



# Annual Report

08





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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

### General Assembly

Dr. Maria de Fátima F. Freitas (President)  
 Dr. Rui Antero F. Pestana (Vice-President)  
 Dr. Ana Cristina Dantas Andrade (Secretary)

### Statutory Auditor

KPMG & Associados, SROC, S.A.  
 represented by Dr. Jean-Éric Gaign

### 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)

### Advising/Consulting

Dr. João Pedro Sousa

### General Directorate

### Aud. and Int. Supervision

Dr. Armindo Santos

### D.S.P.

Directorate of  
Studies and Planning

Eng. A. Figueira

### D.P.S.

Directorate of  
Production Services

Eng. Pontes Leça

### D.T.S.

Directorate of  
Transmission Services

Eng. José Cotrim

### D.D.S.

Directorate of  
Distribution Services

Tech. Eng. D. Afonso



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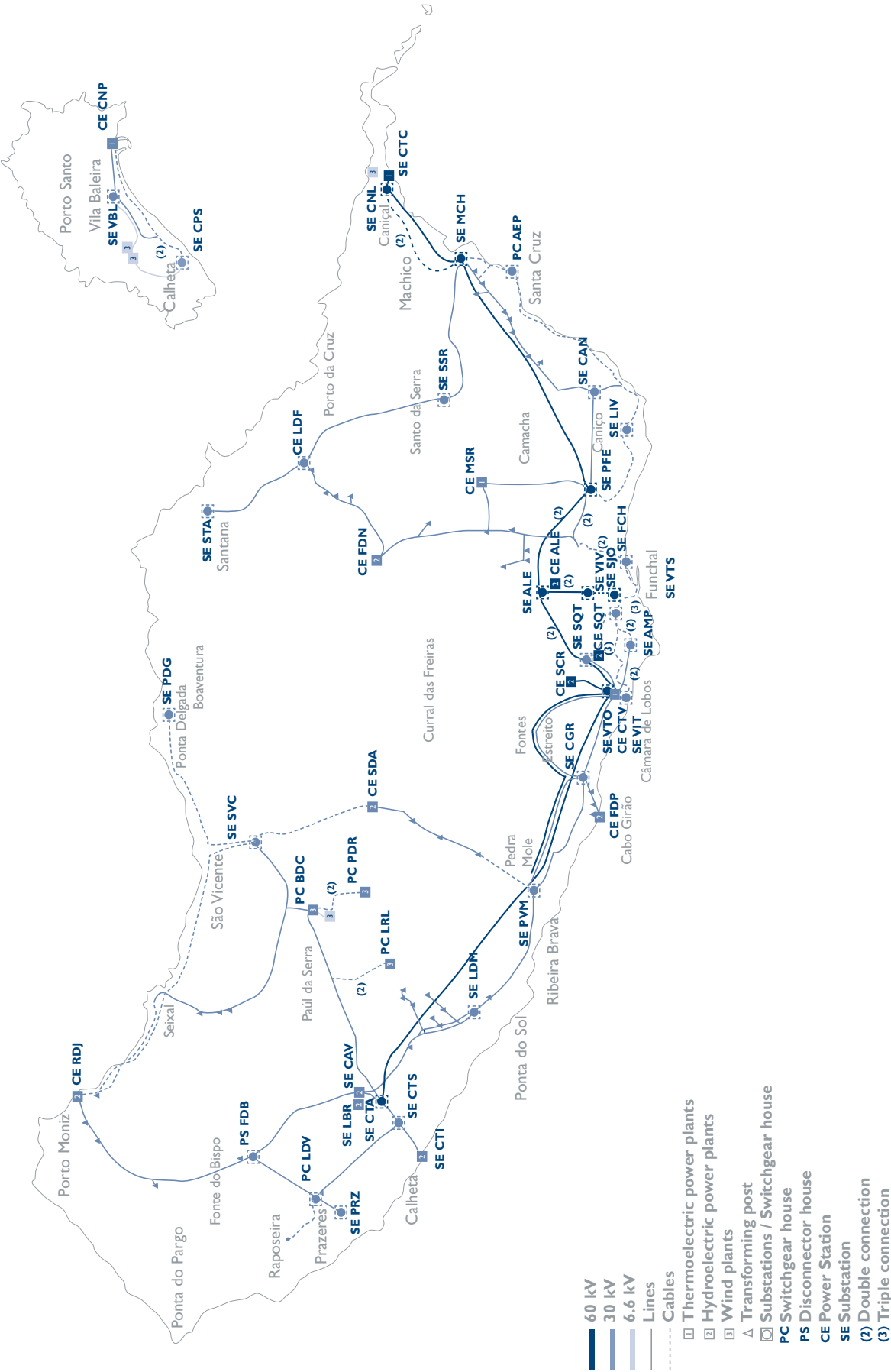
<b>D.A.S.</b> Directorate of Adm. Services	<b>D.C.S.</b> Directorate of Const. Services	<b>D.L.J.S.</b> Directorate of Labour & Judicial Serv.	<b>D.I.S.</b> Directorate of IT Systems	<b>P.S.D.</b> Porto Santo Division
Dr. Ana Borges	Eng. António Marrana	Dr. A. Cristina Dantas	Eng. António Nunes	Tech. Eng. D. Afonso







Transmission Network




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

GWh	2004	2005	2006	2007	2008
<b>Madeira Island</b>	<b>569.16</b>	<b>617.79</b>	<b>642.66</b>	<b>645.71</b>	<b>694.07</b>
Hydroelectric	60.46	82.58	108.67	62.76	79.60
Thermoelectric (Vitória)	508.70	535.21	533.99	582.95	614.47
<b>Porto Santo Island</b>	<b>34.76</b>	<b>37.37</b>	<b>37.47</b>	<b>37.42</b>	<b>39.35</b>
Thermoelectric	34.03	36.58	36.77	36.76	38.47
Wind Plants	0.74	0.79	0.70	0.66	0.88
<b>Total RAM</b>	<b>603.92</b>	<b>655.16</b>	<b>680.13</b>	<b>683.13</b>	<b>733.42</b>

Note: RAM - Autonomous Region of Madeira

**Electric energy acquisition - Other entities**

GWh	2004	2005	2006	2007	2008
<b>Madeira Island</b>	<b>247.18</b>	<b>246.09</b>	<b>251.31</b>	<b>255.21</b>	<b>247.21</b>
Hydroelectric	3.96	4.36	4.19	3.55	4.10
Wind Plants	16.11	15.26	15.44	12.07	13.09
Thermoelectric (Caniçal)	192.00	192.17	192.35	201.49	192.81
ETRSU (Meia Serra)	35.11	34.30	39.33	38.11	37.22
<b>Porto Santo Island</b>	<b>1.06</b>	<b>1.11</b>	<b>1.04</b>	<b>1.19</b>	<b>1.29</b>
Wind Plants	1.06	1.11	1.04	1.19	1.29
<b>Total RAM</b>	<b>248.24</b>	<b>247.21</b>	<b>252.35</b>	<b>256.40</b>	<b>248.51</b>

Note : ETRSU - Solid Waste Incineration

**RAM's energy balance - 2008**

GWh	Net Demand	Billing
Madeira Island	921.91	839.32
Porto Santo Island	38.29	36.67
<b>Total RAM</b>	<b>960.20</b>	<b>876.00</b>

**Substations**

	2004	2005	2006	2007	2008
<b>Madeira Island</b>					
Number	25	25	27	28	28
Installed power (MVA)	427	427	445	485	528
<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	30	31	31
Installed power (MVA)	443	443	461	501	544

Transforming Posts					
	2004	2005	2006	2007	2008
<b>Madeira Island</b>					
Number	1,411	1,484	1,535	1,583	1,644
Installed power (MVA)	557	601	630	666	696
<b>Porto Santo Island</b>					
Number	75	80	83	91	93
Installed power (MVA)	27	29	30	35	35
<b>Total RAM</b>					
Number	1,486	1,564	1,618	1,674	1,737
Installed power (MVA)	584	630	660	701	731

Transmission and Distribution Network - RAM					
Km	2004	2005	2006	2007	2008
<b>Low Voltage</b>	<b>3,740.80</b>	<b>3,776.96</b>	<b>3,798.94</b>	<b>3,852.56</b>	<b>3,885.18</b>
Overhead lines	2,983.40	2,990.38	2,997.31	3,013.17	3,017.47
Underground cables	757.40	786.58	801.63	839.39	867.71
<b>6.6 kV</b>	<b>1,020.40</b>	<b>1,075.58</b>	<b>1,131.31</b>	<b>1,195.56</b>	<b>1,240.77</b>
Overhead lines	519.10	527.86	538.87	545.75	541.48
Underground cables	501.30	547.72	592.44	649.81	699.29
<b>30 kV</b>	<b>335.41</b>	<b>345.11</b>	<b>356.86</b>	<b>372.61</b>	<b>386.55</b>
Overhead lines	233.92	234.85	236.01	236.96	242.75
Underground cables	101.49	110.26	120.85	135.65	143.80
<b>60 kV</b>	<b>68.10</b>	<b>68.10</b>	<b>68.10</b>	<b>78.70</b>	<b>78.70</b>
Overhead lines	68.10	68.10	68.10	68.80	68.80
Underground cables	-	-	-	9.90	9.90
<b>Total RAM</b>	<b>5,164.71</b>	<b>5,265.75</b>	<b>5,355.21</b>	<b>5,499.42</b>	<b>5,591.20</b>

Commercial Data					
	2004	2005	2006	2007	2008
<b>Madeira Island</b>					
Number of Consumers	120,438	124,041	126,504	128,488	129,636
Consumption (GWh)	729.89	768.36	798.42	805.36	839.32
Households and Agriculture	237.59	248.30	263.51	255.54	259.76
Services and Commerce	301.05	314.85	334.65	337.49	358.50
Public Services	53.82	59.06	57.24	59.11	60.02
Industry	78.71	77.63	75.26	75.74	74.57
Public Lighting	58.73	68.52	67.76	77.48	86.47
<b>Porto Santo Island</b>					
Number of Consumers	3,888	4,120	4,275	4,414	4,477
Consumption (GWh)	32.66	34.54	34.98	34.39	36.67
Households and Agriculture	6.58	6.73	7.21	7.10	7.43
Services and Commerce	10.25	11.24	12.77	12.37	14.23
Public Services	3.50	3.37	3.31	3.53	3.65
Industry	10.61	11.23	9.77	9.43	8.96
Public Lighting	1.72	1.97	1.92	1.96	2.40
<b>Total RAM</b>					
Number of Consumers	124,326	128,161	130,779	132,902	134,113
Consumption (GWh)	762.54	802.90	833.40	839.75	876.00

Human Resources					
	2004	2005	2006	2007	2008
Nº of Employees	872	870	869	868	865



Consolidated Financial Data					
€'000	2004	2005	2006	2007	2008
Turnover	123,313	143,312	169,766	168,996	204,735
Operating income	11,160	12,859	10,579	10,866	12,847
Net income	4,295	5,670	4,510	4,558	3,760
Net assets	445,217	510,899	567,034	558,697	635,143
Net fixed assets	262,581	294,005	322,226	334,054	390,602
Shareholders' equity	138,650	146,237	153,820	153,768	154,166
Investment	30,563	51,911	40,548	39,926	66,823

## Summary

The EEM's investments, in 2008, have reached 66,823 thousand Euros, split by different areas as follows: 55.7% in production, 16.5% in transmission, 17.7% in distribution, 1.2% in commercialization and 8.9% in unspecified investment.

## Production

The achieved investments in the production area amounted to 37,190 thousand Euros, mainly in:

- Loiral and Pedras Wind Power Plants;
- Beginning of the construction of the new Thermal Power Plant - Vitória III;
- Great repairs in nºs 4, 7, 11, 13, 14 and 15 Power Groups (CTV I and II);
- Installation of the nº 6 Power Group in the Porto Santo Thermal Power Plant, with 4.32 MW.

## Transmission

The accomplished investments in the transmission area amounted to 11,046 thousand Euros, essentially in the reinforcement of the transmission network, new substations and switchgear posts, remodelling and power improvements.

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

- Total remodelling of the 60 kV Vitória Substation;
- Total remodelling of the Calheta Substation in Porto Santo Island;
- Conclusion of the construction of the 30 kV Loiral and Pedras switchgear posts;
- Beginning of the Bica da Cana Switchgear Post remodelling;
- Installation of a transformer system to remove moisture from the oil, on a continuous basis, in the installed units of Funchal, Virtudes and Amparo substations;
- Power increase of 10 MVA in Palheiro Substation and 8 MVA in Ponta Delgada Substation.

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

- Conclusion of the construction of a 60 kV double isolated overhead line between Cabo Girão Substation and Ponte Vermelha Substation;
- Construction of a 30 kV extension overhead line between the Bica da Cana Switchgear Post and São Vicente - Ribeira da Janela line;
- Construction of a 30 kV underground double cable between the Bica da Cana Switchgear Post and Pedras Switchgear Post;

- Construction of a 30 kV underground double cable between the Lombo do Doutor - Bica da Cana overhead line and new Loiral Switchgear Post.

## Distribution

The achieved investments in the distribution area, reached the amount of 11,848 thousand Euros, being detailed as follows:

- Connection of 36 new transforming posts for public service;
- Connection of 31 new private transforming posts to network;
- Remote control of 22 transforming posts;
- Enlargement of the medium voltage network in 47.88 km;
- Improvement of the medium voltage network in 8.26 km;
- Enlargement of the low voltage network in 32.62 km;
- Improvement of the low voltage network in 74.80 km;
- Installation of 204 new public lighting luminaries;
- Replacement of 821 public lighting luminaries.

## Commercialization

The achieved investments in the commercialization area, reached the amount of 765 thousand Euros, implemented, mainly, in energy measurement systems, being detachable the following indicators:

- The electric energy sales achieved 839.32 GWh in Madeira Island and 36.67 GWh in Porto Santo Island, totaling 876.00 GWh in RAM;
- The number of clients connected to the network, in 31st of December 2008, was 129,636 and 4,477, in Madeira and Porto Santo Islands, respectively.

## Other accomplishments

The fulfilled investments concerning unspecified areas, in a transversal way to the Company, were namely: studies, general installations, equipments, tools and information systems, reaching the amount of 5,974 thousand Euros. In this particular area, it is important to point out installations and information systems, as the following projects:

- Construction of warehouses and the materials stores in Calheta, São Vicente and Machico councils;
- Continuation of the electric grid inventory, concerning the SIT - GeoEEM project;
- Implementation of the SGI (Non - Availability Management System);
- Software SAP IS - U (Industry Solution for Utilities), including the implementation of the new connection process to networks, risk valuation and control processes;
- Implementation of a Contact Centre;
- Implementation of a tracking system for EEM's service vehicles.









## I. Production

In 2008, the investments in the production area reached the total amount of 37,190 thousand Euros, being detachable the beginning of the construction of the new Thermal Power Plant - Vitória III, great repairs in some Power Groups on Vitória Thermal Power Plant (CTV I and II), the conclusion of Power Group nº 6 in Porto Santo Thermal Power Plant and construction of Loiral and Pedras Wind Power Plants.

### A. Madeira Island

#### Hydroelectric utilities

Among all the investments carried out during 2008, regarding the hydroelectric power plants, are detachable the following actions:

- Replacement of the power groups controllers (PLC) in Serra de Água, Fajã da Nogueira and Ribeira da Janela Hydroelectric Power Plants;
- Replacement of the auxiliary transformer in Serra de Água Hydroelectric Power Plant;
- Recuperation of the water penstock in Calheta Hydroelectric Power Plant.

#### Thermoelectric utilities

##### Vitória Thermal Power Plant

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

- Great repairs in nºs 4, 7, 11, 13, 14 and 15 Power Groups (CTV I and II);
- Installation of oil treatment equipment in nºs 7, 11 and 12 Power Groups (CTV I and II);
- Acoustic treatment of the CTV II building;
- Conclusion of the ISO 9001:2000 Certification process.

On December 31st, 2008, the EEM's electric generating system in Madeira Island, consisted of one thermoelectric power plant and nine hydroelectric power plants with a total installed power of 208.93 MW. Thus being 158.54 MW (75.9%) of the mentioned value installed in Vitória Thermal Power Plant and the remaining 50.39 MW (24.1%) in hydroelectric power plants.

## EEM's power system in Madeira Island - 2008

	Thermal	Hydro	Total
Nº of Power Plants	1	9	10
Installed power (MW)	158.54	50.39	208.93
Production (GWh)	614.47	79.60	694.07

## EEM's thermoelectric power plant in Madeira Island - 2008

	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	51.75		Thick Fuel-oil
	3	7.50	9.75	5.00	30.81		Thick Fuel-oil
	4, 5, 6	23.40	29.25	18.60	95.81		Thick Fuel-oil
	7, 8, 9, 10	42.24	52.00	34.80	218.20		Thick Fuel-oil
	11, 12, 13, 14, 15	57.60	70.00	48.50	212.81		Thick Fuel-oil
	16	12.80	16.00	12.80	5.09		Diesel
<b>Total - CTV</b>		<b>158.54</b>	<b>196.50</b>	<b>130.50</b>	<b>614.47</b>	<b>597.95</b>	

\*Maximum continuous power

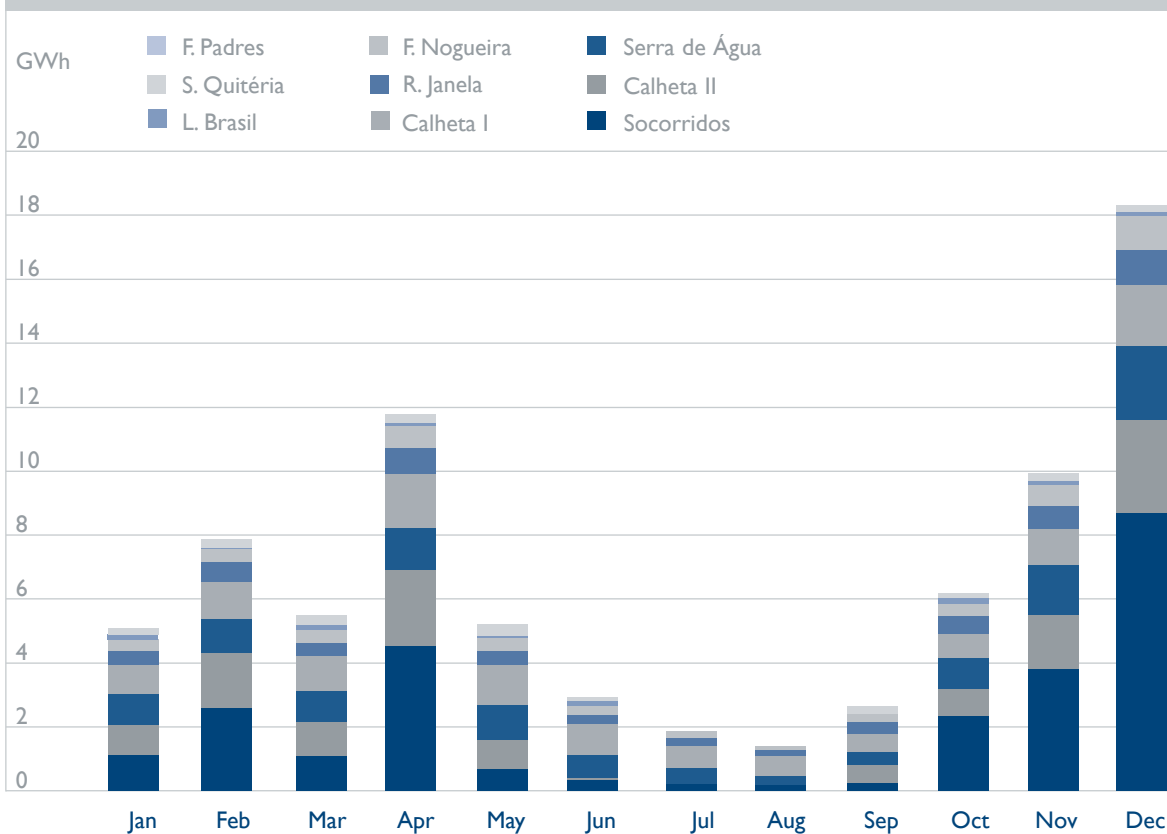
## EEM's hydroelectric power plants in Madeira Island - 2008

	Inst. Power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	4.90	12.17	12.13	430	Pelton
Calheta I	1.10	12.33	12.17	629	Pelton
	0.52			314	Pelton
	0.50			181	Pelton
	2.60			629	Pelton
Calheta II	7.30	13.13	13.10	637	Pelton
Ribeira da Janela	3.20	6.42	6.32	398	Pelton
Fajã da Nogueira	2.40	5.22	5.15	348	Pelton
Lombo do Brasil	0.17	1.21	1.21	316	Pelton
Fajã dos Padres	1.70	-	-	530	Pelton
Santa Quitéria	1.70	2.45	2.44	212	Pelton
Socorridos	24.30	26.68	26.61	457	Pelton
Hydroelectric Pumping	11.25	-	-	457	Francis
<b>Total EEM*</b>	<b>50.39</b>	<b>79.60</b>	<b>79.13</b>		

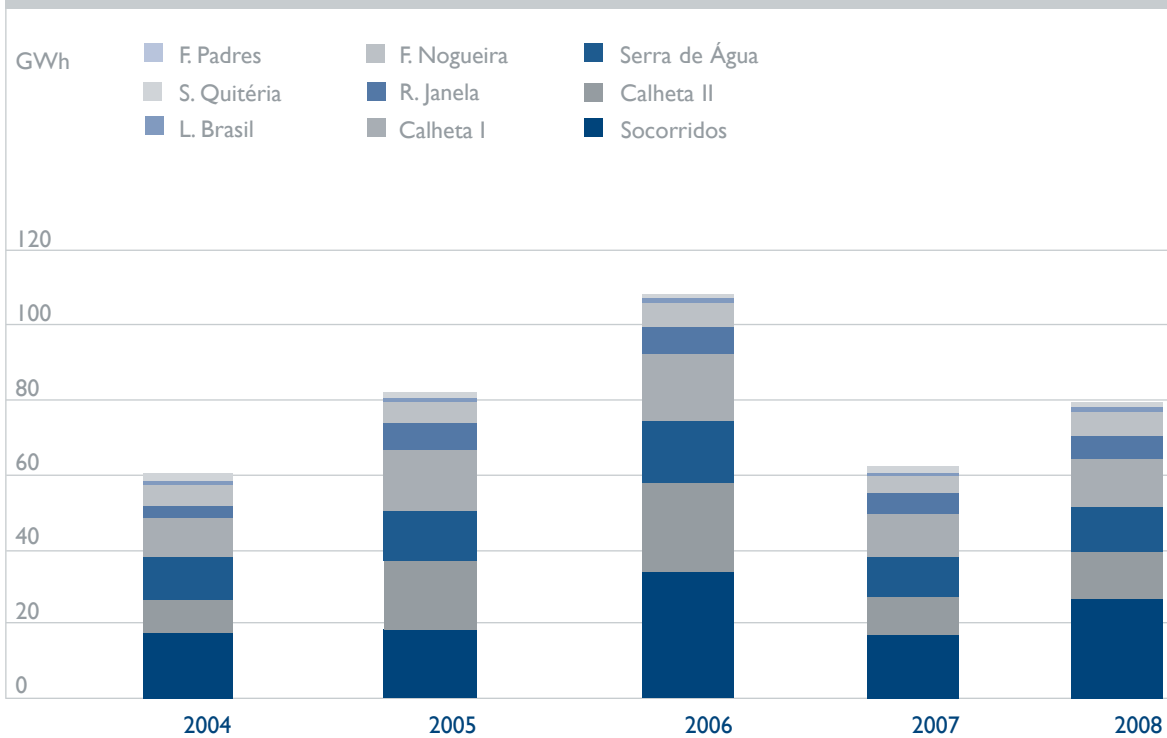
\*Hydroelectric Power Pumping not included

In 2008, the electric power system production in Madeira Island, reached 694.07 GWh, 614.47 GWh (88.5%) of which generated by thermoelectric power plants and the remaining 79.60 GWh (11.5%) generated by hydroelectric plants, a lower value than the historical average, due to an hydrologic dry year.

