

Empresa de Electricidade da Madeira



Relatório e Contas Annual Report



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Note to reader:

This document is a translation of a Portuguese version. In case of doubt arising from the text here presented, the Portuguese version prevails.

Board of Directors



From left to right:

João Heliodoro da Silva Dantas (Vice-Chairman of the Board)

Rui Alberto Faria Rebelo (Chairman of the Board)

Mário Eugénio Jardim Fernandes (Board Member)

Organigram





D.C.S.
Directorate of
Const. Services

António Marrana

D.L.J.S.
Directorate of
Labour & Judicial Serv.

Ana Cristina Dantas

D.I.S.
Directorate of
IT Systems

António Nunes

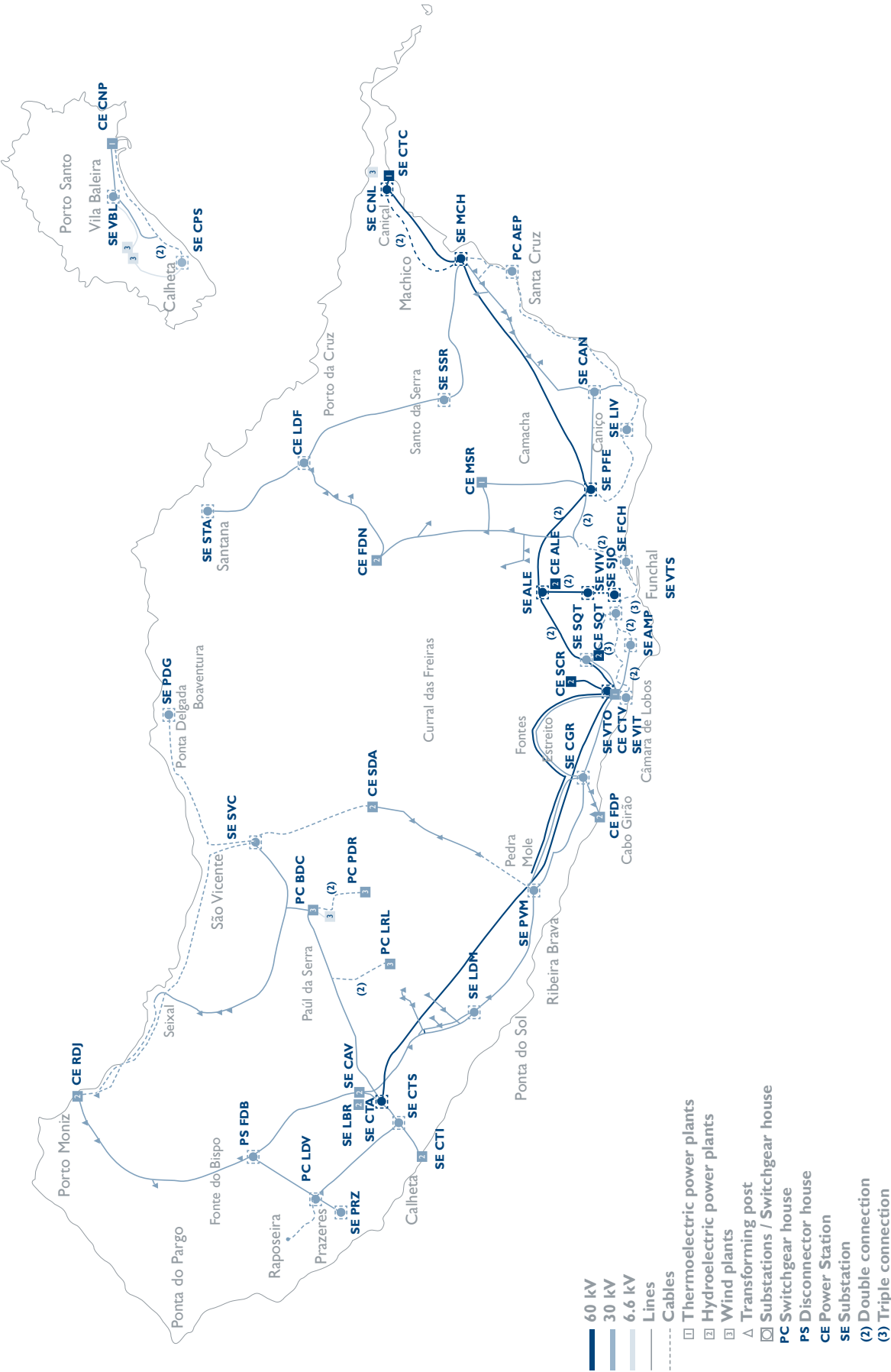
P.S.D.
Porto Santo
Division

Duarte Afonso



Characteristic Data

Transmission Network




Electric energy production by primary source in RAM - (EEM's system)

GWh	2005	2006	2007	2008	2009
Madeira Island	617.79	642.66	645.71	694.07	673.52
Hydroelectric	82.58	108.67	62.76	79.60	135.49
Thermoelectric (Vitória)	535.21	533.99	582.95	614.47	538.03
Porto Santo Island	37.37	37.47	37.42	39.35	37.58
Thermoelectric	36.58	36.77	36.76	38.47	36.93
Wind Plants	0.79	0.70	0.66	0.88	0.65
Total RAM	655.16	680.13	683.13	733.42	711.09

Note: RAM - Autonomous Region of Madeira

Electric energy acquisition - Other entities

GWh	2005	2006	2007	2008	2009
Madeira Island	246.09	251.31	255.21	247.21	266.96
Hydroelectric	4.36	4.19	3.55	4.10	4.65
Wind Plants	15.26	15.44	12.07	13.09	36.90
Thermoelectric (Canical)	192.17	192.35	201.49	192.81	188.60
Waste*	34.30	39.33	38.11	37.22	36.51
Photovoltaic**	-	-	-	-	0.29
Porto Santo Island	1.11	1.04	1.19	1.29	1.18
Wind Plants	1.11	1.04	1.19	1.29	1.17
Photovoltaic**	-	-	-	-	0.01
Total RAM	247.21	252.35	256.40	248.51	268.13

*Solid Waste Incineration

**Includes microgeneration (D-Law 363/2007 Nov, 2nd) and PRE ("Special Power Generation", D-Law 312/2001 Dec, 10th.)

RAM's energy balance - 2009

GWh	Net Demand	Billing
Madeira Island	924.54	842.00
Porto Santo Island	36.05	34.92
Total RAM	960.59	876.92

Substations

	2005	2006	2007	2008	2009
Madeira Island					
Number	25	27	28	28	28
Installed power (MVA)	427	445	485	528	528
Porto Santo Island					
Number	3	3	3	3	3
Installed power (MVA)	16	16	16	16	18
Total RAM					
Number	28	30	31	31	31
Installed power (MVA)	443	461	501	544	546

Transforming Posts					
	2005	2006	2007	2008	2009
Madeira Island					
Number	1,484	1,535	1,583	1,644	1,656
Installed power (MVA)	601	630	666	696	716
Porto Santo Island					
Number	80	83	91	93	93
Installed power (MVA)	29	30	35	35	35
Total RAM					
Number	1,564	1,618	1,674	1,737	1,749
Installed power (MVA)	630	660	701	731	751

Transmission and Distribution Network - RAM					
Km	2005	2006	2007	2008	2009
Low Voltage					
Overhead lines	3,776.96	3,798.94	3,852.56	3,885.18	3,913.82
Underground cables	2,990.38	2,997.31	3,013.17	3,017.47	3,007.43
	786.58	801.63	839.39	867.71	906.39
6.6 kV					
Overhead lines	1,075.58	1,131.31	1,195.56	1,240.77	1,286.99
Underground cables	527.86	538.87	545.75	541.48	539.34
	547.72	592.44	649.81	699.29	747.65
30 kV					
Overhead lines	345.11	356.86	372.61	386.55	392.21
Underground cables	234.85	236.01	236.96	242.75	245.06
	110.26	120.85	135.65	143.80	147.15
60 kV					
Overhead lines	68.10	68.10	78.70	78.70	78.86
Underground cables	68.10	68.10	68.80	68.80	68.65
	0.00	0.00	9.90	9.90	10.21
Total RAM	5,265.75	5,355.21	5,499.42	5,591.20	5,671.88

Commercial Data					
	2005	2006	2007	2008	2009
Madeira Island					
Number of Consumers	124,041	126,504	128,488	129,636	130,786
Consumption (GWh)	768.36	798.42	805.36	839.32	842.00
Households and Agriculture	248.30	263.51	255.54	259.76	265.25
Services and Commerce	314.85	334.65	337.49	358.50	364.32
Public Services	59.06	57.24	59.11	60.02	60.81
Industry	77.63	75.26	75.74	74.57	70.80
Public Lighting	68.52	67.76	77.48	86.47	80.82
Porto Santo Island					
Number of Consumers	4,120	4,275	4,414	4,477	4,560
Consumption (GWh)	34.54	34.98	34.39	36.67	34.92
Households and Agriculture	6.73	7.21	7.10	7.43	7.51
Services and Commerce	11.24	12.77	12.37	14.23	13.55
Public Services	3.37	3.31	3.53	3.65	3.52
Industry	11.23	9.77	9.43	8.96	7.93
Public Lighting	1.97	1.92	1.96	2.40	2.41
Total RAM					
Number of Consumers	128,161	130,779	132,902	134,113	135,347
Consumption (GWh)	802.90	833.40	839.75	876.00	876.92

Human Resources					
	2005	2006	2007	2008	2009
Nº of Employees	870	869	868	865	859



Consolidated Financial Data					
€'000	2005	2006	2007	2008	2009
Turnover	143,312	169,766	168,996	204,735	181,906
Operating income	12,859	10,579	10,866	12,847	10,639
Net income	5,670	4,510	4,558	3,760	4,002
Net assets	510,899	567,034	558,697	635,143	650,542
Net fixed assets	294,005	322,226	334,054	390,602	423,943
Shareholders' equity	146,237	153,820	153,768	154,166	154,825
Investment	51,911	40,548	39,926	66,823	57,848

Summary

The EEM's investments, in 2009, have reached 57,848 thousand Euros, split by different areas as follows: 59.4% in production, 22.0% in distribution/commercialization, 13.1% in transmission and 5.5% in unspecified investment.

Production

The achieved investments in the production area amounted to 34,386 thousand Euros, mainly in:

- Conclusion of the Loiral and Pedras Wind Power Plants construction;
- Continuation of the new Thermoelectric Power Plant - Vitória III construction, being already concluded the main building, the substation, common services and the first, of the three power groups (Group nº 17);
- Great repairs in nºs 3, 5, 8, 9, 10 and 12 Power Groups (CTV I and II).

Transmission

The accomplished investments in the transmission area amounted to 7,548 thousand Euros, essentially in the reinforcement of the transmission network, new substations and switchgear posts, remodelling and power improvements.

The main investments realized in substations, can be presented as follows:

- Conclusion of the 60 kV Vitória Substation remodelling and respective service transfer from the old installation;
- Conclusion of the Ponte Vermelha Substation remodelling, on the 30 kV level;
- Remodelling of the Virtudes Substation, on the 6.6 kV level;
- Conclusion of the Bica da Cana Switchgear Post remodelling;
- Power increase of 2 MVA in Calheta Substation, in Porto Santo Island.

In the transmission network, the main investments are following presented:

- Conclusion of a 30 kV underground cable connection between the last overhead line support of Pedra Mole - Bica da Cana and Bica da Cana Switchgear Post;
- Conclusion of the underground network construction between Vitória and Amparo substations;
- Continuation of the construction of a double overhead line between Paúl da Serra and Pedra Mole.

Distribution / Commercialization

The achieved investments in the distribution area, reached the amount of 12,715 thousand Euros, being detailed as follows:

- Connection of 41 new transforming posts for public service;
- Connection of 10 new private transforming posts to network;
- Enlargement of the medium voltage network in 46.22 km;
- Improvement of the medium voltage network in 8.12 km;
- Enlargement of the low voltage network in 28.64 km;
- Improvement of the low voltage network in 75.25 km;
- Installation of 585 new public lighting luminaries;
- Replacement of 1,613 public lighting luminaries;
- The electric energy sales achieved 842.00 GWh in Madeira Island and 34.92 GWh in Porto Santo Island, totalizing 876.92 GWh in RAM;
- The number of clients connected to the network, in December 31st, 2009, was 130,786 and 4,560 in Madeira and Porto Santo islands, respectively.

Other accomplishments

The fulfilled investments concerning unspecified areas, in a transversal way to the Company, were namely: studies, general installations, equipments, tools and information systems, reaching the amount of 3,199 thousand Euros. In this matter, it is important to point out installations and information systems, as the following projects:

- Installation of specified and adequate equipment for the buildings and functional areas of the warehouses and materials stores in Calheta, Machico and São Vicente;
- Installation of AVAC equipments and an emergency energy power group in the Headquarters building;
- Implementation of several improvements on the SAP system;
- Commissioning of the Non-Availability Management System - SGI;
- Implementation of new policies in Accounting Standards System - SNC;
- Implementation of a Platform for Electronic Procurement (Public Procurement).



Technical Information

I. Production

In 2009, the investments in the production area reached the total amount of 34,386 thousand Euros, being detachable the construction of the new thermoelectric power plant in Madeira Island, known as CTV III, adjacent to the already existing Vitória Thermoelectric Power Plant (CTV I and II), equipped with three dual-fuel power groups and a steam turbine, with a total installed power of 52 MW; the conclusion of the construction of the Loiral and Pedras wind power plants and major repairs to some power groups of the Vitória (CTV I and II), extending its useful life.

A. Madeira Island

Hydroelectric utilities

Among all the investments carried out during 2009, regarding the hydroelectric power plants, are detachable the following actions:

- Rehabilitation / reconstruction of water canals, mainly: Ribeira da Janela , Norte , Rabaças and Fajã da Nogueira canals;
- Realization of the execution project for the Calheta hydroelectric system expansion;
- Construction beginning of the water penstock access of the Socorridos Hydroelectric Power Plant;
- Improvement of nºs 1 and 2 Power Groups exciters of Serra de Água Hydroelectric Power Plant;
- Repair of the Power Group nº 2 bearings in Ribeira da Janela Hydroelectric Power Plant;
- Improvement of the paddlewheel of the Power Group nº 4 in Calheta Hydroelectric Power Plant;
- Overhaul and upgrading of the transformers of the two Power Groups in Fajã da Nogueira Hydroelectric Power Plant.

Thermoelectric utilities

Vitória Thermoelectric Power Plant

In Vitória Thermoelectric Power Plant are also reported the following initiatives:

- Construction continuation of the CTV III, emphasizing the conclusion:
 - of the Power Plant building;
 - of the Power Plant substation;
 - of the common equipment installation to the three schedule power groups;
 - of the first Power Group commissioning, designated as Group nº 17.
- Great interventions in nºs 3, 5, 8, 9, 10 and 12 Power Groups (CTV I and II);
- Installation of oil treatment equipment for nºs 11 and 12 Power Groups (CTV II).

On December 31st, 2009, the EEM's electric generating system in Madeira Island, consisted of one thermoelectric power plant and nine hydroelectric power plants with a total installed power of 225.53 MW, of which 175.14 MW (77.7%) are installed in Vitória Thermoelectric Power Plant and the remaining 50.39 MW (22.3%) in hydroelectric power plants.

EEM's power system in Madeira Island - 2009

	Thermal	Hydro	Total
Nº of Power Plants	1	9	10
Installed power (MW)	175.14	50.39	225.53
Production (GWh)	538.03	135.49	673.52

EEM's thermal power plant in Madeira Island - 2009

	Units	Installed power (MW)	Installed power (MVA)	Max. Cont. Power* (MW)	Production (GWh)	Net Emission (GWh)	Fuel
Vitória	1, 2	15.00	19.50	10.40	32.80		Thick Fuel-oil
Thermal	3	7.50	9.75	5.00	17.39		Thick Fuel-oil
Power	4, 5, 6	23.40	29.25	18.60	76.14		Thick Fuel-oil
Plant	7, 8, 9, 10	42.24	52.00	34.00	219.59		Thick Fuel-oil
	11, 12, 13, 14, 15	57.60	70.00	47.00	190.66		Thick Fuel-oil
	16, 17	29.40	36.80	29.40	1.46		Dual-Fuel
Total - CTV		175.14	217.30	144.40	538.03	523.65	

*Maximum continuous power

EEM's hydro power plants in Madeira Island - 2009

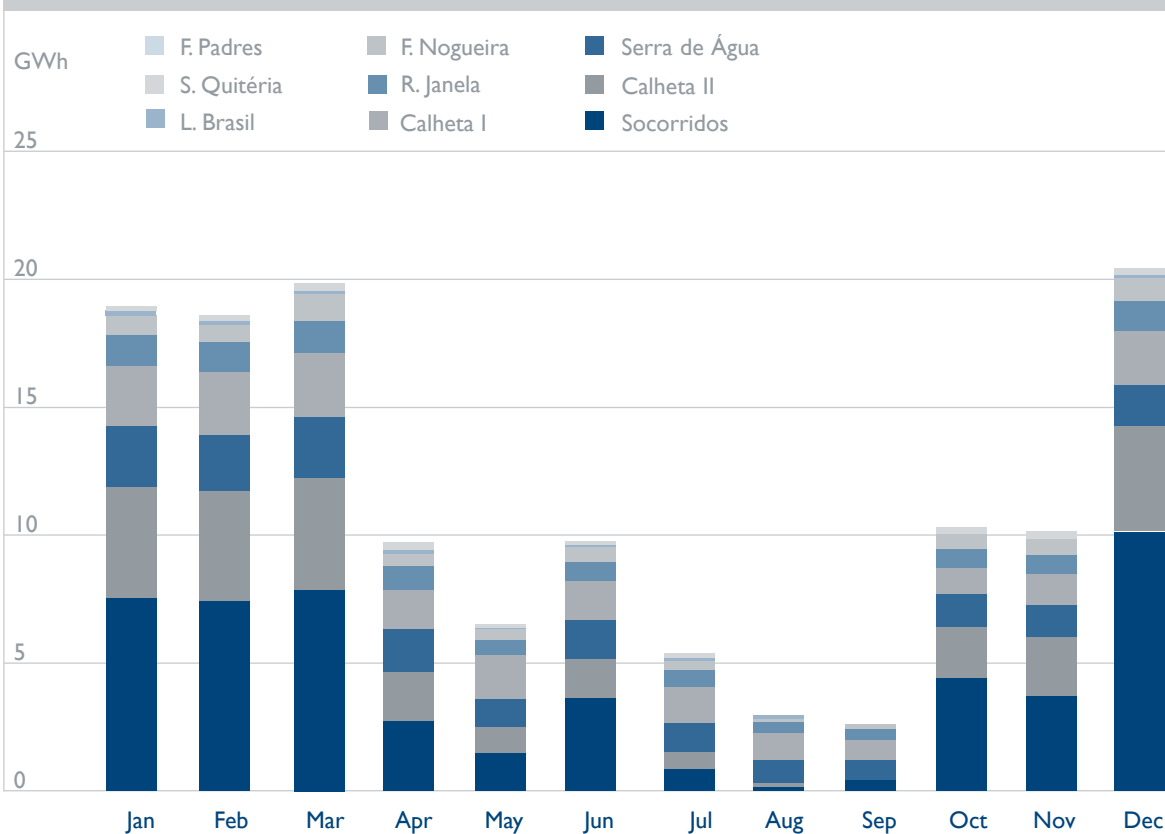
	Inst. Power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	4.90	18.05	18.01	430	Pelton
Calheta I	1.10	19.68	19.50	629	Pelton
	0.52			314	Pelton
	0.50			181	Pelton
	2.60			629	Pelton
Calheta II	7.30	26.92	26.89	637	Pelton
Ribeira da Janela	3.20	10.12	10.01	398	Pelton
Fajã da Nogueira	2.40	7.17	7.09	348	Pelton
Lombo do Brasil	0.17	1.18	1.18	316	Pelton
Fajã dos Padres	1.70	-	-	530	Pelton
Santa Quitéria	1.70	2.71	2.71	212	Pelton
Socorridos	24.30	49.66	49.60	457	Pelton
Hydroelectric Pumping	11.25	-	-	457	Francis
Total EEM*	50.39	135.49	134.99		

*Hydroelectric Power Pumping not included

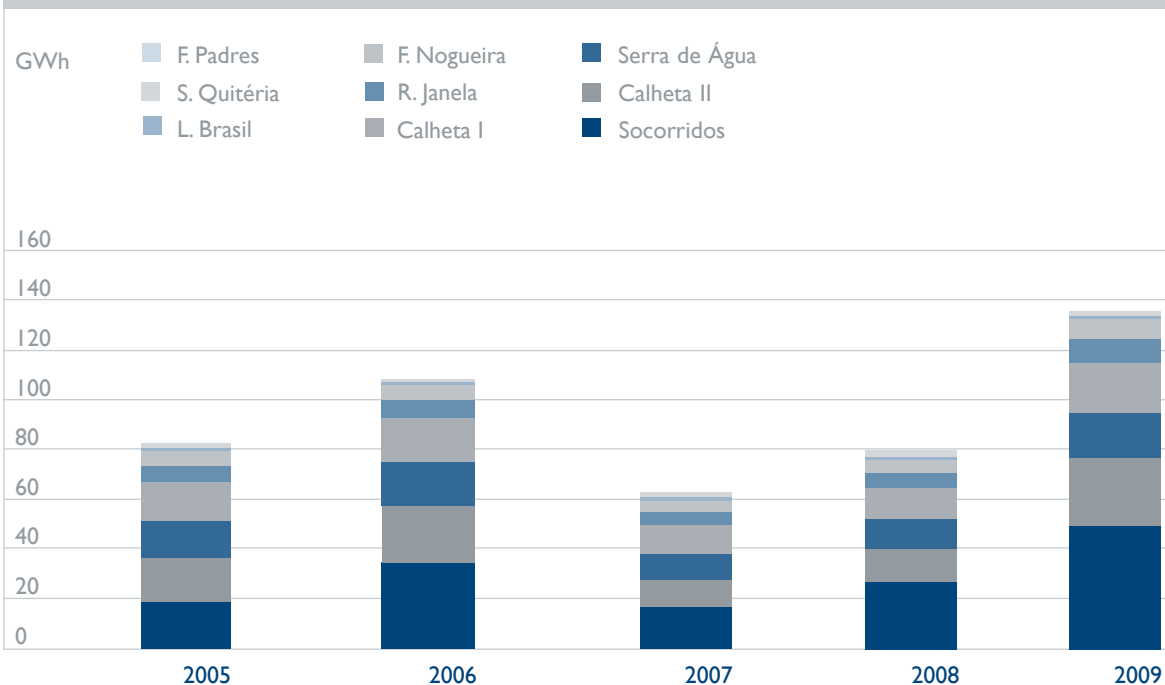
In 2009, the total EEM's energy net emission in Madeira Island, reached 658.64 GWh, 523.65 GWh (79.5%) of which generated by thermoelectric power plants and the remaining 134.99 GWh (20.5%) generated by hydroelectric plants, much higher values than the historical average, due to a very propitious hydrologic year.



EEM's monthly hydro production in Madeira Island - 2009



EEM's annual hydro production in Madeira Island



The installed power in the private generating power plants amounted to 83.05 MW, more 55.7% than in 2008, due to the installation of new wind power plants and the introduction of the solar photovoltaic technology component. The following chart reflects the distribution of independent producers, by primary energy sources:

Private owned power plants in Madeira Island - 2009						
	Thermal	Hydro	Wind	Waste*	Photovoltaic**	Total
N° of Power Plants	1	1	8	1	127	138
Installed power (MW)	36.00	0.70	37.91	8.00	0.44	83.05
Acquisition (GWh)	188.60	4.65	36.90	36.51	0.29	266.96

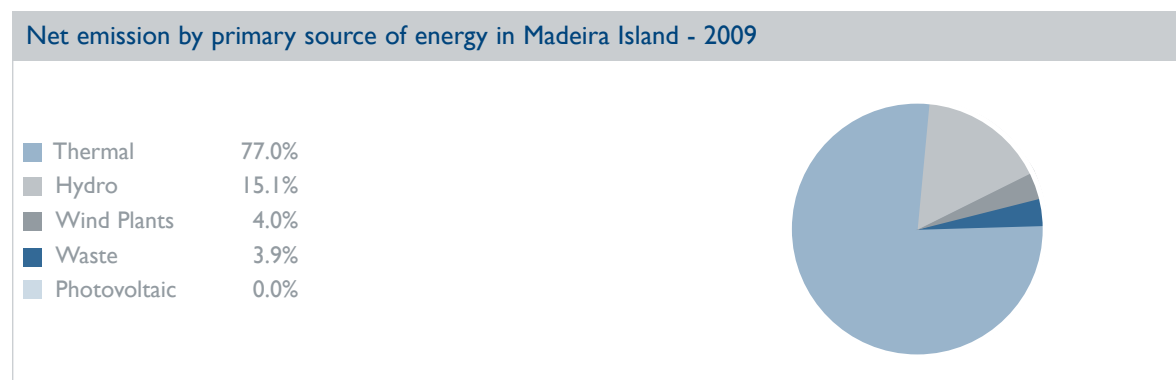
*Solid Waste Incineration

**Includes microgeneration (D-Law 363/2007 Nov, 2nd) and PRE ("Special Power Generation", D-Law 312/2001 Dec, 10th.)

In 2009, the global energy issued by these generating power systems, reached 266.96 GWh, more 8.0% than the previous year. Thus, 70.6% of this energy was provided by Caniçal Thermoelectric Power Plant, 13.8% by wind power plants, 13.7% by ETRSU (a Solid Waste Incineration), 1.7% by Terça mini-hydroelectric Power Plant and the remaining 0.1% from photovoltaic producers.

The private plants energy contribution represents 28.8% of total emission in Madeira Island.

