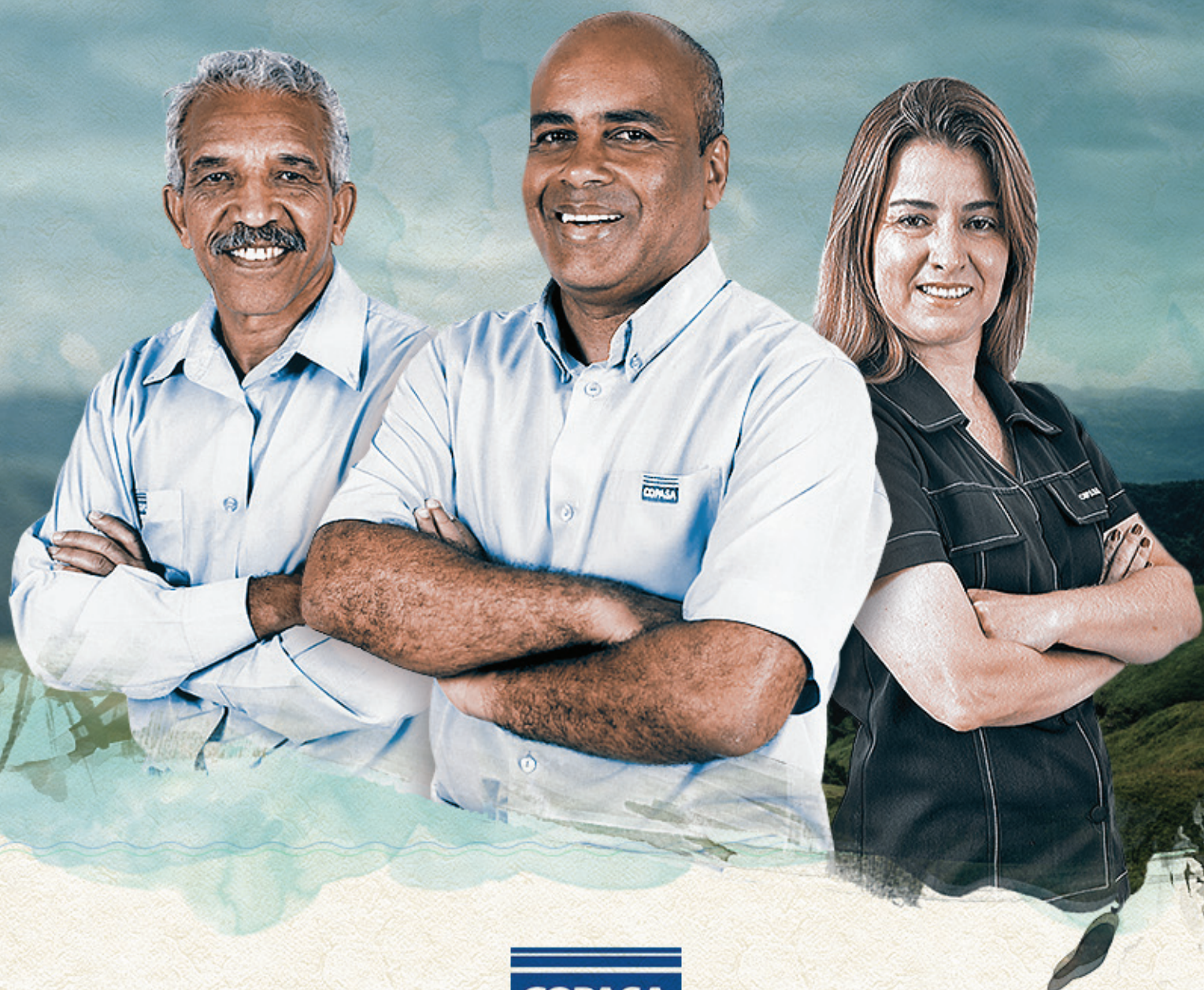


2012 Annual Sustainability Report



COPASA

A água de Minas

Summary

Company Presentation	04
Vision, Mission, Principles and Values	05
Message from the Management	06
Copasa	10
The History of Copasa	11
Key Indicators	13
Copasa in 2012	15
Concessions	17
Subsidiaries	18
Technical Cooperation	20
Awards and Acknowledgments	22
Corporate Governance	24
Corporate Governance Structure	25
Code of Ethical Conduct	31
Relationship with Stakeholders	32
Regulating Agencies and Market Regulation	34
Economic Dimension	36
Economic Outlook	37
Parent Company Financial Performance	38
Investments	41
Capital Market	43
Commercial and Operational Performance	45
Main Risks, Opportunities and Strategies	51
Environmental Dimension	55
Environmental Policy	56
Environmental Licensing and Granting of Use of Water Resources	56
Sewage Collection and Treatment	59

Summary

Environmental Preservation	63
Energy Efficiency	65
Climate Changes	67
Environmental Education	70
Social Dimensions	73
Copasa and Its Employees	74
Copasa and Its Customers	89
Copasa and Its Suppliers	92
Copasa and The Community	93
Annual Social Responsibility Report	100
About the Report	106
Report Development Parameters	107
Global Reporting Initiative (GRI) Indexes	111
Acknowledgments	127
Production Credits	128

Company Presentation

A portrait of Washington Sousa Araújo, a man with short dark hair, smiling and wearing a white polo shirt with his arms crossed. He is positioned on the right side of the page, with a scenic background of a lake and mountains. The background is overlaid with a textured, watercolor-style wash in shades of blue and green.

Washington
Sousa Araújo

DNT/DPNE/DTBJ

When she began working at the Association of Employees of Copasa (AECO), in 1987, as an System Flag operation assistant, Washington Sousa Araújo not imagined the surprises that would come ahead. Ten years later, he was invited to fill the Role of system agent. The same year, he received a certificate of excellence for the work that developed in the city. In 2001, Washington was transferred to Almenara, where he is still in charge of the system. In Almenara there were many improvements to be made and he spared no efforts to meet each one of them and, with the results achieved, won a certificate of merit for services rendered to the sanitation of Almenara. The advances he triggered as an employee of Copasa reflects in the whole society and, therefore, he was invited to join the staff of the Rotary Club of town. "I work with a team of 28 people and I try to always motivate them to focus on indicators of Copasa. Moreover, all the work we do here is thinking that the biggest beneficiary will always be the environment," says Washington.

2012 Annual
Sustainability
Report

Vision, Mission, Principles and Values (GRI 4.8)

Vision

To be acknowledged as a referential for corporate excellence.

Mission

To provide solutions in water supply, sanitary sewage and solid residues, contributing to socioeconomic and environmental development.

Principles and values

The Company is geared toward:

- permanent dialog with the granting power;
- sustainable growth;
- socio-environmental responsibility;
- preservation of water resources;
- high level of Corporate Governance;
- regard for the shareholders' interests;
- appreciation of employees;
- focus on customers' satisfaction;
- quality of the services rendered;
- partnership in the relation with suppliers.

Message from the Management

Message from The Chairman of the Board of Directors (GRI 1.1)



Copasa operates in the promotion of socioeconomic and environmental development, always focused on meeting the needs and expectations of its stakeholders and improving the health conditions and quality of life of the population from the State of Minas Gerais, seeking the universalization of water and sewage services with technical-operational competence and the best management practices. In our search for the universalization of water and sewage services, we are constantly aiming at having the company definitely recognized as a reference of corporate excellence.

We are proud of the awards we earned in 2012 and we believe that we are moving ever closer to achieving this objective. Our Southeast and Center-East Operating Areas earned the most important sanitation award in Latin America, the Diamond Trophy, level IV, of the National Sanitation Quality Award (PNQS), established as a reference symbol in the evaluation and ongoing improvement of performance, of the quality of products and services of companies in the industry throughout the country. During the same period, we were chosen by the Magazine Época Negócios, in its 360° annual report as the best company in the water and basic sanitation industry in Brazil and earned the Transparency Trophy, an award granted by Anefac-Fipecafi-Serasa Experian to organizations that stand out in the treatment and transparent disclosure of their financial statements.

The recognition mentioned above refers to some of the examples of how we are able to translate our business mission into results. More proof was the fact that for the third consecutive year, we remained in the portfolio of the Business Sustainability Index (ISE) of BM&FBOVESPA.

Other important achievements refer to the expansion in the coverage area and to the increase in the population served with Copasa services. We ended the year 2012 supplying a population of approximately 14.1 million people in Minas with water, which represents a growth of 3.3% over 2011, while the universe of

2012 Annual Sustainability Report

people who are served by the sewerage network was approximately 8.8 million customers, a number 6.2% higher than that in 2011.

These effectively consolidate the position of Copasa as a company committed to its mission to produce results and social benefits that promote the health and well-being of the population covered, foster socio-economic growth and environmental preservation in the regions where it operates.

Reaching 100% of the population in its coverage area and increasing even more the number of persons served is the goal of Copasa for the coming years. We believe that more than just an internal expectation, achieving this goal will meet the needs and expectations of the population and other stakeholders. And it is working to comply with it that we begin 2013 with a forecast for investment of some R\$ 900 million allocated to the expansion of water supply and sanitary sewage services.

We know that achieving these results is the unmistakable fruit of modern techniques, of business management tools and of the differentiated dedication of all our employees. Management recognizes the commitment of its collaborators, which is fundamental for the Company to remain socially, environmentally and economically sustainable; and we thank our clients, shareholders and suppliers for their trust, which contributed to improving our efficiency, productivity, profitability, value creation, generation of wealth and quality of life for the populations served.

João Antônio Fleury Teixeira

Message from the CEO (GRI 1.1)



The dedication and commitment of all the employees at Copasa have led to the results described in this Sustainability Report. Once again, the Company has provided the information that shows the reach of the goals established in the strategic planning based on the improvement of the processes and procedures that sustain its business.

Copasa ended the year 2012 with net operating revenues for water and sewage services of R\$ 2.768 billion and adjusted EBITDA of R\$ 1.131 billion. During the fiscal year, investments totaled R\$ 754.6 million, an amount that was mainly invested in sewage collection and treatment systems (R\$ 50.8 million) and in water supply systems (R\$ 235.9 million), which resulted in a significant increase in the capacity to meet the needs of the users of the Company's services.

In 2012, 21 new concession contracts were signed, of which 2 were for water supply services and 19 were for the rendering of sewerage services, with a highlight for the signing of the program contract with the municipality of Sabará for the provision of sewerage services. Concessions were renewed in 29 municipal seats, of which 27 were for water supply services and 2 for sewerage services. In addition to these actions, we can also emphasize the start of operation for new sewerage systems, especially the systems of the cities of Além Paraíba, Divinópolis and Guaxupé.

In relation to the water supply, compared to 2011, the population served increased by 452 thousand people, an increase of 3.3%, representing a public of approximately 14.1 million inhabitants connected to the treated water distribution supply. With regards to the sewerage systems, there was significant evolution, with an increase of 515 thousand people that gained access to public sewerage services, representing an increase of some 6.2% and totaling approximately 8.8 million inhabitants who benefitted from this service.

Extending the comparison period and going back to the year 2006, when we entered the New Market, the highest level of corporate governance of BM&FBOVESPA, we have even more notable results. In February of that year, 11.2 million residents of Minas received water from Copasa and 5.6 million people received sanitation services. This means an increase of some 26% and 57%, respectively, in the availability of these two services, which shows the effects of this type of management implemented at the Company.

2012 Annual Sustainability Report

The advances in matters related to sewage treatment is an important hallmark for the Company, and which led to an expressive increase in the volume of treated sewage, reaching 211.1 billion liters, an increase of 16% over 2011. Among the main actions are the start of operations at 14 new sewage treatment stations in several cities in the state of Minas Gerais, including: Almenara, Araxá (ETE Central), Campina Verde, Cláudio, Pouso Alegre (ETE Sapucaí Mirim), Teófilo Otoni and Turmalina. The Company ended 2012 with 129 stations in operation and another 85 under construction, scheduled for completion by 2016.

To meet the specific needs of the locations with a lower Human Development Index (IDH), Copasa extended its activities in the Northeast Region of the State of Minas Gerais, through its subsidiary Copanor. The Company ended the year 2012 providing water supply services in 42 municipalities, with a total population of 240 thousand people, and sanitation services in 17 cities, totaling 72 thousand people.

The year 2013 is very special for Copasa. We have arrived at our golden anniversary moved by an immeasurable differential advantage: the dedication and commitment of our employees, who continually strive to build an ever stronger company in every region of the state of Minas Gerais, working to provide the population with better solutions in basic sanitation, thus contributing to the socio-economic and environmental development of society.

Ricardo Augusto Simões Campos

Copasa

A portrait of Luiz Carlos Martins, a man with dark hair and a friendly smile, wearing a white button-down shirt. He is standing with his arms crossed against a background of a scenic landscape with green hills and a blue sky. The image is partially overlaid by a blue brushstroke graphic.

Luiz Carlos Martins

DPG/SPLC

Luiz Carlos Martins entered Copasa 24 years ago as a meter reader. He stayed for two years in this role, until he became the executive officer of the Southern District of Belo Horizonte (DTSL), where he remained for 11 years. Luiz was still an assistant of the Costs Division for about five years and now holds the position of assistant of logistical support of the Division of Bids of Works, Services and Materials (DVLI), linked to the Superintendency of Bids and Contracts (SPLC). He says that his work begins when he receives the demand from the areas of Copasa requesting the opening of bidding processes. "From this, we do the analysis of the bids, we set up the bidding process and then publish the bid in newspapers and on the website of Copasa", he explains. After this stage, he tells he monitors the bid itself and decision. The result of the winning firm is published and it is made the contract of the company. "The results heavily depend on DVLI Copasa, because we are expanding the market. Furthermore, we guarantee the quality of products, once that all requests of works pass through here, and where there is a work, there is development and new customers", affirms Luiz.

2012 Annual
Sustainability
Report

The History of Copasa

On July 5 1963, by means of State Law no. 2842, *Companhia Mineira de Água e Esgotos* (Comag) (the Water and Sewage Company of Minas Gerais) was created, the purpose of which was to define and execute the ample policy of basic sanitation for the State of Minas Gerais.

In 1971, with purposes to be achieved in the country by the sanitation sector, the Federal Government issued the National Sanitation Plan (Planasa). During that same period, the Municipal Water and Sewage Department of Belo Horizonte (Demae), responsible for the rendering of these services in the city of Belo Horizonte, was incorporated in to Comag. This adhesion and the changes introduced by Planasa, especially the technical-financial support increment to the work developed by the state sanitation companies, provided a significant impulse to the Company's growth.

As of that moment, Comag started to undergo a series of modifications in order to adjust itself to the needs of the Basic Sanitation Policy of the State of Minas Gerais, among them, the alteration of its name to *Companhia de Saneamento de Minas Gerais* [Sanitation Company of Minas Gerais] (COPASA MG), by means of Law 6475/74. COPASA's main activity is the provision of water supply and sewage services to the population, which include the planning and preparation of projects up to their execution, expansion, remodeling and exploitation of sanitation services.

(GRI 2.1 / 2.2 / 2.5)

In 2006, the Company realized its Initial Public Offering – IPO – entering into BM&FBOVESPA New Market, a distinct segment that demands a clearer transparency and stricter rules of corporate governance.

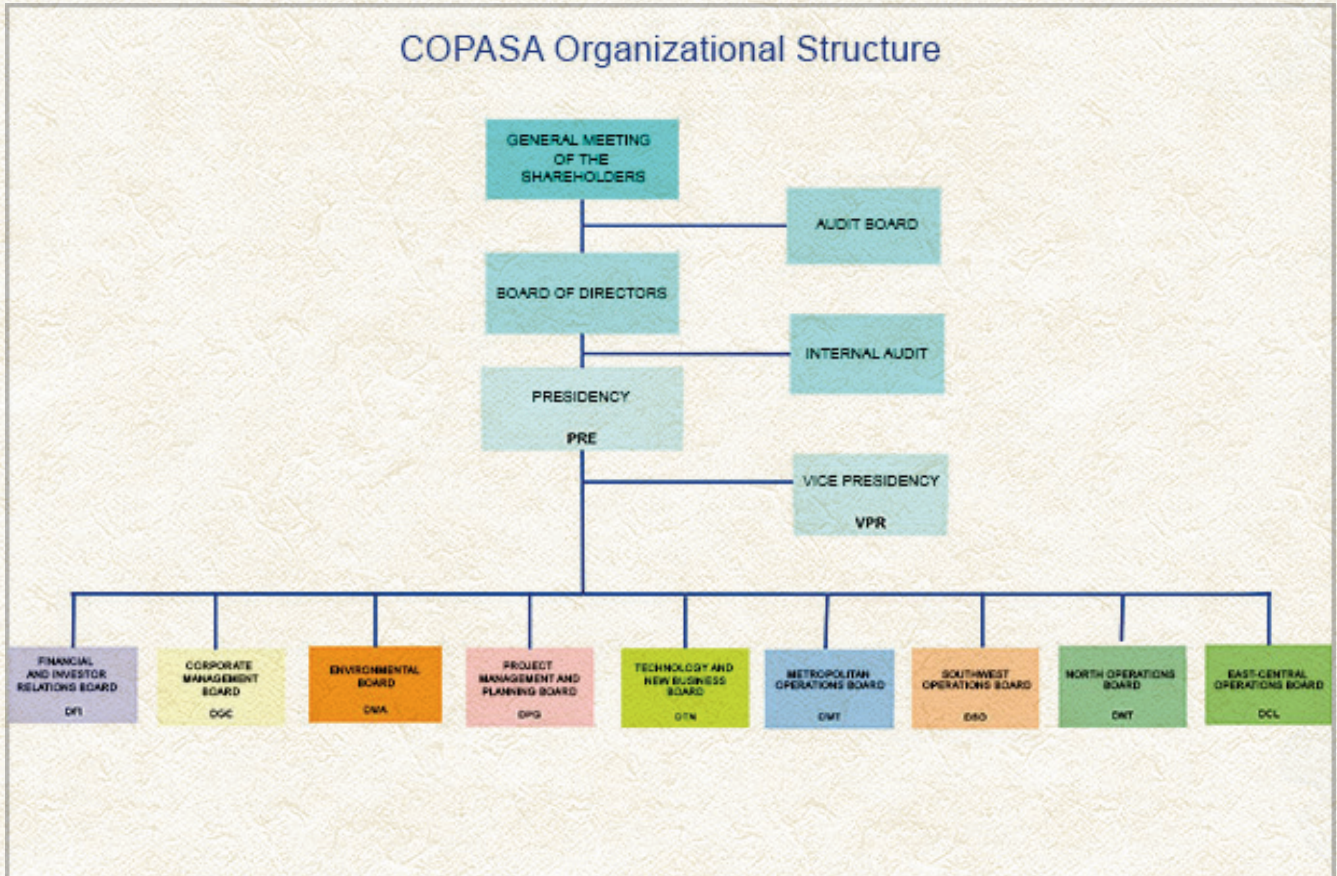
In 2007, with a view to reinforcing its presence in the market and enjoying business opportunities, 3 wholly-owned subsidiaries were created: Copasa Águas Minerais de Minas, Copasa Serviços de Irrigação and Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais (Copanor).

(GRI 2.2 / 2.3)

In April 2008, a secondary offer of shares was made in which the shareholder *Município de Belo Horizonte* (Belo Horizonte Municipality) disposed of the totality of its shares and the shareholder Estado de Minas Gerais (the State of Minas Gerais) sold part of its shares without losing the Company's corporate control.

2012 Annual Sustainability Report

In 2012, Copasa celebrated 49 years of history, recognized as one of the largest and best water and sewage companies in the Country.



(GRI 2.3)

2012 Annual Sustainability Report

Key Indicators (Data From the Controller's Office)

(GRI EC1)

1. Economic-Financial Data (R\$ thousands)	2012	2011	2010
Net Operational Income of Water and Sewage	2,768,365	2,509,610	2,311,237
Costs of Rendered Services + Commercial and Administrative Expenses	2,005,527	1,754,302	1,630,926
Costs of Rendered Services + Commercial and Administrative Expenses (without Depreciations/Amortizations)	1,633,209	1,449,805	1,361,998
EBITDA	1,145,998	1,051,524 ²	1,236,398
Adjusted EBITDA ¹	1,130,918	1,037,569 ²	923,325
Net Profit	486,928	470,437	677,125
Total Assets	8,992,688	8,274,201	7,265,695
Gross Debt	3,182,320	2,956,752	2,247,938
Net Debt	2,685,895	2,715,216	2,170,286
Shareholders' Equity	4,963,542	4,501,677	4,184,328

2. Profitability Indicators	2012	2011	2010
Return on Investment (ROI)	5.4	5.7	9.3
Profitability on Shareholders' Equity (ROE)	9.8	10.5	16.2

3. Economic-Financial Indicators	2012	2011	2010
Current Liquidity	1.45	0.84	0.94
Third Party Capital/ Shareholders' Equity	0.81	0.84	0.74
EBITDA Margin %	31.4	31.8	45.6
Adjusted EBITDA Margin %	38.8	39.8	38.5
Net Deb/ Adjusted EBITDA	2.4	2.6	1.8

2012 Annual Sustainability Report

4. Shares	2012	2011	2010
Book Value of the Share (R\$)	41.68	39.17	36.41
Profit or Loss per Share (R\$)	4.08	4.09	5.89

5. Market	2012	2011	2010
5.1 Number of Water Connections (un)	3,779,192	3,634,689	3,500,986
5.2 Number of Sewer Connections (un)	2,258,604	2,111,360	1,955,693
5.3 Number of Water Savings (un)	4,571,955	4,402,057	4,253,301
5.4 Number of Sewer Savings (un)	2,893,771	2,708,870	2,531,650
5.5 Invoiced Volume of Water (1,000m ³)	667,325	649,706	628,902
5.6 Invoiced Volume of Sewer Age (1,000m ³)	428,220	402,552	382,273
5.7 Extension of Water Network (km)	44,864	43,906	43,544
5.8 Extension of Sewer Network (km)	20,093	18,105	16,314
5.9 Municipalities With Water Concession (un)	625	620	615
5.10 Municipalities With Sewer Concession (un)	277 ³	225	213
5.11 Municipalities Water Operated (un)	612	606	603
5.12 Municipalities Sewer Operated (un)	200	176	161
5.13 Population Served With Water (th)	14,066	13,614	13,157
5.14 Population Served With Sewer (th)	8,785	8,270	7,754

(GRI EN8)

6. Staff	2012	2011	2010
6.1 Employees	11,611	11,535	11,436
6.2 No. of hired people	378	479	243
6.3 Third Parties	725	686	684

7. Environmental Indicators (R\$ thousands)	2012	2011	2010
7.1 External Project Program Investments	9,642	6,336	3,495
7.2 Production and Operation Investments	356,345	171,735	211,736

2012 Annual Sustainability Report

8. Social Indicators (R\$ thousands)	2012	2011	2010
8.1 Employee Qualification & Development	1,805	1,097	1,440
8.2 Profit Sharing	27,613	28,317	27,132
8.3 Cultural, Artistic and Sporting Sponsorship ⁴	3,555	3,750	3,226
8.4 Childhood and Adolescence Fund ⁴	671	750	600
8.5 Total Internal Social Investments	431,542	401,090	366,923
8.6 Total External Social Investments	595,853	495,482	536,406

1. EBITDA is a non-accounting measurement prepared by the Company, calculated in accordance with CVM Instruction 527/2012, consisting of net profit plus taxes on profits, net financial revenues, depreciation and amortization and on the non-operating result of the subsidiaries. The EBITDA margin is calculate over total revenues (net revenue of water and sewage, construction revenues, plus other operating revenues and revenues from subsidiaries). Adjusted EBITDA is calculated without considering construction revenues/costs. Construction revenues, although they do not have an immediate cash effect, have consequences in the fiscal year in which they are recognized, since their result is part of the tax basis for payment of Interest on Own Capital (JCPs)/dividends and for profit sharing for employees.

2. Amounts are different from those published in the 2012 Annual Report, due to the change in calculation methodology.

3. The number for the subsidiary Copanor includes 30 sewage concessions, which had not been published in the Operational Release of December/2012 and which cover a total population of 97 thousand inhabitants. In addition, the number referring to the Controlling Company includes 4 new sewerage concessions signed in December 2012 that were not disclosed in the Operational Release of that month.

