



**RELATÓRIO E CONTAS**  
*ANNUAL REPORT*

**2013**

EMPRESA DE ELECTRICIDADE DA MADEIRA

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**Note to reader:**

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



## Board of Directors



From left to right:

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

Rui Alberto Faria Rebelo (Chairman of the Board)

Mário Eugénio Jardim Fernandes (Board Member)

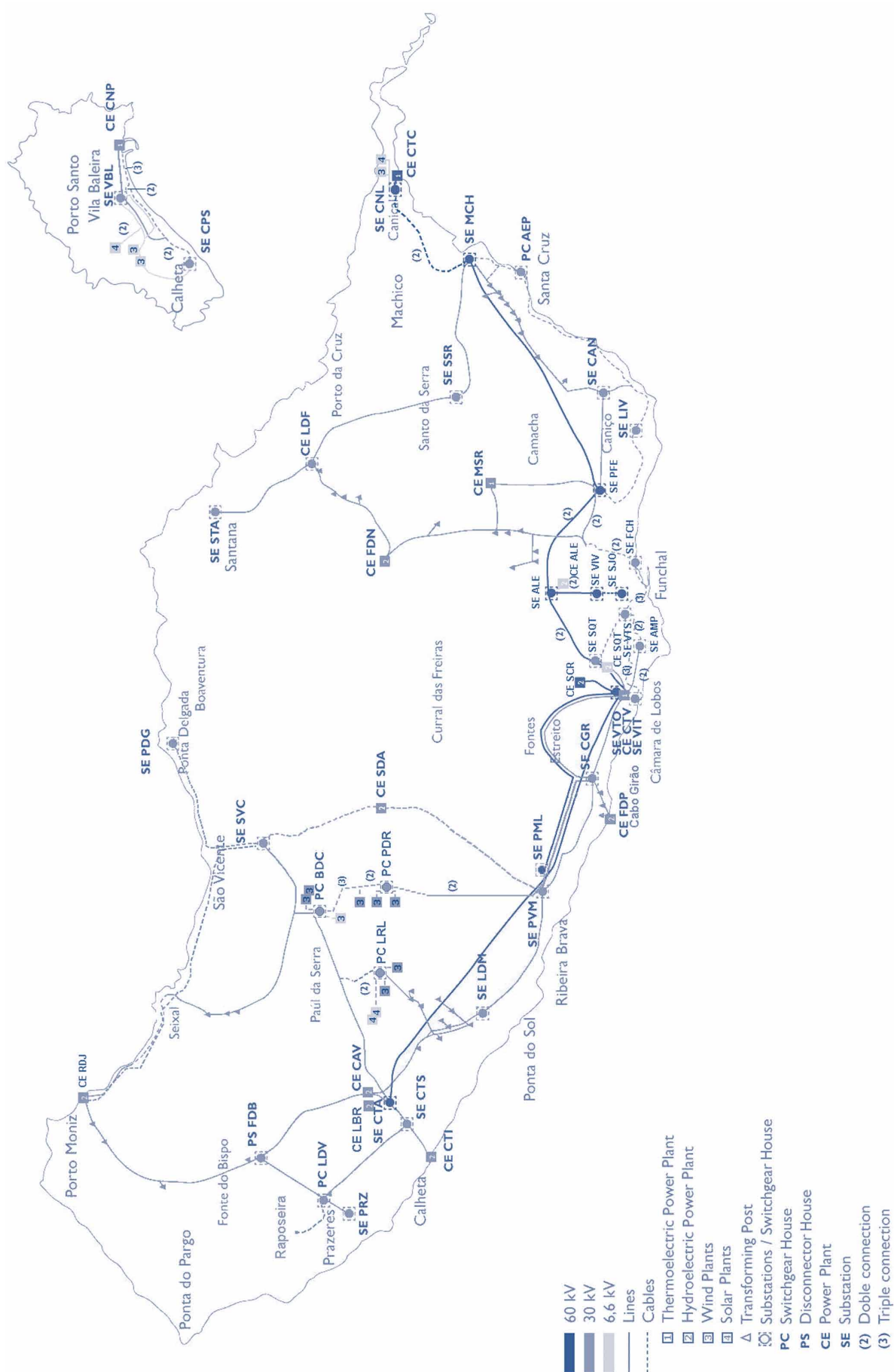


## Organigram

General Assembly		Statutory Auditor	
Maria de Fátima F. Freitas (President) Rui Antero F. Pestana (Vice-President) Ana Cristina Dantas Andrade (Secretary)		KPMG & Associados, SROC, S.A.	
Board of Directors			
Rui Alberto Faria Rebelo (Chairman of the Board) João Heliodoro da Silva Dantas (Vice-Chairman of the Board) Mário Eugénio Jardim Fernandes (Board Member)			
Advising/Consulting		General Directorate	
João Pedro Sousa		Armindo Santos	
D.S.P. Directorate of Studies and Planning	D.P.S. Directorate of Production Services	D.T.S. Directorate of Transmission Services	D.D.S. Directorate of Distribution Services
Agostinho Figueira	Pontes Leça	José Cotrim	Duarte Afonso
D.C.S. Directorate of Const. Services	D.L.J.S. Directorate of Labour & Judicial Serv.	D.I.S. Directorate of IT Systems	P.S.D. Porto Santo Division
António Marrana	Ana Cristina Dantas	António Nunes	Duarte Afonso

# Characteristic Data

## Transmission Network



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

GWh	2009	2010	2011	2012	2013
<b>Madeira Island</b>	<b>673.52</b>	<b>616.70</b>	<b>584.14</b>	<b>535.67</b>	<b>495.08</b>
Hydroelectric	135.49	126.70	116.08	70.90	71.76
Thermoelectric (Vitória)	538.03	490.00	468.06	464.77	423.33
<b>Porto Santo Island</b>	<b>37.58</b>	<b>32.82</b>	<b>29.62</b>	<b>27.94</b>	<b>27.28</b>
Thermoelectric	36.93	32.18	29.49	27.85	26.99
Wind Plants	0.65	0.63	0.13	0.09	0.29
<b>Total RAM</b>	<b>711.09</b>	<b>649.52</b>	<b>613.76</b>	<b>563.61</b>	<b>522.36</b>

Note: RAM - Autonomous Region of Madeira

### Electric energy acquisition - Other entities

GWh	2009	2010	2011	2012	2013
<b>Madeira Island</b>	<b>266.96</b>	<b>308.24</b>	<b>317.88</b>	<b>334.61</b>	<b>333.59</b>
Hydroelectric	4.65	5.00	5.11	4.20	4.95
Wind Plants	36.90	67.33	71.49	82.62	81.71
Thermoelectric (Canical)	188.60	194.85	193.34	192.40	192.12
Waste*	36.51	39.41	34.27	27.72	25.71
Photovoltaics**	0.29	1.65	13.67	27.68	29.10
<b>Porto Santo Island</b>	<b>1.18</b>	<b>3.80</b>	<b>4.39</b>	<b>3.88</b>	<b>3.69</b>
Wind Plants	1.17	1.31	0.97	0.75	0.59
Photovoltaics**	0.01	2.49	3.42	3.13	3.10
<b>Total RAM</b>	<b>268.13</b>	<b>312.05</b>	<b>322.27</b>	<b>338.50</b>	<b>337.27</b>

\*Solid Waste Incineration

\*\*Including PRE ("special power generation" Dec-Law 312/2001), microgeneration (Dec-Law 363/2007) and minigeneration (D-Law 34/2011)

### RAM's energy balance - 2013

GWh	Net Demand	Billing
Madeira Island	820.26	748.73
Porto Santo Island	28.56	27.48
<b>Total RAM</b>	<b>848.82</b>	<b>776.21</b>

### Substations

	2009	2010	2011	2012	2013
<b>Madeira Island</b>					
Number	28	28	28	28	29
Installed power (MVA)	528	533	533	533	583
<b>Porto Santo Island</b>					
Number	3	3	3	3	3
Installed power (MVA)	18	18	20	20	20
<b>Total RAM</b>					
Number	31	31	31	31	32
Installed power (MVA)	546	551	553	553	603

## Transforming Posts

	2009	2010	2011	2012	2013
<b>Madeira Island</b>					
Number	1,656	1,667	1,677	1,659	1,664
Installed power (MVA)	716	723	731	722	726
<b>Porto Santo Island</b>					
Number	93	92	91	94	88
Installed power (MVA)	35	34	34	35	34
<b>Total RAM</b>					
Number	<b>1,749</b>	<b>1,759</b>	<b>1,768</b>	<b>1,753</b>	<b>1,752</b>
Installed power (MVA)	<b>751</b>	<b>757</b>	<b>765</b>	<b>757</b>	<b>759</b>