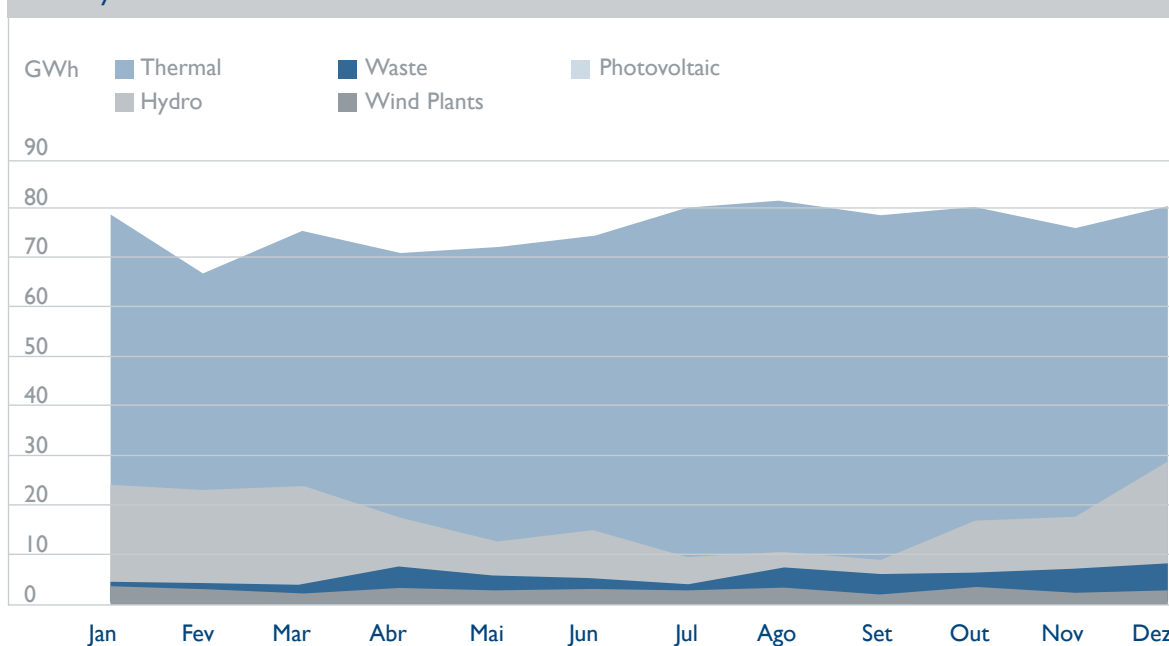
The net emission distribution through the network system (EEM's system and private producers) in the Madeira Island, in 2009, is presented as follows:



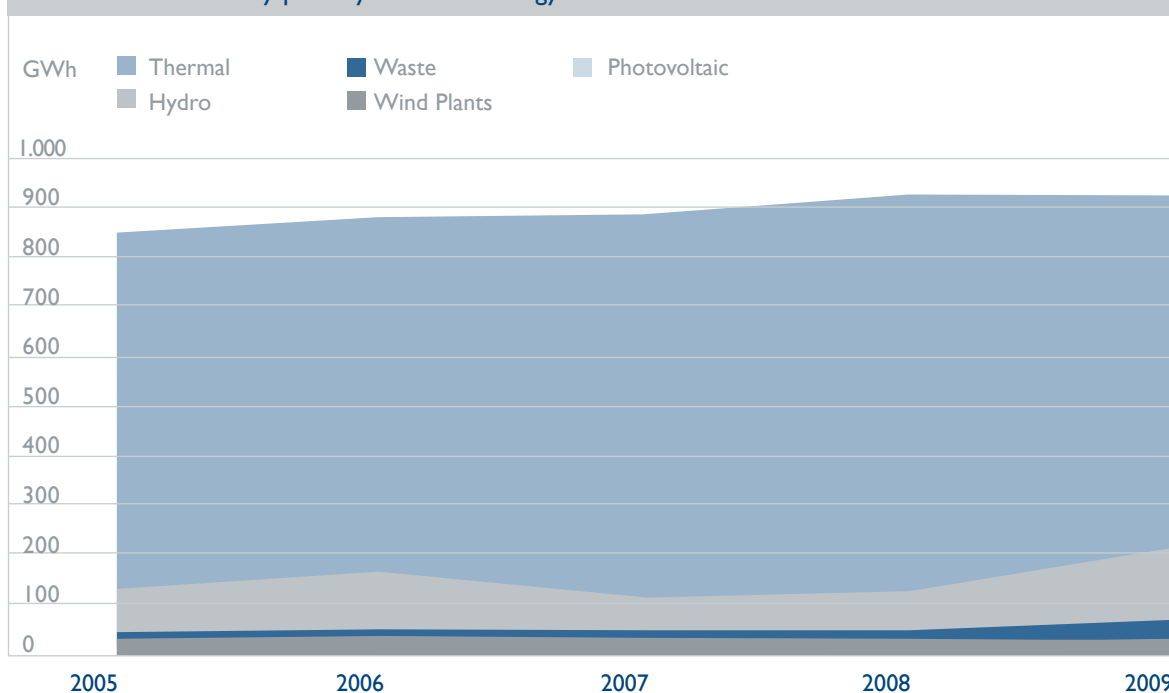
Thus, the renewable component, in 2009, amounted to 23.0% of the total energy emitted into the electric network and the remaining 77.0% came from fossil combustibles.

The monthly and annual net emission evolution by primary sources can be presented as follows:

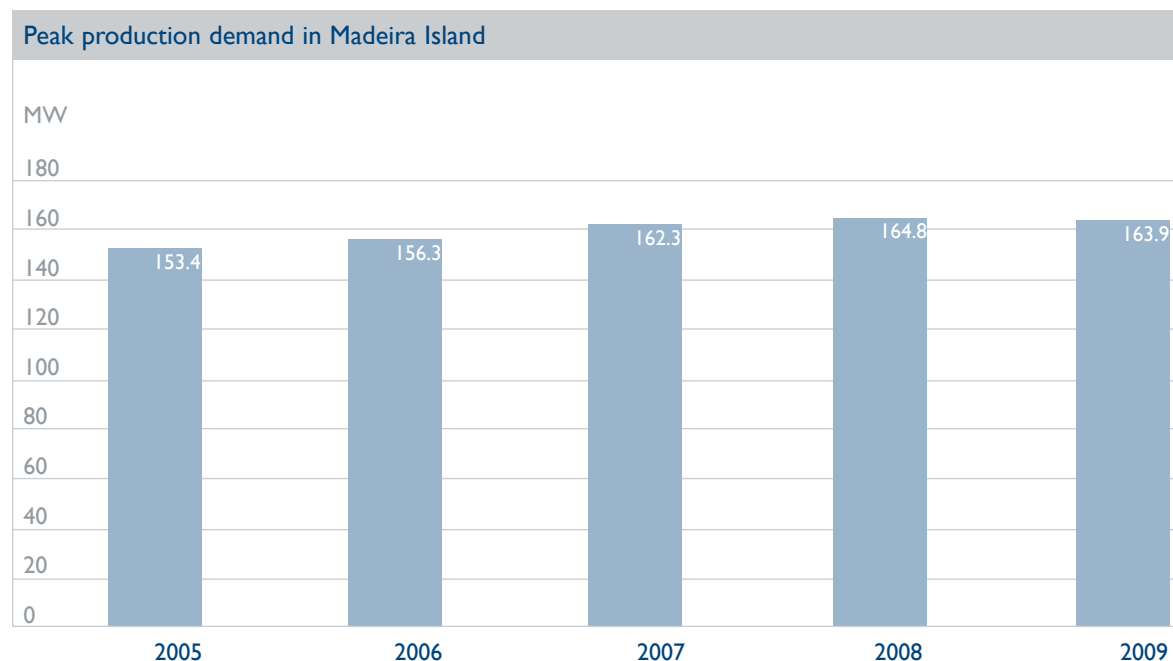
Monthly net emission in Madeira Island - 2009



Annual net emission by primary source of energy in Madeira Island



The peak load in Madeira Island occurred in January, reaching the value of 163.9 MW, representing a slight decrease of 0.5%, in comparison to 2008.



The consumption of fuel and lubricants, in Vitória Thermoelectric Power Plant amounted to 120,947 and 982 thousand liters, respectively. This consumption represents a decrease of 13.3%, comparing to the previous year, due not only to an increased hydroelectric production, but also to a higher contribution from wind production.

Fuel and lubricant consumption in the EEM system in Madeira Island - 2009			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Vitória Thermal Power Plant	119,971	976	982

B. Porto Santo Island

The generating power system in Porto Santo Island consists of one thermoelectric power plant and two wind plants. The total installed power amounted to 18.39 MW, shared by Porto Santo Thermoelectric Power Plant, which contributed with 17.28 MW (94.0%) and by the two wind plants, which contributed with the remaining 1.1 MW (6.0%). Are also worth mentioning, the first microgeneration installations.

Porto Santo Thermoelectric Power Plant

In the Porto Santo Thermoelectric Power Plant, the main interventions were as following:

- Conclusion of the polluted water treatment system;
- Replacement of recovery boilers for the n°s 3 and 4 Power Groups.

EEM's power system in Porto Santo Island - 2009

	EEM		ENEREEM	Photovoltaic*	Total
	Thermal	Wind Plants	Wind Plants		
Nº of Power Plants	1	1	1	5	8
Installed power (MW)	17.28	0.45	0.66	0.02	18.41
Net Emission (GWh)	34.23	0.65	1.17	0.01	36.05

*Includes microgeneration (D-Law 363/2007 Nov, 2nd) and PRE ("Special Power Generation", D-Law 312/2001 Dec, 10th.)

EEM's thermal power plant in Porto Santo Island - 2009

	Units	Installed power (MW)	Installed power (MVA)	Max. Cont. Power** (MW)	Production (GWh)	Net Emission (GWh)	Fuel
Porto Santo	1,2*	10.00	12.86	-	0.02		Diesel
Thermal Power	3,4,5	12.96	15.30	11.40	25.44		Thick Fuel-oil
Plant	6	4.32	5.10	3.80	11.46		Thick Fuel-oil
Total - CTPS		17.28	20.40	15.20	36.93	34.23	

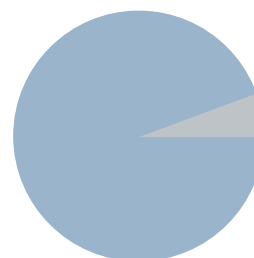
*Decommissioned power unit groups in 2008

**Maximum continuous power

In 2009, the energy issued by the generating power system in Porto Santo Island, reached 36.05 GWh, of which 34.23 GWh (94.9%) were produced by the thermoelectric plant and the remaining 1.82 GWh (5.1%) by the referred wind plants. The photovoltaic production has no yet representation in the electrical system of this island (0.02%).

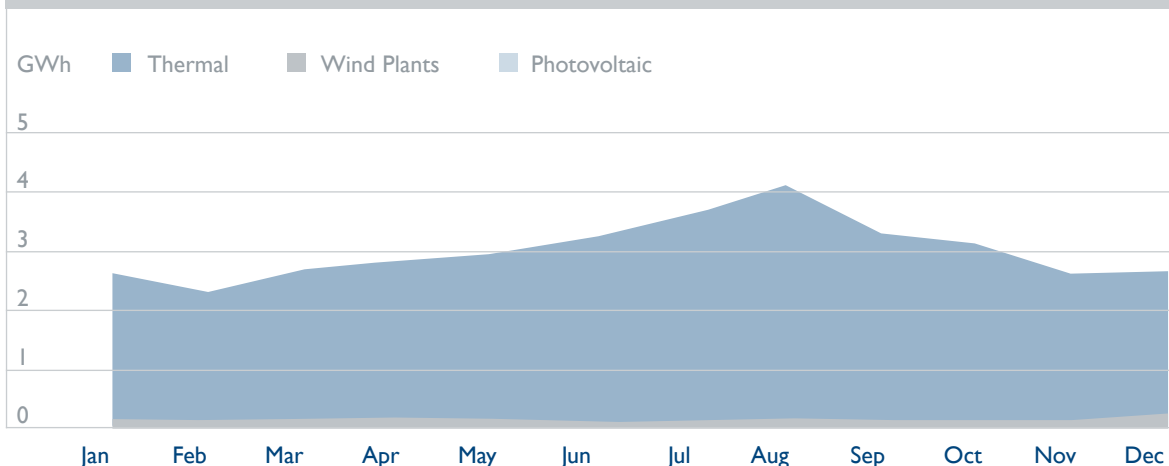
Net Emission by primary source of energy in the Porto Santo Island - 2009

Thermal	94.9%
Wind Plants	5.1%
Photovoltaic	0.0%

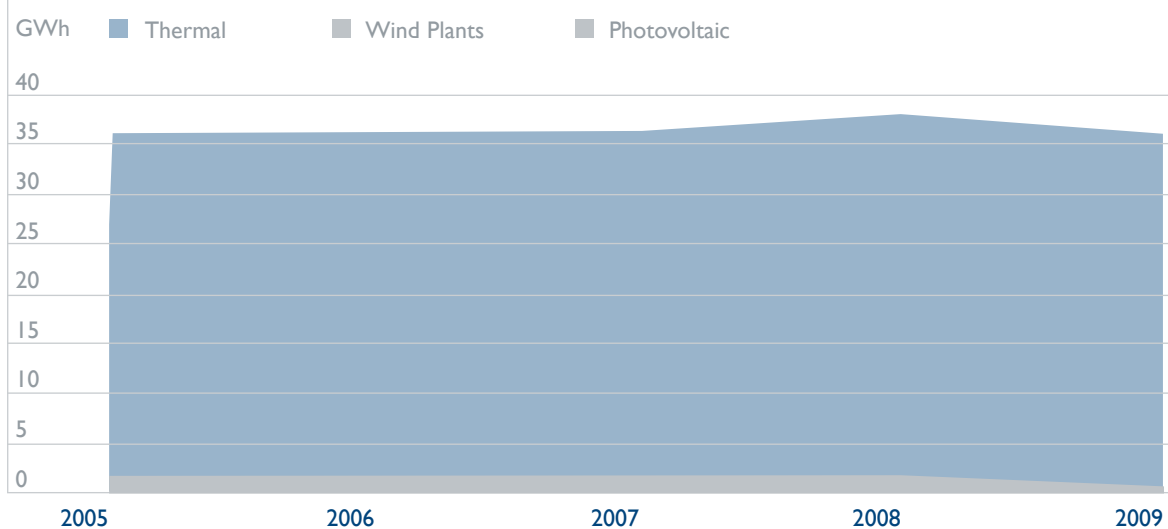


The monthly and annual net emission evolution by primary sources can be presented as follows:

Monthly net emission in Porto Santo Island - 2009



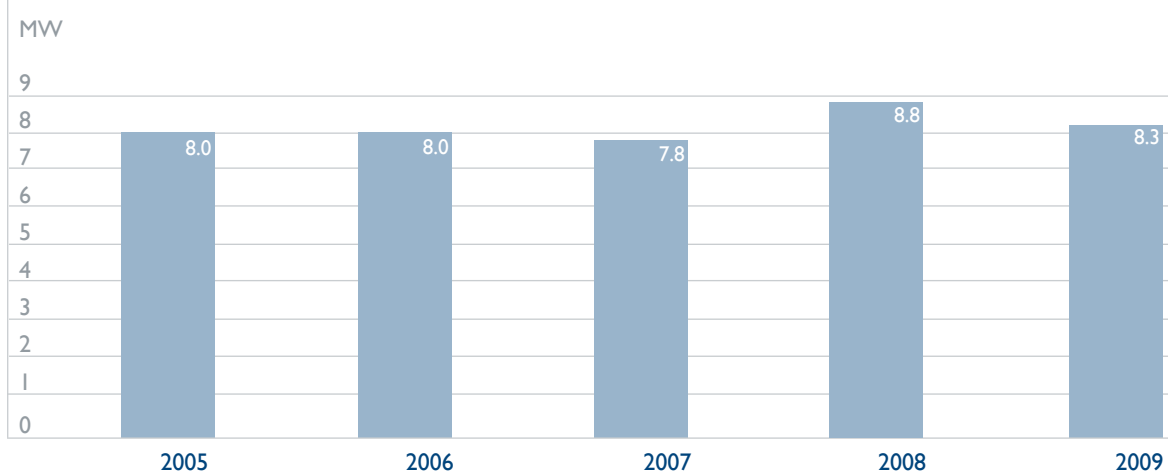
Annual net emission by primary source of energy in Porto Santo Island



In Porto Santo Island, the wind power energy contribution has been consistently the same for the last few years, being the thermoelectric plant responsible for the energy emission fluctuations compensation.

The yearly peak load in Porto Santo Island occurred in August, registering 8.3 MW, slightly lower than in 2008.

Peak production demand in Porto Santo Island



The consumption of fuel and lubricants in Porto Santo Thermoelectric Power Plant amounted to 9,314 and 45 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo Island - 2009

liters '000	Thick Fuel-oil	Diesel	Lubricant
Porto Santo Thermal Power Plant	8,742	572	45

There was a decrease in fuel consumption of around 3.3% comparing to the previous year, motivated by the decrease in energy demand.

II. Transmission

In transmission, the most significant accomplished investments were in substations / switching stations and transmission lines, reaching 7,548 thousand Euros.

Substations

In the substations area the main investments, are presented as follows:

- Service transfer from the old equipments to the new ones, installed in the new 60 kV Vitória Substation, which corresponds to a new building and an isolated SF6 (GIS) dual-bus, with 17 cells;
- Conclusion of the Bica da Cana Switchgear Post total remodelling, through a new building and the installation of a 30 kV isolated SF6 dual-bus;
- The commissioning of a new 6.6 kV switchgear (Bus - III), and a new protection and monitoring control system in Viveiros Substation;
- Installation and configuration of a new control system at 30 kV in Calheta Substation;
- Conclusion of the replacement of the existing 6.6 kV PVO (small volume of oil) circuit breakers for another ones (isolated SF6) in Virtudes Substation;
- Replacement of a 4 MVA transformer in Calheta Substation, in Porto Santo Island, by a 6 MVA one, with on-load regulation;
- Conclusion of the new SF6 isolated switchgear installation, in the Ponte Vermelha Substation.

Beyond the previous referred investments, the following actions should be highlighted:

- Monitoring the inspection and maintenance works, in the substations of Caniçal, Livramento, Calheta, São Vicente and Santana, under the 10 years of operating;
- General substations maintenance, including the transforming units;
- Thermo inspections in electric power equipments.

Substations in RAM - 2009

	Installed power (MVA)			Total	Capacitors MVar
	30/6.6 kV	60/30 kV	60/6.6 kV		
Madeira Island	233.0	170.0	125.0	528.0	32.0
Funchal	3 x 10.0	-	-	30.0	6.0
Amparo	2 x 10.0	-	-	20.0	2.0
Vitória 6.6 kV	2 x 10.0	-	-	20.0	4.0
Vitória	-	4 x 25.0	-	100.0	-
Santa Quitéria	10.0	-	-	10.0	-
Virtudes	2 x 15.0	-	-	30.0	2.0
Alegria	-	-	10.0	10.0	-
Viveiros	-	-	2 x 15.0	30.0	4.0
Ponte Vermelha	10.0	-	-	10.0	2.0
Lombo do Meio	4.0	-	-	4.0	-
Central da Calheta	2 x 0.5	-	-	1.0	-
Calheta	10.0	-	-	10.0	-
Lombo do Doutor	-	25.0	-	25.0	-
Ribeira da Janela	6.0	-	-	6.0	-
Serra de Água	4.0	-	-	4.0	-
Lombo do Faial	6.0	-	-	6.0	-
Santana	6.0	-	-	6.0	-
Machico	-	15.0	10.0 + 15.0	40.0	2.0
Assomada	2 x 10.0	-	-	20.0	2.0
Livramento	2 x 10.0	-	-	20.0	2.0
Palheiro Ferreiro	-	2 x 15.0	2 x 10.0	50.0	2.0
São Vicente	6.0	-	-	6.0	-
Prazeres	2 x 2.0	-	-	4.0	-
Canical	-	-	10.0	10.0	-
Cabo Girão	10.0	-	-	10.0	-
Santo da Serra	6.0	-	-	6.0	-
Ponta Delgada	10.0	-	-	10.0	-
São João	-	-	2 x 15.0	30.0	4.0
Porto Santo Island	18.0	-	-	18.0	-
Nova Central	4.0	-	-	4.0	-
Vila Baleira	2 x 4.0	-	-	8.0	-
Calheta	6.0	-	-	6.0	-
Total RAM	251.0	170.0	125.0	546.0	32.0

Transmission network

In the transmission network, the main undertaken investments are as follows:

- Conclusion of a 30 kV double underground connection: between the last support of the Pedra Mole – Paúl da Serra overhead line until Pedras Swichtgear Post and between this installation and Bica da Cana Swichtgear Post;
- Conclusion of the underground network construction between the substations of Vitória and Amparo;
- Construction continuation of the double isolated overhead line between Paúl da Serra (nearby the Pedras Swichtgear Post) and Pedra Mole;
- Construction continuation of the connection between Lombo da Velha Switchgear Post and Ponta do Pargo.

Concerning the service transfer for the new Vitória Substation, several adaptation works were accomplished from the 60 kV overhead line supports to the new 60 kV isolated SF6 bus, by underground cable.

Other interventions took place, including the replacement of suspension isolators, terminal boxes, supports displacement required by clients, as well as the deforesting about 60 km of electric grid lines surroundings and cleaning overhead lines supports, of which 20 km in 60 kV HV and 40 km in 30 kV MV.

As part of the transmission network monitoring should be highlighted the following actions:

- Inspection of overhead lines in an extension of 150 km, being 35 km in 60 kV HV and the remaining ones in 30 kV MV;
- Thermo inspections in 132 km extension lines;
- Inspection of underground 30 kV connection chambers.

Transmission Network in RAM - 2009			
	Madeira	Porto Santo	Total RAM
Substations 60/30/6.6 kV			
Number of units	8	-	8
Installed power (MVA)	295.00	-	295.00
Substations 30/6.6 kV			
Number of units	20	3	23
Installed power (MVA)	233.00	18.00	251.00
60 kV Network			
	78.86	-	78.86
Overhead lines (km)	68.65	-	68.65
Underground cables (km)	10.21	-	10.21
30 kV Network*			
	376.91	15.30	392.21
Overhead lines (km)	239.96	5.10	245.06
Underground cables (km)	136.95	10.20	147.15
Optic Fibre (km)			
	253.84	9.11	262.95

*30 kV Distribution Network included

The following table shows the evolution in the transmission network occurred in 2009:

Evolution of the Transmission Network in RAM - 2009			
Km	Madeira	Porto Santo	Total RAM
Transmission Network Expansion			
60 kV Network			
	0.16	-	0.16
Overhead line	(0.16)	-	(0.16)
Underground cables	0.31	-	0.31
30 kV Network*			
	5.66	-	5.66
Overhead line	2.31	-	2.31
Underground cables	3.35	-	3.35
Renewals			
60 kV Network			
	0.15	-	0.15
Overhead line	-	-	-
Underground cables	0.15	-	0.15
30 kV Network*			
	1.85	-	1.85
Overhead line	1.66	-	1.66
Underground cables	0.19	-	0.19

*30 kV Distribution Network included

Telecommunications

In the telecommunication area, it is relevant to point out:

- Expansion of optical-fibre cable in its backbone, namely:
 - Closing of the optical-fibre rings in the routes: São João - Virtudes, Largo da Saúde - Funchal and Coopereme - Nazaré - Amparo;
 - Reinforcement of optical-fibre availabilities along the courses of Virtudes - Pilar and Coopereme - Nazaré - Amparo;
 - Connection between substations of Lombo da Velha and Prazeres, São Vicente Substation and Paúl da Serra (Loiral, Bica da Cana and Pedras switchgear posts).
- Other connections by optical-fibre cables:
 - Connection of 200 low voltage transformer posts distributed throughout the islands of Madeira and Porto Santo;
 - Connection to the boxes UHF “EEM - Privative Net Mobile Radio” - TETRA, namely: Pico do Silva, Cabeço do Cura, Pico do Arco da Calheta, Encumeada and Achadas da Cruz;
 - Link to the EEM’s delegations of: Camacha, Ponta do Sol and Porto Moniz;
 - Connection to the Serra de Água Hydroelectric Power Plant.
- Remote control integration into optical-fibre network of the following installations: Cabo Girão, Amparo, Ponte Vermelha, São Vicente, Calheta, Lombo do Doutor, Lombo do Meio, São João, Ponta Delgada, Santo da Serra, Caniçal, Lombo da Velha, Lombo do Faial, Vitória 60 kV and in Ribeira da Janela, Calheta and Socorridos hydroelectric power plants;
- Expansion of the SDH optical-fibre network and its integration into the remote access of the following facilities: Loiral, Bica da Cana, Pedras, Meia Serra, Palheiro Ferreiro and 60 kV Vitória;
- Installation of a backup power system, in telecommunications equipment room of Virtudes Substation.

Dispatch Centre

Concerning the Dispatch Centre, the main performed investments, can be presented as follows:

- Extension of the remote control to the following facilities:
 - Bica da Cana, Loiral and Pedras switchgear posts;
 - New 60 kV Vitória Substation.
- Monitoring and controlling of new wind power plants maximum power capacity in Paúl da Serra;
- Conclusion of the RTU LSA communication protocol replacement by the IEC - 101;
- Installation of a weather station in Vitória Thermoelectric Power Plant;
- Installation of a surveillance system in Palheiro Ferreiro Substation;
- Inclusion of the Dispatch Centre in the human resources platform;
- Maintenance of equipments attached to the Dispatch Centre.

III. Distribution

Concerning the distribution network, the investment was directed mainly to the renovation and construction of new medium voltage lines (MV), transformer posts, low voltage and public illumination networks (LV / PL).

Distribution Network in RAM - 2009			
Km	Madeira	Porto Santo	Total RAM
6.6 kV Network	1,215.81	71.18	1,286.99
Overhead lines	519.30	20.04	539.34
Underground cables	696.51	51.14	747.65
Low Voltage Network	3,795.16	118.66	3,913.82
Overhead lines	2,943.60	63.83	3,007.43
Underground cables	851.56	54.83	906.39

Transforming Posts by council in RAM - 2009						
	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	104	77,715	464	250,135	568	327,850
Câmara de Lobos	16	9,990	113	42,585	129	52,575
Ribeira Brava	5	2,410	113	34,375	118	36,785
Ponta do Sol	3	700	56	20,125	59	20,825
Calheta	4	1,530	124	33,325	128	34,855
Porto Moniz	-	-	49	12,680	49	12,680
São Vicente	5	1,610	55	16,625	60	18,235
Santana	13	6,900	84	17,980	97	24,880
Machico	31	18,395	120	45,510	151	63,905
Santa Cruz	36	23,550	261	100,010	297	123,560
Porto Santo	21	12,535	72	22,060	93	34,595
Total RAM	238	155,335	1,511	595,410	1,749	750,745

The councils with more installed capacity are Funchal, Santa Cruz and Machico with 327,850 kVA, 123,560 kVA and 63,905 kVA, respectively.

