

COPASA, MINAS GERAIS, BRAZIL

1. LEGAL STRUCTURE & OWNERSHIP

Companhia de Saneamento de Minas Gerais (COPASA) was created in 1974, through the merger of the former Municipal Water and Sewage Department (*Departamento Municipal de Águas e Esgoto* [DEMAE]), responsible for providing water and sanitation services in the City of Belo Horizonte, with *Companhia Mineira de Água e Esgotos* (COMAG), which had been responsible for water and sanitation services in the State of Minas Gerais. COPASA was created to implement the new National Sanitation Plan (PLANASA) developed by the federal government in 1971. In February 2006, COPASA launched an initial public offering (IPO) on the São Paulo Stock Exchange's Novo Mercado.

2. CORPORATE GOVERNANCE

COPASA is governed by a Board of Directors (*conselho de administração*) and a Board of Executive Officers (*diretoria*) responsible for COPASA's business operation.

COPASA's **Board of Directors** is responsible for establishing the company's long-term strategies and setting its general business policies and guidelines. There are a minimum of five and a maximum of seven members, including the Chairman and Vice-Chairman, who are all shareholders. Board members serve for a one-year term, the period between annual shareholder meetings, and may be reelected.

According to the Novo Mercado (a segment of the stock market) Regulation, at least 20% of COPASA's directors have to be qualified as independent, which means a director: (1) cannot have any relation with COPASA except ownership of shares; (2) is not a controlling shareholder, spouse or direct relative of the controlling shareholder, and is not and was not, in the last three years, affiliated with a company or entity related to the controlling shareholder (excluding schools and universities); (3) cannot have been, in the past three years, an employee or officer of COPASA, its controlling shareholder or a company controlled by the company; (4) cannot be a, direct or indirect, supplier or customer of products and services provided by COPASA in an amount that suggests the loss of independence; (5) cannot be an employee or manager of a company that offers or demands products and/or services from COPASA; (6) cannot be a spouse or direct relative to any manager or director; and (7) cannot receive any compensation from COPASA other than director compensation (excluding dividends as a result of stock ownership). Members must agree to these terms in writing.

The **Board of Executive Officers** is composed of eight individuals who may or may not be shareholders, must be Brazilian residents, and are elected by the Board of Directors for three-year terms. The executive officers are responsible for managing COPASA.

3. DOCUMENTED OBLIGATIONS AND RIGHTS

COPASA is subject to **state regulations** for water and sewerage services including the general rules for tariffs as well as various national-level laws. COPASA is also subject to the requirements of the **Brazilian Company Law**.

As a listed company, COPASA is also subject to the **corporate governance requirements** of the Stock Exchange including requirements for a Code of Ethics, disclosure policy and publication of financial information. The company operates according to [by-laws and its shareholder's agreements](#).

COPASA also holds **long-term concessions** for water supply in 609 of 853 municipalities of the State of Minas Gerais, serving approximately 60% of the state population. In sewerage, COPASA has contracts for 175 municipalities. These agreements set out the performance expectations and obligations of each party. In the city of Belo Horizonte, COPASA operates according to a cooperation services agreement for shared management and integrated provision of water supply and sanitary sewage services in the city, which accounts for about 37% of COPASA's net revenue.

4. ACCOUNTING AND FINANCIAL MANAGEMENT

COPASA is authorized by the state law of Minas Gerais to propose tariff adjustments in order to maintain the company's economic and financial balance. The tariff adjustments reflect the inflation rate, the company's costs and the need to make the company's investment program viable. Pursuant to the legislation, COPASA applies the same tariffs for both water supply and sanitary sewage services, taking into account the different categories of customers and any discounts. Tariff adjustments are subject to approval by a state regulator. Since 2003, COPASA has been adjusting the company's tariffs yearly, every March 1.

As a mixed capital company (*sociedade de economia mista*), COPASA has a **Fiscal Council** permanently in place. The council has three to five members and their deputies, all of whom are elected by the Company's annual shareholders' meeting, which also sets their remuneration pursuant to the law. Minority holders, which together represent 10% of the voting shares, are able to elect one representative on the fiscal council and his/her deputy. The duties and powers of the Fiscal Council are set out in the law governing mixed capital companies. The Company follows international accounting standards.

5. CUSTOMER ORIENTATION

COPASA has customer service strategies, and commissions customer satisfaction polls. The polls' results are used to increase the efficiency and quality of the services that COPASA provides. According to surveys conducted by the Vox Populi Institute, COPASA earned a score of 8.3 in 2003 and 8.5 in 2004, on a scale of one to 10.

6. TRANSPARENCY AND USE OF DATA (OTHER OVERSIGHT AND ACCOUNTABILITY)

COPASA is required to publish annual reports, quarterly reports, filings to the Securities and Exchange Commission and other reports. The company's [Web site](#) provides access to shareholder meeting minutes, Fiscal Council meetings, financial and operational results, relevant legislation, by-laws, annual reports, and more.

COPASA has a strategic plan which outlines objectives, targets, and strategic actions for a five-year period. COPASA has established performance indicators against this plan which are linked with remuneration of the company's employees.

7. PERFORMANCE RESULTS

COPASA is the third largest sanitation company in Brazil in terms of net revenues. According to a survey carried out by the Brazilian financial newspaper, *Valor Econômico*, in August 2005, the company was ranked first among sanitation companies in Brazil in profitability (net income over shareholders' equity) for 2004.

COPASA RESULTS

Operational Highlights	Six months ended		Year ended			
	June 30,		December 31,			
	2006	2005	2005	2004	2003	2002
	(R\$ million)					
Water Supply						
Residential connections	435	358.3	804.4	614.0	545.0	434.4
Industrial connections	34.4	28.5	68.0	49.1	44.4	35.2
Commercial, services and other connections	79.3	68.1	147.3	118.6	105.8	84.4
Government	54.8	42.5	113.3	71.2	65.3	49.2
Total water supplied	603.5	497.3	1,133.0	852.9	760.5	603.2
	# of clients (Units)					
Total active customers - water	2,980,403	2,870,804	2,928,091	2,839,461	2,765,651	2,710,401
	(R\$ million)					
Sanitary Sewage						
Residential connections	184.7	164.1	357.9	277.2	239.2	187.0
Industrial connections	15.1	13.2	30.3	21.0	17.8	14.6
Commercial, services and other connections	45.6	41.8	66.7	71.5	61.7	48.4
Government	23.5	19.6	50.6	31.2	27.2	20.4
Total water supplied	268.8	238.6	505.5	400.9	346.0	270.4
	(R\$ million)					
Total active customers - sewage	1,362,546	1,280,115	1,329,557	1,270,554	1,151,615	1,117,683
Urban population of the localities with operations (MM)	11.3	11	11.1	11.2	11.0	10.6
Service index(*) - water	97.90%	97.70%	97.7%	97.3%	96.7%	98.4%
Service index(*) - sewage	83.00%	82.40%	81.5%	81.4%	80.8%	81.7%

The differences between connection values described above and the revenues from financial statements are due to conceptual affairs:

Connections: data referred to bill issuance.

Revenues: data referred to consume date

COPASA Web site: Investor Relations, Operational Highlights.