



2006  
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



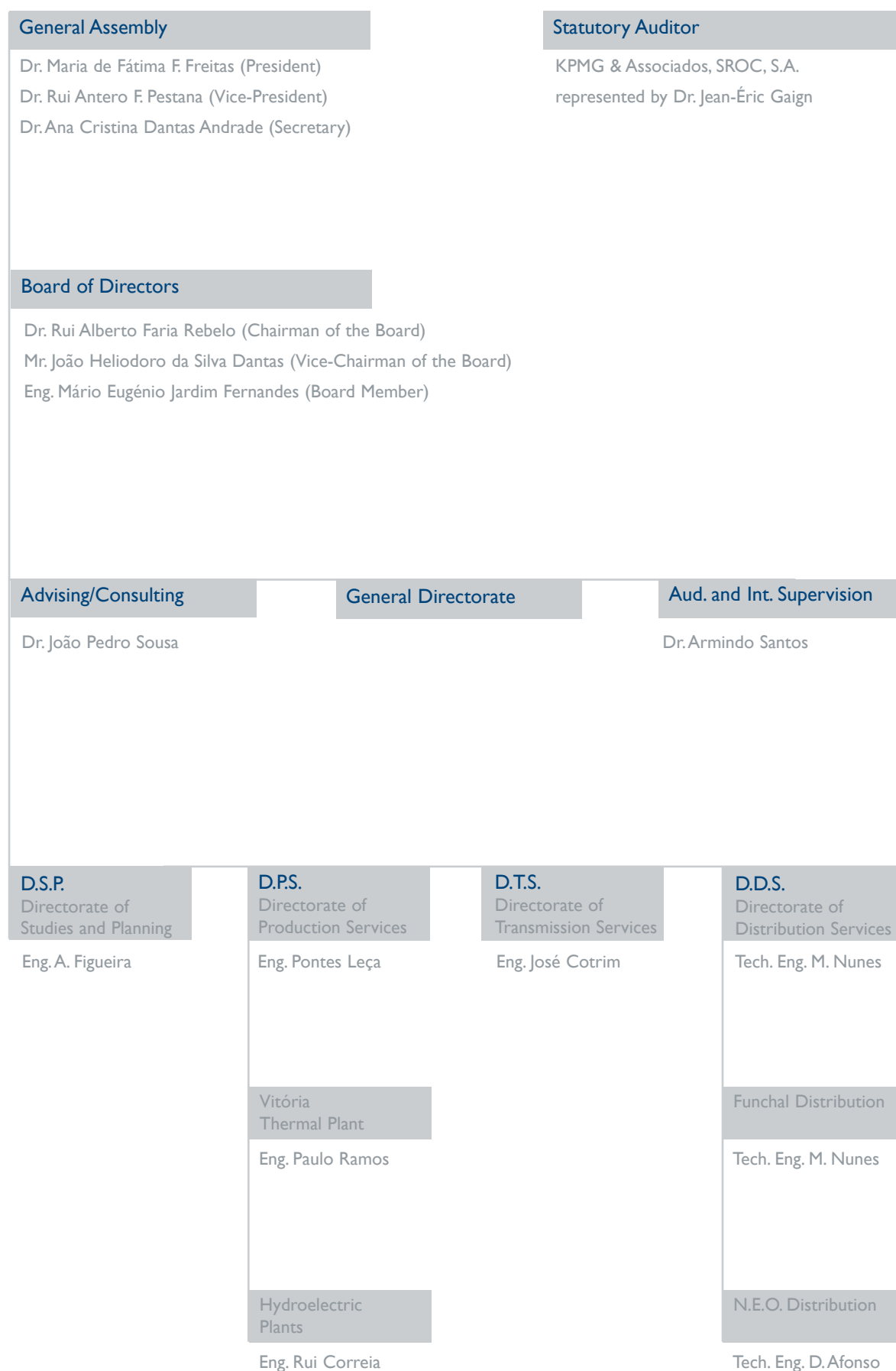
From left to right:

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

Dr. Rui Alberto Faria Rebelo (Chairman of the Board)

Eng. Mário Eugénio Jardim Fernandes (Board Member)

## Organigram





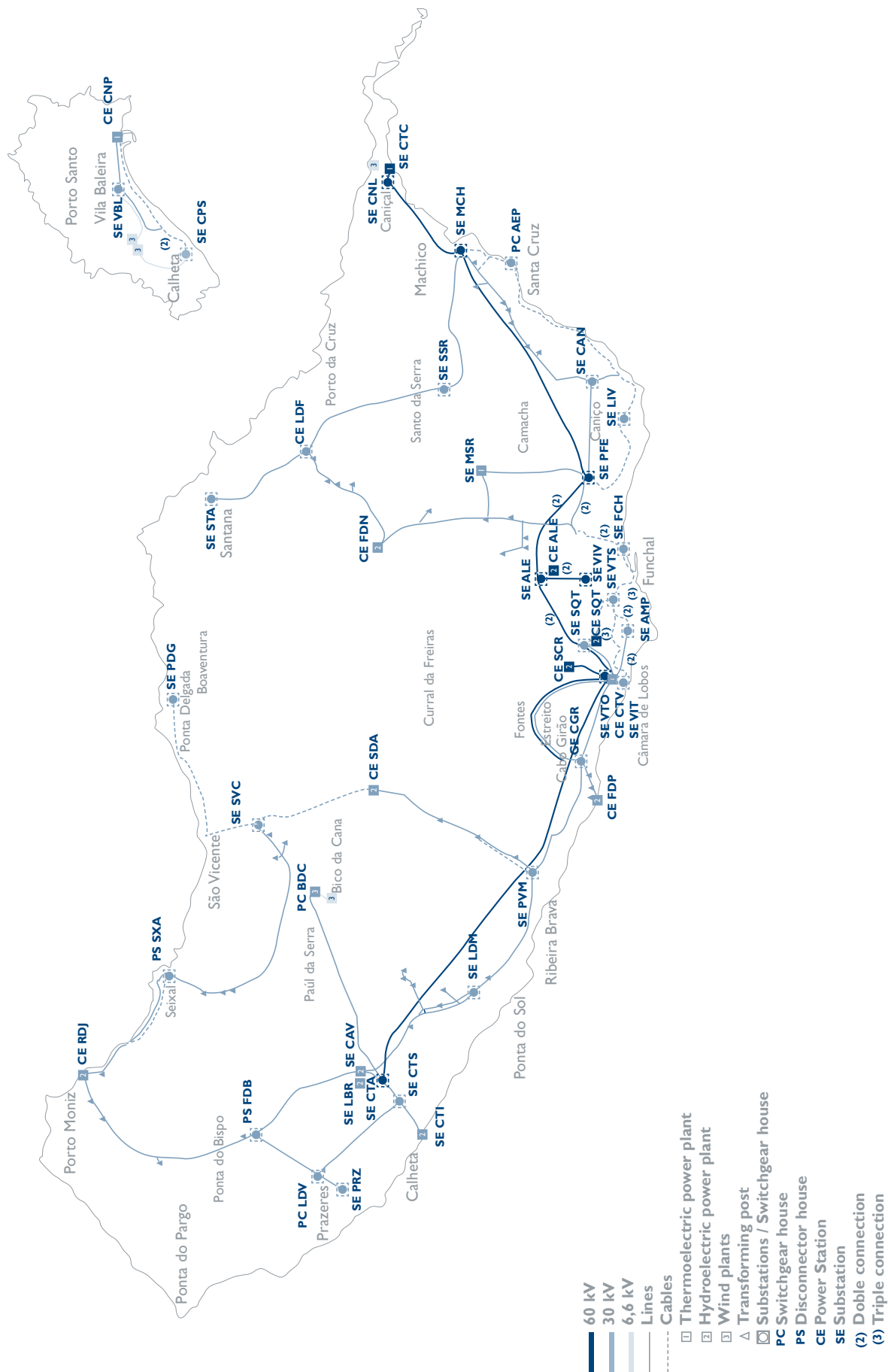
D.A.S. Directorate of Adm. Services	D.C.S. Directorate of Const. Services	D.L.J.S. Directorate of Labour & Judicial Serv.	D.I.S. Directorate of IT Systems	P.S.D. Porto Santo Division
Dr. Ana Borges	Eng. António Marrana	Dr. A. Cristina Dantas	Eng. António Nunes	Eng. Luís J. Afonso
S.I.A.M.	Hydroenergy			
Eng. Alberto Pestana	Eng. G. de Almeida			
	Construction			
	Eng. António Marrana			



# Characteristic Data



## Transmission Network





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

GWh	2002	2003	2004	2005	2006
<b>Madeira Island</b>	<b>545,76</b>	<b>516,12</b>	<b>569,16</b>	<b>617,79</b>	<b>642,66</b>
Hydroelectric	129,85	126,27	60,46	82,58	108,67
Thermoelectric (Vitória)	415,91	389,85	508,70	535,21	533,99
<b>Porto Santo Island</b>	<b>28,35</b>	<b>31,16</b>	<b>34,76</b>	<b>37,37</b>	<b>37,47</b>
Thermoelectric	27,40	30,23	34,03	36,58	36,77
Wind Plants	0,95	0,93	0,74	0,79	0,70
<b>Total RAM</b>	<b>574,10</b>	<b>547,28</b>	<b>603,92</b>	<b>655,16</b>	<b>680,13</b>

Note: RAM - Autonomous Region of Madeira

### Electric energy acquisition - Other entities

GWh	2002	2003	2004	2005	2006
<b>Madeira Island</b>	<b>168,60</b>	<b>238,17</b>	<b>247,18</b>	<b>246,09</b>	<b>251,31</b>
Hydroelectric	3,45	3,89	3,96	4,36	4,19
Wind Plants	14,12	15,94	16,11	15,26	15,44
Thermoelectric (Canical)	149,59	192,19	192,00	192,17	192,35
ETRSU (Meia Serra)	1,43	26,14	35,11	34,30	39,33
<b>Porto Santo Island</b>	<b>1,44</b>	<b>1,30</b>	<b>1,06</b>	<b>1,11</b>	<b>1,04</b>
Wind Plants	1,44	1,30	1,06	1,11	1,04
<b>Total RAM</b>	<b>170,04</b>	<b>239,47</b>	<b>248,24</b>	<b>247,21</b>	<b>252,35</b>

Note : ETRSU - Solid Waste Incineration

### RAM energy balance - 2006

GWh	Net Demand	Billing
Madeira Island	878,34	798,42
Porto Santo Island	36,32	34,98
<b>Total RAM</b>	<b>914,66</b>	<b>833,40</b>

### Transmission and Distribution Network (MV) - RAM

Km	2002	2003	2004	2005	2006
<b>6,6 kV</b>	<b>896,84</b>	<b>924,71</b>	<b>1.020,40</b>	<b>1.075,58</b>	<b>1.131,31</b>
Overhead lines	498,30	504,75	519,10	527,86	538,87
Underground cables	398,54	419,96	501,30	547,72	592,44
<b>30 kV</b>	<b>317,61</b>	<b>317,61</b>	<b>335,41</b>	<b>345,11</b>	<b>356,86</b>
Overhead lines	222,82	222,42	233,92	234,85	236,01
Underground cables	94,79	95,19	101,49	110,26	120,85
<b>60 kV</b>	<b>68,10</b>	<b>68,10</b>	<b>68,10</b>	<b>68,10</b>	<b>68,10</b>
Overhead lines	68,10	68,10	68,10	68,10	68,10
Underground cables	-	-	-	-	-
<b>Total RAM</b>	<b>1.282,55</b>	<b>1.310,42</b>	<b>1.423,91</b>	<b>1.488,79</b>	<b>1.556,27</b>

Note : MV - Medium Voltage

Substations					
	2002	2003	2004	2005	2006
<b>Madeira Island</b>					
Number	25	25	25	25	27
Installed power (MVA)	398	403	427	427	445
<b>Porto Santo Island</b>					
Number	3	3	3	3	3
Installed power (MVA)	16	16	16	16	16
<b>Total RAM</b>					
Number	28	28	28	28	30
Installed power (MVA)	414	419	443	443	461

Transforming Posts by council in RAM - 2006						
	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	102	64.965	442	230.765	544	295.730
Câmara de Lobos	10	6.370	103	38.110	113	44.480
Ribeira Brava	4	1.880	99	29.020	103	30.900
Ponta do Sol	2	300	48	17.345	50	17.645
Calheta	3	1.040	117	30.213	120	31.253
Porto Moniz	-	-	47	11.260	47	11.260
São Vicente	2	475	54	14.505	56	14.980
Santana	10	3.755	82	16.580	92	20.335
Machico	27	15.105	111	39.765	138	54.870
Santa Cruz	38	21.230	234	87.675	272	108.905
Porto Santo	18	9.345	65	20.550	83	29.895
<b>Total RAM</b>	<b>216</b>	<b>124.465</b>	<b>1.402</b>	<b>535.788</b>	<b>1.618</b>	<b>660.253</b>

Commercial Data					
	2002	2003	2004	2005	2006
<b>Madeira Island</b>					
Number of Consumers	113.055	116.838	120.438	124.041	126.504
Consumption (GWh)	636,83	685,84	729,89	768,36	798,42
Households and Agriculture	212,38	228,66	237,59	248,30	263,51
Services and Commerce	256,78	279,12	301,05	314,85	334,65
Public Services	45,94	50,47	53,82	59,06	57,24
Industry	65,68	70,27	78,71	77,63	75,26
Public Lighting	56,05	57,32	58,73	68,52	67,76
<b>Porto Santo Island</b>					
Number of Consumers	3.495	3.647	3.888	4.120	4.275
Consumption (GWh)	27,18	29,64	32,66	34,54	34,98
Households and Agriculture	5,93	6,25	6,58	6,73	7,21
Services and Commerce	8,47	9,59	10,25	11,24	12,77
Public Services	2,77	3,36	3,50	3,37	3,31
Industry	8,63	8,94	10,61	11,23	9,77
Public Lighting	1,38	1,50	1,72	1,97	1,92
<b>Total RAM</b>					
Number of Consumers	116.550	120.485	124.326	128.161	130.779
Consumption (GWh)	664,01	715,47	762,54	802,90	833,40

Human Resources					
	2002	2003	2004	2005	2006
Nº of Employees	891	866	872	870	869

Consolidated Financial Data					
€'000	2002	2003	2004	2005	2006
Turnover	97.181	113.062	123.313	143.312	169.766
Operating income	9.115	13.386	11.160	12.859	10.579
Net income	1.159	5.301	4.295	5.670	4.510
Net assets	410.035	424.654	445.217	510.899	567.034
Net fixed assets	258.303	250.952	262.581	294.005	322.226
Shareholders' equity	141.283	136.818	138.650	146.237	153.820
Investment	7.237	11.556	30.563	51.911	40.548

## Summary

The EEM investments, in 2006, have reached 40.548 thousand Euros, splited by different areas as follows: 23.9% in production, 31.3% in transmission, 34.4% in distribution, 2.7% in commercialization, and 7.7% in unspecified investment.

## Production

The achieved investments in the production area amounted to 9.704 thousand Euros, mainly in the following projects:

- Vitória fuel discharge terminal used for fuel supply to Vitória Thermal Power Plant;
- Huge interventions in electric power groups n.º 5, 7, 11 and 12 from Vitória Thermal Power Plant.

## Transmission

The investments accomplished in the transmission area amounted to 12.700 thousand Euros, essentially in the reinforcement of the transmission network, new substations, power improvements and remote metering systems.

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

- New substations:
  - Santo da Serra 30/6,6 kV – 6 MVA;
  - Ponta Delgada 30/6,6 kV – 2 MVA;
  - Beginning of the construction of São João Substation 60/6,6 kV – 2x15 MVA.
- Remote metering systems in the following installations:
  - Substations: Palheiro Ferreiro, Livramento, Machico, Caniçal, Assomada, Lombo do Faial, Santo da Serra, Alegria, Santa Quitéria, Vitória/30 kV, Cabo Girão, Ponte Vermelha, Lombo do Meio,

Lombo do Doutor, Calheta, Prazeres, São Vicente, Santana, Vila Baleira, Calheta/Porto Santo;

- Power Plants: Fajã da Nogueira, Serra de Água, Ribeira da Janela, Porto Santo Thermal Power Plant;
- Aeroporto and Meia Serra Switchgears;
- Increase of power in 10 MVA in Viveiros Substation.

Concerning the transmission network, the main investments undertaken are following presented:

- Conclusion of the construction of a 30 kV double overhead line between Lombo do Faial Substation and Moinhos location;
- Conclusion of the construction of a 30 kV double overhead line between Calheta Substation and “Gafaria rotunda”;
- Conclusion of the 30 kV underground cable between São Vicente Substation and Ponta Delgada Substation;
- Launching of a 30 kV underground cable between São Vicente Substation and Ribeira da Janela Hydroelectric Power Plant;
- Conclusion of the underground pipelines construction in Carreira Street for future launching of 60 kV and 6,6 kV cables, between future São João Substation and Viveiros Substation;
- Continuation of the construction of a 60 kV double isolated overhead line between Cabo Girão Substation and Ponte Vermelha Substation.

## Distribution

The achieved investments in the distribution area, reached the amount of 13.929 thousand Euros, being detailed as follows:

- Connection/installation of 57 new transforming posts for public service;
- Connection to network of 12 new private transforming posts;
- Remotely command of 12 public transforming posts;
- Enlargement of the medium voltage network in 62,48 km;
- Improvement of the medium voltage network in 11,39 km;
- Enlargement of the low voltage network in 14,49 km;
- Improvement of 99,20 km in the low voltage network;
- Installation of new 580 public lighting luminaries;
- Replacement of 1.668 public lighting luminaries.

## Commercialization

The achieved investments in the commercialization area, reached the amount of 1.101 thousand Euros, being detachable the following indicators:

- The electric energy sales achieved 798,42 GWh in Madeira Island and 34,98 GWh in Porto Santo Island, totalizing 833,40 GWh in RAM;
- The number of clients connected to the network, in 31 of December 2006, were 126.504 and 4.275, in Madeira and Porto Santo Islands, respectively;
- Sales consolidated income amounted to 169.766 thousand Euros.

## Other accomplishments

The investments realized in unspecified areas, in a transversal way to the Company were namely: studies, general installations, equipments, tools and information systems, reaching the amount of 3.114 thousand Euros, and can be presented as follows:

- Information systems covering technical and commercialization areas, being important to point out the continuation of the following projects:
  - SPO-Public Services On-line;
  - Electric power and distribution network inventory accomplishment for SIT-GeoEEM (Technical Information System);
  - Software SAP IS-U (Industry Solution for Utilities).
- Wave Quality voltage systems monitoring.



# Technical Information







## **I. Production**

In 2006, the investments in the production area reached the total amount of 9.704 thousand Euros. The construction of Vitória fuel discharge terminal used for fuel supply to Vitória Thermal Power Plant, huge interventions in electric power groups of Vitória Thermal Power Plant and the continuation of the ISO 9001:2000 Certification process are the most significant investments during the course of 2006.

### **A. Madeira Island**

#### **Hydroelectric utilities**

Among all the carried works during the exercise of 2006, regarding the hydroelectric power plants, were detachable the following actions:

- Replacement of the turbine speed regulator, in Calheta de Inverno Hydroelectric Power Plant;
- Substitution of measure and control instruments, in Serra de Água and Calheta Hydroelectric Power Plants;
- Substitution of direct-current DC systems, in Ribeira da Janela Hydroelectric Power Plant;
- Beneficiation and reconstruction of n.º 2 power group alternator, in Fajã da Nogueira Hydroelectric Power Plant.

#### **Thermal utilities**

##### **Vitória Thermal Power Plant**

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

- Continuation of the ISO 9001:2000 certification processes;
- Construction the fuel discharge terminal “Sea-line”;
- Great repairs in n.º 5, 7, 11 and 12 power groups;
- General revisions in n.º 13 and 14 power groups;
- Installation and essays of the SIT (Schiffs Industrie Technik) emission reducing system;
- Extension of NOx system to n.º 10 and n.º 12 power groups.

On December 31st, 2006, the electric generating system in Madeira Island, consisted of a thermal power plant and nine hydroelectric power plants with a total installed power of 208,93 MW, thus being 158,54 MW (76%) in Vitória Thermal Power Plant and the remaining 50,39 MW (24%) in hydroelectric power plants.