4. Amounts referring to funds released by the Company through Tax Incentive Laws.

(GRI 3.10)

Copasa in 2012

(GRI 2.7 / 2.8 / 2.9)

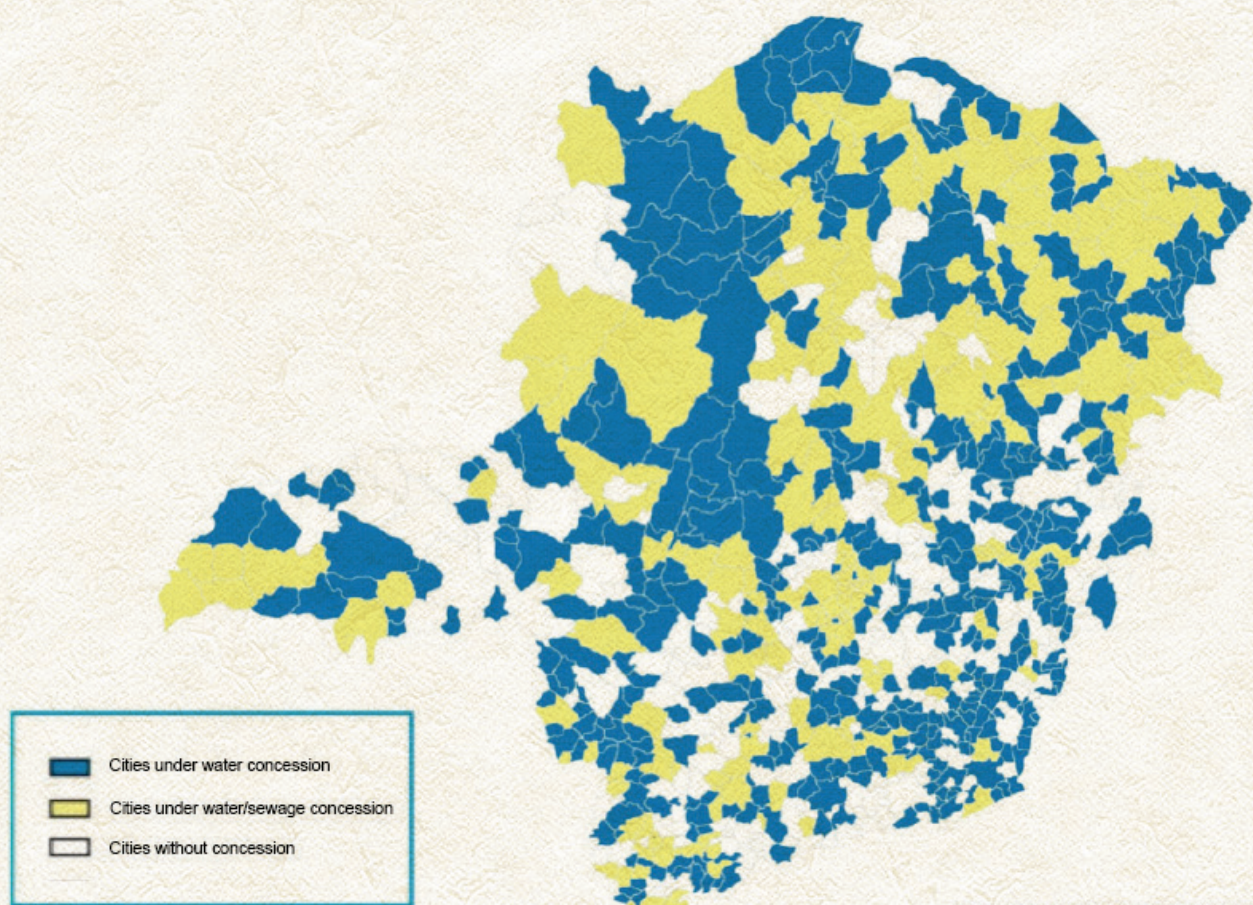
COPASA ended the year with a supply of treated water to 14.1 million people or 71.2% of the State of Minas Gerais total population. 144 thousand new water

2012 Annual Sustainability Report

connections were effected and installation of 958 km of new distribution networks, amounting to 44,864 km.

COPASA expanded its portfolio of services with sanitary sewage services, now serving 200 Minas Gerais municipalities, i.e., a population of 8.8 million people. The volume of treated sewer reached 211.1 million m³, almost 16% above the volume recorded in 2011. This increment was due to the start of operation of 14 new *Estações de Tratamento de Esgoto* (ETEs) [Sewage Treatment Plants].

Participation of COPASA in the State of Minas Gerais*



COPASA'S market value on December 31 2012 was R\$5.24 billion. COPASA ended the year with a water and sewage net operational income of R\$2.768 billion and adjusted EBITDA of R\$1.131 billion. Total investments were R\$754.6 million, a value applied mainly in water supply systems (R\$235.9 million) and in sanitary sewer systems (R\$504.8 million) that resulted in a significant expansion of service capacity to the users of basic sanitation services provided by the Company.

Concessions

In 2012, COPASA entered into new concessions for the provision of water supply services in the municipalities of Aracitaba and Frei Lagonegro. Also, new concessions were signed for the provision of sanitary sewage services in the municipalities of Antônio Prado de Minas, Capitão Enéas, Catuti, Conceição do Pará, Espinosa, Frei Lagonegro, Guaxupé, Ibiaí, Icarai de Minas, Lagoa dos Patos, Matias Cardoso, Morada Nova de Minas, Presidente Juscelino, Riacho dos Machados, Sabará, São Gonçalo do Abaeté, São João da Ponte, Taquaraçu de Minas and Verdelândia.

Also in 2012, concessions were renewed with 29 municipalities, being 27 for the provision of water supply services and 2 for sanitary sewage services. The renewal of the provision of water supply services by Copasa comprises the municipalities of Antônio Prado de Minas, Araçai, Arcos, Ataléia, Belmiro Braga, Capitão Enéas, Catuti, Conceição do Pará, Coromandel, Espinosa, Guaxupé, Ibiaí, Icarai de Minas, Lagoa dos Patos, Maravilhas, Matias Cardoso, Morada Nova de Minas, Presidente Juscelino, Ribeirão Vermelho, Sabará, São Francisco de Paula, São Gonçalo do Abaeté, São João da Ponte, Serra do Salitre, Taquaraçu de Minas, Três Marias and Verdelândia. As to sanitary sewage services, the cities of Ataléia and Três Marias were contemplated.

In 2012, the subsidiary Copanor assumed new concessions for provision of water and sewage services in a number of municipalities and villages and settlements of municipalities previously served by Copasa.

COPASA reached the end of 2012 as concessionaire for water services in 625 municipalities and sanitary sewage services in 277, as follows:

WATER AND SEWAGE OPERATIONS AND CONCESSIONS			
Item	Total	Copasa	Copanor
Number of Cities under Water Concession	625	583	42
Number of Cities under Sewage Concession	277 ¹	235	42 ¹
Number of Cities with Water Operation	612	572	40 ²
Number of Cities with Sewer Operation ²	200	183	17 ²

1 – The figures of the subsidiary Copanor include 30 sewage concessions that had not been disclosed in the Operational Release of December and with a total of 97 thousand inhabitants.

2 – The municipalities not yet in operation are at the construction work phase and final stage of investment. The projection is that they will start the provision of services as of 2013.

Subsidiaries

Copasa Serviços de Saneamento Integrado do Norte e Nordeste de Minas Gerais (Copanor)

Copanor is the concessionaire for the provision of sustainable water and sewage collection and treatment services at reduced rates in 463 locations with a low Human Development Index (HDI) and with populations between 200 and 5,000 inhabitants in the region of the Jequitinhonha, Mucuri, São Mateus, Buranhém, Itanhém and Jucuruçu river basins, all located in the Northeast Region of the state of Minas Gerais.

With resources from the State Government of Minas Gerais, the Subsidiary has a technological and organizational structure that allows it to increase efficiency and reduce operating costs in the rendering of sanitation services, which enables it to maintain a rate structure that is compatible with the socio-economic reality of the region, without compromising the quality of the services.

The experience of this Subsidiary was one of those chosen by the World Bank as a model of implementation and management of sanitation services in isolated communities in Brazil by the “Rural Sanitation Studies and Models,” conducted by the Bank.

In December 2012, there was a total of 175 locations served with a water supply system implemented, benefitting 240 thousand people and 42 locations with a sewage system, benefitting 72 thousand people. In addition, 930 families benefitted from the implementation of sanitary modules with a bathroom, washing tank, shower and sink in their residences.

Of the 92 municipalities that are a part of the Copanor coverage area, as of December 2012, 88 already had the authorization law approved and 81 had program contracts signed by the Mayors, allowing the transfer of services from the municipal government to Copanor.

In its first stage of implementation, which corresponds to the Jequitinhonha, Mucuri, São Mateus, Buranhém, Itanhém and Jucuruçu valley regions, by 2015, 463 locations will be served with a population between 200 and 5,000 inhabitants, benefitting 400 thousand people.

In 2012, R\$100 million was invested in drilling wells, in project development, purchase of materials, equipment and areas, in addition to 118 works underway and 62 works concluded in 2012.

For 2013/14, resources are being sources and assured in the amount of R\$ 200 million from the State Treasury of Minas Gerais, with another R\$ 150 million coming from BNDES/PROINVESTE.

Copasa Águas Minerais de Minas S.A. (AGMM)

Created for the purpose of fomenting tourism and promoting the development of the region and its hydro-mineral resorts, Copasa Águas Minerais de Minas is responsible for the production, distribution and commercialization of mineral water from the sources of the cities of Caxambu, Cambuquira and Lambari, in the Water Circuit of Minas Gerais, in addition to Araxá.

These waters derive from centennial natural sources and their differential is the tradition inherent to their brands. Caxambu Mineral Water was the first one to return to the market, in 2008. Cambuquira returned to the market in July 2011.

Araxá Mineral Water is available in the market since August 2012. Lambari is adjusting its operations to comply with the requirements of regulatory agencies.

Copasa Serviços de Irrigação S.A. (CSI)

Copasa Serviços de Irrigação S.A. was created to be the operating company of the irrigation system of common use of the Jaíba Project Stage II, for the purpose of promoting the socioeconomic development of the Northern Region of the State of Minas Gerais by creating job positions, income and production in a region favorable for good results in irrigation.

In this context, the main activities performed by CSI are the following: operation of raw water distribution system for irrigation of the agriculture fields; maintenance of the infrastructure of the Stage II of Jaíba Project; monitoring of water quality. The irrigation system comprises a total area of 34.8 thousand hectares of which 11.3 thousand belong to an environmental reserved area and 19.3 thousand hectares are of an irrigable area. This latter is divided into corporate lots, whose predominant cultures are sugarcane, banana and grains.

Operation of the irrigation system of the Jaíba II Project began in March 2008, with the formalization of a technical and financial cooperation agreement with the state of Minas Gerais, through the State Planning and Management Office, the State Farming, Livestock and Supply Office and Fundação Rural Mineira (Ruralminas), which ended in June 2012 and through which investments were

made, with support from the State Government, of some R\$ 7.5 million intended to adapt operational infrastructure, as well as to acquire machinery and equipment.

During this period, CSI consolidated the use of the automated system that was implemented in 2010 through the partnership with Companhia de Desenvolvimento dos Vales do São Francisco e do Parnaíba (Codevasf). When it was taken over by CSI, Stage II of the Jaíba Project showed a low occupation index – 800 hectares. In December 2012, the area occupied by agricultural production reached 13 thousand hectares.

With the end of the agreement with the state of Minas Gerais in June 2012, CSI was hired on an emergency basis until March 2, 2013, to continue providing the services. In the middle of October 2012, it was decided that at the end of the emergency contract, management of the irrigation system of Stage II will be transferred to Associação dos Irrigantes do Jaíba II, as established in Decree no. 46.080, of November 12, 2012.

Technical Cooperation

Aligned with its strategic objectives of expanding the performing market, Copasa develops a number of activities of technical cooperation with the municipalities, sanitation companies and with the private sector, in Brazil and abroad. These initiatives are performed as technical visits, technical assistance or consulting services and are tailored to fit the business.

Foz de Jeceaba: Copasa is partner of Foz do Brasil, with 15.5% of the shares (minority interest) of a company qualified to provide services of design, construction and operation (which will be transferred after 17 years of operation) of the water and sewage treatment, electric power distribution and solid waste collection and final disposal systems of Siderúrgica Vallourec & Sumitomo Tubos do Brasil in the municipality of Jeceaba. The return on this investment has exceeded the projections in the Work Plan, which confirms Copasa's right move in changing its form of operation and starting a new business at industrial level.

In 2012, in addition to receiving delegations from countries like the Netherlands, Morocco and Mozambique, focused on *benchmarking* or on the identification of future partners, Copasa served the needs of companies like: Companhia de Saneamento do Tocantins (Saneatins), Companhia de Água e Esgoto do Ceará (Cagece), Companhia de Saneamento Ambiental do Distrito Federal (Caesb), Companhia Espírito Santense de Saneamento (Cesan), Empresa Baiana de Águas e Saneamento (Embasa), Companhia de Saneamento Básico do Estado de São Paulo (Sabesp), Saneamento de Goiás (Saneago), Companhia de Saneamento do Paraná (Sanepar), Companhia Vale do Rio Doce (Vale S.A.). Important work was also developed with the following institutions:

Colsen International: a consulting company headquartered in the Netherlands, with which a partnership was established to verify the operating efficiency of the Sewage Treatment Station - ETE Onça, the largest ETE built in the world, adopting the Upflow Anaerobic Sludge Blanket reactor (Uasb) as the process for primary treatment of domestic effluents.

Candonga Consortium: formed by Vale S.A. and Novelis, it is responsible for operation of water supply systems in locations impacted by industrial actions, with activities in different countries, it hired Copasa to implement solutions relative to sources of production and works at local systems.

Hidrelétrica Aimorés Consortium: formed by Cemig and Vale S.A., , it is responsible for operation of water supply systems in locations impacted by its industrial actions, it maintained a partnerships with Copasa to improve the operation and management of systems, especially in regards to its relations with local community leaders.

Pequena Central Hidrelétrica Santa Fé: a subsidiary of Petrobras, for which Copasa developed a study on the conditions of the water and the dam, from a hydro-biological point of view.

Awards and Recognition

(GRI 2.10)

Civil Engineering Highlight

An award given by Instituto Mineiro de Engenharia Civil (Imec), in the Civil Construction – Services Category – Water Supply/Sanitation, as a result of the quality of products and services provided by Copasa. Those honored were chosen by an opinion survey sent to engineers and directors of companies affiliated with Imec. The criteria for selection of the companies were: quality, durability and technology of the products, goods or services, cost-benefit relationship; specialization and brand awareness.

Época 360°

Copasa received, in the category Water and Sanitation, the Época Negócios 360° Award, which is part of the Época Negócios 360° annual report and included the technical partnership of Fundação Dom Cabral with support from Associação Brasileira de Comunicação Empresarial (Aberje). The survey covered aspects referring to financial results, corporate governance, innovation capacity, human resources policies, socio-environmental responsibility and vision of the future.

Health Merit

The Health Merit Medal honors entities, persons and companies that have stood out, in the state of Minas Gerais, for services provided to public health. Copasa was one of the companies decorated with this award, granted by the State Health Office of Minas Gerais, as a public partner institution of the Unified Health System (SUS). This homage was given for the relevant actions taken by the Company in the fight against dengue fever.

Quality in Communications

Copasa earned the Companies that Best Communicate with Journalists award, sponsored by the magazine Negócios da Comunicação, which seeks to recognize the quality of relations with journalists and the market, emphasizing the treatment given to press professionals in regards to access, availability and facility of obtaining information.

Management Quality

The Center-East and Southeast Management Areas obtained the highest recognition from the National Sanitation Quality (PNQS) – the Quiron Diamante Trophy, considered by the International Water Association (IWA) to be the most important management tool for environmental sanitation services.

Ouro Azul

Copasa and its subsidiary Copanor earned first and third place, respectively, in the Ouro Azul Award, in the category Public Company, with the projects Cogeneration of Energy –Energy Use of Biogas from the Sewage Treatment Station Arrudas and Vida no Vale. This award is an initiative of Diários Associados, through the newspaper Estado de Minas, which values ideals of protection and rational use of water resources.

Business Sustainability

For the third consecutive year, Copasa was included in the Business Sustainability Index (ISE) issued by Bolsa de Valores, Mercadorias e Futuros (BM&FBOVESPA). This index reflects the return on a portfolio composed of shares of companies committed to sustainability, differentiating them in terms of quality, commitment to sustainable development, fairness, transparency, nature of the product, as well as their performance in the economic-financial, social, environmental and climate change spheres.

Transparency Trophy

Copasa earned the Transparency Trophy, an award organized annually by the National Association of Finance, Management and Accounting Executives, with technical supervision by Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras e Serasa Experian. This award classifies and identifies companies that stand out in aspects related to quality, clarity, conciseness and transparency of financial statements.

Corporate Governance

A portrait of Nilson Bento, a man with dark hair and a mustache, wearing a light blue polo shirt. He is smiling and looking towards the camera. The background is a scenic landscape with green hills and a blue sky, partially obscured by a large blue brushstroke graphic.

Nilson
Bento

DPG/SPEG

In 1992, Nilson Beto joined Copasa, through public contest, to be servant of general services. Six years later, an opportunity arose for the Role of sounder of Division of Groundwater (DVAS), linked to the Superintendent of Engineering (SPEG). By this time the work of Nilson was highlighted and when the general agent of sounding went retired, in 2004, the promotion came. "I got the job," he confirms. Currently, the main function of Nilson is to support his team in drilling rigs and maintenance of wells and pumping testing. This work is fundamental, because the artesian wells are sources of quality water that, in general, have greater concentration of mineral salts. "Nilson performs his duties always with good humor, high performance, creativryity, commitment to values and results of the company and dedication to work. He constantly goes far beyond what is expected from him," says Marta Magellan Moura, a member of the Communication Network of Copasa.

2012 Annual
Sustainability
Report

Corporate Governance Structure

(GRI 4.1)

COPASA is a mixed-capital publicly-held corporation, with shares traded in Novo Mercado [New Market], highest level of corporate governance of the Bolsa de Valores, Mercadorias e Futuros S.A. (BM&FBOVESPA) (Securities, Commodities & Futures Stock Exchange), having the State of Minas Gerais as the controlling shareholder.

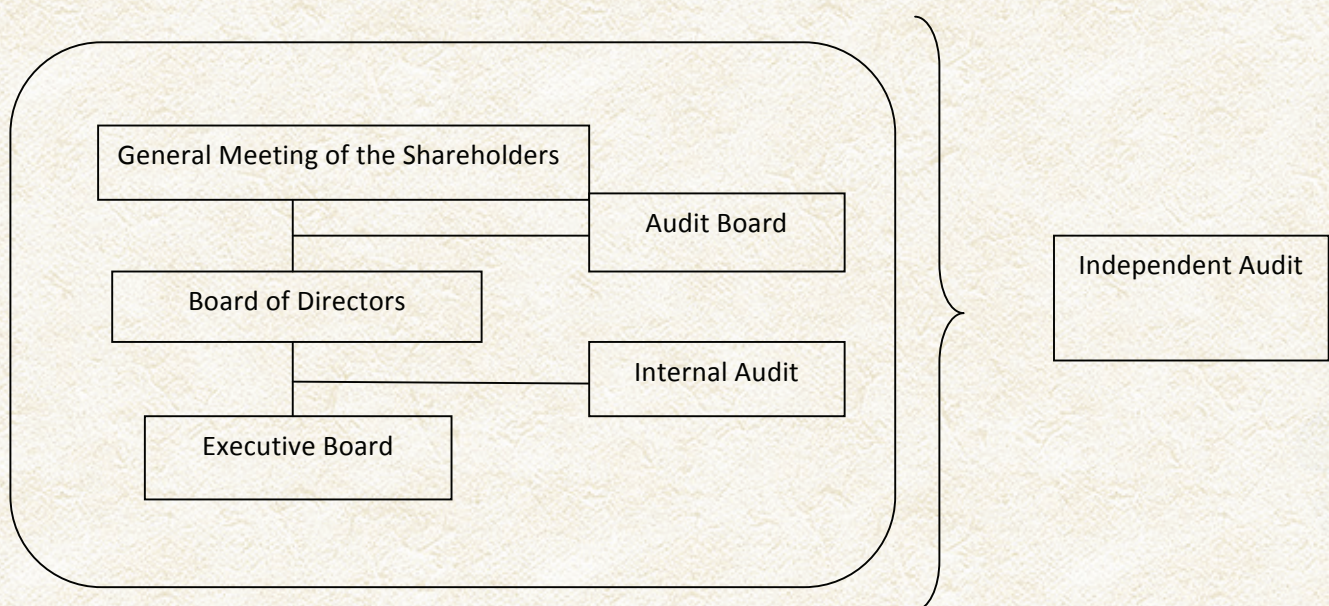
Copasa, in the Initial Public Offering (IPO) conducted in February 2006, in order to guarantee the balance of interests among the shareholders and to expand its rights, in relation to the current legislation, adhered to the highest level of corporate governance of BM&FBOVESPA - the Novo Mercado.

Among the governance good practices to which COPASA is committed, the following are highlighted:

- Operation of Board of Directors with at least 20% of independent directors, considering that COPASA has 6 independent members (67%) of a total of 9 members of the Board;
- granting to the minority shareholders 100% of tag-along (identical conditions to those offered to majority shareholders, in case of disposal of the control);
- disclosure of the financial statements translated into English;
- preparation and disclosure of the Code of Ethical Conduct, Policy of Disclosure and Trading of Securities;
- exclusive issue of ordinary shares, having all of the shareholders the right to vote;
- free float shares of at least 25%, on December 31 2012 the Company had 48.6% of the free float shares;
- holding of at least one public meeting per year with analysts and investors for the purpose of presenting the Company's economic-financial situation, projects and perspectives, considering that in 2012 seven meetings were held with the Association of the Analysts and Professionals of the Capital Market Investment (APIMEC) which occurred in Belo Horizonte, Brasília, Juiz de Fora, Porto Alegre, Rio de Janeiro, São Paulo and Uberlândia;

- solving each and any dispute that might arise among the Company, its shareholders, officers and members of the Audit Board through the BM&FBOVESPA's Market Arbitration Chamber, according to the provisions of its Bylaws;
- prohibiting the accumulation of responsibilities of the President of the Board and of the CEO or principal executive of the Company as of 2014, considering that the Company has adopted this practice since 2007.

Representation of Copasa governance structure



General Meeting of the Shareholders

The highest decision-making arena for shareholders, the General Meeting has within its exclusive competence, among other attributions: the taking-over of accounts from officers; examining, discussing and voting the financial statements; deliberating on the destination of net profit of the year and distribution of dividends; electing officers and members of the Audit Board; deciding on the reform of bylaws and officers' compensation. Furthermore, the Company Bylaws determines that it is within the authority of the General Meeting to make deliberations involving sums above R\$150 million: approval of any investment or expense not provided for in the Annual Budget; establishment of an administrative bidding process, of waiver and ineligibility of a bid, as well as amendments of the respective contracts and homologations of the administrative bidding process; entering into of agreements and contracts involving loans, financing and other legal businesses to be executed by the Company.

Audit Board

COPASA has a permanent Audit Board that may consist of 3 to 5 acting members and an equal number of deputy members, shareholders or not, elected at an Ordinary General Meeting. Their fees are established by the Meeting, pursuant to the Law, and the duration of their term of office is one year.

Composition of the Audit Board on December 31 2012

Name	Position
Paulo Elisiário Nunes	President
Jair Siqueira	Vice-President
Carlos Eduardo Carvalho de Andrade	Acting Board Member
Maron Alexandre Mattar	Acting Board Member
Rafael Rodrigues Alves da Rocha	Acting Board Member
Letícia Pedercini Issa Maia	Deputy Board Member
Sérgio Pessoa de Paula Castro	Deputy Board Member

The CV of the members of the Audit Board may be accessed at www.copasa.com.br/ri, Corporate Governance section.

Of these members, Mr. Rafael Rodrigues and his deputy, Ms. Letícia Pedercini Issa Maia, were elected representatives of the minorities.

Board of Directors

The Board of Directors is the highest joint decision-making body of COPASA. Among others, its attributions are the following: the summons of General Meetings; approval of strategic planning; approval of the Company's business plans, annual budgets, and multiannual, operational and investment plans; election and dismissal of directors and designation of their responsibilities; approval of new concessions with negative Net Present Value (NPV), according to economic-financial feasibility studies conducted by the Company; approval of career and salary plan, and investments or expenses not prescribed in the annual budget of values ranging from R\$6 to R\$150 million; appointment and dismissal of independent auditors.

The Board may consist of a minimum of 5 and a maximum of 9 members, elected by a General Meeting of the Shareholders. The Board members fulfill a one-year term of office, except when dismissed, taking into consideration that

2012 Annual Sustainability Report

year is the period between each Ordinary General Meeting, and with the possibility of being reelected.

The compensation of each director corresponds to 20% of the average compensation paid to the members of the Executive Board, considering that 50% of the amount is equivalent to a monthly fixed installment and the other 50% are paid according to the participation of the director in the monthly meetings. Furthermore, the directors receive 20% of the Profit Sharing (PS) attributed to the officers.

(GRI 4.5)

As to frequency of meetings, the Board of Directors conducts one meeting per month, ordinary and extraordinary, whenever required. According to the Internal Rules of the Board of Directors, its members must declare, before the decision making, whenever the matter submitted for appreciation has a particular or conflicting interest in relation to the company's interest, thus avoiding any participation in its discussion and voting.

(GRI 4.6)

In the present composition, only the vice-president of the Board is part of COPASA's Executive Board.

(GRI 4.2)

Composition of the Board of Directors on December 31 2012

Name	Position
João Antônio Fleury Teixeira	President
Ricardo Augusto Simões Campos	Vice-President
Alexandre Pedercini Issa*	Director
Alfredo Vicente Salgado Faria*	Director
Enio Ratton Lombardi*	Director
Euclides Garcia de Lima Filho*	Director
Flávio José Barbosa de Alencastro*	Director
José Carlos Carvalho*	Director
Tadeu Barreto Guimarães	Director

The CV of the members of the Board of Directors may be accessed at www.copasa.com.br/ri, Corporate Governance section

* Independent directors.

(GRI 4.3; LA13)

Executive Board

The Executive Board is responsible for the administration of COPASA business in general. It ordinarily meets at least once a week and extraordinarily whenever the corporate business requires.

To consolidate the alignment of Company's strategies and guidelines and provide proper follow-up of issues relevant to Company's performance, periodic meetings of the Executive Board are held with the management team. Additionally, itinerant meetings of the Executive Board are held with some executives that have strategic attributions for management of the Company's Investment Program and Market Expansion Plan.

The Executive Board consists of up to 11 members, shareholders or not, resident in the country, elected by the Board of Directors for a 3-year term of office, with the possibility of being reelected and having to keep their positions until the election and investiture of their successors.

The Executive Board is composed by the Chief Executive Officer, Vice Chief Executive Officer and 9 officers: 4 operating officers (Chief Operating Officers - East-Central, Metropolitan, North and Southwest Operations) and 5 corporate officers (Financial and Investor Relations; Corporate Management; Environment; Project Management and Planning; and Technology and New Business).

2012 Annual Sustainability Report

Composition of the Executive Board on December 31 2012

Name	Position
Ricardo Augusto Simões Campos	Chief Executive Officer
Carlos Gonçalves de Oliveira Sobrinho	Chief Technology and New Business Officer
Gelton Palmieri Abud	Chief Corporate Management Officer
Juarez Amorim	Chief Operating Officer, Metropolitan Operations
Márcio Luiz Murta Kangussu	Chief Operating Officer, North Operations
Marcos Antônio Teixeira	Chief Project Management and Planning Officer
Paula Vasques Bittencourt	Chief Financial and Investor Relations Officer
Paulo Fernando Rodrigues Lopes	Chief Operating Officer, Southwest Operations
Tilden José Santiago	Chief Environmental Officer
Valério Máximo Gambogi Parreira	Chief Operating Officer, East-Central Operations

The CV of the members of the Executive Board may be accessed at www.copasa.com.br/ri, Corporate Governance section.