### EEM's monthly hydroelectric production in Madeira Island - 2008



### EEM's annual hydroelectric production in Madeira Island



The installed power in the seven private generating power plants, amounted to 53.34 MW, distributed according to following table:

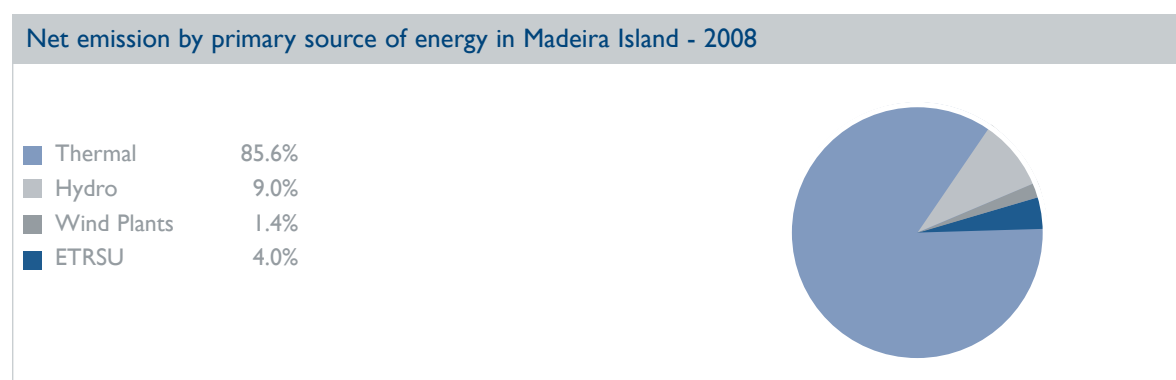
Private owned power plants in Madeira Island - 2008					
	Thermal	Hydro	Wind	ETRSU	Total
N° of Power Plants	1	1	4	1	7
Installed power (MW)	36.00	0.70	8.64	8.00	53.34
Acquisition (GWh)	192.81	4.10	13.09	37.22	247.21

Note : ETRSU - Solid Waste Incineration

In 2008, the global energy issued by these generating power systems, reached to 247.21 GWh, minus 3.1% than the previous year. Thus, 78.0% of this energy was provided by Caniçal Thermal Power Plant, 15.1% by ETRSU (a solid waste incineration), 5.3% by wind power plants and the remaining 1.7% by Terça mini-hydroelectric Power Plant.

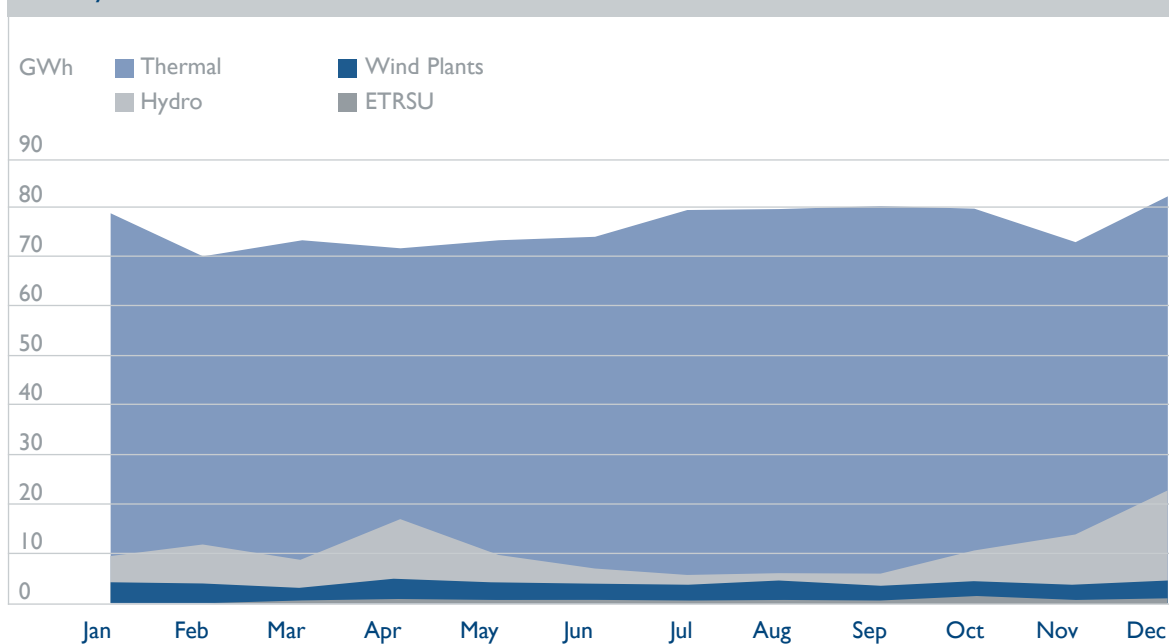
The private plants contributed with energy, representing 26.7% of total emission in Madeira Island.

The net emission distribution through the network system (EEM's system and private producers) in the Madeira Island, in 2008, is presented as follows:

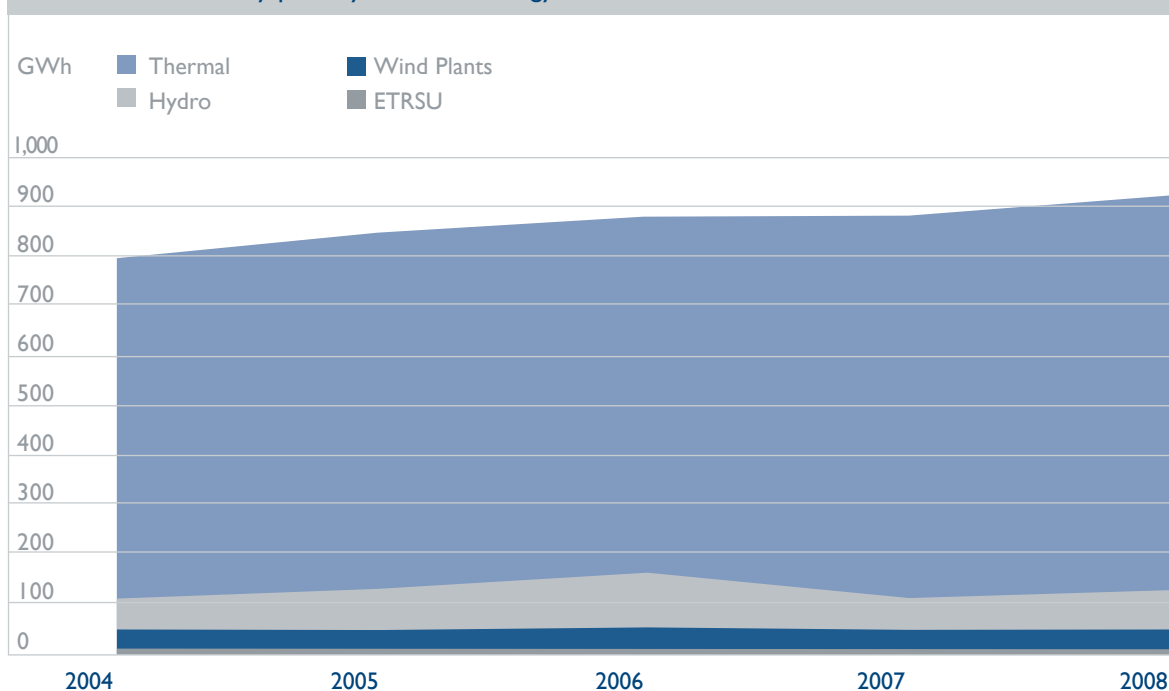


The monthly and annual net emission evolution by primary sources can be presented as follows:

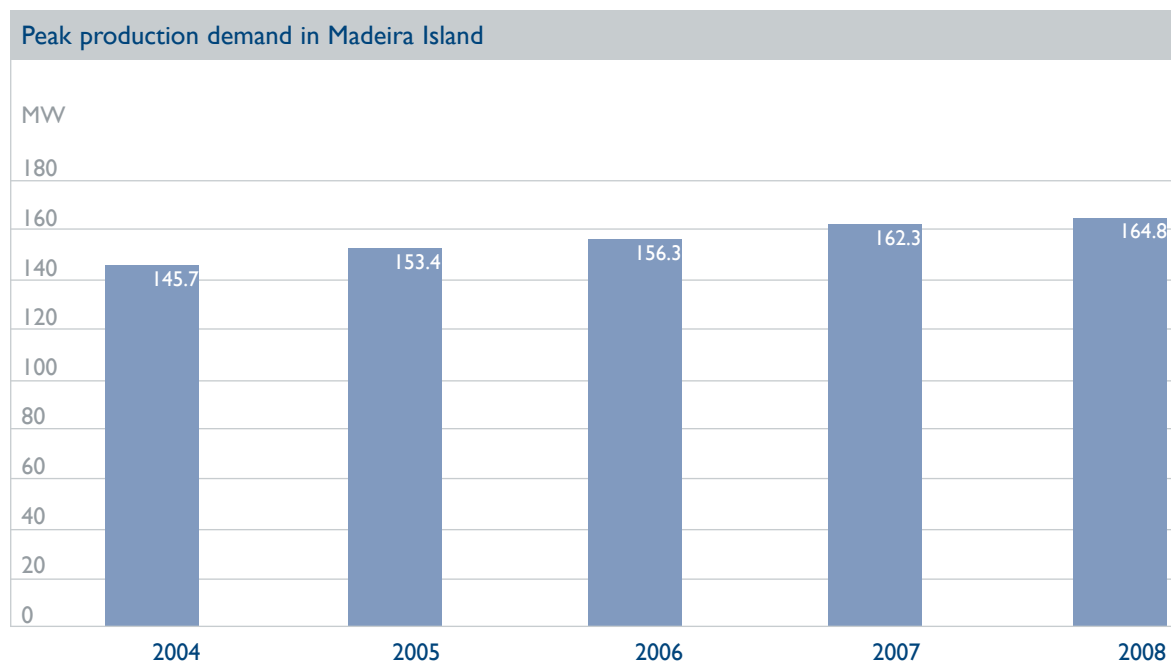
Monthly net emission in Madeira Island - 2008



Annual net emission by primary source of energy in Madeira Island



During 2008, the peak load in Madeira Island occurred in December, reaching the value of 164.8 MW. This value represented a 1.6% increase in comparison to 2007.



The consumption of fuel and lubricants, in Vitória Thermal Power Plant amounted to 139,466 and 1,077 thousand liters, respectively. This consumption represents an increase of 4.4%, comparing to the previous year, due to a consumption increase and a lower private producer's contribution.

Fuel and lubricant consumption in the EEM system in Madeira Island - 2008			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Vitória Thermal Power Plant	137,270	2,196	1,077

## B. Porto Santo Island

The generating power system in Porto Santo Island consisted of one thermoelectric power plant and two wind plants. The total installed power amounted to 18.39 MW, shared by Porto Santo Thermal Power Plant, which contributed with 17.28 MW (94.0%) and by the two wind plants, which contributed with the remaining 1.1 MW (6.0%).

In 2008, it's detachable the installation and commissioning of the nº 6 Power Group in the Porto Santo Thermal Power Plant, with an installed capacity of 4.32 MW, similar to Groups nºs 3 up to 5. Despite the new operating Power Group, the total installed capacity in the Porto Santo Thermal Power Plant has decreased, due to the decommissioned of Groups nºs 1 and 2.

### EEM's power system in Porto Santo Island - 2008

	EEM		ENEREEM	
	Thermal	Wind Plants	Wind Plants	Total
Nº of Power Plants	1	1	1	3
Installed power (MW)	17.28	0.45	0.66	18.39
Net Emission (GWh)	36.12	0.88	1.29	38.29

### EEM's thermal power plant in Porto Santo Island - 2008

	Units	Installed power		Max. Cont. Power**	Production	Net Emission	Fuel
		(MW)	(MVA)	(MW)	(GWh)	(GWh)	
Porto Santo	1,2*	10.00	12.86	-	0.09		Diesel
Thermal Power	3,4,5	12.96	15.30	11.40	34.77		Thick Fuel-oil
Plant	6	4.32	5.10	3.80	3.61		Thick Fuel-oil
<b>Total - CTPS</b>		<b>17.28</b>	<b>20.40</b>	<b>15.20</b>	<b>38.47</b>	<b>36.12</b>	

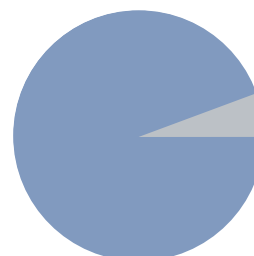
\*decommissioned power unit groups in 2008

\*\*Maximum continuous power

The energy issued by the generating power system in Porto Santo Island, in 2008, reached 38.29 GWh, of which 36.12 GWh (94.3%) were produced by the thermal plant and the remaining 2.17 GWh (5.7%) by the referred wind plants.

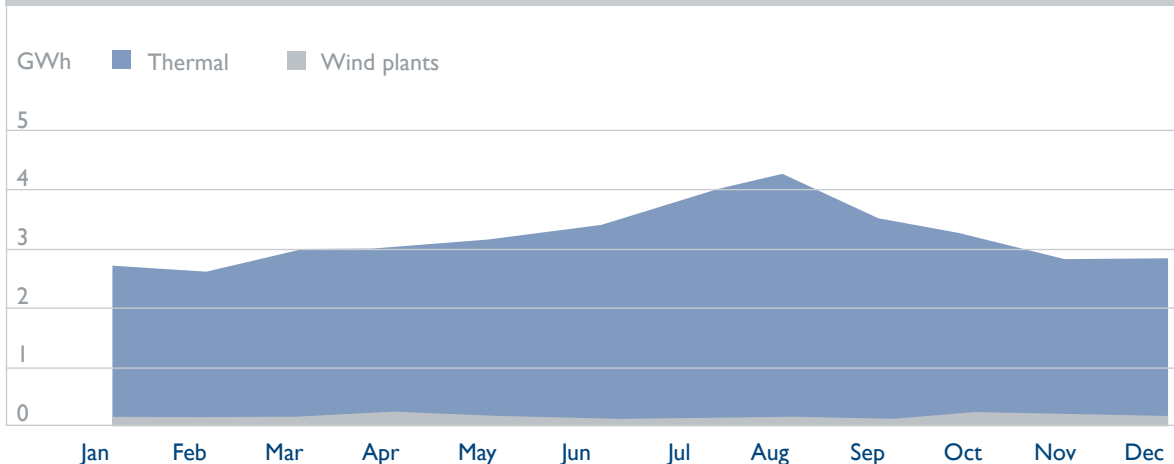
### Net Emission by primary source of energy in the Porto Santo Island - 2008

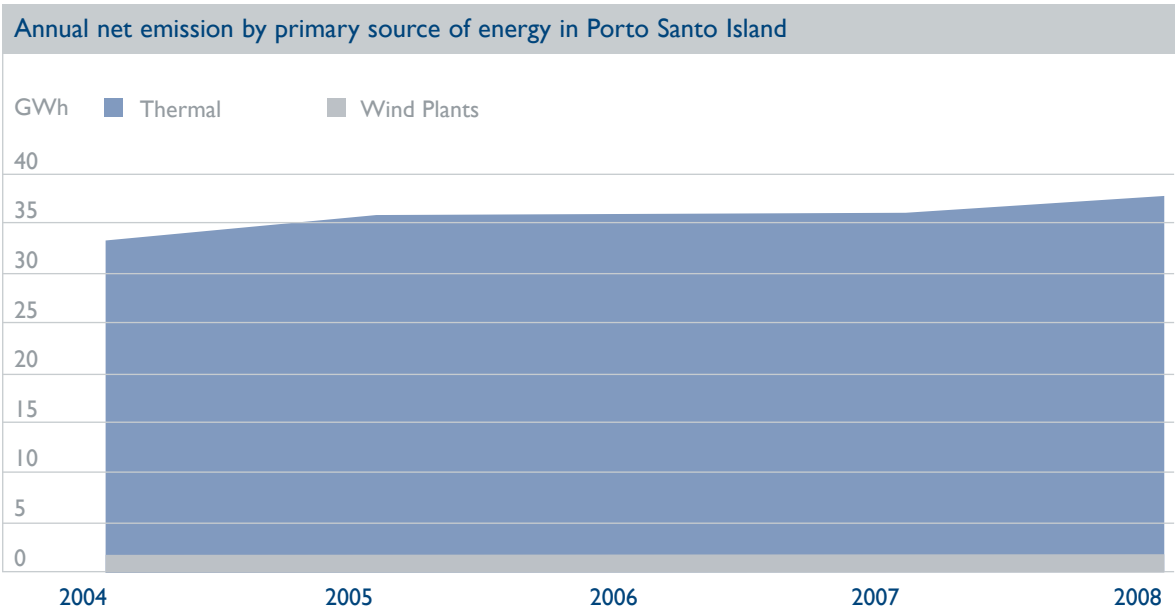
■ Thermal	94.3%
■ Wind plants	5.7%



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

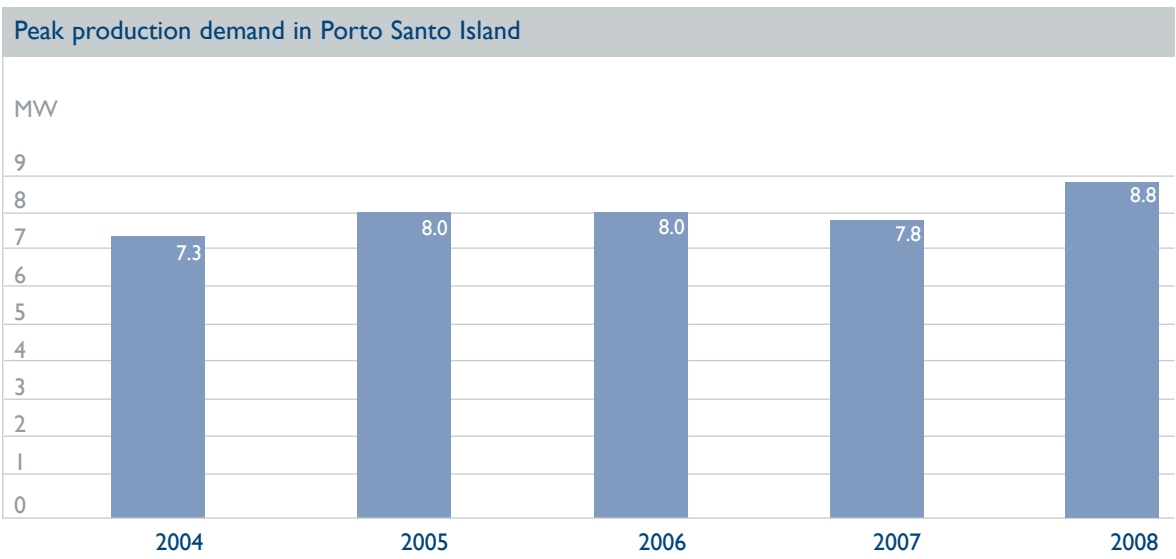
### Monthly net emission in Porto Santo Island - 2008





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 yearly peak load in Porto Santo Island occurred in August, registering 8.8 MW, significantly higher than in 2007, registering an increase of 12.8%.



The consumption of fuel and lubricants in Porto Santo Thermal Power Plant amounted to 9,627 and 59 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo Island - 2008			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Porto Santo Thermal Power Plant	9,103	524	59

There was an increase of 5.3% fuel consumption, comparing to previous year.



## II. Transmission

The investment carried in this area amounted to 11,046 thousand Euros and comprises four sub-sectors, namely: substations, transmission lines, telecommunications and dispatch centre.

In 2008, the fulfilled investments consisted, essentially, in building new substations / switchgear posts and in improvements of the existing ones, as well as new power connections. All these initiatives were developed in order to assure the reliability, efficiency and to increase the global quality of EEM's Electric System, and simultaneously assure the consumer needs.

### Substations

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

- Complete remodelling of the Calheta Substation in Porto Santo Island, by a new building and installation of new equipments, excepted the transformer unit;
- Conclusion of the construction of the 30 kV Loiral and Pedras switchgear posts, both with isolated SF6;
- Construction of a new Vitória Substation involving a new building and the installation of a 60 kV isolated SF6 (GIS) dual-bus, with 17 cells;
- Beginning of the Bica da Cana Switchgear Post remodelling through a construction of a new building and the installation of a 30 kV isolated SF6 dual-bus;
- Installation and commissioning of the transformer system to remove moisture from the oil, on a continuous basis, in order to prolong the installed units useful life in Funchal, Virtudes and Amparo substations;
- Installation, connection and configuration of load shedding frequency relays in Palheiro Ferreiro, Viveiros and Vitoria 6.6 kV substations;
- Replacement of the existing 6.6 kV PVO (small volume of oil) circuit breakers for another (isolated SF6) in Virtudes Substation;
- Assembly of three new 30 kV cells, two in São Vicente Substation and one in Ribeira da Janela Hydroelectric Power Plant;
- Power increase in Palheiro Ferreiro Substation, by installing a new 10 MVA transformer;
- Replacement of a 2 MVA transformer in Ponta Delgada Substation by a 10 MVA one, due to a fault.

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

- General substations maintenance, including the transforming units;
- Thermo inspections in electric power equipment;
- Survey of earth resistance measuring works.