## EEM power system in Madeira island - 2006

	Thermal	Hydro	Total
N° of Power Plants	1	9	10
Installed power (MW)	158,54	50,39	208,93
Production (GWh)	533,99	108,67	642,66

## EEM thermal power plant in Madeira island - 2006

	Units	Installed power (MW)	Installed power (MVA)	Max. Cont. Power* (MW)	Production (GWh)	Net Emission (GWh)	Fuel
Vitória	1, 2	15,00	19,50	10,80			Thick Fuel-oil
	3	7,50	9,75	5,00			Thick Fuel-oil
	4, 5, 6	23,40	29,25	18,60			Thick Fuel-oil
	7, 8, 9, 10	42,24	52,00	34,80			Thick Fuel-oil
	11, 12, 13, 14, 15	57,60	70,00	48,50			Thick Fuel-oil
	16	12,80	16,00	12,80			Diesel
<b>Total-Vitória</b>		<b>158,54</b>	<b>196,50</b>	<b>130,50</b>	<b>533,99</b>	<b>520,82</b>	

\*Maximum continuous power

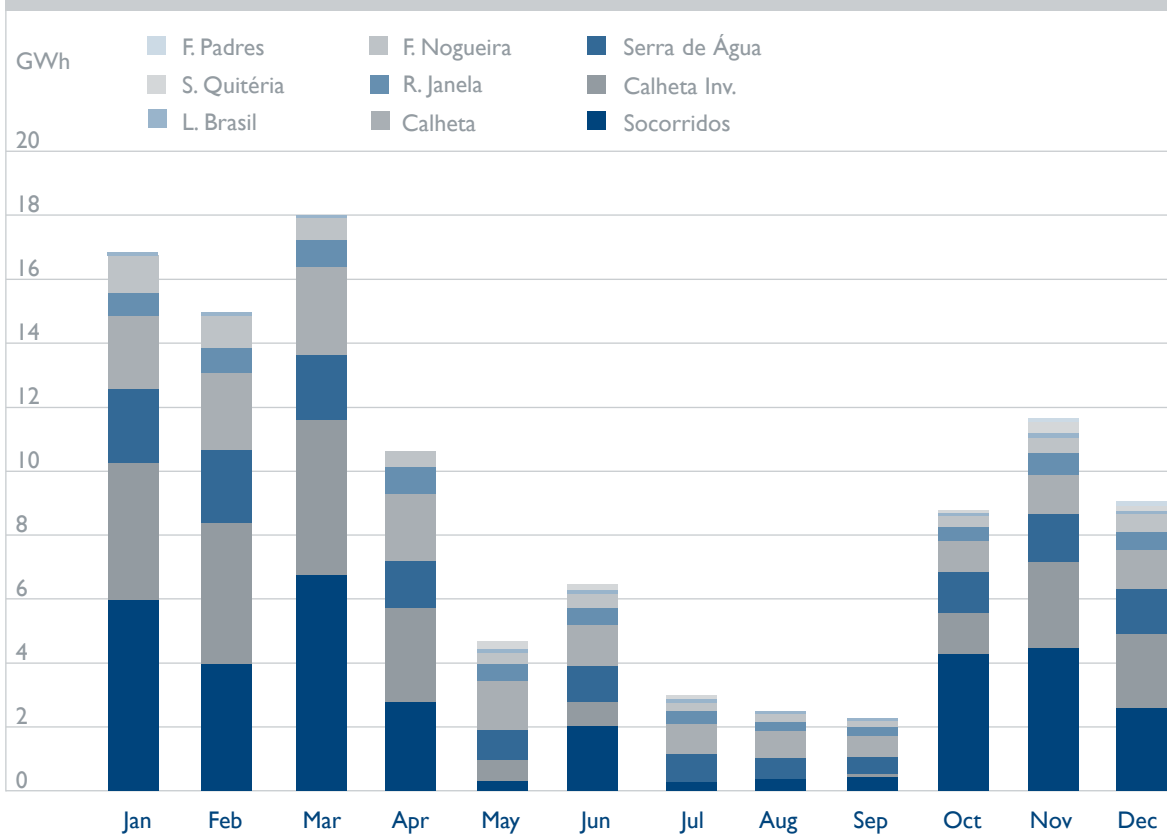
## EEM hydro power plants in Madeira island - 2006

	Inst. power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	4,90	16,55	16,50	430	Pelton
Calheta I	1,10	17,79	17,65	629	Pelton
	0,52			314	Pelton
	0,50			181	Pelton
	2,60			629	Pelton
Calheta II	7,30	24,25	24,22	637	Pelton
Ribeira da Janela	3,20	6,98	6,88	398	Pelton
Fajã da Nogueira	2,40	6,14	6,06	348	Pelton
Lombo do Brasil	0,17	1,29	1,29	316	Pelton
Fajã dos Padres	1,70	0,19	0,19	530	Pelton
Santa Quitéria	1,70	1,41	1,40	212	Pelton
Socorridos	24,30	34,06	33,96	457	Pelton
Hydroelectric Pumping	11,25	-	-	457	Francis
<b>Total EEM*</b>	<b>50,39</b>	<b>108,67</b>	<b>108,15</b>		

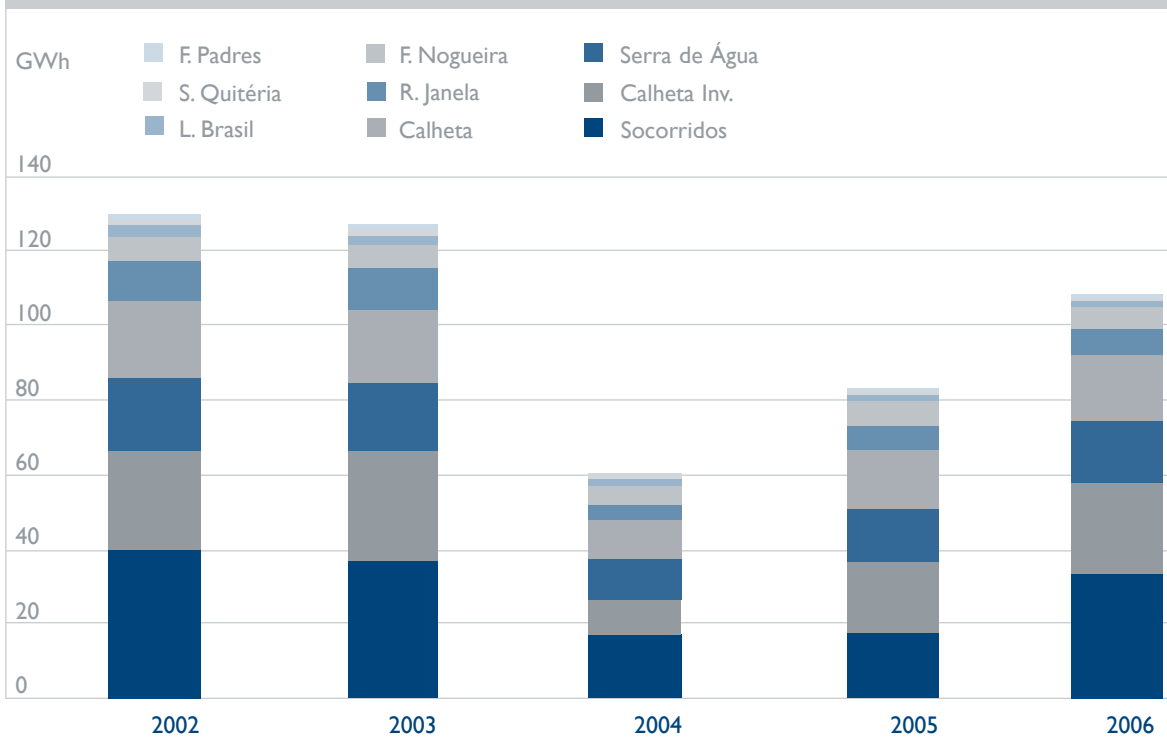
\*Hydroelectric Power Pumping not included

In 2006, the electric power system in Madeira Island, reached 642,66 GWh, 533,99 GWh (83.1%) of which generated by thermal plants and the remaining 108,67 GWh (16.9%) generated by hydroelectric plants, similar values in average historical terms. It is important to note that the hydroelectric production was slightly benefited by water pumping in the Socorridos Hydroelectric Power Plant (reversible functioning), with a consumption of 1,95 GWh .

EEM Monthly hydroelectric production in Madeira island - 2006



EEM hydroelectric production in Madeira island



The installed power in the seven private owned generating power plants, amounted to 53,34 MW, distributed according to following table:

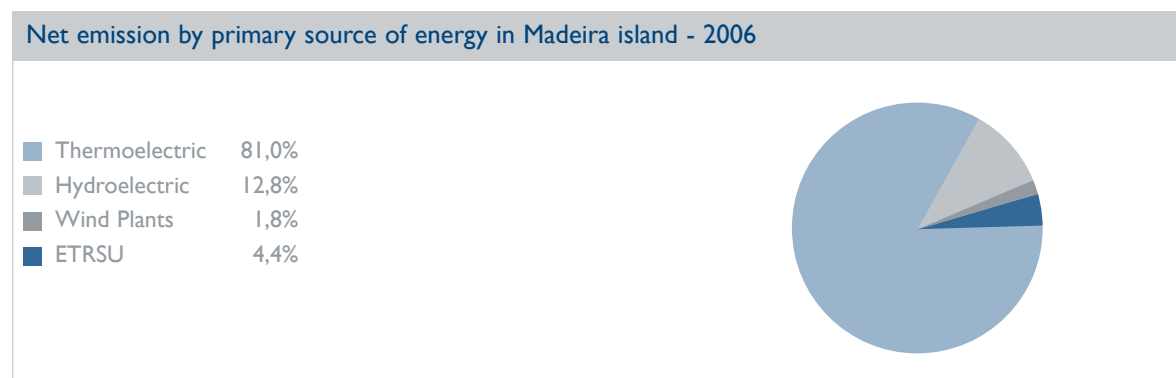
Private owned power plants in Madeira island - 2006					
	Thermal	Hydro	Wind	ETRSU	Total
N° of Power Plants	1	1	4	1	7
Installed power (MW)	36,00	0,70	8,64	8,00	53,34
Acquisition (GWh)	192,35	4,19	15,44	39,33	251,31

Note : ETRSU - Solid Waste Incineration

In 2006, the global energy issued by these generating power systems, reached to 251,31 GWh, more 2.0% than the previous year. Thus, 76.5% of this energy was provided by Caniçal Thermal Power Plant, 15.6% by ETRSU (a solid waste incineration), 6.1% by wind plants and the remaining 1.7% by Terça mini-hydroelectric Power Plant.

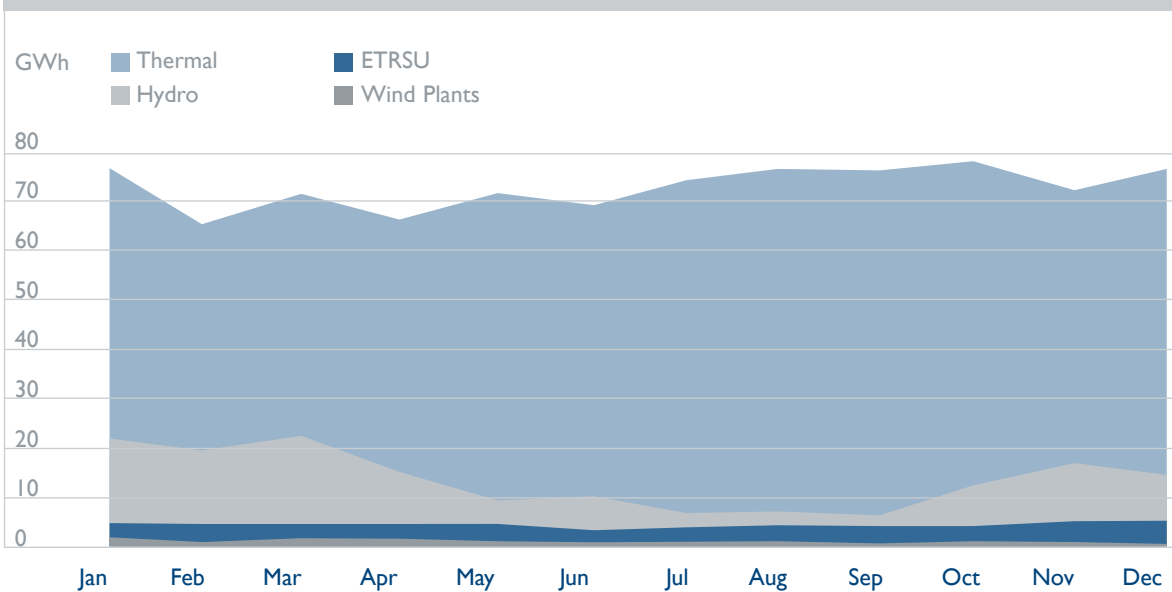
The private plants contributed with energy which represented 28.5% of 2006 total emission in Madeira Island.

The total energy emission (EEM system and private producers) by primary source in Madeira Island, is presented as follows:

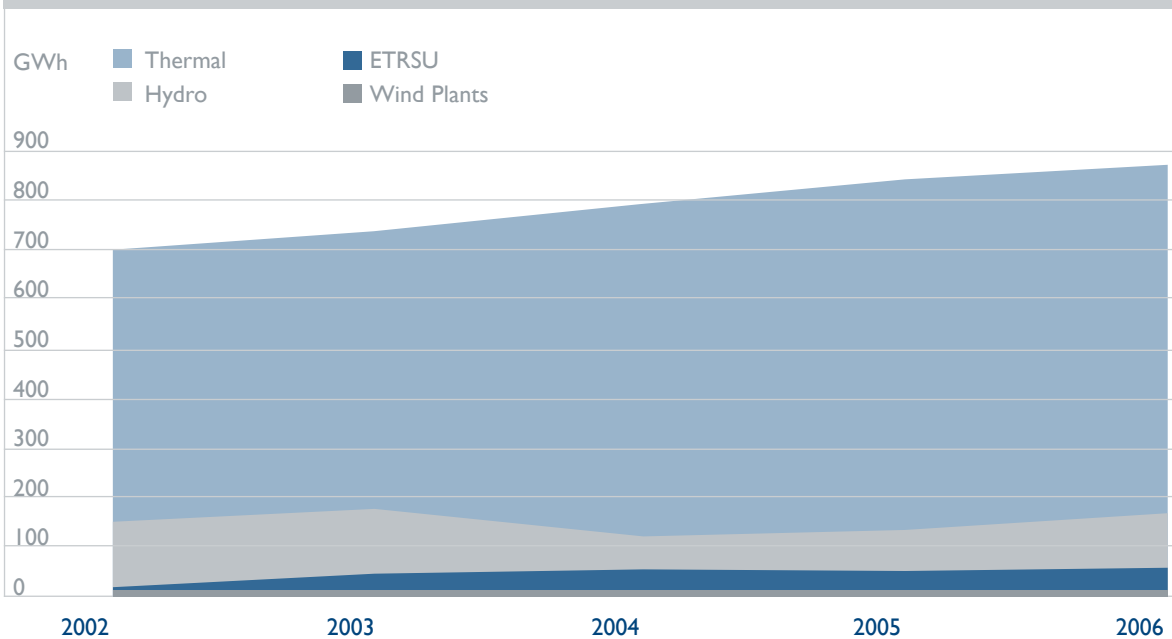


The monthly and annual net emission evolution by primary sources can be presented as follows:

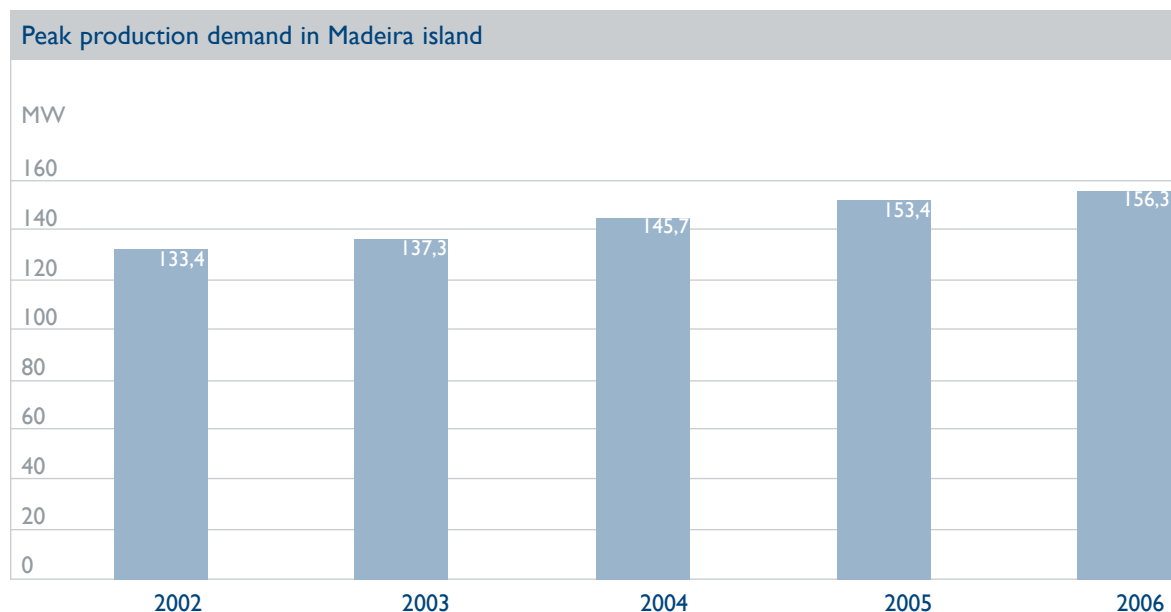
Monthly net emission in Madeira island - 2006



Net emission by primary source of energy in Madeira island



During 2006, the peak load in Madeira Island occurred in December, reaching the value of 156,3 MW. This value represented a 1.9% increase in comparison to 2005.



The consumption of fuel and lubricants, during 2006, in Vitória Thermal Power Plant amounted to 122.533 and 988 thousand liters, respectively. This consumption represents a decrease of 0.2%, in comparison to the previous year, and was essentially caused by an increase on electric energy produced in hydroelectric-power plants.

Fuel and lubricant consumption in the EEM system in Madeira island - 2006			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Thermal Power Plant of Vitória	121.007	1.526	988

## B. Porto Santo Island

The generating power system in Porto Santo Island consisted of one thermal power plant and two wind plants, one owned by EEM and the other owned by ENEREEM. The total installed power amounted to 24,07 MW, shared by Porto Santo Thermal Power Plant, which contributed with 22,96 MW (95.4%) and by the mentioned wind plants, which contributed with the remaining 1,1 MW (4.6%).

Power plants in Porto Santo island - 2006				
	EEM		ENEREEM	Total
	Thermal	Wind Plants	Wind Plants	
Nº of power plants	1	1	1	3
Installed power (MW)	22,96	0,45	0,66	24,07
Net Emission (GWh)	34,58	0,70	1,04	36,32

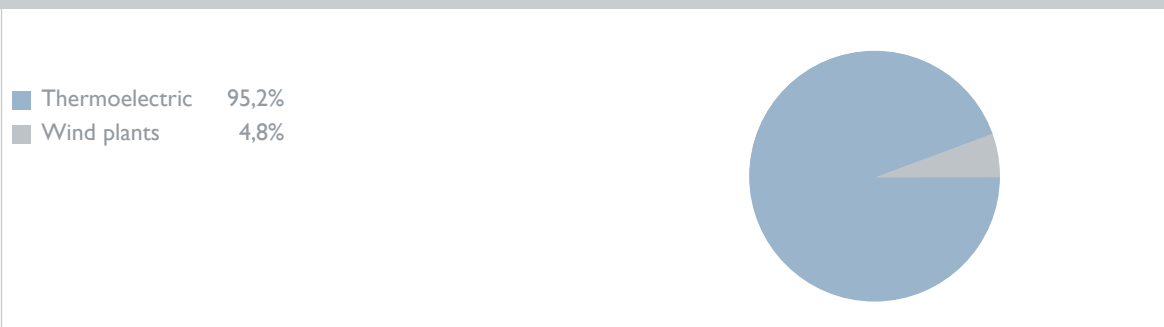
#### EEM thermal power plant in Porto Santo island - 2006

	Units	Installed power		Max. Cont. Power*	Production	Net Emission	Fuel
		(MW)	(MVA)	(MW)	(GWh)	(GWh)	
Thermal Power Plant of Porto Santo	1,2	10,00	12,86	7,00			Diesel
	3,4,5	12,96	15,30	12,00			Thick Fuel-oil
<b>Total EEM</b>		<b>22,96</b>	<b>28,16</b>	<b>19,00</b>	<b>36,77</b>	<b>34,58</b>	

\*Maximum continuous power

The energy issued by the generating power system in Porto Santo Island, in 2006, reached 36,32 GWh, of which 34,58 GWh (95.2%) were produced by the thermal plant and the remaining 1,74 GWh (4.8%) by the referred wind plant.

