio" must reflect the percentage of funds allocated to each type of investment.
- Column "Share in the portfolio in the long term" must reflect the percentage of funds expected to be allocated to each type of investment in the long term.
- Expected return on assets was calculated by reference to the scenarios devised by consulting firms Tendências Consultoria and Towers Watson.
- Fixed-income assets: current yield curves were considered.
- Floating income assets: the historical risk premium was used.
- Loans to plan members, if applicable: IPCA + 6%.
- Real estate, if applicable: IGP-M + 6%.

b) COPASA Settled Plan

	2011	2010
Present value of actuarial liabilities	**(728,963)**	(639,056)
Fair value of plan assets	**580,372**	532,462
Present value of liabilities net of the plan assets	**(148,591)**	(106,594)
Actuarial (gain) loss not recognized	**31,593**	(11,884)
Accrued actuarial assets (liabilities)	**(116,998)**	(118,478)

Changes in defined benefit liabilities for the year are as follows:

	2011	2010
At January 1	**639,056**	-
Current service cost	**-**	118,846
Financial cost	**67,010**	11,068
Contributions from plan members	**-**	292
Actuarial (gains) losses	**47,420**	512,791
Benefits paid	**(24,523)**	(3,941)
At December 31	**728,963**	639,056

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

b) COPASA Settled Plan --Continued

Changes in the fair value of the plan assets in the reporting periods are as follows:

	2011	2010
At January 1	**532,462**	-
Effective return on plan assets	**59,093**	533,406
Employer's contributions	**13,340**	2,705
Employees' contributions	**-**	292
Benefits paid	**(24,523)**	(3,941)
At December 31	**580,372**	532,462

Estimated payment of contributions to defined benefit pension plan for the next financial year totals R$14,007.

The amounts recognized in the income statement are:

	2011	2010
Current service cost	**-**	118,846
Financial cost	**67,010**	11,068
Expected return on plan assets	**(55,150)**	(8,731)
	11,860	121,183

Pension plan expenses totaling R$11,860 (R$121,183 in 2010) were recognized in the income statement under "administrative expenses".

Effective return on plan assets in 2011 totaled R$59,093 (R$533,406 in 2010). The actual rate of return on plan assets in 2011 was 11.22% p.a.

Investment strategies:

- The PREVIMINAS Board of Trustees sets forth the investment guidelines;
- Investment objectives: achieve the minimum actuarial yield (INPC plus 6% p.a.), within short and long term;
- Types of allowed investments: fixed income – low-risk credit assets, shares, properties and loans to plan members;
- Types of investments not allowed: medium and high-risk credit assets, foreign currency and others according to Brazilian legislation;
- Use of derivatives: for hedging purposes.

Benchmarks for the investment plan assets:

- Debt bonds: CDI;
- Equity securities: Average IBOVESPA;
- Real estate: INPC + 6% p.a.;
- Loans to plan members: INPC + 6% p.a.

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

b) COPASA Settled Plan --Continued

The following assumptions were used by the Company (percentage, including projected annual inflation of 4.5%):

	Projected unit credit	
	2011	**2010**
Annual discount rate	**10.80% p.a.**	10.75% p.a.
Expected annual return on plan assets	**11.40% p.a.**	10.50% p.a.
Annual increase in benefits	**5.00% p.a.**	4.50% p.a.
Inflation rate	**5.00% p.a.**	4.50% p.a.
Mortality table	**AT – 2000 Basic**	AT – 2000 Basic
Disabled mortality table	**AT–1949 rated up by 100%**	AT–1949 rated up by 100%

The expected return on plan assets was determined by the plan manager, based on the estimated expected return for each type of investment, as well as plan asset allocation target, defined based on the investment policy for 2011.