A. Madeira Island

In Madeira Island, the main indicators of the distribution network are as follows:

- Installation of 40 new public transforming posts with an installed power of 15,170 kVA and 10 new private ones with an installed power of 6,480 kVA;
- Enlargement of the medium voltage network in 43.88 km;
- Improvement of the medium voltage network in 7.91 km;
- Enlargement of the low voltage network in 25.07 km;
- Improvement of the low voltage network in 71.83 km;
- Installation of 528 new public lighting luminaries;
- Replacement of 1,570 public lighting luminaries.

B. Porto Santo Island

Concerning Porto Santo Island, the highlighted actions are as follows:

- Installation of 1 new public transforming post, with a total power of 250 kVA;
- Enlargement of the medium voltage network at 6.6 kV level in 2.34 km;
- Improvement of the medium voltage network in 0.21 km;
- Enlargement of the low voltage network in 3.57 km;
- Improvement of the low voltage network in 3.42 km;
- Installation of 57 new public lighting luminaries;
- Replacement of 43 public lighting luminaries.



Evolution of the Distribution Network in RAM - 2009

	Dist. N.E.O.*	Funchal	Total Madeira	Porto Santo	Total RAM
Distribution Network Expansion					
Transforming Posts for public service					
Number of units	32	8	40	1	41
Power (kVA)	12,135	3,035	15,170	250	15,420
Transforming Posts for private service					
Number of units	4	6	10	-	10
Power (kVA)	1,450	5,030	6,480	-	6,480
6.6 kV Network	35.74	8.14	43.88	2.34	46.22
Overhead lines (km)	(1.20)	(0.38)	(1.58)	(0.56)	(2.14)
Underground cables (km)	36.94	8.52	45.46	2.90	48.36
Low Voltage Network	13.03	12.04	25.07	3.57	28.64
Overhead lines (km)	(4.91)	0.43	(4.48)	(5.56)	(10.04)
Underground cables (km)	17.94	11.61	29.55	9.13	38.68
Renewals					
Transforming Posts for public service					
Number of units	39	9	48	16	64
Power (kVA)	3,815	(140)	3,675	(1,615)	2,060
Transforming Posts for private service					
Number of units	8	1	9	1	10
Power (kVA)	100	(715)	(615)	500	(115)
Deactivated Transforming Posts					
Number of units	(27)	(11)	(38)	(1)	(39)
Power (kVA)	(3,380)	(875)	(4,255)	-	(4,255)
6.6 kV Network	3.21	4.70	7.91	0.21	8.12
Overhead lines (km)	2.97	0.58	3.55	-	3.55
Underground cables (km)	0.24	4.12	4.36	0.21	4.57
Low Voltage Network	55.07	16.76	71.83	3.42	75.25
Overhead lines (km)	39.55	13.33	52.88	2.11	54.99
Underground cables (km)	15.52	3.43	18.95	1.31	20.26

*North East West

IV. Commercialization

The RAM's energy balance, in 2009, is presented as follows:

RAM's energy balance - 2009			
MWh	Madeira	Porto Santo	Total RAM
EEM - Power plants productions	673,517	37,577	711,094
Thermal	538,030	36,928	574,958
Fuel	536,570	36,904	573,474
Diesel	1,460	24	1,484
Hydro	135,487	-	135,487
Wind	-	649	649
Power plants consumptions and losses	14,881	2,705	17,586
Total EEM energy net emission	658,636	34,872	693,508
Other acquisitions - SEPM*	188,602	-	188,602
Thermal	188,602	-	188,602
Fuel	188,602	-	188,602
Total special status generation	78,354	1,181	79,535
Hydro	4,648	-	4,648
Wind	36,905	1,174	38,079
Others	36,801	7	36,808
Total net generation	925,592	36,053	961,645
Hydroelectric pumping	1,051	-	1,051
Total net demand SEPM*	924,540	36,053	960,593
Proper consumptions	924	30	954
Total energy sales SEPM*	842,000	34,923	876,923
MV (Medium Voltage)	178,180	12,690	190,870
LV (Low Voltage)	663,820	22,233	686,053
Total net delivery	842,924	34,953	877,877
Losses	81,616	1,100	82,716

*SEPM - Public Electricity Supply System of Madeira Island

The energy consumption in 2009, presented a growth rate of 0.3% in Madeira Island. Regarding Porto Santo Island, there was a decrease of 4.8% of consumption.

Energy sales to SEPM clients per tension level and tariffs regime - 2009						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	190.87	159.05	443.77	83.23	876.92

Note:

HV - High Voltage

MV - Medium Voltage

SLV - Special Low Voltage

NLV - Normal Low Voltage

PL - Public Lighting

SEPM - Public Electricity Supply System of Madeira Island

RAM's consumption in Medium Voltage reached 190.87 GWh, while in Low Voltage was 686.05 GWh, which corresponds to a distribution of 21.8% and 78.2% of the total consumption.

In the following tables, we present the distribution of consumption and consumers by council and by activity sector:

Consumption by activity in RAM - 2009										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
Madeira Island	259.27	150.95	199.40	70.80	5.99	80.82	60.81	13.98	842.00	100.0%
	30.8%	17.9%	23.7%	8.4%	0.7%	9.6%	7.2%	1.7%	100.0%	
Funchal	110.53	106.74	135.55	16.02	0.50	18.25	34.18	3.53	425.31	50.5%
Câm. Lobos	30.06	5.44	8.73	10.76	0.32	10.71	2.60	1.87	70.49	8.4%
Rib. Brava	12.40	2.71	8.13	1.59	0.07	6.15	1.54	0.56	33.15	3.9%
Ponta do Sol	8.92	2.23	2.04	1.91	0.59	3.79	1.45	1.28	22.21	2.6%
Calheta	13.27	4.10	4.13	1.38	0.67	7.06	1.40	0.72	32.72	3.9%
Porto Moniz	6.10	1.55	1.50	0.33	0.40	3.70	0.81	0.04	14.42	1.7%
S.Vicente	5.87	2.56	1.80	0.94	0.10	4.12	0.93	2.75	19.07	2.3%
Santana	8.15	2.23	3.72	0.90	0.38	5.18	1.40	1.56	23.53	2.8%
Machico	22.31	5.30	10.97	15.23	1.02	10.71	3.16	0.68	69.38	8.2%
Santa Cruz	41.66	18.09	22.82	21.73	1.94	11.16	13.35	0.98	131.72	15.7%
Porto Santo Island	7.44	7.36	5.97	7.93	0.07	2.41	3.52	0.22	34.92	
	21.3%	21.1%	17.1%	22.7%	0.2%	6.9%	10.1%	0.6%	100.0%	
Total RAM	266.70	158.31	205.37	78.73	6.06	83.23	64.33	14.20	876.92	
	30.4%	18.1%	23.4%	9.0%	0.7%	9.5%	7.3%	1.6%	100.0%	

Consumers by activity in RAM - 2009										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
Madeira Island	108,929	2,075	13,190	1,008	1,123	1,636	2,154	671	130,786	100.0%
	83.2%	1.6%	10.1%	0.8%	0.9%	1.3%	1.6%	0.5%	100.0%	
Funchal	45,612	1,059	7,650	311	99	449	1,092	213	56,485	43.2%
Câm. Lobos	11,843	141	1,125	93	205	140	191	82	13,821	10.6%
Rib. Brava	5,940	71	492	44	46	131	91	49	6,863	5.2%
Ponta do Sol	4,242	53	314	47	74	65	74	36	4,904	3.7%
Calheta	6,428	89	435	62	67	155	108	77	7,421	5.7%
Porto Moniz	1,634	51	141	19	77	75	75	11	2,083	1.6%
S.Vicente	3,035	62	241	26	168	73	71	29	3,705	2.8%
Santana	4,250	69	342	36	127	108	108	19	5,058	3.9%
Machico	8,474	194	809	118	107	182	149	54	10,086	7.7%
Santa Cruz	17,470	286	1,641	253	154	258	195	103	20,360	15.6%
Porto Santo Island	3,787	80	406	45	19	68	90	65	4,560	
	83.0%	1.8%	8.9%	1.0%	0.4%	1.5%	2.0%	1.4%	100.0%	
Total RAM	112,716	2,155	13,596	1,053	1,142	1,704	2,244	736	135,347	
	83.3%	1.6%	10.0%	0.8%	0.8%	1.3%	1.7%	0.5%	100.0%	

In December 2009, the average number of clients connected to the electric network of RAM, reached 135,347, presenting an increase of nearly 0.9% comparing to 2008.

Consumption / Clients - Distribution by activity in RAM - 2009

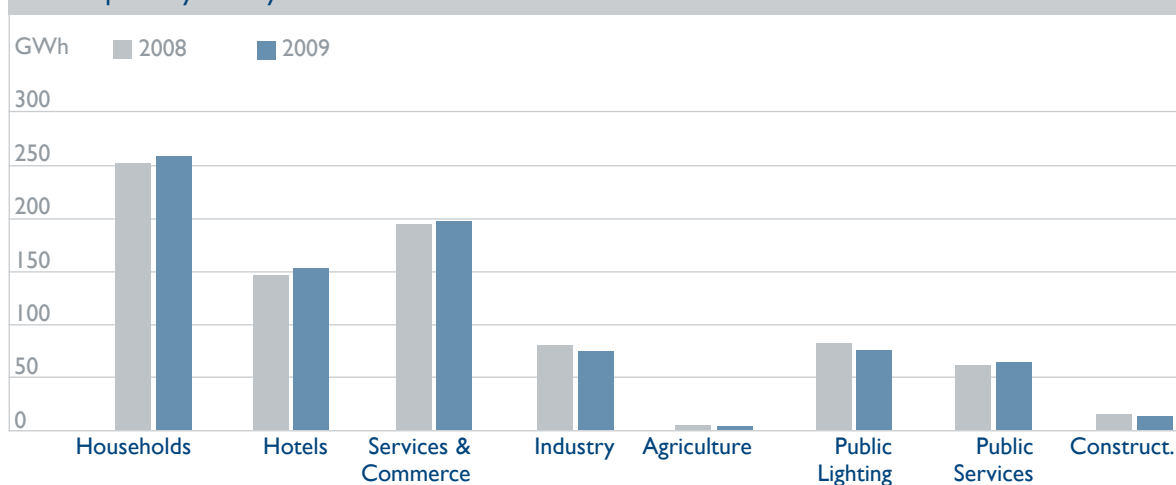
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client
Madeira Island	842.00	130,786	6.44	663.82	130,557	5.08	259.27	108,929	2.38
Funchal	425.31	56,485	7.53	316.94	56,373	5.62	110.53	45,612	2.42
Câm. Lobos	70.49	13,821	5.10	59.55	13,807	4.31	30.06	11,843	2.54
Rib. Brava	33.15	6,863	4.83	32.31	6,859	4.71	12.40	5,940	2.09
Ponta do Sol	22.21	4,904	4.53	19.99	4,900	4.08	8.92	4,242	2.10
Calheta	32.72	7,421	4.41	32.17	7,416	4.34	13.27	6,428	2.06
Porto Moniz	14.42	2,083	6.93	14.39	2,082	6.91	6.10	1,634	3.73
S.Vicente	19.07	3,705	5.15	16.27	3,699	4.40	5.87	3,035	1.94
Santana	23.53	5,058	4.65	20.13	5,048	3.99	8.15	4,250	1.92
Machico	69.38	10,086	6.88	51.82	10,052	5.15	22.31	8,474	2.63
Santa Cruz	131.72	20,360	6.47	100.26	20,321	4.93	41.66	17,470	2.38
Porto Santo Island	34.92	4,560	7.66	22.23	4,540	4.90	7.44	3,787	1.96
Total RAM	876.92	135,347	6.48	686.05	135,097	5.08	266.70	112,716	2.37

The average consumption per client ascended to 6.48 MWh/client. The highest consumption values were registered in the councils of Porto Santo, Funchal, Porto Moniz and Machico. The average consumption in the Households sector of the RAM reached the amount of 2.37 MWh, slightly higher to the previous year, being the highest values verified in the councils of Porto Moniz, Machico, Câmara de Lobos and Funchal.

A. Madeira Island

In Madeira Island, the consumption distribution by sectors is similar to the recent years. The Households consumption presented the highest percentage with 30.8%, followed by the Services and Commerce sectors with 23.7% and Hotels with 17.9%.

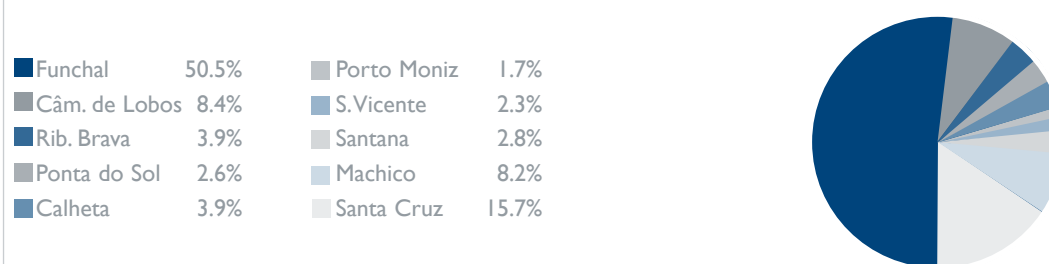
Consumption by activity in Madeira Island - 2008/2009



The council of Funchal with 43.2% of the total number of clients registered 50.5% of the total consumption, followed by the councils of Santa Cruz with 15.7%, Câmara de Lobos with 8.4% and Machico with 8.2%.

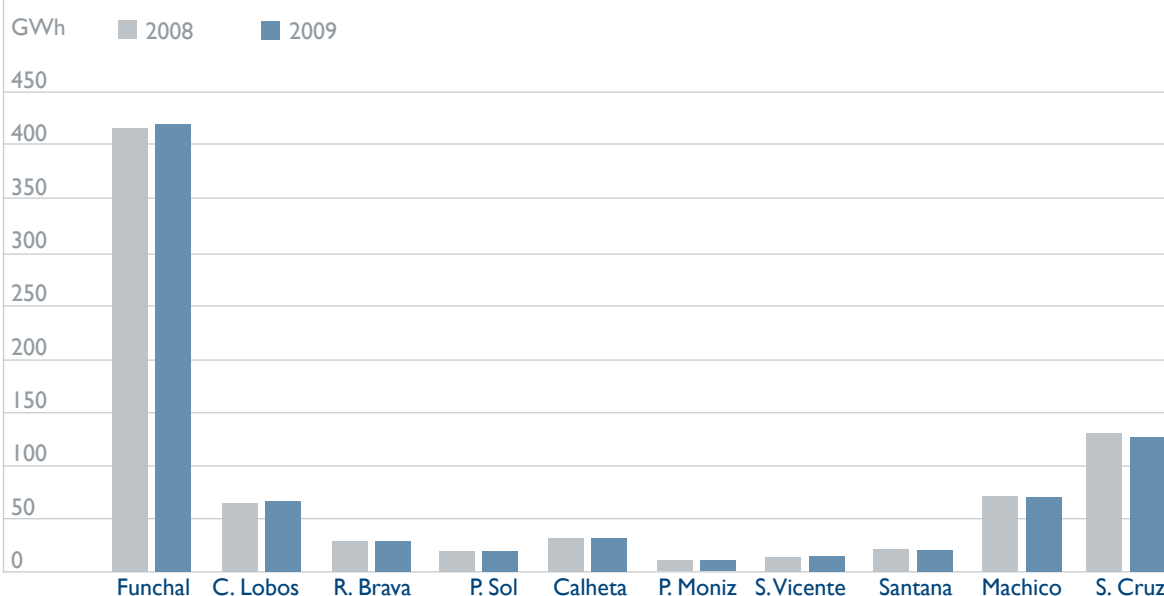
In terms of consumption evolution by sector, there was an increase of 2.2% in Households, 1.8% in Services and Commerce and 1.7% in Hotels. However, there was a decrease in consumption of 6.5% in Public Lighting, 5.1% in Industry and 1.9% in Construction, compared to the previous year.

Consumption in Madeira Island per council - 2009



The council that registered a larger dynamism in the consumption rate growth, in comparison to 2008, was São Vicente, with 11.4%.

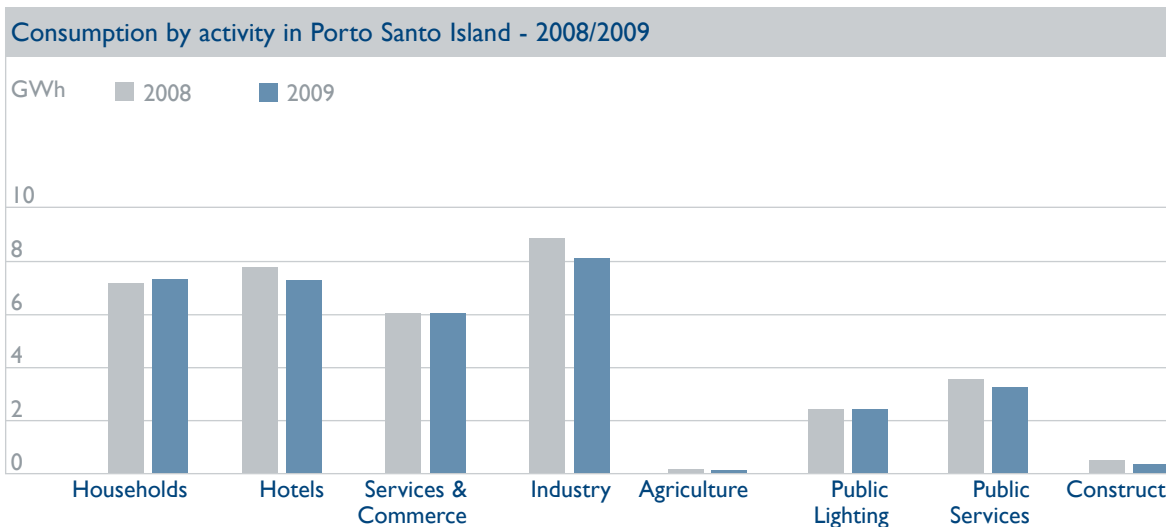
Consumption in Madeira Island per council - 2008/2009



In 2009, 1,150 new consumers were connected to the Madeira electric network, totalizing 130,786 clients (an increase of 0.9%), thus being 230 in the medium voltage level.

B. Porto Santo Island

The evolution rate, concerning electricity consumption in the Porto Santo Island, in 2009 compared to 2008, suffered a decrease of 4.8%, as a result of the economic activity slowdown.



The distribution of the main energy consumption by activities was: 22.7% in Industry, 21.3% in Households and 21.1% in Hotels.

In terms of consumption trends by sector, there was an increase of 1.4% in Households. Moreover, there was a decrease of 45.5% in Construction sector, 28.1% in Agriculture and 11.5% in Industry, compared to the previous year.

Concerning the new consumers, 84 were connected to the electric network, totaling 4,560 clients (an increase of 1.9%), from which 20 are in medium voltage. The medium and low voltage consumption reached 12.69 GWh and 22.23 GWh, with a distribution of 36.3% and 63.7%, respectively.

V. Service Quality

The Quality Service in RAM, is based and regulated by Regulation of the Quality Service (RQS) from ERSE, and it comprises essentially, the main following issues:

- Service Continuity;
- Voltage Wave Quality;
- Commercial Quality.

In this context, EEM has armed itself of the necessary resources to fulfil the regulation framework, being distinguished, the following initiatives, in 2009:

- Beginning of the unavailability registration process through the SGI (Non -Availability Management System), which will allow to determinate the Service Continuity Indicators levels;
- Commissioning of two new monitoring equipment for Voltage Wave Quality verification system in order to fulfil the monitoring plan established for 2009;
- Accomplishment of Customers satisfaction inquiries, aiming the general indicators of Customers evaluation and satisfaction.

The Quality Service has a specific report, published annually in April and available in EEM's website.

The Service Continuity Indicators of Transmission and Distribution in HV, MV, and LV networks of Madeira and Porto Santo islands, in 2009, are within the usual limits, translating a suitable level of the Service Continuity. Relatively to the Voltage Wave Quality measurements, the results fulfilled the conditions stipulated by the RQS. Regarding the Commercial Quality, EEM remains committed to a continuous improvement of human resources and technological procedures, aiming to establish itself as a benchmark in this area.

VI. Unspecified Investments

The investments realized in unspecified areas by EEM in 2009, amounted to 3,199 thousand Euros and can be presented as the accomplishment of studies, infrastructures of support and initiatives in information area systems.

VI.I - Studies

Concerning the generating power system, the studies were concluded in order to determinate the integration capacity of the renewable energies system, namely the wind energy, as well as, analysis of generation power system security.

VI.II - Infrastructures of Support

Some investments in the support infrastructures area were also undertaken, being detachable:

- Consolidation and stabilization of the slope of CTV I and II;
- Installation of AVAC equipments in the Headquarters building;
- Installation of an emergency group in the Headquarters building;
- Installation of adequate equipment, proper to be used in buildings and in functional areas of the warehouses and materials stores of Calheta, Machico and São Vicente.

VI.III - Information Systems

EEM continued to develop its IT Systems area, aiming essentially, the reorganization and modernization of the commercial and technical area, to improve the service to Customers as well as implementing changes in processes resulting from regulatory and legal charges. The following paragraphs summarize the main developments:

- **SAP**

Implementation of several improvements on the SAP system, namely:

- Improvement of estimated billing;
- Analysis of reading sequences;
- Changes resulting from tariff regulation;
- Several improvements on different business processes.

- **SIT - Technical Information System (Sistema de Informação Técnica)**

Continuation of the inventory works, regarding the electric grid and respective loading in the SIT database (SIT - Technical Information System), in a continuous updating of the existing data. This



system permit to fulfil the electricity system needs of design, planning and operation, providing a further support for SGI.

- **SGI – Non -Availability Management System (Sistema de Gestão de Indisponibilidades)**

EEM continued the implementation process of the SGI project, to provide the Company with a platform for management failures in the supply of energy to the Customers, thus implementing the legal compensation procedures in case of the supply unavailability. This system permitted, in 2009, the provision of better information service and resolution of failures, integrating various systems in the EEM.

- **SNC - System of Accounting Standards (Sistema de Normalização Contabilística)**

During 2009, through a statutory requirement it was necessary to implement a new accounting standards established by the SNC, with direct influence on all areas of business supported by ERP (SAP).

- **Platform for Electronic Procurement (Public Procurement)**

By statutory requirement, EEM has also implemented, in 2009, the necessary tools to the operation of electronic procurement platform.

VII. Human Resources

As at December 31st, 2009, EEM's staff was composed by 859 employees, thus being 820 as permanent staff and 39 under a short term contract.

Human Resources by functions					
	2005	2006	2007	2008	2009
Engineers	53	57	64	74	68
Others with university degree	21	24	28	29	36
Technical Engineers	10	10	9	11	9
Industrial Staff	515	514	467	450	459
Administrative Staff	242	236	273	262	256
Assistants	21	20	11	12	8
Employees under term contract	8	8	16	27	23
Total	870	869	868	865	859

From the 859 total employees, 811 rendered services in Madeira Island and the remaining 48 in Porto Santo Island.

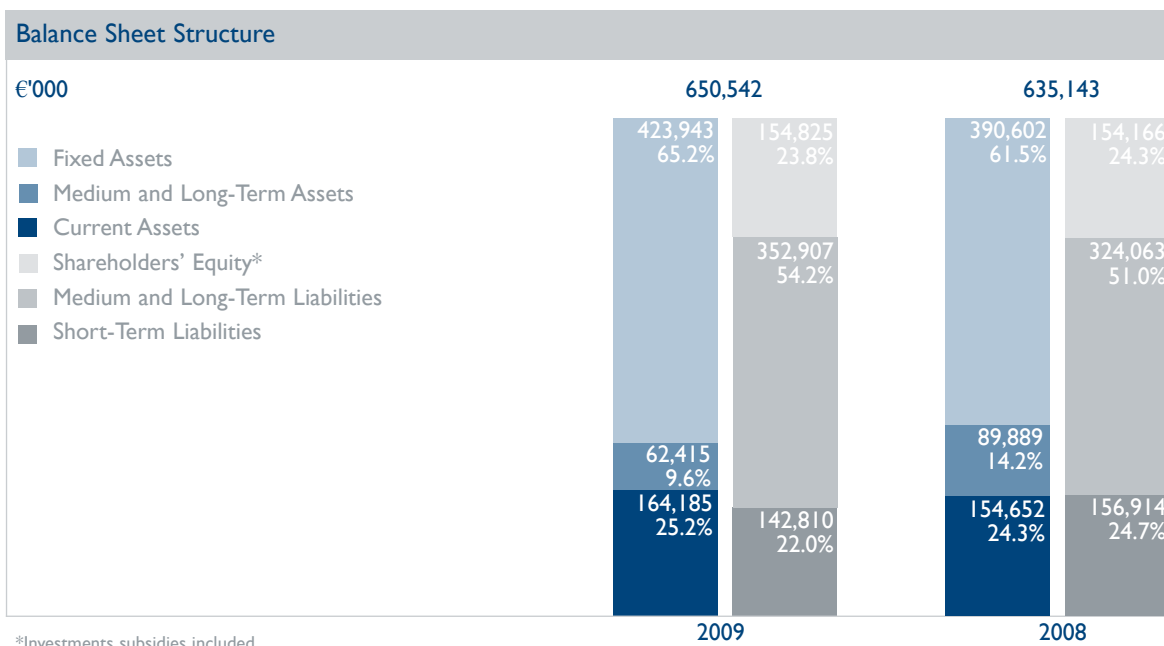
Professional training actions

During 2009, several training actions were accomplished, benefiting 269 employees in a total of 6,718 training hours, subdivided by 5,047 hours of external actions and 1,671 hours of internal actions.