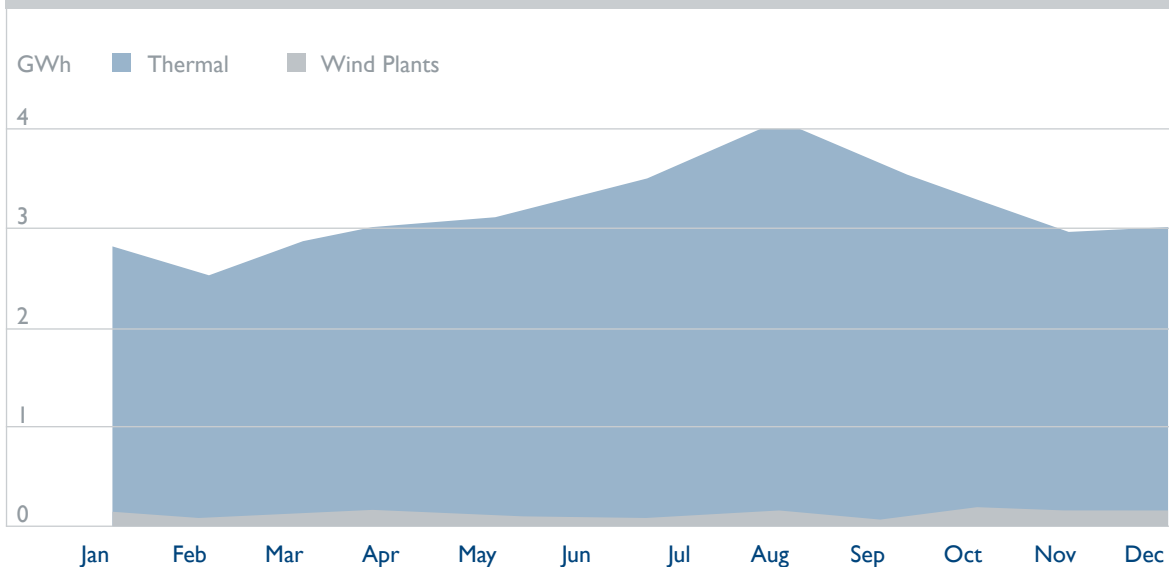
#### Net emission by primary source of energy in Porto Santo island - 2006

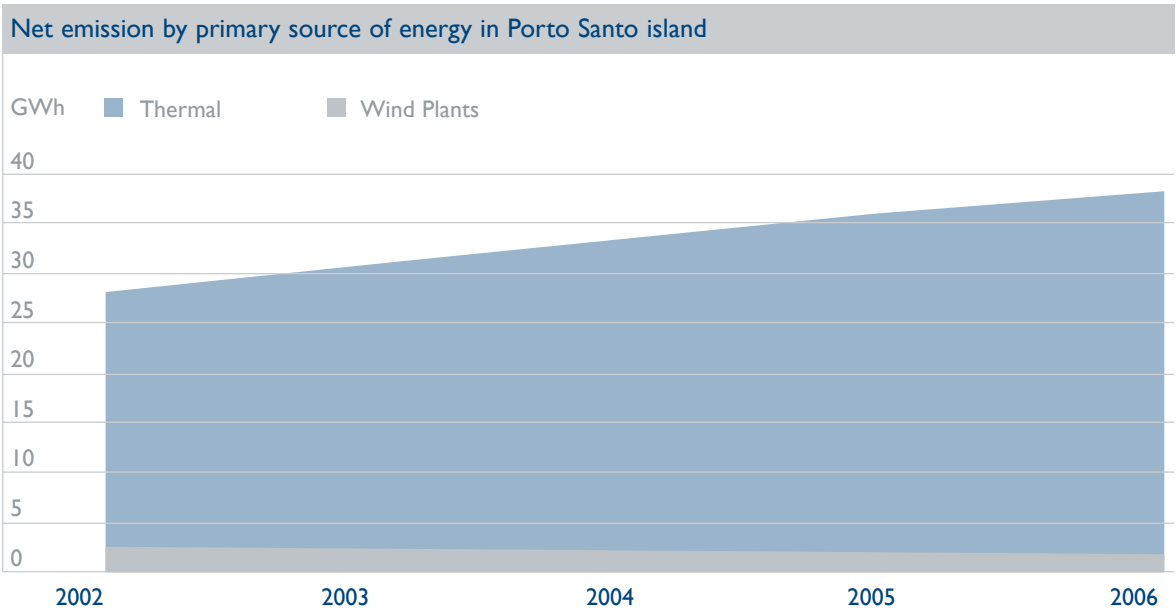


In Porto Santo Island, the wind power energy contribution was consistently the same for the last years, being the thermal plant responsible for the energy emission increases.

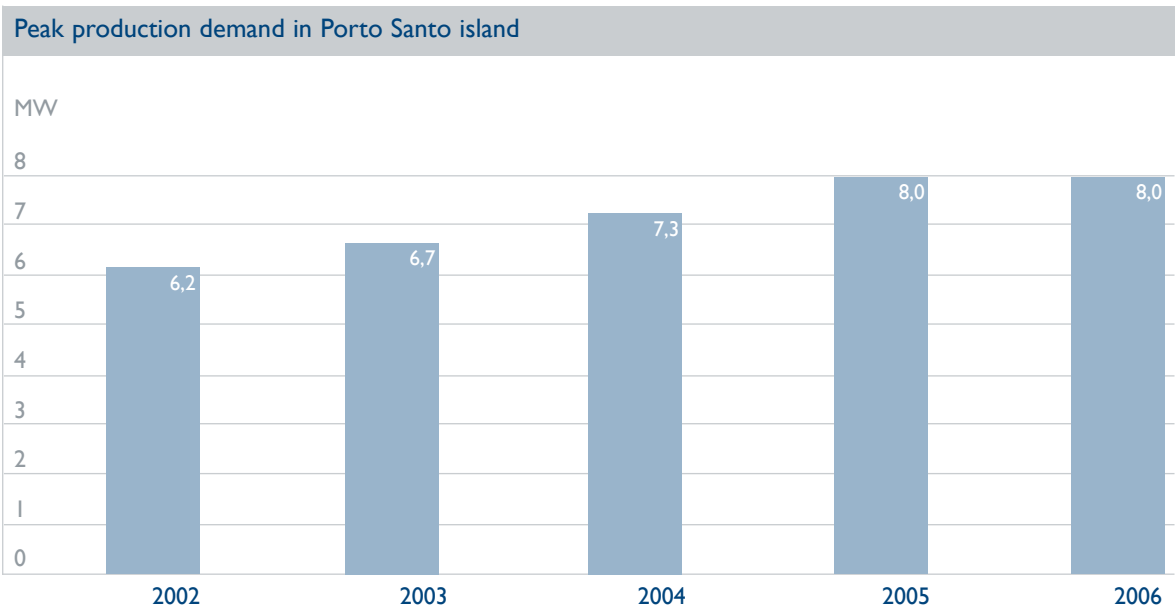
The monthly and annual net emission evolution by primary sources, can be presented as follows:

#### Monthly net emission in Porto Santo island - 2006





The yearly peak load in Porto Santo Island occurred in August, registering 8,0 MW, similar to previous year.



The consumption of fuel and lubricants in Porto Santo Thermal Power Plant amounted to 8.85 l and 43 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo island - 2006			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Thermal Power Plant of Porto Santo	8.577	274	43



## II. Transmission

The investment carried in this area amounted to 12.700 thousand Euros, representing a 42.0% increase face to the previous year and comprises four sub-sectors, namely: substations, transmission lines, dispatch centre and telecommunications.

Although the increase verified in relation to previous year the forecasted Transmission investment plan was not attained, mainly due to the delay of some projects caused by: the complexity of national and international public tenders procedures and also with difficulties faced by EEM in proceed to acquisitions and expropriation of land.

The investments materialized in the 2006 exercise, consisted essentially, in building new substations, in improvements of the existing ones, in remote metering systems and new power connections. All these initiatives were developed in order to assure the reliability, efficiency and increase the global quality of EEM Electric System, and simultaneously assure the consumer needs.

### Substations

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

- Conclusion of the construction of Santo da Serra Substation;
- Construction of Ponta Delgada Substation;
- Beginning of the construction of São João Substation;
- Assembly of two 60 kV interior cells GIS (Gas Insulated Switchgear) type, in the Caniçal Substation;
- Protections systems substitution in Machico Substation, for the transforming units lines and electric bars;
- Increase of 10 MVA power in the Viveiros Substation, by replacing the existing two transformers of 10 MVA units, for two other ones with a 15 MVA capacity;
- Installation of 4 MVAr bank of capacitors in Vitória Substation;
- Remote metering systems in the following installations:
  - Substations: Palheiro Ferreiro, Livramento, Machico, Caniçal, Assomada, Lombo do Faial, Santo da Serra, Alegria, Santa Quitéria, Vitória/30 kV, Cabo Girão, Ponte Vermelha, Lombo do Meio, Lombo do Doutor, Calheta, Prazeres, São Vicente, Santana, Vila Baleira, Calheta/Porto Santo;
  - Power Plants: Fajã da Nogueira, Serra de Água, Ribeira da Janela, Porto Santo Thermal Power Plant;
  - Aeroporto and Meia Serra Switchgears.

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

- General substations maintenance, including the transforming units;
- Thermo inspections in electric power equipment.

Substations in RAM - 2006					
	Installed power (MVA)			Total	Capacitors MVar
	30/6,6 kV	60/30 kV	60/6,6 kV		
<b>Madeira Island</b>	<b>215,0</b>	<b>145,0</b>	<b>85,0</b>	<b>445,0</b>	<b>26,0</b>
Funchal	3 x 10,0	-	-	30,0	6,0
Amparo	2 x 10,0	-	-	20,0	2,0
Vitória	2 x 10,0	-	-	20,0	4,0
Vitória	-	3 x 25,0	-	75,0	-
Santa Quitéria	10,0	-	-	10,0	-
Virtudes	2 x 15,0	-	-	30,0	2,0
Alegria	-	-	10,0	10,0	-
Viveiros	-	-	2 x 15	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	-
Lb° do Doutor (Calheta)	-	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	-	-	20,0	2,0
Livramento	10,0	-	-	10,0	-
Palheiro Ferreiro	-	2 x 15,0	10,0	40,0	2,0
S. 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	2,0	-	-	2,0	-
<b>Porto Santo Island</b>	<b>16,0</b>	<b>-</b>	<b>-</b>	<b>16,0</b>	<b>-</b>
Nova Central	4,0	-	-	4,0	-
Vila Baleira	2 x 4,0	-	-	8,0	-
Calheta	4,0	-	-	4,0	-
<b>Total RAM</b>	<b>231,0</b>	<b>145,0</b>	<b>85,0</b>	<b>461,0</b>	<b>26,0</b>

## Transmission network

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

- Conclusion of the construction of a 30 kV double isolated overhead line between Lombo do Faial Substation and Moinhos in Faial location (one line is to be explored at 30 kV and another one at 6,6 kV);
- Conclusion of the construction of a 30 kV double isolated overhead line between Calheta Substation and “Gafaria rotunda” (one line is to be explored at 30 kV and another one at 6,6 kV);
- Conclusion of the 30 kV underground cable between São Vicente Substation and Ponta Delgada Substation;
- Conclusion of the underground pipelines construction in Carreira Street for future 60 kV and 6,6 kV cables launching, between future São João Substation and Viveiros Substation;
- Beginning of the 30 kV launching underground cable between São Vicente Substation and Ribeira da Janela Hydroelectric Power Plant;
- Continuation of the construction of a 60 kV double isolated overhead line between Cabo Girão Substation and Ponte Vermelha Substation.

Also, interventions in transport lines area were undertaken, comprising some of the following tasks: the substitution of suspension isolators, terminals boxes, supports, as well as the maintenance and cleanness, mostly in the following lines:

- Line 60 kV: Palheiro Ferreiro Substation - Machico Substation;
- Line 60 kV: Caniçal Thermal Power Plant - Caniçal Substation;
- Line 30 kV (copper):Vitória Thermal Power Plant - Cabo Girão Substation;
- Line 30 kV: Seixal - São Vicente Substation;
- Line 30 kV: Ribeira da Janela Hydroelectric Power Plant - Seixal;
- Line 30 kV: Calheta Hydroelectric Power Plant - Lombo do Meio Substation;
- Line 30 kV: Substation of Calheta - Paúl da Serra wind plants;
- Line 30 kV: Inverno da Calheta Hydroelectric Power Plant - Calheta Substation;
- Line 30 kV: Calheta Hydroelectric Power Plant - Fonte do Bispo;
- Line 30 kV: Meia Serra Thermal Power Plant - Bom Sucesso.

Concerning the preventive maintenance, the following investments were fulfilled:

- Inspection of 60 kV and 30 kV overhead lines, in an extension of 190 km;
- Deforesting about 66 km of electric grid lines surroundings;
- Term-graphical inspections of the 60 kV and 30 kV overhead lines, in an extension of 100 km.

Inspection and registration of underground connection chambers:

- 30 kV line between São Vicente Substation and Seixal location;
- 30 kV line between Seixal location and Ribeira da Janela Hydroelectric Power Plant.

Transmission and Distribution Network in RAM - 2006			
	Madeira	Porto Santo	Total
<b>Substations 60/30/6,6 kV</b>			
Number of units	7	-	7
Installed power (MVA)	230,00	-	230,00
<b>Substations 30/6,6 kV</b>			
Number of units	20	3	23
Installed power (MVA)	215,00	16,00	231,00
<b>Transforming Posts for public service</b>			
Number of units	1.337	65	1.402
Installed power (MVA)	515,24	20,55	535,79
<b>Transforming Posts for private service</b>			
Number of units	198	18	216
Installed power (MVA)	115,12	9,35	124,47
<b>Total Transforming Posts</b>			
Number of units	1.535	83	1.618
Installed power (MVA)	630,36	29,90	660,25
<b>60 kV Network</b>			
Overhead lines (km)	68,10	-	68,10
Underground cables (km)	-	-	-
<b>30 kV Network</b>			
Overhead lines (km)	230,91	5,10	236,01
Underground cables (km)	110,65	10,20	120,85
<b>6,6 kV Network</b>			
Overhead lines (km)	518,96	19,91	538,87
Underground cables (km)	551,14	41,30	592,44
<b>Low Voltage Network</b>			
Overhead lines (km)	2.923,70	73,61	2.997,31
Underground cables (km)	769,13	32,50	801,63
<b>Optic Fibre (Km)</b>			
	81,84	9,11	90,95

## Telecommunications

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

- Beginning of the implementation of the new project “EEM Privative Net Mobile Radio”. This system is based on the technology of privative mobile networks digital “TETRA”, and the main objective of this project is the constitution of a privative mobile network in Madeira Island, based on the TETRA technology standard, for voice and data communication;
- Conclusion of the remote access system implementation in seven of the eight foreseen substations, nominated, Santana, Machico, Assomada, Livramento, Santa Quitéria, Viveiros and Funchal. This project is based on the creation of one, WAN, “Wide Network Area”, having for base the backbone SDH in optic fibre, that allows the remote access from any installation of the EEM to the command systems, substations controls and protections;
- Implemented the first phase of the project concerning the integration of the delegations in the internal optic fibre network of the EEM. This consisted in an execution of an optic fibre network, which establishes connection to the existing backbone SDH. In this way, it is increased

the capacity of transmission between the delegations and the informatics support systems (SAP-ISU), in Funchal, from 218 kbit/s to 2 Mbit/s, thus improving the quality service level;

- Upgrade of the software and hardware in the optic fibre network transmission for substations remote control, consisting of flexible multiplexer equipment type, as well as the management system of this grid;
- It was projected the implementation of a telecommunications grid, for remote control and energy metering in the “Centro de Saúde” in Santana and “Hospital” transforming public posts;
- Expansion the optical-fibre grid in 6 km, the elaborating public tenders for the optical-fibre installation, enables, in short-term, the expansion of this grid in about 50 km.

## **Dispatch Centre**

Concerning the dispatch centre, the main investments performed, can be presented as follows:

- Dispatch Centre equipment maintenance;
- Maintenance and cleanness of all Remote Units Terminals;
- Acquisition of 44 additional licenses for the IS400 (Information Station 400);
- Acquisition of two uninterrupted power supply, to assure the continuity of service of the informatics equipment;
- Remote control of the Santo da Serra Substation;
- Remote control of 12 Transforming Posts, included in the DMS (Distribution Management System);
- ISO 9001:2000 Service Quality Certification of the Dispatch Centre;
- Data switches acquisition.

### III. Distribution

In 2006, the achieved investment in the distribution area amounted to 13.929 thousand Euros aimed essentially to improve the quality and reliability of the service provided. This value exceeded around 60.0%, of the estimated plan for the year, mainly related with the dynamism of the public and private sectors in the Autonomous Region of Madeira.

From whole investment initiatives executed in the distribution area, it can be highlighted the investments realized in medium and low voltage network, as follows:

- Installation/connection of 57 new public transforming posts with an installed power of 23.930 kVA and 12 new private ones with an installed power of 6.055 kVA;
- Improvements in existent transforming posts (increase and reducing power capacity), representing a total power increase of 6.075 kVA;
- Enlargement of medium voltage network in 62,48 km;
- Improvement in 11,39 km of medium voltage network;
- Enlargement of the low voltage network in 14,49 km;
- Improvement in 99,20 km of low voltage network;
- Installation of new 580 public lighting luminaries;
- Replacement of 1.668 public lighting luminaries;
- Remotely command of 12 public transforming posts.

It was initiated the inventory of the electric power network and the respective loading in the Technical Information System (SIT).

The necessary equipment of remote control of more 12 Transformation Posts had been installed, being integrated, in this phase, in the actual remote control system. This new system aims to enlarge the remote control system to the most important medium voltage distribution nodes.

Distribution Network - 2006					
	Dist. N.E.O.	Funchal	Total Madeira	Porto Santo	Total RAM
<b>Distribution Network Expansion</b>					
<b>Transforming Posts for public service</b>					
Number of units	46	9	55	2	57
Power (kVA)	16.000	7.280	23.280	650	23.930
<b>Transforming Posts for private service</b>					
Number of units	7	3	10	2	12
Power (kVA)	2.820	2.520	5.340	715	6.055
<b>Medium Voltage Lines 30 kV*</b>					
Overhead lines (km)	6,75	-	6,75	-	6,75
Underground cables (km)	-	-	-	-	-
<b>Medium Voltage Lines 6,6 kV</b>					
Overhead lines (km)	48,16	5,84	54,00	1,73	55,73
Underground cables (km)	9,86	1,00	10,86	0,15	11,01
Underground cables (km)	38,30	4,84	43,14	1,58	44,72
<b>Low Voltage Network</b>					
Overhead lines (km)	8,17	0,81	8,98	5,51	14,49
Underground cables (km)	1,29	-	1,29	2,10	3,39
Underground cables (km)	6,88	0,81	7,69	3,41	11,10
<b>Renewals</b>					
<b>Transforming Posts for public service</b>					
Number of units	-	-	-	-	-
Power (kVA)	3.465	2.590	6.055	20	6.075
<b>Transforming Posts for private service</b>					
Number of units	-	1	1	-	1
Power (kVA)	75	(1.600)	(1.525)	-	(1.525)
<b>Deactivated Transforming Posts</b>					
Number of units	11	2	13	1	14
Power (kVA)	3.255	440	3.695	225	3.920
<b>Medium Voltage Network 30 kV*</b>					
Overhead lines (km)	-	-	-	-	-
Underground cables (km)	-	-	-	-	-
<b>Medium Voltage Network 6,6 kV</b>					
Overhead lines (km)	6,61	4,78	11,39	0,02	11,41
Underground cables (km)	3,57	0,09	3,66	0,02	3,68
Underground cables (km)	3,04	4,69	7,73	-	7,73
<b>Low Voltage Network</b>					
Overhead lines (km)	89,15	10,05	99,20	-	99,20
Underground cables (km)	76,50	8,20	84,70	-	84,70
Underground cables (km)	12,65	1,85	14,50	-	14,50

\* Distribution Network of 30 kV  
Note: N.E.O. - North East West

## **A. Madeira Island**

In Madeira Island during the year of 2006, 65 new transforming posts were installed, thus being 55 for public service and the remaining 10 for private service. The Transforming Posts improvements have increased the installed power in 6.055 kVA. The medium and low voltage networks were expanded respectively in 60,75 km and 8,98 km. Regarding the public lighting, the installation of 580 new luminaries and the replacement of 1.668, were realized.

## **B. Porto Santo Island**

The main works executed in Porto Santo Island, during 2006 are as follows:

- a. Installation of 2 new public transforming posts, with a total power of 650 kVA and 2, owned by private consumers with a power of 715 kVA;
- b. Enlargement of 1,73 km in medium voltage network at 6,6 kV level;
- c. Enlargement of 5,51 km in low voltage network.