Expected annual return on plan assets:

Average IPCA over 10 years: 5.00%

Type of Asset	Current share in the portfolio	Share in the portfolio in the long term	Effective expected return in the long term	Nominal return on IPCA in the long term
Fixed income	79.73%	79.73%	5.54%	10.82%
CDI	79.73%	79.73%	5.54%	10.82%
Floating income	8.72%	8.72%	11.30%	16.86%
Loans to plan members	1.46%	1.46%	6.00%	11.30%
Real estate	7.37%	7.37%	6.00%	11.30%
Other assets I	2.72%	2.72%	6.00%	11.30%
Portfolio	100.00%	100.00%	6.10%	11.40%

- Column "Current share in the portfolio" must reflect the percentage of funds allocated to each type of investment.
- Column "Share in the portfolio in the long term" must reflect the percentage of funds expected to be allocated to each type of investment in the long term.
- Expected return on assets was calculated by reference to the scenarios devised by consulting firms Tendências Consultoria and Towers Watson.
- Fixed-income assets: current yield curves were considered.
- Floating income assets: the historical risk premium was used.
- Loans to plan members, if applicable: IPCA + 6%.
- Real estate, if applicable: IGP-M + 6%.

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

c) COPASA New Plan – DC

	12/31/2011	12/31/2010
Fair value of plan assets	**4,993**	-
Present value of actuarial liabilities	**(15,056)**	(11,848)
Actuarial (gain) loss not recognized	**(1,270)**	(338)
Accrued actuarial assets (liabilities)	**(11,333)**	(12,186)

Changes in defined contribution liabilities for the year are as follows:

	2011	2010
At January 1	**11,848**	-
Current service cost	**989**	11,974
Financial cost	**1,173**	195
Contributions from plan members	**1,958**	-
Actuarial (gains) losses	**(250)**	(321)
Benefits paid	**(662)**	-
At December 31	**15,056**	11,848

Estimated payment of contributions to defined contribution pension plan for the next financial year totals R$1,626.

Changes in the fair value of the plan assets in the reporting periods are as follows:

	2011	2010
At January 1	**-**	-
Effective return on plan assets	**584**	-
Employer's contributions	**3,113**	-
Employees' contributions	**1,958**	-
Benefits paid	**(662)**	-
Early settlement of liabilities	**-**	-
At December 31	**4,993**	-

The amounts recognized in the income statement are:

	2011	2010
Current service cost	**989**	11,975
Financial cost	**1,173**	195
Expected return on plan assets	**98**	16
	2,260	12,186

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

c) COPASA New Plan – DC--Continued)

Pension plan expenses totaling R$2,260 (R$12,186 in 2010) were recognized in the income statement under "administrative expenses".

Investments are broken down below:

Fixed income	406,265	82.4%
Floating income	49,654	10.1%
Structured investments	17,865	3.6%
Loans	19,040	3.9%
Total investments	492,824	100.0%

Investment strategies:

- The PREVIMINAS Board of Trustees sets forth the investment guidelines;
- Investment objectives: achieve the minimum actuarial yield (INPC plus 6% p.a.), within short and long term;
- Types of allowed investments: fixed income – low-risk credit assets, shares, properties and loans to plan members;
- Types of investments not allowed: medium and high-risk credit assets, foreign currency and others according to Brazilian legislation;
- Use of derivatives: for hedging purposes.

Benchmarks for the investment plan assets:

- Debt bonds: CDI;
- Equity securities: Average IBOVESPA;
- Real estate: IGP-M + 6% p.a.;
- Loans to plan members: IPCA + 6% p.a.

The actual rate of return on plan assets in 2011 was 26.49% p.a.

The following assumptions were used by the Company (percentage, including projected annual inflation of 4.5%):

	Projected unit credit	
	2011	**2010**
Annual discount rate	**10.59% p.a.**	10.75% p.a.
Expected annual return on plan assets	**11.45% p.a.**	10.50% p.a.
Annual salary increase	**7.00% p.a.**	6.50% p.a.
Annual increase in benefits	**5.00% p.a.**	4.50% p.a.
Inflation rate	**5.00% p.a.**	4.50% p.a.
Mortality table	**AT–2000 Basic**	AT–2000 Basic
Disability table	**Light Média**	Light Média

(In thousands of reais – except when otherwise stated)

17. Pension plan--Continued

c) COPASA New Plan – DC--Continued

The expected return on plan assets was determined by the plan manager, based on the estimated expected return for each type of investment, as well as plan asset allocation target, defined based on the investment policy for 2011.