Economic and Financial Information

I - Economic and Financial Information



Balance

In 2009, the EEM's Balance Sheet amounted to 650,542 thousand Euros, representing an increase of 2.4% compared to 2008.

Assets		
€'000	2009	2008
Gross assets	800,433	739,549
Accumulated depreciation and adjustments	376,490	348,947
Net assets	423,943	390,602

The net value of Fixed assets, represents approximately 65.2% of the Company's total Balance Sheet, amounting to 423,943 thousand Euros, presenting an increase of 8.5% comparatively to 2008.

As in previous years, the Autonomous Region of Madeira has once registered high levels of public and private investment. This fact associated with the efforts to materialize the options of the regional energy plan defined by the Vice-Presidency of the Government, has encouraged the Company to plan and execute various infrastructures in the areas of production, transmission and distribution allowing also, to increase the reliability, safety and quality of the entire regional electric system.

The investment plan of EEM in 2009 amounted to 57,848 thousand Euros, representing a decrease of 13.4% in comparison to 2008 (66,823 thousand Euros).

The investment plan in EEM's main activities was divided as follows:

• Production:	34,386 thousand Euros;
• Transmission:	7,548 thousand Euros;
• Distribution / Commercialization:	12,715 thousand Euros;
• Other activities:	3,199 thousand Euros.

Concerning the investment executed in the production area, it is important to highlight the investment of 27,275 thousand Euros, in the new thermoelectric power plant of Madeira Island, named CTV III, nearby located to the existing Vitória Thermal Power Plant (CTV I and II), which will include 3 dual-fuel thermoelectric power groups, with an installed power of 52 MW. During the current year were completed, the building, the substation, several common equipment, and the first of the three power groups. The amount invested in 2009 in this new thermal power plant represents approximately 49.0% of the total planned investment for this project and around 47.1% of the total investment of EEM in 2009.

In Vitória Thermal Power Plant (CTV I and II), huge interventions were performed in the power groups, including the replacement of important mechanical components, which allows to increase the useful life of the equipments, with inherent gains on reliability and security, in the amount of 3,136 thousand Euros.

In the production area it is also important to point out the beginning of exploitation of Loiral and Pedras wind plants, held by Enereem (subsidiary of EEM), with a total installed power of 15.3 MW, ascending the investment in 2009, to 1,629 thousand Euros. The total investment in these wind plants amounted to 20,871 thousand Euros.

In the transmission area, the main investments accomplished were in substations / switchgears, amounting to 3,563 thousand Euros and in the transmission network reaching to 2,608 thousand Euros. In substations / switchgears area, the main investments undertaken were the conclusion of the switchgear in Paúl da Serra (Bica da Cana), amounted to 795 thousand Euros, and the purchase of 5 power transformers, with a total value of 1,342 thousand Euros. Concerning the transmission network, it is important to highlight the construction of the line Pedra Mole - Paúl da Serra, investment that in 2009 reached 898 thousand Euros, as well as the works carried out in several underground lines amounting to 947 thousand Euros.

Concerning the distribution area, the investment plan undertaken by the Company essentially aims improvements in the existing lines and the construction of new Medium Voltage Lines, Transforming Posts and Low Voltage Network / Public Lighting that reached the amount of 4,885 thousand Euros, 1,863 thousand Euros and 4,206 thousand Euros respectively. Under the PPDA (Environmental Promotion Performance Plan), were also made various interventions in the Medium Voltage and Low Voltage lines, which together amounted to 477 thousand Euros. The investment in counting, measure and power control equipments of electric energy consumption reached 1,281 thousand Euros.

The investments carried out in other accomplishments include IT systems and communications, administrative equipment, buildings and others. In this area it is important to highlight the investment carried out by the Company in IT systems, amounting to 2,069 thousand Euros and in buildings (construction / renewal), ascending to 560 thousand Euros.

In 2009, the medium and long-term Assets, essentially composed by protocols and contracts with Official entities, reached 62,415 thousand Euros, representing a decrease of 27,474 thousand Euros in comparison to 2008. This very favorable evolution is largely explained by the payment of 23,611 thousand Euros related with the Contract of Tariffs Convergence for Electric Energy (1998-2002) signed in 2003 between the EEM, the Regional Government and the Central Government.

Long-Term Capital		
€'000	2009	2008
Shareholders' equity*		
Amount	154,825	154,166
%	30.5%	32.2%
Medium-and long-term liabilities		
Amount	352,907	324,063
%	69.5%	67.8%
Long-term capital		
Amount	507,732	478,229
%	100.0%	100.0%

*Investments subsidies included

The amount of long-term Capital, which represents 78.0% of the total Balance, ensures an adequate coverage of Company's fixed Assets.

EEM's Shareholders' Equity (including Investment Subsidies) presented a slight increase during 2009 reaching the amount of 154,825 thousand Euros. The Company's net Income ascended to 4,002 thousand Euros and the balance of the Investments Subsidies decreased 3,371 thousand Euros.

The medium and long-term Liabilities presented an increase of 9.0% comparatively to the previous year. This increase is in most part explained by the drawdown of the 2nd instalment of the long-term loan conceded by European Investment Bank (EIB) to EEM in the amount of 25,000 thousand Euros, with a 15 years maturity.

Working Capital		
€'000	2009	2008
Current assets	164,185	154,652
Current liabilities	142,810	156,914
Working capital	21,375	(2,262)

The Current assets ascended to 164,185 thousand Euros (2008: 154,652 thousand Euros) registering an increase of 9,533 thousand Euros, essentially due to the raise of the amounts to be received referred to the Tariff Compensation that increased from 44,711 thousand Euros in 2008 to 51,794 thousand Euros in 2009. This raise in compensation receivable amounts is almost exclusively due to the fact that the EEM has not yet received 24,173 thousand Euros referred to the Tariff Convergence of 2009 (corresponding to the value of economic and financial balance paid by hydroelectric power plants as write down in Article 92 of the Decree-Law No. 226-A/2007 which was assigned to the Tariff Convergence between the Autonomous Regions and the Continent by Deliberation of the Minister of Economy and Innovation on October 3, 2008) and to the significant decrease in fuel prices during this year, when compared with the forecasts fixed by tariffs for 2009.

In 2009, the short-term Liabilities ascended to 142,810 thousand Euros, reflecting a decrease of 14,104 thousand Euros in relation to 2008. This variation is mainly explained by the reduction of debts to credit institutions, which had been incurred in 2008, with the purpose to replaced the 2nd instalment of the long-term loan conceded by European Investment Bank (EIB) to EEM to finance the investment plan, in the amount of 25,000 thousand Euros, that was only drawdown at the beginning of 2009.

Profit and Loss Account

Profits

Operating Revenues					
€'000	2009	%	2008	% Change %	
Sales	152,292	83.7%	171,218	83.6%	(11.1%)
Work on own account	21,274	11.7%	21,834	10.7%	(2.6%)
Other revenues	8,340	4.6%	11,683	5.7%	(28.6%)
Total	181,906	100.0%	204,735	100.0%	(11.2%)

The balance Sales ascended to 152,292 thousand Euros, including 35,504 thousand Euros related with Tariff Compensation derived from the application of tariff regulation. The total Sales also include the amount of 622 thousand Euros related to the Consumption Efficiency Promotion Plan.

The energy Sales in the Autonomous Region of Madeira ascended to 116,166 thousand Euros (2008: 110,353 thousand Euros), representing a 5.3% increase. This increase results, due to the raise of average tariffs by 5.2%, since the consumption grew only 0.1%.

The investments executed by EEM through works on its own account amounted to 21,274 thousand Euros, representing a decrease of (2.6%) in relation to 2008, (21,834 thousand Euros).

The balance Other revenues reached 8,340 thousand Euros, decreasing 3,343 thousand Euros in comparison to the previous year. This decrease is mainly explained from the reduction of exploitation subsidies related with the valuation of CO2 licenses, free of charges, attributed to EEM in accordance with PNALE II.

Costs

Operating Costs					
€'000	2009	%	2008	% Change %	
Cost of sales - Materials	9,708	5.7%	12,477	6.5%	(22.2%)
Cost of sales - Raw material	63,477	37.1%	89,209	46.5%	(28.8%)
Services rendered by third parties	16,586	9.7%	14,508	7.6%	14.3%
Staff costs	35,141	20.5%	33,803	17.6%	4.0%
Depreciations and adjustments	28,695	16.7%	24,974	13.0%	14.9%
Provisions	3,058	1.8%	-	-	N/A
Others	14,603	8.5%	16,917	8.8%	(13.7%)
Total operating costs	171,268	100.0%	191,888	100.0%	(10.7%)
Work on own account	21,274		21,834		(2.6%)
Operating costs	149,994		170,054		(11.8%)

The total Operating Costs ascended to 171,268 thousand Euros, representing a decrease of 10.7% comparatively to 2008. This reduction of 20,620 thousand Euros, is mainly explained by the reasons mentioned in the following paragraphs.

The consumption of materials presented a decrease of 2,769 thousand Euros, of which 86.2% resulting in a lower incorporation of such materials in works on its own account executed by EEM.

The cost of raw materials, which includes fuel and electric energy acquired to third parties, ascended to 63,477 thousand Euros, decreasing 28.8% comparatively to the previous year. The fuel cost decreased approximately 34.8% as a result of the decrease in quantity consumed and fall prices verified in international primary market that in case of EEM, explain a 25.5% decline.

It is important to highlight that the decrease in the quantity of fuel consumed, was due to a significant increase in production of energy from endogenous sources, which led to a change in the production mix, both EEM (Group) as the energy acquired from third parties, since the penetration of renewable energy in RAM exceeded the goal of 22.0%.

As a result of excellent performance and planning of the renewable energy, with increases of 56 GWh and 18 GWh in electricity production from hydroelectric plants (very favorable hydro year) and wind plants (entry into operation of the new Loiral and Pedras wind plants), respectively, the thermal production of EEM decreased 78 GWh in 2009, representing a decline of 12.0% over the previous year.

EEM Group Production				
GWh	2009	%	2008	%
Hydro	135.49	18.4%	79.60	10.7%
Wind plants	27.87	3.8%	9.76	1.3%
Thermal	574.96	77.8%	652.94	88.0%
Total	738.32	100.0%	742.30	100.0%

In 2009, the cost of energy acquired to third parties registered a decrease of 15.6% (4,329 thousand Euros less in comparison to 2008). Such decrease can be explained by a slight quantity increase of 0.5% (1.3 GWh) compared with 2008 and also by a different energy acquisition mix, namely: a reduction on the acquisitions to the Thermal Power Plant of Caniçal (-4.2 GWh comparing to 2008) and a growth (+5.5 GWh) on the acquisitions to the remaining renewable energy producers.

Electric energy acquisition				
GWh	2009	%	2008	%
Hydro	4.65	1.9%	4.10	1.7%
Wind plants	10.86	4.5%	5.50	2.3%
Thermal	188.60	78.3%	192.81	80.5%
Waste incineration	36.51	15.2%	37.22	15.5%
Photovoltaic	0.29	0.1%	-	-
Total	240.91	100.0%	239.63	100.0%

The balance Services rendered by third parties presents a total increase of 14.3% as a result of increased allocation of this balance to works on its own account.

It is important to refer that in 2009, 59.3% of Services rendered by third parties related to works on its own account and 40.7% to operating costs.

The Staff costs presented an increase of 4.0% in relation to the previous year. This growth is mainly due to salaries increase (in line with the increases in the sector) and career progressions in accordance with the Company Agreement.

The balance depreciations and adjustments registering an overall increase of 3,721 thousand Euros, of which 3,107 thousand Euros resulting from increases in depreciations and 614 thousand Euros refers to adjustments from clients of doubtful debts.

In 2009, EEM charged a provision of 3,058 thousand Euros for risks associated with the regulatory framework for the transmission, distribution and commercialization activities of electric energy.

The balance other operating Costs ascended to 14,603 thousand Euros, being mainly related with the costs of CO2 licenses in the amount of 5,900 thousand Euros, and with the Municipal network tax that amounted to 7,305 thousand Euros. The Municipal network tax was fixed in 7.5% of the yearly low tension levels sales amount (including Public Lighting) registered in each Municipality of Autonomous Region of Madeira.

Financial / Extraordinary Income

Financial / Extraordinary Income				
€'000	2009	2008	Change	Change %
Financial income	(9,713)	(13,264)	3,551	26.8%
Extraordinary income	4,255	5,049	(794)	(15.7%)

The financial Income showed a significant relief of about 26.8% comparatively to the previous year, resulting from the sudden fall of the reference rates (EURIBOR), which occur from the last quarter of 2008 and throughout the year of 2009, which provokes that the annual average rates in all periods of reference, were significantly lower than those recorded in the previous year.

The balance extraordinary Income decreased 15.7%. The main reason for this reduction is a loss accounted, under the balance extraordinary costs derived from the sale of CO2 licenses in the amount of 402 thousand Euros, due to application of the technical statement “Interpretação Técnica n.º4”.

In fact the net of purchases and sales of CO2 licenses generated a profit of 41 thousand Euros, as explained in detail in point 3 of this report.

The balance extraordinary Income, also includes the recognition of the investment subsidies (2009: 4,516 thousand Euros; 2008: 4,732 thousand Euros), which decreased by 4.5%, as a result of some of these subsidies have reached the end of its amortization period.

Net Cash Flow

In 2009, the net cash flow presented an increase of 24.4% comparatively to 2008, benefiting from an improved operational performance of EEM, as well as the significant relief of financial income, as previously mentioned.

Net Cash Flow					
€'000	2009	%	2008	% Change %	
Net income	4,002	11.2%	3,760	13.1%	6.4%
Depreciations and adjustments	28,695	80.3%	24,974	86.9%	14.9%
Provisions	3,058	8.5%	-	-	N/A
Total	35,755	100.0%	28,734	100.0%	24.4%

EEM's Contributions to the State

In 2009, the Company and its workers contributed directly with 15,661 thousand Euros to the Portuguese State, being in line with the previous year, presented as follows:

EEM's Contributions for the State				
€'000	2009	%	2008	% Change %
Company:				
Corporate income tax	1,166		953	22.3%
Other tax	1,740		3,111	(44.1%)
Social security costs	5,861		5,457	7.4%
	8,767	56.0%	9,522	60.3%
Staff:				
Personal income tax	4,180		3,750	11.5%
Social security costs	2,714		2,527	7.4%
	6,894	44.0%	6,277	39.7%
Total	15,661		15,799	(0.9%)

The balance Other tax registered an decrease of 44.1% explained by the fact that in 2008 were reflected payments made to the Portuguese State, amounting to 2,166 thousand Euros, for the regularization of Industrial Installations Tax. The payments of this tax in 2009 amounted to 173 thousand Euros.

Gross Added Value

Gross added value reached 83,745 thousand Euros, an increase of 4.0% in relation to the previous year.

Economic and Financial Indicators

Economic Structure		
€'000	2009	2008
Net income	4,002	3.760
Sales and services provided	152,625	171.441
Net cash flow	35,754	28.734
Depreciations and adjustments	28,695	24.974
Financial expenses	14,756	17.172
Staff costs	35,141	33.803
Gross value added	83,745	80.555
N° of employees	867	866
Staff productivity	97	93
Average costs per employee	41	39
Financial expenses in gross value added	0.18	0.21
Staff costs in gross value added	0.42	0.42
Depreciations and adjustments in cash flow	0.80	0.87
Return on Equity	2.6%	2.4%
Net income / Power energy sales and services provided	2.6%	2.2%

Financial Structure		
€'000	2009	2008
Current assets	164,185	154,652
Medium-and long-term assets	62,415	89,889
Fixed assets	423,943	390,602
Total assets	650,542	635,143
Short-term liabilities	142,811	156,913
Medium-and long-term liabilities	352,907	324,063
Total liabilities	495,718	480,977
Bank debts	379,860	359,906
Shareholders' equity*	154,825	154,166
Long-term capital	507,732	478,229
Working capital	21,375	(2,262)
Shareholders' equity / Fixed assets	0.37	0.39
Long-term capital / Fixed assets	1.20	1.22
Indebtedness - (Total liabilities / Total assets)	0.76	0.76
Shareholders' equity / Total assets	0.24	0.24
Medium-and long-term liabilities / Long-term capital	0.70	0.68
Solvency - (Total assets / Total liabilities)	1.31	1.32
Liquidity - (Current assets / Short-term liabilities)	1.15	0.99

*Investments subsidies included

2 - Proposed Appropriation of Net Income

In accordance with the article 19 of EEM's Statutes, the Board of Directors proposes the following application of 2009 Company's net Income, amounting to 4,002 thousand Euros:

Statutory Reserve	400 thousand Euros
Retained Earnings	3,602 thousand Euros

3 - Environment

Introduction

The EEM Group has been developing its activity in a sustainable way, engaging the accomplishment of legal and state requirements concerning environmental matters, adopting non pollution prevention procedures and continually improving its environmental performance.

This is our policy, established in the Environmental Managing System, in its implementation stage, throughout EEM Group, as we assume the environment as a fundamental value that cannot be dissociated of our activity.

EEM Group, as a fundamental agent and base support of the regional energetic policies, has been accomplishing several investments, according to the Regional Energetic Plan orientations, whose strategy is based and supported on economic and environmental sustainability, security of supply by renewable energies, the combat against climate changes, promoting competitiveness in the local economy and creating employment.

During 2009, the projects initiated on the previous year were continued, new environmental challenges were carried out and the costs to prevent, reduce and repair eventual environmental damages reached 2,969 thousand Euros, shared between the following areas:

Environment			
€'000	Investment	Exploitation Costs	Global
Air and climate protection	108	363	471
Residual waters management	150	1	151
Waste management	3	194	197
Noise and vibrations reduction	3	0	3
Soils, underground and superficial waters protection	0	176	176
Biodiversity and landscapes protection	532	5	537
Others environmental protection activities	1,058	375	1,434
Total	1,854	1,115	2,969

The costs concerning environmental activities increased 11.3% (2008: 1,666 thousand Euros), although the exploitation costs remained in line with the previous year.

Accomplished activities

Production

• Enlargement of Vitória Thermal Power Plant – CTV III

The enlargement of Vitória Thermal Power Plant, named CTV III, that comprehends the installation of 3 dual-fuel groups of 17 MW, integrated in a plan to introduce natural gas in Madeira Island, as well as a steam turbine, to utilize the heat emitted by the new generating power units, turning into a combined cycle, in order to improve global efficiency and decrease the environmental and economical impact of CO₂ gas emissions.

The CTV III conception considered the new environmental demands, intending to assure that all construction and exploitation activities of this new building in Vitória Thermal Power Plant shall not cause any environmental unsustainable consequences, neither a risk to public security and health.

The environmental benefits of this project and the future introduction of natural gas in power generation, besides ensuring a more reliable guarantee of energy power supply, allows to reduce substantially atmospheric emissions, dangerous waste, polluted cargo in residual waters, as well as noise emissions. In spite of the fuel oil in the CTV III's generating groups, while natural gas is not available, the technological benefits power units and support systems will enable a substantial reduction of environmental pressure.

It's also important to refer that the environmental subject is one of the main requests of the investment, being CTV III endowed with the best available technologies (MTD), fulfilling the requests of environmental quality, regarding emissions levels, according with the national and communitarian legislation.

In 2009, the building, the substation and the power plant common equipments were concluded, being installed the first generating power unit.

• European Emission Licenses Commercialization

EEM is the owner of 2 plants under the European Emission Licenses Commercialization: Vitória Thermal Power Plant (with the "TE GEE.RAM 076.03 II Over Heating Gas Emissions Security") and Porto Santo Thermal Power Plant (with the "TE GEE.RAM 075.03 II Over Heating Gas Emissions Security").

During 2009, EEM released into atmosphere a total of 402,980 tons of CO₂, resulting in an excess of 174,439 emission licenses of CO₂, concerning the licenses already attributed (577,419 licenses/year for the 2008/2012 period, according to PNALE II).

The EEM's "Accounting reports", through the balance Other operational costs, reported 5,900 thousand Euros referred to the emission evaluation registered in 2009, of which licenses were

already endowed by EEM, corresponding to the total of licenses attributed by the “Instituto do Ambiente” (IA), in 2009.

In the balance Exploitation subsidies, 7,918 thousand Euros were included, concerning the valuation of consumed and sold licenses, occurred in 2009, attributed by IA.

The attributed licenses for 2009 were valued by the Bluenext quotation, of 2 January 2009, reaching 14.64 Euros/license, being 33,510 licenses transferred from 2008, valued 20.71 Euros/license. In short, during 2009, EEM sold a total of 124,000 licenses, attaining 2,019 thousand Euros (33,510 licenses transited from 2008 and 90,490 attributed in 2009).

In the balance extraordinary costs, 402 thousand Euros are accounted, referring to losses obtained in market operations with CO₂ licenses along the year. This loss is correspondent to the difference between the total licenses selling value and its accounting amount (Intangible Assets). The 124,000 licenses were traded by a total amount of 1,617 thousand Euros, reaching its accounting value up to 2,019 thousand Euros.

EEM was also charged, with licenses management costs and commissions for the accomplished transactions in a global amount of 43 thousand Euros, registered in Services rendered by third parties.

According to the accounting balances along the year, 7,129 thousand Euros were included in the balance Intangible assets, on debt and in the balance Other debtors, on credit, referring to the 2009 emission licenses, to be returned during 2010, to the environmental institute “Instituto do Ambiente” (5,900 thousand Euros), as well as the licenses transition to 2010 (1,229 thousand Euros).

Regarding the transited licenses to 2010 (83,949 licenses), they obey the limit settled by ERSE, as they are inferior 30.0% of the permitted excess (difference between the licenses number attributed and consumed in 2009). Once accomplished this purpose, the total effects are exactly the ICO₂ value (incentive to an efficient management of CO₂ licenses), corresponding to the half difference between the selling price and the medium quotation from the previous and subsequent 15 days of the selling date, having reached 41 thousand Euros, in 2009.

The total trade amount was deduced from allowed incomes, as the licenses attribution where free of charges, being accepted all management costs and transactions.

The accounting balances (transactions and emissions) of CO₂ licenses in 2009 are presented as follows:

CO ₂ impact in EEM's incomes	
€'000	2009
Direct effect:	
Direct sales	1,617
Commissions	(43)
	1,574
Permitted incomes effect:	
Direct sales	(1,617)
Direct sales (ICO ₂)	41
Commissions	43
	(1,533)
Total	41

According to EEM's accounting policies (Annual Report), the emission licenses registration was based on the technical statement: "Interpretação Técnica n.º 4".

- **Action Plan to minimize Environmental Impacts integrated in the Pollution Prevention and Control**

In 2009, the environmental license certification process of the Vitória Thermal Power Plant (CTV I and CTV II) was concluded, under the Decree Law n.º 173/2008, of 21st August, which approved the framework for integrated pollution prevention and control, being issued by the "Direcção Regional do Ambiente", the Environmental License n.º 02/2009 DRAmb, in 28th December, valid until December 2019.

Energetic Efficiency Promotion Plan for the electric consumption

The Consumption Efficiency Promotion Plan (PPEC), project approved by the Energy Services Regulatory Authority (ERSE) has as main goals the reduction of electric consumption, as well as to promote energetic efficiency. PPEC consisted, mostly, on a promotion campaign of lower consumption lamps, for the household sector, by replacing the incandescent ones and also to change 50,000 iron magnetic ballasts for electronic one's, associated to lamps T8, in commerce and services sector, including hotels.

The implementation of this campaign, which generated energetic, economic and environmental benefits, for the participating consumers, as well as for EEM, and certainly to Autonomous Region of Madeira (RAM), was carried out through the following phases:

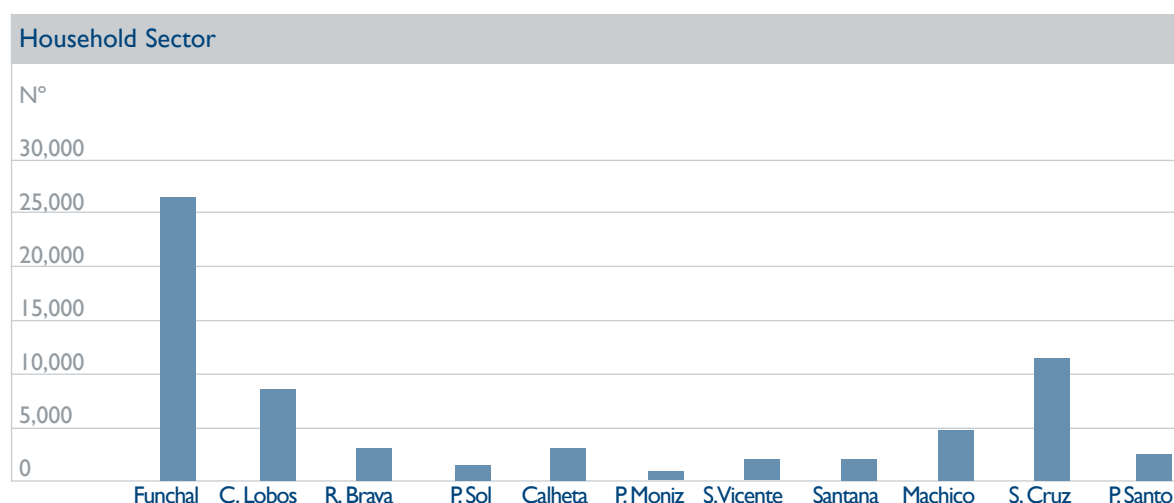
- Promotion and awareness;
 - Commercialization software adjustments;
 - Training actions for EEM's staff;
 - Distribution of efficient lower consumption lamps;
 - Monitoring of the campaign.
- **Campaign for the replacing of incandescent lamps for compact fluorescent lamps in Households**

Till the 31st December 2009, the accession by consumers was significant, with the distribution, in all Region (RAM), 65,104 lamps by 6,945 clients, representing an average of 9 lamps/consumer.