## IV. Commercialization

The RAM Energy balance, in 2006, is presented as follows:

RAM energy balance - 2006			
MWh	Madeira	Porto Santo	Total RAM
<b>EEM - Power plants productions</b>	<b>642.659</b>	<b>37.472</b>	<b>680.131</b>
Thermal	533.988	36.769	570.757
Fuel	530.560	36.345	566.905
Diesel	3.428	424	3.852
Hydro	108.671	-	108.671
Wind	-	703	703
<b>Power plants consumptions and losses</b>	<b>13.688</b>	<b>2.189</b>	<b>15.876</b>
<b>Total EEM energy net emission</b>	<b>628.971</b>	<b>35.283</b>	<b>664.254</b>
<b>Other acquisitions - SEPM</b>	<b>192.351</b>	<b>-</b>	<b>192.351</b>
Thermal	192.351	-	192.351
Fuel	192.351	-	192.351
<b>Total special status generation</b>	<b>58.962</b>	<b>1.041</b>	<b>60.003</b>
Hydro	4.185	-	4.185
Wind	15.444	1.041	16.486
Others	39.333	-	39.333
<b>Total net generation</b>	<b>880.285</b>	<b>36.324</b>	<b>916.609</b>
Hydroelectric pumping	1.949	-	1.949
<b>Total net demand SEPM</b>	<b>878.335</b>	<b>36.324</b>	<b>914.660</b>
<b>Proper consumptions</b>	<b>846</b>	<b>21</b>	<b>867</b>
2005 energy deliveries with payments in 2006	-	590	590
<b>Total energy sales SEPM*</b>	<b>798.425</b>	<b>35.567</b>	<b>833.992</b>
<b>Total energy sales SEPM - 2006</b>	<b>798.425</b>	<b>34.977</b>	<b>833.402</b>
MT	155.622	13.549	169.171
Industry	40.664	8.582	49.246
Others	114.958	4.966	119.924
BT	642.803	22.019	664.822
Households	257.412	7.091	264.503
Industry	27.928	1.139	29.067
Public Lighting	67.765	1.921	69.685
Others	289.699	11.868	301.566
<b>Total net delivery</b>	<b>799.271</b>	<b>34.998</b>	<b>834.269</b>
<b>Losses</b>	<b>79.064</b>	<b>1.326</b>	<b>80.390</b>

SEPM - Public Electricity Supply System of Madeira Island

\*2005 energy deliveries with payments in 2006 included

The energy consumption growth around 3.9% in Madeira Island and 1.3% in Porto Santo Island. The growth rates had registered a lower increase in comparison to 2005, when it reached 5.3% and 5.8%, in Madeira and Porto Santo Islands, respectively.

Energy sales to SEPM clients per tension level and tariffs regime - 2006						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	168,58	149,30	445,84	69,69	<b>833,40</b>

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

The RAM consumption reached 168,58 GWh and 664,82 GWh in medium voltage and low voltage respectively, which corresponds to a distribution of 20.2% and 79.8% 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 - 2006										
GWh	Households	Hotels	Services & Com.	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
<b>Madeira Island</b>	<b>257,41</b>	<b>142,60</b>	<b>179,07</b>	<b>75,26</b>	<b>6,10</b>	<b>67,76</b>	<b>57,24</b>	<b>12,98</b>	<b>798,42</b>	<b>100,0%</b>
	<b>32,2%</b>	<b>17,9%</b>	<b>22,4%</b>	<b>9,4%</b>	<b>0,8%</b>	<b>8,5%</b>	<b>7,2%</b>	<b>1,6%</b>	<b>100,0%</b>	
Funchal	112,15	97,85	122,00	18,56	0,69	16,18	31,97	6,61	406,00	50,8%
Câm. Lobos	32,03	5,22	7,66	11,24	0,38	8,42	2,75	0,88	68,58	8,6%
Rib. Brava	12,13	2,68	7,07	1,74	0,05	5,68	1,62	0,66	31,63	4,0%
Ponta do Sol	8,73	3,26	2,08	2,38	0,55	4,15	0,80	0,19	22,15	2,8%
Calheta	12,64	3,81	4,20	1,12	0,73	6,33	1,11	0,48	30,43	3,8%
Porto Moniz	4,00	2,10	1,99	0,34	0,86	2,87	1,19	0,14	13,50	1,7%
S.Vicente	5,62	2,51	1,80	0,81	0,05	3,14	1,04	0,19	15,16	1,9%
Santana	7,95	1,97	3,38	0,83	0,34	4,42	1,24	0,21	20,34	2,5%
Machico	22,53	4,95	8,00	14,81	0,73	7,27	2,61	1,43	62,34	7,8%
Santa Cruz	39,63	18,25	20,89	23,42	1,71	9,31	12,90	2,18	128,31	16,1%
<b>Porto Santo Island</b>	<b>7,09</b>	<b>6,27</b>	<b>5,69</b>	<b>9,77</b>	<b>0,12</b>	<b>1,92</b>	<b>3,31</b>	<b>0,81</b>	<b>34,98</b>	
	<b>20,3%</b>	<b>17,9%</b>	<b>16,3%</b>	<b>27,9%</b>	<b>0,3%</b>	<b>5,5%</b>	<b>9,5%</b>	<b>2,3%</b>	<b>100,0%</b>	
<b>Total RAM</b>	<b>264,50</b>	<b>148,86</b>	<b>184,77</b>	<b>85,02</b>	<b>6,22</b>	<b>69,69</b>	<b>60,55</b>	<b>13,79</b>	<b>833,40</b>	
	<b>31,7%</b>	<b>17,9%</b>	<b>22,2%</b>	<b>10,2%</b>	<b>0,7%</b>	<b>8,4%</b>	<b>7,3%</b>	<b>1,7%</b>	<b>100,0%</b>	

Consumers by activity in RAM - 2006										
	Households	Hotels	Services & Com.	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
<b>Madeira Island</b>	<b>105.661</b>	<b>1.996</b>	<b>12.478</b>	<b>977</b>	<b>910</b>	<b>1.483</b>	<b>1.978</b>	<b>1.021</b>	<b>126.504</b>	<b>100,0%</b>
	<b>83,5%</b>	<b>1,6%</b>	<b>9,9%</b>	<b>0,8%</b>	<b>0,7%</b>	<b>1,2%</b>	<b>1,6%</b>	<b>0,8%</b>	<b>100,0%</b>	
Funchal	44.683	1.041	7.560	303	86	445	1.005	280	55.403	43,8%
Câm. Lobos	11.531	143	1.016	85	203	121	183	111	13.393	10,6%
Rib. Brava	5.890	68	457	35	27	115	90	71	6.753	5,3%
Ponta do Sol	4.151	51	298	45	53	57	66	40	4.761	3,8%
Calheta	6.216	81	388	52	60	144	101	113	7.155	5,7%
Porto Moniz	1.628	46	120	16	55	66	68	24	2.023	1,6%
S.Vicente	3.002	58	227	25	105	68	66	51	3.602	2,8%
Santana	4.184	61	301	37	100	95	103	35	4.916	3,9%
Machico	8.167	178	685	114	83	145	134	124	9.630	7,6%
Santa Cruz	16.209	269	1.426	265	138	227	162	172	18.868	14,9%
<b>Porto Santo Island</b>	<b>3.546</b>	<b>76</b>	<b>353</b>	<b>41</b>	<b>20</b>	<b>62</b>	<b>86</b>	<b>91</b>	<b>4.275</b>	
	<b>82,9%</b>	<b>1,8%</b>	<b>8,3%</b>	<b>1,0%</b>	<b>0,5%</b>	<b>1,5%</b>	<b>2,0%</b>	<b>2,1%</b>	<b>100,0%</b>	
<b>Total RAM</b>	<b>109.207</b>	<b>2.072</b>	<b>12.831</b>	<b>1.018</b>	<b>930</b>	<b>1.545</b>	<b>2.064</b>	<b>1.112</b>	<b>130.779</b>	
	<b>83,5%</b>	<b>1,6%</b>	<b>9,8%</b>	<b>0,8%</b>	<b>0,7%</b>	<b>1,2%</b>	<b>1,6%</b>	<b>0,9%</b>	<b>100,0%</b>	

In December 2006, the number of clients connected to the electric network of RAM, reached 130.779 consumers, presenting an increase of nearly 2.0% comparing to 2005.

## Consumption / Clients - Distribution by activity in RAM - 2006

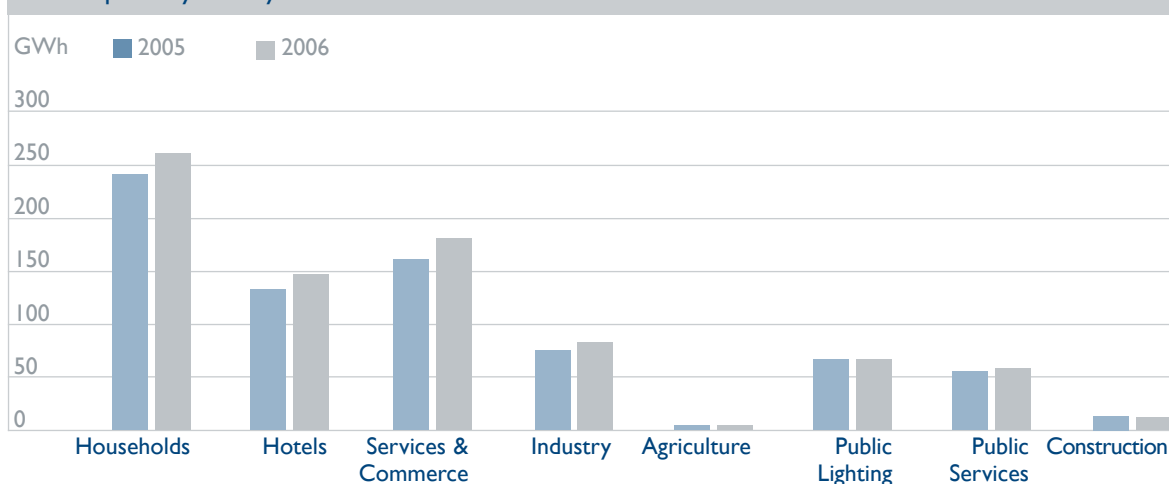
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Clients	Consump. (GWh)	Clients	(MWh)/ Clients	Consump. (GWh)	Clients	(MWh)/ Clients
<b>Madeira Island</b>	<b>798,42</b>	<b>126.504</b>	<b>6,31</b>	<b>642,80</b>	<b>126.317</b>	<b>5,09</b>	<b>257,41</b>	<b>105.661</b>	<b>2,44</b>
Funchal	406,00	55.403	7,33	307,17	55.300	5,55	112,15	44.683	2,51
Câm. Lobos	68,58	13.393	5,12	61,92	13.387	4,63	32,03	11.531	2,78
Rib. Brava	31,63	6.753	4,68	30,96	6.751	4,59	12,13	5.890	2,06
Ponta do Sol	22,15	4.761	4,65	21,75	4.760	4,57	8,73	4.151	2,10
Calheta	30,43	7.155	4,25	30,29	7.152	4,23	12,64	6.216	2,03
Porto Moniz	13,50	2.023	6,67	13,47	2.022	6,66	4,00	1.628	2,46
S.Vicente	15,16	3.602	4,21	14,91	3.601	4,14	5,62	3.002	1,87
Santana	20,34	4.916	4,14	19,00	4.912	3,87	7,95	4.184	1,90
Machico	62,34	9.630	6,47	47,81	9.602	4,98	22,53	8.167	2,76
Santa Cruz	128,31	18.868	6,80	95,52	18.830	5,07	39,63	16.209	2,45
<b>Porto Santo Island</b>	<b>34,98</b>	<b>4.275</b>	<b>8,18</b>	<b>22,02</b>	<b>4.259</b>	<b>5,17</b>	<b>7,09</b>	<b>3.546</b>	<b>2,00</b>
<b>Total RAM</b>	<b>833,40</b>	<b>130.779</b>	<b>6,37</b>	<b>664,82</b>	<b>130.576</b>	<b>5,09</b>	<b>264,50</b>	<b>109.207</b>	<b>2,42</b>

The low and medium voltage average consumption per client ascended to 6,38 MWh/client, presenting an increase of 1.9% from previous year. The highest consumption values were registered in the councils of Porto Santo, Funchal, Santa Cruz and Porto Moniz. The average consumption in the Households sector of the RAM reached the amount of 2,42 MWh per client representing an increase of 3.5% comparing to 2005. The highest values were verified in the councils of Câmara de Lobos, Machico, Funchal, and Porto Moniz.

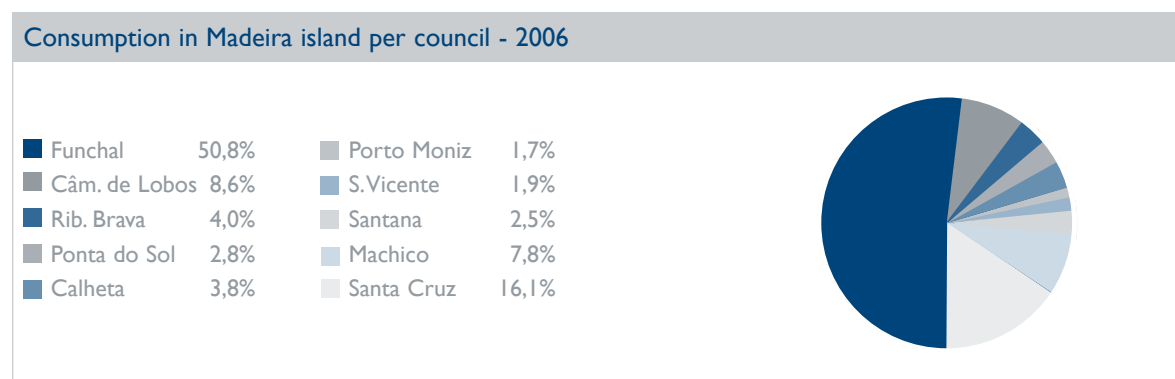
## A. Madeira Island

In Madeira Island, the consumption distribution by sectors is similar to 2005. The Households consumption presented the highest percentage (32.2%), followed by the Services and Commerce sectors (22.4%) and Hotels with (17.9%).

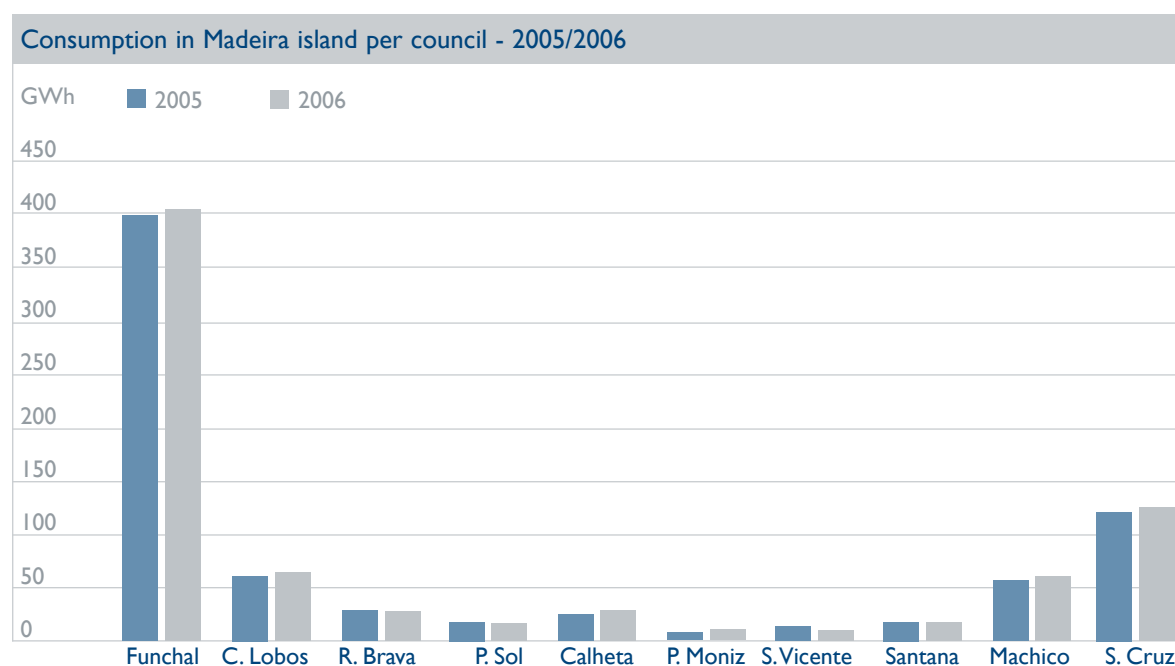
### Consumption by activity in Madeira island - 2005/2006



The council of Funchal with 43.8% of the total number of clients registered 50.8% of the total consumption, followed by the councils of Santa Cruz with 16.1%, Câmara de Lobos with 8.6%, and Machico with 7.8%.



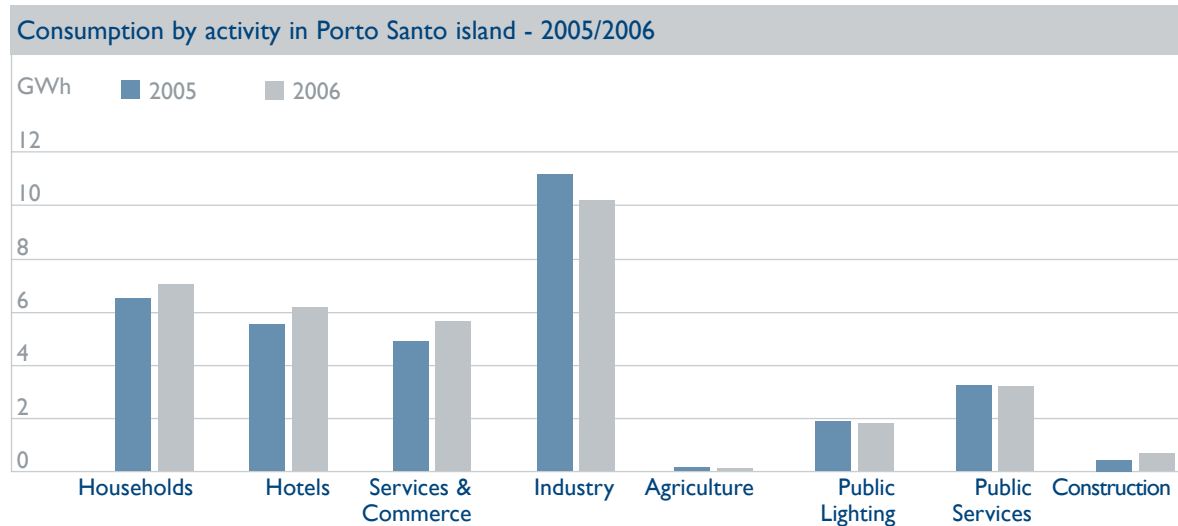
The councils with larger dynamism in the consumption rate growth, in comparison to 2005 were, Porto Moniz (41.0%), Calheta (10.4%), Câmara de Lobos (10.0%), Ponta do Sol (9.0%) and Santana (5.3%).



During 2006, 2.463 new consumers were connected to the Madeira electric network, totalizing 126.504 clients (an increase of 2.0%), thus being 187 in the medium voltage level.

## B. Porto Santo Island

The increase rate of the energy consumption in Porto Santo Island, during 2006, was around 1.3%. The sectors with higher rates were: Construction (47.0%), Services and Commerce (12.5%) and Hotels (11.2%).



The distribution of the main energy consumption by activities was: 29.1% in Industry, 19.9% in Households, 17.6% in Hotels and 16.0% in Services and Commerce.

Concerning the new consumers, 155 were connected to the electric network, totaling 4.275 clients, from which 16 are in medium voltage. The medium and low voltage consumption reached 12,96 GWh and 22,02 GWh, with a percentage distribution of 37.0% and 63.0%, respectively.

## V. Service Quality

The Quality Service in RAM, is regulated by (RQS) Regulation of the Quality Service, and embraces the following main tasks:

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

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

- Implementation of tools which allow the registering of interruptions in Transmission and Distribution network, which are absolutely necessary to determine the Service Continuity Indicators levels;
- Expansion of Voltage Wave Quality verification system;
- Preparation of a public tender to acquire the Interruption System Management (SGI), which will allow to control the low voltage Service Continuity Indicators;
- Relatively to the Commercial Quality Indicators, the following measures were distinguished:
  - Implementation of controls and new functionalities in SAP module IS-U “Industry Solution for Utilities”;
  - Launching of a public tender for implementation of a new Call Center;
  - Accomplishment of customers satisfaction inquiries, to accomplish the general Indicators of customers evaluation and satisfaction;
  - Supply information to customers through Internet;
  - Assistance to customers with special needs;
  - Claims Treatment.

In April 2006, a specific report on Quality Service was realized, being published in EEM internet site.

The Indicators of Transmission and Distribution MT networks of Madeira and Porto Santo Islands, present an acceptable level of Service Continuity. Relatively to the Voltage Wave Quality measurements, the results obtained fulfil all determinations required by RQS. In the Commercial Quality, it is to detach the improvement of attendance times and EEM reply levels, as well as the satisfaction of the customers, measured through an specific inquiry.

## **VI. Unspecified Investments**

The investments realized in unspecified areas by EEM in 2006, amounted to 3.114 thousand Euros, which comprises the accomplishment of studies, infrastructures of support and other initiatives related with information systems area.