Expected annual return on plan assets:

Average IPCA over 10 years: 5.00%

Type of Asset	Current share in the portfolio	Share in the portfolio in the long term	Effective expected return in the long term	Nominal return on IPCA in the long term
Fixed income	77.00%	77.00%	5.54%	10.82%
CDI	77.00%	77.00%	5.54%	10.82%
Floating income	9.23%	9.23%	11.30%	16.86%
Loans to plan members	3.91%	3.91%	6.00%	11.30%
Real estate	6.98%	6.98%	6.00%	11.30%
Other assets I	2.88%	2.88%	6.00%	11.30%
Portfolio	100.00%	100.00%	6.14%	11.45%

- Column "Current share in the portfolio" must reflect the percentage of funds allocated to each type of investment.
- Column "Share in the portfolio in the long term" must reflect the percentage of funds expected to be allocated to each type of investment in the long term.
- Expected return on assets was calculated by reference to the scenarios devised by consulting firms Tendências Consultoria and Towers Watson.
- Fixed-income assets: current yield curves were considered.
- Floating income assets: the historical risk premium was used.
- Loans to plan members, if applicable: IPCA + 6%.
- Real estate, if applicable: IGP-M + 6%.

18. Equity and dividends

(a) Capital

The number of authorized common shares totals 115,301 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 shares 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.

The Company's free float rate as at December 31, 2011 is 46.6%.

(b) Retained profits

Management proposes retained profits of R$284,379 (R$416,395 in 2010) for future investments by the Company, in line with the "action plan" approved by the Board of Directors, 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 2011, R$9,409 (R$2,661 in 2010) 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.

(In thousands of reais – except when otherwise stated)

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 they were made available to the shareholders become time-barred in favor of the Company.

At December 31, 2011 and 2010, mandatory minimum dividends are as follows:

	12/31/2011	12/31/2010
Net income for the year	470,437	677,125
Legal reserve - (5%)	(23,522)	(33,856)
Tax incentive reserve	(9,409)	(2,661)
Net income	437,506	640,608
Mandatory minimum dividend – 25%	**109,377**	**160,152**

On June 27, 2011, the Company's Board of Directors approved 35% interest on equity to be included in dividends, in the amount of R$153,127 (R$1.33 per share) net of withholding income tax of R$11,224. In 2010, the amount was R$224,213 (R$1.95 per share), net of withholding income tax of R$11,400.

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$52,063. For corporate purposes, interest on equity is disclosed as a debit to retained earnings, under equity.

Changes in the balance of interest on equity in 2011 and 2010 are as follows:

	12/31/2011	12/31/2010
Balance at January 1	66,859	53,276
Proposed interest on equity capital	153,127	224,213
IRRF on interest on equity capital	(15,627)	(12,797)
Interest on equity capital paid for the year	(177,438)	(198,097)
Transfer to taxes recoverable	-	264
Balance of interest on equity capital in current liabilities	**26,921**	**66,859**

(In thousands of reais – except when otherwise stated)

18. Equity and dividends--Continued

(e) Earnings per share

- Basic earnings

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased and held in treasury by the Company (item "a" above).