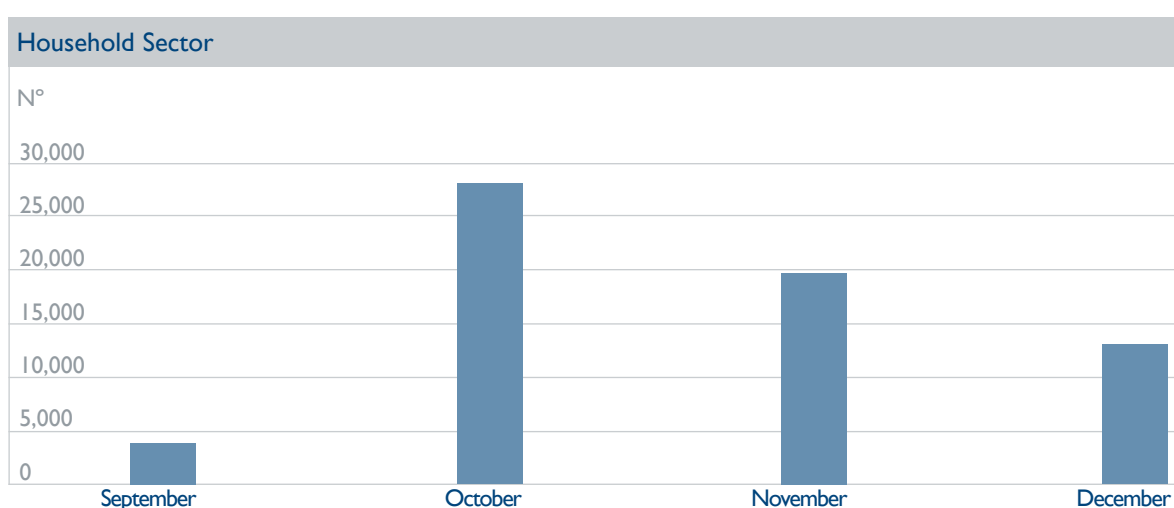
Knowing that 250,000 units were available for the households sector, it can be inferred that the accomplished rate, between September and December reached 26.0% of the total plan.



Electric lamps distributed by council, between September and December 2009



Electric lamps distributed between September and December 2009

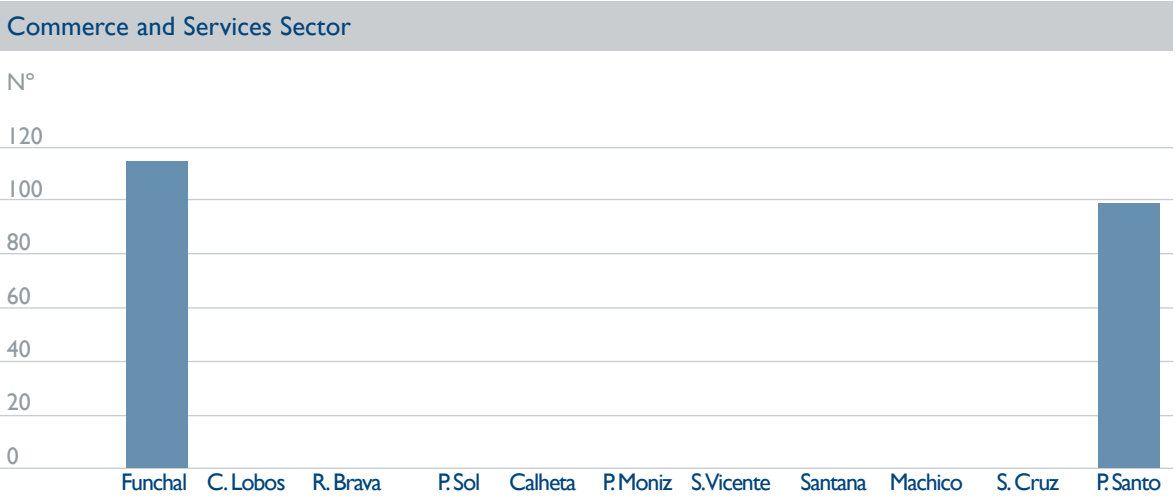


- **Campaign for the replacing of iron magnetic ballasts for electronic ones in fluorescent-lighting**

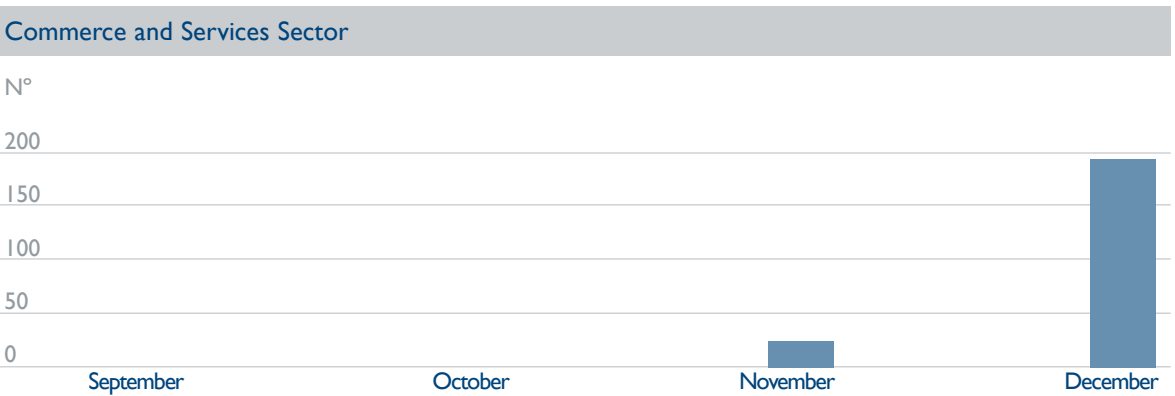
By 31st December, 13 clients of commerce and services pre adhere to this campaign, totalizing 1,607 ballasts, with an average of 124 ballasts per adhesion. From this total amount, 222 ballasts were contracted by 5 adherent clients, meaning an average of 44 ballasts per client. The remaining ones, are still waiting for its validation by IFDR or for the respective contract.

Taking in account the available ballasts by the campaign for the commerce and services sector ascend to 50,000 units, we can conclude that the rate of required ballasts for the period between September and December 2009, was circa 3.2% of the total plan. New initiatives are being developed to disseminate and aware the sector to adhere by enhancing the benefits of this procedure.

Ballasts distributed by council, between September and December 2009



Ballasts distributed between September and December 2009



Environmental Promotion Performance Plan – voluntary procedures

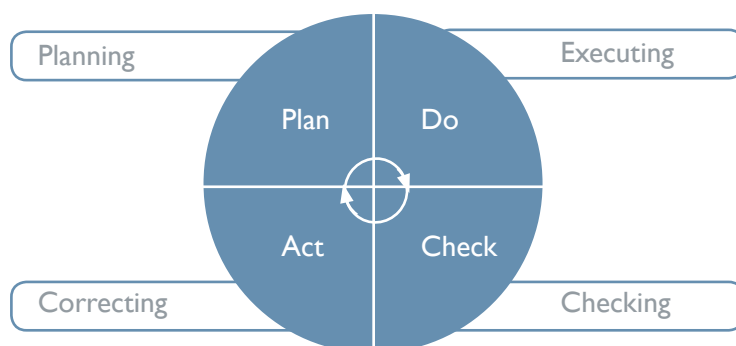
In 2009, the Environmental Promotion Performance Plan (PPDA) was initiated and refers to the triennial 2009-2011, approved by Energy Services Regulatory Authority (ERSE). In this context, the main accomplished activities in 2009 were as follows:

- **Implementation of an Environmental Management System in EEM**

The Environmental Management System (EMS) to be implemented in EEM, responds to the growing need to provide actual and systematized information and also efficient methodologies to identify environmental problems, to establish priorities in actions, as well as to optimize available resources, developing actions in order to minimize the environmental negative impacts, endowing EEM with a fundamental management tool to promote a continuous and distinct improvement, towards environmental performance.

The implementation of EMS consists in several stages, having in account the specifications of EEM's services as well as the necessary demands to be fulfilled, being the settled methodology for this system implementation based on the Deming scheme (or the PDCA – Plan, Do, Check, Act), presented as follows:

Deming Model (PDCA)



In 2009, EEM accomplished the following steps of the implementation plan:

Implementation Phases of Environmental Management System (EMS) achieved in 2009

2. Concept and Planning	1.1. Diagnoses Report
	2.1. Matrix of Environmental aspects 2.2. EMS Implementation Operational Plan 2.2.1. Definition of objectives and targets of the Environmental Management System 2.2.2. EMS Organizational and documental Structure 2.2.3. List of main activities to develop 2.2.4. Identification of the responsible persons for developing the activities 2.2.5. Stated period of activity execution 2.2.6. Control and Corrective Mechanisms
3. Implementation	3.1. EMS manual 3.2. EMS procedures 3.3. EMS form models and printed layouts 3.4. EMS training and awareness programs 3.5. EMS documents control plan 3.6. EMS audit plan 3.7. EMS program 3.8. Emergency plan 3.9. Monitoring and measurement plan

These phases were fulfilled according to the foreseen chronogram, as follows:

SGA Implementation chronogram for the triennial 2009-2011

[illegible]

- **MV (medium voltage) electric lines network impact, towards some endangered of bird-fauna**

With this procedure, we intend to evaluate impacts of MV (medium voltage) electric lines in Paúl da Serra and Caniçal, on bird-fauna, namely, “Galinholo Scolopax rusticola”, “Roque-de-castro Oceanodroma castro” and “Alma-negra Bulweria bulwerii”, and to present corrective procedures, in order to reduce the number of incidents with these specimens.

During 2009, the following actions were undertaken:

- Prospection of 30 kV overhead lines in an extension of 7,610 m and in 1,790 m of a 6.6 kV overhead line in Paúl da Serra;
- Prospection of 1,820 m in Caniçal overhead line;
- Census actions regarding the “Galinholas *Scolopax rusticola*” in Paúl da Serra, ranging 14 squares (with 2 km side);
- Night listening of “Roque-de-Castro”, along 19 sound locators points.

- **Diagnosis and minimization of the public lighting impact in marine bird-fauna.**

In Madeira Island, 5 marine bird-fauna specimens nidificate, presenting different points of preservation, that are being affected by the public lighting. Of which, we have to point out the “Cagarra Calonectris diomedea borealis” and the “Patagarro Puffinus puffinus”, registering a great number of incidents with these specimens and in less quantity, but also in a problematical situation, the “Alma-negra Bulweria bulwerii”, the “Pintainho Puffinus assimilis” and the “Roque-de-Castro Oceanodroma Castro”.

Concerning this procedure, in 2009, several activities were fulfilled, compilation and analysis of registered incidents with birds, bird watching and census to marine bird-fauna in 22 localities of Madeira Archipelago (Caniçal, Machico, Santa Cruz, Caniço, Funchal, Câmara de Lobos, Ribeira Brava, Lugar de Baixo, Ponta do Sol, Madalena do Mar, Calheta, Jardim do Mar, Paúl do Mar, Porto Moniz, Ribeira da Janela, Seixal, São Vicente, Ponta Delgada, São Jorge, Faial, Porto da Cruz and Porto Santo), in order to identify lighting pollution sources.

- **Interactive simulator of electromagnetic fields for the transmission and distribution electric network lines**

The simulator consists of software, which enables the analysis and simulation of electric and magnetic fields in HV (high voltage) distribution overhead line networks. The user has the possibility to configure different electric line types with several conditions to determinate the resulting electric and magnetic fields. It is also possible to visualize graphically this distribution of the fields in a predefined plan/angle.

This tool allows the improvement for new electric lines projects and simultaneously the quality of information to consumers, either through the presentation of solutions for typical situations, or by the direct simulation of specific cases.

The application of this software is differed in four principal stages, each one integrated in a module.

In 2009, during the phase 1, a bibliographical search was undertaken and several data were analyzed. In phase 2, the following accomplishments were achieved: program structure definition, development of numeric processors and implementation of a Graphic Interface. Finally, during phase 3, applications were analyzed and tested, and elaborated a final report.

- **Landscape integration of the LV (low voltage) and MV (medium voltage) overhead line networks**

The quality of landscape and environment consists of a fundamental criterion to approach the concept of sustainable development of regions, being its trade-mark, of regions and their entities it is with the EEM Group. In the case of Autonomous Region of Madeira (RAM), the concern with the environment is notorious, as it is a high quality touristic resort, which needs to be preserved and treasured.

However, there are several situations with overhead line networks that in spite of being in reasonable/ good technical conditions need intervention by environmental demands, namely in regarding landscape integration.

• Landscape integration of LV (lower voltage) overhead line networks

The interventions achieved in 2009, were mostly regarding the changing of overhead lines into underground lines (through the use of the existent ducts or by the launching of new ones and installation of distribution boxes), with or without substitution of public lighting luminaries and the requalification of the affected places by implementation/dismantled of electric network equipment, in order to maintain the usual features of the surrounding area.

Therefore, in 2009, the underground network was enlarged in 4.17 km and 3.66 km of overhead electric lines were disconnected, as well as 85 electric lighting luminaries were substituted.

• Landscape integration of MV (medium voltage) overhead line networks

The accomplished interventions in 2009, consisted, mostly, in the transformation of MV (medium voltage) overhead line networks into underground ones (through use of existent ducts or by the launching of new stretches), in the dismantling and substituting of MV (medium voltage) overhead line networks, in the requalification of the affected places by the dismantled electric networks equipments, in order to maintain features of the surroundings. The foreseen activities were achieved.

Beside the four programmed activities for 2009, EEM has also fulfilled, beforehand, some parts (the installing of underground line network) other two undertaken activities (one foreseen for 2010 and other for 2011), provided by other public entities interventions in those areas.

Therefore, in 2009, 3.37 km of a new underground line network were launched and 3.52 km overhead line network removed.

Costs distribution by activities during 2009

Following we present, the distribution costs by actions in PPDA, during 2009, in a total amount of 620,704 thousand Euros, as follows:

Expended PPDA costs during 2009 exercise per measure	
€'000	Total Expended
1 - Implementation of an Environmental Management System in EEM	56,321
2 - Medium voltage electric lines network impact, towards some endangered bird-fauna	37,033
3 - Diagnosis and minimization of the electric lines network impact in marine bird-fauna	15,846
4 - Interactive simulator of electromagnetic fields for the transmission and distribution electric network lines	34,336
5 - CEM Project (Partnership with REN, FFUL and EDA)	0
6 - Landscape integration of LV (low voltage) overhead line networks	244,667
7 - Landscape integration of MV (medium voltage) overhead line networks	232,501
Total	620,704



Investments permitting environmental benefits

EEM Group has implemented, according to the Regional Energetic Plan, a developing strategy for the electric sector, base upon sustainability, having as main goal a strong stake in renewable energies promotion, the use of less polluted petroleum derivates and a rational use of electric energy.

Therefore, it is opportune to remember that the Autonomous Region of Madeira (RAM), as similarly to other small islands, is endowed with an isolated electric system, with no possibility of connection with others grids, generating and consuming centres, situation that strongly limits renewable energy penetration.

In spite of the mentioned constraints, the Region motivated for a future with better and greater energy and according to the European Community directives intending to assure, till 2020, the accomplishment of the “three twenties” rule, has been overtaking these challenges, step by step, planning and implementing suitable projects in several parts of the electric sector, namely concerning hydro/wind power plants, through a new exploitation philosophy of the existent hydroelectric power plants, that are being changed into reversible operation through pumping, assuring a larger wind penetration.

As a result of the renewable energies infra-structures built, undertaken mostly by the EEM Group, Madeira Island, in 2009, has already produced sufficient green energy to assure circa 81.0% of the needs in households consumption sector (assuring more than 100.0%, in 2013), avoiding, simultaneously, the annual emission of 149.2 thousand tons CO₂ and the import of 48.4 thousand tons of fuel oil.

In this matter, it is important to point out that, the renewable energy contribution in 2009, for RAM reached 22.4% (in Madeira Island 22.2%), anticipating in a year, the foreseen goal of 22.0% for 2010. It is leading this way, duly planned, that the Region will be able, in 2016/2017, with all assurance, reach the “target” of 30.0% of electric energy production through renewable sources.

So, it is perfectly clear, that the EEM Group has been implementing a development strategy, which contributes to assure the regional electric system sustainability and simultaneously to accomplish at the mean time environmental good practices, as recommended and established by European Community.

For the future, EEM Group is already undertaking several diversified investments, to be pointed out by their dimension in economical or financial impacts, the introduction in Madeira Island of natural gas and also the marine bio-fuel in Porto Santo Island, which are resumed as following.

• **Hydroelectric Energy – Ampliation of Calheta Hydroelectric Power Plant renewal**

The project consists in the enlargement of the actual Calheta Hydroelectric Power Plant renewal and its transformation into a continuous reversible system, through storage reservoirs and water pumping. For that matter, it is foreseen the building of a dam in Alecrim Riverside, near Pico da Urze, to create a storage lagoon that conjointly with the night pumping, will enable a water regularization to enlarge the power capacity of Paúl da Serra.

The optimization of endogenous resources, in which the association hydro/wind is integrated, particularly in this project, will permit EEM to be endowed with 30 MW of hydro generating power, to assure the peak load covering and to integrate 25 MW of wind power, resulting in a renewable increase of 90 GWh, in an average year, avoiding the emission of 49.377 tons of CO₂. Additionally, the large capacity of the future storage reservoir lagoon in Paúl da Serra (1,000,000 m³), will enable management of water flows provided by severe rainfalls, which are occurring more frequently.

The studies and projects are practically concluded, so it is foreseen that the process to launch the International Public Tender for the construction of this important infrastructure will be accomplished in July of 2010.

• **Wind energy**

In 2009, ENEREEM associated of EEM concluded, in the first trimester, the assemblage of Pedras and Loiral wind plants, in a total installed power capacity of 15.3 MW, with 12 and 6 generating power units, respectively, with a total of 18 turbine generators with a 850 kW capacity per unit, installed in towers of 49 m high, with a 52 m rotor as diameter, whose global investment reached 20.9 million Euros.

These wind plants endowed with a remote command and control, by network Dispatch centre of SEPM, enables the coordination and optimization for integration of wind power, this intermittent energy source, in the electric network system of Madeira Island.

The accomplishment of these projects shows clearly EEM's Group engagement in order to increase the significance of renewable energies in the energetic mix of Autonomous Region of Madeira, achieving the strategy settled by the Vice-Presidency of the Regional Government, concerning the Regional Energetic Policies Plan.

The 3 wind plants production in Paúl da Serra, reached 26,490,341 kWh, representing an increase of 249.0%, comparatively to the previous year, essentially as a result of the Pedras and Loiral wind plants operating performance. These power plants, conjoined, assure 70.6% of the total produced by this energy source in Madeira island's network.

Concerning environmental subjects, the accounting of emission reduction due the exploitation of these wind plants, in 2009, reaches: 18,500 tons of CO₂, 78 tons of SO₂, 320 tons of NO_x and 4.8 tons of particles, avoiding the consumption of 5,900 tons of thick fuel-oil.



In 2009, the production of the wind plant in Porto Santo Island reached 1,175,982 kWh, pointing out an increase of 28.0% comparatively to the previous year. This better performance is a direct and exclusive result of the wind resource improvement in this island during 2009. The wind energy emission in Porto Santo, assured by a conjoined action with the EEM's wind plant, reached 1,820,512 kWh, representing 6.5% of the total production, an improvement towards the contribution to the energetic mix, comparatively to the previous year (4.7%).

Regarding environmental aspects, the accounting of emission reduction, as a result of this wind plant exploitation reached: 822 tons of CO₂, 3.5 tons of SO₂, 14.2 tons of NO_x and 0.2 tons of particles, avoiding the consumption of 260 tons of thick fuel-oil.

• **Marine bio-fuel - CO₂ Capture**

The project, in partnership with a spanish company, named Bio Fuel Systems, S.A., consists in an installation of a bio-fuel production unit, in Porto Santo Island, with a bio-fuel production power capacity of 17,000 ton/year. This power unit intends to replace the thick fuel oil, actually used by the existent generating power groups, enabling the island to be self sufficient, in a medium term, based on an unlimited, clean and ecological energetic resource. Porto Santo has been chosen to be pioneer in this matter at a Regional Level, due to the fact that this island has a low penetration of renewable energy sources and to the fact that hydro plants cannot be installed. The bio-fuel will be used by the existing power units in the Porto Santo Thermal Power Plant, requiring only a minor adaptation.

With this project, we intend to achieve for Porto Santo an energetic self sufficient island, inverting the almost total dependence on petroleum derivatives to produce energy. It consists of an industrial and world pioneer unit, endowed with an emergent (available by BFS), clean and self sufficient technology to capture CO₂ from the atmosphere (emitted by industries and by the power system), transforming it into bio-fuel through phytoplankton (micro seaweed), assuring more CO₂ absorption than the issued, thus obtaining an annual emission reduction of 60,000 ton/ CO₂. Through this innovative producer process, we aim to achieve a clean energy rate superior to 90.0%, contributing for a new tourist scope towards Porto Santo, a GREEN ISLAND, and also for a new technological cluster implementation and towards employment increasing.

This project will be initiated in the second semester of 2010, being foreseen the first bio-fuel production for the last trimester of 2011.

- **GNL project (Liquefied Natural Gas)**

During 2009, EEM concluded the studies, projects and legislative adaptation, towards the natural gas introduction in Madeira Island, obtaining also the industrial and environmental licenses. The process to launch the International Public Tender for the EPC – Engineering, Procurement, Construction's contract work, in May of 2010 was accomplished.

This project is a structural strategy measure with a significant impact in the development of the entire regional economy, contributing extraordinarily towards environmental protection in harmony with international goals, allowing as well diversified supply sources, which in an international scope of actual markets, permitting an undeniable security factor.

In order to show perspective the importance of the introduction of this raw material, considering an annual natural gas production of 400 GWh (presenting circa 50.0% of the thermoelectric production in RAM, along 2009), the project will enable a reduction of about 156,000 tons of CO₂, 2,000 tons of SO₂, 680 tons of NO_x and 40 tons of particles.

The natural gas to be imported in order to supply Madeira Island shall, on one hand, mayoralty be applied to electricity production and on the other hand in the industrial, tertiary and household sectors, through one or more distribution lines to be built. We aim to accomplish, as well, the supply of transports, namely the public roadway transports.

The energy production by natural gas will represent, in its first operating year, circa of 24.0% of the total, growing step by step, possibility reaching 63.0%, corresponding to 84 thousand m³ and 500 thousand m³ of LNG consumption, respectively.



4 - Final Remarks

As conclusion of the Annual Report of the activities developed by Empresa de Electricidade da Madeira, S.A., over the year of 2009, the Board of Directors wishes to express a word of gratitude for the support received from all the different entities with whom we have cooperated over the year, particularly our shareholder, the Regional Government of Madeira, represented by its Vice-President, responsible for the leadership of the energy sector in Madeira.

The Board of Directors also expresses its appreciation to the General Assembly and to the Statutory Auditor for their cooperation, permanent availability and for their positive contribution for the development and control of EEM's activities.

A special reference to our staff for the dedication, competence and professionalism, they have continuously expressed in its functions and to the development of our Company.

And finally to our customers, to thank the confidence expressed in us and reaffirm our unmistakable commitment in perfecting the services provided.

The Board of Directors:

Rui Alberto Faria Rebelo (Chairman of the Board)

João Heliodoro da Silva Dantas (Vice-Chairman of the Board)

Mário Eugénio Jardim Fernandes (Board Member)



Consolidated and Individual Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Balance Sheet as at 31 December 2009 and 2008

(Amounts expressed in Euros)			
	Notes	2009	2008
Assets			
Tangible assets	2	394,437,878	363,459,874
Intangible assets	3	11,159,490	14,308,033
Investments	4	18,345,167	12,834,377
Deferred tax assets	13	15,975	-
Clients and other debtors	5	127,852,036	127,527,860
Inventories	6	14,066,707	14,800,663
Prepayments and accrued income	7	83,878,751	101,210,942
Cash and deposits at banks		786,428	1,000,774
Total Assets		650,542,432	635,142,523
Shareholders' Equity			
Share capital	8	20,000,000	20,000,000
Reserves and retained earnings	9	93,568,661	89,805,932
Profit for the year		4,001,665	3,760,029
Total Shareholders' Equity		117,570,326	113,565,961
Minority interests	10	141,051	115,609
Liabilities			
Amounts owed to credit institutions	11	379,859,594	359,905,544
Provision for liabilities and charges	12	37,077,041	35,703,407
Deferred tax liabilities	13	1,193,261	1,107,143
Suppliers and other creditors	14	63,819,684	66,701,949
Accruals	15	13,768,198	17,558,485
Deferred income	16	37,113,277	40,484,425
Total Liabilities		532,831,055	521,460,953
Total Shareholders' Equity and Liabilities		650,542,432	635,142,523

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements



EEM - Empresa de Electricidade da Madeira

Consolidated Statement of Income for the years ended 31 December 2009 and 2008

		(Amounts expressed in Euros)	
	Notes	2009	2008
Operating income			
Sales	17	152,291,931	171,218,320
Other operating income	18	29,614,441	33,516,355
		<u>181,906,372</u>	<u>204,734,675</u>
Operating costs			
Cost of sales	17	73,184,563	101,685,595
Personnel costs		35,140,592	33,802,828
Supplies and services		16,585,877	14,507,888
Depreciation and adjustments	2, 3 and 5	28,694,612	24,974,339
Provisions	12	3,058,000	-
Other operating costs	19	14,604,156	16,917,476
		<u>171,267,800</u>	<u>191,888,126</u>
Operating income		<u>10,638,572</u>	<u>12,846,549</u>
Other income/(costs)			
Financial income/(costs)	20	(10,201,524)	(13,769,517)
Income arising on the application of the equity method of consolidation		488,097	506,784
Other income	21	4,717,101	5,074,858
Other costs	24	(462,278)	(26,349)
		<u>(5,458,604)</u>	<u>(8,214,224)</u>
Income before income taxes		5,179,968	4,632,325
Income taxes	22	1,152,861	845,798
Profit for the year		<u>4,027,107</u>	<u>3,786,527</u>
Minority interests	10	25,442	26,498
		<u>4,001,665</u>	<u>3,760,029</u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Statement of Cash Flows
for the years ended 31 December 2009 and 2008

	(Amounts expressed in Euros)	
	2009	2008
Cash flows from operating activities		
Client payments	165,209,329	145,315,747
Payments to suppliers	(78,305,231)	(104,191,240)
Payments to employees and pensioners	(35,113,983)	(32,812,036)
Income tax payments	(406,076)	(1,024,935)
Other receipts and payments	5,565,368	10,114,904
	<u>56,949,407</u>	<u>17,402,440</u>
Cash flows from investing activities		
Sales of fixed assets	1,604,450	2,423,000
Payments to fixed assets suppliers	(63,417,958)	(58,945,031)
Investments	(5,522,693)	(6,530,767)
Loans to other companies	(74,959)	(72,639)
Dividends	868,938	1,058,139
Interest received	2,807,342	1,995,317
	<u>(63,734,880)</u>	<u>(60,071,981)</u>
Cash flows from financing activities		
Loans obtained/(Repayment of loans)	19,954,050	60,194,652
Interest paid	(15,117,156)	(16,770,443)
Other receipts/(payments)	1,734,233	(591,032)
	<u>6,571,127</u>	<u>42,833,177</u>
Net changes in cash and cash equivalents	(214,346)	163,636
Cash and cash equivalents balance at the beginning of the year	1,000,774	837,138
Cash and cash equivalents balance at the year end	<u>786,428</u>	<u>1,000,774</u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira, S.A.