(GRI LA13)

Internal Audit

The activities of the Internal Audit department are based on the Annual Audit Plan, approved by the Board of Directors, to which the department is directly linked. This connection results in independence and impartiality to exercise its functions, such as: planning and execution of audit works in all of the control systems; identification of failures and/or irregularities; proposals for and follow-up of improvements in internal controls.

The Internal Audit is also responsible for the generation, as a product of the functions mentioned above, of useful and reliable information to guide and support the decisions of the Executive Board and Board of Directors.

The purpose of the Internal Audit is to strengthen internal controls for proper generation of useful and reliable information for financial statements, and to create an environment that inhibit the practice of acts contrary to the provisions of Copasa's Code of Ethical Conduct and Disciplinary System.

In 2012, seventeen (17) audit works were conducted, involving 33 organizational units, representing approximately 22% of the Company units. Audit works evaluate the risks of the process, including the identification of occasional cases of corruption. The main controls of the Company are covered in the Enterprise Resource Planning (ERP) System, with integrated operations, allowing proper monitoring by the responsible units of the processes and identification of eventual irregularities.

(GRI S02)

The actions taken in potential cases of corruption are established in the Disciplinary System Procedures Standard, Regulation of Administrative Proceedings for Dismissal of Employees and the applicable legislation.

(GRI S04)

Independent Audit

(GRI 3.13)

Ernst & Young Terco Auditores Independientes S/S audited COPASA financial statements of the year ended on December 31 2012. During the effectiveness of the contract that started in 2008, no services other than Financial Statement audit services were provided.

Code of Ethical Conduct

(GRI 4.8)

Copasa's Code of Ethical Conduct defines ethical corporate values and guides company's relations with its stakeholders.

The Ethics Committee that is composed by 6 members ensures proper fulfillment of the guidelines defined by the Code. The Committee guides and advises company employees with regard to the interpretation and application of the Code of Ethical Conduct, delivers periodical lectures, receives complaints, evaluates and decides on possible breaches of Code provisions.

2012 Annual Sustainability Report

Ethical Proceedings ¹	2012	2011	2010
Ethical proceedings in progress	16	16	24
Application of ethical reproaches	03	06	04
Formal recommendations for managers and employees involved	07	06	15

¹ status on December 31 2012.

The Ethics Committee holds weekly ordinary meetings. In 2012, lectures were delivered for the purpose of disseminating the guidelines of the Code of Ethical Conduct to 180 employees. For 2013, initiatives are being planned to promote the engagement of employees.

(GRI S03)

Relationship with Stakeholders

(GRI 4.14; 4.16)

COPASA relates with its stakeholders according to its values, principles and beliefs, according to the provisions of the Code of Ethical Conduct, aiming at the alignment of interests and identification of the expectations of stakeholders.

The Company uses forms of interaction and relationship channels aligned with its management to communicate decisions, mobilize the workforce, and build partnerships aiming at the sustainable development of its business and the society. In 2012, we highlight the implementation of the Transparency Portal that consolidates strategies associated with Company's key processes.

Customers

COPASA interacts with the users of its services on the basis of quality guidelines, focusing on the ongoing improvement of the instruments used in the relationship with its customers who have available help service for requests, explanation of doubts, record of demands (claims and praises) and ombudsman

regarding issues that have not been solved at the levels or by the units directly responsible. (See Copasa and its Customers)

The State of Minas Gerais

The State of Minas Gerais, with 51.1% of Copasa shares, is the Company's controller. Operations with related parties are performed at prices and conditions considered by Management as compatible with those on the market, except for the form of financial settlement, which may occur by means of special negotiations (rendering of accounts).

Through the Regional Development and Urban Policy Secretariat of Minas Gerais (Sedru) COPASA is institutionally linked to the State Government of Minas Gerais. Furthermore, COPASA observes the decisions of the responsible governmental bodies for matters associated with its area of operation, focusing on the Regulatory Agency for Water and Sewage Treatment Services of the State of Minas Gerais (ARSAE MG) and on the environmental agencies, under the supervision of the Corporate Governance Committee of the State of Minas Gerais.

Suppliers

COPASA relations with suppliers and service providers are based on the current legislation, with emphasis on Law 8666/93 that guides the procedures for selection, hiring and management of suppliers and service providers by public agencies and entities. Furthermore, the Company's relations with suppliers of goods and services are guided by technical and professional criteria, observance of applicable standards and laws, aiming at strict compliance with the needs of the organization. (See Copasa and its Suppliers)

Investors

Copasa's Investor Relations Policy is based on transparency, timeliness and quality of the information provided, seeking to provide proper support for decision making regarding investments in company shares.

The main communication tools used by the Company are the following: events with analysts and investors (Copasa Day, Expo Money, Non Deal Road Shows, National and International, Apimec meetings and scheduled visits); issuance of reports (Ibase Annual Social Balance, Annual Financial Statements (DFP), Reference Form, Quarterly Information (ITR), Annual Report and Sustainability Report, Monthly Operational Statement and Quarterly Statement of Income); quarterly teleconferences after the disclosure of results, with simultaneous translation to English. Such teleconferences are also held on demand.

(GRI 4.4)

This and other information may be obtained at www.copasa.com.br/ri. The Investor Relations team may be contacted through the e-mail ri@copasa.com.br and by the telephone 55 31 3250.2015.

Municipalities

The municipalities of the State of Minas Gerais are the granting powers to which COPASA is linked on the basis of concession agreements and program contracts entered into according to the applicable legislation, particularly Federal Law 11,445/07. At the locations where it operates, COPASA maintains direct contact and participates in meetings with representatives from the legislative and from the granting powers, aiming at ensuring the quality of the services rendered, establishing partnerships, in addition to renewal and obtaining of new concessions.

Internal Audience

Copasa maintains relations with its employees guided by respect and fulfillment of the labor legislation, contracts, collective bargaining agreements, internal standards. (See Copasa and its Employees)

Society

In addition to seeking excellence in the provision of a basic service, COPASA bases its relationships with society and the communities according to the good practices of social and environmental responsibility with transparency and respect for cultural values, aiming at the sustainable development of Company's businesses and the communities. The Company conducts and supports a number of projects of a social and cultural nature, aiming at strengthening the society and the communities where it operates. (See Copasa and its Community)

Regulating Agencies and Market Regulation

The regulation of basic sanitation services faces the challenge of ensuring proper balance in connection with users' needs (for rate reasonableness,

services of adequate quality and quantity); the needs of service providers (for economic and financial sustainability) and investors' needs (for adequate remuneration of investments).

In compliance with the provisions of the Federal Law no. 11,445/07, the Government of the State of Minas Gerais enacted in August 2009 the Law no. 18,309 that sets forth standards in connection with water supply and sewage treatment services and created the Regulatory Agency for Water Supply and Sewage Treatment Services of the State of Minas Gerais (ARSAE MG), a special entity linked to the Regional Development and Urban Policy Secretariat of the State of Minas Gerais (Sedru).

Copasa and the regulated environment in 2012

ARSAE MG, in its Technical Note (NT) 05/2012 dated 11/04/2012, which details the method for calculation of Copasa's Rate Adjustment Index (IRT), changed the Company's rate structure increasing the rate for sewage collection services from 45% to 50% in relation to the water supply rate. As to sewage treatment and collection services, this relation changed from 75% to 90%.

The regulatory agency also determined a change to the classification criteria for customers to benefit from the social rate, on the basis of the Single Registry for Social Programs, family income and proper payment of invoices. Also with regard to Copasa rates, the NT 05/2012 determined an adjustment of 4.34% to be applied as of May 13 2012, according to Resolution 20/2012.

In November, ARSAE MG opened the Public Hearing 05/2012 for the purpose of raising funds from society with regard to the costs of the free-of-charge telephone service to be recognized in Copasa rates.

ARSAE MG also proceeded to technical and commercial inspections for verification of and quality in the provision of services.

Economic Dimension

A portrait of João Evaristo Lodi, a middle-aged man with grey hair, wearing a white button-down shirt. He is standing with his arms crossed, looking directly at the camera. The background is a scenic landscape with green hills and a blue lake under a cloudy sky. The text is overlaid on a blue brushstroke graphic.

João
Evaristo Lodi

DTN/SPCN

From an engineer trainee to a superintendent. João Evaristo Lodi can think he is writing a beautiful professional story in Copasa. Altogether, it is 29 years there, and in the meantime, João worked in Fundraising Department, in the Section of Monitoring and Control of Covenants, in the Venture Control Division and, since 2003, he is the superintendent of the Superintendency of Coordination and Support Northern (SPCN) of the Directory of Operation North (DTN). João briefly explains that the SPCN provides support to North operational departments (PUPs), based in Montes Claros and Northeast (DPNE), and headquartered in Teófilo Otoni, coordinating the implementation of annual investment programs and operational development. "The SPCN and its divisions are aligned to the strategic planning and attentive to their goals of contributing to the social and economic development of Minas Gerais," he says. With a background in Mechanical Engineering, post-graduation in Economic Engineering and MBA in Sanitation Business Management, João Evaristo says that he always works with responsibility, commitment and full respect for his team and his colleagues.

Economic Outlook

In 2012, the federal government made some changes to its economic policy, with a highlight for reduction in its base interest rates and taxes in specific sectors.

Maintaining the trend started in August 2011, the Central Bank continually reduced the base interest rates, closing the year at 7.25% p.a., and indicating in its communications that such rates would be maintained for a long period of time.

However, the slow recovery of central economies and the persistent fragility of the world financial situation, mainly in countries from the Euro region, have influenced the performance of emerging countries with direct impact on the Brazilian economy, which closed the year with low growth of the Gross Domestic Product (GDP).

During 2012, internal consumption remained strong driven by the continuous drop of interest rates; however, uncertainties as to the future had an influence on the reduction of investments by the industries.

The inflation measured by the Extended National Consumer Prices Index (IPCA) remained throughout the year above the goal center line and closed the period accumulating an increase of 5.8%. The dollar, after a major volatility during the year caused by global uncertainties, closed the year at R\$ 2.04, an 11% valuation.

A gradual improvement in the world economy is expected for 2013, even though the uncertainty remains high. As a result of the incentives implemented in 2012 for the domestic economy, we expect a better performance of the Brazilian economy in 2013.

Parent Company Financial Performance

Revenues

The parent company's net operating revenue for water and sewage amounted to R\$ 2.8 billion in 2012, an increase of 10.3% on the R\$ 2.5 billion reported in 2011. This increase can be explained by the increase in the provision of services, as a result of COPASA's effort to increase its service coverage in the State of Minas Gerais; the 4.34% rate increase approved by the Regulatory Agency in May 2012; and the changes to sewer treatment rates as a result of Sewage Treatment Plants (ETEs) starting their operations in several cities throughout the year.

Please find below a comparative table of the Company's total revenue in 2012 and 2011:

Revenue (R\$ thousands)	2012	2011	Var (%)
Net Revenue – Water	1,858,366	1,783,983	4.17%
Net Revenue – Sewer	909,999	725,627	25.41%
Subtotal	2,768,365	2,509,610	10.31%
Construction Revenue	731,576	701,256	4.32%
Other Operating Revenue	122,330	78,702	55.43%
Total	3,622,271	3,289,568	10.11%

The evolution of water and sewer revenue happened differently in the reporting period. The increase in sewer rate percentage billing from 45% to 50% of the water rate when sewage is not treated and increase from 75% to 90% when sewage is treated resulted in significant growth of sewer revenue as compared to that obtained with water services. On the service bills, the increase in sewer rate was offset by a reduction in the water rate. These changes were defined by the Regulatory Agency for Water Supply and Sanitary Sewage Services from the State of Minas Gerais (ARSAE MG).

2012 Annual Sustainability Report

Costs and Expenses

Please find below a table showing in detail Company costs in 2012 and 2011:

Costs and Expenses (R\$ thousands)	2012	2011	Var (%)
Personnel	904,002	821,946	9.98%
Depreciations and amortizations	372,318	304,497	22.27%
Electricity	241,057	221,999	8.58%
Outsourced services	295,892	236,673	25.02%
Material	105,436	99,105	6.39%
Other operating costs	41,364	33,907	21.99%
Rate allocation to municipalities	68,120	63,073	8.00%
Provision for bad debits	67,019	43,972	52.41%
Tax credits	(89,681)	(70,871)	26.54%
Subtotal	2,005,527	1,754,301	14.32%
Construction costs	716,496	687,301	4.25%
Other operating costs	89,628	63,386	41.40%
Total	2,811,652	2,504,988	12.24%

The items that most contributed to increase in costs and expenses were: personnel, mainly due to the Collective Agreement of 2012, whose base date is May, and an increase in the number of Controller's employees mainly as a result of the start of operation of new systems; outsourced services, due an adjustment to the values of maintenance agreements until then in effect in connection with the need to acquire new services and by virtue of regulatory disbursements. Depreciations and amortizations also contributed by virtue of completion of construction works and their incorporation to fixed assets.

EBITDA

The EBITDA of 2012, calculated according to CVM Instruction 527/2012, registered an increase of 9.0%, going from R\$ 1.05 billion to R\$ 1.15 billion. However, if we consider the revenues and expenses with construction, the annual increase was also 9.0%, as per the table below:

2012 Annual Sustainability Report

EBITDA Calculation *	2012	2011	Var (%)
Net profit of the year	486,928	470,437	3.51%
(+) Taxes on profit	160,106	178,434	-10.27%
(+) Net financial revenue	122,653	88,854	38.04%
(+) Depreciations and amortizations	372,318	304,497	22.27%
(+) Non-operating income of subsidiaries	3,993	9,302	-57.07%
(=) EBITDA	1,145,998	1,051,524	8.98%
(=) EBITDA Margin	31.4%	31.8%	
Adjusted EBITDA (except for construction result)	1,130,918	1,037,569	9.00%
Adjusted EBITDA margin	38.8%	39.8%	

*EBITDA is a non-accounting measurement prepared by the Company, calculated in accordance with CVM Instruction 527/2012, consisting of net profit plus taxes on profits, net financial revenues, depreciation and amortization and on the non-operating result of the subsidiaries. The EBITDA margin is calculate over total revenues (net revenue of water and sewage, construction revenues, plus other operating revenues and revenues from subsidiaries). Adjusted EBITDA is calculated without considering construction revenues/costs. Construction revenues, although they do not have an immediate cash effect, have consequences in the fiscal year in which they are recognized, since their result is part of the tax basis for payment of Interest on Own Capital (JCPs)/dividends and for profit sharing for employees.

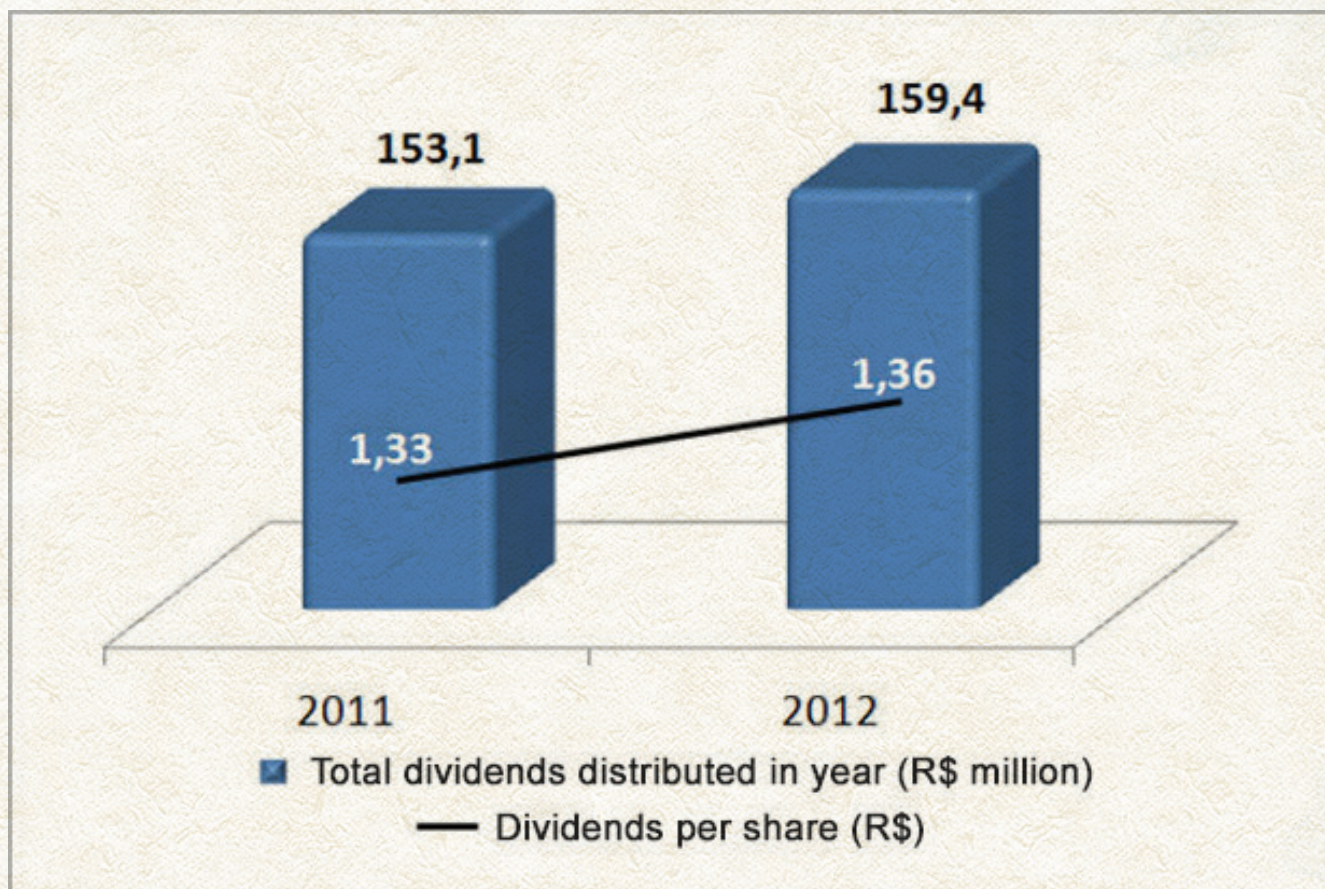
The Management Report - which is an integral part of the Company's Financial Statements of 2012 - is available at www.copasa.com.br/ri, with further information on Copasa's 2012 Revenue.

Shareholders Return

For 2012, the Board of Directors decided to maintain at 35% the distribution of dividends according to Interest on Equity (JCP).

The total amount distributed in 2012 was R\$ 159.4 million, which represents R\$ 1.3564 per share.

2012 Annual Sustainability Report



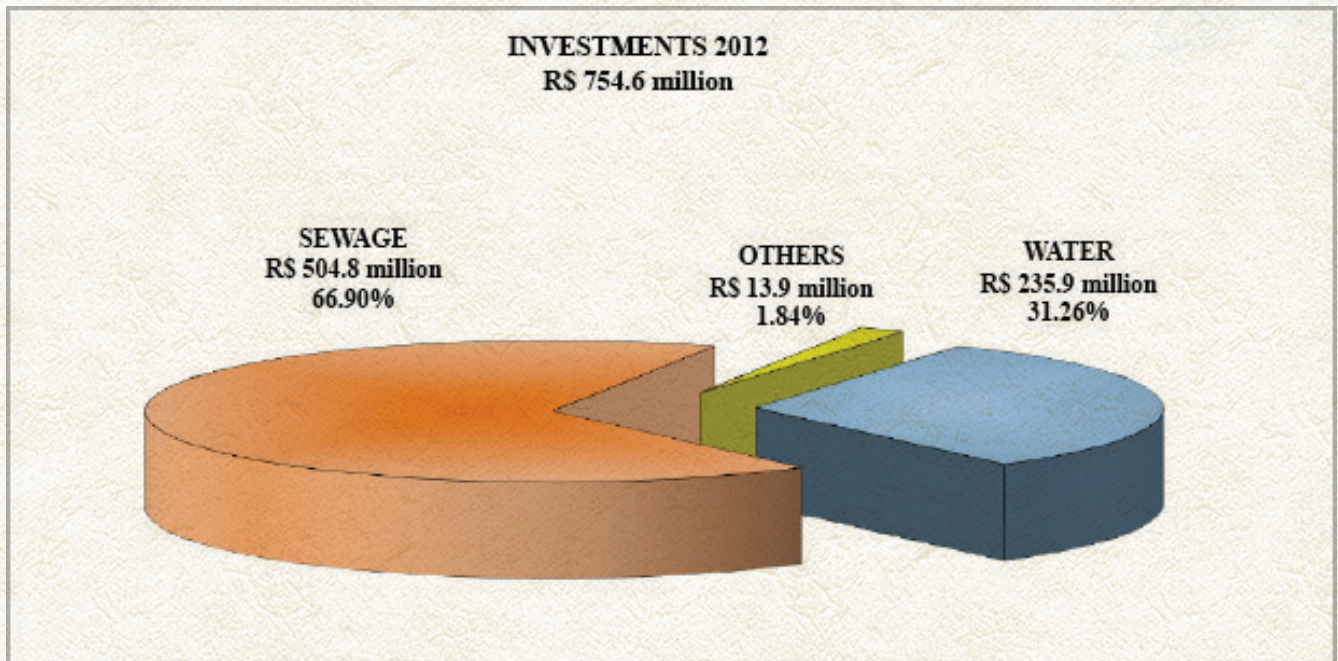
For the following years, according to the Dividends Policy, the Board of Directors will be responsible for defining (by the end of the first quarter of each financial year) the percentage to be distributed to the shareholders. This definition will take place after proper evaluation of Company results, its perspective of investments and performance of the Market Expansion Plan.

The percentage to be proposed will be at the most 50% of the net profit with quarterly distributions and payments within 60 days after distribution.

Investments

The investments made in 2012 amounted to R\$ 754.6 million. Of this total, R\$ 235.9 million were invested in water supply systems, R\$ 504.8 million went to sewage collection and treatment systems, and the remaining R\$ 13.9 million were invested in development programs, general use goods and others.

2012 Annual Sustainability Report



In addition to its own resources, the main sources of funds used to make the investments were loans from Caixa Econômica Federal (CEF), Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and the German Bank Kreditanstalt für Wiederaufbau (KfW).

With regard to investments in water supply systems, we highlight the proceeds allocated to the construction work for completion of the Northwest Pipeline Integration in Belo Horizonte – Complex R13 and to complete the works of the Integration Pipeline that will expand water supply in Lagoa Santa, Vespasiano, São José da Lapa and Tancredo Neves International Airport, as well as others designed to expand water supply capacity in a number of cities, such as: Divinópolis, Itamarandiba and Jaíba.

With regard to Sanitary Sewage Systems, we highlight investments made in the Program for Decontamination of the Pampulha Lagoon; works for expansion of the Sanitary Sewage Systems of Belo Horizonte/Contagem (Goal 2014) and to increase the ETE Arrudas treatment capacity; works for construction of Sewage Treatment Plants in Barbacena, Betim, Ibirité, Nova Serrana, Pará de Minas, Patos de Minas, Ribeirão das Neves, Santa Luzia, Santo Antônio do Monte and Teófilo Otoni; implantation of the Sanitary Sewage Systems of Carmo do Paranaíba, Contagem/Nova Contagem, Lagoa Santa and Vespasiano; expansion of the Sanitary Sewage Systems of Esmeraldas, Pouso Alegre, Ribeirão das Neves, Santa Luzia and Santa Rita do Sapucaí; and the Energy Efficiency Program based on biogas generated by the sewage treatment plants in Belo Horizonte.

Capital Market

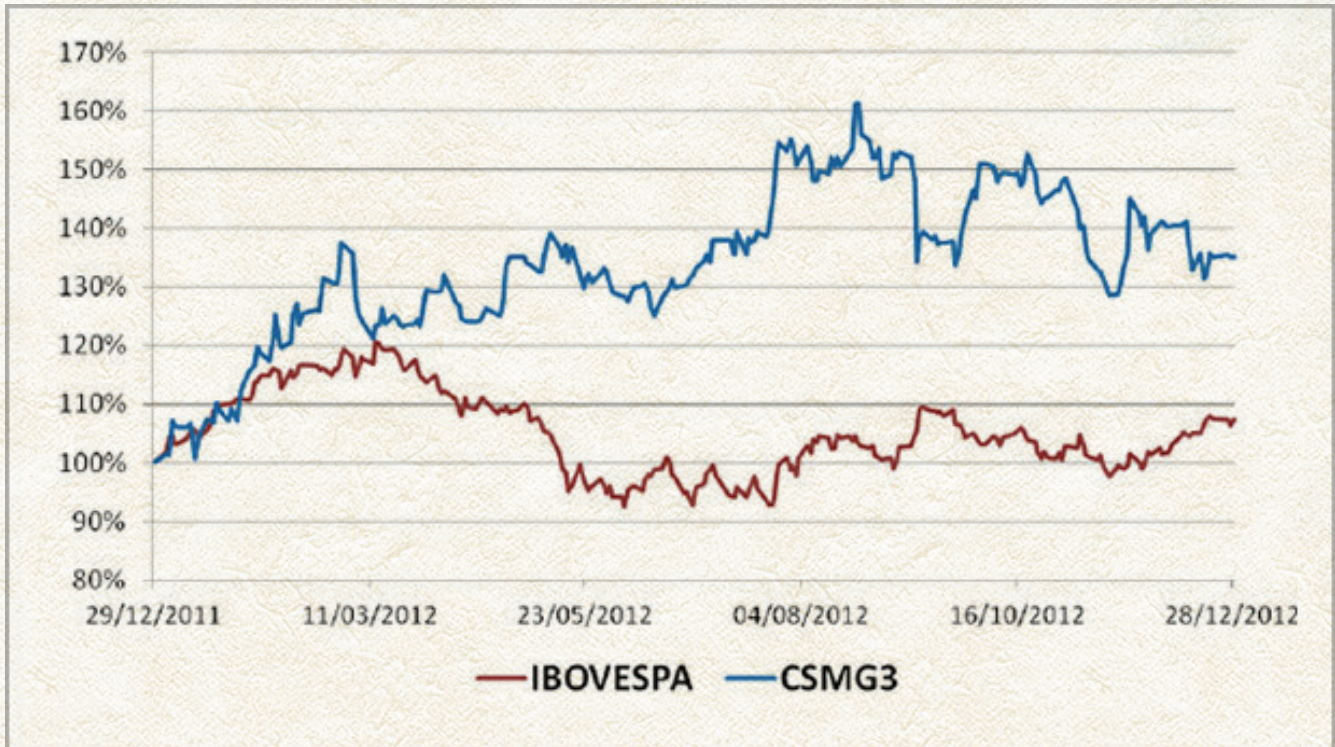
Copasa is listed on BM&FBOVESPA under the CSMG3 ticker and on the New Market of Corporate Governance since the Initial Public Offering (IPO) held in 2006.