	Company		Consolidated	
	2011	2010	2011	2010
Profit attributable to the Company's shareholders	**470,437**	677,125	**464,507**	669,776
Weighted average number of common shares outstanding – thousand	**114,931**	114,929	**114,931**	114,929
Basic earnings per share	**4.09**	5.89	**4.04**	5.83

- Diluted earnings

Diluted earnings per share amounts are calculated by adjusting the weighted average number of common shares outstanding, assuming conversion of all potential diluted common shares. The Company has a category of potential diluted common shares: convertible debenture. 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		Consolidated	
	2011	2010	2011	2010
Income				
Income attributable to the Company's shareholders	**470,437**	677,125	**464,507**	669,776
Financial expense on convertible debt (net of tax effect)	**7,711**	7,712	**7,711**	7,712
Income used to determine diluted earnings per share	**478,148**	684,837	**472,218**	677,488
Weighted average number of common shares issued – thousands	**114,931**	114,929	**114,931**	114,929
Adjustments from assumed conversion of the convertible debt – thousands	**4,353**	4,520	**4,353**	4,520
Weighted average number of common shares for diluted earnings per share – thousands	**119,284**	119,449	**119,284**	119,449
Diluted earnings per share	4.01	5.73	3.96	5.67

18. Equity and dividends--Continued

(f) Other comprehensive income

Amounts relating to other comprehensive income did not impact the Company's "statement of other comprehensive income".

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, trade and other accounts receivable, 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.

19. Financial risk management objectives and policies--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

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

Interest rate risk

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.

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Sensitivity to interest rates

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

	Increase /decrease in basis points	Effects on income before taxes
12/31/2011		
R$	+ 0.5%	(12,770)
R$	- 0.5%	12,770
12/31/2010		
R$	+ 0.5%	(9,484)
R$	- 0.5%	9,484

The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility as 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.

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$55,750 at December 31, 2011 (R$54,459 at December 31, 2010), i.e., 2.0% of its total debt (2.6% at December 31, 2010). As of December 31, 2011, the Company maintains collateral of R$35,192 (R$24,639 at December 31, 2010) for part of its financing in foreign currency (Note 12).

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(a) Financial risk management--Continued

(i) Market risk--Continued

Foreign currency sensitivity

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

	Change in US$ rate	**Effect on income before taxes**
12/31/2011	+ 20%	(11,036)
	- 20%	11,036
	+10%	(5,518)
	-10%	5,518
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.

(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 to 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.

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(a) Financial risk management--Continued

(ii) Credit risk--Continued

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	
	12/31/2011	**12/31/2010**
Current account, bank deposits and short-term investments (*)		
AAA	94,559	50,145
AA	63,469	551
A	26,520	3,067
B (BAA, BA and BBB)	56,988	22,030
	241,536	75,793

	Consolidated	
	12/31/2011	**21/31/2010**
Current account, bank deposits and short-term investments (*)		
AAA	95,394	52,004
AA	63,469	551
A	26,520	3,067
B (BAA, BA and BBB)	56,988	22,030
	242,371	77,652

(*) Based on Moody's credit rating.

(In thousands of reais – except when otherwise stated)

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 than 5 years
At December 31, 2011				
Amortization	521,288	660,715	431,026	1,174,536
Interest	22,394	-	-	-
Loans and financing	543,682	660,715	431,026	1,174,536
Suppliers and other liabilities	139,415	24,489	44,366	64,261
At December 31, 2010				
Amortization	238,629	695,253	402,043	765,549
Interest	8,699	-	-	-
Loans and financing	247,328	695,253	402,043	765,549
Suppliers and other liabilities	160,861	56,610	41,394	55,955

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(a) Financial risk management --Continued

(iii) Liquidity risk

(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.

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

Institution	Collateral (committed revenue)	2011	2010
CEF until 1998 and National Treasury	10% of receivables	**22,459**	45,071
CEF 2003, 2004, 2007, 2008 and 2009	Committed revenue equivalent to 3 times the monthly debt service	**11,234**	10,281
Unibanco 2002 and syndicated agreements 2004	R$17 MM annually restated based on IPCA since July 4, 2006	**21,956**	20,544
Syndicated agreements II – 2006	R$15.3 MM annually restated based on IPCA since July 4, 2006	**19,760**	18,489
BNDES 2004 (I issuance of debentures) 300 MM	R$18 MM annually restated based on IPCA since February 1, 2009	**20,115**	18,973
BNDES 2007 (III issuance of debentures) 450 MM	R$18 MM annually restated based on IPCA since December 12, 2007	**21,215**	21,215
BNDES PAC 2007/2008	R$26 MM annually restated based on IPCA since May 20, 2008	**30,907**	29,006
BNDES 181 MM	R$7 MM annually restated based on IPCA since April 22, 2010	**7,498**	7,000
BNDES simple debentures 740 MM	R$26 MM annually restated based on IPCA since July 1, 2010	**34,487**	32,000
BNDES 288 MM	Committed revenue equivalent to 4.5% of debentures debt balance	**13,070**	-

(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 its 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.