Balance Sheet as at 31 December 2009 and 2008

		(Amounts expressed in Euros)	
	Notes	2009	2008
Assets			
Tangible assets	2	368,616,160	338,573,831
Intangible assets	3	11,159,490	14,308,033
Investments	4	20,850,876	15,254,966
Clients and other debtors	5	129,857,944	129,228,702
Inventories	6	14,027,307	14,760,834
Prepayments and accrued income	7	83,776,800	101,212,311
Cash and deposits at banks		759,587	780,679
Total Assets		<u>629,048,164</u>	<u>614,119,356</u>
Shareholders' Equity			
Share capital	8	20,000,000	20,000,000
Reserves and retained earnings	9	93,568,661	89,805,932
Profit for the year		4,001,665	3,760,029
Total Shareholders' Equity		<u>117,570,326</u>	<u>113,565,961</u>
Liabilities			
Amounts owed to credit institutions	11	359,046,628	342,740,470
Provision for liabilities and charges	12	37,077,041	35,259,356
Deferred tax liabilities	13	1,009,497	1,107,143
Suppliers and other creditors	14	63,729,630	63,577,209
Accruals	15	13,669,407	17,575,472
Deferred income	16	36,945,635	40,293,745
Total Liabilities		<u>511,477,838</u>	<u>500,553,395</u>
Total Shareholders' Equity and Liabilities		<u>629,048,164</u>	<u>614,119,356</u>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira, S.A.

Statement of Income
for the years ended 31 December 2009 and 2008

		(Amounts expressed in Euros)	
	Notes	2009	2008
Operating income			
Sales	17	152,307,861	171,234,783
Other operating income	18	29,454,815	33,440,643
		<u>181,762,676</u>	<u>204,675,426</u>
 Operating costs			
Cost of sales	17	75,399,307	102,575,365
Personnel costs		35,034,963	33,779,071
Supplies and services		16,287,940	14,345,778
Depreciation and adjustments	2, 3 and 5	27,492,386	24,513,350
Provisions	12	3,058,000	-
Other operating costs	19	14,569,063	16,904,369
		<u>171,841,659</u>	<u>192,117,933</u>
Operating income		<u>9,921,017</u>	<u>12,557,493</u>
 Other income/(costs)			
Financial income/(costs)	20	(9,920,501)	(14,975,712)
Income arising on the application of the equity method of consolidation		833,376	1,707,106
Other income	21	4,694,017	5,030,347
Other costs	24	(460,708)	(24,305)
		<u>(4,853,816)</u>	<u>(8,262,564)</u>
 Income before income taxes		5,067,201	4,294,929
Income taxes	22	1,065,536	534,900
Profit for the year		<u>4,001,665</u>	<u>3,760,029</u>

See accompanying notes to the Financial Statements



EEM - Empresa de Electricidade da Madeira, S.A.

Statement of Cash Flows for the years ended 31 December 2009 and 2008

	(Amounts expressed in Euros)	
	2009	2008
Cash flows arising from operating activities		
Client payments	165,494,446	145,262,790
Payments to suppliers	(81,023,851)	(104,570,070)
Payments to employees and pensioners	(35,018,989)	(32,788,386)
Income tax payments	(173,369)	(986,646)
Other receipts and payments	5,970,983	10,188,850
	<u>55,249,220</u>	<u>17,106,538</u>
Cash flows arising from investing activities		
Sales of fixed assets	1,604,450	2,423,000
Payments to fixed assets suppliers	(57,414,687)	(46,344,090)
Investments	(5,522,691)	(6,530,767)
Loans to subsidiaries and other companies	142,805	301,922
Dividends	868,938	1,058,139
Interest received	2,706,032	696,008
	<u>(57,615,153)</u>	<u>(48,395,788)</u>
Cash flows arising from financing activities		
Loans obtained/(Repayment of loans)	16,306,158	48,562,008
Interest paid	(14,695,671)	(16,709,303)
Other receipts/(payments)	734,354	(593,693)
	<u>2,344,841</u>	<u>31,259,012</u>
Net changes in cash and cash equivalents	(21,092)	(30,238)
Cash and cash equivalents balance at the beginning of the year	<u>780,679</u>	<u>810,917</u>
Cash and cash equivalents balance at the year end	<u><u>759,587</u></u>	<u><u>780,679</u></u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Notes to the Financial Statements 31 December 2009 and 2008

I Accounting policies

I.1 Activity and basis of presentation

EEM - Empresa de Electricidade da Madeira, S.A. (EEM) was established as a state owned company (E.P.) by the Decree-Law no. 12/74, of 17 January, being its main objective the generation, transport, distribution and commercialisation of electric energy in the Autonomous Region of Madeira. The company head office is located in Funchal at Avenida do Mar e das Comunidades Madeirenses, no. 32.

In accordance with the Regional Legislative Decree no. 14/94/M, published in “Diário da República” as at 3 June 1994, the legal status of EEM was changed to a private company (S.A.), entirely held by a public shareholder. Its name was also changed to EEM - Empresa de Electricidade da Madeira, S.A..

EEM is ruled by the above mentioned regulation, by its internal by-laws, by the regulations applied to private companies and by special rules applied to similar companies operating in the same business.

As at 25 March 2002 was published the Decree-Law no. 69/2002, which extended to the Autonomous Regions of Azores and Madeira the regulation, exercised by the Regulatory Agency for Energy Services (ERSE), for the activities of generation, transport, distribution and commercialisation of electric energy. During 2002, ERSE adjusted the regulatory framework for the electric sector, namely the Tariff Regulation, in order to extend its application to the Autonomous Regions, seeking a progressive standardization of tariffs in Portugal starting 1 January 2003, under the principles of tariff convergence and electric companies financial stability. Therefore, the tariffs applied by EEM since 1 January 2003 were established by ERSE, being its responsibility the calculation of the compensation amount to be paid to EEM from that date resulting from tariffs reduction (see note I.3).

As at November 1997, was constituted the company Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda. (Museu - Casa da Luz), entirely held by EEM (see note 4).

As at August 1998, was constituted the company Emacom - Telecomunicações da Madeira, Unipessoal, Lda. (Emacom), entirely held by EEM (see note 4).

As at September 1998, was constituted the company Enereem - Energias Renováveis, Lda. (Enereem), in which EEM holds a direct stake of 85% and 7.5% indirectly, through Museu - Casa da Luz (see note 4).

Basis of presentation

The consolidated financial statements for the years ended 31 December 2009 and 2008, comprise the assets, liabilities and results of EEM and its subsidiaries, Museu - Casa da Luz, Emacom and Enereem, and the results attributable to EEM from its associated companies. These accounting policies have been consistently applied by all Group companies.

The consolidated financial statements are expressed in euros and have been prepared in accordance with the accounting principles generally accepted in Portugal, under the historical cost convention and on a continuity basis. These consolidated financial statements were also prepared in accordance with the fundamental accounting principles, namely the prudence, consistency, substance over form, materiality and on an accrual basis, in order to provide a true and fair view of EEM's results.

These financial statements were approved in the Board of Directors meeting held on 31 March 2010.

Investments in subsidiaries

Investments in subsidiaries in which EEM holds, directly or indirectly, more than 50% of the voting rights or is able to control the financial and operating policies, are accounted by the full consolidation method. Subsidiaries are included in the consolidation as from the date on which control is acquired up to the date on which it actually ends.

Investments in associated companies

Investments in associated companies, in which EEM holds between 20% and 50% of the voting rights or over which has significant influence on the financial and operating policy, are accounted under the equity method. On this basis, the consolidated financial statements include EEM's share of the total profits and losses recognised from the date on which the significant influence begins up to the date it actually ends.

Balances and transactions eliminated in consolidation

Intercompany balances and transactions, including any unrealised gains and losses, are eliminated in the consolidation process. Unrealised gains and losses on transactions between the EEM Group and its associated companies are eliminated to the extent of the EEM Group's interest in the associated companies.

Other investments

The investments in which EEM Group holds less than 20% of the voting rights and over which have no significant influence on the financial and operating policy are accounted at the acquisition cost. If there are any events or circumstances that indicates that the book value exceeds the recoverable amount, impairment losses are recognised through the income statement.

The dividends distributed by these companies are recognized in the income statement when they are received.

Accounting, on unconsolidated basis, of investments in subsidiaries

On an unconsolidated basis, investments in subsidiaries and associated companies are accounted for using the equity method, in accordance with the Accounting Rule no. 9.

1.2 Recognition of income and expenses

Income and expenses are recorded in the period to which they refer regardless of when paid or received, in accordance with the accruals concept. Differences between amounts received and paid and the corresponding income and expenses are recorded under Prepayments and accrued income or Accruals and deferred income.

The income balances comprise the amounts invoiced related with energy sales and related services rendered, net of value added taxes, discounts and intercompany transactions.

Energy sales are considered as income in the period in which the consumption occurs, independently of the invoicing date. The invoicing of electricity sales is undertaken on a monthly basis, considering the electricity tariffs established by ERSE. Revenues regarding the electric energy to be invoiced, corresponding to the actual consumption not metered as at the balance sheet value, are accrued based on real consumptions.

1.3 Subsidies to operational activity

Compensation regarding the tariff convergence

The subsidies granted by governmental entities, in order to compensate the reductions of the electricity tariffs, were accounted under the protocol established in 1998 between the Regional and Central Governments. This protocol was established for the three years period from 1998 to 2000, then being subsequently extended for the years 2001 and 2002.

During April 2003, was signed the contract related with the Tariffs Convergence for Electric Energy between EEM, the Regional Government and the Central Government. This contract establishes the criteria for the compensation payments due to EEM, as a result of the tariffs reduction from 1998 to 2002, revoking the previous protocol. However, the calculation methodology for the compensation amount is mainly the same.

In accordance with the above mentioned contract, the compensation attributable to EEM until 2002 is calculated by the difference between the receipts at standard cost (receipts that EEM would obtain if the tariffs were defined to cover the standard costs) and the receipts with the current tariffs (receipts obtained by the application, in each year, of the current tariffs). The standard costs include the activities of generation, transport, distribution and commercialization of electric energy and are determined by the application of the rules defined in the tariff convergence process.

In accordance with Tariff Regulation, the subsidies granted to EEM under the tariff convergence process for the years after 2002 are recognised in the income statement in period to which the convergence refers, based on the equity principle of tariffs between the Continent and Autonomous Region of Madeira consumers.

Promotion plan for efficient consumption of energy

The subsidies granted by ERSE to finance the Promotion Plan for Efficient Consumption of Energy are recognised in income statement when there is reasonable assurance that the amounts will be received.

1.4 Clients and other debtors

Receivables from clients and other debtors are recorded in the balance sheet net of impairment losses.

Impairment losses are recorded based on the regular evaluation of the existence of impairment losses related to doubtful debts as at the balance sheet date. Identified impairment losses are recognised in the income statement and can be reversed if the estimated losses decrease, in a subsequent period.

1.5 Foreign exchange transactions

Foreign exchange transactions with no fixed rate agreement are translated into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities expressed in foreign currencies are translated to Euros at the foreign exchange rates ruling as at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rate as at the transaction date.

Foreign exchange transactions with a fixed exchange rate agreement are accounted in the balance sheet by its value in Euros based on that exchange rate, being the operation costs recognised during the life span of the operation.

1.6 Inventories

Inventories are stated at the lower of the acquisition cost and net realisable value. The cost of inventories comprises costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The net realisable value is the estimated selling price in the ordinary course of business less the estimated selling costs.

Inventories usage (consumption) is valued at the weighted average cost.

1.7 Intangible assets

Intangible assets are recorded at cost, net of accumulated depreciation and impairment losses. Expenses with technical studies performed by third parties and with industrial property are accounted as intangible assets. Depreciation is calculated on a straight-line basis over the following periods:

	<u>No. of years</u>
• Technical studies	3
• Industrial property	33
• Other intangible assets	22

The balance Other intangible assets includes mainly the interest paid from loans obtained specifically for financing investment projects related to the generation, transport, distribution and commercialisation of electric energy, as mentioned in note 3.

I.8 Tangible assets

Tangible assets are recorded at acquisition cost or construction cost or at the revaluation amount, net of accumulated depreciation and impairment losses.

EEM has revaluated its tangible assets under the following regulation: Decree-Law no. 430/78, Decree-Law no. 219/82, Decree-Law no. 399-G/84, Decree-Law no. 118-B/86, Decree-Law no. 111/88, Decree-Law no. 49/91, Decree-Law no. 264/92 and Decree-Law no. 31/98.

Depreciation is calculated on a straight-line basis, in accordance with Decree-Law no. 2/90, of 12 January, over the following periods, which do not differ substantially from the assets' useful lives:

	No. of years
● Buildings	10 to 50
● Basic equipment	6 to 25
● Motor vehicles	4 to 6
● Machinery	4 to 10
● IT equipment	4 to 10
● Office equipment and other equipment	8 to 20

I.9 Leases

Lease agreements are classified as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments.

Instalments comprise: (i) an interest charge which is recognised in the income statement; and (ii) the amortisation of the principal which is deducted from liabilities. Financial charges are recognised in the income statement over the lease period, in order to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

I.10 Interest capitalised

Interest related to loans obtained specifically for the acquisition or construction of intangible and tangible assets is capitalised. The amount of interest to be capitalised is calculated using the funding average interest rate for the period and the average amount of the balance work in progress, net of investment subsidies. Interest capitalisation ends when the tangible asset is concluded, being depreciated during the useful life of the assets.

1.11 Investments subsidies

Subsidies granted by governmental and communitarian entities, in order to finance the acquisition or construction of fixed assets, are accounted as a liability, being recognised in the income statement during the useful life of the asset. Subsidies granted are recorded on a cash basis.

1.12 Pensions fund

Following the Company Agreement, EEM assumed the liabilities related to retirement and pre-retirement pensions for the employees that were included in the Social Security (“Caixa Nacional de Pensões”) as at the date of the above mentioned Agreement. The retirement pension complements correspond to the difference between the pension granted by the Social Security (limit of age or disability) and the last salary received by the employee.

The above mentioned pension plan consists in a defined benefit retirement plan, whose liabilities are assessed by an independent actuarial valuation following the projected unit credit method, with the purpose of determining the present value of projected benefits and the corresponding current services costs. The obligation is measured at the present value of future cash outflows, using interest rates of government securities that have a maturity similar to the related liability.

The liabilities related to the pension plan are recorded in accordance with the Accounting Rule no. 19, being the actuarial gains and losses accounted against the income statement in the period they occur.

As established by the transitory dispositions of Accounting Rule no. 19, the liabilities with past service costs of employees still on duty, determined as at the date of enforcement of the referred Accounting Rule, were accounted against deferred costs, being amortised on a straight-line basis, starting 1 January 2004, over the expected average remaining service years of those employees, estimated at that date in eight years.

EEM holds an off balance sheet insurance plan to cover part of the pension scheme liabilities. Changes in the market value of the insurance plan are taken to the income statement in the period they occur.

1.13 Income tax

EEM and its subsidiaries are subject to the tax legislation considered in “Código do IRC - Imposto sobre o Rendimento das Pessoas Colectivas”.

In accordance with Portuguese tax legislation, tax returns can be reviewed and adjusted by the tax authorities for a period of four years after the year to which they relate (Social Security: 5 years).

Income tax corresponds to current and deferred tax. Income tax is recognised in the income statement, except when it relates to items that are directly registered against shareholders’ equity, in which case it is also recognised against shareholders’ equity.

Current tax is the tax expected to be paid based on the taxable profit for the year, calculated considering the tax rules in place and using tax rates enacted or substantively enacted in each jurisdiction as at the balance sheet date.

Deferred tax is determined using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, being calculated using the tax rates enacted or substantively enacted in each jurisdiction as at the balance sheet date and expected to be applied when the temporary differences will revert.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

1.14 Own work capitalised

Costs incurred in the construction of fixed assets on a cost-plus basis, essentially materials, personnel and services provided by third parties, are accounted in the income statement according with their nature being subsequently capitalised, based on specific criteria, under fixed assets against this balance.

1.15 Regulatory assets (tariffs compensation)

When an activity is subject to regulation, the criteria for allocation income and expense to each accounting period may differ from the criteria applied to non-regulated activities.

The regulatory assets and liabilities are accounted through the income statement and refer to deferred costs and deferred income defined and regulated by the Regulator, which should be recovered through the increase or decrease of electricity tariffs in subsequent periods.

The Board of Directors makes certain assumptions as to the recovery of the tariffs compensation, based on regulations issued, current legislation and past experience. If the probability of recovery is less than likely, then the regulatory asset is written off against the income statement.

1.16 Provisions

Provisions are recognised when: (i) the Group has a present, legal or constructive obligation; (ii) it is probable that settlement will be required in the future; and (iii) a reliable estimate of the obligation can be made.

1.17 CO2 Licenses

EEM owns CO2 licenses in order to face the emissions that result from its operational activity. CO2 licenses owned for own consumption and freely attributed are recognised as an intangible asset against Deferred income – Subsidies as at the attribution date and are valued based on the market price as at that date.

The licenses acquired in the market in order to settle the liability arising from the consumption are recognised as an intangible asset at its acquisition cost.



The licenses usage is valued at historical cost considering the emissions occurred during the period, in accordance with “Interpretação Técnica n.º 4 – Direitos de emissão de gases com efeito de estufa”, of 26 April 2006. When the emissions for the period exceeds the licenses held, is charged a provision for the amount necessary to acquire the licenses in the market, as at the balance sheet date.

Subsidies are amortised over the period in which they are attributed, on the same proportion as the consumptions. In accordance with the regulation disposals defined by ERSE, the deferred income arising from the licenses freely attributed and not consumed is reclassified to the balance Suppliers and other creditors, considering the existence of a liability with the Electric System, which will be settled during the “Plano Nacional de Atribuição de Licenças de Emissão II (2008-2012)” period.

1.18 Derivative financial instruments

EEM enters into derivative financial instruments to hedge the interest rate risk arising from its debt portfolio, in order to reduce the variability in the related interest.

The gains or losses arising from changes in the fair value of the derivative financial instruments considered as hedging are recognised in the income statement on the same basis as the interest arising from the debt being hedged is recognised in the income statement.

The gains or losses arising from changes in the fair value of the derivative financial instruments considered as trading are recognised, at the balance sheet date, in the income statement.

1.19 Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprise balances with less than three months’ maturity from the balance sheet date, including cash and deposits at banks.

2 Tangible assets

This balance is analysed as follows

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Gross amount:				
Land	6,422,029	6,009,176	6,422,029	6,009,176
Buildings	187,153,340	180,826,089	183,943,088	177,686,700
Basic equipment	505,815,190	439,222,230	478,722,678	433,415,309
Motor vehicles	226,374	213,374	182,261	182,261
Machinery	2,174,856	2,129,795	2,174,856	2,129,795
Office equipment	20,418,035	17,761,873	20,267,764	17,642,261
Other equipment	13,524,570	12,005,365	13,524,570	12,005,365
Art	68,390	65,690	-	-
Work in progress	21,270,634	41,312,777	21,270,634	22,046,676
	<u>757,073,418</u>	<u>699,546,369</u>	<u>726,507,880</u>	<u>671,117,543</u>
Accumulated depreciation:				
Related to the year	(26,549,045)	(23,469,355)	(25,348,008)	(23,012,713)
Related to previous years	(336,086,495)	(312,617,140)	(332,543,712)	(309,530,999)
	<u>(362,635,540)</u>	<u>(336,086,495)</u>	<u>(357,891,720)</u>	<u>(332,543,712)</u>
	<u>394,437,878</u>	<u>363,459,874</u>	<u>368,616,160</u>	<u>338,573,831</u>

The Tangible assets movements for the Group, during 2009, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ Charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
Gross amount:					
Land	6,009,176	306,692	-	106,161	6,422,029
Buildings	180,826,089	81,641	-	6,245,610	187,153,340
Basic equipment	439,222,230	16,457,569	-	50,135,391	505,815,190
Motor vehicles	213,374	13,000	-	-	226,374
Machinery	2,129,795	45,061	-	-	2,174,856
Office equipment	17,761,873	1,843,136	-	813,026	20,418,035
Other equipment	12,005,365	997,098	-	522,107	13,524,570
Art	65,690	2,700	-	-	68,390
Work in progress	41,312,777	38,042,648	-	(58,084,791)	21,270,634
	<u>699,546,369</u>	<u>57,789,545</u>	<u>-</u>	<u>(262,496)</u>	<u>757,073,418</u>
Accumulated depreciation:					
Buildings	63,541,259	5,089,237	-	-	68,630,496
Basic equipment	250,758,075	18,279,934	-	-	269,038,009
Motor vehicles	154,061	23,021	-	-	177,082
Machinery	1,845,854	91,541	-	-	1,937,395
Office equipment	10,670,362	2,411,687	-	-	13,082,049
Other equipment	9,116,884	653,625	-	-	9,770,509
	<u>336,086,495</u>	<u>26,549,045</u>	<u>-</u>	<u>-</u>	<u>362,635,540</u>

The acquisitions of Basic equipment refer, mainly, to the acquisition of equipment for the “Central Térmica da Vitória” (CTV III), investments in new wind farms in Enereem and improvements in the energy transport and distribution networks.

During 2009, the construction of one of the three new production groups of CTV III was concluded, as well as the buildings and the shared equipment of the power plant. Additionally, Enereem concluded the construction of Pedras and Loiral wind farms. Therefore, an amount of Euros 58,084,791 was transferred from the balance Work in progress to fixed assets.

The acquisitions of Office equipment refer, mainly, to the topographical survey realised under the development of an integrated management system of the electric energy network of Autonomous Region of Madeira (SIT).

As at 31 December, 2009, the balance Work in progress mainly refers to the development of the remaining CTV III project phases, consisting of two new production groups and a steam turbine, as well as to improvements related to the energy transport and distribution networks.

3 Intangible assets

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Gross amount:				
Technical studies	4,436,279	4,173,783	4,327,416	4,064,920
CO2 licenses	7,128,641	9,604,717	7,128,641	9,604,717
Industrial property	1,988,765	1,929,954	1,988,765	1,929,954
Other intangible assets	11,440,096	11,440,096	11,440,096	11,440,096
	<u>24,993,781</u>	<u>27,148,550</u>	<u>24,884,918</u>	<u>27,039,687</u>
Accumulated depreciation:				
Related to the year	(993,774)	(966,422)	(993,774)	(962,253)
Related to previous years	(12,840,517)	(11,874,095)	(12,731,654)	(11,769,401)
	<u>(13,834,291)</u>	<u>(12,840,517)</u>	<u>(13,725,428)</u>	<u>(12,731,654)</u>
	<u>11,159,490</u>	<u>14,308,033</u>	<u>11,159,490</u>	<u>14,308,033</u>

The balance Technical studies is mainly related with technical studies performed by third parties in the scope of EEM's Group investment projects.

The balance Industrial property, in the amount of Euros 1,988,765 (2008: Euros: 1,929,954) is mainly related with the amount paid by EEM in order to run an energy generation facility for a period of 33 years, until 2026.

The balance Other intangible assets refers to interest paid from loans obtained specifically for financing investment projects related to the generation, transport, distribution and commercialisation of electric energy, as mentioned in note 1.7 and 1.10.

The Intangible assets movements for the Group, during 2009, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ Charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
Gross amount:					
Technical studies	4,173,783	-	-	262,496	4,436,279
CO2 licenses	9,604,717	8,453,414	(10,929,490)	-	7,128,641
Industrial property	1,929,954	58,811	-	-	1,988,765
Other intangible assets	11,440,096	-	-	-	11,440,096
	<u>27,148,550</u>	<u>8,512,225</u>	<u>(10,929,490)</u>	<u>262,496</u>	<u>24,993,781</u>
Accumulated depreciation:					
Technical studies	3,611,757	413,504	-	-	4,025,261
Industrial property	860,466	60,266	-	-	920,732
Other intangible assets	8,368,294	520,004	-	-	8,888,298
	<u>12,840,517</u>	<u>993,774</u>	<u>-</u>	<u>-</u>	<u>13,834,291</u>

EEM recorded in the balance CO2 licenses, as at 1 January 2009, Euros 8,453,414 related to the CO2 licenses freely attributed in 2009 by Instituto do Ambiente (577,419 tons of Emission Unit Allowances: EUA).

The reduction in the balance CO2 licenses includes Euros 8,910,725 related to the licenses delivered concerning the 2008 consumptions (458,909 tons of EUA), as referred in note 24.

Additionally, EEM performed several operations during this period, including the sale of 124,000 tons of EUA by Euros 1,604,450 (net of commissions), which had an impact in the same amount in the income statement, due to the recognition of a loss in the sale of the EUA (Euros 414,315 including Euros 12,400 of commissions: see note 24) and of the subsidy associated to the EUA freely attributed that were sold (Euros 2,018,765: see note 18). Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to Euros 40,795 (including the effect of the Tariff compensation of 2009 in the income statement).