## Substations in RAM - 2008

	Installed power (MVA)			Total	Capacitors MVar
	30/6.6 kV	60/30 kV	60/6.6 kV		
<b>Madeira Island</b>	<b>233.0</b>	<b>170.0</b>	<b>125.0</b>	<b>528.0</b>	<b>32.0</b>
Funchal	3 x 10.0	-	-	30.0	6.0
Amparo	2 x 10.0	-	-	20.0	2.0
Vitória 6.6 kV	2 x 10.0	-	-	20.0	4.0
Vitória	-	4 x 25.0	-	100.0	-
Santa Quitéria	10.0	-	-	10.0	-
Virtudes	2 x 15.0	-	-	30.0	2.0
Alegria	-	-	10.0	10.0	-
Viveiros	-	-	2 x 15.0	30.0	4.0
Ponte Vermelha	10.0	-	-	10.0	2.0
Lombo do Meio	4.0	-	-	4.0	-
Central da Calheta	2 x 0.5	-	-	1.0	-
Calheta	10.0	-	-	10.0	-
Lombo do Doutor	-	25.0	-	25.0	-
Ribeira da Janela	6.0	-	-	6.0	-
Serra de Água	4.0	-	-	4.0	-
Lombo do Faial	6.0	-	-	6.0	-
Santana	6.0	-	-	6.0	-
Machico	-	15.0	10.0 + 15.0	40.0	2.0
Assomada	2 x 10.0	-	-	20.0	2.0
Livramento	2 x 10.0	-	-	20.0	2.0
Palheiro Ferreiro	-	2 x 15.0	2 x 10.0	50.0	2.0
São Vicente	6.0	-	-	6.0	-
Prazeres	2 x 2.0	-	-	4.0	-
Canical	-	-	10.0	10.0	-
Cabo Girão	10.0	-	-	10.0	-
Santo da Serra	6.0	-	-	6.0	-
Ponta Delgada	10.0	-	-	10.0	-
São João	-	-	2 x 15.0	30.0	4.0
<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>249.0</b>	<b>170.0</b>	<b>125.0</b>	<b>544.0</b>	<b>32.0</b>

## Transmission network

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

- Conclusion of the construction of a 60 kV double isolated overhead line between Cabo Girão Substation and Ponte Vermelha Substation;
- Construction of a 30 kV extension overhead line between the Bica da Cana Switchgear Post and São Vicente - Ribeira da Janela Hydroelectric Power Plant line (derivation);
- Construction of a 30 kV underground double cable between Bica da Cana Switchgear Post and Pedras Switchgear Post;
- Construction of a 30 kV underground double cable between the new Loiral Switchgear Post and Lombo do Doutor - Bica da Cana overhead line;
- Initiation of the licensing process and materials acquisition for a 60 kV single line between Caniço and Machico substations as also for the line between the future Ponta do Pargo Substation and Ribeira da Janela Hydroelectric Power Plant.

Other interventions were performed, including the replacement of suspension isolators, terminal boxes, supports, as well as the deforesting about 70 km of electric grid lines surroundings, of which 25 km in High Voltage and 45 km in 30 kV Medium Voltage.

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

- Inspection of overhead lines in an extension of 170 km, being 60 km in 60 kV High Voltage and the remaining ones in 30 kV Medium Voltage;
- Thermo graphical inspections in 120 km extension lines;
- Inspection of underground 30 kV connection chambers.

Transmission Network in RAM - 2008			
	Madeira	Porto Santo	Total RAM
<b>Substations 60/30/6.6 kV</b>			
Number of units	8	-	8
Installed power (MVA)	295.00	-	295.00
<b>Substations 30/6.6 kV</b>			
Number of units	20	3	23
Installed power (MVA)	233.00	16.00	249.00
<b>60 kV Network</b>			
	<b>78.70</b>	-	<b>78.70</b>
Overhead lines (km)	68.80	-	68.80
Underground cables (km)	9.90	-	9.90
<b>30 kV Network*</b>			
	<b>371.25</b>	<b>15.30</b>	<b>386.55</b>
Overhead lines (km)	237.65	5.10	242.75
Underground cables (km)	133.60	10.20	143.80
<b>Optic Fibre (km)</b>	<b>138.84</b>	<b>9.11</b>	<b>147.95</b>

\*30 kV Distribution Network included

## Telecommunications

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

- Conclusion of the implementation of the “EEM - Privative Net Mobile Radio” - TETRA, in the following locations: Funchal, Pico do Silva, Cabo Girão, Encumeada, Pico do Arco da Calheta, Achadas da Cruz, Pico do Arco de São Jorge and Portela;
- Conclusion of the implementation works for an hertzian waves network in the following locations: Funchal - Pico do Silva, Portela - Santo da Serra Substation, Santana - São Jorge - Achadas da Cruz and Pico do Arco da Calheta - Cabo Girão;
- Conclusion works for SDH optical-fibre expansion network through the West zone and its integration into the remote access network, in the following substations: São João, Caniçal, Santo da Serra, Faial, Amparo, Cabo Girão, Ponte Vermelha, São Vicente, Ponta Delgada, Lombo do Meio, Calheta, Lombo do Doutor and Prazeres;
- VPN – EEM (Virtual Private Network) optical-fibre network grid connection of the following EEM’s Offices: Estreito de Câmara de Lobos, São Vicente, Porto Moniz, Nazaré and Camacha;
- Optical-fibre network integration of the substations: Prazeres, São João, Calheta, Lombo do Doutor, Caniçal and Calheta (Porto Santo);

- Expansion of the optical - fibre network to another 11 new transforming posts for remote control purposes;
- Expansion of the optical-fibre grid, between the locations : Lombo da Velha - Prazeres, Ponte Vermelha - Ponta do Sol, Ribeira da Janela - Porto Moniz, Ponte Vermelha - Ribeira Brava, Caniço Substation - Camacha, São João Substation - Dolce Vita and Pilar - Coopereme, resulting in a 22 km increase of the total installed network.

## **Dispatch Centre**

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

- Implementation of SCADA communication with protocol SGI ICCP;
- Extension of the remote control to the following facilities:
  - Calheta Substation in Porto Santo Island;
  - Semi-bus II of the Livramento Substation;
  - Semi-bus III of the Viveiros Substation.
- Commissioning of the new SGI (Non - Availability Management System);
- Commissioning of the site on the intranet (<http://despacho>);
- Coordination of diagnosis auditing for Health and Safety at Work;
- Maintenance of equipments attached to the Dispatch Centre.

### III. Distribution

In 2008, the achieved investment in the distribution area amounted to 11,848 thousand Euros and it aimed essentially to improve the quality and reliability of the service provided.

From whole investment initiatives executed in the distribution area, it can be highlighted the actions realized in Medium and Low Voltage network, as follows:

- Connection of 36 new public transforming posts with an installed power of 12,025 kVA and 31 new private ones with an installed power of 18,030 kVA;
- Improvements in the existent transforming posts (increase and reducing power capacity), representing a total power increase of 2,350 kVA;
- Remotely command and monitoring preparation of more 22 transforming posts;
- Enlargement of the medium voltage network in 47.88 km;
- Improvement of the medium voltage network in 8.26 km;
- Enlargement of the low voltage network in 32.62 km;
- Improvement of the low voltage network in 74.80 km;
- Installation of 204 new public lighting luminaries;
- Replacement of 821 public lighting luminaries.

#### Distribution Network in RAM - 2008

	Madeira	Porto Santo	Total RAM
<b>6.6 kV Network</b>	<b>1,171.93</b>	<b>68.84</b>	<b>1,240.77</b>
Overhead lines	520.88	20.60	541.48
Underground cables	651.05	48.24	699.29
<b>Low Voltage Network</b>	<b>3,770.09</b>	<b>115.09</b>	<b>3,885.18</b>
Overhead lines	2,948.08	69.39	3,017.47
Underground cables	822.01	45.70	867.71

#### Transforming Posts by council in RAM - 2008

	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	105	73,875	460	247,640	565	321,515
Câmara de Lobos	15	9,590	110	40,340	125	49,930
Ribeira Brava	7	3,210	107	32,175	114	35,385
Ponta do Sol	3	700	52	17,945	55	18,645
Calheta	7	2,960	122	32,020	129	34,980
Porto Moniz	-	-	48	12,130	48	12,130
São Vicente	5	1,610	56	16,185	61	17,795
Santana	17	6,900	84	17,530	101	24,430
Machico	33	18,295	119	43,025	152	61,320
Santa Cruz	39	22,900	255	96,665	294	119,565
Porto Santo	21	12,035	72	23,425	93	35,460
<b>Total RAM</b>	<b>252</b>	<b>152,075</b>	<b>1,485</b>	<b>579,080</b>	<b>1,737</b>	<b>731,155</b>

The councils with more installed capacity are Funchal, Santa Cruz and Machico with 321,515 kVA, 119,565 kVA and 61,320 kVA, respectively.

## **A. Madeira Island**

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

- Installation of 35 new public transforming posts with an installed power of 11,775 kVA and 30 new private ones with an installed power of 16,770 kVA;
- Preparation for remote command and monitoring of more 22 transforming posts;
- Enlargement of the medium voltage network in 46.13 km (2.67 km of which are at 30 kV);
- Enlargement of the low voltage network in 32.17 km;
- Installation of 204 new public lighting luminaries;
- Replacement of 821 public lighting luminaries.

## **B. Porto Santo Island**

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

- Installation of 1 new public transforming post, with a total power of 250 kVA and 1 owned by a private consumer with a power of 1,260 kVA;
- Enlargement of the medium voltage network at 6.6 kV level in 1.75 km;
- Enlargement of the low voltage network in 0.45 km.


**Distribution Network - 2008**

	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	26	9	35	1	36
Power (kVA)	8,245	3,530	11,775	250	12,025
<b>Transforming Posts for private service</b>					
Number of units	25	5	30	1	31
Power (kVA)	13,175	3,595	16,770	1,260	18,030
<b>Medium Voltage Lines 30 kV</b>					
	<b>2.67</b>	-	<b>2.67</b>	-	<b>2.67</b>
Overhead lines (km)	2.67	-	2.67	-	2.67
Underground cables (km)	-	-	-	-	-
<b>Medium Voltage Lines 6.6 kV</b>					
	<b>26.10</b>	<b>17.36</b>	<b>43.46</b>	<b>1.75</b>	<b>45.21</b>
Overhead lines (km)	(3.77)	0.08	(3.69)	(0.58)	(4.27)
Underground cables (km)	29.87	17.28	47.15	2.33	49.48
<b>Low Voltage Network</b>					
	<b>23.28</b>	<b>8.89</b>	<b>32.17</b>	<b>0.45</b>	<b>32.62</b>
Overhead lines (km)	3.72	1.76	5.48	(1.18)	4.30
Underground cables (km)	19.56	7.13	26.69	1.63	28.32
<b>Renewals</b>					
<b>Transforming Posts for public service</b>					
Number of units	10	5	15	3	18
Power (kVA)	2,055	1,275	3,330	(980)	2,350
<b>Transforming Posts for private service</b>					
Number of units	2	-	2	-	2
Power (kVA)	(545)	-	(545)	-	(545)
<b>Deactivated Transforming Posts</b>					
Number of units	3	1	4	-	4
Power (kVA)	1,430	400	1,830	-	1,830
<b>Medium Voltage Network 30 kV</b>					
	-	-	-	-	-
Overhead lines (km)	-	-	-	-	-
Underground cables (km)	-	-	-	-	-
<b>Medium Voltage Network 6.6 kV</b>					
	<b>4.43</b>	<b>3.83</b>	<b>8.26</b>	-	<b>8.26</b>
Overhead lines (km)	4.06	0.10	4.16	-	4.16
Underground cables (km)	0.37	3.73	4.10	-	4.10
<b>Low Voltage Network</b>					
	<b>61.96</b>	<b>12.67</b>	<b>74.63</b>	<b>0.17</b>	<b>74.80</b>
Overhead lines (km)	44.34	8.44	52.78	0.17	52.95
Underground cables (km)	17.62	4.23	21.85	-	21.85

Note: N.E.O. - North East West

## IV. Commercialization

The RAM's energy balance, in 2008, is presented as follows:

RAM's energy balance - 2008			
MWh	Madeira	Porto Santo	Total RAM
<b>EEM - Power plants productions</b>	<b>694,073</b>	<b>39,345</b>	<b>733,417</b>
Thermal	614,473	38,466	652,939
Fuel	609,371	38,372	647,743
Diesel	5,103	94	5,196
Hydro	79,599	-	79,599
Wind	-	879	879
<b>Power plants consumptions and losses</b>	<b>16,994</b>	<b>2,350</b>	<b>19,344</b>
<b>Total EEM energy net emission</b>	<b>677,079</b>	<b>36,995</b>	<b>714,074</b>
<b>Other acquisitions - SEPM*</b>	<b>192,809</b>	<b>-</b>	<b>192,809</b>
Thermal	192,809	-	192,809
Fuel	192,809	-	192,809
<b>Total special status generation</b>	<b>54,405</b>	<b>1,294</b>	<b>55,698</b>
Hydro	4,100	-	4,100
Wind	13,087	1,294	14,381
Others	37,218	-	37,218
<b>Total net generation</b>	<b>924,292</b>	<b>38,288</b>	<b>962,581</b>
Hydroelectric pumping	2,384	-	2,384
<b>Total net demand SEPM</b>	<b>921,909</b>	<b>38,288</b>	<b>960,197</b>
<b>Proper consumptions</b>	<b>915</b>	<b>23</b>	<b>938</b>
<b>Total energy sales SEPM*</b>	<b>839,321</b>	<b>36,674</b>	<b>875,995</b>
MV (Medium Voltage)	173,578	14,063	187,641
LV (Low Voltage)	665,742	22,611	688,354
<b>Total net delivery</b>	<b>840,236</b>	<b>36,698</b>	<b>876,933</b>
<b>Losses</b>	<b>81,673</b>	<b>1,591</b>	<b>83,264</b>

\*SEPM - Public Electricity Supply System of Madeira Island

The energy consumption in 2008, presented a growth rate of 4.2% and 6.6% in Madeira Island and in Porto Santo Island, respectively.

Energy sales to SEPM clients per tension level and tariffs regime - 2008						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	187.64	158.19	441.29	88.87	<b>876.00</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 in Medium Voltage reached 187.64 GWh, while in Low Voltage was 688.35 GWh, which corresponds to a distribution of 21.4% and 78.6% 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 - 2008										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
<b>Madeira Island</b>	<b>253.68</b>	<b>148.45</b>	<b>195.81</b>	<b>74.57</b>	<b>6.08</b>	<b>86.47</b>	<b>60.02</b>	<b>14.25</b>	<b>839.32</b>	<b>100.0%</b>
	<b>30.2%</b>	<b>17.7%</b>	<b>23.3%</b>	<b>8.9%</b>	<b>0.7%</b>	<b>10.3%</b>	<b>7.2%</b>	<b>1.7%</b>	<b>100.0%</b>	
Funchal	107.31	103.88	132.91	18.31	0.57	19.63	33.77	6.59	422.97	50.4%
Câm. Lobos	29.70	6.25	8.65	10.93	0.36	11.34	2.34	0.55	70.11	8.4%
Rib. Brava	12.32	2.79	8.09	1.83	0.06	5.56	1.71	0.45	32.81	3.9%
Ponta do Sol	8.78	1.22	2.00	2.41	0.65	5.33	1.40	0.50	22.29	2.7%
Calheta	13.00	4.12	4.27	1.33	0.58	7.27	1.31	1.52	33.39	4.0%
Porto Moniz	6.42	1.50	1.44	0.39	0.46	3.73	0.79	(0.06)	14.65	1.7%
S.Vicente	5.80	2.68	1.76	0.78	0.09	3.83	0.93	1.25	17.12	2.0%
Santana	8.03	2.17	3.43	0.84	0.35	6.14	1.29	1.95	24.19	2.9%
Machico	21.97	4.85	9.99	15.77	1.02	12.07	3.00	0.38	69.05	8.2%
Santa Cruz	40.35	19.00	23.28	21.97	1.95	11.58	13.50	1.12	132.75	15.8%
<b>Porto Santo Island</b>	<b>7.34</b>	<b>7.84</b>	<b>5.98</b>	<b>8.96</b>	<b>0.10</b>	<b>2.40</b>	<b>3.65</b>	<b>0.41</b>	<b>36.67</b>	
	<b>20.0%</b>	<b>21.4%</b>	<b>16.3%</b>	<b>24.4%</b>	<b>0.3%</b>	<b>6.6%</b>	<b>10.0%</b>	<b>1.1%</b>	<b>100.0%</b>	
<b>Total RAM</b>	<b>261.01</b>	<b>156.29</b>	<b>201.79</b>	<b>83.52</b>	<b>6.18</b>	<b>88.87</b>	<b>63.67</b>	<b>14.66</b>	<b>876.00</b>	
	<b>29.8%</b>	<b>17.8%</b>	<b>23.0%</b>	<b>9.5%</b>	<b>0.7%</b>	<b>10.1%</b>	<b>7.3%</b>	<b>1.7%</b>	<b>100.0%</b>	

Consumers by activity in RAM - 2008										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
<b>Madeira Island</b>	<b>107,789</b>	<b>2,073</b>	<b>12,964</b>	<b>990</b>	<b>1,038</b>	<b>1,659</b>	<b>2,121</b>	<b>1,002</b>	<b>129,636</b>	<b>100.0%</b>
	<b>83.1%</b>	<b>1.6%</b>	<b>10.0%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>1.3%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>100.0%</b>	
Funchal	45,319	1,057	7,657	294	90	473	1,089	285	56,265	43.4%
Câm. Lobos	11,700	144	1,090	89	206	135	188	122	13,673	10.5%
Rib. Brava	5,901	70	480	42	31	128	91	66	6,809	5.3%
Ponta do Sol	4,198	51	299	47	66	63	70	54	4,848	3.7%
Calheta	6,318	89	401	61	63	162	104	134	7,331	5.7%
Porto Moniz	1,619	50	131	17	71	74	70	26	2,058	1.6%
S.Vicente	3,012	62	229	26	146	75	71	39	3,660	2.8%
Santana	4,213	69	322	38	120	106	104	34	5,006	3.9%
Machico	8,389	194	768	123	101	182	144	92	9,992	7.7%
Santa Cruz	17,120	286	1,587	253	144	262	190	151	19,993	15.4%
<b>Porto Santo Island</b>	<b>3,700</b>	<b>79</b>	<b>389</b>	<b>44</b>	<b>19</b>	<b>68</b>	<b>90</b>	<b>88</b>	<b>4,477</b>	
	<b>82.7%</b>	<b>1.8%</b>	<b>8.7%</b>	<b>1.0%</b>	<b>0.4%</b>	<b>1.5%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>100.0%</b>	
<b>Total RAM</b>	<b>111,489</b>	<b>2,152</b>	<b>13,353</b>	<b>1,034</b>	<b>1,057</b>	<b>1,727</b>	<b>2,211</b>	<b>1,090</b>	<b>134,113</b>	
	<b>83.1%</b>	<b>1.6%</b>	<b>10.0%</b>	<b>0.8%</b>	<b>0.8%</b>	<b>1.3%</b>	<b>1.6%</b>	<b>0.8%</b>	<b>100.0%</b>	

In December 2008, the number of clients connected to the electric network of RAM, reached 134,113, presenting an increase of nearly 0.9% comparing to 2007.

## Consumption / Clients - Distribution by activity in RAM - 2008

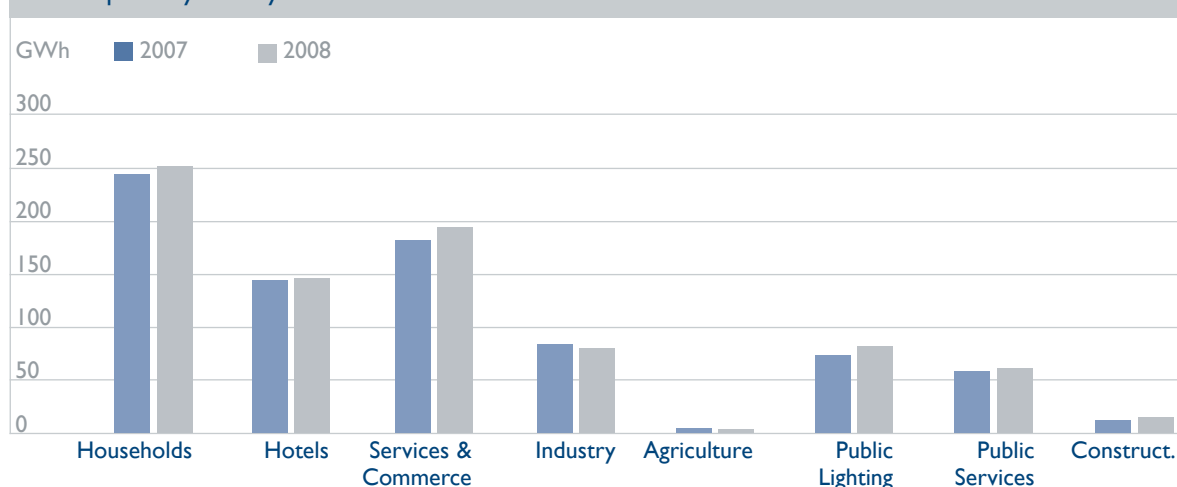
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client
<b>Madeira Island</b>	<b>839.32</b>	<b>129,636</b>	<b>6.47</b>	<b>665.74</b>	<b>129,420</b>	<b>5.14</b>	<b>253.68</b>	<b>107,789</b>	<b>2.35</b>
Funchal	422.97	56,265	7.52	317.86	56,160	5.66	107.31	45,319	2.37
Câm. Lobos	70.11	13,673	5.13	60.33	13,661	4.42	29.70	11,700	2.54
Rib. Brava	32.81	6,809	4.82	31.90	6,804	4.69	12.32	5,901	2.09
Ponta do Sol	22.29	4,848	4.60	20.14	4,844	4.16	8.78	4,198	2.09
Calheta	33.39	7,331	4.55	31.99	7,324	4.37	13.00	6,318	2.06
Porto Moniz	14.65	2,058	7.11	14.62	2,057	7.11	6.42	1,619	3.96
S.Vicente	17.12	3,660	4.68	15.69	3,657	4.29	5.80	3,012	1.93
Santana	24.19	5,006	4.83	20.88	4,998	4.18	8.03	4,213	1.91
Machico	69.05	9,992	6.91	52.58	9,959	5.28	21.97	8,389	2.62
Santa Cruz	132.75	19,993	6.64	99.76	19,955	5.00	40.35	17,120	2.36
<b>Porto Santo Island</b>	<b>36.67</b>	<b>4,477</b>	<b>8.19</b>	<b>22.61</b>	<b>4,457</b>	<b>5.07</b>	<b>7.34</b>	<b>3,700</b>	<b>1.98</b>
<b>Total RAM</b>	<b>876.00</b>	<b>134,113</b>	<b>6.53</b>	<b>688.35</b>	<b>133,877</b>	<b>5.14</b>	<b>261.01</b>	<b>111,489</b>	<b>2.34</b>

The average consumption per client ascended to 6.53 MWh/client. The highest consumption values were registered in the councils of Porto Santo, Funchal, Porto Moniz and Machico. The average consumption in the Households sector of the RAM reached the amount of 2.34 MWh per client, similar to the previous year, being the highest values verified in the councils of Porto Moniz, Machico, Câmara de Lobos and Funchal.