### **VI.I - Studies**

Concerning the generating power system the studies continued, in order to determine the system capacity to absorb and increase more renewable energies, namely wind energy and hydro, as well as, were realized hydrologic and technician-economic studies, aiming to optimize the exploitation of the available hydro resources in Paúl da Serra location, namely in Alecrim/Calheta and Juncal/Serra de Água systems.

It's also pointed out, the accomplishment of an environmental diagnosis studies in some of EEM's activity sectors, simultaneously was introduced an environmental action plan covering the thermoelectric power plants, as described in the environmental chapter.

### **VI.II – Infrastructures of Support**

Some investments in the support infrastructures area were also undertaken, being detachable, the construction and remodelling of the Materials Warehouse in Porto Santo Island, the improvements concerning the car park installations placed in the “Rua Dr. Pestana Júnior”, as well as a study about the amendment of these installations to some already existent EEM's services (Transforming Posts Maintenance, Damage Intervention Brigade, and Public lighting).

Also, other studies have been carried, namely: City Corporation license processes, referring to new Warehouses in Calheta and São Vicente.

### **VI.III - Information Systems**

During 2006, EEM continued to develop its IT Systems area, aiming essentially, the reorganization and modernization of commercial and technical area. The following paragraphs summarize the main developments:

#### **• SPO - Public Services On-Line**

“SPO” (Public services on-line) is a project that aims to provide the EEM standard administrative services through Internet. This project is co-financed by European Committee - FEDER through the Madeira Digital program and the State Budget, in 75.0% of the total eligible costs, and should be concluded in 2007.

#### • **SIT - GeoEEM**

In 2006, it was concluded the SIT-GeoEEM (Geographical Information System) project, also co-financed by Madeira Digital program, this tool allow the registering in a unique database of the entire electric grid, from power plants to customers.

Simultaneous, it was initiated a full inventory of EEM's electric grid and the respective loading in SIT database, and its conclusion is expected on the end of 2007.

#### • **SAP**

In 2006, the controls and new functionalities in IS-U "Industry Solution for Utilities" of the SAP module were implemented. The main goals of this IT module are:

- Fulfil the information requirements of the current regulation framework implemented by the Regulatory Agency "Entidade Reguladora dos Serviços Energéticos";
- Provide a better quality service to our clients;
- Optimize commercial area procedures.

#### • **Other projects**

Some tenders were in preparation in order to implement new systems, namely the SGI (Non-availability Management System), the Call Center and the Remote Energy Metering System.



## VII. Human Resources

As at 31st December 2006, EEM's staff was composed by 869 employees, thus being 861 as permanent staff and 8 under a short term contract.

Human Resources by functions					
	2002	2003	2004	2005	2006
Engineers	45	49	55	53	57
Others with university degree	17	15	17	21	24
Technical Engineers	6	5	6	10	10
Industrial Staff	529	514	516	515	514
Administrative Staff	260	249	242	242	236
Assistants	27	22	20	21	20
Employees under term contract	7	12	16	8	8
<b>Total</b>	<b>891</b>	<b>866</b>	<b>872</b>	<b>870</b>	<b>869</b>

From which, 823 employees rendered services in Madeira Island and the remaining 46 in Porto Santo Island.

### Professional training actions

During 2006, several training actions were accomplished, beneficiating 361 employees in a total of 3.415 training hours, subdivided by 3.382 hours of external actions and 33 hours of internal actions. The fulfilled activities were as follows:

- Leadership, Management and Team Motivation;
- Performance Indicators Workshop;
- Internal Quality Auditing Actions;
- Quality Management;
- ISO- Series 9000 - application;
- ISO 9001:2000 Internal Quality Auditing Actions;
- MYSQL Database;
- Windows training actions on Excel, Excel XP Advanced and XP;
- Training on Health and Security at work;
- Participation on a Seminary with the following theme – Innovation and new technologies in Electric;
- The challenges of the development and the Security in the job;
- European Week Seminary in Security;
- Cisco Networking Technologies;
- CO2 licenses Impact;
- Telecommunications Systems;
- NP EN ISSO/IEC Formation;
- New Urban Lease Regime Formation;
- Conference - Electromagnetic Fields;
- Seminary Norm CAD- Normalization;
- Seminary – Energy legal framework;
- Performance Indicators;
- Taxes training course;
- SAP Administration of Systems / SAP R3 / SAP ISU - Commercial Area / SAP Introduction to CIC / SAP FI-CA / SAP DM / SAP WM / SAP BI / SAP CS / SAP-ABAP user dialogs / SAP- ABAP reporting / SAP- ABAP Advance.

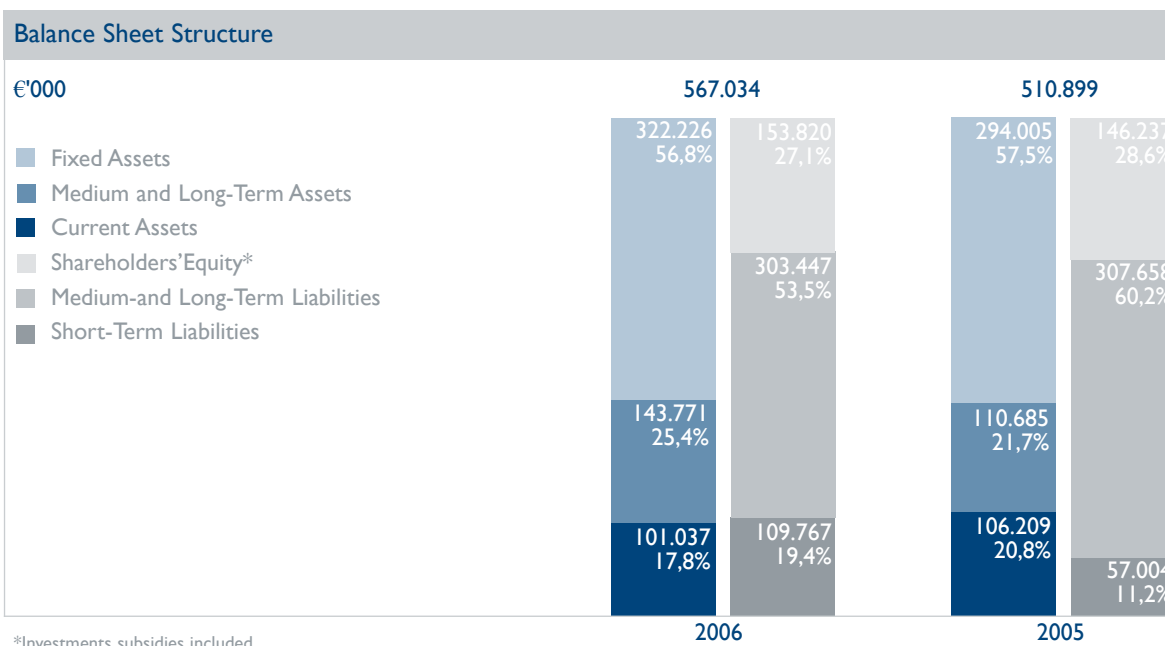


# Economic and Financial Information





## I - Economic and Financial Information



### Balance

In 2006, the EEM Balance Sheet amounted to 567.034 thousand Euros, a 56.135 thousand Euros increase from the value registered in 2005, representing a total growth of 11.0%.

Assets		
€'000	2006	2005
Gross assets	625.761	576.541
Accumulated depreciation and adjustments	303.535	282.537
Net assets	322.226	294.004

The net value of fixed assets represents approximately 56.8% of the Company's total Balance Sheet, amounting to 322.226 thousand Euros, presenting an increase of 9.6% comparatively to 2005.

In 2006, Madeira has once registered high levels of public investment. This fact associated with high growth levels in energy consumption and to a growing demand for quality in the services provided, has encouraged the Company to plan and execute, over the course of 2006, an investment plan amounting to 40.548 thousand Euros, a lower amount in comparison to previous year (2005: 51.911 thousand Euros), but above the average for the last years.

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

- Production: 9.704 thousand Euros;
- Transmission: 12.700 thousand Euros;
- Distribution: 13.929 thousand Euros;
- Commercialization: 1.101 thousand Euros;
- Other activities: 3.114 thousand Euros;

Concerning the investment executed in the production area, it's important to highlight the beginning of exploration of Vitória fuel discharge terminal, used for fuel supply to Vitória Thermal Power Plant (CTV). In 2006, this investment amounted to 4.651 thousand Euros. Also in CTV, huge interventions in the electric groups were performed, (2.180 thousand Euros) including the replacement of important mechanical components, which allows to increase the useful life of the equipments, with inherent gains on security and reliability of CTV.

In the transmission area, the investments accomplished in the transmission network amounted to 6.726 thousand Euros and 5.401 thousand Euros in substations. Concerning the transmission network, the main investments undertaken were in Machico-Caniçal line, ascending in 2006, to 2.335 thousand Euros, (to be concluded during 2007). In substations area, the main investments essentially embrace: improvements, power increases and the conclusion of Santo da Serra and Ponta Delgada substations. Additionally during 2006, the Company also executed an investment in the amount of 2.072 thousand Euros, in the new Substation of São João in Funchal, which will be concluded over the course of 2007.

Concerning the distribution area, the investment plan undertaken by the Company essentially aim to increase the reliability of the existing and in the construction of new Medium Voltage Lines, Transforming Posts and Low Voltage Network/Public Lighting, that reached the amount of 7.280 thousand Euros, 2.394 thousand Euros and 4.255 thousand Euros, respectively.

In the commercialization area, a huge majority of the investment refers to counting, measure and power control equipments of electric energy consumption.

The investments carried out in other accomplishments which include administrative equipment, IT equipment, buildings, vehicles and others, reached 2.087 thousand Euros. The investment in software and hardware represented almost 70.0% of the total.

In 2006, the medium and long-term assets, essentially composed by protocols and contracts with Official Entities, increased around 33.085 thousand Euros in comparison to 2005. This amount, essentially refers to Electric Tariffs Convergence to be received, that enlarge from 14.235 thousand Euros in 2005 for 47.808 thousand Euros in 2006. Both amounts will be received from Rede Eléctrica Nacional (REN) through the UGS tariff, over a 10 years period, running on from 2008, nevertheless was recognized to EEM, the right to proceed to a discount/securitisation operation in the financial markets from 2007.

The amount of current assets ascended to 101.037 thousand Euros (2005: 106.209 thousand Euros), a decrease of 5.172 thousand Euros comparatively to the previous year. This balance includes third parties short-term debts of 76.870 thousand Euros in 2006 (2005: 78.144 thousand Euros), as well as inventories, accruals and cash/deposits at banks, that globally ascended to 24.167 thousand Euros in 2006 (2005: 28.065 thousand Euros).

Long-Term Capital		
€'000	2006	2005
Shareholders' equity *		
Amount	153.820	146.237
%	33,6%	32,2%
Medium and long-term liabilities		
Amount	303.447	307.658
%	66,4%	67,8%
Long-term capital		
Amount	457.267	453.895
%	100,0%	100,0%

\* Investments subsidies included

The amount of long-term capital, which represents 80.6% of the total balance, ensures an adequate coverage of Company's fixed assets.

EEM shareholder's equity (including investment subsidies) registered in 2006, an increase rounding 5.2% comparatively to the previous year, ascending to 153.820 thousand Euros (2005: 146.237 thousand Euros), and the Company's net income ascended to 4.510 thousand Euros.

The medium and long-term liabilities have basically remained unchanged, presenting a slight decrease of 1.4% comparatively to 2005.

Working capital		
€'000	2006	2005
Current assets	101.037	106.209
Current liabilities	109.767	57.004
Working capital	(8.730)	49.205

In 2006, short-term liabilities ascended to 109.767 thousand Euros, reflecting an increase of 52.763 thousand Euros in relation to 2005, of which, about 32.045 thousand of Euros refers to short-term loans that replaced the tariffs convergence in debt, as previous referred.

However, with the publishing of the Decree-Law n.° 237-B/2006, was given to the regulated companies the option to cede the tariff deficits receivable rights (related to 2006 and 2007 years). This legal framework allows to EEM to discount/securitize in the financial markets those assets, in a global amount of 62.719 thousand Euros. Additionally there was an increase in the balances of suppliers and

others creditors. The balance other creditors registered a 7.511 thousand Euros growth, as result of the acquisition of CO2 licenses to cover the yearly CO2 emissions.

## Profit and loss account

### Profits

Operating Revenues					
€'000	2006	%	2005	%	Change %
Power energy sales	137.204	80,8%	126.377	88,2%	8,6%
Work on own account	24.278	14,3%	16.576	11,6%	46,5%
Other revenues	8.284	4,9%	359	0,3%	2207,5%
<b>Total</b>	<b>169.766</b>	<b>100,0%</b>	<b>143.312</b>	<b>100,0%</b>	<b>18,5%</b>

The balance power energy sales, valued at 137.204 thousand Euros, include 42.365 thousand Euros related with tariff compensation derived from the application of tariff regulation.

Energy sales ascended to 94.839 thousand Euros (2005: 88.476 thousand Euros), representing an increase of 7.2% in relation to 2005. This increase results from a growth of 3.8% in the consumption and from an average tariffs increase of around 3.4%.

The investments executed by EEM through works on its own account amounted to 24.278 thousand Euros, represents an increase of around 37.0% comparatively to 2005.

The balance other revenues includes exploitation subsidies amounted to 7.841 thousand Euros, related with the valuation of CO2 licenses, free of charges, attributed to EEM in "Plano Nacional de Atribuição de Licenças de Emissão I" (PNALE I).



## Costs

Operating Costs					
€'000	2006	%	2005	%	Change %
Cost of sales - Raw materials	63.274	46,9%	55.857	49,1%	13,3%
Cost of sales - Materials	3.063	2,3%	3.033	2,7%	1,0%
Staff costs	27.036	20,0%	27.279	24,0%	(0,9%)
Services rendered by third parties	4.954	3,7%	4.996	4,4%	(0,8%)
Depreciations and adjustments	21.942	16,3%	20.703	18,2%	6,0%
Provisions	238	0,2%	1.211	1,1%	(80,3%)
Others	14.401	10,7%	798	0,7%	1704,2%
<b>Operating costs</b>	<b>134.908</b>	<b>100,0%</b>	<b>113.877</b>	<b>100,0%</b>	<b>18,5%</b>
Work on own account	24.278		16.576		
<b>Total operating costs</b>	<b>159.186</b>		<b>130.453</b>		

The operating costs, excluding work on own account, ascended to 134.908 thousand Euros, representing an increase of around 18.5% comparatively to the previous year. Such growth can be mostly explained with the increase of the cost of raw materials and other operating costs. The remaining operational costs have almost remained unchanged.

The cost of raw materials, which includes fuel and electric energy acquired to third parties, ascended to 63.274 thousand Euros, representing an increase of 12.7% in comparison to 2005. The cost of fuel registered a growth of 15.1%, as result of higher fuel oil prices, acquired by the Company in the international primary market. In 2006, the consumption of fuel has nearly remained unchanged in relation to previous year, being the increase of electric energy consumption satisfied by an increase in hydroelectric production (more 25 GWh) and by the production from solid residues (more 5 GWh).

In 2006 the energy purchase to third parties, registered a growth of about 10.2% (more 2.120 thousand Euros), which is explained by an increase on fuel costs in energy acquired to Thermal Power Plant of Caniçal (AIE) and by the growth verified in the production of the Solid Waste Treatment Plant of Meia Serra (more 5 GWh).

The balance other operating costs in the amount of 14.401 thousand Euros, is mainly related with the costs of CO2 licenses in the amount of 7.534 thousand Euros, which was registered in accordance with “Interpretação Técnica N.º 4”, as well as, in the Rights of Way that amounted to 6.028 thousand Euros. The Rights of Way were fixed in 7.5% of the yearly low tension levels sales amount (including Public Lighting) registered in each Municipality of Autonomous Region of Madeira. In 2005, both balances were not properly covered by a legal framework, which not permits a similar accounting treatment.

Financial / Extraordinary Income				
€'000	2006	2005	Change	Change %
Financial income	(9.957)	(9.282)	(675)	(7,3%)
Extraordinary income	5.156	4.546	610	13,4%

Despite the fact of the increase on financial debt around 10.3%, essentially related with a significant increase in the amounts to be received from Tariff Compensation and also with the interest rate increases registered during 2006 (as reference, Euribor 6M start the year in 2.64% and reach the year end on 3.85%, with an yearly average of 3.23%, which represents an increase of 44.0% in relation to 2005), the finance income just presented a decrease of 7.3%. For this decrease, contributed the financial revenues, namely the financial applications made by the Company in the beginning of the year, related with the refinancing process of EEM Bank debt, that also, provided a significant decrease on Banks financial spreads.

The balance extraordinary income presents a growth of 13.4%. This balance essentially includes the recognition as profit (made during the useful life of the assets) from subsidies granted from governmental and European Union entities, in order to finance the acquisition of equipments, which increased 400 thousand Euros, as result of receiving about 8.000 thousand Euros related with the investment carried out by the Company in the transformation of Socorridos Hydroelectric Power Plant into a Reversible System.

## Net Cash Flow

In 2006, the balances of net income, depreciations and adjustments remained nearly unchanged comparatively to previous year. However, the net cash flow presented a decreased of 3.2% in relation to 2005, which is for the most part explained by the reduction of provisions. The provisions for others risks and charges decreased significantly, essentially related with the accounting policy applied to CO2 licenses, changed in accordance with “Interpretação Técnica n.º 4”.

Net Cash Flow					
€'000	2006	%	2005	%	Change %
Net Income	4.510	16,9%	5.670	20,6%	(20,5%)
Depreciations and adjustments	21.942	82,2%	20.703	75,1%	6,0%
Provisions	238	0,9%	1.211	4,4%	(80,3%)
<b>Total</b>	<b>26.690</b>	<b>100,0%</b>	<b>27.584</b>	<b>100,0%</b>	<b>(3,2%)</b>

## EEM Contributions to the State

In 2006, the Company and its workers directly contributed with 13.255 thousand Euros to the Portuguese State, a decrease of 6.3% comparatively to the previous year, as presented as follows:

EEM contributions for the State					
€'000	2006	%	2005	%	Change %
Company:					
Corporate income tax	1.419		2.617		(45,8%)
Other tax	696		787		(11,6%)
Social security costs	5.185		4.999		3,7%
	<b>7.300</b>	<b>55,1%</b>	<b>8.403</b>	<b>59,4%</b>	<b>(13,1%)</b>
Staff:					
Personal income tax	3.554		3.433		3,5%
Social security costs	2.401		2.315		3,7%
	<b>5.955</b>	<b>44,9%</b>	<b>5.748</b>	<b>40,6%</b>	<b>3,6%</b>
<b>Total</b>	<b>13.255</b>		<b>14.151</b>		<b>(6,3%)</b>

## Gross value added

Gross value added reached 72.540 thousand Euros, an increase of 1.2% in relation to 2005.

## Economic and Financial Indicators

Economic Structure		
€'000	2006	2005
Net income	4.510	5.670
Power energy sales and services provided	137.436	126.574
Net cash flow	26.690	27.584
Depreciations and adjustments	21.942	20.703
Financial expenses	12.699	11.030
Staff costs	32.144	31.840
Gross value added	72.540	71.677
N° of employees	870	871
Staff productivity	83	82
Average costs per employee	37	37
Financial expenses in gross value added	0,18	0,15
Staff costs in gross value added	0,44	0,44
Depreciations and adjustments in cash flow	0,82	0,75
Return on equity	2,9%	3,9%
Net income / Power energy sales and services provided	3,3%	4,5%

Financial Structure		
€'000	2006	2005
Current assets	101.037	106.209
Medium-and long-term assets	143.771	110.685
Fixed assets	322.226	294.005
Total assets	567.034	510.899
Short-term liabilities	109.767	57.004
Medium-and long-term Liabilities	303.447	307.658
Total liabilities	413.214	364.662
Bank debts	311.138	282.082
Shareholders' equity *	153.820	146.237
Long-term capital	457.267	453.895
Working capital	(8.730)	49.205
Shareholders' equity / Fixed assets	0,48	0,50
Long-term capital / Fixed assets	1,42	1,54
Indebtedness - (Total liabilities / Total assets)	0,73	0,71
Shareholders' equity / Total assets	0,27	0,29
Medium-and long-term Liabilities / Long-term capital	0,66	0,68
Solvency - (Total assets / Total liabilities)	1,37	1,40
Liquidity - (Current assets / Short-term liabilities)	0,92	1,86

\* Investments subsidies included

## 2 - Proposed Appropriation of Net Income

In accordance with the article 19 of EEM Statutes, the Board of Directors proposes the following application of 2006 Company's net income, amounting to 4.509.723,91 Euros:

Statutory Reserve	450.972,39 Euros
Retained Earnings	4.058.751,52 Euros

### 3 - Environment

#### Introduction

The consolidation of a wide-ranging and integrated environmental policy, is one of EEM's objectives. We assume the Environment as an essential value that can not be apart from our activity.