The Company's capital stock on December 31 2012 was R\$ 2.77 billion represented by 119,684,430 common shares, of which 51.1% belong to the State of Minas Gerais, 48.6% are outstanding (free float) and the remaining 0.3% are held in treasury.

In 2012, the price of the shares adjusted by Interest on Capital/Dividends registered an increase of 35%, and in the same period the Ibovespa index increased 7.4%. On December 31 2012, the Company's market value reached R\$ 5.24 billion.

2012 Annual Sustainability Report

Stock Performance



In 2012, Copasa shares were present in 100% of the sessions and the average daily trading volume was R\$ 13.1 million, with an average of 1,560 trades per day. Copasa shares represent an important part of BM&FBOVESPA indexes, such as the IBrX-Brasil index (which lists the 100 most liquid shares of the stock market), the Differentiated Tag Along Index Shares (ITAG), the Differentiated Corporate Governance Index (IGC), the New Market Corporate Governance Index (IGNM), the Small Caps Index (SMLL) and the Corporate Governance Trade Index (IGCT).

Moreover, COPASA was selected to integrate in 2013 the portfolio of the Corporate Sustainability Index (ISE) of BM&FBOVESPA, which brings together companies that have a strong commitment to sustainability and socio-environmental responsibility.

Commercial and Operational Performance

(GRI 2.8)

The population served with water supply by the Company increased by 452 thousand people, an increase of 3.3%, reaching approximately 14.1 million inhabitants at the end of 2012.

This performance resulted from an increase of 144 thousand new water connections by Copasa and Copanor throughout the reporting period.

CONSOLIDATED ⁽¹⁾ – WATER SUPPLY SERVICE			
ITEM	UNITS	2012	2011
Cities with Concession ⁽²⁾	Unit	625	620
Cities with Operation ⁽³⁾	Unit	612	606
Population Served	Thousand Inhabitants	14.066	13.614
Connections Billed	Thousand Units	3.779	3.635
Network Extension	Km	44.864	43.906
Billed Volume of Water	1,000 m ³ /year	667.325	649.706

⁽¹⁾: Includes locations operated by Copasa and Copanor

⁽²⁾: Total cities where the Company holds any concession: seats, villages, settlements or others.

⁽³⁾: Total cities where the Company operates any concession: seats, villages, settlements or others.

With respect to sewage systems, the number of cities served increased from 176 in 2011 to 200 in 2012, benefitting a total population of 8.8 million inhabitants, an increase of 515 thousand people served.

This service is performed through 2.3 million sewage connections, which in 2012 increased by 7.0%, i.e. 147 thousand new connections. Of these, approximately 82 thousand are a result of the start of operation of new locations. The collection system expanded 1,988 km, totaling over 20.0 thousand km.

2012 Annual Sustainability Report

CONSOLIDATED ⁽¹⁾ – SANITARY SEWAGE SERVICE

ITEM	UNITS	2012	2011
Cities with Concession ⁽²⁾	Unit	277	225
Cities with Operation ⁽³⁾	Unit	200	176
Connections Billed	Thousand Units	2.258	2.111
Population Served	Thousand Inhabitants	8.785	8.270
Network Extension	Km	20.093	18.105
Billed Volume of Sewage	1,000 m ³ /year	428.220	402.552
Volume of Treated Sewage	1,000 m ³ /year	211.092	182.211

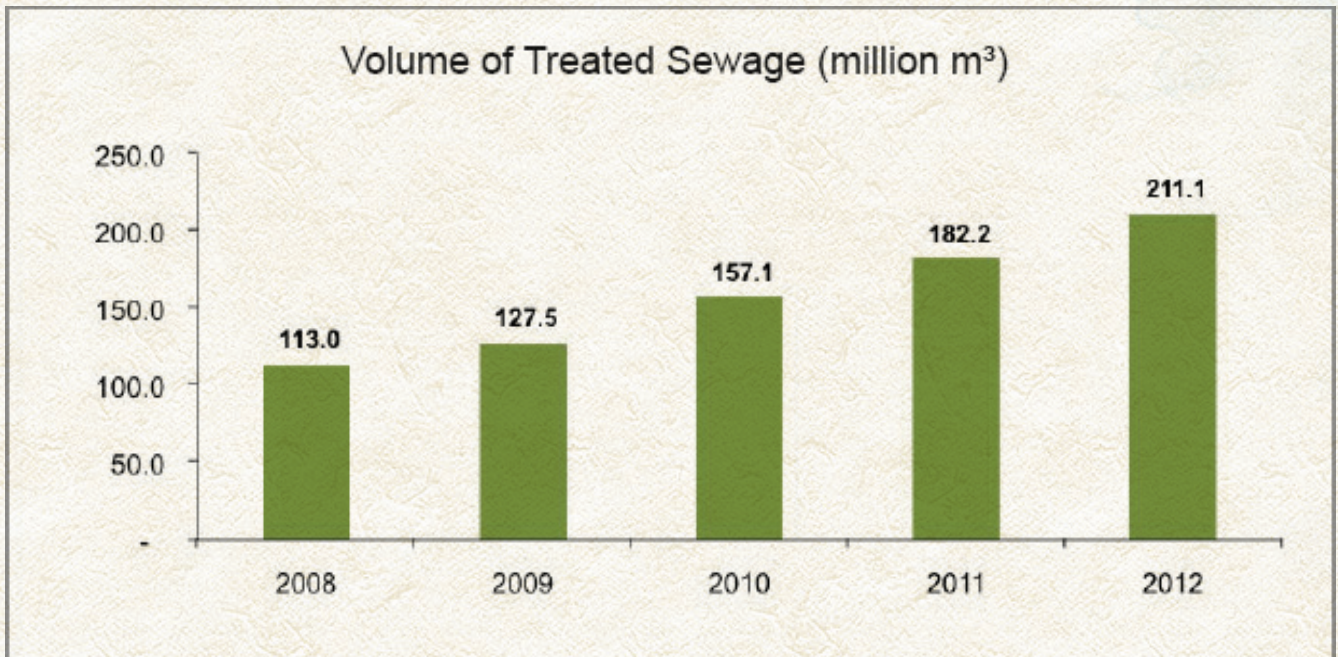
⁽¹⁾: Includes locations served by Copasa and Copanor

⁽²⁾: Total cities where the Company holds any concession: seats, villages, settlements or others.

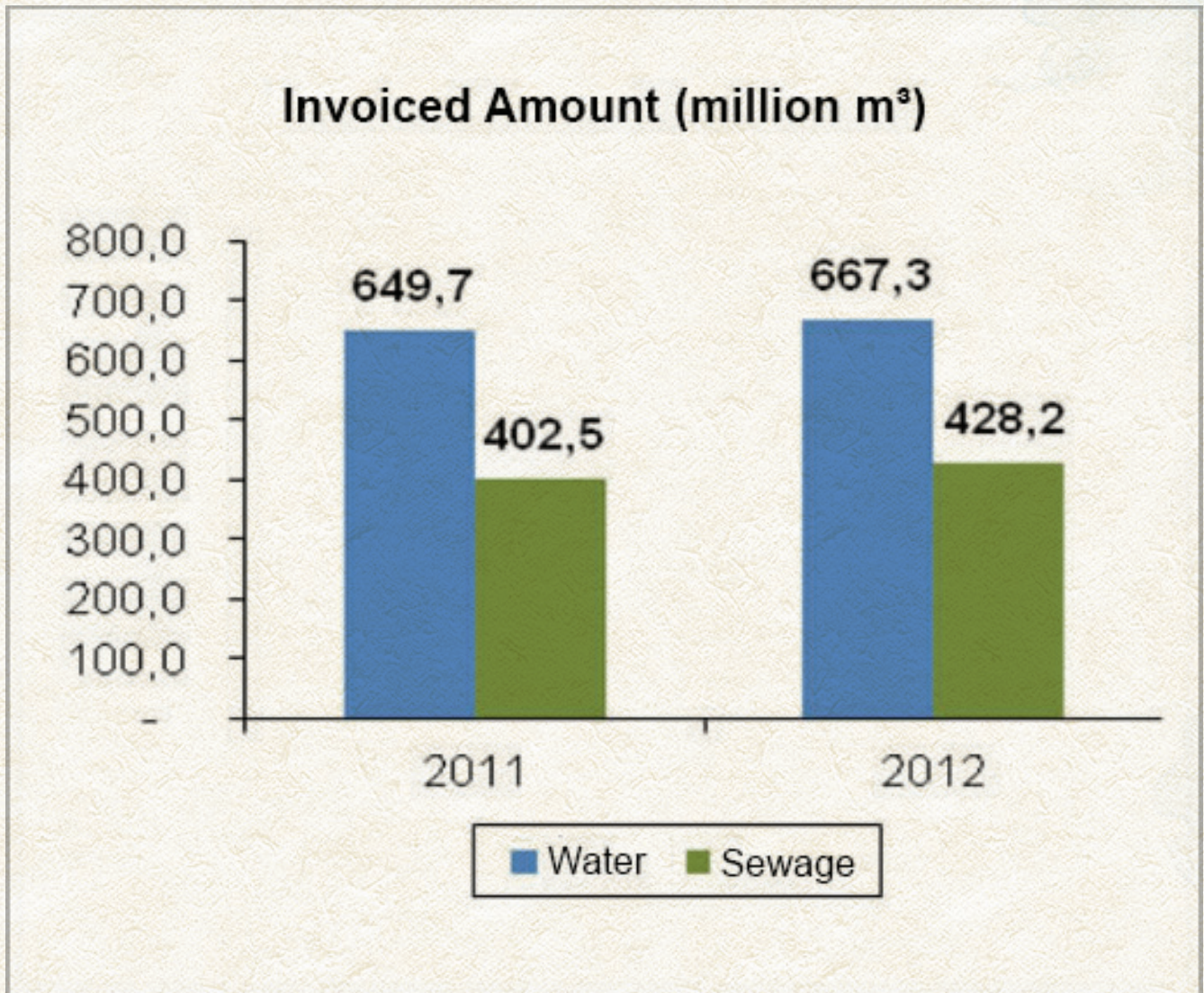
⁽³⁾: Total cities where the Company operates any concession: seats, villages, settlements or others.

The volume of sewage treated by the Company achieved 211.1 billion liters, an increase of 16% as compared to the previous year, due to the startup of 14 new Sewage Treatment Plants (ETEs) in a number of cities in the State of Minas Gerais, among which we highlight Almenara, Araxá, Cláudio, Pará de Minas, Pouso Alegre and Teófilo Otoni.

2012 Annual Sustainability Report



In 2012, the Company's expansion increased the billed volume of water by 17.6 billion liters and the billed volume of sewage by 25.7 billion liters. The expansion of water supply and sanitation sewage services in locations that were already being served and the beginning of water and sewer system billing in new locations, such as Além Paraíba, Divinópolis, Guaxupé, Inhapim and Wenceslau Brás contributed to this growth.



We also highlight that the result achieved in terms of personnel productivity, which is measured by the ratio 'employees/1,000 total connections' (water + sewer) changed from 2.04 employees/1,000 connections in 2011 to 1.96 in 2012.

2012 Annual Sustainability Report

The table below shows for the reporting period the performance of some operational/ commercial indicators:

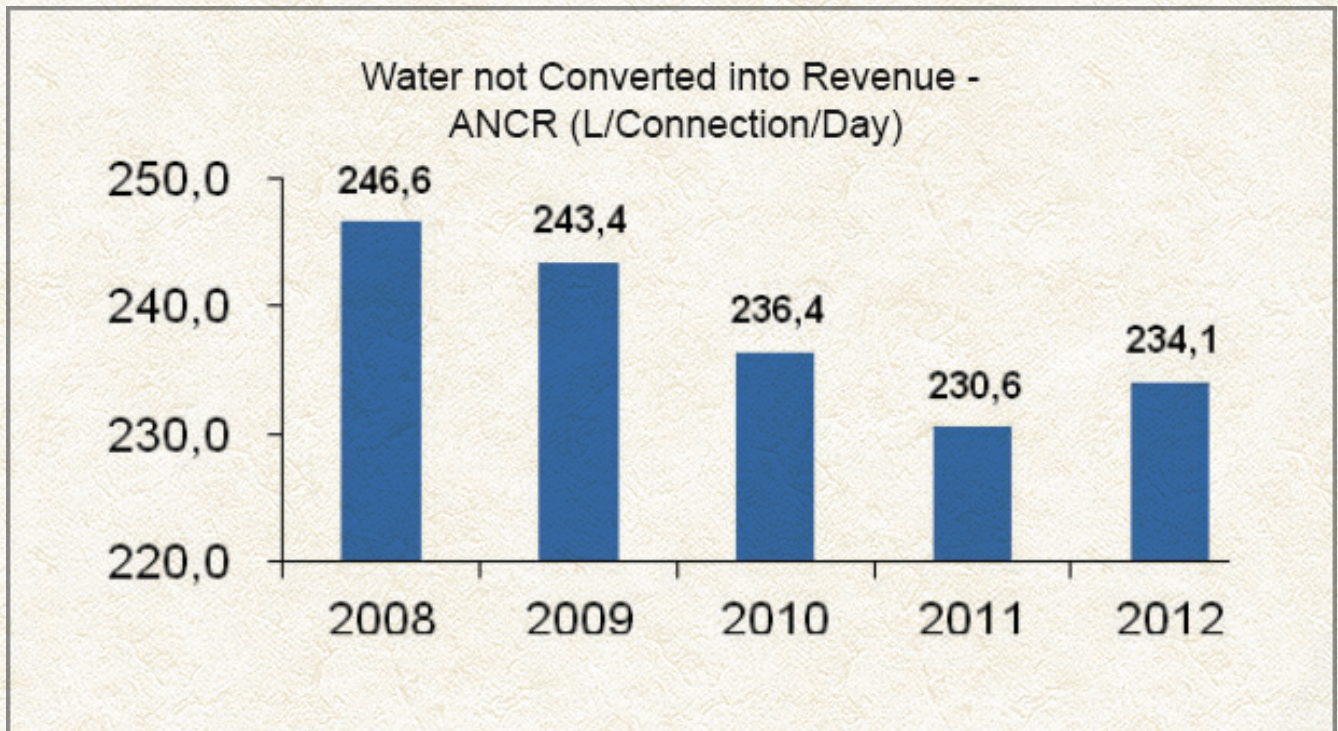
CONSOLIDATED – COMMERCIAL/ OPERATIONAL PERFORMANCE INDICATORS			
ITEM	UNIDADES	2012	2011
1 – Employees	Unit	11,827	11,717
2 – Productivity (A+E)	Emp./thousand connections	1.96	2.04
3 – Billed Volume of Water	1,000 m ³ /year	667,325	649,706
Sewer	1,000 m ³ /year	428,220	402,552
Total	1,000 m ³ /year	1,095,545	1,052,258
4 – Volume of Water produced	1,000 m ³ /year	948,816	912,281
5 – Hydrometering index	%	99.89	99.95
6 – Billing Loss Index (1) (2)	%	29.6	28.9
7 – Water not Converted into Revenue (2)	L/connection/Day	234.1	230.6

(1) : Annual Average

(2) : Controller's Data

2012 Annual Sustainability Report

In 2012, our Water not Converted into Revenue (ANCR) indicator achieved 234.1 l/connection/day that despite the slight increase remains as one of the lowest in the sector:



Business Management

Fees: water supply and sewage collection and treatment are billed according with the consumption. The pricing policy applied by Copasa is regulated by the Water and Sanitation Services Regulatory Agency of the State of Minas Gerais (ARSAE MG).

Prices are differentiated according to categories - social, residential, commercial, industrial and public - and consumption ranges. Pricing takes into account the economic and financial balance of the utilities company and the conservation of the social aspects of basic sanitation utilities operated by Copasa.

The rates are progressive with respect to billable volume, i.e., those who consume more pay more per liter than those who consume less. This pricing policy benefits the population, raising awareness for proper water consumption.

Rates adjustments are annual and previously approved and authorized by ARSAE MG. In 2012, the average adjustment in rates was of 4.34%, which was approved by Resolution ARSAE MG 020/2012 of 04/11/2012.

In 2012, under ARSAE MG's resolve, Copasa concluded its rate restructuring. Since then, sewage collection and treatment rates, which in 2011 was 75% of the water rates, are now equivalent to 90% of the water rates. Sewage rates, including collection, but not its treatment, increased to 50% from 45%.

Billing: Copasa's customer base is diversified and very scattered, especially considering the residential consumption portion, equivalent to 68.6% of sales, which reduces the dependence or exposure of the Company to a particular kind of customer or group of customers. The ten largest customers account for only 5.71% of revenue and the top 50 account for only 7.65%.

Copasa works with different billing cycles, depending on the time between the reading of the water meter and the maturity of the bill, which impacts the collection ability. In 2012, two types of cycles were in effect: In 94.9% of the total revenue, which comprises locations with better access infrastructure, the shorter cycle was applied, consisting of 15 workdays. The largest cycle, with 20 workdays, was applied in locations with poor access infrastructure, representing 5.1% of revenues.

Delinquency: The overall delinquency rate, which corresponds to the ratio between the balance of accounts receivable and the total amount billed considering data accumulated since January 1998, was 1.32% in 2012 and is considered one of the best in the country, being a benchmark for other companies operating in the industry.

The delinquency rates have declined steadily in recent years, as a result of a consistent commercial policy, which has among its pillars the development of firm actions for collection, and recovery, and of a strategy of debt negotiation with major customers and government bodies.

Main Risks, Opportunities and Strategies

(GRI 1.2; 4.11; EC2)

The ability to identify risks and take advantage of the opportunities is essential to ensure the sustainability of any business. In the process of strategic planning,

2012 Annual Sustainability Report

business risks that may affect the proper functioning of the Company and its sustainable development are identified and assessed. Such identification enables a proactive role by the Company, aiming to address these risks.

Major business risks for Copasa	
Business Risks	Unilateral termination of concession contracts
	Non-renewal of concession contracts
Operational Risks	End of life cycle of water and sewage systems
	Significant increase in water losses
	Climate change (impacts related to drought and floods)
Financial Risks	Lower revenue
	Increased costs
	Limited financial funds for investments
	Higher delinquency rate by the public agencies
Environmental Risks	Reduced water availability from water sources
	Pollution of production sources
	Actions by public prosecutors and environmental agencies, due to environmental liabilities
Legal and Economic/financial Risks	Increased costs due to legal and/or regulatory requirements
	Uncertainty as to the methodology for water rates reviews by the regulatory agency
	Expenses related with renewing and obtaining new concessions

In 2012, Copasa's Contingency Plan has been updated in order to address the relevant and/or urgent issues through its organizational units, taking into account the technical, operational, environmental, human, financial, logistical and social aspects.

This Plan sets out actions to be taken for potential risk situations, such as: contamination of water sources, contamination of treated water distribution systems and reservoirs, floods, epidemics, outbreaks, fires, electricity shortages, breakdown in information systems, dam collapses and prolonged drought. It aims to resolve potential damages and prevent their recurrence.

2012 Annual Sustainability Report

As for opportunities, strengths and strategies listed below to ensure Copasa conditions to seek new opportunities to operate in the sector, mitigating the risks of your business:

Balanced financial status: a consistent cash generation and financial strength allow Copasa to access financing sources on favorable terms for the implementation of its growth strategy.

In addition, all water supply and sanitation service revenue is supported by formal long-term instruments, concession agreements and program contracts.

Scope and scale gains as a capillarity function: Some studies show that the viability of the sanitation sector comes mainly from the operational scale of the business. Copasa is able to optimize its costs by scale gains coming from the great number of water concessions and also by scope gains, since it holds two concessions (water and sewage) in a significant number of municipalities.

Low delinquency: Copasa has one of the lowest default rates among State sanitation companies in Brazil.

Availability of granted water resources granted higher than the current demand: Copasa owns the rights to use most water sources used as water resources. Copasa is also the owner or holds the right to use almost all land where these water resources are located. Thus, the Company is able to maintain the quality of most of its water sources, avoiding the illegal occupation of the land and the deforestation of the nearby areas.

Technical know-how: in 2013, Copasa completes 50 years of water supply and sanitation services to the communities of the State of Minas Gerais. Its long experience in a State with such diverse economic, social, climatic, cultural and geographical characteristics, which represents Brazil as a whole, allowed the training of specialists, mainly in engineering and management, with extensive knowledge of the sanitation industry. Using this accumulated knowledge, the Company also provides advisory services, consultancy and technical assistance to municipalities and basic sanitation consultancy to private and public companies in other states and offshore.

Benchmark for excellence in the industry: the organizational learning accrued by Copasa since 1998 has resulted in the implementation of the PNQS 2010 Strategic Project, aiming to strengthen the business excellence culture through the deployment of the Excellence Management Model (*Modelo de Excelência em Gestão*, MEG), made available through the National Quality Foundation (*Fundação Nacional de Qualidade*, FNQ) and adopted by the Brazilian Association of Sanitary and Environmental Engineering (*Associação Brasileira*

2012 Annual Sustainability Report

de Engenharia Sanitária e Ambiental, (Abes) to guide the National Sanitation Quality Award (PNQS).

The crowning of this challenge happened with the Company' being awarded as in 2010 (Gold Trophy) and 2011 (Platinum Trophy), when it became the first company in the sanitation sector in Brazil to be recognized by Abes for the quality of its management system; Copasa is also the record winner of awards among all sanitation companies, with a total of 48 awards since 1999.

Continuing this strategy, the Copasa's Board approved the World Class Management Strategic Project for 2011-2014, the Strategic Project Management World Class, aiming to consolidate a culture of business excellence and be recognized by the National Quality Foundation, as a world class management company. Also related with these goals, in 2012 the Company was awarded the Chiron Diamond Trophy, PNQS' highest award category, and performed the assisted self-assessment process in order to obtain input to help guide the consolidation of the Project.

Environmental Dimension

A portrait of Hélio Alves Martins, a man with dark hair and a mustache, smiling and standing with his arms crossed. He is wearing a light blue short-sleeved button-down shirt. The background is a scenic landscape with rolling green hills, a blue lake, and mountains under a cloudy sky. The image has a painterly, watercolor-like texture.

Hélio
Alves Martins
DNT/DPNT/DTVG

With humility, Helio Alves Martins tells how he got to leave from small Espinosa, with a little more than 30,000 residents, to live in Montes Claros, city-center with nearly 362 000 inhabitants. It all started in 1996, when Helio succeeded in the public contest for the role of agent of cutting and reconnection, in Timóteo, where he stayed for three years. "Then I wanted to go back to my homeland and I accepted the position of meter reader in Monte Azul, which is 30 km from Espinosa." Five years passed before he was transferred to Montes Claros, where he started as an clerk of water maintenance. "It was here that I made my dream of going to college come true," he says. Hélio graduated in environmental engineer in 2012, and now aims to act as such. Currently, the professional is an inspector of works and services of the District of Verde Grande (DTVG) and his main function is to monitor the quantity and quality of the service that contractors provide to Copasa. "If today I can fill my shopping cart, if I have a nice house, and my children can study in a good school is because I work in Copasa. I'm very happy here", said Hélio.

Environmental Policy

Copasa's Environmental Policy Management, "To Contribute to the Preservation of the Environment" is included in the Company's Strategic Plan, effective for 2010 to 2014, and has as its guidelines:

- To contribute to the preservation and restoration of natural resources as they relate to the Company's business;
- To treat sewage collected and waste generated by the Company's systems;
- To contribute to the promotion of collective and individual environmental awareness with sanitary and environmental education;
- To assess the environmental performance of production systems, seeking the continuous improvement of processes with a view to prevent pollution and environmental degradation;
- To act proactively with collegiate bodies responsible for environmental management and water resources;
- To pursue social and environmental sustainability for its systems.

Environmental Licensing and Granting of Use of Water Resources

These depend on prior environmental licensing for the construction, installation, expansion and operation of sewage works that use environmental resources and that are considered polluting or potentially polluting or likely to cause environmental degradation. The legal basis for the environmental licensing is the State Law 7.772/80, regulated by State Decree No. 39.424/98.

The purpose of the granting of rights for water resources usage is to ensure the quantitative and qualitative control of water usage and the actual right to have access to water.

Law 9.433/97 states that water is an economic asset and aims to create a balance between supply and demand and set forth the conditions for service billing. For a Company to charge for the water it supplies, the following conditions must be met: To have a Basin Committee established and operating for each river basin; create and implement a Basin Agency; have an economic and financial viability study done; to have a Basin Plan developed by the Committee aiming to support and guide the implementation of programs and projects.

State Law 13.199/99 provides for the State Policy on Water Resources for the State of Minas Gerais and establishes the right of access to water resources, with priority for public supply, the maintenance of ecosystems and the participation of the public sector, private users and communities in water resources management.