## A. Madeira Island

In Madeira Island, the consumption distribution by sectors is similar to the recent years. The Households consumption presented the highest percentage with 30.2%, followed by the Services and Commerce sectors with 23.3% and Hotels with 17.7%.

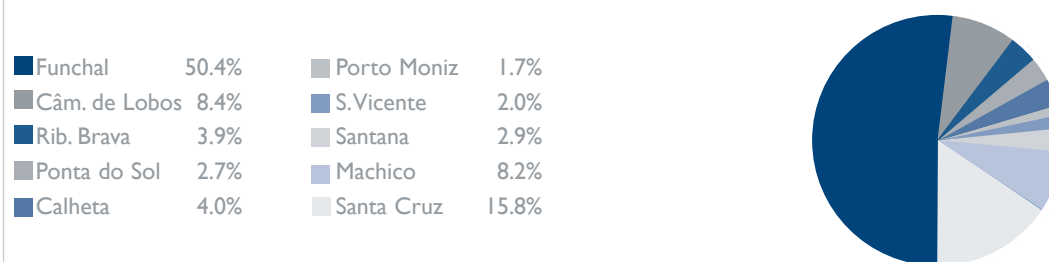
## Consumption by activity in Madeira Island - 2007/2008



The council of Funchal with 43.4% of the total number of clients registered 50.4% of the total consumption, followed by the councils of Santa Cruz with 15.8%, Câmara de Lobos with 8.4% and Machico with 8.2%.

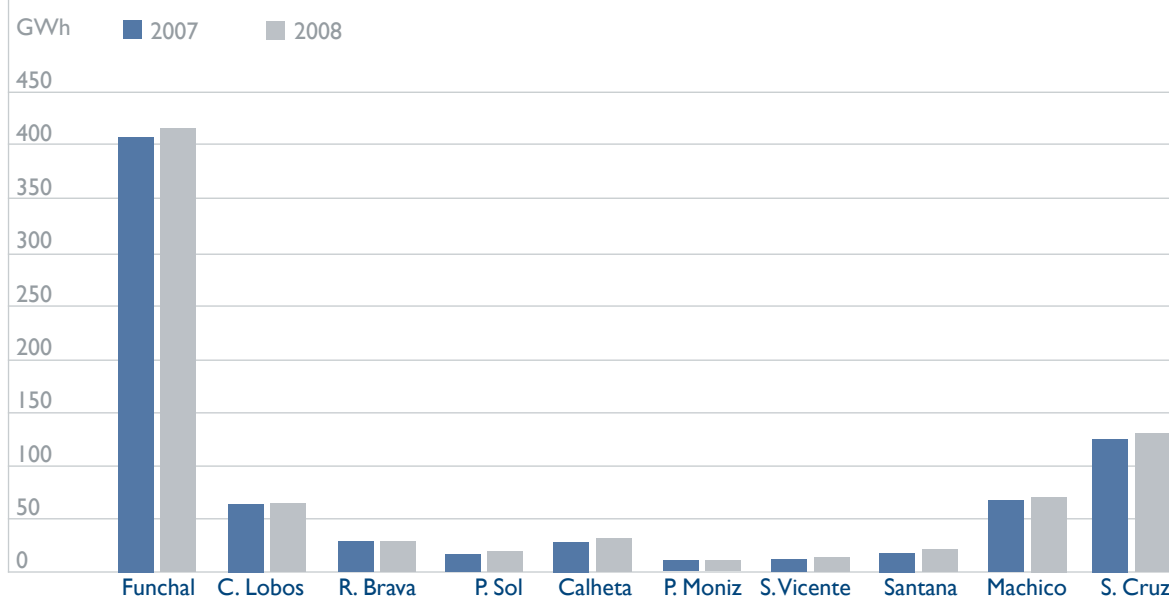
In terms of consumption evolution by sector, there was an increase of 32.2% in Construction, 11.6% in Public Lighting and 8.8% in Services and Commerce. However, there was a decrease in consumption of 2.9% in Agriculture and 1.5% in Industry, compared to the previous year.

#### Consumption in Madeira Island per council - 2008



The councils that registered a larger dynamism in the consumption rate growth, in comparison to 2007 were Santana with 22.6%, São Vicente with 16.7%, Calheta and Ponta do Sol both with 9.9%.

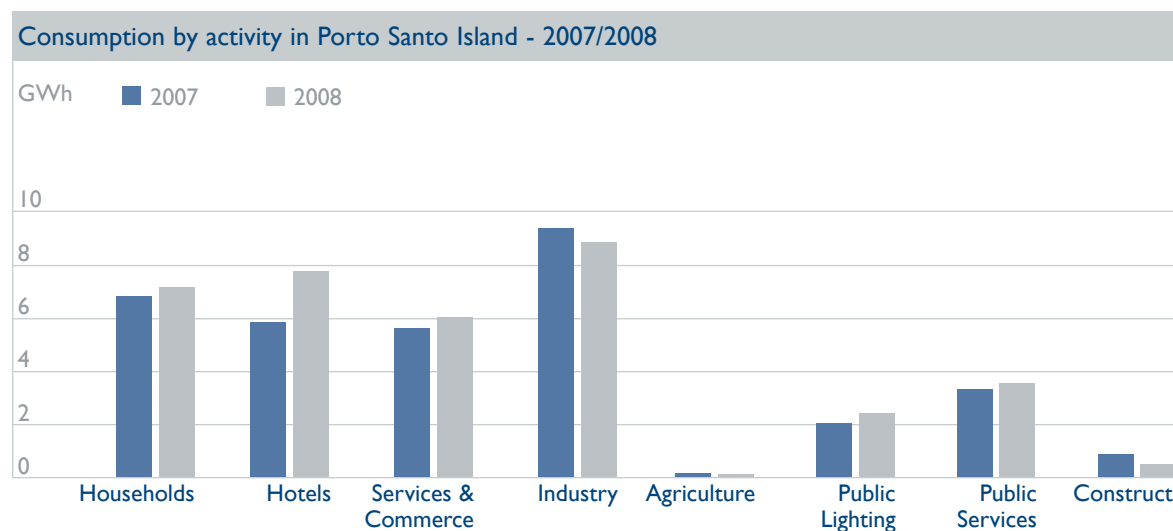
#### Consumption in Madeira Island per council - 2007/2008



In 2008, 1,148 new consumers were connected to the Madeira electric network, totalizing 129,636 clients (an increase of 0.9%), thus being 215 in the Medium Voltage level.

## B. Porto Santo Island

The growth rate of the energy consumption in Porto Santo Island was 6.6%, in 2008 compared to 2007.



The distribution of the main energy consumption by activities was: 24.4% in Industry, 21.4% in Hotels and 20.0% in Households.

Concerning the new consumers, 63 were connected to the electric network, totalizing 4,477 clients, from which 20 are in Medium Voltage. The Medium and Low Voltage consumption reached 14.06 GWh and 22.61 GWh, with a distribution of 38.3% and 61.7%, respectively.

## V. Service Quality

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

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

In this context, EEM has required itself with the necessary resources to fulfil the regulation framework, being distinguished, the following initiatives, in 2008:

- Continuation of SGI (Non - Availability Management System) implementation in the Transmission and Distribution network, which will allow to determinate the service continuity indicators levels;
- Acquisition of two new monitoring equipment for Voltage Wave Quality verifications, in order to fulfil the monitoring plan established for 2009;
- Conclusion of the electric grid inventory, from the power plants to Customers, constituting the basis of SGI;
- Relatively to Commercial Quality indicators, the following measures were distinguished:
  - Implementation of a Contact Centre, as well as the respective interconnections to the SIT (Technical Information System) system, SAP module IS-U and SGI (Non - Availability Management System);
  - Accomplishment of Customers satisfaction surveys, aiming to obtain the customers opinion, evaluation and satisfaction levels;
  - Availability of information to Customers through Internet;
  - Assistance to the Customers with special needs;
  - Treatment of claims.

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

The Service Continuity Indicators of Transmission and Distribution in HV, MV, and LV networks of Madeira and Porto Santo Islands, in 2008, translate a suitable level of the service continuity. Relatively to the Voltage Wave Quality measurements, the results fulfilled the conditions stipulated by the RQS. In the Commercial Quality, it's detachable the improvement in EEM's attendance and reply times, as well as, in the Customers satisfaction measured through an survey.

## **VI. Unspecified Investments**

The investments realized in unspecified areas by EEM in 2008, amounted to 5,974 thousand Euros and comprises, among others accomplishment studies, infrastructures of support and initiatives in IT systems.

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

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

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

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

- Renovation of showers and water network in Vitória Thermal Power Plant;
- Construction of warehouses and the materials stores in Calheta, São Vicente and Machico councils;
- Requalification of Porto Santo Thermal Power Plant building;
- Restructuring of SIAM building;
- Remodelling of EEM's Caniço office;
- Remodelling of the telecommunications building, which belongs to the Transmission Department.

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

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

- **SAP**

Implementation of new applications in the module IS-U (Industry Solution for Utilities) of SAP, the main software tool of the commercial area, as follows:

- Implementation of a new connecting process to the networks. Following the Order 3/2007 of ERSE, it was necessary to provide series of profound changes in a business processes level, with a strong impact on parameterization and development of SAP software;
- Risk Management - Risk valuation and procedures control. This investment aims improvements in the existing business processes, to fulfil new demands in Regulation and a better service to the Customers, such as the return of clients deposits and integration in the Technical Information System (SIT).



- **SIT GeoEEM - Technical Information System**

Continuation of the massive inventory works, regarding electric grid and the respective loading in the SIT database (SIT - Technical Information System), which will permit to fulfil the electricity system needs of design, planning and operation, providing a further support for SGI.

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

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

- **Contact Centre**

During 2008, the EEM have implemented the project “Contact Centre”, which resolves some attendance issues in EEM, being a priority channel in the relationship of EEM with its Customers. In fact, this service has significantly improved attending quality, time availability and audit ability of data. In this context, it is to highlight the interface between the Contact Centre and the SGI (Non-Availability Management System), allowing check in real time, if a customer is, or not, affected by a grid failure.

- **Automatic vehicle tracking**

EEM has also proceeded with the installation of a tracking system for service vehicles based on GPS and GSM systems in order to make more efficient its use.

## VII. Human Resources

As at 31st December 2008, EEM's staff was composed by 865 employees, thus being 824 as permanent staff and 41 under a short term contract.

Human Resources by functions					
	2004	2005	2006	2007	2008
Engineers	55	53	57	64	74
Others with university degree	17	21	24	28	29
Technical Engineers	6	10	10	9	11
Industrial Staff	516	515	514	467	450
Administrative Staff	242	242	236	273	262
Assistants	20	21	20	11	12
Employees under term contract	16	8	8	16	27
<b>Total</b>	<b>872</b>	<b>870</b>	<b>869</b>	<b>868</b>	<b>865</b>

From the total employees serving EEM during 2008, 818 rendered services in Madeira Island and the remaining 47 in Porto Santo Island.

### Professional training actions

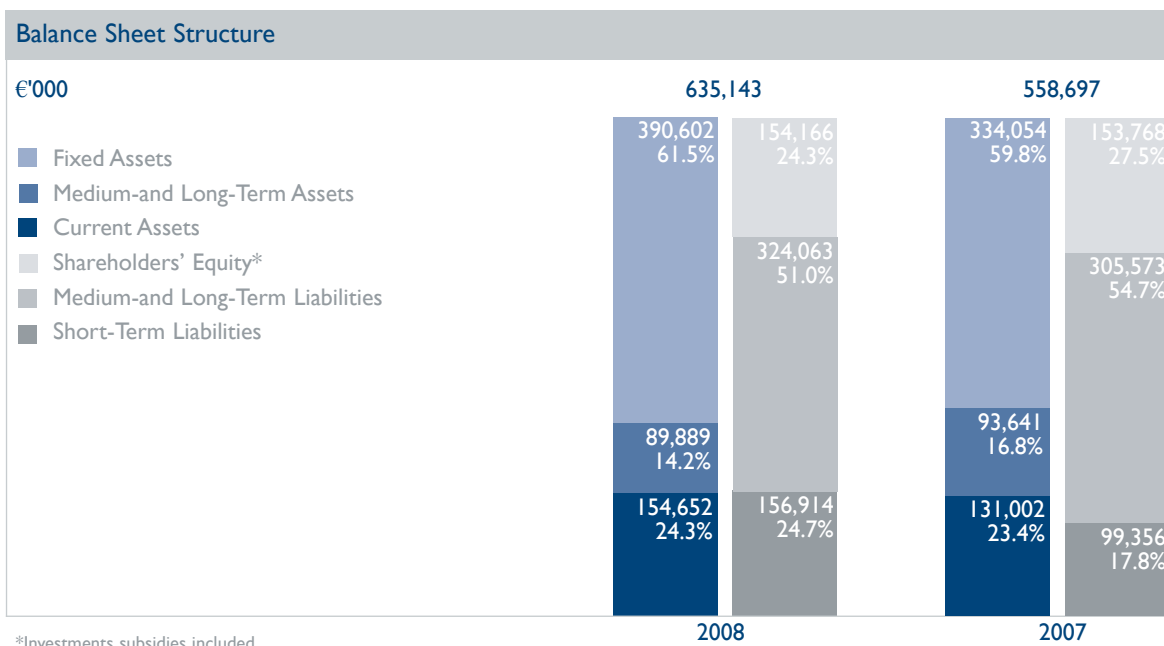
During 2008, several training actions were accomplished, benefiting 364 employees in a total of 6,364 training hours, subdivided by 2,095 hours of external actions and 4,269 hours of internal actions.







## I - Economic and Financial Information



### Balance

In 2008, the EEM's Balance Sheet amounted to 635,143 thousand Euros, representing an increase of 13.7% compared to 2007.

Assets		
€'000	2008	2007
Gross assets	739,549	658,581
Accumulated depreciation and adjustments	348,947	324,527
Net assets	390,602	334,054

The net value of Fixed Assets represents approximately 61.5% of the Company's total Balance Sheet, amounting to 390,602 thousand Euros, presenting an increase of 16.9% comparatively to 2007.

As in previous years, the Autonomous Region of Madeira has once registered high levels of public and private investment in 2008. This fact associated with high growth levels in the 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 2008 an investment plan of 66,823 thousand Euros, representing an increase of 67.0% in comparison to 2007 (39,926 thousand Euros).

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

- Production: 37,190 thousand Euros;
- Transmission: 11,046 thousand Euros;
- Distribution: 11,848 thousand Euros;
- Commercialization: 765 thousand Euros;
- Other activities: 5,974 thousand Euros.

Concerning the investment executed in the production area, it is important to highlight the investment carried out by ENEREEM (subsidiary of EEM) in the construction of Pedras and Loiral wind farms, with a total installed power of 15.3 MW, and the investment reached the amount of 16,645 thousand Euros.

During 2008, it is also important to refer the beginning of the construction of a new Vitória Thermal Power Plant (CTV III), which will include 3 dual-fuel thermoelectric power groups, with an installed power of 52 MW. The amount invested in this new Thermal Power Plant reached 10,555 thousand Euros in 2008 (about 18.0% of the total investment).

In Vitória Thermal Power Plant, huge interventions were performed in the power groups, (4,699 thousand Euros) including the replacement of important mechanical components which allows to increase the useful life of the equipments, with inherent gains on reliability and security.

In Porto Santo Thermal Power Plant, the construction of power group VI was concluded in 2008, and the investment reached the amount of 2,881 thousand Euros.

In the transmission area, the main investments accomplished were in substations, amounting to 6,032 thousand Euros and in the transmission network reaching the 2,690 thousand Euros. In substations area, the main investments essentially embrace improvements and the remodelation of Vitória Thermal Power Plant 60 kV Substation in the amount of 3,716 thousand Euros. During 2008 the remodelation of Calheta Substation in Porto Santo was also concluded and the total investment reached 775 thousand Euros. Concerning the transmission network, the main investments undertaken comprises the renewal of several transmission lines and construction of new ones, as the new Paúl da Serra line, ascending in 2008 to 780 thousand Euros.

Concerning the distribution area, the investment plan undertaken by the Company essentially aims improvements in the existing and the construction of new Medium Voltage Lines, Transforming Posts and Low Voltage Network/Public Lighting, that reached the amount of 5,248 thousand Euros, 2,239 thousand Euros and 4,361 thousand Euros, respectively.

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

The investments carried out in other accomplishments include administrative equipment, IT equipment, buildings, and others. It is important to highlight the continued investment in the inventory of electric grid's data between power plants and clients, which will be incorporated into the system SITGEO EEM providing an essential basis to the planning, management and quality control of the network. This investment amounted to 2,144 thousand Euros in 2008.

In 2008, the medium-and long-term Assets, essentially composed by protocols and contracts with Official Entities, reached 89,889 thousand Euros, representing a decrease of 3,752 thousand Euros in comparison to 2007.

Long-Term Capital		
€'000	2008	2007
Shareholders' equity*		
Amount	154,166	153,768
%	32.2%	33.5%
Medium-and long-term liabilities		
Amount	324,063	305,573
%	67.8%	66.5%
Long-term capital		
Amount	478,229	459,341
%	100.0%	100.0%

\*Investments subsidies included

The amount of long-term Capital, which represents 75.3% of the total Balance, ensures an adequate coverage of Company's fixed Assets.

EEM's Shareholders' Equity (including Investment Subsidies) presented a slight increase during 2008 reaching the amount of 154,166 thousand Euros. The Company's net Income ascended to 3,760 thousand Euros and the balance of the Investments Subsidies to (3,172) thousand Euros.

The medium-and long-term Liabilities presented an increase of 6.1% comparatively to the previous year. This increase is in most part explained by the investment carried out by ENEREEM (subsidiary of EEM) in the construction of Pedras and Loiral wind farms, as previously mentioned.

Working Capital		
€'000	2008	2007
Current assets	154,652	131,002
Current liabilities	156,914	99,356
Working capital	(2,262)	31,646

The Current assets ascended to 154,652 thousand Euros (2007: 131,002 thousand Euros), registering an increase of 23,649 thousand Euros, essentially due to the raise of the amounts to be received referred to the Tariff Compensation, that increase from 26,212 thousand Euros in 2007 to 44,711 thousand Euros in 2008. This raise is justified by a significant increase in fuel prices during this year, when compared with the forecasts fixed by tariffs for 2008.

In 2008, the short-term Liabilities ascended to 156,914 thousand Euros, reflecting an increase of 57,558 thousand Euros in relation to 2007. This variation is mainly explained by the growth of debts to credit institutions that replaced the tariffs convergence in debt, as previous referred. Also important to refer is the fact that the 2nd provision of the long-term loan conceded by European Investment Bank (EIB) to EEM in the amount of 25,000 thousand Euros, with the purpose to finance the investment plan up to 2007, is only available at the beginning of 2009.

## Profit and Loss Account

### Profits

Operating Revenues					
€'000	2008	%	2007	%	Change %
Sales	171,218	83.6%	144,826	85.7%	18.2%
Work on own account	21,834	10.7%	21,648	12.8%	0.9%
Other revenues	11,683	5.7%	2,522	1.5%	363.2%
<b>Total</b>	<b>204,735</b>	<b>100.0%</b>	<b>168,996</b>	<b>100.0%</b>	<b>21.1%</b>

The balance Sales ascended to 171,218 thousand Euros, including 60,508 thousand Euros related with Tariff Compensation derived from the application of tariff regulation. The total sales also include the amount of 357 thousand Euros related to the Efficiency in Consumption Promotion Plan.

The Energy Sales ascended to 110,353 thousand Euros (2007: 101,392 thousand Euros), representing an 8.8% increase in comparison to 2007. This increase results from a growth of 4.3% in the consumption and from an average tariffs increasing of 4.5%.

The investments executed by EEM through works on its own account amounted to 21,834 thousand Euros, representing a slight increase of 0.9% in relation to 2007, 21,648 thousand Euros.

The balance Other revenues reached 11,683 thousand Euros, growing 9,161 thousand Euros in comparison to the previous year. This increase is almost exclusively due to the raise of exploitation subsidies related with the valuation of CO2 licenses, free of charges, attributed to EEM in PNALE II.

## Costs

Operating Costs					
€'000	2008	%	2007	%	Change %
Cost of sales - Materials	12,477	6.5%	11,938	7.5%	4.5%
Cost of sales - Raw material	89,209	46.5%	67,565	42.8%	32.0%
Services rendered by third parties	14,508	7.6%	13,925	8.8%	4.2%
Staff costs	33,803	17.6%	32,152	20.3%	5.1%
Depreciations and adjustments	24,974	13.0%	23,101	14.6%	8.1%
Others	16,917	8.8%	9,451	6.0%	79.0%
<b>Total operating costs</b>	<b>191,888</b>	<b>100.0%</b>	<b>158,132</b>	<b>100.0%</b>	<b>21.3%</b>
Work on own account	21,834		21,648		0.9%
<b>Operating costs</b>	<b>170,054</b>		<b>136,484</b>		<b>24.6%</b>

The total Operating Costs ascended to 191,888 thousand Euros, representing an increase of 21.3% comparatively to 2007. Such growth of 33,756 thousand Euros, can be mainly explained with the increase verified in the cost of fuel, as well as, by the growth in the balance Other operating costs (21,644 thousand Euros and 7,466 thousand Euros respectively), which results from a growth of the valuation of CO2 licenses, as previously referred.

The cost of raw materials, which includes fuel and electric energy acquired to third parties ascended to 89,209 thousand Euros, growing 32.0% comparatively to the previous year. The fuel costs registered a growth of 40.5%, essentially derived from an increase of around 42.0% of fuel oil costs. This growth is explained by higher fuel oil consumption in 4.3% (in line with the increase in electric energy consumption), and essentially by a huge rise of fuel prices verified in the international markets in the first semester of 2008. That fact led to an increase of the unitary fuel oil acquisition cost of 37.7% in comparison to 2007. In fact, despite the fuel oil price in the international primary market showed a significant decrease in the last semester of 2008, the average price of fuel oil increase about 35.0% relatively to 2007.

In 2008, the energy purchased to third parties registered a growth of 16.3% (more 4,023 thousand Euros comparatively to 2007). Such growth can be explained by a quantity decrease of 3.0% and also by a different energy acquisition mix, namely: a reduction of the acquisitions to the Thermal Power Plant of Caniçal (-8.7 GWh comparing to 2007) and a slight increase (+0.7 GWh) of the acquisitions to the remains renewable energy producers.

The balances Services rendered by third parties and Staff costs presented an increase of 4.8% in relation to the previous year (2007: 46,077 thousand Euros; 2008: 48,311 thousand Euros). This variation, higher than the inflation rate, can be mostly explained by the rise of about 5.1% in the balance Staff costs, as a result of the adoption of a new career plan, in line with the current career plan in EDP.

The balance other operating Costs ascended to 16,917 thousand Euros is mainly related with the costs of CO2 licenses in the amount of 8,911 thousand Euros and with the Municipal network tax that amounted to 6,968 thousand Euros. The Municipal network tax was fixed in 7.5% of the

yearly low tension levels sales amount (including Public Lighting) registered in each Municipality of Autonomous Region of Madeira. The 70.0% growth of this balance is essentially explained by the increase of CO2 licenses value, as previously mentioned.