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(b) Capital risk management--Continued

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

Similarly to its market peers, 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 by adding equity, as disclosed in the consolidated balance sheet, to net debt.

In 2011, the Company's strategy, which remained unaltered in relation to 2009, was that of maintaining the financial leverage and debt ratios below 100%. Total liabilities to equity ratio at December 31, 2011 and 2010 can be summarized as under:

	Company	
	2011	2010
Total loans and debentures (Note 12)	**2,809,959**	2,110,172
Less: cash and cash equivalents (Note 6)	**(241,536)**	(75,793)
Net debt	**2,568,423**	2,034,379
Total equity	**4,501,677**	4,184,328
Total capital	**7,070,100**	6,218,707
Financial leverage ratio - %	**36**	33
Indebtedness ratio - %	**57**	49

	Consolidated	
	2011	2010
Total loans and debentures (Note 12)	**2,809,959**	2,110,172
Less: cash and cash equivalents (Note 6)	**(242,371)**	(77,652)
Net debt	**2,567,588**	2,032,520
Total equity	**4,533,604**	4,222,185
Total capital	**7,101,192**	6,254,705
Financial leverage ratio - %	**36**	32
Indebtedness ratio - %	**57**	48

(In thousands of reais – except when otherwise stated)

19. Financial risk management objectives and policies--Continued

(c) Fair value estimate

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

20. Revenue

The Company's operating revenues for the years ended December 31, 2011 and 2010 are set out below:

	Company	
	12/31/2011	12/31/2010
Revenue from water supply and Sewage services	2,810,978	2,591,648
Construction revenue	701,256	915,508
Total gross revenue	3,512,234	3,507,156
Sales taxes	(255,800)	(235,581)
Other deductions	(45,568)	(44,830)
Net revenue	**3,210,866**	**3,226,745**

	Consolidated	
	12/31/2011	12/31/2010
Revenue from water supply and Sewage services	2,825,299	2,603,313
Gross revenue from sale of goods	1,911	1,224
Construction revenue	701,256	915,508
Total gross revenue	3,528,466	3,520,045
Sales taxes	(257,852)	(237,101)
Other deductions	(45,682)	(44,873)
Net revenue	**3,224,932**	**3,238,071**

Other operating revenue earned by the Company in the years ended December 31, 2011 and 2010 are presented below:

	Company	
	12/31/2011	12/31/2010
Non-deductible reversal of provision	28,045	334,081
Recovery of accounts written-off	30,420	43,918
Other revenue	20,237	12,562
Total other operating revenue	**78,702**	**390,561**

(In thousands of reais – except when otherwise stated)

20. Revenue--Continued

	Consolidated	
	12/31/2011	12/31/2010
Non-deductible reversal of provision	**29,691**	334,081
Recovery of accounts written-off	**30,534**	43,953
Other revenue	**21,545**	13,341
Total other operating revenue	**81,770**	**391,375**

21. Expenses by nature

	Company	
	12/31/2011	12/31/2010
Salaries and charges	821,946	741,848
Materials	99,106	91,732
Outsourced services	458,672	440,340
General	95,015	88,197
Depreciation and amortization	304,497	268,928
Allowance for doubtful accounts	43,972	49,433
Provision for losses with obsolete materials	1,965	793
Construction costs	687,301	893,606
Provision for contingencies	31,817	66,572
Equity pickup	18,537	20,430
Employee profit sharing	28,317	27,132
Other	31,569	21,388
Operating expenses	**2,622,714**	**2,710,399**
(-) Tax credits	**(70,871)**	**(50,345)**
Net operating expenses	**2,551,843**	**2,660,054**
Cost	**1,903,764**	**2,024,001**
Expenses	**648,079**	**636,053**