Aiming to meet the requirements of the current legislation, Copasa seeks the regularization of older projects, initiated and operated prior to the current environmental legislation. Regarding the latest developments implemented from 2009, internal procedures requiring the procurement of all applicable licenses to their implementation or expansion were incorporated.

Payment for the Use of Water Resources

The charge for the use of water resources is an economic tool for water management set forth in the National Policy of Water Resources and in the State Water Resources Policy of Minas Gerais. The charge relates to the use of water resources that are subject to licensing and whose basins make available the necessary infrastructure to manage such resources.

In 2012, the Company paid State and Federal taxes totaling R\$ 6.9 million for the rights to use water resources. This cost is passed on in full to the customer in locations where the billing occurs as a specific item on the utilities bills.

Watershed Management Committees (GRI S05)

The Watershed Committees are normative and deliberative entities acting in their territorial areas and having as its purpose to promote the technical, economic and financial feasibility of the investment program and the consolidation of urban and regional structuring policies, aiming the aiming at sustainable development of its basin.

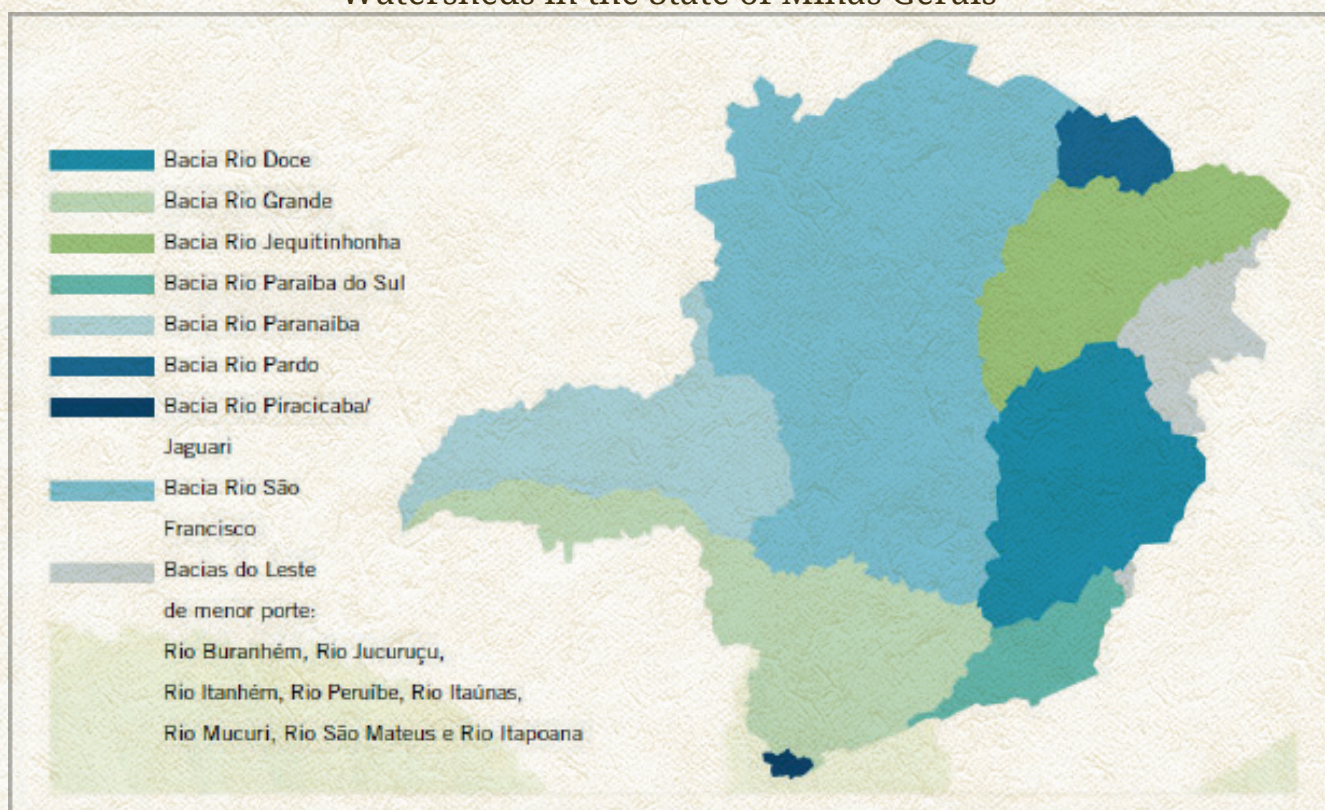
The duties of these committees are, among others: To approve the Master Plan for Water Resources and its budget, to integrate the State Water Resources Plan and its updates; to approve plans for the implementation of the funds raised by

2012 Annual Sustainability Report

the charging for the use of water resources (including the transfer of non-repayable funds), as well the proposed rates for billing, establishing criteria and standards for such billing; to approve the granting of rights to use water resources for large scale enterprises with pollution potential.

The creation of Watershed Committees in the State of Minas Gerais must be effected in accordance with the Law 13.199/99 and be based on Units of Water Resources Planning and Management, as defined by the State Board of Water Resources.

Watersheds in the State of Minas Gerais



Copasa's representatives participate in 34 of the 36 State committees in the State of Minas Gerais and in 4 federal Watershed Committees. In addition to the Committees, 2 basin agencies were established in the State of Minas Gerais: the Peixe Vivo Agency and the Multi-sector Association of Users of Rio Araguari Water Resources (ABHA). These agencies are decentralized executive units which support their Watershed Committees, and are designed to provide administrative, technical and economic support. The ABHA is responsible for supporting the Araguari Committee and Peixe Vivo Agency supports the Rio das Velhas river basin, the Três Marias Dam adjacencies, in Pará River, the Alto São Francisco tributaries and rivers Jequitaí and Pacuí.

(GRI 4.13)

Water Catchment

The availability of water resources in the State of Minas Gerais, combined with the Environmental Conservation policy and the encouragement of conscious consumption, based on the Company's Pricing Policy, has allowed Copasa avoid implementing rationing policies throughout his history.

In its core activities of water catchment, Copasa has the rights to use surface or underground water sources granted by the Instituto Mineiro de Gestão das Águas (Water Management Institute of Minas Gerais) or by National Water Agency, for State or Federal Water Resources, respectively.

Copasa owns or has rights to use the land of the catchment areas of its water production systems.

Sewage Collection and Treatment

(GRI EN26)

The Company puts a continuous effort to expand the collection and treatment of sewage, seeking to expand its coverage to the collection, interception of generated sewage and deployment of new sewage treatment plants.

Accordingly, Copasa expanded the service with sewage services, serving 200 municipalities in Minas Gerais and benefiting a population of 8.8 million people. The volume of treated sewage was 211.1 million cubic meters, almost 16% higher than in 2011.

To contribute to the growth strategy of the Company, in relation to the expansion in sanitary sewer service concessions and promoting the training of employees, and also regarding the adequacy of systems and the standardization of procedures for sewage services, the Training and Operational Procedures Standardization in Sewage Systems Program (Proceg) was developed, with the goal of raising and promoting know-how and best practices inherent to these services, with their interfaces and related topics. In 2012, 1998 employees were trained.

To monitor the results, among other initiatives, the Company maintains strategic indicators related to the implementation of the Market Expansion Plan and to the pollutants amount removed from the sewage collected. Seeking to adequate improper sewer discharges and to fight pollution of rivers, Copasa invests in the following actions:

“Sewage-Hunting” Program

Aims to identify and correct improper sewer discharges, connecting them to the existing sewerage system for transport and treatment in Sewage Treatment Stations (STPs). Therefore, this program has implemented 454 projects, correcting over 1,800 improper sewage discharges. In Ribeirões Arrudas and Onça sub-basins, which belong to the Rio das Velhas Basin, in the municipalities of Belo Horizonte and Contagem, 1635 discharges were corrected and in the municipality of Betim, which is part of the Paraopeba Basin, 171 improper discharges were treated.

Non-Domestic Wastewater Collection and Control Program (Precond)

Created in 2003, the Precond acts in collaboration with entrepreneurs in the State of Minas Gerais, in search of an appropriate destination for sewers coming from their organizations. There are about 2,500 registered companies. Through its control mechanisms, the Program allows the safe collection of non-domestic drains into Copasa’s sewage system, with proper treatment in its plants. The Program goals are:

- To ensure the integrity of incoming pipelines used for different discharges;
- To prevent explosions and flammability;
- To prevent the discharge of pollutants that pass through the **STP** and continue to pollute the watercourses;
- To protect the collection system against corrosion, fouling, clogging and toxic vapors;
- To reduce the health risks to workers who deal with the public sewer system;
- To make possible the reutilization of the STPs final effluent in industrial processes;
- To meet the requirements of legal standards regarding the characteristics of the final effluent and sludge produced in sewage treatment plants.

In order to comply with the standard for effluent discharge into the public sewerage system, approximately 40% of the registered companies have a contractual obligation to submit effluents monitoring reports to Copasa. The frequency of these reports is set according to business size, their pollution potential and hazardous discharge of effluents.

Receiving Water Bodies Monitoring Program

Aims to verify the quality of the waters in several streams and creeks in the Region of Belo Horizonte, in order to help in the construction of new pumping stations and STPs, checks the operation and effectiveness of processes in Sewage Treatment Stations and measures the efficiency of environmental actions undertaken by Copasa under the Sewage-Hunting Program and Precend. Sample-taking campaigns are conducted in the sub-basins of the Arrudas and Onça streams in the municipalities of Belo Horizonte and Contagem and in the Paraopeba river, in Betim.

Revitalization Project for Rio das Velhas Basin – 2014 Target (GRI S05)

One of the structuring projects of the State of Minas Gerais which Copasa adopted is the 2014 Target. Created in 2004 within the “Manuelzão Project”, created by the Federal University of Minas Gerais (UFMG), 2014 Target involves the revitalization of Rio das Velhas through actions of collection and treatment of sewage, recovery of the ciliary forest and treatment of municipal solid waste. In 2007, Target has become one of the State’s structuring projects.

Initially conceived as 2010 Target, the following purposes were established: making sailing, fishing and swimming in Rio das Velhas, in the Metropolitan Region of Belo Horizonte (BHMA) possible by 2010. In August 2010, the 2014 Target was launched by the Government of the State of Minas Gerais, which provides for the continuation of actions of the structuring project 2010 Target with revitalization of Rio das Velhas basin and ensuring fishing and swimming activities in the greater Belo Horizonte by 2014. The main initiatives are: separate collection and treatment of solid waste, collection, interception and treatment of sanitary and industrial sewage in all municipalities of the greater Belo Horizonte and revitalization of Pampulha Lagoon.

From 2004 to 2012, Copasa contracted more than 200 works with an approximate total of \$1.6 billion, with emphasis on the modernization of the Arrudas Sewage Treatment Station (ETE) and implementation of secondary treatment in Onça ETE, located in the metropolitan area of Belo Horizonte.

Another important achievement are the removal of sewage from Pampulha Lagoon in Belo Horizonte, in order to contribute to its cleaning by the World Cup in 2014. Copasa obtained funding from Caixa Economica Federal (CEF) in the amount of R\$102,000,000.00 and the works are in progress. Other major project is the expansion of Arrudas ETE, whose treatment capacity will increase from 2.25 m³/s to 3.37 m³/s.

The return of fish is the biggest indicator that the water quality has improved substantially. The UFMG found that in 2000 fish were moving up only at a 250 km distance on the river, but in 2007 fish were found over a 470 km stretch on the river. A survey conducted in 2011 found fish at 714 km from the mouth of the São Francisco river, i.e., above the city of Belo Horizonte.

The Paraopeba Program

The Paraopeba Program aims to contribute to the Paraopeba River Basin Regeneration, covering: implementation of sewage collection and treatment systems in municipalities served by Copasa, namely, Betim, Congonhas, Conselheiro Lafaiete, Ibitiré, Igarapé, Mário Campos, São Mateus Leme and São Joaquim de Bicas; construction of Waste Treatment Units (WTUs) in Water Treatment Stations of Vargem das Flores and Serra Azul, located in the municipalities of Betim and Juatuba; deployment of a biogas unit in Sewage Treatment Stations of Betim and Ibitiré; implementation of a Watershed Protection Program and structuring and implementation of socio-environmental education and mobilization.

Revitalization of the São Francisco River

Copasa signed an agreement with the Development Company of the Valley of the São Francisco and Parnaíba (Codevasf) to ensure the sanitation of Minas Gerais municipalities located in the São Francisco River Basin, in a joint effort to recover the waters of the "Old Chico", as the river is called with loving affection. Accordingly, Copasa bid for sanitary sewer systems works for the following counties: Capitão Éneas, Francisco Dumont, Itacarambi, Juvenília, Lontra, Manga, Pedras de Maria da Cruz, Presidente Juscelino, Prudente de Moraes, São João da Ponte, Taquaraçú de Minas, Varzelândia and Verdelândia.

Environmental Preservation

(GRI EN13)

Copasa owns 15 environmental reserves in the State of Minas Gerais, totaling 24,297 hectares of preserved forest under permanent surveillance, in order to avoid the presence of invaders, fire hazards and degradation of native flora and fauna, and risks to springs that exist there. The fire brigades of the Company are specially trained to act in fire prevention and firefighting, acting also in surrounding areas to prevent the fire from spreading and spread to Copasa's reserves. The implementation and maintenance of manual and mechanic firebreak systems in the areas of water production in the metropolitan region of Belo Horizonte provides quick access to firefighters and employees in case a fire breaks out.

With partnerships with institutions that also provide for the preservation of biodiversity, Copasa participates in advisory councils related to Rola Moça State Park,, Serra Verde State Park, Lapa Grande State Park, South Environmental Preservation Area and Carste Lagoa Santa Environmental Preservation Area.

2012 Annual Sustainability Report

The table below shows the environmental reserves and their respective areas:

Name	Location	Area (ha)
Bálsamo	Ibirité	391
Barreiro	Belo Horizonte	880
Catarina	Brumadinho	387
Cercadinho	Belo Horizonte	151
Fechos	Nova Lima	1,074
Juramento	Juramento	3,180
Medina	Medina	569
Mutuca	Nova Lima	1,250
Pau de Fruta	Diamantina	1,700
Pedra Azul	Pedra Azul	1,156
Rio Manso	Rio Manso, Bonfim, Brumadinho, Crucilândia, Itatiaiuçu	9,000
Rola-Moça	Ibirité	112
Serra Azul	Mateus Leme, Igarapé, Itaúna, Juatuba	3,200
Taboões	Ibirité, Sarzedo	247
Todos os Santos	Teófilo Otoni	1,000
Total		24,297

(GRI EN11)

Watershed Protection

Watershed Monitoring

Copasa monitors its surface and underground water sources - some 1,500 in the cities operated by the Company throughout the State of Minas Gerais. The data collected is stored in dedicated databases and made available for queries in determining the geo-hydrological and hydroclimatic characteristics of different regions in Minas Gerais.

The Company maintains an information collection that allows the granting and use of surface and ground water sources in a sustainable and planned way for the preservation of water resources.

Watershed Protection Program

This is an initiative towards the restoration, protection and preservation of the sub-basins of the watersheds used by Copasa in order to ensure their life and continuity of water catchment for public water supply and environmental protection.

With the permission of the owner of the area where the source is located, the Company's technicians perform a survey of the property, in order to identify the need for environmental action to be performed to preserve the watershed, such as: planting of native seedlings, fencing of springs, deploying containment basins for rainwater (pockets).

In order to expand those activities environmental education workshops and other educational activities and awareness-raising initiatives are also conducted, especially to promote the involvement of landowners, so that these activities have the necessary continuity.

Energy Efficiency

(GRI EN26)

Copasa monitors and inspects the electrical power available for acquisition in captive and free markets, the energy efficiency actions, including controlling and fighting real and perceived water losses, which is the most important way to reduce the specific electric power consumption. This way, the Company has made impressive gains in uniform actions to reduce the cost of electricity and water losses as well as to take advantage of the opportunities for self-generation from the energy available in sewage treatment processes and accumulation dams.

The energy efficiency projects aim to achieve the lowest power consumption with the lowest costs, without prejudice to the excellence in the quality of services rendered to society through integrated actions, with a participative and influent presence, in line with the industry guidelines and international policies

in the quest for the preservation of natural resources, improvement in the quality of life and of environmental conditions.

Copasa maintains the Integrated Program for Water Losses Reducing and Lower Cost of Electricity, known as the Energy Efficiency Program (*Programa de Eficiência Energética*, EEP), which has established actions aiming to make a more logical use of electricity in operational and administrative processes, building upon the concepts and guidelines of the National Program the Reduction of Water Waste, set forth by the International Water Association, the resolutions of the National Agency of Electric Energy and the National Program for Energy Conservation in Sanitation Sector. The EEP's main purpose is to establish guidelines and procedures to enable companies to achieve and maintain high levels of efficiency in their operational and administrative processes with lower energy costs.

The Energy Not Converted into Result (ENCR) index shows the amount of energy associated with the aggregate volume of water not converted into revenue, as recommended in the and shows the outcomes from energy efficiency actions in terms of reduction of water losses.

Evolution of Electricity Usage in Copasa

(GRI EN3)

Year	KWh	ENCR KWh/On/Day	ANCR L /On/Day
2012	831,820,818	0.20	234.12
2011	802,778,591	0.19	230.57
2010	775,850,851	0.20	236.37

In 2012, the Company continued the test operation of the power plant of the sewage treatment station in the Ribeirão Arrudas Basin, reaching a 33.6% consumption rate for the ETE with the power plant. This is a 2.4 megawatt thermal power plant. The heat resulting from the production of electricity in turbines also warms the sludge used in the anaerobic reaction and increases the efficiency of biodigesters, which speeds up the work and increases the current treatment capacity of the station.

Furthermore, Copasa has also proceeded with the Clean Development Mechanism (CDM) project, to reduce the emissions of greenhouse gases resulting from this power plant. Validation and approval by the Interministerial Commission on Climate Change of the Ministry of Science, Technology and

Innovation were performed, with submission for register in the Union Nations Framework Convention on Climate Change, which is expected to reduce 26,237 tCO₂e (tonnes of carbon dioxide equivalent) for the duration of the certification.

Climate Changes

The effects of climate change have led to environmental studies in order to diagnose and seek alternatives for their treatment.

In the State of Minas Gerais, actions to combat climate change and the management of emissions of Greenhouse Gases (GHG) are prepared according to the Annual Self-Reported GHG Emissions Program from companies operating in Minas Gerais, established by Decree Law 45.229/09.

In Copasa, the findings of these studies, from 2009 to 2011, were reported to the Minas Gerais Annual Self-Reported GHG Emissions Program and to the Carbon Disclosure Project (CDP).

The annual GHG inventory is an important tool for environmental management and Copasa has used it to identify and quantify the main sources of greenhouse gas emissions generated by its activities. The inventory for the year 2012 is should be published in March 2013, when expert advice for this purpose is planned.

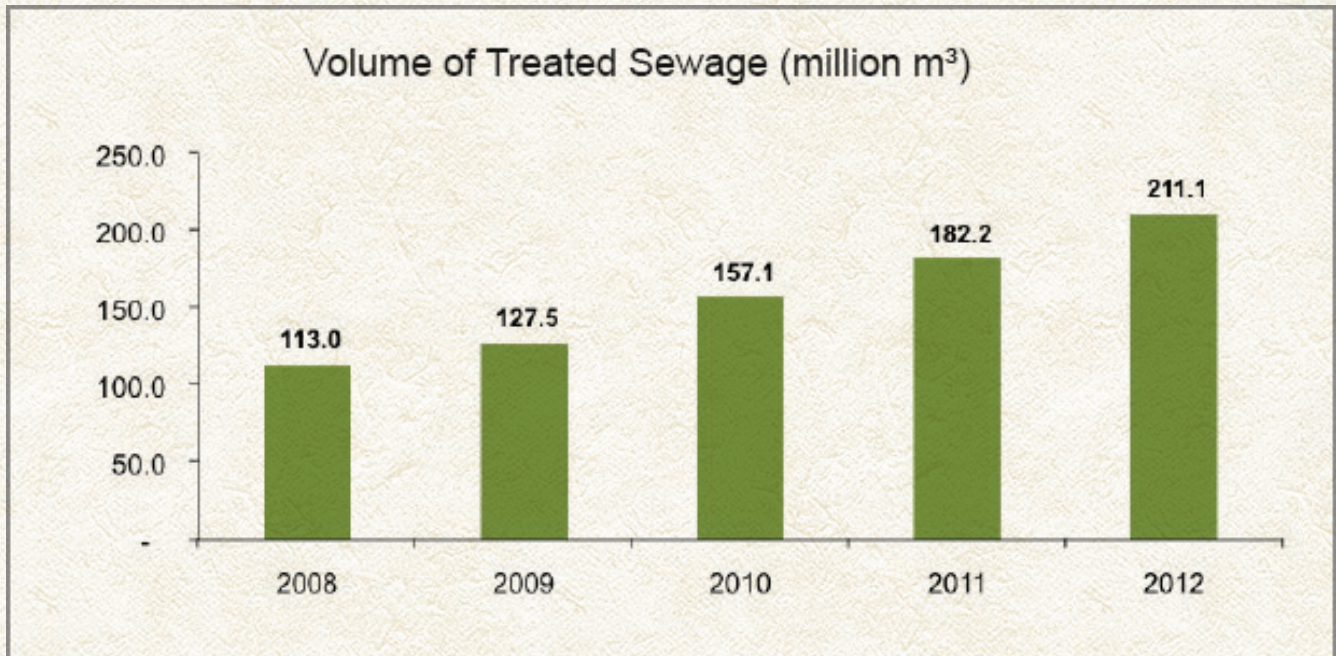
Therefore, data to be included in this report are from 2011, and it is clear that 92.6% of these emissions are from sewage collection. The transportation of products, goods, materials and workers accounted for 2.6% of the emissions and electricity consumption accounted for 4,6%, with less than 1% coming from other sources.

(GRI EN29)

Some indicators presented in this inventory show that the increase in the rate of treated sewage to total sewage collected and the increase in the rate of treated sewage in mixed and aerobic stations contribute to the reduction of GHG emissions.

2012 Annual Sustainability Report

There is a tendency for gradual reduction of emissions in the coming years, as the Company increases the volume of treated sewage:



The Company has been implementing and participating in other initiatives that seek to further discuss the issue, to mitigate the production of greenhouse gases and/or dealing with the impacts of climate change, such as:

(GRI EN18, EN26)

- participation in the Minas Gerais Forum on Sustainable Consumption and Production - Annual Self-Reported GGE Emissions Program in the State of Minas Gerais and participation in the Municipal Committee on Climate Change and Eco-efficiency of the Municipality of Belo Horizonte;
- actions towards the preservation, maintenance and expansion of green areas for the protection of water sources that contribute to the sequestration of greenhouse gases;
- Blue Fleet Program ("Programa Frota Azul): developed by the North Operations Department ("Departamento Operacional Norte", DPNT), it aims to improve the management of its fleet, incorporating practices to prioritize the reduction of operating costs, the sequestration of pollutant emissions and waste management. To this end, a specific inventory of CO₂ emissions by all vehicles used by DPNT was made to help establish targets for planting seedlings for effective sequestration of the CO₂ emitted;
- energy efficiency projects:

2012 Annual Sustainability Report

- power cogeneration in the power plant of the Arrudas STP Sewage Treatment Station, preventing greenhouse gases from being released to the environment;
- studies of energetic use of biogas and sludge at 5 midsize sewage treatment stations, with 2 of them located in the Metropolitan Region of Belo Horizonte (Onça STP, in Montes Claros, Rio Doce STP, in Ipatinga and Curvelo STP).

Emissions in tonnes of CO₂eq in 2011

Emissions	Activity:	INDEX		Reductions of CO ₂ eq in 2011 (in tonnes)	
				2011	
				Index	Emission
Scope 1 - Direct Emissions	Collected Sewage (untreated)	Total volume of sewage collected L/year		124,491,873,000,00	260,911,60
	Treated sewage	Total volume of treated sewage L/year		178,621,533,504,00	206,104,67
	Fuel consumption	Total fuel consumption in liters	Diesel	2,798,898.05	6,993,69
			Gasoline	3,816,947,24	6,392,21
NG			0.00	0.00	
Scope 2 - Indirect Emissions	Electrical Power	Total energy consumption		802,803,75	23,466,00
TOTAL INVENTORY		Total volume of sewage collected L/year		306,703,856,00	503,868,17
Scope 3 - Other emissions	Bus transportation	Sum of the distances traveled in all stretches		719,070,20	22.04
	Air Transport			2,534,877,80	356.77
TOTAL - Scope 3					378.81
Emissions from Biomass	Fuel consumption	Total biofuel consumption in liters	Biodiesel	281.59	0.67
			Ethanol	15,750,19	23.17
		Biofuel contained in fuel	Biodiesel	139,944,90	340.11
			Ethanol	906,524,97	1,403,58
TOTAL BIOMASS				1,062,501,65	1,767,52

2012 Annual Sustainability Report

Total emissions in 2011 - Fuel

	Volume (L)*	Emissions (tCO2eq)	Energy (Kcal)	Energy (MWh)
REGULAR DIESEL	2,798,898,05	6,993,69	22,558,558,50	26,230,88
REGULAR GASOLINE	3,816,947,24	6,392,21	22,398,609,79	26,044,90
NG*	0.00	0.00	0.00	0.00
BIODIESEL CONSUMED	281.59	0.67	2,230,19	2.59
ETHANOL CONSUMED	15,750,19	23.17	80,273,99	93.34
BIODIESEL CONTAINED IN DIESEL	139,944,90	340.11	1,108,363,63	1,288,79
ETHANOL CONTAINED IN GASOLINE	906,524,97	1,403,58	4,620,285,81	5,372,43
TOTAL SCOPE 1		13,385,89	44,957,168,30	52,275,78
TOTAL BIOMASS		1,767,52	5,811,153,63	6,757,16
TOTAL		15,153,42	50,768,321,92	59,032,93

Total emissions in 2011 - Electricity

Year	Total		Emission Factors	CO2eq Emissions (T)
	Total kWh	Total MWh		Total
2011	802,803,748,91	802,803,75	0.0292	23,466,00

(GRI EN16, EN17)

Environmental Education

“Chuá” Program of Sanitary and Environmental Education

The study of water, its treatment process, the basics of hygiene and cleanliness, the waterborne diseases and sanitation-related issues are part of the curriculum of elementary education schools. The Chuá Program was developed with the support of the Regional Education Superintendence to serve students and the

community in general. It provides teachers, students and representatives of other community segments with educational materials, guided visits to Copasa's environmental reserves, water treatment plants, sewage treatment plants and environmental education centers. Besides the visits, lectures on relevant issues are given and the Company's technicians teach the basics on the treatment of water and sewage, conscious consumption, proper environmental care, the process monitoring of water treated by the Company in its laboratories, notions on the care for preservation areas, among others.