## Transmission and Distribution Network - RAM

Km	2009	2010	2011	2012	2013
<b>Low Voltage Network</b>	<b>3,914</b>	<b>3,924</b>	<b>3,952</b>	<b>3,959</b>	<b>3,973</b>
Overhead lines	3,007	2,999	3,003	3,001	2,998
Underground cables	906	925	948	958	975
<b>6,6 kV Network</b>	<b>1,287</b>	<b>1,316</b>	<b>1,322</b>	<b>1,324</b>	<b>1,322</b>
Overhead lines	539	532	523	520	515
Underground cables	748	784	798	804	806
<b>30 kV Network</b>	<b>392</b>	<b>400</b>	<b>401</b>	<b>401</b>	<b>399</b>
Overhead lines	245	250	250	251	249
Underground cables	147	150	150	150	150
<b>60 kV Network</b>	<b>79</b>	<b>74</b>	<b>74</b>	<b>74</b>	<b>74</b>
Overhead lines	69	64	64	64	64
Underground cables	10	10	10	10	10
<b>Total RAM</b>	<b>5,672</b>	<b>5,714</b>	<b>5,749</b>	<b>5,758</b>	<b>5,768</b>

## Commercial Data

	2009	2010	2011	2012	2013
<b>Madeira Island</b>					
Number of Consumers	<b>130,786</b>	<b>131,962</b>	<b>132,782</b>	<b>132,555</b>	<b>131,905</b>
Consumption (GWh)	<b>842.00</b>	<b>830.80</b>	<b>812.85</b>	<b>786.53</b>	<b>748.73</b>
Households and Agriculture	265.25	265.64	261.69	249.10	239.21
Services and Commerce	364.32	349.46	344.61	334.89	317.42
Public Services	60.81	61.29	55.97	53.64	52.85
Industry	70.80	69.63	68.90	72.18	60.68
Public Lighting	80.82	84.78	81.68	76.72	78.57
<b>Porto Santo Island</b>					
Number of Consumers	<b>4,560</b>	<b>4,621</b>	<b>4,691</b>	<b>4,675</b>	<b>4,665</b>
Consumption (GWh)	<b>34.92</b>	<b>32.71</b>	<b>30.24</b>	<b>27.78</b>	<b>27.48</b>
Households and Agriculture	7.51	7.31	7.19	6.76	6.46
Services and Commerce	13.55	12.00	12.09	10.57	10.98
Public Services	3.52	3.19	2.89	2.64	2.47
Industry	7.93	7.87	5.93	5.65	5.49
Public Lighting	2.41	2.34	2.14	2.15	2.08
<b>Total RAM</b>					
Number of Consumers	<b>135,347</b>	<b>136,584</b>	<b>137,473</b>	<b>137,230</b>	<b>136,570</b>
Consumption (GWh)	<b>876.92</b>	<b>863.51</b>	<b>843.09</b>	<b>814.31</b>	<b>776.21</b>

## Human Resources

	2009	2010	2011	2012	2013
N.º of Employees	859	851	830	803	789

## Other Consolidated Data

€'000	2009	2010	2011	2012	2013
Turnover	153,259	174,497	193,534	217,794	199,685
Investment	57,455	46,537	24,396	9,350	12,667

## Summary

In 2013 the, economic activity in the Autonomous Region of Madeira was conditioned with the further implementation of the Program for Economic and Financial Adjustment (PAEF) established with the Troika (ECB, EU and IMF), which included the adoption of several additional policies for the state budget consolidation, as well as the continued implementation of the Adjustment Program specific to the Region, signed between the Regional Government and the Government of the Republic, named PAEF-RAM.

The PAEF-RAM included a wide range of policies, namely: adoption of taxation levels on corporate income tax (IRC) and income tax for individuals (IRS), the increased standard of the value added tax (VAT) to 22%, the significant increased tax on petroleum products (ISP), among others, implying the application of additional strict procedures, further beyond those imposed in Portuguese mainland, with a significant impact on the economy of Madeira resulting in the transfer from many companies to other regions, translating into a reduction in household disposable incomes, increasing the unemployment, the uncollectible amounts, creating deflating pressures on the regional economy, with consequences for electric energy consumption level, which decreased about 11.5% between 2009-2013.

In this, extremely restrictive and adverse context, the activities of EEM were strongly conditioned by the economic environment that surrounds it, not being able to fulfil the original outlined investment plan, thus taking the company, as in the previous year, to a less ambitious investment plan.

The total fulfilled investment amount (consolidated) reached 12,667 thousand Euros, with the following distribution by area of activity: 34.7% in distribution/commercialisation, 33.4% in transmission, 16.8% in production and 13.5% in non-specific investment. The remaining 1.6% was invested in subsidiaries of EEM.

## Production

The achieved investments in the production area amounted to 2,125 thousand Euros, mainly in:

- Initiation of the CTV III adaptation for natural gas consumption;
- Acquisition of a turbocharger for a generating power group of CTV II;
- Acquisition of a Pelton turbine and repair of another one in the Socorridos Hydroelectric Power Plant;
- Construction works of the water restitution system assigned to the Fajã da Nogueira Hydroelectric Power Plant.

## Transmission

The accomplished investments in the transmission area amounted to 4,231 thousand Euros, essentially in the reinforcement of the transmission network and in substations/switchgear houses remodelling.

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

- Conclusion of the construction works on Pedra Mole Substation;
- Conclusion of the remodelling in the Loiral Switchgear Post;
- Completion of the safety protections in Palheiro Ferreiro Substation;
- Conclusion of the 30 kV cells remodelling in Vila Baleira Substation.

In the transmission network, the main investments are as follow:

- Conclusion of the construction works along the section between the Porto Santo Thermoelectric Power Plant and Calheta Substation;
- Completion of the first remodelling interconnection network phase of the Funchal Substation in 30 kV, motivated by public construction works at the mouth of the Santa Luzia and João Gomes riversides.

Regarding the dispatch centre, it should be noted the SCADA migration project to Network Manager and the remote control of the new Pedra Mole Substation.

## Distribution/Commercialisation

The achieved investments in the distribution/commercialisation sector reached the amount of 4,395 thousand Euros, being detailed as follows:

- Connection of 10 new transforming posts for public service;
- Connection of 5 new private transforming posts to network;
- Construction of 7.84 km of medium voltage network;
- Removal of 10.09 km of medium voltage network;
- Remodelling of 8.04 km of medium voltage network;
- Construction of 17.60 km of low voltage network;
- Removal of 6.64 km of low voltage network;
- Remodelling of 68.40 of km low voltage network;
- Installation of 62 new public lighting luminaries;
- Replacement of 935 public lighting luminaries;
- The electric energy sales reached 748.73 GWh in Madeira Island and 27.48 GWh in Porto Santo Island, totalising 776.21 GWh in RAM;
- The average number of clients connected to the network, in 31st December 2013, reached 131,905 and 4,665 in Madeira and Porto Santo islands, respectively.

## Other accomplishments

The fulfilled investments regarding unspecified areas, in a transversal way to the Company, were as follows: general installations, equipment's, tools and information systems, reaching the amount of 1,711 thousand Euros. In this area, it is important to highlight the facilities and information systems, with particular emphasis on the following projects:

- Acquisition of land for the implementation of warehouses to support public lighting;
- Improvement interventions of the east and north facades of the Headquarters building;
- Acquisition of new equipment for Wave Power Quality;
- Implementation of various improvements in the SAP system;
- The taking into operation of the project WFM - Work Force Management (SGE - Management Team System);
- Changes in BI - Business Intelligence – System (Reporting Tools).

# Technical Information





## I. Production

In 2013, the investments in the production area amounted to 2,125 thousand Euros, highlighted by: the start of the CTV III adaptation works for natural gas consumption and interventions in hydraulic infrastructures of the hydroelectric power plants systems.

### A. Madeira Island

#### Hydroelectric utilities

Among all the investments carried out during 2013, regarding the hydroelectric power plants, were highlighted the following actions:

- Acquisition of a Pelton turbine and repair of another one in the Socorridos Hydroelectric Power Plant;
- Construction works of the water restitution system to the Fajã da Nogueira Hydroelectric Power Plant;
- Repair of the water canals sections assigned to the Fajã da Nogueira Hydroelectric Power Plant;
- Repair of the water canals assigned to the Ribeira da Janela Hydroelectric Power Plant, in Lajes and Galhano streams;
- Repair of the diversion system of the Rabaças water canals, including the decanting system and aqueduct in the Laje da Madeira location, serving the Serra de Água hydroelectric system;
- Partial repair of the water caption system in the Fajã Escura location and installation of a discharge regulation system allocated to the Socorridos Hydroelectric Power Plant.

#### Thermoelectric utilities

##### Vitória Thermoelectric Power Plant

In Vitória Thermoelectric Power Plant are reported the following actions:

- Initiation of the CTV III adaptation for natural gas consumption;
- Acquisition of a turbocharger for a generating power group of CTV II.

On December 31st, 2013, 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 232.61 MW, of which 182.64 MW (78.5%) are installed in Vitória Thermoelectric Power Plant and the remaining 49.97 MW (21.5%) in hydroelectric power plants.