## Financial / Extraordinary Income

Financial / Extraordinary Income				
€'000	2008	2007	Change	Change %
Financial income	(13,264)	(12,683)	(581)	(4.6%)
Extraordinary income	5,049	7,318	(2,269)	(31.0%)

The balance financial Income presented an decrease of about 4.6% comparatively to the previous year. This decrease is, essentially due to the growth of debts to credit institutions that replaced the Tariff Compensation in debt, as previous referred.

The balance extraordinary Income, which includes the recognition of the investment subsidies (2008: 4,709 thousand Euros; 2007: 4,743 thousand Euros), presented a decrease of 31.0%. This reduction is explained by the fact that in 2007 the balance extraordinary Income was exceptionally increased by the amounts to be received from the Central Government concerning the Tariff Convergence for the period 1998 to 2002 (more 1,862 thousand Euros), originated by regulator's review.

## Net Cash Flow

In 2008 the net cash flow presented an increase of 3.9% comparatively to 2007, as a result of a slight improvement of EEM's operating performance.

Net Cash Flow					
€'000	2008	%	2007	%	Change %
Net income	3,760	13.1%	4,558	16.5%	(17.5%)
Depreciations and adjustments	24,974	86.9%	23,101	83.5%	8.1%
<b>Total</b>	<b>28,734</b>	<b>100.0%</b>	<b>27,659</b>	<b>100.0%</b>	<b>3.9%</b>





## EEM's Contributions to the State

In 2008 the Company and its workers contributed directly with 15,799 thousand Euros to the Portuguese State, an increase of 14.5% comparatively to the previous year, presented as follows:

EEM's Contributions for the State					
€'000	2008	%	2007	%	Change %
Company:					
Corporate income tax	953		1,230		(22.5%)
Other tax	3,111		862		260.9%
Social security costs	5,457		5,314		2.7%
	<b>9,522</b>	<b>60.3%</b>	<b>7,406</b>	<b>53.7%</b>	<b>28.6%</b>
Staff:					
Personal income tax	3,750		3,928		(4.5%)
Social security costs	2,527		2,461		2.7%
	<b>6,277</b>	<b>39.7%</b>	<b>6,389</b>	<b>46.3%</b>	<b>(1.8%)</b>
<b>Total</b>	<b>15,799</b>		<b>13,795</b>		<b>14.5%</b>

The balance Other tax registered an increase of 260.9% explained by the payments made to the Portuguese State in the amount of 2,166 thousand Euros, related to the Exploitation of Industrial Installations Tax.

## Gross Value Added

Gross value added reached 80,555 thousand Euros, an increase of 4.5% in relation to the previous year.

## Economic and Financial Indicators

Economic Structure		
€'000	2008	2007
Net income	3,760	4,558
Sales and services provided	171,441	145,107
Net cash flow	28,734	27,659
Depreciations and adjustments	24,974	23,101
Financial expenses	17,172	16,316
Staff costs	33,803	32,152
Gross value added	80,555	77,058
N° of employees	866	869
Staff productivity	93	89
Average costs per employee	39	37
Financial expenses in gross value added	0.21	0.21
Staff costs in gross value added	0.42	0.42
Depreciations and adjustments in cash flow	0.87	0.84
Return on Equity	2.4%	3.0%
Net income / Power energy sales and services provided	2.2%	3.1%

Financial Structure		
€'000	2008	2007
Current assets	154,652	131,002
Medium-and long-term assets	89,889	93,641
Fixed assets	390,602	334,054
Total assets	635,143	558,697
Short-term liabilities	156,913	99,356
Medium-and long-term liabilities	324,063	305,573
Total liabilities	480,977	404,929
Bank debts	359,906	299,711
Shareholders' equity*	154,166	153,768
Long-term capital	478,229	459,341
Working capital	(2,262)	31,646
Shareholders' equity / Fixed assets	0.39	0.46
Long-term capital / Fixed assets	1.22	1.38
Indebtedness - (Total liabilities / Total assets)	0.76	0.72
Shareholders' equity / Total assets	0.24	0.28
Medium-and long-term liabilities / Long-term capital	0.68	0.67
Solvency - (Total assets / Total liabilities)	1.32	1.38
Liquidity - (Current assets / Short-term liabilities)	0.99	1.32

\*Investments subsidies included

## 2 - Proposed Appropriation of Net Income

In accordance with the article 19 of EEM's Statutes, the Board of Directors proposes the following application of 2008 Company's net Income, amounting to 3,760 thousand Euros:

Statutory Reserve	376 thousand Euros
Retained Earnings	3,384 thousand Euros

## 3 - Environment

### Introduction

The consolidation of an overall environmental policy, equally continuous and integrated is one of EEM's objectives. In this context we have been structuring our investments, in the scope of sustainable development, assuming the Environment as a fundamental value that cannot be dissociated of our activity.

As a fundamental agent and support of the regional energetic sustainable policy, EEM has been accomplishing several investments, according to the strategy established in Regional Energetic Policies Plan, based and supported on a perspective of solidarity with future generations, where economic and environmental sustainability, security in energy supply based on clean resources, the fight against climate changes, the promotion of regional economic competition and an employment policy, are fundamental issues.

During the 2008 exercise, EEM continued the projects begun in the previous year and launched new environmental challenges, amounting to 2,796 thousand Euros, distributed in the following areas:

Environment		
€'000	Investment	Exploitation Costs
Clean air and climate protection	140	697
Waste management	189	144
Soils, subterranean and superficial waters protection	-	152
Biodiversity and landscapes protection	324	7
Others environmental protection activities	774	127
Noise	239	3
<b>Total</b>	<b>1,666</b>	<b>1,129</b>

In global terms, environmental costs increased 24.0% when compared with the previous year. Regarding investments costs, a slight decrease of 5.3% was shown, and the costs of exploitation doubled, when compared to 2007.

The increase in exploitation costs, was essentially due to a higher budget endowment to "Clean air and climate protection".

## Developed activities

### Production

#### • European Union Emission Trading Scheme

During 2008, and taking in consideration the new European rules, namely the EU Decision 2007/589/CE, which is applicable to the “Gas Emission Titles with Greenhouse Effects” and establish the rules for monitoring and communication in the European Union Emission Trading Scheme (CELE), for the new period 2008-2012 (PNALE II), and due to some changes in Vitória (CTV) and Porto Santo (CTPS) thermoelectric powers plants, it was necessary to adjust the attributed gas emission titles. New titles for the over mentioned power plants were issued and can be detailed presented as follows:

##### **Madeira Island:**

Vitória Thermal Power Plant (CTV) - TE.GEE.RAM.076.03.II

##### **Porto Santo Island:**

Porto Santo Thermal Power Plant (CTPS) - TE.GEE. RAM.075.03.II

The carbon dioxide (CO<sub>2</sub>) emissions from these power plants reached 429,749 and 29,160 tons, respectively, representing an increase of 5.3% and 4.1% comparatively to the previous year. The emission increase of the mentioned power plants is due and proportional to a production increase.

EEM emitted into the atmosphere, in 2008, a total of 458,909 tons of CO<sub>2</sub>, thus obtaining an excess of 118,510 CO<sub>2</sub> emission licenses, taking in account that 577,419 licenses/year were attributed to EEM in PNALE II, for the 2008-2012 period.

In 2008, the balance operating costs includes 8,911 thousand Euros related to the emission value achieved in 2008, and with the valuation of CO<sub>2</sub> licenses, free of charges, attributed to EEM or acquired in the market.

In the profits balance the amount 11,264 thousand Euros are included as exploitation subsidies, regarding the costless licenses attributed by the “Instituto do Ambiente”, for 2008, which were used or sold during 2008 and priced at the quotation on the attribution date (20.71 Euros/license).

In balance extraordinary Income, 69 thousand Euros have been registered as gains obtained in market operations with emission licenses, along the year. This gain is correspondent to the difference between the average sale price and the average acquisition price, considering that in the case of the attributed licenses, the value considered is, the first quotation of the year.

EEM had, as well, management costs and transaction commissions with licenses, reaching the amount of 78 thousand Euros, accounted in supplies and services.

In the balance sheet, in intangible assets on debt, and in others debtors, on credit, 9,605 thousand Euros are still included, concerning the 2008 emission licenses, to be returned to the “Instituto do Ambiente”,

in 2008 (8,911 thousand Euros) and also 33,510 licenses, that will transfer into 2009, with a value of 694 thousand Euros.

The number of licenses transferred into 2009, comply with the Energy Services Regulatory Authority's (ERSE) rules that is in this case fixed on 30.0% of the excess number of licenses for the year.

The accounting effects (transactions and emissions) of CO<sub>2</sub> licenses, in 2008, are presented in the following table:

CO <sub>2</sub> impact in EEM's incomes	
€'000	2008
<b>Direct effect:</b>	
Swap 288.00 EUAs/288,000 CERs	1,109
Direct sales	1,314
Commissions	(78)
	<b>2,345</b>
<b>Permitted incomes effect:</b>	
Swap 288.00 EUAs/288,000 CERs	(554)
Direct sales	(1,314)
Direct sales (ICO <sub>2</sub> )	35
	<b>(1,833)</b>
<b>Total</b>	<b>512</b>

Part of the income obtained with these transactions, is registered under exploitation subsidies, regarding that the sold licenses were attributed free of charge, being its subsidy value recognized at sale date.

As already mentioned in the accounting policies, the emission licenses registration was done in accordance with the technical statement: "Interpretação Técnica nº4".

#### • Action Plan to minimize Environmental Impacts integrated in the Pollution Prevention and Control

In 2007 was concluded the license process for industrial activities enclosed by Decree Law nº.194/2000, of 21st August, which approved the legal framework for Integrated Pollution Prevention and Control (IPPC directive), resulting in the following procedures for each one of EEM's power plants:

#### Porto Santo Thermal Power Plant (CTPS)

In 2008, the license for this power plant was obtained.

### **Vitória Thermal Power Plant (CTV)**

Execution of a Action Plan in order to minimize Environmental Impacts integrated in the Pollution Prevention and Control, as a result of this power plant's activities, regarding three following main issues:

1. Acoustic reduction plan;
2. Atmospheric emission reduction plan;
3. Plan to separate completely, the rainfall waters from the residual ones.

As consequence of the acoustic reduction study, EEM prepared and implemented an Action Plan to improve the acoustic emission levels, fulfilling the following acoustic control solutions for Vitória Thermal Power Plant – Building nº II:

- Acoustic isolation reinforcement of the walls;
- Acoustic restrain of the ventilation trenches;
- Acoustic restrain of the ventilation grids in the east façade.

The investment in acoustic restrain procedures reached 225 thousand Euros.

Concerning the Action Plan for the atmospheric emission improvement, studies were carried out in order to identify the best technical-economic solution consistent to these power plant characteristics.

The Action Plan for the complete separation of rainfall and residual waters will be implemented during 2009.

### **Energetic Efficiency Promotion Plan for the electric consumption**

The Consumption Efficiency Promotion Plan (PPEC) approved by the Energy Services Regulatory Authority (ERSE), has as main goals the reduction of electric energy consumption, as well as to promote the energetic efficiency, consisting, essentially, on a promotion campaign for Household and Commerce and Services sectors, to replace incandescent lamps for lower consumption lamps.

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

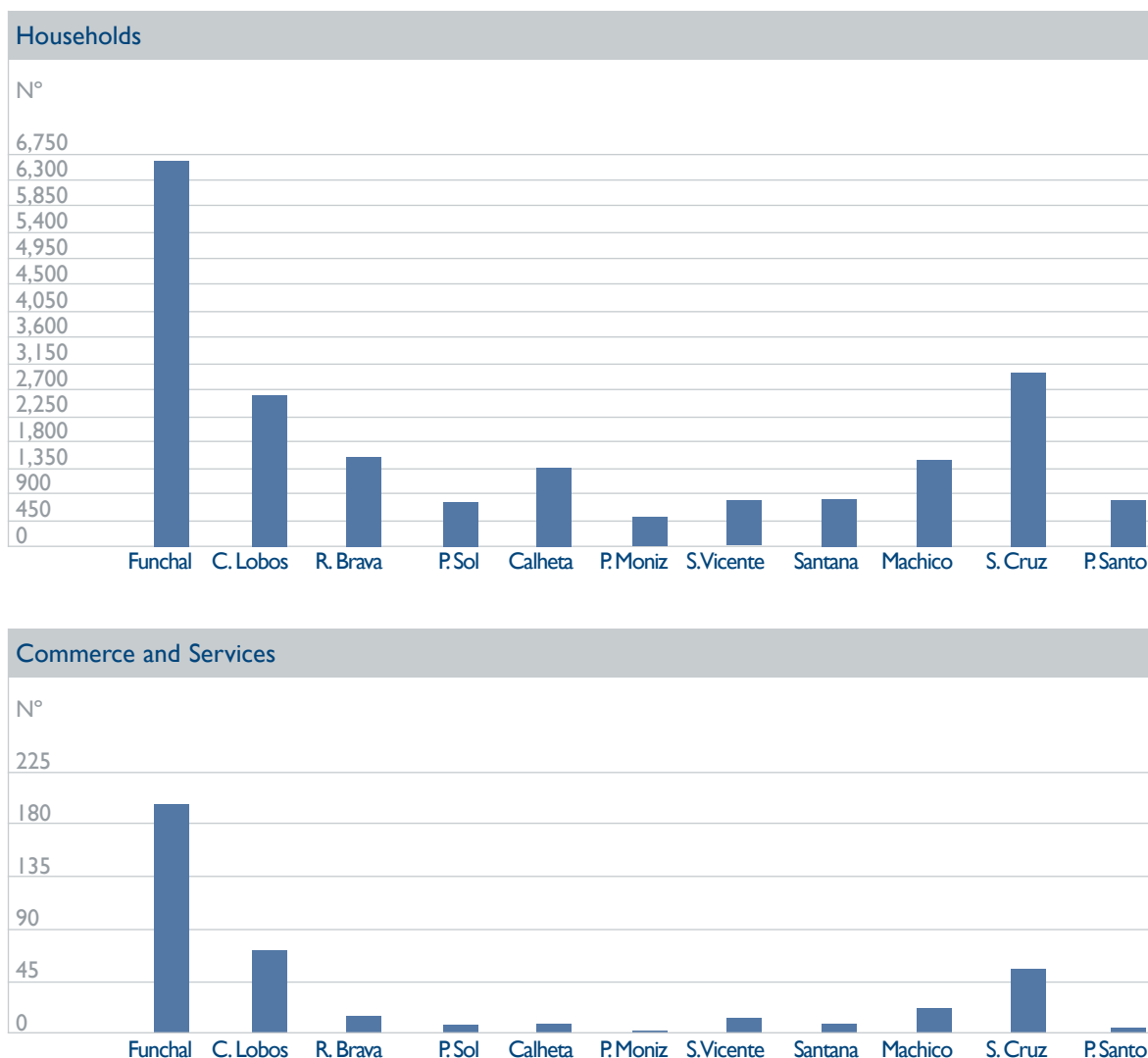
- Promotion and awareness;
- Commercialization software adjustments;
- Training actions for EEM's staff;
- Distribution of efficient lower consumption lamps;
- Monitoring of the campaign.

The adhesion to this campaign was more significant in Household area than in the Commerce and Services sector.



Between 14th March and 31st December, these two campaigns reached 20,401 participants and 212,939 lamps were distributed. Considering that, initially, a substitution of 100,000 lamps was expected, 50,000 for each eligible sector, we conclude that the global realization rate was of 213.0%.

### Participants per council for Households and Commerce and Services sector



## Electric lamps distributed per council by Households and Commerce and Services sector



In global terms, the campaigns for substitution of incandescent lamps for compact fluorescent lamps, in Household and Commerce and Services sectors, allowed an energy consumption reduction, of around 12.7 GWh, between March and December 2008.

We also recognize that the adhesion by the Household sector greatly exceeded the expectations, forcing to enlarge this campaign. For this reason EEM increased nearly 4 times more lamps, than those initially planned.



The following table resumes the results obtained through this campaign:

Campaign global indicators (between March and December 2008)	
Total number of consumers that participated on campaigns	20,401
Quantity of distributed lamps	212,939
Total power capacity of distributed lamps [MW]	3.1
Reduction of electric energy consumption [MWh]	12,726
Average reduction of electric energy consumption per consumer [kWh]	1,670
Avoided thick fuel-oil imports [tons]	2,927
Avoided CO2 emissions [tons]	8,937
Average reduction in electric costs per consumer [Euros/month]	168.7
Avoided costs by the promoter (EEM's thick fuel-oil imports and CO2 emissions) [Euros]	975,187
Average reduction rate of energy consumption through the campaign	20.8%
Reduction of installed power capacity for lighting purposes [MW]	9.7
Average reduction of the power capacity in peak load hours [MW]	5.0

The following table compares the accomplished indicators, with the initially forecasted objectives and goals for the initiative and the global results were largely exceeded:

Comparison between the succeeded purposes and goals defined in candidatures and the obtained results		
	Expected results (candidatures)	Obtained Results
Quantity of lamps	100,000	212,939
Reduction of electric energy consumption [MWh]	7,426	12,726
Avoided thick fuel-oil imports [tons]	1,708	2,927
Avoided CO2 emissions	5,215	8,937
Avoided costs by the promoter (EEM's fuel-oil imports and CO2 emissions) [Euros]	569,042	975,187
Reduction of installed power capacity for lighting purposes [MW]	4.5	9.7
Average reduction of the power capacity in peak load hours [MW]	2.8	5.0

Facing a significant adhesion by the Household clients sector, EEM prepared a new application of PPEC in 2010, in order to distribute more 250,000 lamps. This initiative, already approved, is on an implementation stage. Through this new campaign, EEM intends to go beyond the limit of 10 lamps per consumer, applicable in 1st edition (PPEC 2007), as well as, to meet the clients expectations introduce other different types of lamps.

## Distribution Network

- **Environmental Performance Plan – voluntary procedures**

In 2008 was concluded, the first Environmental Performance Plan (PPDA) regarding the triennial 2006-2008, in accordance with the extension to autonomous regions of these plans, by the Energy Services Regulatory Authority (ERSE).

In this scope, the main activities fulfilled during 2008, were as follows:

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

In order to avoid the negative impact in the landscape and to promote the requalification of the LV and MV networks and to improve the service quality, the following measures were taken:

- Concerning the LV network, the implementation of this procedure took place by improvement actions in 17 streets, along 276 m, with the construction of 1,444 m of new underground infrastructures and the installation of 81 public lighting luminaries.
- In MV network, the “Jardim Tropical do Monte” overhead line, 1,300 m long, was changed into an underground line, being the area now served by new infrastructures, along 1,730 m.

- **Removal/Reutilization of MV electric poles**

In order to minimize the visual negative impact in the landscape, 101 MV electric poles were removed in 9 councils of Madeira Island.

- **Study of the MV/HV (high voltage) electric lines network impact, regarding Madeira bird-fauna**

In order to evaluate the impact of MV/HV electric lines on Madeira bird-fauna and to plan eventual corrective procedures EEM carried out studies which permitted the identification of electric lines sections with specimens catalogued as endangered, according to the Bird Directive, thus permitting the implementation of action plans in order to settle several protection strategies for the endangered identified species. In this context, protection procedures were accomplished, namely the placement of “scarecrows” along the following electric overhead lines:

- 60 kV overhead line – Caniçal;
- 30 kV overhead line – Fontes – Estreito de Câmara de Lobos.

The following table presents the costs detail by extension, incurred during 2008 with PPDA, reaching a global amount of 341 thousand Euros:

PPDA - 2008	
€'000	
Landscape integration of LV electric lines network	286
Landscape integration of MV electric lines network	13
Removal of MV electric poles	27
Study of MV/HV electric lines impact in Madeira bird-fauna	15
<b>Total</b>	<b>341</b>

The accomplished rate for the PPDA procedures in 2006-2008 period, reached approximately 113.0%.

PPDA Procedures 2006-2008					
€'000	2006	2007	2008	Total	Rate %
PPDA Environmental Training actions	-	5	-	5	113.0%
Landscape integration of LV electric lines network	-	134	285	419	119.0%
Landscape integration of MV electric lines network	151	68	13	232	104.0%
Removal of MV electric poles	-	19	27	46	119.0%
Study of MV/HV electric lines impact in Madeira bird-fauna	20	15	15	51	100.0%
<b>Total</b>	<b>171</b>	<b>241</b>	<b>341</b>	<b>753</b>	<b>113.0%</b>

During 2008, EEM prepared the request for the new PPDA, regarding the 2009-2011 period.

## **Investments with environmental benefits**

EEM defined the evolution strategy of the electric system, according to the Regional Energetic Plan, by settling as main objectives: a strong promotion of renewable energies, the use of less polluted petroleum derivatives and a rational and efficient use of electric energy.

This development plan, allows, on one hand, the assurance of a sustainable regional electric system supply and simultaneously, to accomplish and exceed the objectives defined by the European Union, concerning the environmental protection and CO<sub>2</sub> emission levels.

Thus development plan contains very ambitious goals, to enlarge the contribution of renewable energy in the production mix, starting from the actual 14.4%, in 2008, up to 22.0% in 2010 and 29.5% in 2011, based on the “anticipation/vision of the sector’s evolution, consistent with an adequate corporate governance”, with impact and significant value for the environment and to the regional economy, through the increasing effect on internal costs, and, simultaneously, replacing imports of fuel and petroleum derivatives.

Accordingly, EEM has been implementing and planning several diversified investments, namely in the hydro/wind area, the introduction of natural gas in Madeira Island, the marine bio-fuel oil production in Porto Santo Island, as well as different studies and pilot projects, as following:

- **Studies for integration of renewable energies into the electric network**

EEM has been developing studies to confirm the electric network performance with the connection of new wind power plants, regarding the existent limitations of isolated electric networks.

In 2008, in order to determine, validate and update the studies of the impact of increasing wind generation in Madeira and Porto Santo Islands electric networks, EEM invited “Instituto Superior Técnico” to carry out the study “Determination of renewable energies capacity integration in Madeira and Porto Santo Islands for the period 2006-2010.”

- **Hydroelectric Energy**

Acknowledging the fact that hydroelectric resources availability have been decreasing and wind production is highly dependent of a new hydroelectric exploitation form, a strategy was defined in order to transform the existent power plants, which operate mostly in winter, into a continuous operating system, through storage reservoirs and water pumping. This new exploitation philosophy allows a greater balance in daily energetic supply, and enables a larger wind energy penetration, through the pumping.

On this basis and after concluding the transformation of Socorridos Hydroelectric Multipurpose Power Plant, further advanced studies were initiated in 2007, in order to renew Calheta Hydroelectric Power Plant. The present Calheta Hydroelectric Power Plant is installed in one of the Paúl da



Serra slopes, a place that presents by one hand, a great wind potential, and on the other hand, privileged conditions to build a large water reservoir (around 1,000,000 m<sup>3</sup>), which will permit the regularization and storage of hydro resources at any season of the year.