4 Investments

These investments held by the Group are analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Subsidiaries:				
Museu - Casa da Luz	-	-	395,157	-
Emacom	-	-	511,980	1,110,354
Enereem	-	-	1,598,572	1,310,235
	-	-	2,505,709	2,420,589
Associated companies:				
Teleféricos da Madeira, S.A.	696,614	708,516	696,614	708,516
	696,614	708,516	696,614	708,516
Other investments:				
EEM & BFS – Energy, S.A.	9,000,000	4,612,500	9,000,000	4,612,500
Banif - SGPS, S.A.	7,070,973	5,935,781	7,070,973	5,935,781
Luso Carbon Fund	896,563	896,563	896,563	896,563
Horários do Funchal, S.A.	611,027	611,027	611,027	611,027
Companhia Logística de Combustíveis da Madeira, S.A.	50,000	50,000	50,000	50,000
Madibel Indústrias de Alimentos e Bebidas, S.A.	20,141	20,141	20,141	20,141
Comboio do Monte, S.A.	16,000	16,000	16,000	16,000
Centro de Empresas e Inovação da Madeira, Lda.	3,990	3,990	3,990	3,990
	17,668,694	12,146,002	17,668,694	12,146,002
Impairment of other investments	(20,141)	(20,141)	(20,141)	(20,141)
	18,345,167	12,834,377	20,850,876	15,254,966

The share capital held by the Group and by EEM is presented as follows:

	Group		Individual	
	2009	2008	2009	2008
	%	%	%	%
Subsidiaries:				
Museu - Casa da Luz	100.00	100.00	100.00	100.00
Emacom	100.00	100.00	100.00	100.00
Enereem	92.50	92.50	85.00	85.00
Associated companies:				
Teleféricos da Madeira, S.A.	20.00	20.00	20.00	20.00
Other investments:				
Banif - SGPS, S.A.	1.39	1.62	1.39	1.62
Luso Carbon Fund	1.28	1.28	1.28	1.28
Horários do Funchal, S.A.	5.00	5.00	5.00	5.00
Companhia Logística de Combustíveis da Madeira, S.A.	10.00	10.00	10.00	10.00
Madibel Indústrias de Alimentos e Bebidas, S.A.	1.10	1.10	1.10	1.10
Comboio do Monte, S.A.	16.67	16.67	16.67	16.67
Centro de Empresas e Inovação da Madeira, Lda.	1.63	1.63	1.63	1.63

Investments consolidated under the full consolidation method

Museu - Casa da Luz was established in November 1997 at the Autonomous Region of Madeira with a share capital of Euros 99,760, entirely held by EEM.

As at 31 December 2008, Museu – Casa da Luz has presented a negative shareholders' equity due to accumulated losses. During 2009, EEM performed supplementary capital contributions of Euros 500,000 in order to re-establish the subsidiary's financial stability.

Emacom was established in August 1998 at the Autonomous Region of Madeira with a share capital of Euros 49,880, entirely held by EEM. Emacom's main objective is rendering telecommunication services to third parties. As such, Anacom, the regulating agency for the sector, granted Emacom a licence to operate in the public telecommunications sector.

As at 31 December 2003, Emacom has presented a negative shareholders' equity due to consecutive losses. During 2004, EEM, its sole shareholder, has performed supplementary capital contributions in the amount of Euros 1,000,000 in order to re-establish the subsidiary's financial stability. However, during 2009, Emacom reimbursed the supplementary capital contributions in the amount of Euros 750,000.

Enereem was established in September 1998 at the Autonomous Region of Madeira with a share capital of Euros 49,880. EEM holds a direct stake of 85% and 7.5% indirectly through Museu - Casa da Luz. Enereem started its activity during 2000, however, only operates in its wind energy facilities located in Porto Santo and Madeira islands since 2001 and 2003, respectively.

As at 31 December 2003, Enereem has presented a negative shareholders' equity due to consecutive losses. During 2004, EEM and the remaining shareholders have performed supplementary capital contributions in the amount of Euros 800,000 in order to re-establish the subsidiary's financial stability.

Investments consolidated under the equity method

The investments accounted under the equity method as at 31 December 2009 are analysed as follows:

	% of share Capital	Acquisition cost Euros	Book value Euros
Teleféricos da Madeira, S.A.	20.00	92,395	696,614
		<u>92,395</u>	<u>696,614</u>

Teleféricos da Madeira, S.A. was established on 19 April 1999, with a share capital of Euros 250,000. During 1999, EEM acquired an initial stake of 15% of the share capital, in the amount of Euros 37,500. However, during 2000, EEM acquired an additional 5% stake on Teleféricos da Madeira, S.A. for the amount of Euros 54,895, including a premium of Euros 42,395. This company is established in the Autonomous Region of Madeira.

Other investments (recorded at acquisition cost)

During the period ended 31 December 2008 and 2009, EEM performed advance payments of Euros 4,612,500 and Euros 4,387,500, respectively, totalling Euros 9,000,000, for the future constitution of a company which will develop its activity in the Autonomous Region of Madeira with the purpose of producing bio fuel, to be used in the electricity generation and energetic valuation.

As at 14 October 2009, Banif – SGPS, S.A. has realised a capital increase reserved to shareholders in the amount of Euros 140,000,000, through the emission of 140 million ordinary, nominative and contractual shares, with a nominal value of Euros 1 each. Under this capital increase, EEM has acquired 1,135,192 new shares by Euros 1 each.



At 31 December 2009, the investment held in Banif – SGPS, S.A. is represented by 6,811,156 shares with a nominal value of Euros 1 each. The average acquisition cost of the shares held by EEM is Euros 1.038 each. As at 31 December 2009, the market value of the investment arises to Euros 8,513,945 (2008: Euros 6,186,801).

During 2006, EEM has acquired 12 participation units of Luso Carbon Fund, which have a unitary subscription amount of Euros 50,000. The main activity of this fund is to search, evaluate and select projects which could generate emission credits and the investment of the capital in these projects in order to allow the acquisition of CO2 licenses. During 2008, EEM has acquired additional 5 participation units by an amount of Euros 59,313 each. As at 31 December 2009, the investment held arises to Euros 896,563.

Horários do Funchal, S.A. was established on 5 June 1986, with a share capital of Euros 16,500,000, in which EEM holds an investment of 5%, in the amount of Euros 611,027.

Companhia Logística de Combustíveis da Madeira, S.A. was established in 1999, with a share capital of Euros 250,000. During 2004, the share capital was increased to the amount of Euros 500,000, under which EEM acquired 2,500 new shares with a nominal value of Euros 10, amounting to Euros 25,000. As at 31 December 2009, the investment held arises to Euros 50,000.

As at 5 August 1988, EEM acquired 2.52% of Madibel Indústrias de Alimentos e Bebidas, S.A., with a share capital of Euros 798,400. Considering the risk of recovery the investment, EEM has recorded impairment losses during 2005 of Euros 20,141, corresponding to the amount of the investment held.

5 Clients and other debtors

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Clients:				
Official entities				
With protocol	41,487,033	43,971,463	41,487,033	43,971,463
Without protocol	62,415,240	58,327,667	62,415,240	58,327,667
Other clients	15,998,075	14,587,883	15,920,531	14,556,075
	<u>119,900,348</u>	<u>116,887,013</u>	<u>119,822,804</u>	<u>116,855,205</u>
Other debtors:				
Rede Eléctrica Nacional	1,964,941	3,716,994	1,964,941	3,716,994
Public sector	1,340,246	2,147,069	1,276,608	1,857,532
Coopereme	2,660,339	2,660,339	2,660,339	2,660,339
Other debtors	1,064,400	1,629,883	3,211,489	3,652,070
	<u>7,029,926</u>	<u>10,154,285</u>	<u>9,113,377</u>	<u>11,886,935</u>
 Doubtful debts	 11,099,463	 9,512,470	 11,096,798	 9,510,993
	<u>138,029,737</u>	<u>136,553,768</u>	<u>140,032,979</u>	<u>138,253,133</u>
 Impairment for doubtful debts	 (10,177,701)	 (9,025,908)	 (10,175,035)	 (9,024,431)
	<u>127,852,036</u>	<u>127,527,860</u>	<u>129,857,944</u>	<u>129,228,702</u>

The balance Official entities with protocol, in the amount of Euros 41,487,033 (2008: Euros 43,971,463), refers to a set of protocols signed with several regional official entities in order to receive the amounts owed by those entities during a period between 10 and 30 years, without interest and in a monthly based instalments. Under these protocols, EEM has received during 2009 the amount of Euros 2,484,431 (2008: Euros 2,373,929). The terms of the protocols mentioned above implicate that the present value of these debts is substantially lower than its nominal value.

The balance Official entities without protocol, in the amount of Euros 62,415,240 (2008: Euros 58,327,667), relates to amounts invoiced to regional official entities until 31 December 2009 regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes Euros 28,944,438 (2008: Euros 28,422,217) related to public lightning.

The balance Rede Eléctrica Nacional, in the amount of Euros 1,964,941 (2008: Euros 3,716,994), refers to the tariff convergence for December 2009, monthly transferred to EEM.

In 2009, the balance Public sector in the amount of Euros 1,340,246 (2008: Euros 2,147,069), mainly refers to income tax and VAT receivables in the amount of Euros 60,580 (2008: Euros 76,007) and Euros 1,279,646 (2008: Euros 2,071,062), respectively.

The balance Coopereme refers to loans granted to a cooperative, Coopereme - Cooperativa de Habitação, C.R.L., in order to construct an apartment building whose cooperants are employees of EEM.

The balance Other debtors includes the amount of Euros 1,009,497 (2008: Euros 959,966) referring to loans granted to Companhia Logística de Combustíveis da Madeira, S.A., in accordance with the shareholders' agreement.

As at 31 December 2009, the movement in Impairment for doubtful debts is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Balance on 1 January	9,025,908	8,487,346	9,024,431	8,486,047
Charge for the year	1,151,793	538,562	1,150,604	538,384
Balance on 31 December	<u>10,177,701</u>	<u>9,025,908</u>	<u>10,175,035</u>	<u>9,024,431</u>

6 Inventories

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Goods	11,741,444	10,982,013	11,634,794	10,874,934
Raw materials	<u>2,647,686</u>	<u>4,141,073</u>	<u>2,647,686</u>	<u>4,141,073</u>
	14,389,130	15,123,086	14,282,480	15,016,007
Valuation adjustments	(322,423)	(322,423)	(255,173)	(255,173)
	<u>14,066,707</u>	<u>14,800,663</u>	<u>14,027,307</u>	<u>14,760,834</u>

The balance Goods includes electric cables, material to be incorporated in the transport and distribution networks, thermal power stations' backup components and gifts to be sold in Museu - Casa da Luz.

7 Prepayments and accrued income

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Prepayments:				
Pensions	2,756,005	4,134,009	2,756,005	4,134,009
Financial costs	2,093,489	2,307,960	2,093,489	2,307,960
Other	250,614	153,373	143,437	153,303
	<u>5,100,108</u>	<u>6,595,342</u>	<u>4,992,931</u>	<u>6,595,272</u>
Accrued income:				
Tariff compensation	51,793,692	44,711,077	51,793,692	44,711,077
Subsidies to operational activity	18,086,822	41,697,348	18,086,822	41,697,348
Energy Sales	8,569,803	7,962,993	8,571,292	7,964,432
Other	328,326	244,182	332,063	244,182
	<u>78,778,643</u>	<u>94,615,600</u>	<u>78,783,869</u>	<u>94,617,039</u>
	<u>83,878,751</u>	<u>101,210,942</u>	<u>83,776,800</u>	<u>101,212,311</u>

The balance Pensions represents the liability with past service costs related to employees on duty, determined as at the date of enforcement of Accounting Rule no. 19. This amount is amortised, since 1 January 2004, by the average remaining years to retirement of those employees, estimated at that date in eight years, as referred in notes 1.12 and 23.

The balance Financial costs includes an amount of Euros 2,068,989 (2008: Euros 2,258,960) of fees charged to EEM under the restructuring process of the Group's financial liabilities occurred in 2005, as referred in note 11.

The balance Tariff compensation, in the amount of Euros 51,793,692 (2008: Euros 44,711,077), corresponds to the difference between the amounts invoiced by EEM (based on the tariffs published by ERSE in December of the previous year) and the income calculated based on actual conditions.

The tariff compensation will be received through the UGS tariff applicable to the clients in the subsequent periods, and is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Tariff compensation of 2006	6,027,640	6,027,640	6,027,640	6,027,640
Tariff compensation of 2007	6,428,282	3,874,282	6,428,282	3,874,282
Tariff compensation of 2008	37,261,563	34,809,155	37,261,563	34,809,155
Tariff compensation of 2009	2,076,207	-	2,076,207	-
	<u>51,793,692</u>	<u>44,711,077</u>	<u>51,793,692</u>	<u>44,711,077</u>

As at 31 December 2008, this balance includes the amount related to the 2007 tariff compensation to be received in 2009, in the amount of Euros 3,874,282. During 2009, Euros 2,554,000 was reimbursed to clients through the electric energy tariffs.

The balance Subsidies to operational activity, in the amount of Euros 18,086,822 (2008: Euros 41,697,348), results from the difference between the amounts recorded in the income statement from 1998 until 2002 and the amounts received regarding the same period, under the contract signed between EEM, the Central Government and the Regional Government, that establishes the payment of the debt in 40 quarterly instalments, as referred in note 1.3. Under this contract EEM received from the Central Government, during 2006 and 2009, the amounts of Euros 1,012,070 and Euros 25,701,566 (including capital and interest), plus VAT at a rate of 4%, respectively. The amount received in the period ended 31 December 2009 includes interest in the amount of Euros 2,091,040 (see note 20).

8 Share capital

The share capital, in the amount of Euros 20,000,000, is represented by 4,000,000 shares with a nominal value of Euros 5 each, and is fully paid, being entirely held by Madeira's Regional Government.

9 Reserves and retained earning

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Legal and statutory reserves	18,161,547	17,785,544	18,161,547	17,785,544
Other reserves	13,097,546	14,210,991	14,154,608	14,967,745
Retained earnings	62,309,568	57,809,397	61,252,506	57,052,643
	<u>93,568,661</u>	<u>89,805,932</u>	<u>93,568,661</u>	<u>89,805,932</u>

Under the Portuguese legislation, EEM is required to set up a legal reserve equal to a minimum of 5% of the annual profits until the reserve reaches 20% of its share capital. Such reserve is not distributable in cash and can only be used to cover future losses or to increase the share capital. Considering that, as at 31 December 2006, EEM has already reached the limit of the legal reserve as mentioned above, it was not charged against this balance any amount of the profit for the year ended at 31 December 2008.

The balance Other reserves is related to revaluation reserves originated by the tangible assets legal revaluations performed by EEM, as referred in note 1.8, amounting to Euros 12,703,069 (2008: Euros 13,825,999).

Under the responsibilities foreseen by the Decree-Law no. 159/99, of 14 September, which establishes the legal framework for the transfer of competences to the local Municipalities and defines the competences of the Municipalities concerning the rural and urban public lightning, and in accordance with the "Lei das Finanças Locais", the Municipalities of the Autonomous Region of Madeira approved, through Municipalities' Assemblies, as of 1 January 2006, the creation of a Municipalities Association. The responsibilities regarding the urban and rural public lightning were transferred to this Association, including the ability to collect an annual tax for the utilisation of

the municipal public domain by the production equipment and by the electric energy transport and distribution networks of EEM (Municipal network tax).

In this context, the Regional Decree-Law no. 2/2007/M was published to regulate the transfer of the responsibility related to the rural and urban public lightning from the Regional Government to the Municipalities of the Autonomous Region of Madeira as well as to limit the Municipal network tax rate.

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December 2009 as well as in prior periods, costs related to the Municipal network tax in the total amount of Euros 26,728,928. In the same periods, and considering the assumption that the costs incurred with network rights are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.

At the end of 2007, based on the analysis of the tariffs and prices proposal for 2008 by the tariff Council, ERSE considered that the Municipal network tax for 2006 should not be considered for the purpose of determining the 2008 tariffs. As at 31 December 2007, and as a result of this decision, EEM recorded a provision for liabilities and charges against retained earnings in the amount of Euros 6,027,640, an amount equivalent to the Municipal network tax recorded as at 31 December 2006, as mentioned in note 12.

10 Minority interests

The balance Minority interests refers to the investment held by Aream - Agência Regional da Energia e Ambiente of the Autonomous Region of Madeira on Enereem.

The 92.5% investment held by EEM was consolidated under the full consolidation method, originating minority interests related to the remaining 7.5% investment on Enereem, in the amount of Euros 141,051 (2008: Euros 115,609).

11 Amounts owed to credit institutions

This balance, by type of loan, is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Short term loans	50,188,600	57,130,100	50,188,600	57,130,100
Foreign loans	291,604,395	269,603,619	291,604,395	269,603,619
Other loans	38,066,599	33,171,825	17,253,633	16,006,751
	<u>379,859,594</u>	<u>359,905,544</u>	<u>359,046,628</u>	<u>342,740,470</u>

During 2005, EEM has proceeded to a restructuring of its financial liabilities. Under this restructuring process, EEM has agreed two new long term bank loans in the amounts of Euros 220,000,000 and Euros 40,000,000, with the purpose of proceeding to the reimbursement of the existing indebtedness and finance investments in infrastructures related with the energy generation and distribution activities. These bank loans are presented in the balance Foreign loans.

During 2008, EEM agreed a swap to hedge the variability of the interest charges arising from the component of the Euros 220,000,000 loan that bears interest based on variable interest rates. Under this swap, that matures in 15 November 2017, EEM receives a variable interest rate (Euribor 6 months) and pays a fixed interest rate of 3.55% over a notional amount of Euros 66,000,000.

During 2008, EEM obtained a loan from Barclays Capital Plc under which has granted as collateral CO2 licenses. As a result of this transaction, EEM has recognised under the caption Foreign loans a financial liability, which matures in 2012 and that bears interest at a fixed interest rate of 3.479%. As at 31 December 2009 this loan amounts to Euros 9,937,729.

As at 31 December 2009, the balance Other loans includes a loan in the amount of Euros 5,332,752 (2008: Euros 7,706,752) with a ten year maturity, whose instalments are guaranteed by the future payments from the Regional Treasury Department, under the protocol with EEM for the debts regularization. In order to hedge the interest rate risk of this loan, EEM agreed in 2001 an option (cap) with a 10 years maturity, indexed to Euribor 6 month index. The premium is paid in half-yearly instalments of 0.29% in each interest payment date.

The balance Other loans also includes a loan obtained by Enereem in 2008 and 2009 in the amount of Euros 19,996,752, which has a maturity of 15 years and bears interest at a Euribor 6 months interest rate plus 0.50%.

I2 Provision for liabilities and charges

The Provision for liabilities and charges is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Balance on 1 January	35,703,407	36,598,307	35,259,356	36,141,398
Charge for the year:				
For pension benefits	1,258,005	1,582,105	1,258,005	1,582,105
Other	3,058,000	-	3,058,000	12,858
Amounts charged-off:				
For pension benefits	(2,485,462)	(2,477,005)	(2,485,462)	(2,477,005)
Other	(456,909)	-	(12,858)	-
Balance on 31 December	37,077,041	35,703,407	37,077,041	35,259,356

This balance includes the provision for pension benefits as defined in the Company Agreement, in the amount of Euros 27,914,734 (2008: Euros 29,142,191), as referred in note 23.

During 2007, it was charged a provision against retained earnings in the amount of Euros 6,027,640, considering the risk of non-recovery of the amount paid by EEM for the 2006 usage of the Municipal public domain, as mentioned in note 9.

Under the regulation parameters for the distribution and commercialisation of electric energy activities, defined by ERSE and applicable to the actual regulatory period (2009-2011), and considering the assumptions adopted in the 2010 tariffs, EEM charged as at 31 December 2009 a provision of Euro 3,058,000 based on the expected losses for 2010 in this amount, in the referred regulated activities. This provision was determined based on estimatives defined by EEM, namely the 2010 expected consumption and the maintenance of the actual regulation parameters.

I3 Deferred tax

In its consolidated financial statements, EEM registers the tax effect arising from temporary differences between the carrying amounts of assets and liabilities and their respective tax basis. Under the terms of the accounting policy I.13, the deferred tax assets are recognised to the extent it is probable that future taxable profits will be available. As at 31 December 2009, the deferred tax is analysed as follows:

	Deferred tax assets		Deferred tax liabilities	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Revaluations	-	-	1,009,497	1,107,143
Depreciation without tax consequences	-	-	183,764	-
Tax losses	15,975	-	-	-
	15,975	-	1,193,261	1,107,143

The deferred tax liabilities related to booked revaluations result from the non-acceptance as tax expense of 40% of the depreciation of the legal revaluations, to be recognised in the future. The deferred tax liabilities reverted during 2009 amounts to Euros 97,646 (2008: Euros 107,692).

14 Suppliers and other creditors

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Suppliers	42,399,055	37,631,176	42,607,480	37,612,577
Suppliers of tangible assets	8,908,053	15,212,175	8,676,173	11,111,034
Instituto do Ambiente	5,899,627	8,910,725	5,899,627	8,910,725
Public sector	1,683,593	942,846	1,620,018	940,861
Other creditors	4,929,356	4,005,027	4,926,332	5,002,012
	<u>63,819,684</u>	<u>66,701,949</u>	<u>63,729,630</u>	<u>63,577,209</u>

The balance Suppliers mainly includes fuel and electric energy suppliers.

At 31 December 2009, the balance Suppliers of tangible assets mainly includes debts to Siemens and Energetus, under the investments to improve and extend several substations and distribution networks, as well the development of the CTV III project.

The balance Instituto do Ambiente, in the amount of Euros 5,899,627 (2008: Euros 8,910,725), refers to the CO₂ consumption liability realised by EEM under the development of its operational activity, as referred is note I.17.

The balance Public sector is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Consumption fee	28,846	28,710	28,846	28,710
Social security	615,184	603,644	613,039	603,186
Other	1,039,563	310,492	978,133	308,965
	<u>1,683,593</u>	<u>942,846</u>	<u>1,620,018</u>	<u>940,861</u>

The balance Consumption fee refers to the amounts invoiced to clients resulting from the electric infrastructures usage and exploration, in accordance with the Decree-Law no. 4/93, of 8 January. The balance Public sector - Other includes the income tax payable in the amount of Euros 657,218.

The balance Other creditors includes the mandatory guarantee deposits received from electricity consumers, in the amount of Euros 2,505,099 (2008: Euros 2,463,920).

I 5 Accruals

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Municipal network tax	7,305,443	6,967,563	7,305,443	6,967,563
Holiday pay and subsidies	4,102,847	3,844,072	4,089,257	3,841,117
Interest payable	1,850,280	2,211,708	1,832,966	2,155,242
Other liabilities	509,628	4,535,142	441,741	4,611,550
	<u>13,768,198</u>	<u>17,558,485</u>	<u>13,669,407</u>	<u>17,575,472</u>

The balance Municipal network tax refers to the 2009 local tax rate owed by EEM related to the usage of the regional public domain. The tax rate was fixed in 7.5% of the annual sales amount of low tension electric energy in each Municipality, in accordance with Regional Decree-Law no. 2/2007/M, of 8 January, which produces effects starting on 1 January 2006.

As at 31 December 2008, the balance Other liabilities includes the amount of Euros 3,983,304 related to the accrual of costs of assets under construction.



16 Deferred income

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Investment subsidies:				
Plano Operacional Plurifundos ("POP-RAM")	13,164,177	16,038,184	13,164,177	16,038,184
Socorridos Project	13,275,098	13,808,911	13,275,098	13,808,911
Clients comparticipation	6,402,666	6,579,893	6,402,666	6,579,893
Network reinforcement projects	2,130,755	2,044,784	2,130,755	2,044,784
Fundo Europeu de Desenvolvimento Regional ("FEDER")	177,678	411,140	177,678	411,140
Sit-Geo Project	241,846	310,805	241,846	310,805
SIURE Project	270,448	303,997	102,806	113,317
PPDA - Plano de promoção e desempenho ambiental	1,116,449	571,809	1,116,449	571,809
Other investment subsidies received	334,160	214,902	334,160	214,902
	<u>37,113,277</u>	<u>40,284,425</u>	<u>36,945,635</u>	<u>40,093,745</u>
Other deferred income	-	200,000	-	200,000
	<u>37,113,277</u>	<u>40,484,425</u>	<u>36,945,635</u>	<u>40,293,745</u>

Subsidies from governmental and communitarian entities are granted in order to finance the acquisition or construction of fixed assets. These amounts are accounted as a liability, being recognised in the income statement during the useful life of the assets, as referred in note 1.1.1.

The balance Clients comparticipation, in the amount of Euros 6,402,666 (2008: Euros 6,579,893), refers to construction works invoiced to clients, which are accounted as fixed assets. The accounting treatment of these amounts is identical to investment subsidies.

I7 Sales and Cost of sales

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Sales:				
Energy	116,166,461	110,353,316	116,182,570	110,370,038
Tariff compensation	35,503,914	60,508,098	35,503,914	60,508,098
Other	621,556	356,906	621,377	356,647
	<u>152,291,931</u>	<u>171,218,320</u>	<u>152,307,861</u>	<u>171,234,783</u>
Cost of sales:				
Raw materials	63,476,822	89,208,707	65,691,995	90,098,807
Goods	9,707,741	12,476,888	9,707,312	12,476,558
	<u>73,184,563</u>	<u>101,685,595</u>	<u>75,399,307</u>	<u>102,575,365</u>

The balance Tariff compensation includes the amounts attributed to EEM related to the 2009 tariff convergence, in the amount of Euros 30,411,898, and the tariff compensation arising from the calculation of the income considering the actual conditions for 2007, 2008 and 2009 which include a positive amount of Euros 5,704,691 and a negative amount of Euros 612,675, as mentioned in note 7.

I8 Other operating income

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Own work capitalised	21,273,875	21,834,011	21,273,875	21,834,011
CO2 licenses	7,918,393	11,264,355	7,918,393	11,264,355
Services rendered	333,111	222,293	169,748	144,200
Supplementary profits	89,062	195,696	92,799	198,077
	<u>29,614,441</u>	<u>33,516,355</u>	<u>29,454,815</u>	<u>33,440,643</u>

The balance CO2 licenses refers to the subsidy related to the CO2 licenses granted freely attributed which were consumed or sold during the period, as referred in note I.17.

19 Other operating costs

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
CO2 licenses	5,899,627	8,910,725	5,899,627	8,910,725
Municipal network tax	7,305,443	6,967,563	7,305,443	6,967,563
Other operating costs	1,399,086	1,039,188	1,363,993	1,026,081
	<u>14,604,156</u>	<u>16,917,476</u>	<u>14,569,063</u>	<u>16,904,369</u>

The balance CO2 licenses refers to the licenses consumption that result from the CO2 emissions, as referred in note 1.17.