#### EEM's power system in Madeira Island - 2013

	Thermal	Hydro	Total
N.º of Power Plants	1	9	10
Installed Power (MW)	182.64	49.97	232.61
Production (GWh)	423.33	71.76	495.09

### EEM's thermal power plant in Madeira Island - 2013

	Units	Installed Power		Max. C. Power*** (MW)	Production (GWh)	Net Emission (GWh)	Fuel
		(MW)	(MVA)				
Vitória Thermal Power Plant	1, 2, 3, 4*	30.30	39.00	-	3.23		Thick Fuel-oil
	5,6	15.60	19.50	18.60	4.21		Thick Fuel-oil
	7, 8, 9, 10	42.24	52.00	34.00	141.42		Thick Fuel-oil
	11, 12, 13, 14, 15	57.60	70.00	47.00	145.17		Thick Fuel-oil
	16	12.80	16.00	12.80	0.77		Dual-Fuel
	17, 18, 19, 20**	54.40	68.15	49.00	128.53		Dual-Fuel
<b>Total - CTV</b>		<b>182.64</b>	<b>225.65</b>	<b>161.40</b>	<b>423.33</b>	<b>416.01</b>	

\*Decommissioned power unit groups (N.º 1 and N.º 2 in 2012; N.º 3 and N.º 4 in 2013).

\*\*Combined Cycle - Power Group N.º 20.

\*\*\*Maximum Continuous Power.

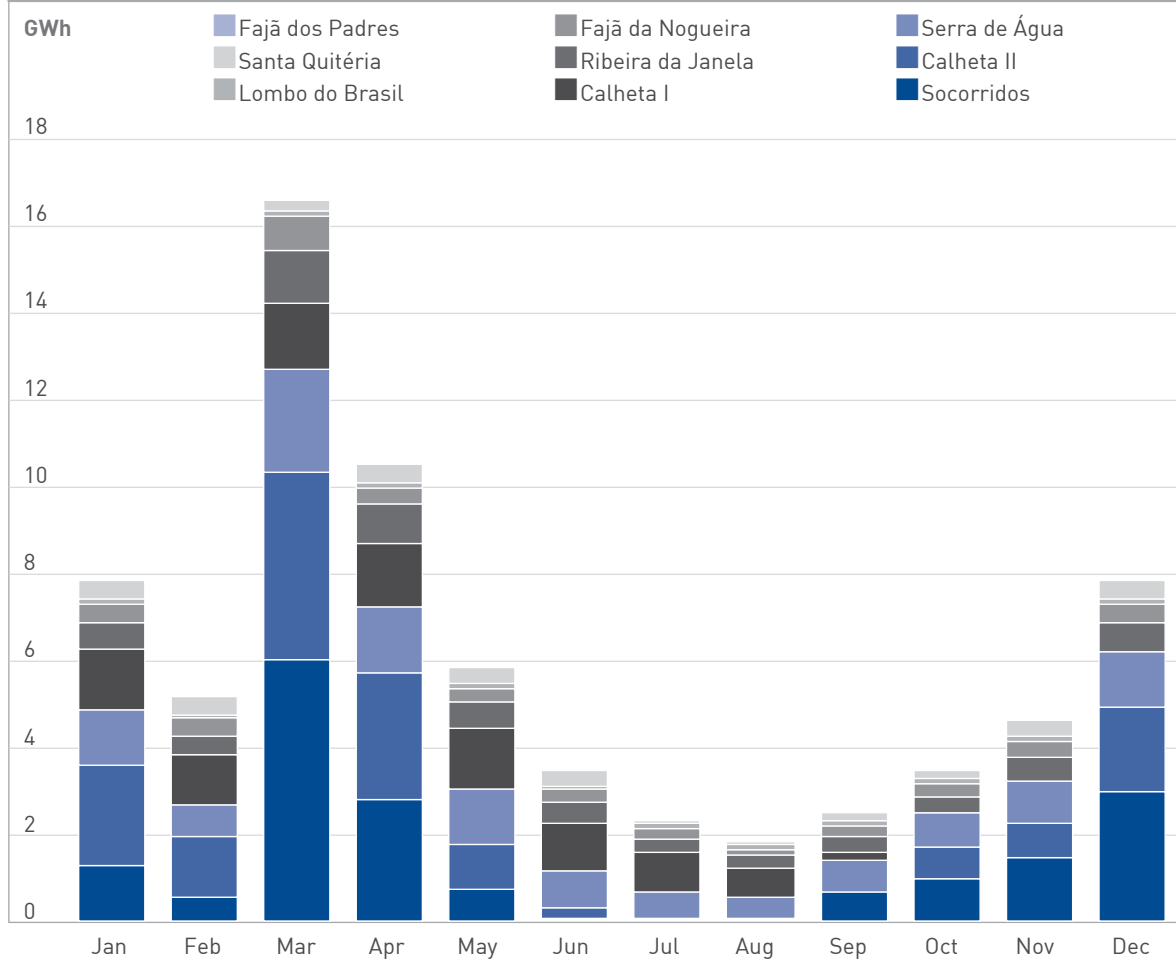
### EEM's hydro power plants in Madeira Island - 2013

	Inst. Power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	5.20	12.82	12.78	430	Pelton
Calheta I	1.10	9.85	9.70	629	Pelton
	0.52			314	Pelton
	0.50			181	Pelton
	2.40			629	Pelton
Calheta II	7.00	15.77	15.73	637	Pelton
Ribeira da Janela	3.00	6.85	6.76	398	Pelton
Fajã da Nogueira	2.40	4.28	4.21	348	Pelton
Lombo do Brasil	0.45	1.36	1.36	316	Pelton
Fajã dos Padres	1.70	-	-	530	Pelton
Santa Quitéria	1.70	3.64	3.56	212	Pelton
Socorridos	24.00	17.18	17.12	457	Pelton
Hydroelectric Pumping	11.25	-	-	457	Francis
<b>Total EEM*</b>	<b>49.97</b>	<b>71.76</b>	<b>71.22</b>		

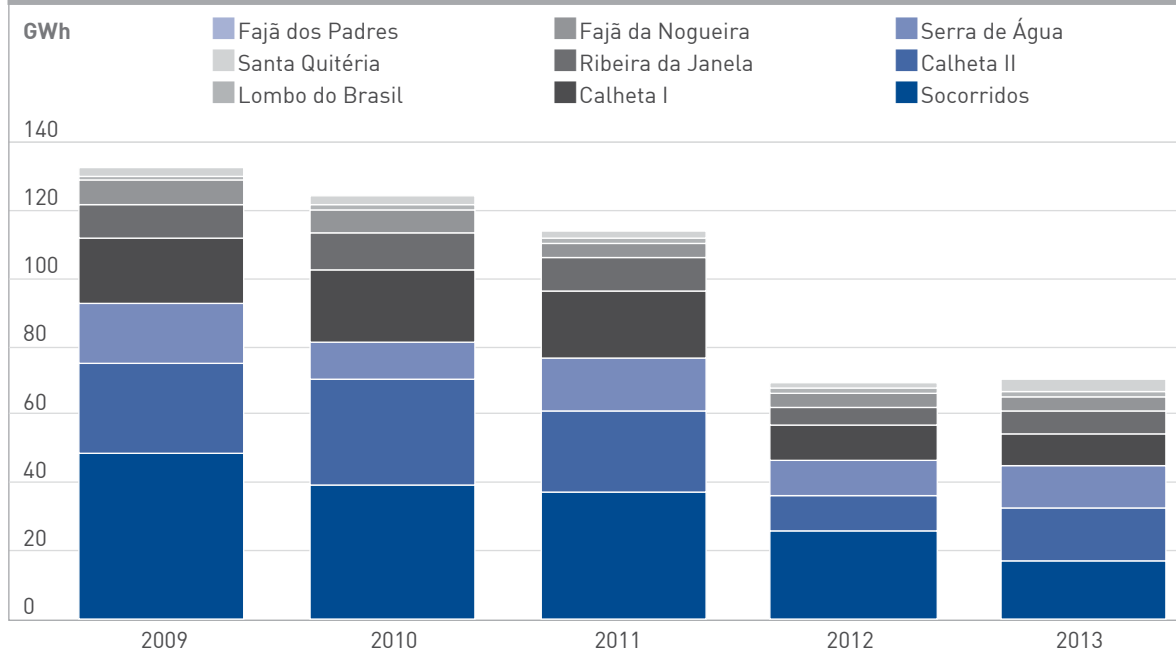
\*Hydroelectric Power Pumping not included

In 2013, the total EEM energy net emission in Madeira Island, reached 495.09 GWh, of which 423.33 GWh (85.5%) generated by thermoelectric power plants and the remaining 71.76 GWh (14.5%) generated by hydroelectric power plants.

### EEM's monthly hydro production in Madeira Island - 2013



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



The installed power in the private generating power plants amounted to 107.79 MW, more than 1.5% over 2012, resulting from the micro and mini generation increment.