	Consolidated	
	2011	2010
Salaries and charges	**829,100**	749,317
Materials	**101,161**	93,062
Outsourced services	**467,117**	448,889
General	**97,562**	90,249
Depreciation and amortization	**315,696**	281,357
Allowance for doubtful accounts	**45,015**	50,099
Provision for losses with obsolete materials	**2,541**	793
Construction costs	**687,301**	893,606
Provision for contingencies	**35,000**	68,552
Employee profit sharing	**28,317**	27,132
Other	**33,518**	27,577
Operating expenses	**2,642,328**	**2,730,633**
(-) Tax credits	**(71,454)**	**(50,837)**
Net operating expenses	**2,570,874**	**2,679,796**
Costs	**1,923,418**	**2,043,383**
Expenses	**647,456**	**636,413**

(In thousands of reais – except when otherwise stated)

22. Expenses with employee benefits

	Company	
	12/31/2011	12/31/2010
Salaries	**456,335**	403,962
Social security costs	**141,372**	130,838
Unemployment Compensation Fund (FGTS)	**44,833**	37,370
Pension plan contribution	**33,655**	34,183
Workers' meal program	**92,112**	84,869
Health plan	**40,575**	38,577
Other benefits	**13,064**	12,049
Total	**821,946**	**741,848**
Employee headcount (unaudited)	**11,535**	11,436

	Consolidated	
	12/31/2011	12/31/2010
Salaries	**461,949**	409,718
Social security costs	**142,268**	131,936
FGTS	**45,118**	37,722
Pension plan contribution	**33,655**	34,183
Workers' meal program	**92,306**	85,024
Health program	**40,648**	38,618
Other benefits	**13,156**	12,116
Total	**829,100**	**749,317**
Employee headcount (unaudited)	**11,794**	11,685

23. Financial income (expenses), net

Changes identified in financial income for 2011, in comparison with the same period of 2010 are as follows:

	Company	
	01/01/2011 to 12/31/2011	01/01/2010 to 12/31/2010
Interest income	**25,542**	56,335
Effective investment yield	**27,077**	22,915
Monetary and foreign exchange gains	**27,519**	24,379
Capitalization of financial and other assets	**16,195**	14,748
Total financial income	**96,333**	**118,377**
Interest expense	**(147,958)**	(117,853)
Monetary and foreign exchange losses	**(32,870)**	(30,153)
Other expenses	**(4,359)**	(5,910)
Total expenses	**(185,187)**	**(153,916)**
Financial income (expenses) net	**(88,854)**	**(35,539)**

(In thousands of reais – except when otherwise stated)

23. Financial income (expenses), net--Continued

	Consolidated	
	01/01/2011 to 12/31/2011	01/01/2010 to 12/31/2010
Interest income	**25,771**	56,534
Effective investments yield	**27,128**	22,321
Monetary and foreign exchange gains	**20,239**	19,500
Capitalization of financial/other assets	**16,399**	16,757
Total financial income	**89,537**	**115,112**
Interest expense	**(147,964)**	(117,911)
Monetary and foreign exchange losses	**(32,871)**	(30,154)
Other expenses	**(4,594)**	(6,211)
Total financial expenses	**(185,429)**	**(154,276)**
Financial income (expenses), net	**(95,892)**	**(39,164)**

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 2011				
	Subsidiaries				Other
	Águas Minerais	Copanor	Serviços Irrigação	Total	MG State
Assets					
Current					
Accounts receivable					
Billed amounts	-	-	-	-	8,905
Agreements	-	-	-	-	4,741
Non-current					
Loans	57,541	17,139	1,368	76,048	-
Investments	1	1	1	3	-
Total assets	57,542	17,140	1,369	76,051	13,646
Liabilities					
Current liabilities					
Interest on equity capital	-	-	-	-	15,870
Non-current					
Investment valuation allowance	31,047	13,666	894	45,607	-
Total liabilities	31,047	13,666	894	45,607	15,870
Income statement					
Revenue from water supply and sewage services	-	-	-	-	89,806
Gains on monetary variation	5,561	1,542	178	7,281	-