In this basis, during 2006, we proceed to environmental diagnosis of different sectors of the Company. The studies carried out were of the outmost importance to redefine objectives and goals, stimulating a strategy of continuous improvement that encloses the majority of the organization structure levels.

During the 2006 exercise, the costs on environmental issues to prevent, reduce and repair damages (environmental ones) caused by EEM's activities, reached 1.236.080 Euros, distributed by the following areas:

Environment		
€'000	Investment	Operating Costs
Protection of the Quality of Air and Climate	156	79
Residuum management	355	125
Protection of Ground, Underground and Superficial Waters	-	54
Protection of Biodiversity and Landscape	151	-
Other Activities of Protection of the Environment	223	94
<b>Total</b>	<b>885</b>	<b>352</b>

#### Developed activities

##### Production

##### • European Union Emission Trading Scheme

The two thermo power plants held by EEM enclosed in the European Emission trading, are:

- Madeira Island  
Vitória Thermal Power Plant (CTV) - TEGEE – RAM.076.02
- Porto Santo Island  
Porto Santo Thermal Power Plant (CTPS) - TEGEE – RAM.075.02

The CO<sub>2</sub> emissions for 2006, in CTV and CTPS achieved 377.585 tons and 27.490 tons, respectively.

The 2006 emissions certification procedures were realized in 2007. During this year, several improvement on internal process were executed, including the correction of a small non conformity detected in the previous year verification process, thus leading to the alteration of the Gas Emission Certificate. These alterations were essentially due to the inclusion of small and minimum sources (non included in the initial Certificate), with carbon emissions representing 0.19% and 1.67% of the total emissions.

- **Integrated pollution prevention and control - Obtaining the Environmental Permit for the Power Plants**

EEM continued the data work compilation, required for industrial activities enclosed in the Decree-Law n.º 194/2000, of 21 of August, that approved the legal regimen for Integrated Pollution Prevention and Control (IPPC Directive) in order to obtain the environmental certification for CTV e CTPS.

In accordance to legislation, for existing installations where IPPC activities are developed, the environmental permit is due to until the 30th of October of 2007.

Of the developed activities, in the scope of the Environmental Permit process preparation the most important are:

- The accomplishment of CTV and CTPS's residual water analyses to characterize both: chemist and bacteriologic the rejected waters, allowing as well the evaluation of the effectiveness of the residual water treatment systems, used in the power plants;
- The improvement of the residual waters treatment system in CTPS, through the acquisition of an oil/water separation unit, optimizing the water treatment process and improving the treated effluent;
- Measurements of the relevant atmospheric emissions parameters for the stationary sources in CTV and CTPS, namely: carbon dioxide (CO<sub>2</sub>), carbon monoxide (CO), nitric oxides (NO<sub>x</sub>), sulphur dioxide (SO<sub>2</sub>), particles and metals (these last only in the boiler and the incinerators). Additionally in CTV, continuous measurements have been performed, for nitric oxides (NO<sub>x</sub>) in the chimneys of 9 of the 15 existing electric groups;
- Alteration, in CTPS, of the discharge points of domestic residual waters and process water due to changing's in the Municipality residual water system.

## **Distribution Network**

- **Seeking PCB's on Transformers**

EEM finalized in 2006 the process started in the previous year of retraction of isolating oils of distribution net transformers in public transforming posts, in order to detect, treat and eliminate oils that contained a level of concentration of PCB's "Bifenilos Policlorados" above 50 ppm (50 mg/kg). Physic chemistry analysis and dielectrics, were also accomplished, in order to get indicative values of Interfacial Tension (>15 mN/m), Disruptive Tension (>30 kV), Acid Value (<0,25 mg KOH/g of oil) and Water Concentration (<30 ppm).

Of a total of 445 analyses done in the period 2005-2006, only 6 transformers, presented concentration values above 50 ppm. The equipment was subjected to a decontamination process and the isolating oil was eliminated by an authorized entity.

This is pioneer and wide measure, which contributes to identify and eliminate potential danger situations to the environment and public health.

We can state today beyond doubt that with the conclusion of EEM's Environmental Program, the Autonomous Region of Madeira is at this moment a safer place and environmentally healthier.

- **Environmental Performance Plan – voluntary actions**

The EEM Environmental Performance Plan for 2006-2008, embraces various actions. The activities developed in 2006, relate to visual and landscape integration of overhead low and medium voltage lines and to a study of the impact of electrical lines MV/HV on the wild bird species of Madeira.

- **Visual and landscape integration of overhead LV and MV lines**

The interventions undertaken for visual and landscape integration of overhead LV and MV consisted basically, in the transformation of overhead into underground grids. The direct benefits achieved are essentially on the issue of visual impact.

Indirectly, equally achieved is an improvement in the service quality, due to the reduction of exposition of the grids to aggressive conditions in bad weather situations.

- **Impact study of MV/LV electric lines in wild bird species of Madeira**

In the impact study of MV/LV electric lines in wild bird species of Madeira, EEM involved the main regional entities with responsibilities in this area and was agreed, with active participation of the Local Bird Protection Association "SPEA - Sociedade Protectora para o Estudo das Aves", Natural Park of Madeira "Parque Natural da Madeira" and the Ecological Park of the Funchal "Parque Ecológico do Funchal".

In this scope, identification of the overhead lines to monitor, as well as sections of lines to study were accomplish and the preparation of a Workshop, carried out in January of 2007. This event counted with the participation of the national coordinator of the Project: "Projecto linhas eléctricas em Portugal continental".

## **Investments that allow environmental benefits**

The consolidation of a wide-ranging environmental policy in the energy segment, passes by the evaluation and integration of renewable energies into the grid and by accomplishing studies aiming new thermo power plants, that are essential and absolutely indispensable issues for the safety and reliability of the regional electric system.

## **Studies on integration of renewable energy into the grid**

### **• Wind Energy**

During the year 2006, a study “Determinação da Capacidade de Integração de Energias Renováveis nas Ilhas da Madeira e do Porto Santo” regarding the economical and technical evaluation of the integration of renewable energy into local grids with large amount of renewable production, namely wind power, for the period 2006-2012, was executed by “INESC -Instituto de Engenharia de Sistemas e Computadores”.

### **• EDEN**

The EDEN's Project main objective is to carry out various promotional tasks for development of the Hydrogen “Sociedade do Hidrogénio”, namely the environmental issues, in order to participate in the global effort of reducing polluting emissions associated to energy production, contributing with alternative solutions that allow reduction of global warming by greenhouse effect and developing decentralized energy production, contributing for the national program E4 (Energy Efficiency and Endogenous Energies), in accordance to the European commitments for security and diversification of the energy supply.

The justification of EEM's participation in this project, other than the mentioned aspects, is due to the fact that it is a demonstration project for integration of the renewable energy to be achieved in Porto Santo Island. EEM, being responsible for the whole electrical system in this Island, has a major interest in introducing into the energy production mix, forms of storing renewable energy.

## **Studies for new thermo power plants**

### **• The Natural Gas Project**

The introduction of natural gas in Madeira Island is a structural measure, with a significant impact in the development of the whole regional economy, contributing extraordinarily for environmental protection and is in harmony with international aims.

At this moment, the “off” and “on” shore projects are finalized, as well as the environmental impact, risk assessment and security studies. Due to the Project's importance and innovative character in the islands, those documents are in a validation process by an expert international Company.

### **• Environmental Benefits of the Introduction of Electricity from Natural Gas**

In order to evaluate the importance and advantages of the introduction of this measure, consider an annual production by natural gas of 400 GWh (that represents about 50.0% of the thermal production of the Autonomous Region in 2006) and the impact shall be an annual reduction of 150.000 tons of carbon dioxide, 1.200 tons of sulphur dioxide, 3.800 tons of nitric oxides and 275 tons of particles, advantages more than enough to prove the great impact of this project as alternative to the other fossil fuel products.



## 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 2006, the Board of Directors wished 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 precious cooperation, permanent availability and from their positive contribute for the development and control of EEM activities.

A special reference to our staff for the dedication, rigour, 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

Dr. Rui Alberto Faria Rebelo (Chairman of the Board)

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

Eng. Mário Eugénio Jardim Fernandes (Board Member)



# Consolidated and Individual Financial Statements



**EEM - Empresa de Electricidade da Madeira****Consolidated Balance Sheet as at 31 December, 2006 and 2005**

(Amounts expressed in Euros)			
	Notes	2006	2005
<b>Assets</b>			
Tangible assets	2	303.176.174	283.647.156
Intangible assets	3	12.898.322	5.863.008
Investments	4	6.152.038	4.494.486
Clients and other debtors	5	125.916.769	125.393.499
Inventories	6	12.938.649	12.587.220
Prepayments and accrued income	7	105.017.123	66.476.364
Trading securities	8	10.136	11.499.997
Cash and deposits at banks		925.203	937.683
Total Assets		<u>567.034.414</u>	<u>510.899.413</u>
<b>Shareholders' Equity</b>			
Share capital	9	20.000.000	20.000.000
Reserves and retained earnings	10	86.756.370	81.080.476
Profit for the year		4.509.724	5.669.845
Total Shareholders' Equity		<u>111.266.094</u>	<u>106.750.321</u>
Minority interests	11	<u>78.330</u>	<u>55.550</u>
<b>Liabilities</b>			
Amounts owed to credit institutions	12	311.137.578	282.082.141
Provision for liabilities and charges	13	31.914.179	33.135.641
Deferred tax	14	1.512.831	1.686.713
Suppliers and other liabilities	15	56.453.366	37.074.323
Accruals	16	12.196.490	10.682.938
Deferred income	17	42.475.546	39.431.786
Total Liabilities		<u>455.689.990</u>	<u>404.093.542</u>
		<u>567.034.414</u>	<u>510.899.413</u>

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, 2006 and 2005

		(Amounts expressed in Euros)	
	Notes	2006	2005
<b>Operating income</b>			
Sales	18	137.204.307	126.377.082
Other operating income	19	32.561.471	16.935.158
		<u>169.765.778</u>	<u>143.312.240</u>
<b>Operating costs</b>			
Cost of sales	18	75.590.019	64.602.622
Staff costs		32.144.265	31.839.519
External services and supplies		14.691.195	11.270.816
Depreciation and impairment	2, 3 and 5	21.942.090	20.702.706
Provisions	13	75.666	1.210.988
Other operating costs	20	14.580.914	826.339
		<u>159.024.149</u>	<u>130.452.990</u>
Operating income		<u>10.741.629</u>	<u>12.859.250</u>
<b>Other income/(costs)</b>			
Financial income/(costs)	21	(10.359.667)	(9.683.213)
Income arising on the application of the equity method of consolidation		402.131	401.000
Other income	22	5.196.387	4.678.352
Other costs		(202.549)	(132.347)
		<u>(4.963.698)</u>	<u>(4.736.208)</u>
Income before income taxes		5.777.931	8.123.042
Income taxes	23	1.245.427	2.435.098
Profit for the year		<u>4.532.504</u>	<u>5.687.944</u>
Minority interests	11	22.780	18.099
		<u>4.509.724</u>	<u>5.669.845</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, 2006 and 2005**

	(Amounts expressed in Euros)	
	<b>2006</b>	<b>2005</b>
<b>Cash flows arising from operating activities</b>		
Client payments	102.896.185	118.163.333
Payments to suppliers	(73.953.754)	(82.068.296)
Payments to employees and pensioners	(26.301.652)	(25.333.068)
Tax payments	(2.861.648)	(1.760.921)
Short-term applications	11.489.861	(11.499.997)
Other receipts and payments	6.129.029	2.963.437
	<u>17.398.021</u>	<u>464.488</u>
 <b>Cash flows arising from investing activities</b>		
Sales of fixed assets	136.998	-
Payments to fixed assets suppliers	(33.974.264)	(46.674.970)
Investments	(1.651.430)	-
Loans to other companies	(16.903)	4.182.419
Dividends	724.341	727.039
Interest received	1.226.945	1.119.936
	<u>(33.554.313)</u>	<u>(40.645.576)</u>
 <b>Cash flows arising from financing activities</b>		
Loans obtained	36.592.808	260.000.000
Repayment of loans	(7.537.371)	(208.233.332)
Interest and commissions paid	(13.202.981)	(11.786.860)
Other receipts and payments	291.356	399.006
	<u>16.143.812</u>	<u>40.378.814</u>
 Net changes in cash and cash equivalents	(12.480)	197.726
Cash and cash equivalents balance at the beginning of the year	<u>937.683</u>	<u>739.957</u>
Cash and cash equivalents balance at the year end	<u><u>925.203</u></u>	<u><u>937.683</u></u>

See accompanying notes to the Financial Statements



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

Balance Sheet as at 31 December, 2006 and 2005

		(Amounts expressed in Euros)	
	Notes	2006	2005
<b>Assets</b>			
Tangible assets	2	296.687.945	276.707.558
Intangible assets	3	12.884.232	5.851.504
Investments	4	7.396.443	5.614.287
Clients and other debtors	5	128.458.076	128.203.315
Inventories	6	12.897.758	12.543.864
Prepayments and accrued income	7	105.019.118	66.485.304
Trading securities	8	-	11.499.997
Cash and deposits at banks		914.115	923.269
Total Assets		<u>564.257.687</u>	<u>507.829.098</u>
<b>Shareholders' Equity</b>			
Share capital	9	20.000.000	20.000.000
Reserves and retained earnings	10	86.756.370	81.080.476
Profit for the year		4.509.724	5.669.845
Total Shareholders' Equity		<u>111.266.094</u>	<u>106.750.321</u>
<b>Liabilities</b>			
Amounts owed to credit institutions	12	309.142.386	279.825.257
Provision for liabilities and charges	13	31.457.270	32.666.130
Deferred tax	14	1.512.831	1.686.713
Suppliers and other liabilities	15	56.460.240	37.070.418
Accruals	16	12.180.077	10.658.267
Deferred income	17	42.238.789	39.171.992
Total Liabilities		<u>452.991.593</u>	<u>401.078.777</u>
		<u>564.257.687</u>	<u>507.829.098</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, 2006 and 2005

		(Amounts expressed in Euros)	
	Notes	2006	2005
<b>Operating income</b>			
Sales	18	137.220.580	126.394.651
Other operating income	19	32.467.860	16.859.276
		<u>169.688.440</u>	<u>143.253.927</u>
 <b>Operating costs</b>			
Cost of sales	18	76.392.803	65.306.402
Staff costs		32.122.700	31.819.192
External services and supplies		14.611.403	11.139.134
Depreciation and impairment	2, 3 and 5	21.474.569	20.213.053
Provisions	13	88.268	1.210.988
Other operating costs	20	14.552.450	805.027
		<u>159.242.193</u>	<u>130.493.796</u>
Operating income		<u>10.446.247</u>	<u>12.760.131</u>
 <b>Other income/(costs)</b>			
Financial income/(costs)	21	(10.272.477)	(9.599.772)
Income arising on investments in subsidiaries		520.686	368.673
Other income	22	5.173.271	4.622.073
Other costs		(201.644)	(107.171)
		<u>(4.780.164)</u>	<u>(4.716.197)</u>
 Income before income taxes		5.666.083	8.043.934
Income taxes	23	1.156.359	2.374.089
Profit for the year		<u>4.509.724</u>	<u>5.669.845</u>

See accompanying notes to the Financial Statements



## EEM - Empresa de Electricidade da Madeira

### Statement of Cash Flows for the years ended 31 December, 2006 and 2005

	(Amounts expressed in Euros)	
	<u>2006</u>	<u>2005</u>
<b>Cash flows arising from operating activities</b>		
Client payments	102.690.238	115.182.323
Payments to suppliers	(74.644.437)	(81.209.449)
Payments to employees and pensioniers	(26.280.190)	(25.312.789)
Tax payments	(2.771.937)	(1.714.488)
Short-term applications	11.499.997	(11.499.997)
Other receipts and payments	6.247.124	3.096.604
	<u>16.740.795</u>	<u>(1.457.796)</u>
 <b>Cash flows arising from investing activities</b>		
Sales of fixed assets	136.998	-
Payments to fixed assets suppliers	(33.956.239)	(46.522.247)
Investments	(1.651.430)	-
Loans to subsidiaries and other companies	312.541	5.607.048
Dividends	724.341	727.039
Interest received	1.226.328	1.119.934
	<u>(33.207.461)</u>	<u>(39.068.226)</u>
 <b>Cash flows arising from financing activities</b>		
Loans obtained	36.854.500	260.000.000
Repayment of loans	(7.537.371)	(207.971.640)
Interest and commissions paid	(13.153.745)	(11.701.410)
Other receipts and payments	294.128	390.381
	<u>16.457.512</u>	<u>40.717.331</u>
 Net changes in cash and cash equivalents	(9.154)	191.309
Cash and cash equivalents balance at the beginning of the year	<u>923.269</u>	<u>731.960</u>
Cash and cash equivalents balance at the year end	<u><u>914.115</u></u>	<u><u>923.269</u></u>

See accompanying notes to the Financial Statements

## **EEM - Empresa de Electricidade da Madeira**

### **Notes to the Financial Statements 31 December, 2006 and 2005**

## **I Accounting policies**

### **I.1 Activity and basis of presentation**

Empresa de Electricidade da Madeira, S.A. (EEM) was established by the Decree-Law No. 12/74, of 17 January 1974, as a public company (E.P.), being its main objective the generation, transport, distribution and commercialisation of electric energy in the Autonomous Region of Madeira.

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 Price Regulation, in order to extend its application to the Autonomous Regions, seeking solutions that lead to a progressive standardization of tariffs in Portugal starting 1 January 2003, under the principles of tariff standardization 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 resulting from tariffs reduction.

During 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, 2006 and 2005, 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.

These consolidated financial statements are expressed in euros and have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Portugal, following the accounting policies presented below.

These financial statements were approved in the Board of Directors meeting held on 30 March, 2007.

## **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, 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 Group and its associates are eliminated to the extent of the Group's interest in the associates.

## **Other investments**

Investments in which EEM holds less than 20% of the voting rights and over which has no significant influence, 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 recognized through the income statement.

## **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 Accounting Rule N.º 9.

## **I.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 revenue and expenditure are recorded under Prepayments and accrued income or Accruals and deferred income.

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, based on the actual consumption not metered as at the balance sheet value, are accrued based on real consumptions.

## **I.3 Subsidies to operational activity**

The subsidies granted by governmental entities in order to compensate the reductions of the electricity tariffs were accounted under the protocol established with the Regional and Central Governments. This protocol was established for the three years period from 1998 to 2000, then being 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 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 commercialisation of electric energy and are determined by the application of the rules defined in the tariffs convergence process.

## **I.4 Clients**

Receivables from clients 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 rates 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, 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. Expenses with technical studies 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 value, net of accumulated depreciation.

EEM has revaluated its tangible assets under the following Decree-Laws: Decree-Law 430/78, Decree-Law 219/82, Decree-Law 399-G/84, Decree-Law 118-B/86, Decree-Law 111/88, Decree-Law 49/91, Decree-Law 264/92 and Decree-Law 31/98.

Depreciation is calculated on a straight-line basis, in accordance with Decree-Law 2/90, of 12 January, over the following periods, which do not differ substantially from the assets' useful lives:

	<u>No. of years</u>
• Buildings	10 to 50
• Basic equipment	6 to 25
• Motor vehicles	4 to 5
• Machinery	4 to 6
• Office equipment and electric meters	6 to 10

## 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 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.

### **1.10 Interest capitalised**

Interest related to loans obtained specifically for the acquisition or construction of tangible assets is capitalised. The amount of interest to be capitalized 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 capitalization 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 of equipments, 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 present obligation is measured at the present value of future cash outflows using interest rates of government securities that have terms to maturity similar to the terms of the related liability.

The liabilities related to the pension plan are recorded in accordance with the Accounting Rule N°. 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 N°. 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 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 portuguese tax legislation considered in “Código do 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.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted as at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted as at the balance sheet date.

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, which are accounted in the income statement, are capitalised under tangible assets against this balance.

### **1.15 Regulatory assets (tariffs compensation)**

When an activity is subject to regulation, the criteria for allocation of 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, than 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.



### **I.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 usage is valued at historical cost considering the CO2 emissions occurred during the period, in accordance with Interpretação Técnica N°. 4, of 26 April 2006.

Subsidies are amortised over the period in which they are attributed, on the same proportion as the consumptions. When the emissions for the period exceeds the licenses freely attributed, is charged a provision for the amount necessary to acquire the licenses in the market, as at the balance sheet date.