The following table reflects the distribution of independent producers, by primary energy sources:

<b>Private owned power plants in Madeira Island - 2013</b>						
	Thermal	Hydro	Wind	Waste*	Photovoltaics**	Total
N.º of Power Plants	1	1	9	1	709	<b>721</b>
Installed power (MW)	36.00	0.72	45.11	8.00	17.96	<b>107.79</b>
Acquisition (GWh)	192.12	4.95	81.71	25.71	29.10	<b>333.59</b>

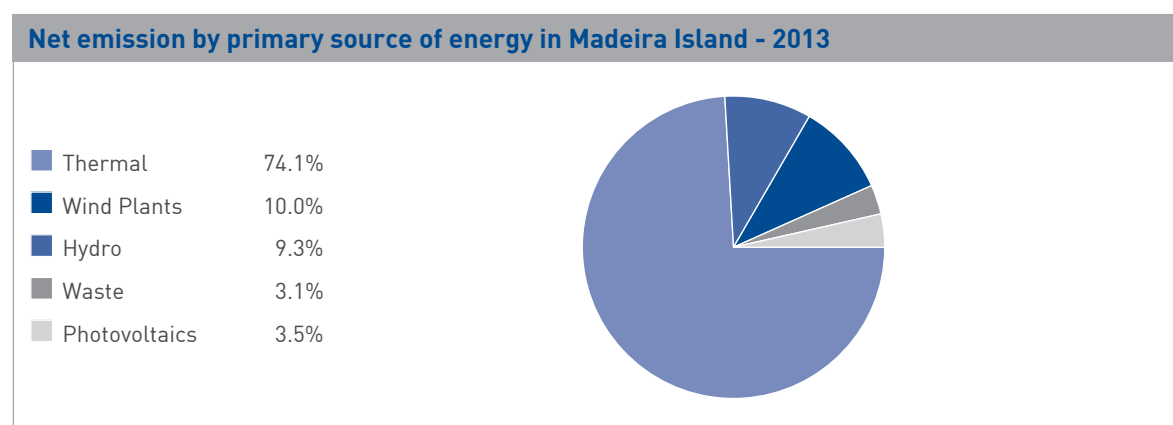
\*Solid Waste Incineration

\*\*Including PRE ("special power generation" D-Law 312/2001), microgeneration (D-Law 363/2007) and minigeneration (D-Law 34/2011)

In 2013, the global energy issued by these generating power systems, reached to 333.59 GWh, less 0.3% than the previous year. Thus, 57.6% of this energy was provided by Caniçal Thermoelectric Power Plant, 24.5% by wind plants, 8.7% by photovoltaic producers, micro and mini generation, 7.7% by ETRSU (solid waste incineration), being the remaining 1.5% from Terça mini-hydroelectric Power Plant.

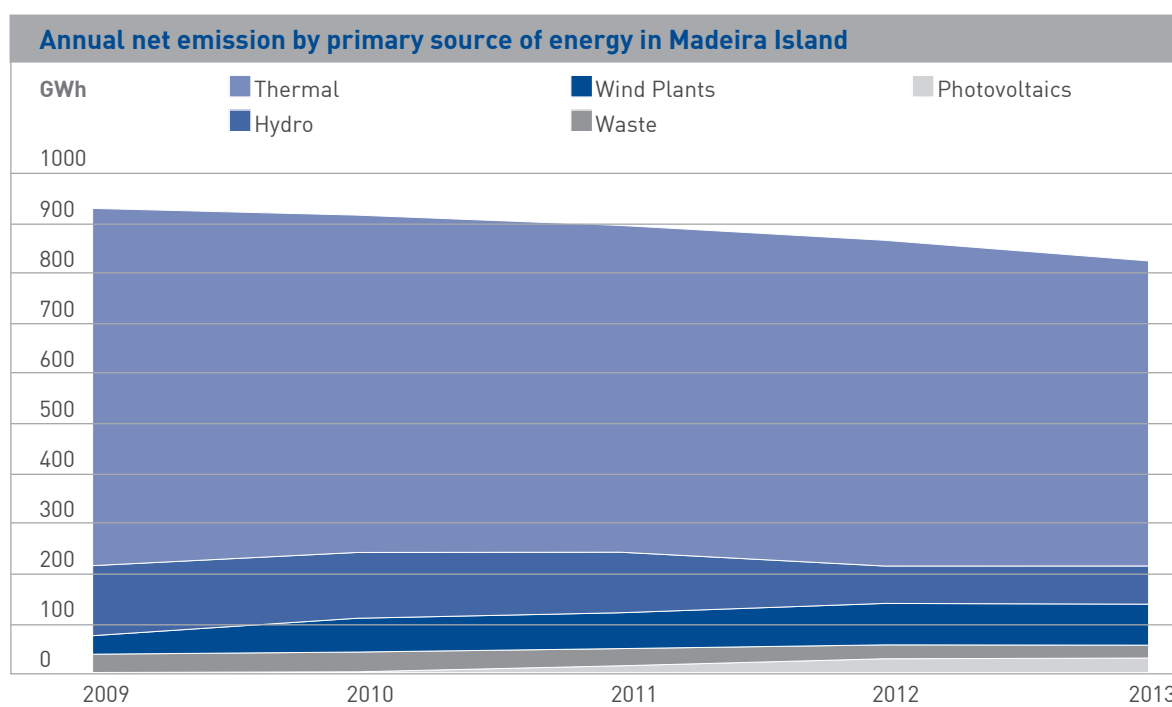
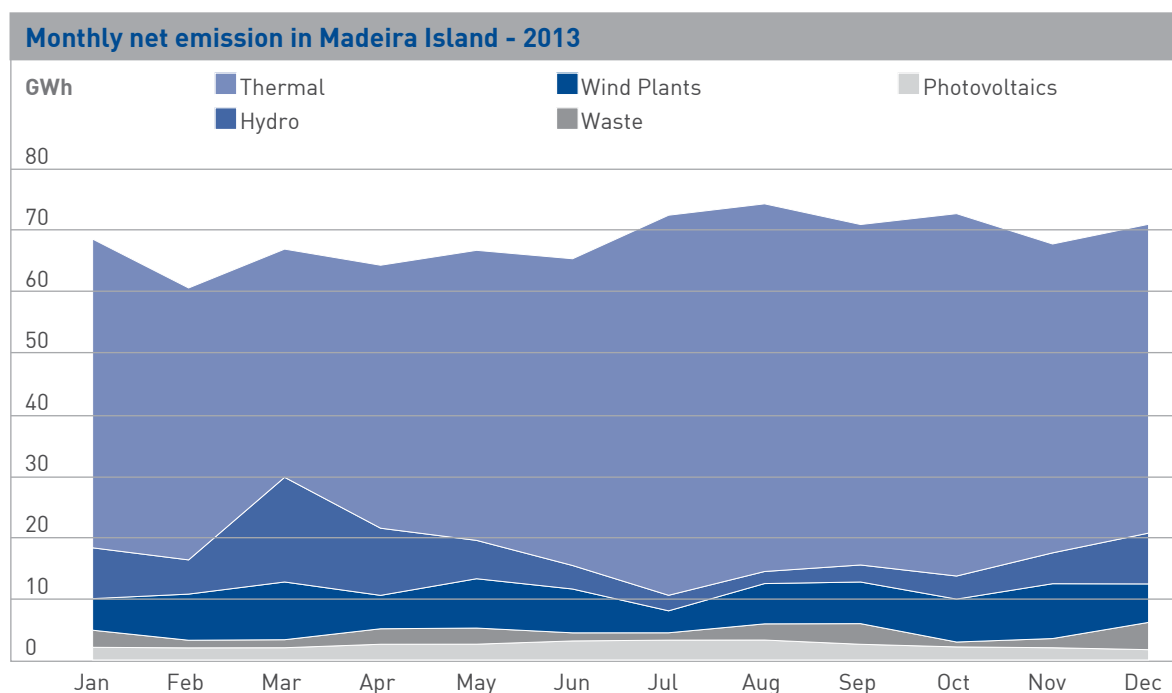
The private plants energy contribution represents 40.6% of the total emission in Madeira Island.

The net emission distribution through the network system (EEM system and private producers) in the Madeira Island, in 2013 is presented as follows:

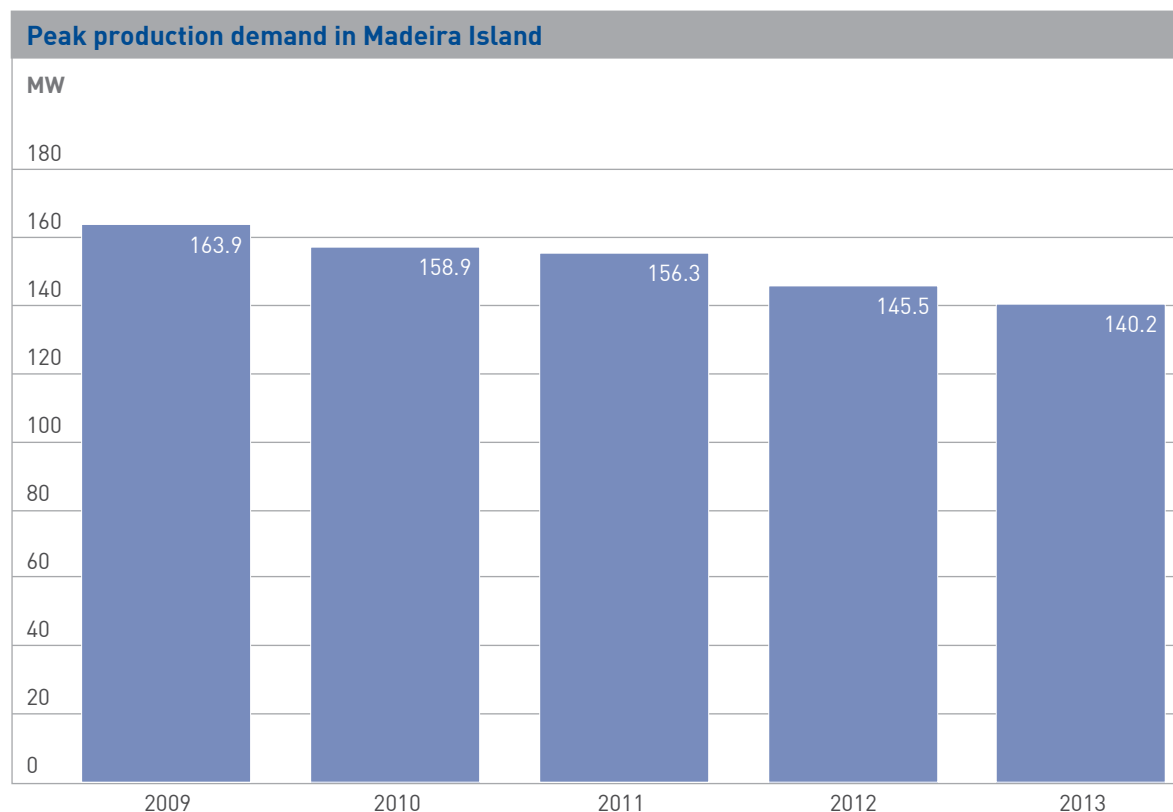


Thus, the renewable component, in 2013, amounted to 25.9% of the total energy emitted into the electric network and the remaining 74.1% came from fossil fuels.

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



The peak load in Madeira Island occurred in January, reaching the value of 140.2 MW, representing a decrease of 3.6%, comparing to 2012.



The consumption of fuel and lubricants, in Vitória Thermoelectric Power Plant amounted to 90,835 and 610 thousand liters, respectively. This consumption represents a significant decrease of 10.9%, over the previous year, due not only to an increased renewal production (wind and solar), but also to an even more reduced energy consumption and also to a more efficient production, concerning the operating performance of the CTV III generating power groups in the Vitória Thermoelectric Power Plant (with a specific lower fuel-oil consumption). It is important to stand out the use of 1,347 thousands liters of ammonia, for the purpose of reducing NOX in CTV III.

<b>Fuel, lubricant and ammonia consumed by the EEM's system in Madeira Island - 2013</b>				
liters '000	Thick Fuel-oil	Diesel	Lubricant	Ammonia
Vitória Thermal Power Plant	90,042	793	610	1,347

## B. Porto Santo Island

The generating power system in Porto Santo Island consisted of one thermoelectric power plant, two wind plants, one solar power plant and photovoltaic micro and mini producers. The total installed power amounted to 20.73 MW, shared by Porto Santo Thermoelectric Power Plant, which contributed with 17.28 MW (83.4%), by the solar power plant and micro and mini generation installations with 2.34 MW (11.3%), and by the two wind plants, with the remaining contribution of 1.11 MW (5.3%).

<b>EEM's power system in Porto Santo Island - 2013</b>					
	<u>EEM</u>		<u>ENEREEM</u>	<u>Privates</u>	Total
	Thermal	Wind Plants	Wind Plants	Photovoltaics*	
N.º of Power Plants	1	1	1	19	<b>22</b>
Installed power (MW)	17.28	0.45	0.66	2.34	<b>20.73</b>
Net Emission (GWh)	25.58	0.29	0.59	3.10	<b>28.56</b>

\*Including PRE ("special power generation" - Dec-Law 312/2001) and microgeneration (Dec-Law 363/2007) and minigeneration Dec-Law 34/2011)

### EEM's thermal power plant in Porto Santo Island - 2013

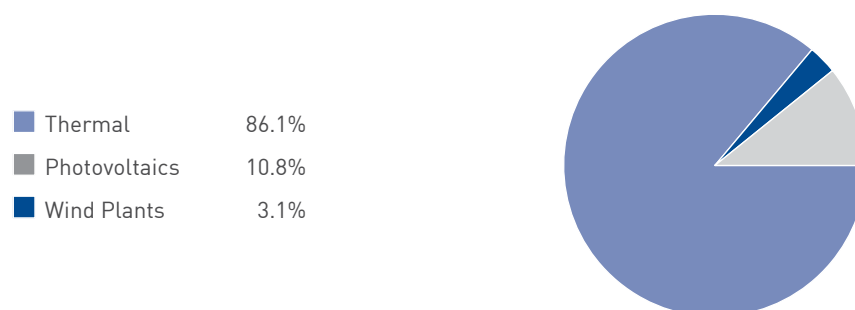
	Units	Installed Power		Max. C. Power** (MW)	Production (GWh)	Net Emission (GWh)	Fuel
		(MW)	(MVA)				
Porto Santo	1,2*	10.00	12.86	-	0.01		Diesel
Thermal	3,4,5	12.96	15.30	11.40	20.84		Thick Fuel-oil
Power Plant	6	4.32	5.10	3.80	6.14		Thick Fuel-oil
<b>Total - CTPS</b>		<b>17.28</b>	<b>20.40</b>	<b>15.20</b>	<b>26.99</b>	<b>24.58</b>	

\*Decommissioned power unit groups in 2008

\*\*Maximum continuous power

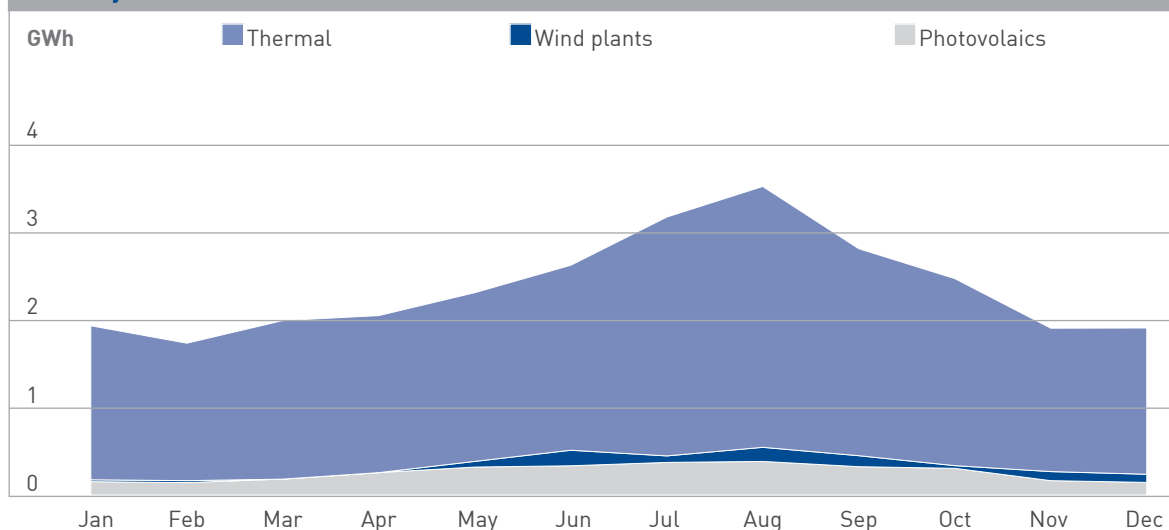
In 2013, the energy issued by the generating power system in Porto Santo Island, reached 28.56 GWh, of which 24.58 GWh (86.1%) were produced by the thermoelectric plant, 3.10 GWh (10.8%) by solar source and the remaining 0.88 GWh (3.1%) by the wind plants.

### Net emission by primary source of energy in Porto Santo Island - 2013

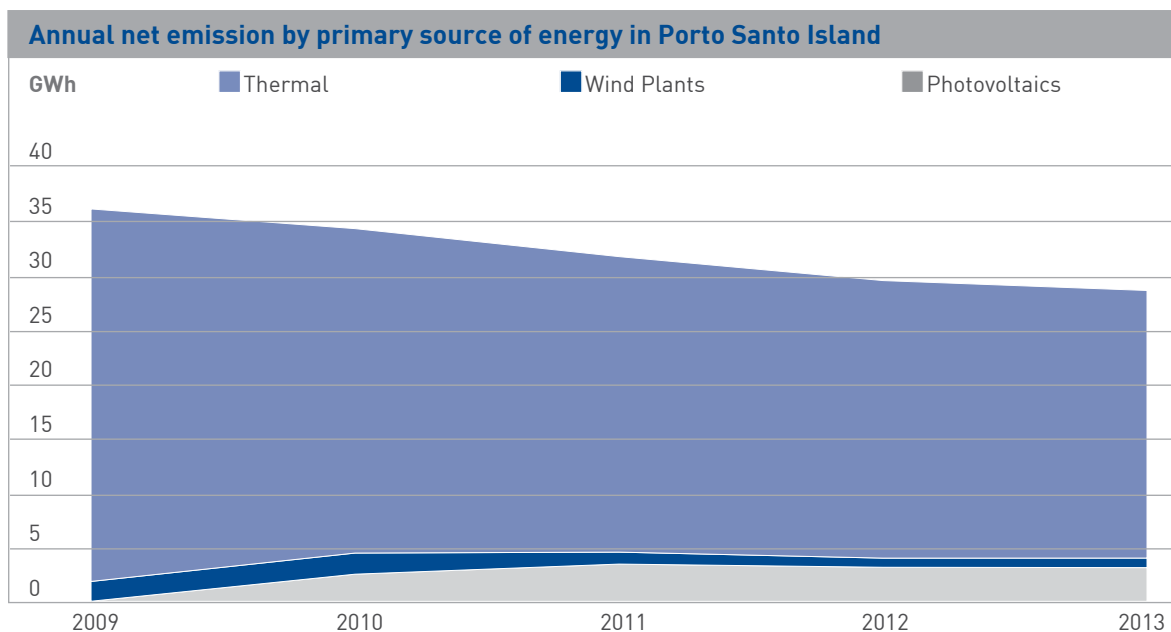


The monthly and annual net emission evolution by primary sources can be presented as follows:

### Monthly net emission in Porto Santo Island - 2013

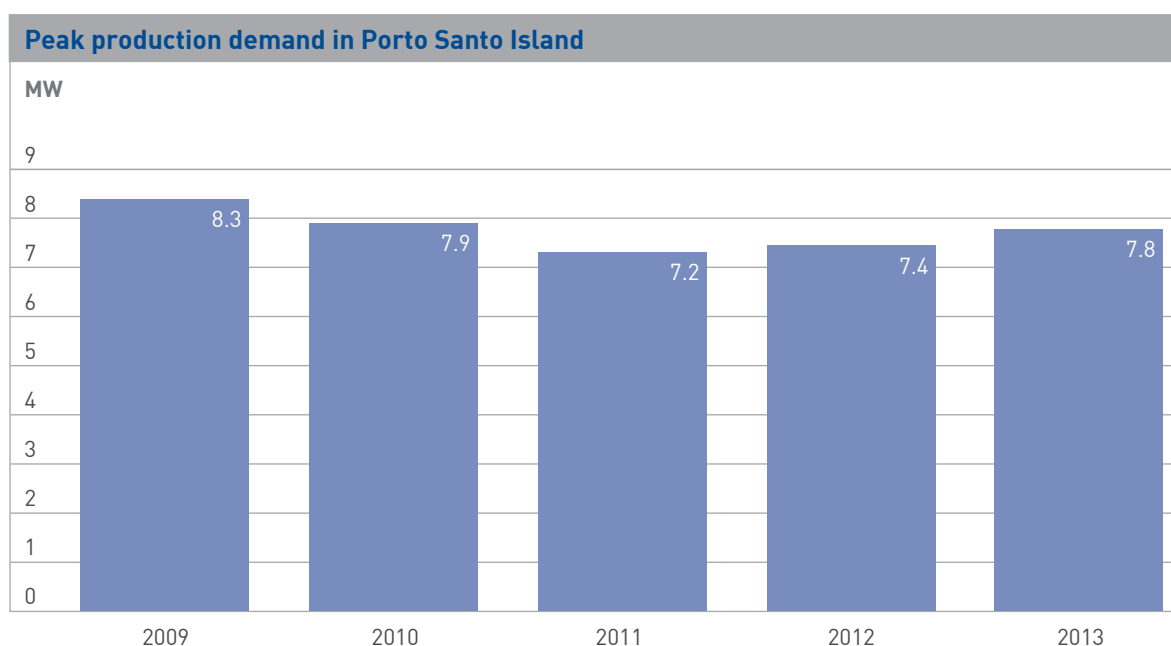






The electric consumption in Porto Santo Island decreased 3.1%, resulting from the decrease of all energy components, with the exception of wind, which improved slightly.

The yearly peak load in Porto Santo Island occurred in August, registering 7.8 MW, 6.0% higher than the one recorded in 2012.



The consumption of fuel and lubricants in Porto Santo Thermoelectric Power Plant amounted to 7,565 and 28 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo Island - 2013			
liters'000	Thick Fuel-oil	Diesel	Lubricant
Porto Santo Thermal Power Plant	5,829	1,736	28

There was an increase in fuel consumption of around 2.1% over the previous year.

## II. Transmission

In transmission, the most significant accomplished investments were substations/switchgear houses and transmission lines, totalling 4,231 thousand Euros.

### Substations/Switchgear Houses

In the substation/switchgear houses area the main investments, are presented as follows:

- Conclusion of the construction works on Pedra Mole Substation;
- Conclusion of the remodelling in the Loiral Switchgear Post;
- Completion of the safety protections in Palheiro Ferreiro Substation;
- Conclusion of the 30 kV cells remodelling in Vila Baleira Substation;
- Continuation of the execution projects and tendering procedures for the construction of new substations, namely: Prazeres, Lombo do Meio and Amparo. These interventions will be considered as total remodelling.

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

- Carrying out general maintenance works, in particular on the power transformers;
- Development of thermograph inspection works.

## Substations in RAM - 2013

	Installed Power (MVA)			Total	Capacitors
	30/6,6 kV	60/30 kV	60/6,6 kV		MVar
<b>Madeira Island</b>	<b>238.0</b>	<b>220.0</b>	<b>125.0</b>	<b>583.0</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	15.0	-	-	15.0	2.0
Pedra Mole	-	2 x 25.0	-	50.0	-
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>20.0</b>	<b>-</b>	<b>-</b>	<b>20.0</b>	<b>-</b>
Nova Central	4.0	-	-	4.0	-
Vila Baleira	4.0 + 6.0	-	-	10.0	-
Calheta	6.0	-	-	6.0	-
<b>Total RAM</b>	<b>258.0</b>	<b>220.0</b>	<b>125.0</b>	<b>603.0</b>	<b>32.0</b>

## Transmission network

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

- Conclusion of the works for the underground section between Porto Santo Thermoelectric Power Plant and Calheta Substation;
- Conclusion of the first phase of the remodelling works of the 30 KV interconnection grid for the Funchal Substation. Following the "Storm", on 20th February 2010, the Regional Government promoted a strategic plan to change the courses of the Santa Luzia and João Gomes riversides, in downtown Funchal. The subsequent project alters substantially the architecture in the surrounding area to the EEM's Headquarters, where it's located the Funchal Substation, of 30 MVA-30/6.6 which intervention area is coincident with the main connection of underground cables to this substation.

Other interventions took place, including the replacement of suspension isolators, terminal boxes, support displacement requested by clients, as well as the deforesting of line corridors and cleaning the bases of overhead lines support.

Regarding the transmission network monitoring, the following actions should be highlighted:

- Inspection of 60 kV and 30 kV overhead lines in an extension of 50 and 152 km, respectively;
- Inspection of approximately 20 km of 30 kV overhead lines;
- Deforesting and cleaning the overhead lines supports in an extension of 14 km.

#### Transmission Network in RAM - 2013

	Madeira	Porto Santo	Total RAM
<b>Substations 60/30/6,6 kV</b>			
Number of units	9	-	<b>9</b>
Installed Power (MVA)	345.00	-	<b>345.00</b>
<b>Substations 30/6,6 kV</b>			
Number of units	20	3	<b>23</b>
Installed Power (MVA)	238.00	20.00	<b>258.00</b>
<b>60 kV Network</b>			
	<b>74.22</b>	-	<b>74.22</b>
Overhead lines (km)	64.01	-	64.01
Underground cables (km)	10.21	-	10.21
<b>30 kV Network*</b>			
	<b>383.32</b>	<b>15.30</b>	<b>398.62</b>
Overhead lines (km)	243.66	5.10	248.76
Underground cables (km)	139.66	10.20	149.86
<b>Optic Fiber (km)</b>			
	629.84	15.81	<b>645.65</b>

\*30 kV Distribution Network included

## Telecommunications

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

- Expansion of the optic fiber cable network:
  - Continuation of the expansion plan for the optic fiber network, in Madeira Island, increasing its extension in 30.0 km;
  - Expansion of the optic fiber network in 6.7 km, in Porto Santo Island, for remote support of the photovoltaic park, as well as seven transforming posts.
- Expansion / Renovation of telecommunications technical rooms:
  - Expansion of the SDH network to the Pedra Mole Substation;
  - Accomplishment of the remodelling work in the EEM's telecommunication network, especially: in Socorridos Hydroelectric Power Plant and Funchal Substation.
- Additionally was also performed:
  - Installation of air conditioning systems in the Virtudes and Viveiros technical rooms;
  - Acquisition of measuring equipment for OTDR and Power Meter.

## Dispatch Centre

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

- Development of the new SCADA Migration Project for Network Manager;
- Installation of a remote control in the Pedra Mole Substation;
- Acquisition of an emergency generator for the dispatch centre;
- Continuation of the supervision and remote control project of Porto Santo Thermoelectric Power Plant;
- Beginning of the upgrade project for Remote Terminal Units ED1000;
- Implementation of a global risk calculation methodology for the system covering the risks of production, network and external events;
- Maintenance and publication of contents on the intranet site (<http://despacho>).