(In thousands of reais – except when otherwise stated)

24. Transactions with related parties--Continued

	Company 2010				
	Subsidiaries				Other
	Águas Minerais	Copanor	Serviços Irrigação	Total	MG State
Assets					
Current					
Accounts receivable					
Billed amounts	-	-	-	-	9,780
Non-current					
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					
Agreements	-	-	-	-	1,021
Interest on equity capital	-	-	-	-	35,958
Non-current					
Provision for investment losses	15,443	11,484	1,030	27,957	-
Total liabilities	**15,443**	**11,484**	**1,030**	**27,957**	**36,979**
Income statement					
Revenue from water supply and Sewage services	-	-	-	-	83.136
Gains on monetary variation	3,661	1,046	172	4,879	-

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). Loan agreements with subsidiaries have remuneration of 101% of CDI.

- 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.

(In thousands of reais – except when otherwise stated)

24. Transactions with related parties--Continued

► Agreements with CODEMIG

As of March 22, 2006, the Company signed an intention protocol for technical cooperation and, as of June 30, 2006, a lease agreement was made to take over the rights related to mineral waters of Araxá, Cambuquira, Caxambu and Lambari, as mentioned in Note 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 December 31, 2011, the outstanding balance under these agreements totals R$78,681, 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 December 31, 2011, the outstanding balance of these agreements is R$55,750, 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 follows:

	2011	**2010**
Salaries and other short-term benefits to employees	**4,962**	3,434
Post-employment benefits	**-**	28
	4,962	3,462

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:

1) 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 December 31, 2011, the balance receivable totaled R$250,766 of which R$30,706 under current assets and R$220,060 under non-current assets (R$204,662 at December 31, 2010 with R$22,327 under current assets and R$182,335 under non-current assets).

2) The Company assumed the costs of the Program for Environmental Recovery and Sanitation of River Valleys and Streams in Belo Horizonte (DRENURBS), on behalf of the municipality under Belo Horizonte Concession Right Performance cost at the initial amount of R$170,000 and restated at the ICPA rate. In December 2011 the Belo Horizonte Municipal Government stated measurements of spending made on the program up to December 2009. Considering its commitment to refund part of the amount of these measurements as from January 2008, the amount was restated to the referred date and less the total amount of refunds made in the period, making a balance of R$214,933. On presentation of new spending measurements made by the Municipal Government a refund of 240 (two hundred and forty) remaining installments, the value of each limited to R$855 restated at the IPCA rate, and the restated balance.

(In thousands of reais – except when otherwise stated)

26. Fair value measurement and hierarchy

Fair value is a current price, represent the amount that would be received on sale of an asset or the transfer of a liability in a common transaction between market participants.

Accordingly, fair value is a measurement based on market rates and thereby shall be determined based on the assumption that market participants would use in assets and liability prices. A three-tier fair value hierarchy is used as a base for calculation that prioritizes entries used in the fair value measurement as follows:

1. Tier 1 – Inputs observable with prices quoted on active markets;
2. Tier 2 - Inputs, that do not have prices quoted on active markets that are directly or indirectly observable; and
3. Tier 3 – Unobservable inputs, for which there is little or no data thereby requiring an entity make its own assumptions.

At December 31, 2011 the only financial instrument valued at fair value held by the Company is represented by short-term investments in Bank Deposit Certificates (CDB), classified as cash equivalents as these are immediately redeemable financial assets posing low risk of any change in market value measurable at Tier 2.