EEM faces the enlargement of the Calheta Hydroelectric Power Plant system, as a suitable procedure to satisfy the energy and power capacity needs, assuring, as well, a greater wind energy penetration. Actually, the implementation project is taking place, being the construction expected during 2010-2011, thus allowing an increase of hydroelectric production above 20.0%, when compared to the average values registered between 1997 and 2008.

Besides, the increase in hydro production of more or less 18 GWh, this investment will also provide a very positive effect on the wind power penetration, making it possible to accommodate more wind power, evaluated in more or less 25 MW.

### • Wind Energy

During 2008, EEM through its associated for renewable energies, ENEREEM – Energias Renováveis, Lda, initiated the assemblage of two wind power plants in Paúl da Serra, adjudicated to VESTAS, in November 2007: the Pedras Wind Power Plant and Loiral Wind Power Plant, with a total installed power capacity of 15.3 MW. These wind power plants are constituted by 12 and 6 wind turbine generators, respectively, in a total of 18, with 850 kW per unit, placed on 49 m high towers, with a 52 m the rotor in diameter and blades 25.3 m long.

The new power plants can be operated through remote control and command, from EEM's electric network Dispatch Centre, enabling the coordination and optimize the integration of this intermittent energy source, in the electric network system of Madeira Island.

With an annual estimated production of 38.7 GWh, the Wind Power Plants of Pedras and Loiral, will contribute to increase the wind energy in Madeira Island's energy mix, from 1.4% up to 5.5%.

This increase of production, corresponds to the Households electric consumption of the councils of Machico, Calheta and Porto Moniz, satisfying approximately the needs of about 15,800 clients.

Concerning environmental aspects, the amount of avoided emissions, due to the recent exploitation of these wind plants reaches: 27,000 tons of CO<sub>2</sub>; 110 tons of SO<sub>2</sub>; 460 tons of NO<sub>x</sub> and 7 tons of particles, in resume, avoids the consumption of 9,000 tons of tick fuel-oil, which is equivalent to the annual consumption in Porto Santo Island thermal power plant.

Additionally these investments, will have a significant impact and value in the regional economy, through the increase of internal costs replacing fuel oil imports.

The conclusion of these projects is expected for the first semester of 2009. Also already planned, is the construction of a new wind power plant of 5 MW, being it's International Public Tender in a launching phase. The achievement of these investments clearly shows an unquestionable engagement

in order to increase the relevance of renewable sources in the energetic mix of Autonomous Region of Madeira.

#### • EDEN

In 2008, the EDEN – New Energies Endogenous Development project was concluded. The main goal of this project was to create a national technology platform, with a participation of the scientific and economical Portuguese community, through a process of mutation from actual energetic models into a new paradigm, in which the hydrogen has a main role.

This pilot project aims to demonstrate the possibility of maximization the penetration of renewable energies in the electric network, namely the wind energy in Porto Santo Island, through hydrogen storage, obtained from the excess of production during off peak hours, and later delivered into the grid, using fuel cells.

The partnership, specifically created for the development of this project was constituted by SRE - Soluções Racionais de Energia, S.A., as leader, and also by the following entities: A. A. Silva, S.A.; AREAM - Agência Regional da Energia e Ambiente da Região Autónoma da Madeira; EDP - Gestão de Produção de Energia, S.A.; EDP Inovação S.A.; EEM - Empresa de Electricidade da Madeira, S.A.; Efaced Energia, S.A.; Efaced Sistemas de Electrónica, S.A.; INEGI - Instituto de Engenharia e Gestão Industrial; INETI - Instituto Nacional de Engenharia, Tecnologia e Inovação; IST - Instituto Superior Técnico and Vidropol, Estratificados de Fibra de Vidro, S.A..

The energy production from fuel cells (H<sub>2</sub>) began in June 2008, thus constituting an example to a possible reduction in polluted emissions associated to energy production, through storage, in accordance to European Community directives for sustainable energy.

EEM is responsible for monitoring and operating this pilot system in Porto Santo Island.

The total costs, assured by EEM, for this project reached 402 thousand Euros, being 38 thousand Euros referred to 2008. The “ADI – Agência de Inovação”, subsidies for this project, reached 147 thousand Euros.

#### • Marine bio-fuel

In 2008, EEM continued studies for the settlement of an industrial unit for marine bio-fuel production.

This project, in partnership with a Spanish company named Bio Fuel Systems (BFS) (associated with Alicante and Valencia universities) intends to replace the tick fuel oil, actually used by the existent generating power groups in the thermoelectric plant (which only implies a light adaptation), for marine bio-fuel, and will enable the Island to be self sufficient in electric power energy, in a medium term, based on an unlimited, clean and ecological energetic resource.

The almost total dependence on fuel oil and the right dimension to turn the Island in a Green Island, were the determinant factors to implement this renewable/emergent technology, in Porto Santo Island.

The marine bio-fuel is obtained through the phytoplankton (micro seaweed) – unicellular organisms, 100 times smaller than a sand grain – responsible for the absorption of 300 thousand millions of CO<sub>2</sub>/year and for 80.0% of the oxygen production in earth atmosphere.

The marine bio-fuel production is obtained through the following stages:

- CO<sub>2</sub> injection into electromagnetic bio accelerators (pipes with 200x90cm) in the presence of natural or artificial light to nourish the unicellular organisms through photosynthesis;
  - Seaweed multiplication by mitosis (cellular division), passing from a concentration of 300 unities/mm<sup>3</sup> to 200 millions of unities/mm<sup>3</sup>;
  - Passage by the regulatory storage, where the partial emptying of the electromagnetic bio accelerative devices and the storage in accumulation reservoirs are executed;
  - Culture concentration scopes to obtain the greatest possible extraction of water from the marine bio-fuel, by centrifugal process, till getting a thick paste, with a concreted texture. The returned water from the centrifugal force is reintegrated into the productive process, passing again to the electromagnetic bio accelerators;
  - Drying of the marine bio-fuel oil, in order to reach a humidity level in bio-fuel, between 5.0% to 20.0%, through a process of biomass pressing;
  - Process of quick pyrolysis for the biomass chemical decomposition, by a heat of 500°C, without oxygen;
  - The quickly pyrolysis, finally, causes:
    - Bio-oil – 60.0%;
    - Bio-coal – 15.0%;
    - No condensable gas – 15.0%;
    - Secondary products – 10.0%.
- 
- **Study of new thermoelectric generating power plants**
    - GNL project (liquefied natural gas)

During 2008, EEM continued the studies for the introduction of natural gas in Madeira Island, a structural issue, with a significant impact in the development of the whole regional economy, contributing extraordinarily for environmental protection and in harmony with international aims.

The project, feasible by the electricity production, will consist, certainly, in a subsequent phase, a beneficial solution for others sectors of Madeira economy, namely, Hotels, Industry, Households and Transports, as an alternative to the products derived from oil, with important environmental benefits.

Based on an annual natural gas production of 400 GWh (presenting approximately 50.0% of the thermoelectric production in RAM, along 2008), the project will enable a reduction of about 156,000 tons of CO<sub>2</sub>, 2,000 tons of SO<sub>2</sub>, 680 tons of NO<sub>x</sub> and 40 tons of particles, with advantages, that per se, are sufficient enough to prove the great impact of its accomplishment, as an alternative to oil products.

The activities accomplished during 2008, referring to Madeira GNL Terminal Project, were essentially the following:

- Conclusion of the Geological-Geotechnical base study project for the building place and a underwater survey of Socorridos zone;
- Conclusion of the License Process, including the Environmental Impact Study, to be presented to the proper entities;
- Continuation of the base project “FEED – Front-End Engineering and Design”, in order to prepare the International Public Tender for the EPC - Engineering, Procurement, Construction’s contract work;
- Ongoing with the studies and negotiations to define the Terminal;
- Conclusion of the adaptation of the gas sector national legislation, considering Madeira’s local features.

The project is now sufficiently prepared, allowing during the next year of 2009, launch an International Public Tender for the EPC, concerning the GNL Terminal in Madeira Island.



## 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 2008, the Board of Directors wishes to express a word of gratitude for the support received from all the different entities with whom we have cooperated over the year, particularly our shareholder, the Regional Government of Madeira, represented by its Vice-President, responsible for the leadership of the energy sector in Madeira.

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





**EEM - Empresa de Electricidade da Madeira****Consolidated Balance Sheet as at 31 December, 2008 and 2007**

		(Amounts expressed in Euros)	
	Notes	2008	2007
<b>Assets</b>			
Tangible assets	2	363,459,874	320,832,303
Intangible assets	3	14,308,033	6,974,719
Investments	4	12,834,377	6,246,826
Clients and other debtors	5	127,527,860	124,560,278
Inventories	6	14,800,663	16,325,502
Prepayments and accrued income	7	101,210,942	82,920,453
Cash and deposits at banks		1,000,774	837,138
Total Assets		<u>635,142,523</u>	<u>558,697,219</u>
<b>Shareholders' Equity</b>			
Share capital	8	20,000,000	20,000,000
Reserves and retained earnings	9	89,805,932	85,241,454
Profit for the year		3,760,029	4,557,753
Total Shareholders' Equity		<u>113,565,961</u>	<u>109,799,207</u>
Minority interests	10	<u>115,609</u>	<u>89,111</u>
<b>Liabilities</b>			
Amounts owed to credit institutions	11	359,905,544	299,710,893
Provision for liabilities and charges	12	35,703,407	36,598,307
Deferred tax	13	1,107,143	1,214,835
Suppliers and other creditors	14	66,701,949	53,621,942
Accruals	15	17,558,485	13,782,858
Deferred income	16	40,484,425	43,880,066
Total Liabilities		<u>521,460,953</u>	<u>448,808,901</u>
Total Shareholders' Equity and Liabilities		<u>635,142,523</u>	<u>558,697,219</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, 2008 and 2007

		(Amounts expressed in Euros)	
	Notes	2008	2007
<b>Operating income</b>			
Sales	17	171,218,320	144,826,399
Other operating income	18	33,516,355	24,169,573
		<u>204,734,675</u>	<u>168,995,972</u>
 <b>Operating costs</b>			
Cost of sales	17	101,685,595	79,502,619
Personnel costs		33,802,828	32,151,746
Supplies and services		14,507,888	13,924,696
Depreciation and adjustments	2, 3 and 5	24,974,339	23,100,823
Other operating costs	19	16,917,476	9,450,775
		<u>191,888,126</u>	<u>158,130,659</u>
Operating income		<u>12,846,549</u>	<u>10,865,313</u>
 <b>Other income/(costs)</b>			
Financial income/(costs)	20	(13,769,517)	(13,177,466)
Income arising on the application of the equity method of consolidation		506,784	494,789
Other income	21	5,074,858	7,355,785
Other costs		(26,349)	(38,118)
		<u>(8,214,224)</u>	<u>(5,365,010)</u>
 Income before income taxes		4,632,325	5,500,303
 Income taxes	22	845,798	931,769
Profit for the year		<u>3,786,527</u>	<u>4,568,534</u>
Minority interests	10	26,498	10,781
		<u>3,760,029</u>	<u>4,557,753</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, 2008 and 2007

	(Amounts expressed in Euros)	
	2008	2007
<b>Cash flows from operating activities</b>		
Client payments	145,315,747	104,743,827
Securitization of the tariff convergence for 2007 and 2006	-	63,528,969
Payments to suppliers	(104,191,240)	(88,599,598)
Payments to employees and pensioners	(32,812,036)	(31,833,823)
Income tax payments	(1,024,935)	(474,441)
Short-term applications	-	10,238
Other receipts and payments	10,114,904	9,068,244
	<u>17,402,440</u>	<u>56,443,416</u>
<b>Cash flows from investing activities</b>		
Sales of fixed assets	2,423,000	504,644
Payments to fixed assets suppliers	(58,945,031)	(31,796,331)
Investments	(6,530,767)	-
Loans to other companies	(72,639)	(52,602)
Dividends	1,058,139	886,511
Interest received	1,995,317	776,782
	<u>(60,071,981)</u>	<u>(29,680,996)</u>
<b>Cash flows from financing activities</b>		
Loans obtained/(Repayment of loans)	60,194,652	(11,426,685)
Interest paid	(16,770,443)	(15,017,913)
Other receipts/(payments)	(591,032)	(405,887)
	<u>42,833,177</u>	<u>(26,850,485)</u>
Net changes in cash and cash equivalents	163,636	(88,065)
Cash and cash equivalents balance at the beginning of the year	837,138	925,203
Cash and cash equivalents balance at the year end	<u><u>1,000,774</u></u>	<u><u>837,138</u></u>

See accompanying notes to the Financial Statements

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

Balance Sheet as at 31 December, 2008 and 2007

		(Amounts expressed in Euros)	
	Notes	2008	2007
<b>Assets</b>			
Tangible assets	2	338,573,831	312,198,858
Intangible assets	3	14,308,033	6,970,548
Investments	4	15,254,966	7,447,509
Clients and other debtors	5	129,228,702	129,530,784
Inventories	6	14,760,834	16,285,343
Prepayments and accrued income	7	101,212,311	82,922,741
Cash and deposits at banks		780,679	810,917
Total Assets		614,119,356	556,166,700
<b>Shareholders' Equity</b>			
Share capital	8	20,000,000	20,000,000
Reserves and retained earnings	9	89,805,932	85,241,454
Profit for the year		3,760,029	4,557,753
Total Shareholders' Equity		113,565,961	109,799,207
<b>Liabilities</b>			
Amounts owed to credit institutions	11	342,740,470	298,078,463
Provision for liabilities and charges	12	35,259,356	36,141,398
Deferred tax	13	1,107,143	1,214,835
Suppliers and other creditors	14	63,577,209	53,493,302
Accruals	15	17,575,472	13,773,148
Deferred income	16	40,293,745	43,666,347
Total Liabilities		500,553,395	446,367,493
Total Shareholders' Equity and Liabilities		614,119,356	556,166,700

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, 2008 and 2007

		(Amounts expressed in Euros)	
	Notes	2008	2007
<b>Operating income</b>			
Sales	17	171,234,783	144,842,693
Other operating income	18	33,440,643	24,081,546
		<u>204,675,426</u>	<u>168,924,239</u>
 <b>Operating costs</b>			
Cost of sales	17	102,575,365	80,316,612
Personnel costs		33,779,071	32,127,569
Supplies and services		14,345,778	13,652,730
Depreciation and adjustments	2, 3 and 5	24,513,350	22,632,256
Other operating costs	19	16,904,369	9,436,752
		<u>192,117,933</u>	<u>158,165,919</u>
Operating income		<u>12,557,493</u>	<u>10,758,320</u>
 <b>Other income/(costs)</b>			
Financial income/(costs)	20	(14,975,712)	(13,079,721)
Income arising on the application of the equity method of consolidation		1,707,106	448,066
Other income	21	5,030,347	7,329,119
Other costs		(24,305)	(36,698)
		<u>(8,262,564)</u>	<u>(5,339,234)</u>
 Income before income taxes		4,294,929	5,419,086
Income taxes	22	534,900	861,333
Profit for the year		<u><u>3,760,029</u></u>	<u><u>4,557,753</u></u>

See accompanying notes to the Financial Statements





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

### Statement of Cash Flows for the years ended 31 December, 2008 and 2007

	(Amounts expressed in Euros)	
	2008	2007
<b>Cash flows arising from operating activities</b>		
Client payments	145,262,790	104,656,190
Securitization of the tariff convergence for 2007 and 2006	-	63,528,969
Payments to suppliers	(104,570,070)	(89,237,804)
Payments to employees and pensioniers	(32,788,386)	(31,809,916)
Income tax payments	(986,646)	(358,937)
Other receipts and payments	10,188,850	9,164,155
	<u>17,106,538</u>	<u>55,942,657</u>
<b>Cash flows arising from investing activities</b>		
Sales of fixed assets	2,423,000	504,644
Payments to fixed assets suppliers	(46,344,090)	(29,200,270)
Investments	(6,530,767)	-
Loans to subsidiaries and other companies	301,922	(2,654,325)
Dividends	1,058,139	886,511
Interest received	696,008	775,526
	<u>(48,395,788)</u>	<u>(29,687,914)</u>
<b>Cash flows arising from financing activities</b>		
Loans obtained/(Repayment of loans)	48,562,008	(11,063,923)
Interest paid	(16,709,303)	(14,888,127)
Other receipts/(payments)	(593,693)	(405,891)
	<u>31,259,012</u>	<u>(26,357,941)</u>
Net changes in cash and cash equivalents	(30,238)	(103,198)
Cash and cash equivalents balance at the beginning of the year	810,917	914,115
Cash and cash equivalents balance at the year end	<u>780,679</u>	<u>810,917</u>

See accompanying notes to the Financial Statements

## EEM - Empresa de Electricidade da Madeira

### Notes to the Financial Statements 31 December, 2008 and 2007

## I Accounting policies

### I.1 Activity and basis of presentation

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

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

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

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

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

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

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

## **Basis of presentation**

The consolidated financial statements for the years ended 31 December, 2008 and 2007, comprise the assets, liabilities and results of EEM and its subsidiaries, Museu - Casa da Luz, Emacom and Enereem, and the results attributable to EEM from its associated companies. These accounting policies have been consistently applied by all Group companies.

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

These financial statements were approved in the Board of Directors meeting held on 31 March, 2009.

## **Investments in subsidiaries**

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

## **Investments in associated companies**

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

## **Balances and transactions eliminated in consolidation**

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

## **Other investments**

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

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

## **Accounting, on unconsolidated basis, of investments in subsidiaries**

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

## **1.2 Recognition of income and expenses**

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

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

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

## **1.3 Subsidies to operational activity**

### **Compensation regarding the tariff convergence**

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

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

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

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

### **Promotion plan for efficient consumption of energy**

The subsidies granted by ERSE, to finance the Promotion plan for efficient consumption of energy, are recognised in income statement when they are received.

## 1.4 Clients and other debtors

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

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

## 1.5 Foreign exchange transactions

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

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

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

## 1.6 Inventories

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

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

## 1.7 Intangible assets

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

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

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

## 1.8 Tangible assets

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

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

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

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

## 1.9 Leases

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

### Operating leases

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

### Finance leases

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

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

## **1.10 Interest capitalised**

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

## **1.11 Investments subsidies**

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

## **1.12 Pensions fund**

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

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

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

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

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

### **1.13 Income tax**

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

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

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

Deferred tax is 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, being calculated using the tax rates enacted or substantively enacted in each jurisdiction as at the balance sheet date and expected to be applied when the temporary differences will revert.

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

### **1.14 Own work capitalised**

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

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

When an activity is subject to regulation, the criteria for allocation 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 acquired in the market in order to settle the liability arising from the consumption are recognised as an intangible asset at its acquisition cost.

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

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

## **I.18 Derivative financial instruments**

EEM enters into derivative financial instruments to hedge the interest rate risk arising from its debt portfolio, with the purpose of reducing the variability in the related interest.

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

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

## **I.19 Cash and cash equivalents**

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

## 2 Tangible assets

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Gross amount:</b>				
Land	6,009,176	5,771,961	6,009,176	5,771,961
Buildings	180,826,089	179,462,680	177,686,700	176,323,291
Basic equipment	439,222,230	402,033,500	433,415,309	396,226,579
Motor vehicles	213,374	203,751	182,261	182,261
Machinery	2,129,795	1,981,504	2,129,795	1,981,504
Office equipment	17,761,873	14,130,698	17,642,261	14,021,324
Other equipment	12,005,365	11,248,239	12,005,365	11,248,239
Art	65,690	58,965	-	-
Work in progress	41,312,777	18,574,262	22,046,676	15,974,698
	<u>699,546,369</u>	<u>633,465,560</u>	<u>671,117,543</u>	<u>621,729,857</u>
<b>Accumulated depreciation:</b>				
Related to the year	(23,469,355)	(21,947,064)	(23,012,713)	(21,489,714)
Related to previous years	(312,617,140)	(290,686,193)	(309,530,999)	(288,041,285)
	<u>(336,086,495)</u>	<u>(312,633,257)</u>	<u>(332,543,712)</u>	<u>(309,530,999)</u>
	<u>363,459,874</u>	<u>320,832,303</u>	<u>338,573,831</u>	<u>312,198,858</u>

The Tangible assets movements for the Group, during 2008, 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	5,771,961	-	-	237,215	6,009,176
Buildings	179,462,680	388,054	-	975,355	180,826,089
Basic equipment	402,033,500	17,275,710	-	19,913,020	439,222,230
Motor vehicles	203,751	31,113	(21,490)	-	213,374
Machinery	1,981,504	148,291	-	-	2,129,795
Office equipment	14,130,698	3,461,202	-	169,973	17,761,873
Other equipment	11,248,239	714,031	-	43,095	12,005,365
Art	58,965	6,725	-	-	65,690
Work in progress	18,574,262	44,720,708	-	(21,982,193)	41,312,777
	<u>633,465,560</u>	<u>66,745,834</u>	<u>(21,490)</u>	<u>(643,535)</u>	<u>699,546,369</u>
<b>Accumulated depreciation:</b>					
Buildings	58,588,481	4,952,778	-	-	63,541,259
Basic equipment	234,994,541	15,763,534	-	-	250,758,075
Motor vehicles	150,406	19,772	(16,117)	-	154,061
Machinery	1,740,557	105,297	-	-	1,845,854
Office equipment	8,615,059	2,055,303	-	-	10,670,362
Other equipment	8,544,213	572,671	-	-	9,116,884
	<u>312,633,257</u>	<u>23,469,355</u>	<u>(16,117)</u>	<u>-</u>	<u>336,086,495</u>

The acquisitions of Basic equipment refer, mainly, to extensive repairs at “Central Térmica da Vitória” groups and improvements in the energy transport and distribution networks.

During 2008, there were several works concluded in the substations and infrastructures belonging to the electric energy transport and distribution networks of the Autonomous Region of Madeira and in “Central Térmica de Porto Santo” Group VI. Therefore, an amount of Euros 21,982,193 was transferred from the balance Work in progress to fixed assets.

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

As at 31 December, 2008, the balance Work in progress mainly refers to the new “Central Térmica da Vitória”, to network improvements related to the energy transport and distribution networks and to the construction of Pedras and Loiral wind farms, held by Enereem.

### 3 Intangible assets

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Gross amount:</b>				
Technical studies	4,173,783	3,465,718	4,064,920	3,356,853
CO2 licenses	9,604,717	2,026,138	9,604,717	2,026,138
Industrial property	1,929,954	1,916,862	1,929,954	1,916,862
Other intangible assets	11,440,096	11,440,096	11,440,096	11,440,096
	<u>27,148,550</u>	<u>18,848,814</u>	<u>27,039,687</u>	<u>18,739,949</u>
<b>Accumulated depreciation:</b>				
Related to the year	(966,422)	(753,512)	(962,253)	(743,594)
Related to previous years	(11,874,095)	(11,120,583)	(11,769,401)	(11,025,807)
	<u>(12,840,517)</u>	<u>(11,874,095)</u>	<u>(12,731,654)</u>	<u>(11,769,401)</u>
	<u>14,308,033</u>	<u>6,974,719</u>	<u>14,308,033</u>	<u>6,970,548</u>

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

As at 1 January, 2008, EEM recorded in the balance CO2 licenses an amount of Euros 11,958,347 regarding the CO2 licenses freely attributed in 2008 by "Instituto do Ambiente" (577,419 tons of Emission Unit Allowance: EUA).