### III. Distribution

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

The distribution extent of the medium and low voltage network is shown in the following table:

Distribution Network in RAM - 2013			
Km	Madeira	Porto Santo	Total RAM
<b>6,6 kV Network</b>	<b>1,247.49</b>	<b>74.02</b>	<b>1,321.51</b>
Overhead lines	498.31	17.01	515.32
Underground cables	749.18	57.01	806.19
<b>Low Voltage Network</b>	<b>3,856.40</b>	<b>116.22</b>	<b>3,972.62</b>
Overhead lines	2,952.22	45.73	2,997.95
Underground cables	904.18	70.49	974.67

Transforming Posts by council in RAM - 2013						
	Private		Public		Total	
	N.º	P (kVA)	N.º	P (kVA)	N.º	P (kVA)
Funchal	107	79,580	473	256,485	580	336,065
Câmara de Lobos	15	10,120	116	43,020	131	53,140
Ribeira Brava	10	3,610	108	33,475	118	37,085
Ponta do Sol	4	1,180	58	19,760	62	20,940
Calheta	14	4,330	116	30,965	130	35,295
Porto Moniz	11	1,970	38	10,660	49	12,630
São Vicente	4	1,220	53	15,735	57	16,955
Santana	10	5,155	84	18,740	94	23,895
Machico	37	22,850	114	44,845	151	67,695
Santa Cruz	44	26,165	248	95,940	292	122,105
Porto Santo	18	13,310	70	20,370	88	33,680
<b>Total RAM</b>	<b>274</b>	<b>169,490</b>	<b>1,478</b>	<b>589,995</b>	<b>1,752</b>	<b>759,485</b>

The councils with more installed capacity are Funchal, Santa Cruz and Machico with 336,065 kVA, 122,105 kVA and 67,695 kVA, respectively.

### A. Madeira Island

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

- Installation of 9 new public transforming posts with an installed power of 2,765 kVA and 5 new private ones with an installed power of 1,860 kVA;
- Construction of 7.74 km of medium voltage network, being 1.63 km of overhead lines and 6.11 km of underground network;
- Removal of 10.09 km of medium voltage network, being 6.37 km of overhead lines and 3.72 km of underground network;
- Remodelling of 8.04 km of medium voltage network;
- Construction of 14.99 km of low voltage network, being 1.26 km of overhead lines and 13.73 km of underground network;
- Remodelling of 66.95 km of low voltage network;
- Installation of 55 new public lighting luminaries;
- Replacement of 922 public lighting luminaries.

## B. Porto Santo Island

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

- Installation of 1 new public transforming post with an installed power of 100 kVA;
- Increase of 0.10 km of the medium voltage network;
- Installation of the low voltage network in 2.61 km, being entirely underground type;
- Removal of 5.29 km medium voltage network, being 4.48 km of overhead lines and 0.81 km of underground network;
- Increase of 1.45 km of the low voltage network;
- Installation of 7 new public lighting luminaries;
- Replacement of 13 public lighting luminaries.

### Evolution of the Distribution Network in RAM - 2013

	Madeira	Porto Santo	Total RAM
<b>Distribution Network Expansion</b>			
<b>Transforming Posts for public service</b>			
Number of units	9	1	10
Power (kVA)	2,765	100	2,865
<b>Transforming Posts for private service</b>			
Number of units	5	-	5
Power (kVA)	1,860	-	1,860
<b>6,6 kV Network</b>	<b>7.74</b>	<b>0.10</b>	<b>7.84</b>
Overhead lines (km)	1.63	-	1.63
Underground cables (km)	6.11	0.10	6.21
<b>Low Voltage Network</b>	<b>14.99</b>	<b>2.61</b>	<b>17.60</b>
Overhead lines (km)	1.26	-	1.26
Underground cables (km)	13.73	2.61	16.34
<b>Distribution Network Removal</b>			
<b>Transforming Posts</b>			
Number of units	(9)	(7)	(10)
Power (kVA)	(3,160)	(2,205)	(5,365)
<b>6,6 kV Network</b>	<b>(10.09)</b>	<b>-</b>	<b>(10.09)</b>
Overhead lines (km)	(6.37)	-	(6.37)
Underground cables (km)	(3.72)	-	(3.72)
<b>Low Voltage Network</b>	<b>(1.35)</b>	<b>(5.29)</b>	<b>(6.64)</b>
Overhead lines (km)	(0.95)	(4.48)	(5.43)
Underground cables (km)	(0.40)	(0.81)	(1.21)
<b>Distribution Network Renewals</b>			
<b>Transforming Posts for public service</b>			
Number of units	(60)	(1)	(61)
Power (kVA)	(18,345)	(750)	(19,095)
<b>Transforming Posts for private service</b>			
Number of units	60	1	61
Power (kVA)	20,450	1,890	22,340
<b>6,6 kV Network</b>	<b>8.04</b>	<b>-</b>	<b>8.04</b>
Overhead lines (km)	4.37	-	4.37
Underground cables (km)	3.67	-	3.67
<b>Low Voltage Network</b>	<b>66.95</b>	<b>1.45</b>	<b>68.40</b>
Overhead lines (km)	57.34	1.45	58.79
Underground cables (km)	9.61	-	9.61

## IV. Commercialisation

The RAM's energy balance, in 2013, is presented as follows:

RAM's energy balance - 2013			
MWh	Madeira	Porto Santo	Total RAM
<b>EEM - Power plants productions</b>	<b>495,087</b>	<b>27,284</b>	<b>522,371</b>
Thermal	423,328	26,993	450,320
Fuel	422,555	26,986	449,541
Diesel	773	6	779
Hydro	71,759	-	71,759
Wind	-	292	292
<b>Power plants consumptions and losses</b>	<b>7,849</b>	<b>2,410</b>	<b>10,259</b>
<b>Total EEM energy net emission</b>	<b>487,238</b>	<b>24,875</b>	<b>512,112</b>
<b>Other acquisitions - SEPM**</b>	<b>192,122</b>	<b>-</b>	<b>192,122</b>
Thermal	192,122	-	192,122
Fuel	192,122	-	192,122
<b>Total special status generation</b>	<b>141,464</b>	<b>3,687</b>	<b>145,151</b>
Hydro	4,947	-	4,947
Wind	81,709	590	82,298
Waste*	25,713	-	25,713
Photovoltaics	24,902	2,557	27,459
Microgeneration + Minigeneration	4,194	540	4,734
<b>Total net generation</b>	<b>820,824</b>	<b>28,562</b>	<b>849,386</b>
Hydroelectric pumping	564	-	564
<b>Total net demand SEPM**</b>	<b>820,259</b>	<b>28,562</b>	<b>848,821</b>
<b>Proper consumptions</b>	<b>927</b>	<b>49</b>	<b>976</b>
<b>Total energy sales SEPM**</b>	<b>748,729</b>	<b>27,477</b>	<b>776,206</b>
MV (Medium Voltage)	180,617	10,463	191,080
LV (Low Voltage)	568,112	17,014	585,126
<b>Total net delivery</b>	<b>749,656</b>	<b>27,526</b>	<b>777,182</b>
<b>Losses</b>	<b>70,603</b>	<b>1,036</b>	<b>71,639</b>

\*Solid Waste Incineration

\*\*SEPM - Public Electricity Supply System of Madeira Island

The energy consumption in 2013, presented the decreased rates of 4.8% and 1.1% in Madeira and Porto Santo Islands, respectively.

Energy sales to SEPM clients per tension level and tariffs regime - 2013					
GWh	HV	MV	SLV	NLV	Total
Energy	-	191.08	156.05	429.08	<b>776.21</b>

Note:  
 HV - High Voltage  
 MV - Medium Voltage  
 SLV - Special Low Voltage  
 NLV - Normal Low Voltage  
 SEPM - Public Electricity Supply System of Madeira Island

The RAM's consumption in medium voltage reached 191.08 GWh, while in low voltage was 585.13 GWh, which corresponds to a distribution of 24.6% and 75.4%, of the total consumption.



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

Consumption by activity in RAM - 2013										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
<b>Madeira Island</b>	<b>234.62</b>	<b>139.71</b>	<b>174.12</b>	<b>60.68</b>	<b>4.60</b>	<b>78.57</b>	<b>52.85</b>	<b>3.59</b>	<b>748.73</b>	<b>100.0%</b>
	<b>31.3%</b>	<b>18.7%</b>	<b>23.3%</b>	<b>8.1%</b>	<b>0.6%</b>	<b>10.5%</b>	<b>7.0%</b>	<b>0.5%</b>	<b>100.0%</b>	
Funchal	102.57	97.59	118.17	14.44	0.36	18.30	30.73	1.81	383.98	51.3%
Câm. Lobos	27.08	4.83	8.05	10.80	0.40	9.39	2.59	0.28	63.41	8.5%
Rib. Brava	11.44	2.31	5.93	0.68	0.09	6.64	1.20	0.41	28.70	3.8%
Ponta do Sol	8.35	2.27	2.11	1.32	0.67	3.47	0.91	0.15	19.24	2.6%
Calheta	12.39	3.94	3.99	1.03	0.46	6.66	1.27	0.17	29.90	4.0%
Porto Moniz	2.57	1.42	1.21	0.19	0.27	3.35	0.66	0.06	9.73	1.2%
S. Vicente	5.32	2.19	1.53	0.74	0.12	4.69	0.88	0.20	15.67	2.1%
Santana	7.03	2.09	3.47	0.46	0.32	4.82	1.14	0.07	19.41	2.6%
Machico	19.85	6.86	11.70	12.02	0.75	9.79	2.56	0.21	63.73	8.5%
Santa Cruz	38.04	16.21	17.95	19.01	1.15	11.46	10.90	0.24	114.96	15.4%
<b>Porto Santo Island</b>	<b>6.39</b>	<b>7.12</b>	<b>3.64</b>	<b>5.49</b>	<b>0.07</b>	<b>2.08</b>	<b>2.47</b>	<b>0.22</b>	<b>27.48</b>	
	<b>23.2%</b>	<b>25.8%</b>	<b>13.3%</b>	<b>20.0%</b>	<b>0.3%</b>	<b>7.6%</b>	<b>9.0%</b>	<b>0.8%</b>	<b>100.0%</b>	
<b>Total RAM</b>	<b>241.01</b>	<b>146.83</b>	<b>177.76</b>	<b>66.17</b>	<b>4.66</b>	<b>80.65</b>	<b>55.32</b>	<b>3.81</b>	<b>776.21</b>	
	<b>31.1%</b>	<b>18.9%</b>	<b>22.9%</b>	<b>8.5%</b>	<b>0.6%</b>	<b>10.4%</b>	<b>7.1%</b>	<b>0.5%</b>	<b>100.0%</b>	