With a 26 year history, the Chuá Program tries to reach other segments of the society as well, to empower citizens and raise the awareness to the environmental values, attitudes, and personal practices that reflect positively on quality of life and the environment. Implemented in hundreds of municipalities in the State of Minas Gerais, the Chuá Program has touched the lives of nearly 2 million children and adolescents. In 2012, about 220 thousand people participated in the program.

Environmental Education Center (Ceam) (GRI EN12)

Ceam Barreiro

Located on Reserva do Barreiro, one of earliest and most important catchment areas and water treatment the Municipality of Belo Horizonte. This reserve comprises 880 hectares of preserved area of Atlantic Forest vegetation, which shelter and protect multiple species of native flora and fauna.

The environmental initiatives developed aim at raising the awareness of visitors to the preservation of the area, through the participation in environmental workshops and recreational activities, with part of these held in direct contact with nature, such as an interpretive trail that runs along part of the river bed and part of the forest that surrounds the area.

In 2012, about 5,000 people, including students and teachers from 87 educational institutions and civil society representatives, visited the Ceam Barreiro.

Ceam Arrudas STP

Created in Arrudas STP to support awareness-raising activities related to environmental preservation, with emphasis on the demonstration of the biomonitoring system, with an aquarium with approximately 10,000 liters of water coming from the sewage treatment station showing that certain levels of organic matter allow the survival of different fish found in the Rio das Velhas

river in this environment and demonstrating the quality and efficiency of water treatment.

Education for water consumption

Copasa gives lectures in manufacturing plants, schools, hospitals, condos, businesses and public agencies, and covering issues related to the overall performance of the Company in relation to the systems of water supply, collection and treatment of sewage and environmental education. Information is presented to raise public awareness on the need for environmental conservation, reducing water waste, and tips on how to detect leaks and how to clean water tanks are given. In 2012, 150 lectures were given to an audience of approximately 12,250 people, of which 77% were given in educational institutions.

Guided tours

Aiming at educating the general public about the importance of conservation of water sources and the rational use of water resources, these guided tours sponsored by Copasa to its basic sanitation service systems demonstrate the various stages of the production process, such as collection, treatment and distribution of water.

Social Dimension

Aldenir
Milani de Souza

DSO/DPSL/DTMG



Aldenir Milani de Souza is Copasa's meter reader for 24 years, more than half of its 47 years. The reading and bill delivery is an important part regarding the company's financial collection. If this work is not done seriously and correctly, many problems can be generated in terms of customer relationships", said Aldenir. For the work he does, a lot of energy is necessary, after all, there are many footsteps to make over 4,800 monthly readings in Campestre, a municipality belonging to the District of Médio Rio Grande (DTMG). "There are 18 days for reading and it is usually only one person who does it. So when it's my turn, I pass by 300 houses per day, on average", calculates. When he is not doing reading, the employee explains he does administrative services internally and helps in customer service. "We have a very good working environment and a great internal communication. I think this allows me to develop my work more easily and with more autonomy", says Aldenir.

Copasa and Its Employees

(GRI LA1)

Copasa's Human Resources Management Policy promotes a fair, ethical, egalitarian and democratic approach to Copasa's employees, seeking to match the workers' expectations and interest with the Company's needs.

The company seeks to meet the expectations and needs of employees, particularly through the implementation, every 2 years, of the Organizational Climate Survey, which allows the management of the Organizational Climate performance indicator. Assessing the Survey's findings allows for the planning of measure to maintain the quality and good relationships within the workplace, aiming at a better quality of life and better performance for all workers.

In 2012, the survey showed a positive index of 75.7%, higher than the market average, which is 66.4% - calculated on a survey conducted with 20 midsize and large companies in the State of Minas Gerais.

Copasa ended year 2012 with 11,611 employees.

(GRI 2.8)

Workforce			
Year	2012	2011	2010
Number of employees	11,611	11,535	11,436
Number of admissions	378	479	243
Number of reinstated employees	Number of reinstated employees	Number of reinstated employees	11
Number of dismissals	278	355	217
Number of disability pensioners	27	30	42

2012 Annual Sustainability Report

Employees by Category						
Categories	2012		2011		2010	
	Number	%	Number	%	Number	%
Managerial positions	1,034	8.9	1,002	8.7	995	8.7
Intermediate level (administrative or operational)	2,334	20.1	2,207	19.1	2,166	18.9
Operations	7,282	62.7	7,369	63.9	7,314	64.0
Administrative Support	961	8.3	957	8.3	961	8.4
Total	11,611	100.0	11,535	100.0	11,436	100.0

Regarding the geographical distribution, 42% of the total, i.e., 4,830 employees, work in the metropolitan area of Belo Horizonte, including 33% at the company and 67% servicing systems in this region.

Units	2012		2011		2010	
	Number	%	Number	%	Number	%
Operating Boards	9,824	84.6	9,754	84.6	9,630	84.2
Management and Administration Units	1,787	15.4	1,781	15.4	1,806	15.8
Total	11,611	100.0	11,535	100.0	11,436	100.0

Age group	2012	2011	2010
18 to 35 years old	2,678	2,799	2,772
36 to 45 years old	3,674	3,683	3,598
46 to 60 years old	4,822	4,694	4,598
Over 60 years old	437	359	468
Total	11,611	11,535	11,436

Valuing Diversity

In Copasa, people are recruited, selected and contracted in accordance with criteria established by law. To ensure equal opportunity, fairness and justice, the Company encourages inclusive practices, as in the case of the internal selection process for positions of trust, which provides, in the event of a tie in

2012 Annual Sustainability Report

the final score, preference for female candidates and for black candidates, in that order.

Public selection process saves 10% of job vacancies in each position for people with special needs and the Company has sought to adapt its facilities with special elevators, ramps and toilets for these workers.

The Company promotes respect for religious diversity, allowing the realization of masses, church services and other religious events in its premises.

The commemoration of International Women's Day is an event of significance in Copasa calendar and it offers a diversified cultural and artistic programming to the workers, which happens with the support of the Copasa Employees Association, its Subsidiaries and Sponsored organizations (Aeco).

Since 2003, homosexual employees may include their same-sex partners as their relatives in Copasa's Workers Healthcare organization (Copass Saúde), with such practice coming in advance of the Ruling 12/10 of the National Regulatory Agency for Private Health Insurance and Plans.

Workers by Gender and Education

Education Level:	o Female.	o Male.	Total
4th grade unfinished	4th grade unfinished	323	324
4th grade	5	591	596
5 th to 8 th grade unfinished	4	291	295
5 th to 8 th grade	7	1,037	1,044
Secondary education (High school equivalent) unfinished	6	196	202
Secondary education (High school equivalent)	479	6,274	6,753
Higher-level education.	32	172	204
Higher level/Graduate	645	1,548	2,193
Total	1.179	10,432	11,611

2012 Annual Sustainability Report

Compensation by Gender

Salary Range	o Female.		o Male.	
	Number	%	Number	%
01 to 04 MW*	370	31.4	7,615	73.0
05 to 09 MW*	454	38.5	1,738	16.7
10 to 14 MW*	184	15.6	489	4.7
15 to 19 MW*	73	6.2	159	1.5
20 to 24 MW*	44	3.7	163	1.6
25 or more MW*	54	4,6	268	2.5
Total	1.179	100,0	10.432	100,0

* Minimum wage in force in December 2012
(GRI LA14)

Managerial positions by Genre

Positions	Female	Male	Total
Advisors	2	19	21
General Auditor	-	1	1
Chairman's technical assistant, head	1		1
Department Heads	-	11	11
Chief of Staff	-	1	1
Coordinators	2	5	7
District Managers	2	38	40
Division Managers	32	78	110
Financial Resources Funding Manager	-	1	1
Manager for Large Enterprises	-	2	2
Attorney	-	1	1
Superintendents	6	16	22
Subtotal	45	173	218
Directors	1	9	11
Total	46	182	228

(GRI LA13)

2012 Annual Sustainability Report

Admissions by Gender

Gender	2012		2011		2010	
	Number	%	Number	%	Number	%
Female	44	11,6	40	8,4	20	8,2
Male	334	88,4	439	91,6	223	91,8
Total	378	100,0	479	100.0	243	100.0

Number of Employees by Ethnic Background*

Race	2012			2011			2010		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
Caucasian (White)	833	5,907	6,740	852	5,944	6,796	857	6,002	6,835
Asian	5	38	43	4	35	39	3	31	32
(Light-brown skin)	294	3,561	3,855	285	3,476	3,761	280	3,352	3.650
Black	47	924	971	43	896	939	41	867	919
Indigenous	0	2	2	0	0	0	0	0	0
Total	1,179	10,432	11,611	1,184	10,351	11,535	1,181	10,252	11,436

(GRI LA13)

(*) Employees classification by ethnicity was self-declared.

(**) Although "light-brown" is not an ethnicity, this expression is used to help clarify the total mix of Copasa's workforce.

Compensation by Ethnicity

Salary Range	Black		Light-brown skin		All other ethnic groups		Total Number of Workers
	Número	%	Número	%	Número	%	
01 to 04 MW*	775	6.7	2,905	25.2	4,305	37.1	7,985
05 to 09 MW*	143	1.2	674	5.8	1,375	11.8	2,192
10 to 14 MW*	33	0.3	169	1.4	471	4.1	673
15 to 19 MW*	7	0.1	37	0.3	188	1.6	232
20 to 24 MW*	9	0.1	36	0.3	162	1.4	207
25 MW* or more	4	0.0	34	0.2	284	2.4	322
Total	971	8.4	3,855	33.2	6,785	58.4	11,611

* Minimum wage in force in December 2012

In 2012, the lowest salary in Copasa from the category's date of wage readjustment (May), was 37.0% greater than the national minimum wage. Only 2.4% of the Company's workers are paid the lowest wages.

(GRI EC5)

Opportunities for All

The HRM provides initiatives with the goal of fostering the professional development of job candidates and employees, according to the current legislation, such as:

Absorption of personnel: When taking over operating systems, through the Program Agreement signed with the municipal governments, Copasa may take personnel from these institutions, provided that these employees are working in basic sanitation activities, have been admitted by public admission process and meet the requirements of the Company. The absorption must occur within 6 months after the start of operation. In the year 2012, 29 employees of municipalities were taken.

(GRI EC7)

Master Analyst and Technical Specialist: to consolidate the organizational learning, Copasa keeps this specialized professionals with great technical know-how and deep knowledge, besides their great expertise, in order to present solutions to policies and guidelines for the business and operational management. In 2012, we selected a Chief Analyst and a Technical Specialized Assistant, besides the 5 existing Analysts.

Public selection: A selection process conducted in accordance with the Federal Constitution, whereby the Company recruits, selects and hires people with the main objective to meet manpower needs and generate a backup list for future admissions. In 2012, a public selection was held for the position of sanitation agent, working as sanitation services assistant.

Trainees: Copasa admits trainees who are paid half a minimum wage as compensation and other legal obligations such as employment compensation insurance ("Fundo de Garantia por Tempo de Serviço", FGTS), National Social Security Institute (Instituto Nacional de Seguro Social, INSS) and transportation subsidy. In 2012, through a partnership with the National Service of Industrial Education (Senai), Copasa hired 246 trainees aged between 16 and 24 years. Learning courses are offered in administrative functions. After completing the theoretical part of the course in Senai, the trainees develop their practical skills inside the Company to promote their professional development. During this time, young people are supervised by their coaches and by the Human Resources.

Professional Growth: made possible based on regular assessments of performance from the time the employee joins a specialized occupation requiring a learning period to reach maturity, experience and necessary functional skills. Based on this assessment, employees may be promoted for a level and/or compensation range immediately above their current positions, up to the maximum remuneration range in the same specialty with successive professional progress. In 2012, 9,521 performance appraisals were conducted, 5,498 competency evaluations were done and 155 competency assessments were performed for positions of trust inside the Company. A working group with the aim of developing an integrated performance management system was also created in order to measure the evolution of performance of each employee, as well as the quality of training, and to promote a higher level of competence for these employees.

(GRI LA12)

Internal Selection Process for Positions of Trust: held semiannually, this is the process by which the Company identifies employees with leadership potential to fill vacancies in positions of trust. New managers, at all levels - except for Chairmen, Chief Executive Officers and other strategic positions - are selected through technical and behavioral evaluations, according to rules laid down in specific regulations, available to employees. Aiming to renew its managerial staff and maintain the internal competitiveness, managers who complete six years in their role must go through this selection process if they want to remain in their positions.

In 2012, 57 employees were enrolled in this selection process. As a result, 14 managers were selected. Of this total, 13 new managers took over the managerial functions of a unit for the first time, receiving the support of the Monitoring and Development Program for New Managers, which promotes the onboarding and development of employees selected for managerial positions. To this end, the Program includes: Guidelines regarding the performance in the selection process, feedback meetings with the employee's supervisor, the development of an Individual Development Plan (IDP), development groups, a series lectures on the internal processes relevant to new managers, a follow-up interview after the first six months in the position, orientation meetings and feedback to the employee's managers.

Internship Program: in 2012, 150 internship vacancies were offered for university students and middle level technicians, generating 221 opportunities for students who worked with the Company. Moreover, the program benefits the Company's employees who are still studying, offering them internship opportunities. In 2012, 101 Copasa's employees completed their internship inside the Company.

Career advancement: Progression of an employee to a higher position when a vacancy opens, provided they meet the requirements and criteria set out in Career Advancement, Positions and Salaries Plan (“Plano de Carreiras, Cargos e Salários”, PCCS).

Internal Selection Process for regular positions: Copasa uses an internal process to select among employees who meet the criteria and requirements of PCCS and meet the qualifying stages of curricular analysis and the selection interview, those who show the most appropriate skills.

Training and Development (GRI LA11)

The precepts of corporate education at Copasa aim to foster the development of individual skills necessary to consolidate the culture of business excellence and to sustain the competitive advantage of the Company. In 2012, Copasa invested R\$ 1.8 million in training and development for its workers, offering 41,865 training opportunities and 453,095 hours of activities.

Year	Investment in professional development (R\$)	Number of participants (by unit)	Number of hours of professional development (h)	Average hours per employee (h)
2012	1,804,750,01	41,865	453,095	40.75
2011	1,096,808.09	44,984	418,144	36.2
2010	1,439,644.00	41.507	434.281	34.9

(GRI LA10_)

The needs for training and development of employees are identified through the Training Needs Survey, conducted annually and covering all organizational units, contributing to the development of the Corporate Education Program, which aims to ensure the continuity of the generation, propagation and conservation of knowledge in Copasa.

Another initiative to encourage professional growth aims to expand the skills of employees and their participation in vocational technical courses for sanitation agents with financial subsidies ranging from 50% to 90%. In 2012, 167 employees used this subsidy.

Payment According to Results

The variable compensation mechanisms seek to promote, develop and enhance the capabilities of employees and to encourage them to achieve better results.

Accordingly, Copasa uses variable compensation models that reward the collective effort to meet the goals set in strategic planning: Performance Bonus for System's Heads: established in 2011, this is granted to the employee working as System's Head and depends on the calculation of operating performance on sites under his responsibility.

Management Performance Bonus: an assessment system rewarding employees in positions of trust each month, calculating the performance of their units against the achievement of established goals.

Institutional Performance Bonus: quarterly evaluation system directly related with the strategic objectives of the Company that rewards employees according to the result obtained by their work unit each month. In 2012, the percentage of the bonus increased from 13.5% to 15.3% of the employee's basic compensation.

Profit Sharing: this is the distribution of part of the annual net income of the Company to employees in accordance with labor legislation. It is calculated in a linear form, with an equal amount to all employees, regardless of pay level.

Occupational Health and Safety

Initiatives related to occupational health and safety in Copasa are regulated by law and by a specific Article regarding health, safety and occupational medicine in the Collective Agreement signed between the Company and the Union of Water Purification and Distribution and Sewerage Services Industry Workers in the State of Minas Gerais, the Administrators Union of the State of Minas Gerais and the Engineers Union of the State of Minas Gerais.

(GRI LA6, LA9)

Initiatives regarding occupational health and safety of employees are based on the Environmental Risk Prevention Program and the Medical Supervision of Occupational Health Program. The first program helps to identify and propose solutions to work situations that may result in hazards to the employee's health. The second program allows the monitoring of the workers' health with health tests done in their admission, regular health check and on resignation.

Other actions complement the strategy of maintaining health and safety in Copasa:

(GRI LA8)

2012 Annual Sustainability Report

Internal Committee on Accident Prevention – CIPA medical and occupational safety professionals, backed up by the existing 73 CIPAS, identify and address risks related to occupational health, safety and ergonomics, in compliance with Rule No. 9 of the Ordinance 3.214/78 of the Ministry of Labor and Employment.

Working Group on Ergonomics: provides expert assistance to organizational units, dedicated to the prevention of occupational diseases and accidents at work and to the identification of factors that may impact the health, performance and productivity of workers. Thus, it seeks to ensure optimal working conditions, and to develop projects in ergonomics, giving support to the units in legal proceedings demanding investigation. As an example of this, in 2012 telemarketers were instructed on how to prevent health problems during their work, adopting habits to help avoid or minimize adverse effects to their health.

Special Assistance Program: for employees and their dependents with special needs, it offers reimbursement of treatments for specific health issues and special education opportunities. In 2012, 298 workers were served, consisting of 85 employees and 213 relatives.

Program for Health Care and AIDS Prevention (APA): works for the prevention, education and assistance for HIV-positive and AIDS patients. The prevention work includes lectures and distribution of educational material and condoms in annual campaigns, among other activities. The support work aims to provide treatment for HIV-positive patients, which includes lab tests, psychosocial, medical and dental treatment, as well as specific drugs, and guidance and assistance to the family.

Program to Combat Dengue: in 2012, Copasa has continued the activities of the Standing Committee for Dengue Prevention, consisting of 52 internal committees. After training 503 coordinators and agents to fight dengue, the commissions started mapping risk sites in their units, eliminating sources of potential mosquito breeding. This control is performed continuously with monthly meetings and reporting to the State Government of Minas Gerais. Events were held with the community, with performances by actors dressed as "mosquitoes" and distribution of informational materials and online brochures.

(GRI LA6)

Gymnastics in the Workplace: established in Copasa as a way to motivate employees to develop the effective practice of specific exercises and implement other elements of ergonomics that produce beneficial health effects for workers. 3 daily sessions of physical exercises are held at the headquarters of the Company, conducted by a physical therapy professional, in different times and places so as to enable the participation of the maximum number of employees.

In addition to Belo Horizonte, the program is also developed in the cities of Corinto, Montes Claros and Salinas.

Program for Prevention and Care for Alcohol and Drugs (Pasa): aims to reduce substance-related diseases, absenteeism and workplace accidents. The program includes: lectures for internal and external audiences on the prevention of alcoholism, smoking and other addictions; monitoring of the treatment process: diagnostic assessment, individual therapeutic project, therapeutic group meetings, guidance and support to the families of program participants and emergency room visits.

It also includes the treatment of smokers with subsidized provision of medication, referral to specific professionals and medical examinations and continuous psychological assistance for one year.

”Prevenir” Program: aiming to promote the health and welfare of employees, several actions were taken in 2012, among which the events held to celebrate the National Day of Health and Immunization Campaign Against Seasonal and H1N1 Flu stand out, in partnership with the Serviço Social do Comércio (SESC Minas); more than 2,000 employees and their families were immunized.

Occupational Rehabilitation Program: in a partnership with the National Institute of Social Security (INSS), it enables the functional movement of the employee who suffers of any inability to exercise its original function due to a health problem. On December 31 2012, 26 cases were ongoing rehabilitation. Employees in the rehabilitation process are accompanied by doctors and social workers and relocated to new positions where the use and appreciation of their potential for work is possible.

”Sou + Copasa” Program: this program aims to encourage good practices and to promote improvements in the categories of Safety, Organization and Urbanization (SOU) for the operating units, focusing on the welfare of employees and in the promotion of the Company’s image. Annually, awards are given to units that have excelled in their zeal for conservation, as assessed by the mentioned categories and shown by the performance indicators that make up the strategic map.

Some figures showing the results of occupational health and safety programs in Copasa in 2012:

- recovery rate of employees treated for alcoholism and other drugs ⇒83.3%.
- recovery rate of employees treated for smoking ⇒83.3%.

2012 Annual Sustainability Report

- employees trained on information about STD/AIDS ⇒1,630
- employees participating in training with a focus on accident prevention ⇒9692 employees
- reduction in the percentage of accidents with temporary leave and frequency and severity of accidents compared to 2011.

Index	2012	2011	2010
Percentage of accidents with temporary leave	1.39	1.26	2.92
Percentage of accidents with permanent disability	0.45	0.38	0.29
Percentage of accidents resulting in death	0.00	0.02	0.00
Frequency rate of accidents at the workplace	21.09	21.69	18.88
Severity rate of workplace accidents	73.44	814.91	64.79

(GRI LA7)

Benefits with Responsibility and Quality of Life

Copasa's Benefits Program achieved a rate of 84% of positive evaluation in the Organizational Climate Survey conducted in 2012.

Copasa improved the quality of life of employees, seeking to meet relating to health, leisure, social and financial aspects. To this end, one of the initiatives relates to benefits offered to its employees, regardless of employment status (temporary or regular workers) or workload: medical and dental care, special care, group life insurance, education allowance, special educational subsidy, funeral assistance, transportation vouchers, meal vouchers; basket of staples, Christmas baskets; snacks during work hours, daycare assistance and housing allowance.

(GRI LA3)

Psychosocial Assistance with the aim of contributing to the improvement of well-being and job performance of its employees, the Company maintains a team of psychologists and social workers who assist and offer guidance to employees and their families who are experiencing adverse life situations. In 2012, we developed a specific plan of action to improve the working conditions of employees who work in remote sites.

Employees Association, for Copasa, its Subsidiaries and Sponsored Organizations (Aeco): this Association offers benefits to members through the network of merchants, conducts promotions like free distribution of annual

2012 Annual Sustainability Report

school kits for employee's school-aged children, maintains four social clubs, promotes soccer championships, sponsors cycling teams and kung fu, judo, taekwon-do, jiu jitsu and checkers athletes, and supports the Copasa Choral and Copasa track and field team.

"Empresa Cidadã" employees are allowed to extend some legal leaves (marriage and bereavement leave for immediate family, for example) and are given allowances that exceed the legal provision, such as birthday allowances and assistance to sick relatives. The Company grants 60 additional days on maternity leave, pursuant to Law 11.770/08.

25 Years Party: Copasa honors the employees who complete 25 years of service to the Company with an annual party . In 2012, 266 professionals were included, who contributed with their effort and dedication for a better quality of life of millions of citizens in Minas Gerais.

Support Program to Family and Adolescents (PAFA): This Program aims to promote the adolescents' health, giving parents a discussion forum to better understand the process experienced by their children, improving family and professional relationships. In a partnership with the Federal University of Minas Gerais and the School of Health of Minas Gerais, the Program reaches adolescents in their family context, including the discussion about health issues and other relevant topics for this age group. This work is performed through medical care and the promotion of educational activities such as workshops, lectures and meetings between parents and children.

Family Financial Planning Program: aims to contribute to reducing the debt ratio and encourage savings, with guidance regarding family financial planning, aimed at improving the quality of life for employees. In 2012, this program included 749 people, including employees, dependents and external audiences.

Pre-Retirement Program: Its purpose is to prepare the employee for retirement. In 2012 seven workshops were held, with the participation of 105 employees and 81 escorts to them.

(GRI LA11)

Another factor that ensures peace of mind for the employee is the Social Security Foundation of the State of Minas Gerais (Libertas Foundation), a private supplementary pension organization which ensures supplemental pensions in addition to those granted by the INSS.

(GRI EC3)

Copasa keeps the Voluntary Retirement Program for Retired Employees and/or Employees who meet the Requirements to Retire (PDV), which ensures the

termination of the employment contract for dismissal without cause, with all the rights provided in this mode, and provides the employee the prerogative of the use of lifetime health insurance and group life insurance at no cost to the Company. In 2012, 138 employees made use of this benefit.

Union Relations

The Company acknowledges the strength of trade unions and complies with collective agreements. The Collective Agreement in force covers 100% of the employees, granting them all the benefits offered by the Company.

(GRI LA4)

At the Copasa's annual salary readjustment date, a committee is constituted with representatives from all directorates to conduct, in a collaborative effort with the unions, the process of discussion and negotiation of the demands presented. To deal with routine matters presented by the unions, the Company maintains an ongoing dialogue with the union representatives, ensuring effective communication with the employees' representative bodies.

In 2012, there were no situations in which this right of freedom of association and negotiation has undergone any damage.

(GRI HR5)

Knowledge Management

The knowledge and experience of the staff is one of the competitive advantages of the Company, which encourages actions to preserve the information and technical and operational knowledge of its employees, such as:

Corporate Library: A comprehensive collection of works, with approximately 38,768 records, allows employees the opportunity to improve their knowledge and has established itself as a city and state reference site for research, especially regarding sanitary engineering and environmental science.

Trainees Program annual selection, according to the rules laid down specific rules for the professionals with the highest potential for employment and learning. In 2012, 14 employees approved in the selection process had the opportunity to extend their systemic view of Copasa's organizational processes and its management model, and develop the skills related to the business and a greater corporate focus.