During 2008, EEM has performed a transaction under which sold 288,000 tons of EUA at a price of 22.50 €/ton and purchased 288,000 tons of Credit Emission Rights (CER) at a price of 18.65 €/ton. This transaction was settled on 1 December, 2008, and had an impact in the income statement of Euros 6,480,000 through a gain obtained from the EUA sale (Euros 515,520) and through the recognition of the subsidy arising from the EUA freely attributed that were sold (Euros 5,964,480: see note 18).

Additionally, EEM sold 85,000 tons of EUA by an amount of Euros 1,303,151, which had an impact in the income statement in the same amount, through a loss arising from the EUA sale (Euros 457,200 including commissions of Euros 11,050) and through the recognition of the subsidy arising from the EUA freely attributed that were sold (Euros 1,760,350: see note 18).

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

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

The Intangible assets movements for the Group, during 2008, 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	3,465,718	64,530	-	643,535	4,173,783
CO2 licenses	2,026,138	17,329,547	(9,750,968)	-	9,604,717
Industrial property	1,916,862	13,092	-	-	1,929,954
Other intangible assets	11,440,096	-	-	-	11,440,096
	<u>18,848,814</u>	<u>17,407,169</u>	<u>(9,750,968)</u>	<u>643,535</u>	<u>27,148,550</u>
<b>Accumulated depreciation:</b>					
Technical studies	3,223,822	387,935	-	-	3,611,757
Industrial property	801,983	58,483	-	-	860,466
Other intangible assets	7,848,290	520,004	-	-	8,368,294
	<u>11,874,095</u>	<u>966,422</u>	<u>-</u>	<u>-</u>	<u>12,840,517</u>

The reduction on the balance CO2 licenses includes Euros 2,026,138 related to the licenses delivered concerning the 2007 consumptions (440,409 tons), as referred in note 25, and Euros 7,724,830 related to the sale of 373,000 tons of EUA (valued at the market price at the attribution date: 20.71 €/ton), as referred in the previous paragraphs.

## 4 Investments

These investments held by the Group are analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Subsidiaries:</b>				
Museu - Casa da Luz	-	-	-	121,909
Emacom	-	-	1,110,354	68,848
Enereem	-	-	1,310,235	1,009,926
	-	-	2,420,589	1,200,683
<b>Associated companies:</b>				
Teleféricos da Madeira, S.A.	708,516	651,732	708,516	651,732
<b>Other investments:</b>				
Banif - SGPS, S.A.	5,935,781	4,314,077	5,935,781	4,314,077
Biofuel Systems S.L.	4,612,500	-	4,612,500	-
Luso Carbon Fund	896,563	600,000	896,563	600,000
Horários do Funchal, S.A.	611,027	611,027	611,027	611,027
Companhia Logística de Combustíveis da Madeira, S.A.	50,000	50,000	50,000	50,000
Madibel Indústrias de Alimentos e Bebidas, S.A.	20,141	20,141	20,141	20,141
Comboio do Monte, S.A.	16,000	16,000	16,000	16,000
Centro de Empresas e Inovação da Madeira, Lda.	3,990	3,990	3,990	3,990
	12,146,002	5,615,235	12,146,002	5,615,235
<b>Impairment of other investments</b>	(20,141)	(20,141)	(20,141)	(20,141)
	12,834,377	6,246,826	15,254,966	7,447,509

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

	<b>Group</b>		<b>Individual</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</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>				
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
Luso Carbon Fund	1.28	0.60	1.28	0.60
Horários do Funchal, S.A.	5.00	5.00	5.00	5.00
Companhia Logística de Combustíveis da Madeira, S.A.	10.00	10.00	10.00	10.00
Madibel Indústrias de Alimentos e Bebidas, S.A.	2.52	2.52	2.52	2.52
Comboio do Monte, S.A.	16.67	16.67	16.67	16.67
Centro de Empresas e Inovação da Madeira, Lda	1.63	1.63	1.63	1.63

### Investments consolidated under the full consolidation method

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

As at 31 December, 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. As at 31 December, 2008, this subsidiary has a negative shareholders' equity in the amount of Euros 12,858, consequently, EEM recorded a provision for liabilities and charges in the same amount.

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

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

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

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

### Investments consolidated under the equity method

The investments accounted under the equity method, as at 31 December, 2008, are analysed as follows:

	% of share Capital	Acquisition cost Euros	Book value Euros
Teleféricos da Madeira, S.A.	20.00	92,395	708,516
		<u>92,395</u>	<u>708,516</u>

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

### Other investments (recorded at acquisition cost)

As at 25 June, 2008, Banif – SGPS, S.A. has realised a capital increase in the amount of Euros 50,000,000 through a reserves incorporation, by an emission of 50 million new ordinary, nominative and contractual shares, with a nominal value of Euros 1 each, being attributed to EEM 810,852 new shares. Additionally, was realised an emission of new shares reserved to shareholders, in the amount of Euros 50,000,000 (50 million shares with the nominal value of Euros 1 each), with the price of Euros 2 per share. Under this capital increase EEM has acquired 810,852 new shares at the price of Euros 2 each.

At 31 December, 2008, the investment held in Banif – SGPS, S.A. is represented by Euros 5,675,964 shares with a nominal value of Euro 1 each. The average acquisition cost of the shares held by EEM is Euros 1.046 each. As at 31 December, 2008, the market value of the investment arises to Euros 6,186,801 (2007: Euros 16,217,040).

During 2008, EEM entered into an agreement with the Biofuel Systems, S.L. under which has performed an advance payment in the amount of Euros 4,612,500 for the future constitution of a new company, which will be held in 40% by EEM. This new company will develop its activity in the Autonomous Region of Madeira and its purpose will be the biofuel production, to be used in the electricity generation and energetic valuation.





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 CO<sub>2</sub> licenses. During 2008, EEM has acquired additional 5 participation units by an amount of Euros 59,313 each. As at 31 December, 2008, the investment held arises to Euros 896,563.

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

Companhia Logística de Combustíveis da Madeira, S.A. was established in 1999, with a share capital of Euros 250,000. During 2004, the share capital was increased to the amount of Euros 500,000, under which EEM acquired 2,500 new shares with a nominal value of Euros 10, amounting to Euros 25,000. As at 31 December 2008, 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>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Clients:</b>				
Official entities				
With protocol	43,971,463	46,345,392	43,971,463	46,345,392
Without protocol	58,327,667	55,969,657	58,327,667	55,969,657
Other clients	14,587,883	12,871,599	14,556,075	12,838,271
	<u>116,887,013</u>	<u>115,186,648</u>	<u>116,855,205</u>	<u>115,153,320</u>
<b>Other Debtors:</b>				
Rede Eléctrica Nacional	3,716,994	500,999	3,716,994	500,999
Public sector	2,147,069	4,459,984	1,857,532	4,166,144
Coopereme	2,660,339	2,650,832	2,660,339	2,650,832
Other debtors	1,614,784	1,586,216	3,652,070	6,898,990
Advances to suppliers	15,099	15,099	-	-
	<u>10,154,285</u>	<u>9,213,130</u>	<u>11,886,935</u>	<u>14,216,965</u>
Doubtful debts	9,512,470	8,647,846	9,510,993	8,646,546
	<u>136,553,768</u>	<u>133,047,624</u>	<u>138,253,133</u>	<u>138,016,831</u>
Impairment for doubtful debts	(9,025,908)	(8,487,346)	(9,024,431)	(8,486,047)
	<u>127,527,860</u>	<u>124,560,278</u>	<u>129,228,702</u>	<u>129,530,784</u>

The balance Official entities with protocol, in the amount of Euros 43,971,463 (2007: Euros 46,345,392), 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 2008 the amount of Euros 2,373,929 (2007: Euros 2,701,318). 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 58,327,667 (2007: Euros 55,969,657), relates to amounts invoiced to regional official entities until 31 December, 2008, regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes Euros 28,422,217 (2007: Euros 27,718,976) related to public lightning.

The balance Rede Eléctrica Nacional, in the amount of Euros 3,716,994 (2007: Euros 500,999), refers to the tariff convergence for December 2008, monthly transferred to EEM.

The balance Public sector includes the amount of Euros 2,071,062 (2007: Euros 4,455,862) referring to VAT receivable and also the amount of Euros 76,007 (2007: Euros 4,122) 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 959,966 (2007: Euros 887,328) referring to loans granted to Companhia Logística de Combustíveis da Madeira, S.A., in accordance with the shareholders agreement.

As at 31 December, 2008, the movement in Impairment for doubtful debts is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Balance on 1 January	8,487,346	8,087,099	8,486,047	8,087,099
Charge for the year	538,562	400,247	538,384	398,948
Balance on 31 December	<u>9,025,908</u>	<u>8,487,346</u>	<u>9,024,431</u>	<u>8,486,047</u>

## 6 Inventories

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Goods	10,982,013	10,337,124	10,874,934	10,229,715
Raw materials	<u>4,141,073</u>	<u>6,310,801</u>	<u>4,141,073</u>	<u>6,310,801</u>
	15,123,086	16,647,925	15,016,007	16,540,516
Valuation adjustments	(322,423)	(322,423)	(255,173)	(255,173)
	<u>14,800,663</u>	<u>16,325,502</u>	<u>14,760,834</u>	<u>16,285,343</u>

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

## 7 Prepayments and accrued income

This balance is analysed as follows:

	Group		Individual	
	2008 Euros	2007 Euros	2008 Euros	2007 Euros
<b>Prepayments:</b>				
Pensions	4,134,009	5,512,013	4,134,009	5,512,013
Financial costs	2,307,960	2,522,432	2,307,960	2,522,432
Other	153,373	272,990	153,303	271,715
	<u>6,595,342</u>	<u>8,307,435</u>	<u>6,595,272</u>	<u>8,306,160</u>
<b>Accrued income:</b>				
Tariff compensation	44,711,077	26,211,712	44,711,077	26,211,712
Subsidies to operational activity	41,697,348	41,697,348	41,697,348	41,697,348
Energy sales	7,962,993	6,567,812	7,964,432	6,569,246
Other	244,182	136,146	244,182	138,275
	<u>94,615,600</u>	<u>74,613,018</u>	<u>94,617,039</u>	<u>74,616,581</u>
	<u>101,210,942</u>	<u>82,920,453</u>	<u>101,212,311</u>	<u>82,922,741</u>

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

The balance Financial costs includes an amount of Euros 2,258,960 (2007: Euros 2,448,932) of fees charged to EEM under the restructuring process of the Group's financial liabilities occurred in 2005, as referred in note 11.

The balance Tariff compensation, in the amount of Euros 44,711,077 (2007: Euros 26,211,712), corresponds to the difference between the amounts invoiced by EEM (based on the tariffs published by ERSE in December of the previous year) and the income calculated based on actual conditions. The tariff compensation will be received through the UGS tariff applicable to the client in the subsequent periods, and is analysed as follows:

	Group		Individual	
	2008 Euros	2007 Euros	2008 Euros	2007 Euros
Tariff compensation of 2006	6,027,640	21,786,640	6,027,640	21,786,640
Tariff compensation of 2007	3,874,282	4,425,072	3,874,282	4,425,072
Tariff compensation of 2008	34,809,155	-	34,809,155	-
	<u>44,711,077</u>	<u>26,211,712</u>	<u>44,711,077</u>	<u>26,211,712</u>

As at 31 December, 2007, this balance includes the amount related to the 2006 tariff compensation, to be received in 2008, in the amount of Euros 21,786,640. During 2008, it was received through the electric energy tariffs an amount Euros 15,759,000.

The balance Subsidies to operational activity, in the amount of Euros 41,697,348 (2007: Euros 41,697,348), results from the difference between the amounts recorded in the income statement from 1998 until 2002 and the amounts received regarding the same period, under the contract signed between EEM, the Central Government and the Regional Government, that establishes the payment of the debt in 40 quarterly instalments, as referred in note 1.3. Under this contract EEM received from the Central Government, during 2006, the amount of Euros 1,012,070 (including capital and interest), plus VAT at a rate of 4%. During 2007, ERSE reviewed the calculation model used by EEM to determine the initial compensation amount and determined, as at 31 December, 2007, a net compensation amount for the tariff convergence in that period in the amount of Euros 41,697,348, plus VAT at a rate of 4%. This review has originated a gain for EEM in the amount of Euros 1,861,917, as referred in note 21.

## 8 Share capital

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

## 9 Reserves and retained earnings

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Legal and statutory reserves	17,785,544	17,329,769	17,785,544	17,329,769
Other reserves	14,210,991	15,397,936	14,967,745	16,032,494
Retained earnings	57,809,397	52,513,749	57,052,643	51,879,191
	<u>89,805,932</u>	<u>85,241,454</u>	<u>89,805,932</u>	<u>85,241,454</u>

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

The balance Other reserves is related to revaluation reserves originated by the tangible assets legal revaluations performed by EEM, as referred in note 1.8, amounting to Euros 13,825,999 (2007: Euros 15,064,458).

Under the responsibilities foreseen by the Decree-Law no. 159/99, of 14 September, which establishes the legal framework for the transfer of competences to the local Municipalities and defines the competences of the Municipalities concerning the rural and urban public lightning, and in accordance with the “Lei das Finanças Locais”, the Municipalities of the Autonomous Region of Madeira approved, through Municipalities’ Assemblies, as of 1 January, 2006, the creation of a Municipalities Association. The responsibilities regarding the urban and rural public lightning were transferred to this Association, including the ability to collect an annual tax for the utilisation of the municipal public domain by the production equipment and by the electric energy transport and distribution networks of EEM (Municipal network tax).

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

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December, 2008, 2007 and 2006, costs related to the Municipal network tax in the total amount of Euros 19,423,485. In the same periods, and considering the assumption that the costs incurred with network rights are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.

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

## **I0 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 115,609 (2007: Euros 89,111).

## II Amounts owed to credit institutions

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

	Group		Individual	
	2008 Euros	2007 Euros	2008 Euros	2007 Euros
Short term loans	57,130,100	26,858,000	57,130,100	26,858,000
Foreign loans	269,603,619	260,000,000	269,603,619	260,000,000
Other loans	33,171,825	12,852,893	16,006,751	11,220,463
	<u>359,905,544</u>	<u>299,710,893</u>	<u>342,740,470</u>	<u>298,078,463</u>

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

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

During 2008, EEM obtained a loan from Barclays Capital Plc under which has granted as collateral CO2 licenses. As a result of this transaction, EEM has recognised a financial liability under the balance Foreign loan in the amount of Euros 9,603,619 which matures in 2012 and bears interest at a fixed interest rate of 3.479%.

As at 31 December, 2008, the balance Other loans includes a loan in the amount of Euros 7,706,752 (2007: Euros 9,900,752) with a ten year maturity, whose instalments are guaranteed by the future payments from the Regional Treasury Department, under the protocol with EEM for the debts regularization. In order to hedge the interest rate risk of this loan, EEM agreed in 2001 an option (cap) with a 10 years maturity, indexed to Euribor 6 month index. The premium is paid in half-yearly instalments of 0.29% in each interest payment date.

The balance Other loans also includes a loan obtained by Enereem in 2008 in the amount of Euros 15,940,752 which has a maturity of 15 years and bears interest at a Euribor 6 months interest rate plus a 0.50%.

## I2 Provision for liabilities and charges

The Provision for liabilities and charges is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Balance on 1 January	36,598,307	31,914,179	36,141,398	31,457,270
<b>Charge for the year:</b>				
For pension benefits	1,582,105	1,545,030	1,582,105	1,545,030
CO2 licenses	-	-	-	-
General economic risks	-	6,027,640	-	6,027,640
Other	-	-	12,858	-
<b>Amounts charged-off:</b>				
For pension benefits	(2,477,005)	(2,726,941)	(2,477,005)	(2,726,941)
CO2 licenses	-	(161,601)	-	(161,601)
Other	-	-	-	-
Balance on 31 December	<u>35,703,407</u>	<u>36,598,307</u>	<u>35,259,356</u>	<u>36,141,398</u>

This balance includes the provision for pension benefits as defined in the Company Agreement, in the amount of Euros 29,142,191 (2007: Euros 30,037,091), as referred in note 23.

In accordance with the Decree-Law no. 243-A/2004, of 31 December, in 2006 EEM has charged a provision in the amount of Euros 161,601 regarding the difference between the CO2 consumptions for the year and the CO2 licenses held as at 31 December, 2006, as referred in note 24. As at 31 December, 2008 and 2007, it was not charged any provision to face the CO2 consumptions, considering that the CO2 licenses held are sufficient to face the year consumptions.

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

## I3 Deferred tax

The balance Deferred tax includes the amount of deferred tax liabilities related to non-realised legal revaluations performed by EEM, considering that 40% of the depreciations to recognise in the future are not accepted as fiscal cost. The deferred tax liabilities reverted during 2008 amounts to Euros 107,692 (2007: Euros 297,996).



## I4 Suppliers and other creditors

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Suppliers	37,631,176	36,130,066	37,612,577	36,007,706
Suppliers of tangible assets	15,212,175	8,660,899	11,111,034	8,645,214
Instituto do Ambiente	8,910,725	2,026,138	8,910,725	2,026,138
Public sector	942,846	2,891,361	940,861	2,901,357
Other creditors	4,005,027	3,913,478	5,002,012	3,912,887
	<u>66,701,949</u>	<u>53,621,942</u>	<u>63,577,209</u>	<u>53,493,302</u>

The balance Suppliers includes mainly fuel and electric energy suppliers.

At 31 December, 2008, the balance Suppliers of tangible assets mainly includes debts to Siemens, Energetus and Wartsila, under the investments performed by EEM to improve and extend several substations and to construct a new group in “Central Térmica de Porto Santo”, as well as amounts owed to Vestas and Indutora regarding the acquisition of equipments for the Pedras and Loiral wind farms construction.

The balance Instituto do Ambiente refers to the CO<sub>2</sub> consumption liability realised by EEM under the development of its operational activity, as referred is note I.17.

The balance Public sector is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Consumption fee	28,710	2,023,321	28,710	2,023,321
Social security	603,644	569,564	603,186	569,072
Income tax payable	-	-	-	16,343
Other	310,492	298,476	308,965	292,621
	<u>942,846</u>	<u>2,891,361</u>	<u>940,861</u>	<u>2,901,357</u>

The balance Consumption fee refers to the amounts invoiced to clients resulting from the electric infrastructures usage and exploration, in accordance with the Decree-Law no. 4/93, of 8 January. During 2008, EEM delivered to the Regional Government the amounts collected in previous years, amounting to Euros 2,166,219.

The balance Other creditors includes the mandatory guarantee deposits received from electricity consumers, in the amount of Euros 2,463,920 (2007: Euros 3,713,780).

## I5 Accruals

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Municipal network tax	6,967,563	6,428,282	6,967,563	6,428,282
Holiday pay and subsidies	3,844,072	3,719,100	3,841,117	3,716,250
Interest payable	2,211,708	2,488,745	2,155,242	2,464,251
Other liabilities	4,535,142	1,146,731	4,611,550	1,164,365
	<u>17,558,485</u>	<u>13,782,858</u>	<u>17,575,472</u>	<u>13,773,148</u>

The balance Municipal network tax refers to the 2008 local tax rate owed by EEM related to the usage of the regional public domain. The tax rate was fixed in 7.5% of the annual sales amount of low tension electric energy in each Municipality, in accordance with Regional Decree-Law no. 2/2007/M, of 8 January, which produces effects starting on 1 January, 2006.

The balance Other liabilities includes the amount of Euros 3,983,304 related to the accrual of assets under construction. Additionally, in this balance is recorded the amount of Euros 42,922 (2007: Euros 377,179) related to energy supply from independent producers to EEM.

## 16 Deferred income

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Investment subsidies:</b>				
Plano Operacional Plurifundos ("POP-RAM")	16,038,184	18,912,191	16,038,184	18,912,191
Socorridos Project	13,808,911	14,342,723	13,808,911	14,342,723
Clients comparticipation	6,579,893	6,455,086	6,579,893	6,455,086
Network reinforcement projects	2,044,784	1,750,321	2,044,784	1,750,321
Fundo Europeu de Desenvolvimento Regional ("FEDER")	411,140	908,278	411,140	908,278
Sit-Geo Project	310,805	251,341	310,805	251,341
SIURE Project	303,997	337,547	113,317	123,828
Other investment subsidies received	214,902	145,424	214,902	145,424
	<u>39,712,616</u>	<u>43,102,911</u>	<u>39,521,936</u>	<u>42,889,192</u>
Other deferred income	771,809	777,155	771,809	777,155
	<u>40,484,425</u>	<u>43,880,066</u>	<u>40,293,745</u>	<u>43,666,347</u>

Subsidies from governmental and communitarian entities are granted in order to finance the acquisition or construction of fixed assets. These amounts are accounted as a liability, being recognised in the income statement during the useful life of the assets, as referred in note 1.11.

The balance Clients comparticipation, in the amount of Euros 6,579,893 (2007: Euros 6,455,086), refers to construction works invoiced to clients, which are accounted as fixed assets. The accounting treatment of these amounts is identical to investment subsidies.

The balance Other deferred income, in the amount of Euros 771,809 (2007: Euros 784,203), includes the amount of Euros 571,809 (2007: Euros 377,154) related to "Plano de Promoção de Desempenho Ambiental".

## I7 Sales and cost of sales

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Sales:</b>				
Energy	110,353,316	101,391,774	110,370,038	101,408,686
Tariff compensation	60,508,098	40,334,914	60,508,098	40,334,914
Low tension tariff deficit	-	3,099,093	-	3,099,093
Other	356,906	618	356,647	-
	<u>171,218,320</u>	<u>144,826,399</u>	<u>171,234,783</u>	<u>144,842,693</u>
<b>Cost of sales:</b>				
Raw material	89,208,707	67,564,639	90,098,807	68,379,364
Goods	12,476,888	11,937,980	12,476,558	11,937,248
	<u>101,685,595</u>	<u>79,502,619</u>	<u>102,575,365</u>	<u>80,316,612</u>

The balance Tariff compensation includes the amounts attributed to EEM related with the 2008 tariff convergence, in the amount of Euros 42,580,908, and the tariff compensation arising from the calculation of the income considering the actual terms for 2006, 2007 and 2008 which include the positive amount of Euros 34,010,090 and the negative amount of Euros 16,082,900, as mentioned in note 7.

As at 31 December, 2007, the balance Low tension tariff deficit corresponds to the amounts received from REN during 2007, 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 2007 private consumption, as stipulated in Article no. 121 of the Tariff Regulation in force at that date.