### **I.18 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:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Gross amount:</b>				
Land	5,637,898	5,450,969	5,637,898	5,450,969
Buildings	178,701,269	176,860,536	175,561,880	173,721,147
Basic equipment	366,593,383	341,146,136	360,786,463	335,339,235
Motor vehicles	1,859,554	2,267,346	1,838,064	2,245,856
Machinery	1,905,443	1,800,061	1,905,443	1,800,061
Office equipment	10,845,804	8,687,891	10,736,429	8,578,689
Other equipment	10,516,663	9,416,303	10,516,663	9,416,302
Art	55,965	49,915	-	-
Work in progress	19,454,356	10,026,043	19,454,356	10,026,043
	<u>595,570,335</u>	<u>555,705,200</u>	<u>586,437,196</u>	<u>546,578,302</u>
<b>Accumulated depreciation:</b>				
Related to the year	(20,804,247)	(19,747,710)	(20,346,636)	(19,275,892)
Related to previous years	(271,589,914)	(252,310,334)	(269,402,615)	(250,594,852)
	<u>(292,394,161)</u>	<u>(272,058,044)</u>	<u>(289,749,251)</u>	<u>(269,870,744)</u>
	<u>303,176,174</u>	<u>283,647,156</u>	<u>296,687,945</u>	<u>276,707,558</u>

The Tangible assets movements for the Group, during 2006, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
<b>Gross amount:</b>					
Land	5,450,969	171,540	-	15,389	5,637,898
Buildings	176,860,536	1,702,183	(37,770)	176,320	178,701,269
Basic equipment	341,146,136	18,588,177	-	6,859,070	366,593,383
Motor vehicles	2,267,346	5,789	(413,581)	-	1,859,554
Machinery	1,800,061	141,888	(36,506)	-	1,905,443
Office equipment	8,687,891	2,167,247	(9,334)	-	10,845,804
Other equipment	9,416,303	1,100,360	-	-	10,516,663
Art	49,915	6,050	-	-	55,965
Work in progress	10,026,043	16,570,574	-	(7,142,261)	19,454,356
	<u>555,705,200</u>	<u>40,453,808</u>	<u>(497,191)</u>	<u>(91,482)</u>	<u>595,570,335</u>
<b>Accumulated depreciation:</b>					
Buildings	48,748,218	4,934,282	(13,532)	-	53,668,968
Basic equipment	205,920,468	14,192,185	-	-	220,112,653
Motor vehicles	2,232,972	15,948	(413,583)	-	1,835,337
Machinery	1,618,856	73,335	(36,507)	-	1,655,684
Office equipment	6,013,021	1,083,456	(4,508)	-	7,091,969
Other equipment	7,524,509	505,041	-	-	8,029,550
	<u>272,058,044</u>	<u>20,804,247</u>	<u>(468,130)</u>	<u>-</u>	<u>292,394,161</u>

The acquisitions of Basic equipment refer, mainly, to the “Terminal de Fuel dos Socorridos” construction, extensive repairs at “Central Térmica da Vitória” Groups and improvements in the energy transport and distribution networks.

During 2006, were concluded several works in the substations belonging to the electric energy distribution network of the Autonomous Region of Madeira. Therefore, it was transferred from the balance Work in progress to fixed assets an amount of Euros 7,142,261.

As at 31 December 2006, the balance Work in progress mainly refers to network improvements related to the energy transport and distribution activities.

### 3 Intangible assets

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Gross amount:</b>				
Technical studies	3,195,770	3,009,996	3,086,904	2,913,626
Industrial property	1,871,357	1,871,357	1,871,357	1,871,357
CO2 licenses	7,511,682	-	7,511,682	-
Other intangible assets	11,440,096	11,440,096	11,440,096	11,440,096
	<u>24,018,905</u>	<u>16,321,449</u>	<u>23,910,039</u>	<u>16,225,079</u>
<b>Accumulated depreciation:</b>				
Related to the year	(662,142)	(621,175)	(652,232)	(603,340)
Related to previous years	(10,458,441)	(9,837,266)	(10,373,575)	(9,770,235)
	<u>(11,120,583)</u>	<u>(10,458,441)</u>	<u>(11,025,807)</u>	<u>(10,373,575)</u>
	<u>12,898,322</u>	<u>5,863,008</u>	<u>12,884,232</u>	<u>5,851,504</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 1,871,357, 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 CO2 licenses corresponds to the licenses freely attributed in the scope of "Plano Nacional de Atribuição de Licenças de Emissão" (PNALE) for the three years period 2005-2007, in the amount of Euros 6,707,302, and to licenses acquired in the market to face the consumption of the year, in the amount of Euros 804,380. During 2006, the EEM Group accounting policy related to CO2 licenses was changed as a result of "Interpretação Técnica n.º 4" introduction, as referred in note I.17.

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 I.10.

The Intangible assets movements for the Group, during 2006, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
<b>Gross amount:</b>					
Technical studies	3,009,996	94,292	-	91,482	3,195,770
Industrial property	1,871,357	-	-	-	1,871,357
CO2 licenses	-	7,511,682	-	-	7,511,682
Other intangible assets	11,440,096	-	-	-	11,440,096
	<u>16,321,449</u>	<u>7,605,974</u>	<u>-</u>	<u>91,482</u>	<u>24,018,905</u>
<b>Accumulated depreciation:</b>					
Technical studies	2,962,970	85,431	-	-	3,048,401
Industrial property	687,189	56,707	-	-	743,896
Other intangible assets	6,808,282	520,004	-	-	7,328,286
	<u>10,458,441</u>	<u>662,142</u>	<u>-</u>	<u>-</u>	<u>11,120,583</u>

## 4 Investments

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Subsidiaries:</b>				
Museu - Casa da Luz	-	-	261,605	381,753
Emacom	-	-	95,070	108,486
Enereem	-	-	887,730	629,562
	-	-	1,244,405	1,119,801
<b>Associated companies:</b>				
Teleféricos da Madeira, S.A.	556,944	554,812	556,944	554,812
<b>Other investments:</b>				
Banif - SGPS, S.A.	4,314,077	3,178,887	4,314,077	3,178,887
Horários do Funchal, S.A.	611,027	611,027	611,027	611,027
Luso Carbon Fund	600,000	-	600,000	-
Sociedade de Desenvolvimento de Porto Santo, S.A.	-	99,760	-	99,760
Centro Logístico 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	-
Centro de Empresas e Inovação da Madeira, Lda	3,990	-	3,990	-
	5,615,235	3,959,815	5,615,235	3,959,815
Impairment of other investments	(20,141)	(20,141)	(20,141)	(20,141)
	<u>6,152,038</u>	<u>4,494,486</u>	<u>7,396,443</u>	<u>5,614,287</u>

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

	<b>Group</b>		<b>Individual</b>	
	<b>2006 %</b>	<b>2005 %</b>	<b>2006 %</b>	<b>2005 %</b>
<b>Subsidiaries:</b>				
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
<b>Associated companies:</b>				
Madem - Comunicações da Madeira, S.A.	-	47.50	-	-
Teleféricos da Madeira, S.A.	20.00	20.00	20.00	20.00
<b>Other investments:</b>				
Banif - SGPS, S.A.	1.62	1.62	1.62	1.62
Horários do Funchal, S.A.	5.00	5.00	5.00	5.00
Luso Carbon Fund	0.60	-	0.60	-
Sociedade de Desenvolvimento de Porto Santo, S.A.	-	12.50	-	12.50
Centro Logístico de Combustíveis da Madeira, S.A.	10.00	10.00	10.00	10.00
Madibel Indústrias de Alimentos e Bebidas, S.A.	2.52	2.52	2.52	2.52
Comboio do Monte, S.A.	16.67	-	16.67	-
Centro de Empresas e Inovação da Madeira, Lda	10.00	-	10.00	-

### Investments consolidated under the full consolidation method

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

As at 31 December 2003, the shareholders' equity of this subsidiary was lower than its share capital. Consequently, during 2004, EEM, its sole shareholder, has performed supplementary capital contributions in the amount of Euros 600,000, in order to re-establish the subsidiary's financial stability.

Emacom was established in August 1998, with a share capital of Euros 49,880, entirely held by EEM. This entity is established at the Autonomous Region of Madeira.

Emacom's main objective is rendering telecommunication services to third parties. With this purpose, it was granted to Emacom by Anacom, the regulating agency for the sector, 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.

Enereem was established in September 1998, 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 2006, are analysed as follows:

	% of share Capital	Acquisition cost Euros	Book value Euros
Teleféricos da Madeira, S.A.	20.00	92,395	556,944
		<u>92,395</u>	<u>556,944</u>

Teleféricos da Madeira, S.A. was established in 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 entity is established in the Autonomous Region of Madeira.

During 2006, Madem - Comunicações da Madeira, S.A. was dissolved by a decision taken in a General Shareholders Meeting as at 30 December 2004. This company, held by EEM in 46% through Emacom and 1.5% through Museu - Casa da Luz, was established in 1999 to operate in the telecommunications industry, in partnership with Maxitel - Serviços e Gestão de Telecomunicações, S.A. (51%) and Aream - Agência Regional da Energia e Ambiente da Região Autónoma da Madeira (1.5%). Under the scope of this liquidation, the EEM Group losses arise to Euros 676,384, which have already been recognised in previous periods.



## Other investments (recorded at cost)

As at 28 June 2006, Banif – S.G.P.S., S.A. has realised a capital increase in the amount of Euros 50,000,000 through a reserves incorporation, by an emission of 5 millions new ordinary, nominative and contractual shares, with a nominal value of Euros 5 each being attributed to EEM 81,085 new shares. Additionally, was realised an emission of new shares reserved to shareholders, in the amount of Euros 25,000,000 (5 million shares with the nominal value of Euros 5 each), with the price of Euros 14 per share. Under this capital increase EEM has acquired 81,085 new shares at the price of Euros 14 each.

As at 19 September 2006, Banif – S.G.P.S., S.A. has changed the shares nominal value from Euros 5 to Euro 1.

The investment held in Banif – S.G.P.S., S.A. is represented by 4,054,260 shares with a nominal value of Euro 1 each. The average acquisition cost of the shares held by EEM is Euros 1.06 each. As at 31 December 2006, the market value of the investment arises to Euros 21,082,152.

Horários do Funchal, S.A. was established in 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.

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.

Centro Logístico 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 2006, 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. (“Madibel”), with a share capital of Euros 798,400, by the amount of Euros 20,141. Considering the financial difficulties faced by Madibel, EEM has recorded impairment losses during 2005 in the amount of the investment held.

## 5 Clients and other debtors

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Clients:</b>				
Official entities				
With protocol	49,046,711	47,249,117	49,046,711	47,249,117
Without protocol	52,505,947	48,746,999	52,505,174	48,746,999
Rede Eléctrica Nacional	849,470	2,296,716	849,470	2,296,716
Other clients	12,255,844	15,897,609	12,211,153	15,822,245
	<u>114,657,972</u>	<u>114,190,441</u>	<u>114,612,508</u>	<u>114,115,077</u>
<b>Other debtors:</b>				
Public sector	6,837,753	6,889,768	6,728,805	6,749,888
Coopereme	2,639,832	2,639,832	2,639,832	2,639,832
Other debtors	1,522,567	1,455,986	4,233,385	4,496,145
Advances to suppliers	15,099	15,099	-	-
	<u>11,015,251</u>	<u>11,000,685</u>	<u>13,602,022</u>	<u>13,885,865</u>
Doubtful debts	8,330,645	7,813,771	8,330,645	7,813,771
	<u>134,003,868</u>	<u>133,004,897</u>	<u>136,545,175</u>	<u>135,814,713</u>
Impairment for doubtful debts	(8,087,099)	(7,611,398)	(8,087,099)	(7,611,398)
	<u><u>125,916,769</u></u>	<u><u>125,393,499</u></u>	<u><u>128,458,076</u></u>	<u><u>128,203,315</u></u>

The balance Official entities with protocol, in the amount of Euros 49,046,711 (2005: Euros 47,249,117) 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 2006 the amount of Euros 2,259,186 (2005: Euros 2,252,717). 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 52,505,947 (2005: Euros 48,746,999), relates to amounts invoiced to regional official entities until 31 December 2006, 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 26,726,474 (2005: Euros 22,800,712) related to public lighting.

The balance Public sector includes the amount of Euros 6,036,946 (2005: Euros 6,878,447) referring to VAT receivable and also the amount of Euros 800,807 (2005: Euros 11,305) referring to income tax receivable.

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 834,726 (2005: Euros 792,089) referring to loans to Centro Logístico de Combustíveis da Madeira, S.A., an associated company, in accordance with the shareholders agreement.

As at 31 December 2006, the Impairment for doubtful debts is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Balance on 1 January	7,611,398	7,277,577	7,611,398	7,277,577
Charge for the year	475,701	333,821	475,701	333,821
Balance on 31 December	<u>8,087,099</u>	<u>7,611,398</u>	<u>8,087,099</u>	<u>7,611,398</u>

## 6 Inventories

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Goods	9,372,711	8,365,698	9,264,570	8,255,092
Raw materials	<u>3,888,361</u>	<u>4,543,945</u>	<u>3,888,361</u>	<u>4,543,945</u>
	13,261,072	12,909,643	13,152,931	12,799,037
Valuation adjustments	<u>(322,423)</u>	<u>(322,423)</u>	<u>(255,173)</u>	<u>(255,173)</u>
	<u>12,938,649</u>	<u>12,587,220</u>	<u>12,897,758</u>	<u>12,543,864</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:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Prepayments:</b>				
Pensions	6,890,017	8,268,021	6,890,017	8,268,021
Financial costs	2,736,904	2,951,375	2,736,904	2,951,375
Other	178,837	88,656	177,590	87,477
	<u>9,805,758</u>	<u>11,308,052</u>	<u>9,804,511</u>	<u>11,306,873</u>
<b>Accrued income:</b>				
Subsidies to operational activity	39,766,841	40,778,911	39,766,841	40,778,911
Tariffs compensation	47,807,582	14,235,795	47,807,582	14,235,795
Energy to invoice	7,375,861	-	7,377,333	-
Other	261,081	153,606	262,851	163,725
	<u>95,211,365</u>	<u>55,168,312</u>	<u>95,214,607</u>	<u>55,178,431</u>
	<u>105,017,123</u>	<u>66,476,364</u>	<u>105,019,118</u>	<u>66,485,304</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 N°. 19. This amount is amortised, since 1 January 2004, by the average remaining years to retirement of those employees, estimated in eight years, as referred in notes 1.12 and 24.

The balance Financial costs includes an amount of Euros 2,638,904 (2005: Euros 2,828,875) of fees charged to EEM related with the restructuring process of the Group's financial liabilities, as referred in note 12.

The balance Subsidies to operational activity, in the amount of Euros 39,766,841 (2005: Euros 40,778,911), results from the difference between the amounts accounted in the income statement from 1998 until 2002 and the amounts received regarding the same period, under the protocol signed between the Central and Regional Governments, that establishes the payment of the debt in 40 quarterly instalments, as referred in note 1.3. Until 31 December 2005, no instalment was paid by the Central Government. However, during 2006, was paid an amount of Euros 1,012,070, plus VAT at a rate of 4%.

The balance Tariff compensation, in the amount of Euros 47,807,582 (2005: Euros 14,235,795), corresponds to the tariffs convergence for 2006 and to the out of control costs variation of 2004, 2005 and 2006 that will be received from Rede Eléctrica Nacional (REN) through the UGS tariff, as referred in notes 1.1 and 1.15.

## 8 Trading securities

This balance is analysed as follow:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Other trading securities	-	2,499,997	-	2,499,997
Other financial investments	10,136	9,000,000	-	9,000,000
	<u>10,136</u>	<u>11,499,997</u>	<u>-</u>	<u>11,499,997</u>

As at 31 December 2005, the balance Other trading securities corresponds to 374,919 participation units held on an investment fund managed by Banif – Banco Internacional do Funchal, S.A., which have been sold during 2006.

As at 31 December 2005, the balance Other financial investments corresponds to a short term investment at Banif – Banco Internacional do Funchal, S.A. This investment, bearing interest at a fixed rate (2.85%), has matured as at 12 January 2006.

## 9 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 totally held by Madeira's Regional Government.

## 10 Reserves and retained earnings

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Legal and statutory reserves	16,878,796	15,744,828	16,878,796	15,744,828
Other reserves	16,728,468	18,175,913	17,104,858	18,175,913
Retained earnings	53,149,106	47,159,735	52,772,716	47,159,735
	<u>86,756,370</u>	<u>81,080,476</u>	<u>86,756,370</u>	<u>81,080,476</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 is equal to 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 have already reached the limit of the Legal reserve, as mentioned in the above paragraph, it will not be charged against this balance any amount of the profit for the year ended 31 December 2006.

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.

## 11 Minority interests

The balance Minority interests refers to the investment held by Aream - Agência Regional da Energia e Ambiente da Região Autónoma da 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 78,330 (2005: Euros 55,550).

## 12 Amounts owed to credit institutions

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

	Group		Individual	
	2006 Euros	2005 Euros	2006 Euros	2005 Euros
Short term loans	36,854,500	-	36,854,500	-
Foreign loans	260,000,000	262,386,975	260,000,000	262,386,975
Other loans	14,283,078	19,695,166	12,287,886	17,438,282
	<u>311,137,578</u>	<u>282,082,141</u>	<u>309,142,386</u>	<u>279,825,257</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, transmission and distribution activities, respectively.

In 2005, the balance Foreign loans includes the outstanding debt of the loan granted by the European Investment Bank in 1986 in the amount of Euros 2,386,975, with an initial amount of Euros 21,947,107. The loan was granted in different currencies, for which EEM fixed the exchange rates for each payment date. The payment plan sets annual payments, being the last one paid during 2006.

As at 31 December 2006, the balance Other loans includes a loan in the amount of Euros 11,934,000 (2005: Euros 13,810,000) 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 settled during 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.

### I3 Provision for liabilities and charges

This balance includes the provision for pension benefits as defined in the Company Agreement, in the amount of Euros 31,219,002 (2005: 31,455,142), as referred in note 24.

The Provision for liabilities and charges movement is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Balance on 1 January	33,135,641	31,542,507	32,666,130	31,072,996
<b>Charge for the year:</b>				
For pension benefits	2,523,642	3,214,512	2,523,642	3,214,512
CO2 licences	161,601	1,060,988	161,601	1,060,988
Other	76,667	150,000	76,667	150,000
<b>Amounts charged-off:</b>				
For pension benefits	(2,759,782)	(2,832,366)	(2,759,782)	(2,832,366)
CO2 licenses	(1,060,988)	-	(1,060,988)	-
Other	(162,602)	-	(150,000)	-
Balance on 31 December	<u>31,914,179</u>	<u>33,135,641</u>	<u>31,457,270</u>	<u>32,666,130</u>

In accordance with the Decree-Law N°. 243-A/2004, of 31 December, EEM has charged a provision in the amount of Euros 161,601 (2005: Euros 1,060,988) regarding the difference between the CO2 consumptions for the year and the CO2 licenses held as at 31 December 2006, as referred in note 25.

### I4 Deferred tax

The balance Deferred tax includes the amount of deferred tax liabilities related to legal revaluations performed by EEM, considering that 40% of the depreciations accounted in the future are not accepted as fiscal cost. The deferred tax liabilities reverted during 2006 amounts to Euros 173,882 (2005: Euros 182,280).

## I5 Suppliers and other liabilities

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Suppliers	31,146,443	18,470,544	31,206,310	18,523,886
Suppliers of tangible assets	10,728,785	11,336,463	10,716,604	11,318,951
Instituto do Ambiente	7,511,682	-	7,511,682	-
Public sector	2,733,986	3,220,534	2,693,707	3,181,197
Other	4,332,470	4,046,782	4,331,937	4,046,384
	<u>56,453,366</u>	<u>37,074,323</u>	<u>56,460,240</u>	<u>37,070,418</u>

The balance Suppliers includes mainly fuel and electric energy suppliers.

At 31 December 2005, the balance Suppliers of tangible assets includes the amount of Euros 660,381 related to a lease contract for the EEM's car fleet. During 2006, the referred contracts were terminated.

The balance Instituto do Ambiente refers to the CO2 consumption liability realized by EEM under the development of its operational activity, as referred is note I.17.

The balance Public sector is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Consumption fee	1,849,956	1,695,116	1,849,956	1,695,116
Social security	555,314	547,009	554,928	546,637
Income tax payable	37,584	686,882	-	649,824
Other	291,132	291,527	288,823	289,620
	<u>2,733,986</u>	<u>3,220,534</u>	<u>2,693,707</u>	<u>3,181,197</u>

The balance Other includes the mandatory guarantee deposits from customers, in the amount of Euros 3,948,035 (2005: Euros 3,692,423).



## 16 Accruals

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Network rights	6,027,640	-	6,027,640	-
Holiday pay and subsidies	3,597,270	3,950,182	3,594,689	3,947,721
Interest payable	1,404,458	2,122,378	1,349,282	2,105,773
Other liabilities	1,167,122	4,610,378	1,208,466	4,604,773
	<u>12,196,490</u>	<u>10,682,938</u>	<u>12,180,077</u>	<u>10,658,267</u>

The balance Network rights refers to the 2006 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 N°. 2/2007/M, of 8 January 2007, which produces effects starting on 1 January 2006.