The balance Municipal network tax refers to the 2009 local tax rate owed by EEM, as referred in note 15.

20 Financial income/(costs)

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Financial costs:				
Interest	(13,999,162)	(16,656,785)	(13,629,938)	(16,576,649)
Commissions and other financial costs	(756,566)	(515,253)	(743,457)	(502,275)
	<u>(14,755,728)</u>	<u>(17,172,038)</u>	<u>(14,373,395)</u>	<u>(17,078,924)</u>
Financial income:				
Interest	4,038,192	1,342,002	4,036,935	1,338,693
Other	516,012	2,060,519	415,959	764,519
	<u>4,554,204</u>	<u>3,402,521</u>	<u>4,452,894</u>	<u>2,103,212</u>
	<u>(10,201,524)</u>	<u>(13,769,517)</u>	<u>(9,920,501)</u>	<u>(14,975,712)</u>

As at 31 December 2009, the balance Financial income – Interest includes Euros 2,091,040 arising from the interest attributed to the amount received from the Central Government, in 2009, under the Tariff Convergence for the 1998-2002 period, as referred to in note 7.

As at 31 December 2008, the balance Financial income – Other includes the gain obtained by Emacom in transactions with derivative financial instruments held for trading, in the amount of Euros 1,296,000.

21 Other income

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Investments subsidies	4,515,642	4,731,845	4,492,604	4,708,807
Gains from the sale of fixed assets	-	69,370	-	69,370
Other income	201,459	273,643	201,413	252,170
	<u>4,717,101</u>	<u>5,074,858</u>	<u>4,694,017</u>	<u>5,030,347</u>

The balance Other income – Investment subsidies includes the depreciation charge for the year, in the amount of Euros 68,035 (2008: Euros 42,614), regarding the comparticipation attributed by ERSE under the “Plano de Promoção de Desempenho Ambiental”.

22 Income taxes

This balance is analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Current tax	1,165,685	953,490	1,163,182	642,592
Deferred tax	(12,824)	(107,692)	(97,646)	(107,692)
	<u>1,152,861</u>	<u>845,798</u>	<u>1,065,536</u>	<u>534,900</u>

The balance Deferred tax corresponds to the deferred tax assets and liabilities, as referred to in note 13.

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2009 and 2008, is analysed as follow:

	2009			2008		
	Rate	Tax Basis	Tax	Rate	Tax Basis	Tax
Income tax calculated based on the statutory tax rate	20.00%	5,179,968	1,035,994	20.00%	4,632,325	926,465
Non-deductible provisions for tax purposes	12.39%	3,208,546	641,709	2.09%	483,103	96,621
Tax benefits	(8.81%)	(2,283,059)	(456,612)	(1.03%)	(239,600)	(47,920)
Non-deductible tax losses	0.44%	115,160	23,032	0.09%	20,302	4,060
Equity on associates	(1.89%)	(490,797)	(98,159)	(2.19%)	(506,784)	(101,357)
Tax-exempt dividends	(0.71%)	(184,469)	(36,894)	(1.31%)	(304,070)	(60,814)
Difference between the tax and accounting gains and losses	0.00%	-	-	0.00%	(269)	(54)
Autonomous taxation (*)	0.66%	171,866	34,373	0.79%	181,964	36,393
Changes in estimates	0.01%	2,137	427	(0.09%)	(20,136)	(4,027)
Depreciation without tax consequences	0.00%	-	-	0.00%	296	59
Other adjustments	0.17%	44,953	8,991	(0.08%)	(18,143)	(3,628)
	<u>22.26%</u>	<u>5,764,305</u>	<u>1,152,861</u>	<u>18.26%</u>	<u>4,228,988</u>	<u>845,798</u>

(*) The Autonomous taxation is calculated based on a 5% and 50% tax rates.

23 Pensions

In the terms of the Company Agreement, EEM assumed under the form of a defined benefit plan, the liability to pay pension complements on retirement to the employees that were included in the Social Security Scheme (“Caixa Nacional de Pensões”) as at the date of the above mentioned Agreement.

As at 31 December 2009 and 2008, the number of participants covered by this pension plan is analysed as follows:

	2009	2008
Number of participants:		
Employees	70	79
Pre-pensioners	24	32
Pensioners	233	219
	<u>327</u>	<u>330</u>

As at 31 December 2009 and 2008, the liabilities for past services associated to the pension plan were the following:

	2009 Euros	2008 Euros
Evolution of liabilities:		
Liabilities at the beginning of the year	33,914,668	34,626,011
Current service cost	263,655	294,165
Interest cost	1,610,947	1,644,736
Benefits paid	(2,485,462)	(2,477,005)
Actuarial gains and losses	(425,698)	(173,239)
	<u>32,878,110</u>	<u>33,914,668</u>

During 2009, the evolution of the liabilities results, essentially, from the reduction of the number of pre-pensioners covered by this pension plan. This change results in a reduction of the liabilities since EEM will only support the difference between the retirement pension for limit of age or disability attributed by the Social Security and the last salary received by the employee.

The liabilities with the pension plan are covered by a specific insurance policy and by specific provisions, as follows:

	2009 Euros	2008 Euros
Liabilities as at 31 December:		
Employees	10,063,001	10,912,204
Pre-pensioners	5,310,672	7,344,947
Pensioners	17,504,437	15,657,517
Liabilities to be covered:		
Insurance coverage	32,878,110	33,914,668
Provisions charged	(4,963,376)	(4,772,477)
	<u>(27,914,734)</u>	<u>(29,142,191)</u>
Liabilities not covered	<u>-</u>	<u>-</u>

During 2009, EEM has accounted as pension costs an amount of Euros 2,636,009 (2008: Euros 2,960,109), which are analysed as follows:

	2009 Euros	2008 Euros
Cost for the year:		
Current service cost	263,655	294,165
Interest costs	1,610,947	1,644,736
Actuarial gains and losses	(425,698)	(173,239)
Return on plan assets	(190,899)	(183,557)
Amortisation of deferred past services liabilities	1,378,004	1,378,004
Net cost for the year	<u>2,636,009</u>	<u>2,960,109</u>

During 2009, based on the actuarial valuation and in accordance with the accounting principles defined in the Accounting Rule no. 19, EEM charged the provision for pensions in the amount of Euros 1,258,005 (2008: Euros 1,582,105), as referred to in note 12.

As at 31 December 2003, and resulting from the actuarial study performed with reference to the date of enforcement of Accounting Rule no. 19, provisions were booked against deferred costs in the amount of Euros 11,024,028, as established by the transitory rules defined by the referred regulation. The deferred costs accounted are related to the liabilities with past service costs of employees on duty, which are being amortised during eight years, the average remaining years to retirement of the employees, starting on 1 January 2004, as referred in note 7.

The actuarial assumptions used for the calculation of pension liabilities are presented as follows:

	2009	2008
Assumptions:		
Salaries increase rate	2.75%	2.75%
Pre-pensioners pensions increase rate	1.75%	1.75%
Pensioners pensions increase rate	1.75%	1.75%
Expected return of plan assets	4.75%	4.75%
Discount rate	4.75%	4.75%
Mortality table		
Women	TV88/90	TV88/90
Men	TV73/77	TV73/77
	+ 1 year	+ 1 year
Disability rate	EVK 80	EVK 80

24 CO2 licenses

The CO2 licenses for consumption movements are analysed as follows:

	Dec 2009		Dec 2008	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	33,510	20.71	22,464	0.10
Licenses cancelled (attributed on PNALE I)	-	-	(22,464)	0.10
Licenses freely attributed	577,419	14.64	577,419	20.71
Licenses acquired	-	-	288,000	18.65
Licenses sold	(124,000)	16.28	(373,000)	20.71
	<u>486,929</u>		<u>492,419</u>	
Licenses to return regarding the year consumption	(402,980)		(458,909)	
Excess / (Insufficiency) of licenses	<u>83,949</u>	14.64	<u>33,510</u>	20.71
Assets / (Liabilities) – Euros	<u>1,229,013</u>		<u>693,992</u>	

The CO2 licenses freely attributed for the 2008-2012 period amount to 2,887,095 tons of EUA, which will be allocated on a straight line basis over the referred period (577,419 tons per year), in accordance with PNALE II.

During 2009 and as mentioned in note 3, EEM sold 124,000 tons of EUA freely attributed, recognising a net loss of Euros 414,315. Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to Euros 40,795 (including the effect of the Tariff compensation of 2009 in the income statement).

The licenses corresponding to each year's consumptions are returned to the regulatory entity of each country until the end of the fourth month of the subsequent year (see note 3).

25 Related parties

Balances and transactions with subsidiaries, associated companies and other investments

During 2009, the balances and transactions between EEM and its subsidiaries, associated companies and other investments are analysed as follows:

	Assets			Liability	
	Clients	Accrued income	Loans granted	Suppliers	Others creditors
Enereem	-	-	155,264	-	-
Museu - Casa da Luz	-	1,210	1,992,739	-	-
Emacom	253	4,016	-	(221,409)	-
Teleféricos da Madeira, S.A.	44,867	4,944	-	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	23,690	14,894	1,009,497	-	(7,228)
	<u>68,810</u>	<u>25,064</u>	<u>3,157,500</u>	<u>(221,409)</u>	<u>(7,228)</u>

	Transactions				
	Turnover	Other operating income	Financial income	Cost of sales	Supplies and services
Enereem	-	-	-	2,215,173	-
Museu - Casa da Luz	(14,490)	-	-	-	31,200
Emacom	(1,619)	(3,737)	-	-	240,246
Teleféricos da Madeira, S.A.	(64,284)	-	29,474	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	(147,153)	-	(49,531)	-	6,341
	<u>(227,546)</u>	<u>(3,737)</u>	<u>(20,057)</u>	<u>2,215,173</u>	<u>277,787</u>

The balances and transactions between EEM and its subsidiaries are eliminated during the consolidation process, as referred in note 1.1.

Shareholders

EEM's share capital is entirely held by Madeira's Regional Government, as referred in note 8.

26 Commitments

The commitments not included in the balance sheet as at 31 December 2009 referring to bank guarantees are analysed as follows:

	Group		Individual	
	2009 Euros	2008 Euros	2009 Euros	2008 Euros
Bank guarantees provided on behalf of EEM	68,133,371	68,133,371	65,000,000	65,000,000
Bank guarantees provided by EEM	129,147	129,147	129,147	129,147
	<u>68,262,518</u>	<u>68,262,518</u>	<u>65,129,147</u>	<u>65,129,147</u>

EEM's commitment through bank guarantees amounts to Euros 68,133,371, which can be detailed as follows:

- Bank guarantees agreed by EEM with financial institutions (Banco Espírito Santo, BPI, Caixa Geral de Depósitos and BES Investimentos) in favour of Banco Europeu de Investimento amounting to Euros 65,000,000;
- Bank guarantee with Caixa Geral de Depósitos, through its subsidiary Enereem, in favour of Vestas - DWT in the amount of Euros 3,133,371, valid up to 31 December 2009.

The Euros 129,147 bank guarantees provided by EEM mainly refers to bank guarantees in favour of CMF - Conc. Público "Comboio Monte".

27 Subsequent events

The intemperie of February 2010

On February 2010, a natural disaster in Madeira island caused significant damages on the hydroelectric production equipment and on the electric transportation and distribution networks of EEM. The estimated loss of the intemperie amounts to Euros 13 million. As at the date of this report, EEM did not determine the losses that will be compensated through the exercise of the existing insurance policies or through contributions by other entities.

28 Subsidiaries financial statements (consolidated by the full method)

i) Casa da Luz - Empreendimentos Turísticos Similares, Unipessoal, Lda. Balance Sheet as at 31 December 2009 and 2008

	2009 Euros	2008 Euros
Assets		
Tangible assets	2,236,566	2,353,927
Investments	141,051	115,609
Clients and other debtors	40,595	23,758
Inventories	39,399	39,829
Deferred costs	77	70
Cash and deposits at banks	4,378	3,509
Total Assets	2,462,066	2,536,702
Quotaholders' Equity		
Quota capital	99,760	99,760
Supplementary capital contributions	2,596,394	2,096,394
Reserves and retained earnings	(2,206,312)	(2,067,520)
Net loss for the year	(94,685)	(141,492)
Total Quotaholders' Equity	395,157	(12,858)
Liabilities		
Quotaholders	2,052,739	2,156,128
Suppliers and other creditors	7,264	386,552
Other liabilities	6,906	6,880
Total Liabilities	2,066,909	2,549,560
	2,462,066	2,536,702



ii) Casa da Luz - Empreendimentos Turísticos Similares, Unipessoal, Lda.
Income Statement for the years ended 31 December 2009 and 2008

	2009 Euros	2008 Euros
Operating income		
Sales	179	258
Other operating income	68,676	37,513
	<u>68,855</u>	<u>37,771</u>
Operating costs		
Cost of sales	429	330
Personnel costs	25,934	23,757
Supplies and services	38,682	58,218
Depreciation and adjustments	121,345	120,371
Other operating costs	648	1,325
	<u>187,038</u>	<u>204,001</u>
Operating loss	<u>(118,183)</u>	<u>(166,230)</u>
Other income/(costs)		
Financial income/(costs)	25,304	26,373
Other income	-	9
Other costs	(1,477)	(1,259)
	<u>23,827</u>	<u>25,123</u>
Income before income taxes	(94,356)	(141,107)
Income taxes	329	385
Net loss for the year	<u>(94,685)</u>	<u>(141,492)</u>

iii) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.
Balance Sheet as at 31 December 2009 and 2008

	2009 Euros	2008 Euros
Assets		
Tangible assets	276,002	139,276
Loans to subsidiaries	-	1,456,910
Clients and other debtors	347,635	52,987
Cash and deposits at banks	16,047	199,087
Total Assets	<u>639,684</u>	<u>1,848,260</u>
Quotaholders' Equity		
Quota capital	49,880	49,880
Supplementary capital contributions	250,000	1,000,000
Reserves and retained earnings	60,474	(981,032)
Net profit for the year	151,626	1,041,506
Total Quotaholders' Equity	<u>511,980</u>	<u>1,110,354</u>
Liabilities		
Provision for liabilities and charges	-	456,909
Suppliers and other creditors	113,245	280,944
Other liabilities	14,459	53
Total Liabilities	<u>127,704</u>	<u>737,906</u>
	<u>639,684</u>	<u>1,848,260</u>



iv) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.
Income Statement for the years ended 31 December 2009 and 2008

	2009 Euros	2008 Euros
Operating income		
Services rendered	390,433	160,815
	<u>390,433</u>	<u>160,815</u>
Operating costs		
Supplies and services	211,620	164,241
Personnel costs	79,695	-
Depreciation and adjustments	44,347	15,868
Other operating costs	627	7,613
	<u>336,289</u>	<u>187,722</u>
Operating income/(loss)	<u>54,144</u>	<u>(26,907)</u>
Other income/(costs)		
Financial income/(costs)	99,650	1,296,714
Other income	42	-
Other costs	(93)	(785)
	<u>99,599</u>	<u>1,295,929</u>
Income before income taxes	153,743	1,269,022
Income taxes	2,117	227,516
Net profit for the year	<u><u>151,626</u></u>	<u><u>1,041,506</u></u>

v) Enereem - Energias Renováveis, Lda.
Balance Sheet as at 31 December 2009 and 2008

	2009 Euros	2008 Euros
Assets		
Tangible assets	23,309,150	22,392,842
Clients and other debtors	63,233	589,121
Deferred tax assets	15,975	-
Prepayments and accrued income	107,100	111,005
Cash and deposits at banks	6,416	17,499
Total Assets	<u>23,501,874</u>	<u>23,110,467</u>
Quotaholders' Equity		
Quota capital	49,880	49,880
Supplementary capital contributions	800,000	800,000
Reserves and retained earnings	691,572	338,269
Net profit for the year	339,221	353,304
Total Quotaholders' Equity	<u>1,880,673</u>	<u>1,541,453</u>
Liabilities		
Amounts owed to credit institutions	20,812,966	17,165,074
Quotaholders	155,264	19,639
Suppliers and other creditors	218,910	4,105,099
Deferred tax liabilities	183,764	-
Prepayments and accrued costs	250,297	279,202
Total Liabilities	<u>21,621,201</u>	<u>21,569,014</u>
	<u>23,501,874</u>	<u>23,110,467</u>



vi) Enereem - Energias Renováveis, Lda.

Income Statement for the years ended 31 December 2009 and 2008

	2009 Euros	2008 Euros
Operating income		
Sales	2,215,173	890,101
	<u>2,215,173</u>	<u>890,101</u>
Operating costs		
Supplies and services	363,227	78,991
Depreciation and re-integration of the period	1,036,534	324,749
Other operating costs	33,819	4,168
	<u>1,433,580</u>	<u>407,908</u>
Operating income	<u>781,593</u>	<u>482,193</u>
Other income/(costs)		
Financial income/(costs)	(380,535)	(90,393)
Other income	23,042	44,501
	<u>(357,493)</u>	<u>(45,892)</u>
Income before income taxes	424,100	436,301
Income taxes	84,879	82,997
Net profit for the year	<u>339,221</u>	<u>353,304</u>



Statutory Auditor's Opinion on the Consolidated Accounts



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STATUTORY AUDITOR'S OPINION ON THE CONSOLIDATED ACCOUNTS

Introduction

1. We have examined the consolidated financial statements of **EEM – Empresa de Electricidade da Madeira, S.A.**, which comprise the Consolidated balance sheet as at 31 December 2009 (showing total assets of 650,542,432 euros and shareholders' equity attributable to the equity holders of the group of 117,570,326 euros, including a net profit for the year of 4,001,665 euros), the Consolidated statements of income by nature and by function, the Consolidated statement of cash flows and the Consolidated statement of changes in shareholders' equity for the year then ended, and the corresponding Notes.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements that present fairly the financial position of the group of companies included in the consolidation, the consolidated results of their operations and the consolidated cash flows, the adoption of adequate accounting policies and criteria and maintaining an appropriate internal control system.
3. Our responsibility is to issue a professional and independent report based on our audit of those consolidated financial statements.

Scope

4. Except for the matters referred to in paragraphs 7, 8 and 9.2 below, our audit was performed in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the exam to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our exam included:
 - verification, on a test basis, of the information underlying the figures and its disclosures contained therein and an assessment of the estimates, based on the judgments and criteria defined by the Board of Directors, used in the preparation of the referred consolidated financial statements;
 - verification of the consolidation procedures and the application of the equity method;
 - assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
 - verification of the application of the going concern principle; and
 - assessment of the appropriateness of the overall presentation of the consolidated financial statements.
5. Our audit also included the verification of the consistency of the financial information included in the Board of Directors Report with the consolidated financial statements.
6. We believe that our audit provides a reasonable basis for the expression of our opinion.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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do registo Comercial de
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Qualifications

7. EEM booked under the caption Clients and other debtors the amount of 41,487,033 euros (2008: 43,971,463 euros) related to public lightning and other services rendered to regional official entities, for which EEM signed a set of protocols in the years 2000, 2001, 2003 and 2006 in order to receive the amounts owed during a period between 10 and 30 years, without interest and in a monthly based instalments. Under these protocols EEM received, during 2009, 2,484,431 euros and, in previous years, 17,939,244 euros.

Additionally, EEM booked under the caption Prepayments and accrued income the amount of 18,086,822 euros (2008: 41,697,348 euros) resulting from the Contract for the Tariff Convergence for Electric Energy signed in April 2003 between EEM, the Regional Government and the Central Government, which establishes the criteria for the compensation payments due to EEM as a result of the tariffs reduction for the period from 1998 to 2002. Under the referred contract, the compensation amount owed to EEM and defined by ERSE during 2007, is payable in 40 quarterly instalments without interest beginning in 2004.

The terms of the above mentioned debts, for which was established an agreement for their payment without interest, implicate that the present value of the outstanding debt is substantially lower than its nominal value. At the date of this Statutory Auditor's Opinion, EEM had not yet determined the present value of these debts and the resulting effect in the shareholders' equity and the profit for the year.

8. EEM booked under the caption Clients and other debtors debts from regional official entities, in the amount of 62,415,240 euros (2008: 58,327,667 euros), which do not have an established payment plan. Due to the materiality and the overdue period of these amounts, despite being owed by official entities, it is not possible to estimate when these amounts will be received.
9. Under the responsibilities foreseen by the Decree-Law no. 159/99, of 14 September, which establishes the legal framework for the transfer of competences to the local Municipalities and defines the competences of the Municipalities concerning the rural and urban public lightning, and in accordance with the "Lei das Finanças Locais", the Municipalities of the Autonomous Region of Madeira approved, through Municipalities' Assemblies, as of 1 January 2006, the creation of a Municipalities Association for which the responsibilities regarding the urban and rural public lightning were transferred, including the ability to collect an annual tax for the utilisation of the municipal public domain by the production equipment and by the electric energy transport and distribution networks of EEM (municipal network tax).

In this context, the Regional Decree-Law no. 2/2007/M was published to regulate the transfer of the responsibility related to the rural and urban public lightning from the Regional Government to the Municipalities of the Autonomous Region of Madeira as well as to limit the municipal network tax rate.

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December 2009 and in previous periods, costs related to the municipal network tax in the total amount of 26,728,928 euros. Considering the assumption that the costs incurred with the municipal network tax are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.



- 9.1 At the end of 2007, and based on the analysis of the tariffs and prices proposal for 2008 by the Tariff Council, ERSE considered that the municipal network tax for 2006 should not be considered for the purpose of determining the tariffs. As at 31 December 2007, and as a result of this decision, EEM recorded a provision for liabilities and charges against retained earnings in the amount of 6,027,640 euros, an amount equivalent to the municipal network tax recorded as at 31 December 2006.

As at 31 December 2009, the assets and liabilities of EEM are overstated in the amount of 6,027,640 euros, considering that the referred provision should be presented as a reduction to the corresponding asset.

- 9.2 For the years from 2007 to 2009, and as mentioned in the documents regarding the determination of tariffs, ERSE considers that the amount of the municipal network tax paid is owed to EEM, and should be charged to Autonomous Region of Madeira consumers and not supported on an equitable basis by the Continental and Autonomous Region of Madeira consumers. Considering the EEM's different interpretation, which considers that this tax should be charged to all national consumers, ERSE has accepted EEM's proposal and has not included the municipal network tax exclusively in the tariffs of the Autonomous Region of Madeira consumers.

At the date of this Statutory Auditor's Opinion, the measures and mechanisms that will ensure the recovery of the assets arising from the municipal network tax for the years from 2007 to 2009, in the amount of 20,701,288 euros, are not defined and implemented, therefore, it is not possible to estimate when these payments will occur and the impact, if any, in EEM shareholders' equity and profit for the year as at 31 December 2009.

10. Under the regulation parameters for the distribution and commercialisation of electric energy activities defined by ERSE and applicable to the actual regulatory period (2009-2011), and considering the assumptions adopted in the 2010 tariffs, EEM charged as at 31 December 2009 a provision of 3,058,000 euros based on the expected losses for 2010 in the referred regulated activities.

The above mentioned provision results in an early recognition of future operating losses, therefore, it does not accomplish the requirements to be classified as a liability or as a provision. As at 31 December 2009, the profit for the year is understated and the liabilities overstated in the amount of 3,058,000 euros.

Qualified opinion

11. In our opinion, except for the effect of the adjustments, if any, that might result from the matters described in paragraphs 7, 8 and 9.2 above, and except for the effect of the matters described in paragraphs 9.1 and 10 above, the referred consolidated financial statements present fairly, in all material respects, the consolidated financial position of **EEM - Empresa de Electricidade da Madeira, S.A.** as at 31 December 2009, the consolidated results of its operations and cash flows for the year then ended, in accordance with the generally accepted accounting principles in Portugal.



Emphasis of matter

12. Without qualifying our opinion expressed in the paragraph above, we draw attention to the fact that our Statutory Auditor's Opinion for the year ended 31 December 2008, issued in 31 March 2009, includes a qualification regarding the accounting treatment of the amounts receivable from the Central Government under the Contract for the Tariff Convergence for Electric Energy signed between EEM, the Regional Government and the Central Government. At the date of our Statutory Auditor's Opinion for the year then ended, it was not possible to estimate when the amounts overdue would be realised and the impact, if any, in the shareholders' equity and profit for the year as at 31 December 2008.

As at 31 December 2009 this issue is resolved, considering that during the period then ended EEM received the total debt overdue in the amount of 23,610,526 euros and related interest in the amount of 2,091,040 euros.

Lisbon, 31 March 2010



KPMG & Associados

Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)

represented by

Jean-éric Gaign (Statutory Auditor no. 1013)



Extract of the Minutes of the General Assembly Meeting

MINUTE NUMBER TWENTIETH

- «On the eighteenth day of May of two thousand and ten at fifteen o'clock in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and Eng.º Mário Eugénio Jardim Fernandes, as well as the single shareholder of the partnership, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total value of the Share capital, valued at twenty million euros, for which the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:

- POINT ONE: Deliberate on the Annual Report of 2009;

- POINT TWO: Deliberate on application of results;

- POINT THREE: Elaborate a general appreciation of the administration and fiscal supervision of the corporation.

- Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2009 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 001 665,04 €:

Retained earnings – 3 601 498,54 €

Statutory reserve – 400 166,50 €

- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.

- Regarding point three, the Autonomous Region of Madeira, single shareholding entity, represented by Dr. Paulo Jorge Figueiroa de França Gomes reaffirmed its confidence in the board of the company and in its fiscal supervisors.

- After the mentioned proposal was presented, it was determined to approve them unanimously.

- As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»



MINUTE NUMBER TWENTY-FIRST

- «On the eighteenth day of May of two thousand and ten at approximately thirty minutes past fifteen in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and Eng.º Mário Eugénio Jardim Fernandes, as well as the single shareholder of the partnership, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total value of the Share capital, valued at twenty million euros, for which the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:

- SINGLE POINT: Deliberate on the Annual Report and Consolidated Accounts of 2009 and on the application of results.

- Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2009 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 001 665,04 €:

Retained earnings – 3 601 498,54 €

Statutory reserve – 400 166,50 €

- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.

- As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»

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Annual Report