27. Commitments

COPASA entered into new venture construction contracts, under which obligations are recorded as services are rendered. The main outstanding contracts with subcontractors and suppliers at December 31, 2011:

Subcontractor	Amount	Execution date	Term in days (1)
Construtora Andrade Gutierrez S.A.	186,404	08/25/2011	1,080
Construções Camargo Corrêa S/A.	121,904	11/24/2011	900
Construtora Barbosa Mello S/A.	43,272	12/26/2011	540
Egesa Engenharia S/A.	42,121	09/13/2010	1,080
SONEL Soc. Nacional Elétrica Hidr. Ltda.	23,650	08/11/2010	540
Construtora R. Fonseca	22,731	06/30/2009	1,080
Infracon Engenharia e Comércio Ltda.	21,596	09/05/2011	360
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

(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.

(In thousands of reais – except when otherwise stated)

27. Commitments--Continued

The main committed amounts refer to the following municipalities:

	Amounts		
Municipality	**Committed**	**Realized**	**% Realization**
Betim	80,286	73,521	91.57
Belo Horizonte (Note 25)	261,140	46,207	17.69
Contagem	82,742	82,742	100
Montes Claros	121,941	61,417	50.37
Ribeirão das Neves	86,411	70,977	82.14
Teófilo Otoni	54,360	-	-

28. 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 year ended December 31, 2011

29. ICMS Levy (State VAT)

According to State Law No. 9944 of September 20, 1989, and State Decree No. 38104/96, the Company started paying ICMS (State VAT) under a special tax regime, whereby this tax was levied and collected on the supply of piped water 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.

30. Significant events

a) The Board of Directors' meeting held on January 9, 2012 ("RCA"), approved the 6th issue of non-convertible simple debentures in up to two series of debentures publicly distributable with limited allocation rights under the terms of CVM Rule No. 476/09, under firm guarantee ("Offer"). Four hundred (400) debentures shall be issued as from February 15, 2012 ("Issue date"), with a nominal par value of R$1,000, totaling R$400,000, with the quantity of debentures to be issued for each series to be defined by the communicating vessels system after conclusion of book building to be realized by the offer coordinators except for one (1) series that shall not be issued. 1st series debentures shall have a term of five (5) years as from the issue date, thereby maturing on February 15, 2017; and 2nd series debentures shall have a term of seven (7) years as from the issue date, thereby maturing February 15, 2019.

b) In the Extraordinary General Meeting for Companhia de Saneamento de Minas Gerais – COPASA MG's held on January 31, 2011, the opening of an administrative bidding process relating to the initiation of a Public Private Partnership (PPP) was approved in order to perform expansion and improvement works and services for the Rio Manso Producer System for a period of 15 (fifteen) years, with investment amounting to R$ 457,000.

Executive Board

Ricardo Augusto Simões Campos	Chief Executive Officer
Luiz Otávio Ziza Mota Valadares	Vice Chief Executive Officer
Paula Vasques Bittencourt	Finance And Investor Relations Officer
Márcio Luiz Murta Kangussu	North Operations Officer
Carlos Gonçalves De Oliveira Sobrinho	Technical And New Business Officer
Marcos Antônio Teixeira	Planning And Venture Management Officer
Juarez Amorim	Metropolitan Operations Officer
Gelton Palmieri Abud	Corporate Management Officer
Valério Máximo Gambogi Parreira	Midwest Operations Officer
Paulo Fernandes Rodrigues Lopes	Southeast Operations Officer
Tilden Santiago	Environment Officer

Accountant In Charge

Geraldo Magela Moreira Calçado Accountant- Crcmg - 36.109	Pacífico Augusto Vieira Accounting, Costs And Assets Superintendent Crcmg – 55.682

Board Of Directors

João Antônio Fleury Teixeira	Chairmen
Ricardo Augusto Simões Campos	Vice-Chairmen
Euclides Garcia De Lima Filho	Director
Flávio José Barbosa De Alencastro	Director
Ênio Ratton Lombardi	Director
José Carlos Carvalho	Director
Tadeu Barreto Guimarães	Director
Alfredo Vicente Salgado Faria	Director
Alexandre Pedercini Issa	Director