Support System for the Development in Business Management: allows the management of managerial practices in accordance with criteria assessing the adoption of the foundations of excellence established in the methodology of the

National Quality Award in Sanitation. Provides predictability of management practices in order to ensure the stability of the results.

Research and Innovation

Copasa invests in automation systems for water treatment and distribution processes and for wastewater treatment, seeking to leverage technology development, optimize operational processes and reduce costs. Prospecting and technological innovation are priorities with a primary focus on tests aimed at demonstrating the quality and operability of the tested products, upon conclusion of technical cooperation agreements, to streamline processes and methods practiced by the company to favor the constant improvement of the services provided in the various aspects of sanitation.

Here are some examples of technology solutions tested and validated: Bob Cat compact bulldozer which opens trenches for pipe-laying in busy roads and where problems exist for building networks like alleys and lanes, helping with the maintenance and network coverage; the Seba Kmt, an evolution to the existing technological process for volume-measuring jobs, which enables better control of water losses; the PS Solutions, an online monitoring of electrical parameters in elevators, which contributes to cost reduction, as it enables more efficient predictive maintenance and reduces travel times of maintenance and operation teams.

As for the Integrated System of Care (Sati) it is important to highlight the results obtained with the speed in meeting the demands of water connections and sewage and maintenance on networks, because of tooling, vehicles and appropriate technologies in those activities, contributing for cost reduction, customer satisfaction and higher quality of services provided.

In the development of activities related to trademarks and patents, we emphasize the granting of manufacturing rights for patented items by means of bidding processes. Currently, Copasa holds 21 charters (marks and utility models), 40 registered trademarks and 8 software, including real time reading and billing system with simultaneous printing of invoice, filed with the National Institute of Industrial Property (INPI). In addition, the Company holds rights over the trademark registration process in the INPI, including the Copasa trademark registration, and has several inventions under analysis at the Institute.

Copasa participates in studies concerning standardization of ductile iron pipes and manholes along with the Brazilian Association of Technical Standards (ABNT). Copasa participates in the process of review and approval of the technical standard regarding effluents discharge in non-domestic sewage

systems operating under its responsibility, being developed by the Regulatory Agency for Water Supply and Sewage Drainage of the State of Minas Gerais (ARSAE MG).

In 2012, with the goal of fostering a culture of innovation enterprise, Copasa created the Copasa Award for Technology and Innovation.

Copasa and Its Customers

Good client relationship, based on high quality services, together with a willingness to maintain an ongoing dialogue, is a high priority for Copasa.

Offices: 742 offices for the general public (service offices, local administrative office and operational units) in the State of Minas Gerais.

Call Center: Client service, by phone and through the Internet, for information and referral to operational and commercial departments, according to the client's needs. This Call Center may serve the client through three dedicated channels: a hotline, Chat e an online "Contact Us" page. In 2012 a project aiming to consolidate all of Copasa's phone service in Belo Horizonte was implanted, with free calls 24 hours a day, in every location where Copasa operates.

Online Branch: queries and services such as: changes in name and address of consumers, analysis and simulation of consumption and billing, information on banks and other authorized agents for payments, issuance of certificate of good standing, consumption background, payment statements, online payments, changes in dates for payments, deadlines for services requested, reconnection of water supply, copies of bills and requests for services in cases of water and sewage leakages. Moreover, online communities are used to provide information on water shortages, repairs and other maintenance works.

In 2012 there was no litigation involving Copasa for unfair competition, trust and monopoly.

(GRI S07)

Ombudsman

The Ombudsman acts as an exclusive liaison between the Company and the general public, listening to complaints that were not dealt with or properly resolved by the conventional service channels (Contact Us, Online Branch, Hotline and Offices).

Aiming to identify factors interfering with service quality to clients, the Ombudsman team inspects the operational units in charge of answering to most of the service calls received and interacts with other organizational units to solve issues based on information from this visit, aiming the continuous improvement of services provided to our clients.

In 2013 a survey will be conducted to have a better view of the client's level of satisfaction with the Ombudsman services.

The Ombudsman supervises lawsuits involving Copasa and filed by the Regulatory Agency for Water Supply and Sewage Drainage of the State of Minas Gerais (ARSAE MG) and by the Minas Gerais Ombudsman.

Responsibility for Products and Services (GRI PR1)

Copasa's products and services planning aims to ensure its adequacy for the intended use, with no risk for the health and safety of the public.

The Company maintains a continuous improvement process for the mechanisms used to meet the vigilance standards in order to ensure the highest safety levels in its facilities. To address relevant issues and/or emergencies, the Company has a Contingency Plan that addresses technical, operational, environmental, human, financial, logistical and social aspects. All events are analyzed to determine the scope of preventive measures to avoid its recurrence.

The Company operates the Copasa SOS Program, which is a methodology for events reporting to the Board, helping with the crisis management and allowing proactive measures for the resolution of events which may affect Copasa's reputation.

Locations operated by the Company have a laboratory near each Water Treatment Station, which performs the first quality control tests before distribution of water.

Copasa Central Laboratory, located in Belo Horizonte, has ISO 9001:2008 certification, audited by the British Standards Institution, a recognition of the

technical competence to carry out tests on water and sewage samples, meeting the requirements set forth by the Normative Resolution 167/11 of the Ministry of Health's State Council of Environmental Policy Decree 2.914/11.

The Integrated Service System of the City of Araxá's operational unit has ISO 9001:2008 certification and is audited by BSI, a certification that products and services meet strict quality standards and precise specifications.

Aiming to guarantee the quality of products and services, Copasa maintains a strategic indicator that assesses compliance with standards for drinking water set by the Ministry of Health on aspects of sampling frequency, water quality and continuity of supply.

Copasa's customers are periodically informed on the quality of the water they are consuming. An important information channel is the monthly bill, where the main parameters are specified for color, turbidity, pH, chlorine, fluoride, coliform and Escherichia coli. Besides these, other information are available in the Annual Report of Water Quality, published on the website "<http://www.copasa.com.br>" covering all cities served by the Company, which the customer can choose to receive at home upon request. The details regarding the billing can also be reached by customers with visual impairment, upon request.

(GRI PR3)

The treatment process in all water supply systems also includes the addition of fluoride, acting in the prevention of dental problems, meeting the standards required by law.

Just as in the control of water quality, the Copasa's lab network is structured to perform controlling activities for sewage treatment units, which have increased significantly in recent years. All stations are equipped with laboratories which test all daily samples. For more complex procedures the regional laboratories are used.

To assess the quality of sewage, analyzes are carried out for the control of treatment processes and to verify the efficiency of these units, in compliance with current environmental legislation.

Aiming to consolidate its recognition as excellence center in its field, the Hydrometric Lab implemented its quality management system, along the lines established by rigorous technical and management requirements seeking to consolidate its competence in carrying out activities and generating technically valid results recognized by the National Institute of Metrology, Quality and Technology (INMETRO). As a result of the implementation of the Quality

Management, following an audit performed in December/2011, Copasa was granted the Inmetro Laboratory Accreditation CRL 0563 of 08.17.2012 according to NBR ISO/IEC 17025:2005, acknowledging the competence of services performed and proving the standardization and harmonization of services performed at world-class, increasing the reliability of the results.

Copasa and Its Suppliers

Copasa seeks to contribute to the development of their supply chain in order to ensure the quality of services and materials purchased, in addition to observing the practices of socioeconomic and environmental responsibility.

The selection of suppliers is conducted by the Standing Bid Committees during the bidding process, through the assessment and verification of compliance with the applicable legislation and the conditions and criteria under public procurement notices, based on Federal Law 8.666/93, which establishes rules for bids and for contracts with the Public Administration, under Federal Law 10.520/02 and State Law 14.167/02, which establish rules for bids by auction.

To ensure the quality of purchased materials, the Company maintains the Certification Program for Suppliers, in which the production processes, the technical capacity, quality systems and environmental protection are verified, in order to pre-qualify suppliers so that they can participate in the bidding processes of the Company. The evaluation of suppliers of materials and equipment is made at each delivery, based on two criteria: timeliness of delivery and approval by the Quality Control.

Copasa does not have a policy or practice regarding giving priority to local suppliers, since this is not possible, due to what is set forth under Law 8.666/93. However, the company notes in its bidding process the compliance with Complementary Law 123/06, which establishes the right of preference to micro and small businesses.

(GRI EC6)

The required information is available at www.copasa.com.br so that suppliers can register their companies, follow-up on their registration status and participate in bids; a booklet on this is also available to the Supplier.

The most widely used method of bidding for contracting materials and services is the electronic trading system, which adds greater transparency, better negotiation terms with suppliers, lower cost and greater flexibility in the conduction of procedures. Furthermore, it allows the monitoring of trading in real time via the Internet, providing access to information and to all stages of the process, a practice that brings transparency, publicity and reliability to the event.

Copasa suppliers are required to provide proof of compliance with labor obligations and to submit a statement that they do not employ underage personnel for night shifts, for dangerous or unhealthy activities, and that they do not employ people under 16, except as apprentices and in this case, no person under 14 will be hired, and the suppliers must state that they do not subject its workforce to forced work or in degrading activities. These and other documents are assessed during the bidding process and the qualification phase by the Bids and Auctioneers Committees.

(GRI HR1, HR2, HR6, HR7)

Regarding tire suppliers, Copasa's bids state that the suppliers should take away the same number of tires supplied for a proper final disposition and that the suppliers should hire a recycling association to collect recyclable material, such as paper, plastic tubes, metal tubes, batteries, reactors, and that they have in effect specific contracts for the collection of lamps and medical waste.

(GRI EN26)

Copasa and The Community

Aiming to promote access to water services and sanitation, the Company develops initiatives to improve health in the State of Minas Gerais, promoting improved quality of life for the general public.

Environmental Technical Working (TTS): Copasa has in effect programs aimed at improving the quality of life of the community and the sustainability of its

business. In 2012, the highlights were the actions performed in the cities of Belo Horizonte and Contagem, relating to the TTS of the Pampulha Lagoon Basin Cleaning Program, developed to minimize impacts and encouraging a participative management to promote sustainable development. Caixa Econômica Federal (a federal bank) referenced this work for the State Water Supply and Sewage Drainage Company of Rio de Janeiro (Cedae), and Copasa has hosted a guided visit from these technicians to show how the TTS work is done by Copasa.

(GRI S01)

Odor Perception Network: an exclusive communication channel for the community around the Arrudas STP to report on their perception of odors coming from Arrudas to the operators of the station. In addition, meetings are held with the community, for clarification regarding operational actions to minimize/eliminate bad odors.

Sanitation and Social Development

To promote access to basic sanitation and health to the public, Copasa performs the following initiatives:

(GRI EC8)

Sponsorship: charities registered with the “Conta com a Gente” Initiative can benefit from the collection of monthly contributions from individuals and corporations through the Copasa’s water/sewer bills. The amounts collected are for the payment of services provided by Copasa to these entities. In case of surplus collection, the balance is credited in bank accounts of these institutions. In December 2012, the program had 438 registered institutions.

Water in Schools Program: with joint sponsorship with the State Education Bureau and State Development and Urban Policies Secretariat, with a R\$16.9 fund, it aims at the implementation, expansion and improvement of water supply systems in 414 State schools, as well as the analysis and monitoring of the quality of the water supplied by public water systems to 3,555 State schools. Over 2 million and 500 thousand students have benefited from the initiative.

“Pró-Água” National Program: developed in partnership with the Minas Gerais Institute of Water Management, it aims at ensuring the improvement and implementation of good quality water supply to the North of Minas Gerais, promoting its rational use.

“Solidariedadeágua” Program: This program collects voluntary contributions from Copasa customers directly through the utilities billing, to settle overdue debts by charity organizations with the Company.

“Vale Água” Program: encourages residents from the outskirts of Belo Horizonte to exchange aluminum cans and plastic bottles for discounts on the water bill, aiming at: benefit low-income clients; create environmental awareness on recycling, and reducing the volume of waste released into the environment.

Subsidy to Philanthropic Entities: Copasa can allocate up to 0.6% of its monthly earnings to subsidies, which was an adequate amount for the *Conta com a Gente* Initiative, held in collaboration with the State Department of Social Welfare and Voluntary Social Service Assistance. In 2012, 748 charities have benefited from discounted rates for water and sewer up to the limit of the contracted demand. For entities registered with the *Conta com a Gente* Initiative, this subsidy represents a 25% discount on rates. For charity hospitals linked to the Program *Solidariedágua*, there is a 50% discount rate.

Social Tariff: under the Normative Resolution 020/2012 of MG ARSAE that established new criteria for social tariff entitlement, the customer must belong to a family enrolled in the Federal Government’s Unified Social Programs Register, with a per capita income under or equal to half national minimum wage. In 2012, 510,728 households (average/month) were benefited by the water social tariff and 287,734 households (average/month) with sewage social tariff.

(GRI EC9)

In celebration of special events such as the Water Week and the Environment Week, Copasa, through information campaigns and public awareness, intensifies its actions aimed at mobilizing society in favor of the rational use of water and environmental preservation. In 2012, we continued the *Água da Gente* Campaign, which included the participation of professional associations, educational institutions, sports clubs, supermarkets and shopping malls in order to strengthen and broaden the dissemination of these actions.

Public Utility

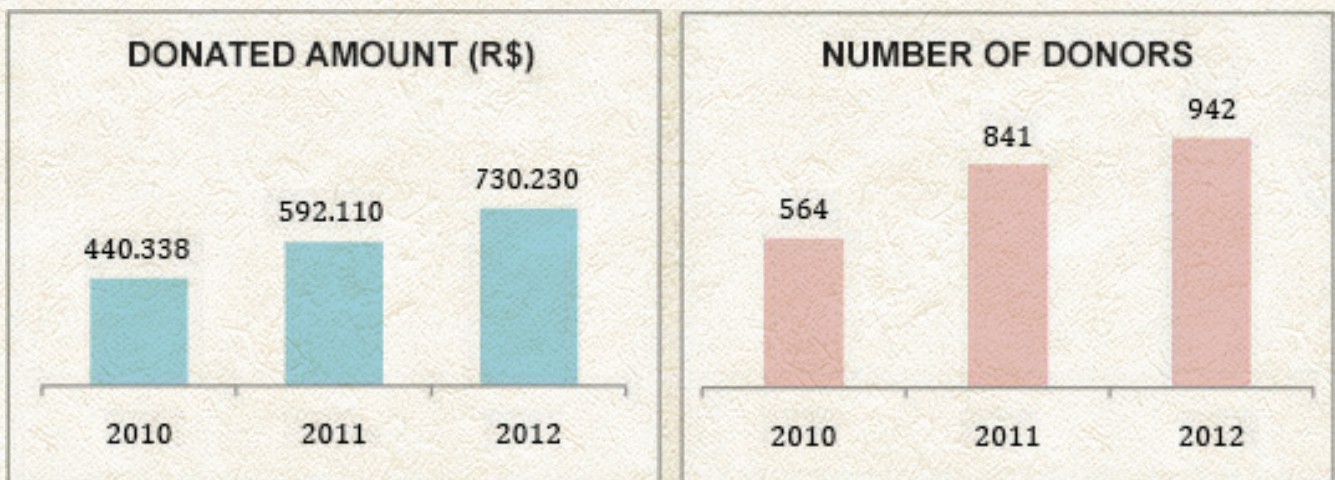
In partnership with the Missing Persons Specialized Police, Copasa publishes photos of missing persons on the back of water and sewer bills distributed throughout the State of Minas Gerais.

To support natural disaster victims, we sent in January 2012, 424,000 bottled water cups to victims of the torrential rains in the city of Além Paraíba, in the State of Minas Gerais. To support flood victims in other municipalities in the same period, we sent over 105,000 bottled water cups to the Civil Defense Coordinator of the State of Minas Gerais.

Promoting Citizenship

Program TRUST 6%: Copasa encourages employees to set aside a part of their payable income tax to the Fund for Children and Adolescents, which is one of the fundamental means to enforce policies regarding children and adolescents' rights set forth by the Statute of Children and Adolescents. In the 2012 Campaign, 942 employees joined the program and donations totaled R\$ 730,230.00 for the following counties: Alfenas, Almenara, Alvinópolis, Andradas, Araçuaí, Belo Horizonte, Betim, Bom Despacho, Cambuquira, Caratinga, Contagem, Corinto, Cristais, Crucilândia, Curvelo, Diamantina, Divinópolis, Frutal, Ipatinga, Itajubá, Jaboticatubas, Janaúba, Januária, Jordânia, Lavras, Leopoldina, Liberdade, Matozinhos, Montes Claros, Paracatu, Patos de Minas, Pouso Alegre, Costa Resende, Ribeirão das Neves, Sabará, Salinas, Santa Luzia, Santos Dumont, São Domingos do Prata, São Francisco, São Sebastião do Paraíso, Teófilo Otoni, Ubá and Varginha.

The performance of the program in the last three years is shown in the following charts:



Integration and Social Contribution Program “Beyond the Walls”: designed to contribute to improving the quality of life in communities around the Copasa unit located next to poor neighborhoods of Pedreira Prado Lopes and Senhor dos Passos, in the city of Belo Horizonte. Among the main activities are the promotion of sports activities and the Children’s Choral “Gotas da Canção”, a singing group composed of 55 children, aged between 6 and 11 years.

”Fica Vivo!” Program: created by the Government of the State of Minas Gerais, its purpose is to intervene in social reality before crime happens, decreasing homicide rates and improving the quality of life. Therefore, a specialized monitoring is done and workshops are offered with cultural, sports, vocational and leisure activities for young people aged 12 to 24 years in social risk and

residents in areas with high homicide rates. Copasa is a partner in this initiative, through an agreement signed with the State Department of Social Defense and the National Service for Industrial Learning, having contracted in 2012, 20 young people appointed by the Secretary as apprentices.

Reintegration of former inmates to the society: in partnership with the Judiciary, Copasa contributes to the recovery of inmates living in public shelters, giving them a chance to rejoin society. The Company participation is through the hiring of these individuals to work in their operational units. At work, they are given safety equipment and, after training with a Copasa employee acting as their tutor, they work with painting, weeding, loading and unloading operations, tank and warehouse yard cleaning, gardening services and operations, among others. These workers are paid one minimum wage.

Relating and Educating with Art

Concert “Ao Pé das Mangueiras”: For the third time in a row, Copasa opened the doors of its headquarters to the nearby community, presenting a Christmas concert, which also featured its employees.

Storytellers: This initiative aims to impart citizenship-related ethical values, to stimulate reflection on positive attitudes to environmental preservation through moments of entertainment, closeness and integration, promoting the art of telling "tales and stories". In 2012, the Group had 21 performances, covering an audience of approximately 8,000 people.

Copasa Choral: Created 32 years ago, this consists of 34 employees and their families. In 2012, the Choral performed 17 times, with its highest points being the Copasa's Christmas Cantatas and the Minas Gerais Legislative Assembly's Christmas Cantata, which attracted approximately 6,000 people.

”Encontro Mercado”: with the aim of encouraging integration among employees, it gives employees with musical and singing skills the opportunity to showcase their talents to their coworkers.

Copasa Art Gallery: installed in the lobby of Copasa headquarters, this is a space to disseminate plastic and visual arts, with regular exhibitions, which are programmed by competitive bidding. In 2012, there were 5 exhibitions, with approximately 3,000 visitors.

Copasa Workers Gallery: installed at the headquarters of Copasa, it promotes the artistic expression of Copasa's employees. In 2012, there were 5 exhibitions.

Copasa Drama Group: consisting of 8 employees, it aims to enhance the employee's talent and to use the playful theatrical language to disseminate strategic themes for the Company and its stakeholders.

Promotion of Social Development Initiatives

Copasa provides institutional and financial support to actions promoting culture, sports and environmental protection, such as:

- **Drama and Dance Popularization Campaign:** Annual event held in following municipalities: Belo Horizonte, Valadares, Ipatinga and Juiz de Fora. The Campaign aims to launch and promote new artists and to facilitate the access to art events, with tickets at a reduced price. In 2012, the campaign featured an audience of over 300 thousand people.
- **"Fire Circuit":** a race competition with the participation of 2,000 athletes, including 100 Copasa employees . The Company has distributed 24,000 treated water cups and provided a refreshing spraying tunnel at the finish line for the athletes.
- **Concerts in the Park:** In partnership with Clovis Salgado Foundation and Palácio das Artes, the Minas Gerais Symphonic Orchestra and the Lyric Choir of Minas Gerais held public concerts in the Renné Gianetti City Park, which has become a cultural tradition in Belo Horizonte. Each concert features a diverse audience exceeding 4000 people. Copasa's participation is through the prvision of treated water to the audience.
- **Cooperatives and Art in the Parks:** Promoted by the Union System and the Organization of Cooperatives of the State of Minas Gerais, this project seeks to integrate and enhance the cooperative philosophy through culture and leisure, with artistic performances in parks. The public is estimated at 2000 people per event, and Copasa provides treated water in cups and through water barrels with faucets.
- **"Tambor Mineiro" Party:** This event values and promotes Minas' culture, especially the "Congado" of Minas Gerais, for more than 10 thousand people, through the production of videos, "maracatu" (a folk dance) presentations , with books and crafts fair, circus performances, parades and shows of percussion music .
- **International Choir Festival:** promotes cultural exchange and encouragement to corals regional, national and international. In 2012, the event paid tribute to the writer and poet Carlos Drummond de Andrade, born in Minas Gerais, and had the participation of 21 renowned musicians. The 3,000 people audience received treated water distributed by Copasa.

2012 Annual Sustainability Report

- **Natura Music Festival:** This is a meeting with Brazilian popular music, presenting 21 artists of different styles and rhythms in 3 simultaneous venues. Copasa treated water was distributed to an audience of approximately 40,000 people.
- One of the greatest centers of artistic and cultural activities in the State of Minas Gerais, Palácio das Artes is host to grand spectacles, firming itself as an important cultural complex which encourages and promotes these elements of socialization for the visiting public. The Clovis Salgado Foundation, which administers Palácio das Artes, manages 3 important artistic groups with proven importance: Symphonic Orchestra of Minas Gerais, the Dance Company and the Palácio das Artes Lyric Choir of Minas Gerais. In 2012, 3 titles were produced for the traditional Opera Season: Othello, The Merry Widow and Madame Butterfly, with Copasa as one of its sponsors.
- **Green Line Half Marathon:** Copasa was responsible for hydrating 7,000 competitors and the public in this event, offering 21,000 cups with treated water.
- **International Half Marathon of Belo Horizonte, sponsored by Diários Associados:** held in the Pampulha region, this initiative was attended by approximately 3000 athletes in the 2012 edition. Copasa supported the event, distributing about 24,000 cups of treated water to the participants and helped with the installation of two cold spray tunnels, to hydrate and refresh the contestants along the way.
- **Contagem Youth Orchestra:** Founded 14 years ago, this is a project aimed at promoting human development through access to art, culture and education, in order to enable the promotion of citizenship and social inclusion of children, adolescents and young people in vulnerable situation in Contagem and surrounding regions. The work involves training courses and workshops in music, where students have the opportunity to learn and to develop artistic skills and at the same time prepare themselves for a more structured and safe social relationship.
- **Ponto de Partida – always on!:** A theater group with 31 years of activity, founded in the city of Barbacena, with 20 professionals in permanent activity. The group has created and systematized methods and production processes in the Brazilian drama which are the basis for their 31 shows.
- **Minas Performing Arts Award (Cena Mines):** developed by the State Secretariat of Culture of Minas Gerais, in partnership with the Sergio Magnani Cultural Institute, it aims to encourage and strengthen drama productions in the State. In its latest editions, the award included more than 180 projects, divided into 3 categories: maintenance of theater and

2012 Annual Sustainability Report

dance spaces, development of audiences, and equipment and materials for circuses.

Funds awarded by the Company through the Incentive Laws

Year	Rouanet Law (R\$)	Sports Incentive Law (R\$)	Donations to the FIA (r)	Total (R\$)
2012	2,884,000,00	671,000.00	671,000.00	4,226,000.00
2011	3,000,000.00	750,000.00	750,000.00	4,500,000.00
2010	2,400,000.00	520,000.00	600,000.00	3,520,000.00

Copasa does not make funds or in-kind contributions for any financial political party, politicians or related institutions.