## 18 Other operating income

This balance is analysed as follows:

	Group		Individual	
	2008 Euros	2007 Euros	2008 Euros	2007 Euros
Own work capitalised	21,834,011	21,648,209	21,834,011	21,648,209
CO2 licenses	11,264,355	1,929,648	11,264,355	1,929,648
Services rendered	222,293	280,413	144,200	193,863
Supplementary profits	195,696	311,303	198,077	309,826
	<u>33,516,355</u>	<u>24,169,573</u>	<u>33,440,643</u>	<u>24,081,546</u>

The balance CO2 licenses refers to the subsidy amortisation that results from the freely attributed CO2 licenses, as referred in note 1.17.

## 19 Other operating costs

This balance is analysed as follows:

	Group		Individual	
	2008 Euros	2007 Euros	2008 Euros	2007 Euros
CO2 licenses	8,910,725	2,026,138	8,910,725	2,026,138
Municipal network tax	6,967,563	6,428,282	6,967,563	6,428,282
Other operating costs	1,039,188	996,355	1,026,081	982,332
	<u>16,917,476</u>	<u>9,450,775</u>	<u>16,904,369</u>	<u>9,436,752</u>

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

The balance Municipal network tax refers to the 2008 local tax rate owed by EEM, as referred in note 15.

## 20 Financial income/(costs)

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
<b>Financial costs:</b>				
Interest	(16,656,785)	(15,582,865)	(16,576,649)	(15,496,824)
Commissions and other financial costs	(515,253)	(733,248)	(502,275)	(720,186)
	<u>(17,172,038)</u>	<u>(16,316,113)</u>	<u>(17,078,924)</u>	<u>(16,217,010)</u>
<b>Financial income:</b>				
Interest	1,342,002	2,647,345	1,338,693	2,647,345
Other	2,060,519	491,302	764,519	489,944
	<u>3,402,521</u>	<u>3,138,647</u>	<u>2,103,212</u>	<u>3,137,289</u>
	<u>(13,769,517)</u>	<u>(13,177,466)</u>	<u>(14,975,712)</u>	<u>(13,079,721)</u>

As at 31 December, 2007, the balance Interest income included the gain arising from the financial operation for the transmission of the right to receive the 2006 and 2007 tariff convergence, in the amount of Euros 809,961.

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

## 21 Other income

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Investments subsidies	4,689,231	4,754,814	4,666,193	4,731,776
Tariff convergence revaluation (note 7)	-	1,861,917	-	1,861,917
Gains from the sale of fixed assets	69,370	496,844	69,370	496,844
Other income	316,257	242,210	294,784	238,582
	<u>5,074,858</u>	<u>7,355,785</u>	<u>5,030,347</u>	<u>7,329,119</u>

The balance Other income includes the depreciation charge for the year, in the amount of Euros 42,614 (2007: Euros 11,380), related with the comparticipation attributed by ERSE, under the “Plano de Promoção de Desempenho Ambiental”.

## 22 Income taxes

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>2008 Euros</b>	<b>2007 Euros</b>	<b>2008 Euros</b>	<b>2007 Euros</b>
Current tax	953,490	1,229,765	642,592	1,159,329
Deferred tax	(107,692)	(297,996)	(107,692)	(297,996)
	<u>845,798</u>	<u>931,769</u>	<u>534,900</u>	<u>861,333</u>

The balance Deferred tax corresponds to the deferred tax liability reversed under the legal revaluations performed by EEM, as referred in note 13.

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2008 and 2007, is analysed as follow:

	<b>2008</b>			<b>2007</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	20.00%	4,632,325	926,465	22.5%	5,500,303	1,237,568
Non-deductible provisions for tax purposes	2.09%	483,103	96,621	0.85%	206,874	46,547
Tax benefits	(1.03%)	(239,600)	(47,920)	(1.22%)	(299,366)	(67,357)
Non-deductible tax losses	0.09%	20,302	4,060	0.66%	161,417	36,319
Equity on associates	(2.19%)	(506,784)	(101,357)	(2.07%)	(505,570)	(113,753)
Tax-exempt dividends	(1.31%)	(304,070)	(60,814)	(1.00%)	(243,256)	(54,733)
Difference between the tax and accounting gains and losses	0.00%	(269)	(54)	(1.02%)	(248,508)	(55,914)
Autonomous taxation (*)	0.79%	181,964	36,393	0.43%	105,007	23,627
Changes in estimates	(0.09%)	(20,136)	(4,027)	0.39%	96,365	21,682
Depreciation without tax consequences	0.00%	296	59	(2.76%)	(674,904)	(151,853)
Other adjustments	(0.08%)	(18,143)	(3,628)	0.18%	42,828	9,636
	<u>18.26%</u>	<u>4,228,988</u>	<u>845,798</u>	<u>16.94%</u>	<u>4,141,190</u>	<u>931,769</u>

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

## 23 Pensions

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

As at 31 December, 2008 and 2007, the number of participants covered by this pension plan is analysed as follows:

	2008	2007
<b>Number of participants:</b>		
Employees	79	84
Pre-pensioners	32	38
Pensioners	219	209
	<u>330</u>	<u>331</u>

As at 31 December, 2008 and 2007, the liabilities for past services associated to the pension plan were the following:

	2008 Euros	2007 Euros
<b>Evolution of liabilities:</b>		
Liabilities at the beginning of the year	34,626,011	35,662,317
Current service cost	294,165	304,710
Interest cost	1,644,736	1,693,960
Benefits paid	(2,477,005)	(2,726,941)
Actuarial gains and losses	(173,239)	(308,035)
Liabilities at the end of the year	<u>33,914,668</u>	<u>34,626,011</u>

During 2008, the evolution of liabilities results, essentially, from the reduction of the number of pre-pensioners covered by this pension plan. This change results in a reduction of liabilities since EEM will only support the difference between the retirement pension for limit of age or disability attributed by the Social Security and the last salary received by the employee.



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

	2008 Euros	2007 Euros
<b>Liabilities as at 31 December</b>		
Employees	10,912,204	11,012,103
Pre-pensioners	7,344,947	8,726,786
Pensioners	15,657,517	14,887,122
<b>Liabilities to be covered</b>	33,914,668	34,626,011
Insurance coverage	(4,772,477)	(4,588,920)
Provisions charged	(29,142,191)	(30,037,091)
Liabilities not covered	-	-

During 2008, EEM has accounted as pension costs an amount of Euros 2,960,109 (2007: Euros 2,923,034), which are analysed as follows:

	2008 Euros	2007 Euros
<b>Cost for the year:</b>		
Current service cost	294,165	304,710
Interest costs	1,644,736	1,693,960
Actuarial gains and losses	(173,239)	(308,035)
Return on plan assets	(183,557)	(145,605)
Amortisation of deferred past services liabilities	1,378,004	1,378,004
Net cost for the year	2,960,109	2,923,034

During 2008, based on the actuarial valuation and in accordance with the accounting principles defined in the Accounting Rule no. 19, EEM charged the provision for pensions in the amount of Euros 1,582,104 (2007: Euros 1,545,030).

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

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

	2008	2007
<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

## 24 CO2 licenses

The CO2 licenses for consumption movements are analysed as follows:

	Dec 2008		Dec 2007	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	22,464	0.10	(34,972)	4.62
Licenses canceled (attributed on PNALE I)	(22,464)	0.10	-	-
Licenses freely attributed	577,419	20.71	350,845	5.50
Licenses acquired	288,000	18.65	147,000	1.77
Licenses sold	(373,000)	20.71	-	-
	492,419		462,873	
Licenses to return regarding the year consumption	(458,909)		(440,409)	
Excess / (Insufficiency) of licenses	33,510	20.71	22,464	0.10
Assets / (Liabilities) – Euros	693,992		-	

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

During 2008, EEM purchased 288,000 tons of CER by a price of 18.65 €/ton, under a transaction in which has swapped EUA by CER, as referred in note 3. Additionally, during 2008, EEM sold 373,000 tons of EUA freely attributed, and has recorded a net gain in the amount of Euros 58,320.

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

## 25 Related parties

### Balances and transactions with subsidiaries, associated companies and other investments

During 2008, the balances and transactions between EEM and its subsidiaries, associated companies and other investments are analysed as follows:

	Asset				Liability		
	Clients	Other debtors	Accrued income	Loans granted	Others creditors	Accruals	Loans obtained
Enereem	-	-	-	19,639	-	(111,005)	-
Museu - Casa da Luz	-	379,355	1,426	2,096,128	-	-	-
Emacom	69	-	13	-	-	-	(1,000,000)
Teleféricos da Madeira, S.A.	38,953	-	4,797	-	(4,954)	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	10,264	-	13,988	959,966	(13,738)	-	-
	<u>49,286</u>	<u>379,355</u>	<u>20,224</u>	<u>3,075,733</u>	<u>(18,692)</u>	<u>(111,005)</u>	<u>(1,000,000)</u>

	Transactions				
	Turnover	Other operating income	Financial income	Cost of sales	Supplies and services
Enereem	-	-	-	890,101	-
Museu - Casa da Luz	(16,651)	-	-	-	28,180
Emacom	(71)	(2,382)	-	-	92,055
Teleféricos da Madeira, S.A.	(60,715)	-	(29,474)	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	(136,865)	-	(72,638)	-	5,871
	<u>(214,302)</u>	<u>(2,382)</u>	<u>(102,112)</u>	<u>890,101</u>	<u>126,106</u>

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

### Shareholders

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

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

### i) Casa da Luz - Empreendimentos Turísticos Similares, Unipessoal, Lda. Balance Sheet as at 31 December, 2008 and 2007

	2008 Euros	2007 Euros
<b>Assets</b>		
Tangible assets	2,353,927	2,460,245
Investments	115,609	89,111
Clients and other debtors	23,758	20,633
Inventories	39,829	40,159
Deferred costs	70	202
Cash and deposits at banks	3,509	4,001
Total Assets	2,536,702	2,614,351
<b>Quotaholders' Equity</b>		
Quota capital	99,760	99,760
Supplementary capital contributions	2,096,394	2,096,394
Reserves and retained earnings	(2,067,520)	(1,931,548)
Net loss for the year	(141,492)	(142,697)
Total Quotaholders' Equity	(12,858)	121,909
<b>Liabilities</b>		
Quotaholders	2,156,128	2,101,731
Suppliers and other creditors	386,552	383,947
Other liabilities	6,880	6,764
Total Liabilities	2,549,560	2,492,442
	2,536,702	2,614,351



**ii) Casa da Luz - Empreendimentos Turísticos Similares, Unipessoal, Lda.**  
**Income Statement for the years ended 31 December, 2008 and 2007**

	2008 Euros	2007 Euros
<b>Operating income</b>		
Sales	258	618
Other operating income	37,513	36,703
	<u>37,771</u>	<u>37,321</u>
<b>Operating costs</b>		
Cost of sales	330	732
Personnel costs	23,757	24,177
Supplies and services	58,218	38,584
Depreciation and adjustments	120,371	124,610
Other operating costs	1,325	894
	<u>204,001</u>	<u>188,997</u>
Operating loss	(166,230)	(151,676)
<b>Other income/(costs)</b>		
Financial income/(costs)	26,373	10,690
Other income	9	96
Other costs	(1,259)	(1,419)
	<u>25,123</u>	<u>9,367</u>
Income before income taxes	(141,107)	(142,309)
Income taxes	385	388
Net loss for the year	<u>(141,492)</u>	<u>(142,697)</u>

**iii) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.**  
**Balance Sheet as at 31 December, 2008 and 2007**

	2008 Euros	2007 Euros
<b>Assets</b>		
Tangible assets	139,276	105,101
Loans to subsidiaries	1,456,910	456,909
Clients and other debtors	52,987	152,172
Deferred costs	-	1,074
Cash and deposits at banks	199,087	5,246
Total Assets	<u>1,848,260</u>	<u>720,502</u>
<b>Quotaholders' Equity</b>		
Quota capital	49,880	49,880
Supplementary capital contributions	1,000,000	1,000,000
Reserves and retained earnings	(981,032)	(954,810)
Net loss for the year	1,041,506	(26,222)
Total Quotaholders' Equity	<u>1,110,354</u>	<u>68,848</u>
<b>Liabilities</b>		
Provision for liabilities and charges	456,909	456,909
Quotaholders	-	175,000
Suppliers and other creditors	280,944	16,982
Other liabilities	53	2,763
Total Liabilities	<u>737,906</u>	<u>651,654</u>
	<u>1,848,260</u>	<u>720,502</u>



**iv) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.**  
**Income Statement for the years ended 31 December, 2008 and 2007**

	2008 Euros	2007 Euros
<b>Operating income</b>		
Services rendered	160,815	147,205
	<u>160,815</u>	<u>147,205</u>
<b>Operating costs</b>		
Supplies and services	164,241	155,954
Depreciation and adjustments	15,868	13,462
Other operating costs	7,613	7,659
	<u>187,722</u>	<u>177,075</u>
Operating loss	(26,907)	(29,870)
<b>Other income/(costs)</b>		
Financial income/(costs)	1,296,714	733
Other income	-	3,532
Other costs	(785)	-
	<u>1,295,929</u>	<u>4,265</u>
Income before income taxes	1,269,022	(25,605)
Income taxes	227,516	617
Net profit for the year	<u>1,041,506</u>	<u>(26,222)</u>

**v) Enereem - Energias Renováveis, Lda.**  
**Balance Sheet as at 31 December, 2008 and 2007**

	2008 Euros	2007 Euros
<b>Assets</b>		
Tangible assets	22,392,842	6,068,099
Intangible assets	-	4,171
Clients and other debtors	589,121	333,657
Accrued income	111,005	54,517
Cash and deposits at banks	17,499	16,974
Total Assets	<u>23,110,467</u>	<u>6,477,418</u>
<b>Quotaholders' Equity</b>		
Quota capital	49,880	49,880
Supplementary capital contributions	800,000	800,000
Reserves and retained earnings	338,269	194,508
Net profit for the year	353,304	143,761
Total Quotaholders' Equity	<u>1,541,453</u>	<u>1,188,149</u>
<b>Liabilities</b>		
Amounts owed to credit institutions	17,165,074	1,632,430
Quotaholders	19,639	3,173,596
Suppliers and other creditors	4,105,099	211,189
Other liabilities	88,522	58,335
Deferred income	190,680	213,719
Total Liabilities	<u>21,569,014</u>	<u>5,289,269</u>
	<u>23,110,467</u>	<u>6,477,418</u>





**vi) Enereem - Energias Renováveis, Lda.**

**Income Statement for the years ended 31 December, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
	<b>Euros</b>	<b>Euros</b>
<b>Operating income</b>		
Sales	890,101	814,725
Other operating income	-	3,596
	<u>890,101</u>	<u>818,321</u>
<b>Operating costs</b>		
Supplies and services	78,991	193,816
Depreciation and re-integration of the period	324,749	330,495
Other operating costs	4,168	5,470
	<u>407,908</u>	<u>529,781</u>
Operating income	482,193	288,540
<b>Other income/(costs)</b>		
Financial income/(costs)	(90,393)	(98,387)
Other income	44,501	23,039
Other costs	-	-
	<u>(45,892)</u>	<u>(75,348)</u>
Income before income taxes	436,301	213,192
Income taxes	82,997	69,431
Net profit for the year	<u><u>353,304</u></u>	<u><u>143,761</u></u>







**KPMG & Associados - Sociedade de Revisores  
Oficiais de Contas, S.A.**  
Edifício Monumental  
Av. Praia da Vitória, 71 - A, 11º  
1069-006 Lisboa  
Portugal

Telefone: +351 210 110 000  
Fax: +351 210 110 121  
Internet: [www.kpmg.pt](http://www.kpmg.pt)

## CONSOLIDATED AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR)

(This report is a free translation to English from the original Portuguese version)

### Introduction

1. We have audited the consolidated financial statements of **EEM – Empresa de Electricidade da Madeira, S.A.**, which comprise the consolidated balance sheet as at 31 December, 2008 (showing total assets of 635,142,523 euros and total equity attributable to the equity holders of the group of 113,565,961 euros, including a net profit of 3,760,029 euros), the consolidated income statement by nature and by function, the consolidated cash flows statement and the consolidated statement of changes in shareholders' equity for the year then ended, and the corresponding Notes.

### Responsibilities

2. The Board of Directors is responsible for the preparation of consolidated financial statements that present fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results of their operations and the consolidated cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.
3. Our responsibility is to express a professional and independent opinion on those consolidated financial statements.

### Scope

4. Except for the matters referred to in paragraphs 7, 8.2 and 9 below, we conducted our audit 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. For this purpose our audit 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 their preparation;
  - verification of the consolidation procedures and the application of the equity method;
  - the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
  - the assessment of the applicability of the going concern basis of accounting; and
  - the assessment of the adequacy of the overall presentation of the consolidated financial statements.

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

KPMG & Associados - S.R.O.C., S.A.  
Capital Social: 2.840.000 Euros - Pessoa Colectiva N.º  
PT 502 161 078 - Inscrito na O.R.O.C. N.º 189 -  
Inscrito na C.M.V.M. N.º 9093

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



5. Our audit also included the verification that the financial information included in the Board of Directors Report is consistent with the consolidated financial statements presented.
6. We believe that our audit provides a reasonable basis for our opinion.

#### Qualifications

7. EEM booked under Clients and other debtors the amount of 102,299,130 euros (2007: 102,315,049 euros) related to public lightning and other services rendered to regional official entities.

This amount includes 43,971,463 euros (2007: 46,345,392 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 2008, 2,373,929 euros and, in previous years, 15,565,315 euros. Due to the terms of the protocols above mentioned, the present value of these debts is substantially lower than its nominal value. At the date of this Auditors' Report, EEM had not yet determined the present value of these debts and the resulting effect in the shareholders' equity and the net profit for the year.

The remaining debt from regional official entities, in the amount of 58,327,667 euros (2007: 55,969,657 euros), does not have an established payment plan. Due to the materiality and the overdue period of these amounts, despite being owed by official entities, it is not possible to estimate when these amounts will be received.

8. Under the responsibilities foreseen by the Decree-Law n.º 159/99, of 14 September, which establishes the legal framework for the transfer of competences to the local Municipalities and defines the competences of the Municipalities concerning the rural and urban public lightning, and in accordance with the "Lei das Finanças Locais", the Municipalities of the Autonomous Region of Madeira approved, through Municipalities' Assemblies, as of 1 January, 2006, the creation of a Municipalities Association. The responsibilities regarding the urban and rural public lightning were transferred to this Association, including the ability to collect an annual tax for the utilisation of the municipal public domain by the production equipment and by the electric energy transport and distribution networks of EEM (Municipal network tax).

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

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December, 2008, 2007 and 2006, costs related to the Municipal network tax in the total amount of 19,423,485 euros. In the same periods, and considering the assumption that the costs incurred with network rights are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.



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

As at 31 December, 2008, the assets and liabilities of EEM are overstated in the amount of 6,027,640 euros, considering that the referred provision should be presented as a reduction to the corresponding asset.

- 8.2** During 2008, and as mentioned in the ERSE document “Ajustamentos referentes a 2007 e 2008 a repercutir em 2009”, of December 2008, ERSE considers that the amount of the Municipal network tax paid in 2007 and 2008 is owed to EEM, and should be charged to Autonomous Region of Madeira consumers and not supported on an equitable basis by the Continental and Autonomous Region of Madeira consumers. Considering the EEM's different interpretation, which considers that this tax should be charged to all national consumers, ERSE has accepted EEM's proposal and has not included the Municipal network tax in the 2009 tariffs for the Autonomous Region of Madeira consumers.

At the date of this Auditors' Report, the measures and mechanisms that will ensure the recovery of the assets arising from the Municipal network tax of 2007 and 2008 are not defined and implemented, therefore, it is not possible to estimate when these payments will occur and the impact, if any, in EEM shareholders' equity and net profit for the year as at 31 December, 2008.

- 9.** 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 compensation amount owed to EEM and defined by ERSE during 2007 arises to 41,697,348 euros, plus VAT at a rate of 4%, payable in 40 quarterly instalments without interest, beginning in 2004. The instalments overdue bear interest at a Euribor 12 month's interest rate, determined based on the average rate for the thirty days after the date the instalment is due.

During the period ended 31 December, 2008, the “Tribunal de Contas” (Court of Auditors) confirmed, through the “Parecer sobre a Conta Geral do Estado de 2007”, the existence of an amount payable to EEM in the amount of 16.8 million euros, which accrues interest under the terms of the referred contract.

At the date of this Auditors' Report, it is not possible to estimate when these payments will occur and the impact, if any, in EEM shareholders' equity and net profit for the year as at 31 December, 2008.





### Qualified opinion

10. In our opinion, except for the effect of such adjustments, if any, that might result from the matters described in paragraphs 7, 8.2 and 9 above, and except for the effect of the matter described in paragraph 8.1 above, the consolidated financial statements referred above, present fairly, in all material respects, the consolidated financial position of **EEM - Empresa de Electricidade da Madeira, S.A.** as at 31 December, 2008, the consolidated results of its operations and cash flows for the year then ended, in accordance with the generally accepted accounting principles in Portugal.

### Emphasis of matter

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

As at 25 March, 2002, Decree-Law n.º 69/2002 was published, which extended to the Autonomous Regions of Azores and Madeira the regulation exercised by ERSE. During 2002, ERSE adjusted the regulation framework for the electric sector, namely the Tariff Regulation, in order to extend its application to the Autonomous Regions, seeking a progressive standardization of tariffs in Portugal starting on 1 January, 2003, under the principles of tariff convergence and financial stability of regulated entities. However, at this date specific legislation is still being prepared, which will allow the regulated entities to achieve the objective of financial stability.

As at 31 December, 2008, resulting from the tariffs reduction process, the receivables from the Central Government, as referred in paragraph 9 of the Qualifications, are still outstanding.

There are also additional receivables regarding public lightning and other services and Municipal network tax, as referred in paragraph 7 and 8 of the Qualifications. Therefore, the going concern of EEM depends on the collection of debts receivable 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 seek the regularization of the amounts owed by regional official entities.

Lisbon, 31 March, 2009

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**KPMG & Associados**  
**Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)**  
 represented by  
 Jean-éric Gaign (Statutory Auditor n.º 1013)







## MINUTE NUMBER SEVENTEEN

- «On the twenty and two day of May of two thousand and nine at fifteen o'clock in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and 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 2008;
- 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 2008 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 3 760 028,77 €:

Retained earnings –	3 384 025,89 €
Statutory reserve –	376 002,88 €

- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.
- Regarding point three, the Autonomous Region of Madeira, single shareholding entity, represented by Dr. Paulo Jorge Figueiroa de França Gomes reaffirmed its confidence in the board of the company and in its fiscal supervisors.
- After the mentioned proposal was presented, it was determined to approve them unanimously.
- As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»



## MINUTE NUMBER EIGHTEEN

- «On the twenty and two day of May of two thousand and nine at approximately thirty minutes past fifteen in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and 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 2008 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 2008 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 3 760 028,77 €:

Retained earnings –	3 384 025,89 €
Statutory reserve –	376 002,88 €

- 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.»