The balance Other liabilities includes the amount of Euros 400,078 (2005: Euros 875,464) related to energy supply from external entities to EEM.

## 17 Deferred income

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Investments subsidies:</b>				
Plano Operacional Plurifundos ("POP-RAM")	21,786,199	24,660,206	21,786,199	24,660,206
Socorridos Project	9,989,771	3,564,825	9,989,771	3,564,825
Fundo Europeu de Desenvolvimento Regional ("FEDER")	1,588,508	2,391,396	1,588,508	2,391,396
Network reinforcement projects	1,411,247	1,052,510	1,411,247	1,052,510
SIURE Project	236,757	235,892	-	-
VALOREN Program	-	37,460	-	37,460
	<u>35,012,482</u>	<u>31,942,289</u>	<u>34,775,725</u>	<u>31,706,397</u>
Other deferred income	7,463,064	7,489,497	7,463,064	7,465,595
	<u>42,475,546</u>	<u>39,431,786</u>	<u>42,238,789</u>	<u>39,171,992</u>

Subsidies from governmental and communitarian entities are granted in order to finance the acquisition of equipments. These amounts are accounted as a liability, being recognised in the income statement during the useful life of the assets, as referred in note I.11.

The balance Other deferred income includes the amount of Euros 6,378,060 (2005: Euros 6,360,973) mainly referring to construction works invoiced to clients, which are accounted as tangible assets. The accounting treatment of these amounts is identical to investment subsidies.

## I8 Sales and cost of sales

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Sales:</b>				
Energy	94,839,432	88,433,600	94,855,931	88,451,494
Tariffs compensation	32,783,778	37,900,773	32,783,778	37,900,773
Low tension tariff deficit	9,580,871	-	9,580,871	-
Other	226	42,709	-	42,384
	<u>137,204,307</u>	<u>126,377,082</u>	<u>137,220,580</u>	<u>126,394,651</u>
<b>Cost of sales:</b>				
Raw Material	63,273,772	55,857,176	64,079,022	56,561,176
Goods	12,316,247	8,745,446	12,313,781	8,745,226
	<u>75,590,019</u>	<u>64,602,622</u>	<u>76,392,803</u>	<u>65,306,402</u>

The balance Tariffs compensation refers to the amounts attributed to EEM, under Article N°. 95 of the Tariff Regulation, as referred in notes I.1 and I.15.

The balance Low tension tariff deficit corresponds to the amounts received from REN during 2006, due to the existence of a restriction mechanism for the low tension electric energy tariff increase to the expected variation of the price index, implicit in the 2006 private consumption, as stipulated in Article N°. 121 of the Tariff Regulation.

## 19 Other operating income

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Own work capitalised	24,277,743	16,575,693	24,277,743	16,575,693
CO2 licenses	7,841,386	-	7,841,386	-
Services rendered	231,334	197,387	142,260	111,385
Supplementary profits	211,008	162,078	206,471	172,198
	<u>32,561,471</u>	<u>16,935,158</u>	<u>32,467,860</u>	<u>16,859,276</u>

The balance CO2 licenses refers to the subsidy amortisation that results from the freely attributed CO2 licenses, as referred in note I.17.

## 20 Other operating costs

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
CO2 licenses	7,608,092	-	7,608,092	-
Network rights	6,027,640	-	6,027,640	-
Other operating costs	945,182	826,339	916,718	805,027
	<u>14,580,914</u>	<u>826,339</u>	<u>14,552,450</u>	<u>805,027</u>

The balance CO2 licenses refers to the licenses consumption that result from the gas emissions, as referred in note I.17.

The balance Network rights refers to the local tax rate of 2006 owed by EEM as referred in note I6.

## 21 Financial income/(costs)

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
<b>Financial income:</b>				
Interest	1,419,391	1,113,581	1,419,391	1,113,577
Other	919,904	233,395	919,286	233,395
	<u>2,339,295</u>	<u>1,346,976</u>	<u>2,338,677</u>	<u>1,346,972</u>
<b>Financial costs:</b>				
Interest	(11,681,322)	(9,646,660)	(11,607,527)	(9,576,168)
Commissions and other financial costs	(1,017,640)	(1,383,529)	(1,003,627)	(1,370,576)
	<u>(12,698,962)</u>	<u>(11,030,189)</u>	<u>(12,611,154)</u>	<u>(10,946,744)</u>
	<u>(10,359,667)</u>	<u>(9,683,213)</u>	<u>(10,272,477)</u>	<u>(9,599,772)</u>

## 22 Other income

The balance Other income includes the recognition in the income statement of the investment subsidies, in the amount of Euros 4,763,369 (2005: Euros 4,407,107), following the accounting policy referred in note 1.11.

## 23 Income taxes

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2006 Euros</b>	<b>2005 Euros</b>	<b>2006 Euros</b>	<b>2005 Euros</b>
Current tax	1,419,309	2,617,378	1,330,241	2,556,369
Deferred tax	(173,882)	(182,280)	(173,882)	(182,280)
	<u>1,245,427</u>	<u>2,435,098</u>	<u>1,156,359</u>	<u>2,374,089</u>

The balance Deferred tax corresponds to the deferred tax liability reversed during 2006 and 2005, resulting from the legal revaluations performed by EEM, as referred in note 14.

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2006 and 2005, is analysed as follow:

	<b>2006</b>			<b>2005</b>		
	<b>Rate</b>	<b>Tax Basis</b>	<b>Tax</b>	<b>Rate</b>	<b>Tax Basis</b>	<b>Tax</b>
Income tax calculated based on the statutory tax rate	22.50%	5,777,931	1,300,034	22.50%	8,123,042	1,827,684
Non-deductible provisions for tax purposes	0.88%	226,177	50,890	8.87%	3,203,321	720,747
Tax benefits	-0.98%	(251,372)	(56,559)	-0.45%	(160,812)	(36,183)
Non-deductible tax losses	0.60%	154,449	34,751	0.63%	227,018	51,079
Equity on associates	-1.53%	(392,378)	(88,285)	-1.07%	(386,772)	(87,024)
Tax-exempt dividends	-0.63%	(162,171)	(36,488)	-0.31%	(113,519)	(25,542)
Difference between the tax and accounting gains and losses	-0.27%	(69,787)	(15,702)	0.00%	(250)	(56)
Autonomous taxation (*)	0.42%	470,015	24,431	0.27%	428,055	22,160
Changes in estimates	0.00%	502	113	0.02%	6,177	1,390
Depreciation without tax consequences	0.00%	-	-	0.18%	63,967	14,393
Other adjustments	0.56%	143,299	32,242	-0.66%	(238,006)	(53,550)
	<u>21.55%</u>	<u>5,896,665</u>	<u>1,245,427</u>	<u>29.98%</u>	<u>11,152,221</u>	<u>2,435,098</u>

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

## 24 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, 2006 and 2005, the number of participants covered by this pension plan is analysed as follows:

	2006	2005
<b>Number of participants:</b>		
Employees	88	91
Pre-pensioners	56	59
Pensioners	185	179
	<u>329</u>	<u>329</u>

As at 31 December, 2006 and 2005, the liabilities for past services associated to the pension plan were the following:

	2006 Euros	2005 Euros
<b>Evolution of liabilities:</b>		
Liabilities at the beginning of the year	35,683,615	35,118,994
Current service cost	306,501	265,256
Interest cost	1,694,971	1,843,747
Benefits paid	(2,759,782)	(2,832,365)
Actuarial gains and losses	737,012	1,287,983
Liabilities at the end of the year	<u>35,662,317</u>	<u>35,683,615</u>

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

	2006 Euros	2005 Euros
<b>Liabilities as at 31 December</b>		
Employees	10,825,633	10,451,734
Pre-pensioners	11,860,092	12,776,981
Pensioners	12,976,592	12,454,900
<b>Liabilities to be covered</b>	35,662,317	35,683,615
Insurance coverage	(4,443,315)	(4,228,473)
Provisions charged	(31,219,002)	(31,455,142)
Liabilities not covered	-	-

During 2006, EEM has accounted as pension costs an amount of Euros 3,901,646 (2005: Euros 4,592,516), which are analysed as follows:

	2006 Euros	2005 Euros
<b>Cost for the year:</b>		
Current service cost	306,501	265,256
Interest costs	1,694,971	1,843,747
Actuarial gains and losses	737,012	1,287,983
Return on plan assets	(214,842)	(182,474)
Amortisation of deferred past services liabilities	1,378,004	1,378,004
Net for the year cost	3,901,646	4,592,516

Based on the actuarial valuation and in accordance with the accounting principles defined in the Accounting Rule N°. 19, EEM has registered, during 2006, a provision for pensions in the amount of Euros 2,523,642 (2005: Euros 3,214,512).

As at 31 December 2003, and resulting from the actuarial study performed with reference to the date of enforcement of Accounting Rule N°. 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:

	2006	2005
<b>Assumptions:</b>		
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

## 25 CO2 licenses

The CO2 licenses for consumption movements are analysed as follows:

	Dec 2006		Dec 2005	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	(50,742)	22.35	-	-
Licenses freely attributed	350,845	22.35	350,845	8.39
Licenses acquired	70,000	11.82	-	-
	370,103		350,845	
Licenses to return regarding the year consumption	(405,075)		(401,587)	
Excess / (Insufficiency) of licenses	(34,972)	4.62	(50,742)	20.91
Assets / (Liabilities) – Euros	(161,601)		(1,060,988)	

The CO2 licenses freely attributed for the three years period 2005-2007 amounts to 1,052,535 tons, which will be allocated on a straight line basis over the referred period, in accordance with PNALE I.

The liabilities are determined in accordance with the CO2 licenses market price as at the balance sheet date (see note 13).

The licenses corresponding to each year consumptions are returned to the regulatory entity of each country until the end of the fourth month of the subsequent year.



## 26 Subsidiaries financial statements (consolidated by the full method)

### i) Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda. Balance Sheet as at 31 December, 2006 and 2005

	2006 Euros	2005 Euros
<b>Assets</b>		
Tangible assets	2,577,469	2,694,795
Investments	78,329	55,550
Clients and other debtors	22,899	85,070
Inventories	40,890	43,356
Deferred costs	205	160
Cash and deposits at banks	5,456	7,578
Total Assets	2,725,248	2,886,509
<b>Quotaholders' Equity</b>		
Quota capital	99,760	99,760
Supplementary capital contributions	2,096,394	2,096,394
Reserves and retained earnings	(1,808,353)	(1,644,376)
Net loss for the year	(126,196)	(170,025)
Total Quotaholders' Equity	261,605	381,753
<b>Liabilities</b>		
Quotaholders	2,072,511	2,083,741
Suppliers and other liabilities	384,572	413,145
Other liabilities	6,560	7,870
Total Liabilities	2,463,643	2,504,756
	2,725,248	2,886,509

**ii) Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda.**  
**Income Statement for the years ended 31 December, 2006 and 2005**

	2006 Euros	2005 Euros
<b>Operating income</b>		
Sales	226	324
Other operating income	38,674	37,850
	<u>38,900</u>	<u>38,174</u>
<b>Operating costs</b>		
Cost of sales	2,465	220
Staff costs	21,564	20,327
External services and supplies	38,990	43,295
Depreciation and adjustments	123,570	137,777
Other operating costs	511	356
	<u>187,100</u>	<u>201,975</u>
Operating loss	(148,200)	(163,801)
<b>Other income/(costs)</b>		
Financial income/(costs)	22,664	(430)
Income arising on the application of the equity method of consolidation	-	18,099
Other income	4	1,131
Other costs	(403)	(24,990)
	<u>22,265</u>	<u>(6,190)</u>
Income before income taxes	(125,935)	(169,991)
Income taxes	261	34
Net loss for the year	<u>(126,196)</u>	<u>(170,025)</u>

**iii) Emacom - Telecomunicações da Madeira, Unipessoal, Lda**  
**Balance Sheet as at 31 December, 2006 and 2005**

	2006 Euros	2005 Euros
<b>Assets</b>		
Tangible assets	118,563	132,024
Loans to subsidiaries	456,909	482,644
Public sector and other debtors	162,512	140,698
Deferred costs	1,042	1,020
Trading securities	10,136	-
Cash and deposits at banks	1,222	5,908
Total Assets	<u>750,384</u>	<u>762,294</u>
<b>Quotaholders' Equity</b>		
Quota capital	49,880	49,880
Supplementary capital contributions	1,000,000	1,000,000
Reserves and retained earnings	(941,393)	(873,965)
Net loss for the year	(13,417)	(67,428)
Total Quotaholders' Equity	<u>95,070</u>	<u>108,487</u>
<b>Liabilities</b>		
Provision for liabilities and charges	456,909	469,511
Quotaholders	176,000	151,228
Suppliers and other liabilities	15,007	21,955
Other liabilities	7,398	11,113
Total Liabilities	<u>655,314</u>	<u>653,807</u>
	<u>750,384</u>	<u>762,294</u>

**iv) Emacom - Telecomunicações da Madeira, Unipessoal, Lda**  
**Income Statement for the years ended 31 December, 2006 and 2005**

	2006 Euros	2005 Euros
<b>Operating income</b>		
Services rendered	181,219	100,025
	<u>181,219</u>	<u>100,025</u>
<b>Operating costs</b>		
External services and supplies	184,925	144,670
Depreciation and adjustments	13,462	13,463
Other operating costs	7,664	7,542
	<u>206,051</u>	<u>165,675</u>
Operating loss	(24,832)	(65,650)
<b>Other income/(costs)</b>		
Financial income/(costs)	(130)	(1,649)
Cost arising on the application of the equity method of consolidation	-	-
Other income	12,676	25
Other costs	(502)	-
	<u>12,044</u>	<u>(1,624)</u>
Income before income taxes	(12,788)	(67,274)
Income taxes	629	154
Net loss for the year	<u>(13,417)</u>	<u>(67,428)</u>

**v) Enereem - Energias Renováveis, Lda.**  
**Balance Sheet as at 31 December, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
	<b>Euros</b>	<b>Euros</b>
<b>Assets</b>		
Tangible assets	3,792,198	4,112,778
Intangible assets	14,090	11,504
Clients and other debtors	132,979	166,211
Accrued income	51,887	-
Cash and deposits at banks	4,410	927
Total Assets	<u>3,995,564</u>	<u>4,291,420</u>
<b>Quotaholders' Equity</b>		
Quota capital	49,880	49,880
Supplementary capital contributions	800,000	800,000
Reserves and retained earnings	(109,219)	(350,542)
Net profit for the year	303,727	241,323
Total Quotaholders' Equity	<u>1,044,388</u>	<u>740,661</u>
<b>Liabilities</b>		
Amounts owed to credit institutions	1,995,192	2,256,884
Quotaholders	600,093	968,813
Suppliers and other liabilities	61,458	45,479
Other liabilities	57,676	19,788
Deferred income	236,757	259,795
Total Liabilities	<u>2,951,176</u>	<u>3,550,759</u>
	<u>3,995,564</u>	<u>4,291,420</u>

**vi) Enereem - Energias Renováveis, Lda.****Income Statement for the years ended 31 December, 2006 and 2005**

	2006 Euros	2005 Euros
<b>Operating income</b>		
Sales	805,250	704,000
Other operating income	6,169	-
	<u>811,419</u>	<u>704,000</u>
<b>Operating costs</b>		
External services and supplies	4,828	23,603
Depreciation	330,495	338,414
Other operating costs	20,282	13,415
	<u>355,605</u>	<u>375,432</u>
Operating income	455,814	328,568
<b>Other income/(costs)</b>		
Financial income/(costs)	(86,946)	(81,363)
Other income	23,037	55,125
Other costs	-	(186)
	<u>(63,909)</u>	<u>(26,424)</u>
Income before income taxes	391,905	302,144
Income taxes	88,178	60,821
Net profit for the year	<u><u>303,727</u></u>	<u><u>241,323</u></u>

# Statutory Auditor's Opinion on the Consolidated Accounts





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## **EEM – Empresa de Electricidade da Madeira, S.A.**

### **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, 2006 (showing total assets of 567,034,414 euros and shareholders' equity attributable to the equity holders of EEM of 111,266,094 euros, including a net profit for the year of 4,509,724 euros), the Consolidated statements of income by nature and by function and the Consolidated statement of cash flows for the year then ended, and the corresponding Notes.

#### **Responsibilities**

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

#### **Scope**

4. Our exam 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 a reasonable degree of 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 circumstances applicable;

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KPMG & Associados - SROC, S.A.  
Capital Social: 511.700 Euros  
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Inscrito na O.R.O.C. N.º 189  
Inscrito na C.M.V.M. N.º 9093

Matriculada na  
Conservatória do registo  
Comercial de Lisboa sob o  
n.º 715, fls. 178 do Livro C -  
2/3



- verification of the application of the going concern principle;
  - assessment of the appropriateness of the overall presentation of the consolidated financial statements.
5. Our review also included the verification that the consolidated annual report of the Board of Directors is consistent with the consolidated financial statements.
6. We believe that our exam provides a reasonable basis for the expression of our opinion.

#### Qualifications

7. During April 2003, the contract related with the Tariffs Convergence for Electric Energy was signed 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 for the period from 1998 to 2002, revoking the previous protocol. In accordance with this contract, the estimated compensation initially amounts to 40,778,911 euros, plus VAT at a rate of 4%, payable in 40 quarter instalments, beginning in 2004. Under this contract EEM received, in 2006, the amount of 1,012,070 euros, plus VAT at a rate of 4%. At the date of this Statutory Auditor's Opinion, it is not possible to estimate when these payments will occur and the impact, if any, in the shareholders' equity and results as at 31 December, 2006.

8. EEM booked in the balance Clients and other debtors the amount of 101,552,658 euros (2005: 95,996,116 euros), related to public lightning and other services rendered to regional official entities.

This amount includes 49,046,711 euros (2005: 47,249,117 euros), for which EEM, in the years 2000, 2001, 2003 and 2006, signed a set of protocols with some of these entities, 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 2006, the amount of 2,259,186 euros and, in previous years, 10,604,811 euros. Due to the terms of the protocols mentioned above, the present value of these debts is substantially lower than its nominal value. At the date of this Statutory Auditor's Opinion, EEM had not yet calculated the present value of these debts and the consequent effect in the shareholders' equity and results.

The remaining debt from regional official entities, in the amount of 52,505,947 euros (2005: 48,746,999), does not have a payment plan established. Due to the materiality and the overdue period of the amounts, despite being owed by official entities, it is not possible to estimate when these amounts will be received.

**Qualified opinion**

9. In our opinion, except for the effect of the adjustments that might have been determined to be necessary from the matters referred in paragraphs 7 and 8, the above mentioned 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, 2006, the consolidated results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting principles in Portugal.

**Emphasis of matter**

10. Without qualifying our opinion expressed in the paragraph above, we draw attention to the following:

As at 25 March, 2002, the Decree-Law No. 69/2002 was published, which extended to the Autonomous Regions of Azores and Madeira the regulation exercised by the Regulatory Agency for Energy Services (ERSE). During 2002, ERSE adjusted the regulation framework for the electric sector, namely the Price Regulation, in order to extend its application to the Autonomous Regions, seeking a progressive standardization of tariffs in Portugal starting on 1 January, 2003, under the principles of tariff convergence and financial stability of regulated companies. However, at this date specific legislation is still being prepared, which will allow the regulated companies to achieve the objective of financial stability.

As at 31 December, 2006, resulting from the tariffs reduction process, the receivables from the Central Government, as referred in paragraph 7 of the Qualifications are still outstanding. There are also additional receivables from official entities referring to public lightning and other services, as referred in paragraph 8 of the Qualifications. Therefore, the continuity of EEM depends on the collection of debts from these entities and on the conditions upon which its operations will be developed in the future, namely in relation to the implementation of instruments that seeks the regularization of the amounts owed by official entities.

Lisbon, 31 March, 2007

**KPMG & Associados, S.R.O.C., S.A. (SROC no. 189)**

Represented by

Jean-éric Gaign (Revisor Oficial de Contas n.º 1013)

# Extract of the Minutes of the General Assembly Meeting



## Minute Number Thirteen

- «On the thirty day of March of two-thousand-and-seven at approximately 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 number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, and registered in the Commercial Registry of Funchal with the number 05405/940819, 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 Engineer 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 2006;
- 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 2006 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 4 509 723,91 €:

Retained earnings - 4 058 751,52 €

Statutory reserve - 450 972,39 €

- 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.
- 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 Fourteen

- «On the thirty day of March of two-thousand-and-seven 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 number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, and registered in the Commercial Registry of Funchal with the number 05405/940819, 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 Engineer 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 2006 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 2006 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 4 509 723,91 €:  
  
Retained earnings - 4 058 751,52 €  
Statutory reserve - 450 972,39 €
- 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.»