(GRI S06)

Annual Social Responsibility Report

(GRI EN30)

Social Report/2012						
Company: Companhia de Saneamento de Minas Gerais - COPASA MG						
1 - Calculation Basis		2012 Amount (R\$ thousand)		2011 Amount (R\$ thousand)		
Water and sewerage net revenue (NR) ¹		2.768.365		2.509.610		
Total net revenue ²		3.499.941		3.210.866		
Operating income (OI)		647.034		648.871		
Gross payroll (GP)		904.002		821.946		
2 - Internal Social Indicators	Amount (thousand)	% over GP	% over NR	Amount (thousand)	% over GP	% over NR
Food	103.702	11,47%	3,75%	92.199	11,22%	3,67%

2012 Annual Sustainability Report

Compulsory social charges	202.586	22,41%	7,32%	186.205	22,65%	7,42%
Pension plan	33.683	3,73%	1,22%	33.655	4,09%	1,34%
Health	42.408	4,69%	1,53%	41.440	5,04%	1,65%
Occupational safety and health	5.839	0,65%	0,21%	5.572	0,68%	0,22%
Education	2.538	0,28%	0,09%	2.325	0,28%	0,09%
Culture	124	0,01%	0,00%	630	0,08%	0,03%
Training and professional development	1.805	0,20%	0,07%	1.097	0,13%	0,04%
Day-care facilities or assistance	787	0,09%	0,03%	703	0,09%	0,03%
Profit sharing	27.613	3,05%	1,00%	28.317	3,45%	1,13%
Other ³	10.457	1,16%	0,38%	8.947	1,09%	0,36%
Total - Internal social indicators	431.542	47,74%	15,59%	401.090	48,80%	15,98%
3 - External Social Indicators	Amount (thousand)	% over OI	% over NR	Amount (thousand)	% over OI	% over NR
Education	1.120	0,17%	0,04%	920	0,14%	0,04%
Culture	3.314	0,51%	0,12%	3.932	0,61%	0,16%
Health and sanitation ⁴	214.789	33,20%	7,76%	152.913	23,57%	6,09%
Sports	883	0,14%	0,03%	1.063	0,16%	0,04%
Action against hunger / food safety ⁵	433	0,07%	0,02%	178	0,03%	0,01%
Other ⁶	773	0,12%	0,03%	875	0,13%	0,03%
Total contributions to the community	221.312	34,20%	7,99%	159.881	24,64%	6,37%
Taxes (excluding social charges)	374.541	57,89%	13,53%	335.601	51,72%	13,37%
Total - External social indicators	595.853	92,09%	21,52%	495.482	76,36%	19,74%

2012 Annual Sustainability Report

4 - Environmental Indicators	Amount (thousand)	% over OI	% over NR	Amount (thousand)	% over OI	% over NR
Investments related to company's production/operations ⁷	356.345	55,07%	12,87%	171.735	26,47%	6,84%
Investments in external programs and/or projects ⁸	9.642	1,49%	0,35%	6.336	0,98%	0,25%
Total environmental investments	365.987	56,56%	13,22%	178.071	27,44%	7,10%

As regards establishing annual goals to reduce waste, consumption in general in production/operation and increase effectiveness in the use of natural resources, the company:

(X) has no goals
 () meets 51%-75%
 () meets 0%-50%
 () meets 76%-100%

5 - Personnel Indicators	2012	2011
Number of employees at the end of the period	11.611	11.535
Number of employees hired during the period	378	479
Number of outsourced employees	725	686
Number of interns	101	94
Number of employees over 45 years old	5.259	5.053
Number of women working at the company	1.179	1.184
% of management positions held by women	20,54%	19,64%
Number of afro-descendants working at the company	4.826	4.698
% of management positions held by afro-descendants	13,40%	13,84%
Number of physically disabled people or with special needs	459	395
6 - Relevant information about the company's citizenship practices	2012	2013 Targets
Relation between the largest and the smallest compensation in the company	32,05	ND
Total number of occupational accidents	353	342

2012 Annual Sustainability Report

Social and environmental projects developed by the company were defined by:	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees
Safety and health standards at the workplace were defined by:	<input type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all + Cipa	<input type="checkbox"/> officers and managers	<input type="checkbox"/> all employees	<input checked="" type="checkbox"/> all + Cipa
As regards the trade union freedom, the right to collective bargaining and the internal representation of employees the company:	<input type="checkbox"/> does not get involved	<input checked="" type="checkbox"/> follows ILO rules	<input type="checkbox"/> encourages and follows ILO	<input type="checkbox"/> will not get involved	<input checked="" type="checkbox"/> will follow ILO rules	<input type="checkbox"/> will encourage and follow ILO
Pension plan includes:	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees
Profit sharing includes:	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees	<input type="checkbox"/> officers	<input type="checkbox"/> officers and managers	<input checked="" type="checkbox"/> all employees
When selecting suppliers, the same ethical and social and environmental responsibility standards adopted by the company:	<input type="checkbox"/> are not considered	<input type="checkbox"/> are suggested	<input checked="" type="checkbox"/> are required	<input type="checkbox"/> will not be considered	<input type="checkbox"/> will be suggested	<input checked="" type="checkbox"/> will be required

2012 Annual Sustainability Report

As regards employees' participation in voluntary work programs, the company:	() does not get involved	(X) supports it	() will organizes and encourage it	() will not get involved	(X) will support it	() will organize and encourage it
Total number of complaints and comments from consumers:	at the company: 878,398	at Procon: 232	at courts: 1,245	at the company: 828,804	at Procon: below 200	at courts: 1,239
% of complaints and comments addressed or solved:	at the company: 100%	at Procon: 100%	at courts: 47%	at the company: 100%	at Procon: 100%	at courts: 60%
Total value added to be distributed (in thousands of R\$):	In 2012: 2,053,304			In 2011: 1,876,807		
Distribution of Value Added:	26.08% government employees	37.84%	7.76% shareholders	12.36%	27.39% government employees	37.77%
	7.76% third parties	15.95%	retained	8.16% third parties	16.91%	retained

7 - Other Information

Corporate Taxpayer ID (CNPJ): 17.281.106/0001-03, Economic Sector: Sanitation. Clarifications about the information declared: Social Responsibility Division, Phone 55 31 3250.1560, e-mail dvrs@copasa.com.br.

This company does not use child labor or slave labor, it is not involved with prostitution or sexual exploration of child or adolescent and it is not involved in corruption.

Our company values and respects diversity internally and externally.

1 - The 2012 Social Report considered the Net Revenue from the Company's main activities, i.e. water and sewage services, for the calculation of indicators, not considering the Construction Revenue from the conversion to IFRS.

2 - Net revenue from water and sewage + construction revenue.

3 - Expenses with employee benefits (insurance, transportation vouchers, funeral assistance); Retirement Preparation Program; Family Financial Plan;

2012 Annual Sustainability Report

Women's Day, Labor Day and Year End Celebrations; ceremony for the employees who have completed 25 years of service at Copasa and celebration of Children's Day.

4 - The higher amount is due to new criteria for eligibility in the Social Charges defined by Normative Resolution 020/2012 of the Regulatory Agency for Water Supply and Sanitary Sewage Services of the State of Minas Gerais (ARSAE MG), which extended the number of beneficiary families.

5 - The higher amount is due to sponsoring, through tax incentives, a program that distributes dehydrated food supplement, made from surplus vegetables, cereals and fruits, to social assistance entities.

6 - Sponsorship of various events and projects such as: Global Action, Children's Day, civic date celebrations, religious events; LGBT Pride Parade; Programa Fica Vivo (a program aiming at controlling and avoiding murders in certain regions in Minas Gerais state), *Projeto Providência* (a religious project to assist low-income children and adolescents in Minas Gerais state); treatment of impacts affecting the surrounding community.

7 - The higher amount is due to greater investments in sewage treatment services, as well as initiatives to improve energy efficiency and to reduce real losses of water.

8 - The higher amount is due to the inclusion of personnel costs in the total of Watershed Protection Program.

About the Report

**Max
Demattos**

DTN/DPNN/DVDO



In 2013, the analyst of sanitation master, Max Demattos, completes 33 years in Copasa. Employee of the Division of Support, Development and Control (DVDO) of the Department of Business Development (SDNN), Max took advantage of the time to gain knowledge in the company. And he also learned to pass it to the professionals from different areas and even different nationalities, after all, one of the SDNN's business is providing technical advice. And technique is not lacking for Max, who has a degree in Civil Engineering from UFMG. "Max has a lot of knowledge and acts thinking always to achieve a larger goal. That's why he works for Copasa as a whole, not just for a unit," says the manager of DVDO, Maria Cristina Alves Cabral Schembri. A broad overview of Max is really something noticeable. Asked about how he performs his job, he replied: "I try to always do the teamwork and bring health to the entire population."

Report Development Parameters

(GRI 4.17)

Since 2005, Copasa publishes an annual report on its economic, social and environmental results consolidated into a single document. This report refers to the year 2012, and for the third consecutive year we adopted the Global Reporting Initiative (GRI) guidelines, with the Company achieving the Application Level B. The Financial Statements have been audited by Ernst & Young Terco.

(GRI 3.1; 3.2; 3.3; 3.13)

The Company has been perfecting the process of preparing its reports, and determined that in 2012 the development of content would be done by the technical staff, seeking to strengthen the involvement of internal stakeholders in this process.

This edition excelled in terms of objectivity of the text and the earlier publication of the report, without compromising its content, while maintaining the robustness of information reported and seeking to extend its indicators, with the prioritization of the issues detailed in the Materiality Matrix. In this sense, additional information appears regarding 6 performance indicators covering the following topics: environment, economics, labor practices and product liability.

(GRI 3.11)

To guide the preparation of this report, we observed the following principles, among others:

(GRI 3.5)

Inclusion of stakeholders: We identified as key stakeholders Copasa customers, employees, the State of Minas Gerais (majority shareholder), suppliers, investors (minority shareholders), regulators, the grantor (municipalities) and society as a whole.

(GRI 4.15)

2012 Annual Sustainability Report

Scope: Topics, information and indicators considered important for the performance assessment and strategies of Copasa, as a business unit, in the economic, environmental and social dimensions were assessed and reported. Additional information about the subsidiaries was integrated and is indicated in the text. Considering the relevance of the subject to the municipality or for the public involved, some text sections offer detailed examples and specific situations for different organizational units.

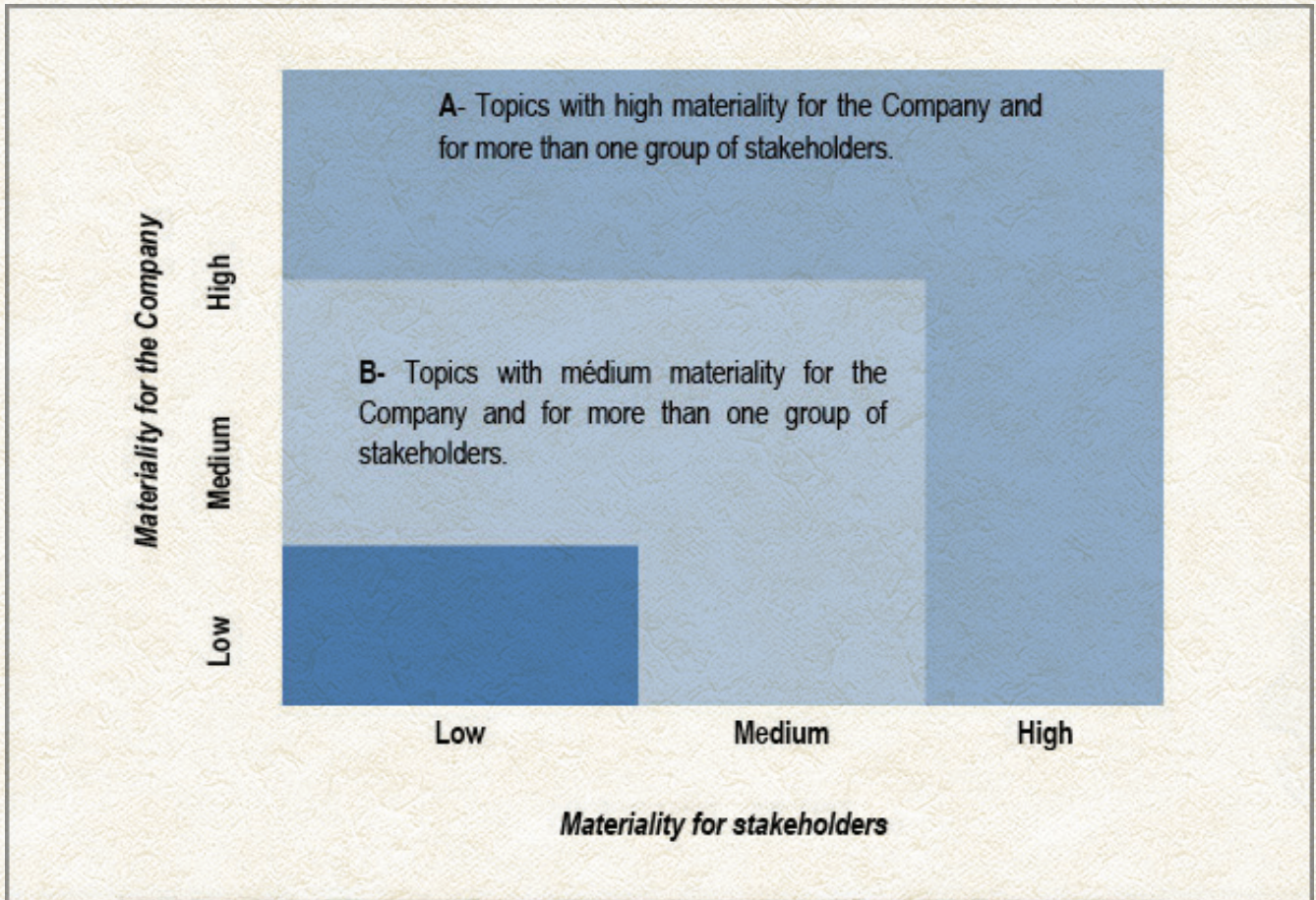
(GRI 3.1, 3.2, 3.3, 3.13)

Materiality: in 2012, Copasa conducted a materiality analysis to identify the sustainability issues most relevant to our business and our stakeholders, and has identified key issues, from the internal and external perspectives, as outlined below:

Stakeholders	Sources of Information
Customers employees; State of Minas Gerais Suppliers Investors Regulators Grantor Society	Reference Form Legal and regulatory requirements Ethos Indexes of Social Responsibility Organizational Climate Survey Integrated Development Plan for the State of Minas Gerais Selection process of the Corporate Sustainability Index (ISE BM & FBOVESPA) Annual Report of the Internal Ombudsman Management Report Assisted Self Assessment Report (National Quality Foundation) Operational Release (monthly) Results Release (quarterly) Meetings with Analysts Association and Investment Professionals for Capital Markets (Apimec)

2012 Annual Sustainability Report

The findings show the following material issues to Copasa:



2012 Annual Sustainability Report

A- Topics of high relevance for the company and for more than one stakeholder group	B- Topics of medium relevance for the company and for more than one stakeholder group
<ul style="list-style-type: none">• expansion of water supply and sanitation• environmental compliance• Copanor performance• Customer expectations• Risk management• corporate governance• Operational and management innovation• Climate change• preservation of water resources• quality of life for employees and society• sector regulation• tariff review• health and safety for employees• universalization of basic sanitation in its area of activity	<ul style="list-style-type: none">• products used in water treatment• relationship with suppliers• Appreciation for diversity

Global Reporting Initiative (GRI) Indexes

(GRI 3.12)

Index		Page	Notes
Strategy and Analysis			
1.1	Statement from the most senior decisionmaker in the organization about the relevance of sustainability to the organization and its strategy	6, 8	
1.2	Description of key impacts, risks and opportunities	51	
Organizational Profile			
2.1	Name of organization	11	
2.2	Primary brands, products and/or services	11	
2.3	Operational structure	11, 12	
2.4	Location of organization's headquarters		The headquarters are located at Rua Copasa Mar de Espanha, 525, Bairro Santo Antônio, in the city of Belo Horizonte, Minas Gerais.
2.5	Number of countries where the organization operates	11	
2.6	Type and legal nature		A Copasa é uma sociedade de economia mista, por ações, de capital autorizado, sob controle acionário do Estado de Minas Gerais.

2012 Annual Sustainability Report

2.7	Markets served	15	Copasa operates mainly municipalities in the State of Minas Gerais, in sanitation management, and maintains a technical cooperation agreement.
2.8	Size of the organization	15, 45, 74	
2.9	Significant changes during the reporting period	15	
2.10	Awards received in the period	22	
Parameters for the report			
Report info			
3.1	Reporting period	107, 108	The report refers to the year 2012.
3.2	Date of previous report	107, 108	The annual report and the previous sustainability report were published in 2011 (available at: www.copasa.com.br)
3.3	Reporting cycle (annual, biennial, etc.).	107, 108	
3.4	Contact for questions regarding the report or its contents	128	
Scope and reporting limits			
3.5	Process for definition of report contents	107	
3.6	Reporting limits		
3.7	Statements on any specific limitations on the scope or limits for the report		

2012 Annual Sustainability Report

3.8	Basis for report preparation regarding <i>joint ventures</i> , subsidiaries, leased facilities, outsourced operations, and other organizations		
3.9	Data measurement techniques and calculation basis		These can be found throughout the report near the relevant values, where applicable.
3.10	Explanation about the impact of any restatements of information provided in earlier reports and the reasons for such restatements	15	
3.11	Significant changes compared with previous years regarding the scope, limits or measurement methods applied in the report	107	
Summary of GRI Contents			
3.12	Table identifying where the information is found in the report	111	
Final check			
3.13	Current policy and practice regarding seeking external verification for the report	31, 107, 108,	

2012 Annual Sustainability Report

GOVERNANCE, COMMITMENT AND INVOLVEMENT

Governance

4.1	Governance structure of the organization	25	
4.2	Indicate whether the Chair in the highest level of governance is also an executive officer	28	
4.3	Declaration on the number of independent or non-executive directors of the highest governance body	28	
4.4	Mechanism for shareholders and employees to provide recommendations or direction to the highest governance body	34	
4.5	Comparison between managing positions, for the highest governance body, senior managers and executives (including dismissal arrangements) and the organization's performance (including social and environmental performance)	28	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	28	

2012 Annual Sustainability Report

4.8	Statements of mission or values, codes of conduct and internal principles relevant to economic, environmental and social performance, as well as the status of their implementation	5, 31	
4.9	Procedures used by the highest governance body for overseeing the identification and management of the economic, environmental and social performance by the Company, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles		
Commitments to external initiatives			
4.11	Report how the company sees the precautionary approach in its management	51	

2012 Annual Sustainability Report

4.12	Charters, principles or other initiatives externally developed relating to the economic, environmental and social aspects which the organization subscribes to or endorses		Copasa does not sign any such commitment.
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization has positions in governance bodies, participates in projects or committees; contributed major resources beyond the basic fee as a member organization, considers its role as member as strategic	58	Besides its active participation in environmental committees, Copasa also participates in the following associations and organizations: Brazilian Groundwater Association (Abas), Brazilian Association of Sanitary and Environmental Engineering (ABES), the Brazilian Association of Technical Standards (ABNT), the Brazilian Association of Ombudsmen (ABO), the Brazilian Association of Human Resources (ABRH), Brazilian Association of Training and Development (ABTD), Commercial Association of Minas Gerais (ACM), State Association of Sanitation (Aesbe), Interamerican Association of Sanitary and Environmental Engineering (Aidis), American Chamber of Commerce (AmCham), National Quality Foundation (FNQ), Brazilian Institute of Corporate Governance (IBGC), Brazilian Concrete Institute (IBRACON), Quality Institute of Minas Gerais (IQM).
Stakeholders involvement			
4.14	List of stakeholder groups engaged by the organization	32	

2012 Annual Sustainability Report

4.15	Basis for identification and selection of <i>stakeholders</i> with whom to engage	107	
4.16	Approaches to stakeholder involvement, including frequency of involvement by type and by stakeholder group	32	
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organization has addressed them.	107	
Performance Indicators			
ECONOMIC PERFORMANCE			
Economic performance			
EC 1	Direct economic value generated and distributed	13	
EC 2	Financial implications and other risks and opportunities for the organization's activities due to climate change	51	
EC 3	Coverage of the defined pension plan benefit offered by the organization	86	
EC 4	Significant financial assistance received from Government		Copasa does not receive direct financial assistance from the Government.

Market presence

EC 5	Variation in the proportion of lowest salary compared to local minimum wage at significant operation sites	79	
EC 6	Policies, practices and proportion of spending on locally-based suppliers at significant operation sites.	92	
EC 7	Procedures for local hiring and proportion of senior managers hired from the local community at significant operation sites	79	

Indirect Economic Impacts

EC 8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or <i>pro bono</i> relationship	94	
EC9	Identification and description of significant indirect economic impacts, including their extent	95	

2012 Annual Sustainability Report

ENVIRONMENTAL PERFORMANCE

Energy

EN3	Direct energy consumption by primary energy source	66	The electrical power used by Copasa is acquired from Cemig; its source is essentially hydroelectric.
EN4	Indirect energy consumption by primary source		The indirect energy consumption in Copasa is irrelevant compared to the direct energy consumption.
EN8	Total water withdrawal by source	14	

Biodiversity

EN11	Location and size of land owned, leased or managed in protected areas, or adjacent to these, and areas of high biodiversity value outside protected areas	64	
EN12	Description of significant impacts of activities, products and services in protected areas and areas of high biodiversity value outside protected areas.	71	
EN13	Habitats protected or restored	63	

Emissions, Effluents, and Waste

EN16	Total direct and indirect emissions of greenhouse gas emissions by weight	70	
EN17	Other relevant indirect emissions of greenhouse gases, by weight.	70	

2012 Annual Sustainability Report

EN18	Initiatives to reduce emissions of greenhouse gases and reductions achieved	68	
Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services and the extent of impact mitigation.	59, 65, 68, 93	
Transportation			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and of the transporting of workers	67	
EN30	Total investments and environmental protection expenditures by type.	100	
SOCIAL PERFORMANCE			
-> Labor Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract and region	74	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time workers, by main operations	85	

2012 Annual Sustainability Report

Relation between workers and governance

LA4	Percentage of employees covered by collective bargaining agreements	87	
LA5	Minimum advance notice period regarding operational changes, including whether it is specified in collective bargaining agreements		There is no minimum advance notice on operational changes stipulated in collective agreements. Any changes are communicated in advance, and the term varies according to the situation.

Occupational Safety and Health

LA6	Percentage of total workforce represented in formal health and safety committees, composed of managers and workers, that help monitor and advise on programs for occupational health and safety	82, 83	
LA7	Rates for injury, occupational diseases, lost days, absenteeism and work-related fatalities by region	85	
LA8	Education, training, counseling, prevention and risk control programs in place to assist workforce members, their families or community members regarding serious diseases	82	

2012 Annual Sustainability Report

LA9	Topics relating to health and safety covered in formal agreements with trade unions.	82	
Training and education			
LA10	Average training hours per year per employee by employee category	81	
LA11	Skills management and continuous learning program supporting the continued employability of employees and to manage career termination.	81, 86	
LA12	Percentage of employees receiving regular performance and career development reviews	80	
Diversity and equal opportunities			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age, and other indicators of diversity	28, 30, 77, 78	
LA14	Ratio of men to women basic salary by employee category	77	

HUMAN RIGHTS

Investment practices and procurement processes

HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	93	Not applicable.
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	93	

Non-discrimination

HR4	Total number of incidents of discrimination and actions taken		There were no cases of discrimination in Copasa in 2012.
-----	---	--	--

Freedom of Association and Collective Bargaining

HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	87	No operation was identified as presenting a significant risk to the right to exercise freedom of association and collective bargaining.
-----	--	----	---

Child Labor

HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	93	No operation was identified as having significant risk for incidents of child labor.
-----	--	----	--

2012 Annual Sustainability Report

Forced or Compulsory Labor			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of forced or compulsory labor.	93	No operation was identified as having significant risk for incidents of forced or compulsory labor.
Indigenous rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken		There were no cases of violation of rights of indigenous peoples by Copasa in 2012.
-SOCIETY			
Community			
SO1	Nature, scope and effectiveness of any programs and practices created to assess and manage the impacts of operations on communities, including the establishment, operation and entering, operating and departure stages.	94	
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption	31	

2012 Annual Sustainability Report

SO3	Percentage of employees trained in Copasa's anti-corruption policies and procedures	32	
SO4	Actions taken in response to incidents of corruption	31	
Public policies			
SO5	Position regarding public policies and participation in public policy development and lobbying	57, 61	
SO6	Total amount spent in financial and in-kind donations to political parties, politicians or related institutions, by country.	100	Copasa is not allowed to make any financial and in-kind contribution to political parties, politicians or related institutions.
Unfair competition			
SO7	Total number of legal actions for anticompetitive behavior, anti-trust and monopoly practices and their outcomes	89	In 2012 there was no litigation involving Copasa for unfair competition, trust and monopoly .

-> PRODUCT LIABILITY

Customer health and safety

PR1	Phases of the life cycle of products and services in which health and safety impacts are assessed for improvement and percentage of significant products and services subject to such procedures	90	
-----	--	----	--

Labeling of products and services

PR3	Type of information on products and services required by labeling procedures and percentage of significant products and services subject to such requirements	91	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes related to information and labeling of products and services, by type of outcomes.		Services provided by Copasa and their products do not involve filling and labeling procedures so the Company does not adopt procedures for minimizing risks specific to the labeling of products and services. The Copasa subsidiary of Águas Minerais de Minais S. A. uses labels authorized by the competent bodies.

Marketing Communications

PR6	Programs related to compliance with the law, rules and voluntary codes inasmuch as it refers to marketing communications, including advertising, promotions and sponsorships.		Copasa seeks to represent the diversity in its advertising campaigns, and does not associate its image to religion, soccer teams, etc.
-----	---	--	--

2012 Annual Sustainability Report

PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes		There were no cases in 2012 involving codes and laws related to marketing, publicity, promotion and sponsorships.
-----	--	--	---

Acknowledgments

“When alone, I am faster, but together we go farther.”
African proverb

This African proverb set the tone for the Copasa Workers Gallery’s art exhibition that ended the artistic calendar for 2012 and summarizes the Company’s philosophy to develop and qualify an increasingly integrated team, committed to the values and goals established in its Strategic Planning.

The results obtained by Copasa are the fruit of the efforts and work quality of all its employees – both those who are no longer on staff and active employees –, who, with dedication and commitment, helped to build the foundations for the company’s development and to meet the challenges proposed.

So thanks to everyone who, over these 49 years, contributed to promote in an effective and undeniable way the socioeconomic and environmental development of the population wherever Copasa operates.

Production Credits

Independent Auditors – Financial Statements

Ernst & Young Terco

Investor Relations

Paula Vasques Bittencourt
Director of Finance and Investor Relations
Telephone: +55 31 3250-2015
Fax: + 55 31 3250-1409
Email: ri@copasa.com.br

Clarifications related to the report (GRI 3.4)

Division of Social Responsibility
Telephone: +55 31 3250-1560
Fax: + 55 31 3250-1476
Email: dvrs@copasa.com.br

Creation and Digital Development

RC Comunicação

Editing

Press Division
Telephone: +55 31 3250-1069
Fax: + 55 31 3250-1666
Email: imprensa@copasa.com.br

Photos

Fotográfico Serviços de Fotografia

General Coordination

President's Advisory Office
President's Office

Legal Notice

This document may contain considerations related to Copasa business prospects that are projections and based on expectations with regard to the future of the business. These estimates are subject to risks, uncertainty and suppositions that include, among others: economic, political, financial and commercial conditions in the markets in which the company operates. Potential investors are hereby notified that none of these forecasts are a guarantee of future performance since they involve risk and uncertainty.



COPASA

A água de Minas