Consumers by activity in RAM - 2013										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
<b>Madeira Island</b>	<b>110,641</b>	<b>2,053</b>	<b>13,015</b>	<b>831</b>	<b>1,466</b>	<b>1,617</b>	<b>1,815</b>	<b>467</b>	<b>131,905</b>	<b>100.0%</b>
	<b>83.9%</b>	<b>1.6%</b>	<b>9.9%</b>	<b>0.6%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.4%</b>	<b>0.3%</b>	<b>100.0%</b>	
Funchal	46,266	1,035	7,371	213	112	451	908	164	56,520	42.8%
Câm. Lobos	11,968	132	1,137	85	232	146	172	45	13,917	10.6%
Rib. Brava	5,992	77	505	33	78	134	69	31	6,919	5.3%
Ponta do Sol	4,315	53	326	47	132	76	66	25	5,040	3.8%
Calheta	6,545	91	464	51	105	133	92	51	7,532	5.7%
Porto Moniz	1,642	51	154	17	97	59	73	7	2,100	1.6%
S. Vicente	3,061	62	240	27	240	74	63	23	3,790	2.9%
Santana	4,234	76	373	29	145	107	90	17	5,071	3.8%
Machico	8,670	192	816	103	135	174	136	48	10,274	7.8%
Santa Cruz	17,948	284	1,629	226	190	263	146	56	20,742	15.7%
<b>Porto Santo Island</b>	<b>3,942</b>	<b>84</b>	<b>396</b>	<b>44</b>	<b>19</b>	<b>68</b>	<b>85</b>	<b>27</b>	<b>4,665</b>	
	<b>84.5%</b>	<b>1.8%</b>	<b>8.5%</b>	<b>0.9%</b>	<b>0.4%</b>	<b>1.5%</b>	<b>1.8%</b>	<b>0.6%</b>	<b>100.0%</b>	
<b>Total RAM</b>	<b>114,583</b>	<b>2,137</b>	<b>13,411</b>	<b>875</b>	<b>1,485</b>	<b>1,685</b>	<b>1,900</b>	<b>494</b>	<b>136,570</b>	
	<b>83.9%</b>	<b>1.6%</b>	<b>9.8%</b>	<b>0.6%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.4%</b>	<b>0.4%</b>	<b>100.0%</b>	

In December 2013, the average number of clients connected to the electric network of RAM, reached 136,570, presenting a decrease of nearly 0.5% comparing to 2012.

### Consumption / Clients - Distribution by activity in RAM - 2013

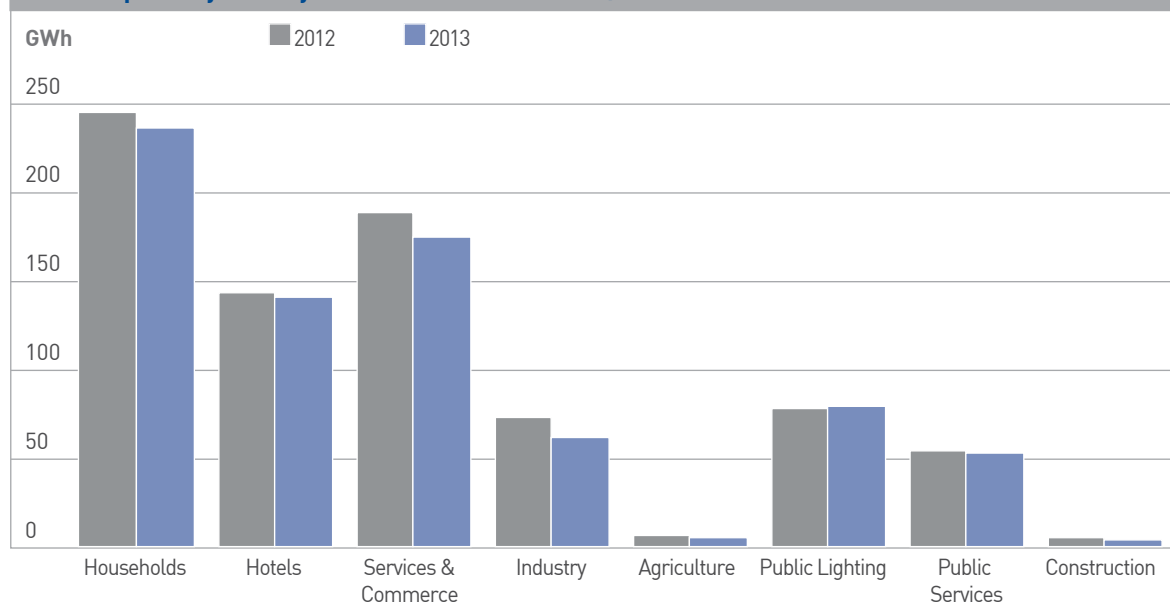
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/Client	Consump. (GWh)	Clients	(MWh)/Client	Consump. (GWh)	Clients	(MWh)/Client
<b>Madeira Island</b>	<b>748.73</b>	<b>131,905</b>	<b>5.68</b>	<b>568.11</b>	<b>131,623</b>	<b>4.32</b>	<b>234.62</b>	<b>110,642</b>	<b>2.12</b>
Funchal	383.98	56,520	6.79	276.34	56,407	4.90	102.57	46,267	2.22
Câm. Lobos	63.41	13,917	4.56	51.51	13,899	3.71	27.08	11,968	2.26
Rib. Brava	28.70	6,919	4.15	27.25	6,911	3.94	11.44	5,992	1.91
Ponta do Sol	19.24	5,040	3.82	17.89	5,030	3.56	8.35	4,315	1.94
Calheta	29.90	7,532	3.97	27.62	7,517	3.67	12.39	6,545	1.89
Porto Moniz	9.73	2,100	4.63	8.21	2,088	3.93	2.57	1,642	1.56
S. Vicente	15.67	3,790	4.13	14.25	3,786	3.76	5.32	3,061	1.74
Santana	19.41	5,071	3.83	16.15	5,059	3.19	7.03	4,234	1.66
Machico	63.73	10,274	6.20	43.75	10,232	4.28	19.85	8,670	2.29
Santa Cruz	114.96	20,742	5.54	85.14	20,694	4.11	38.04	17,948	2.12
<b>Porto Santo Island</b>	<b>27.48</b>	<b>4,665</b>	<b>5.89</b>	<b>17.01</b>	<b>4,644</b>	<b>3.66</b>	<b>6.39</b>	<b>3,941</b>	<b>1.62</b>
<b>Total RAM</b>	<b>776.20</b>	<b>136,570</b>	<b>5.68</b>	<b>585.13</b>	<b>136,267</b>	<b>4.29</b>	<b>241.01</b>	<b>114,583</b>	<b>2.10</b>

The average consumption per client ascended to 5.68 MWh/client. The highest consumption values were registered in the councils of Funchal, Machico and Santa Cruz. The average consumption in the Households sector of the RAM reached the amount of 2.10 MWh/client, slightly inferior to the previous year, being the highest values verified in the councils of 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 31.3%, followed by the Services and Commerce sectors with 23.3% and Hotels with 18.7%.

### Consumption by activity in Madeira Island - 2012/2013

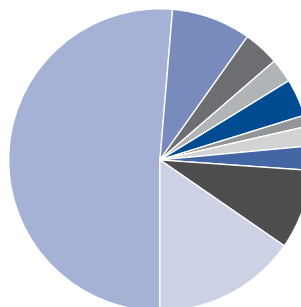


The council of Funchal with 42.8% of the total number of clients, registered 51.3% of the total consumption in Madeira Island, followed by the councils of Santa Cruz with 15.4%, Câmara de Lobos and Machico, both with 8.5%.

In terms of consumption evolution by sector, there was a decrease in consumption of 21.3% in Construction, 15.0% in Industry and 14.3% in Agriculture, compared to the previous year.

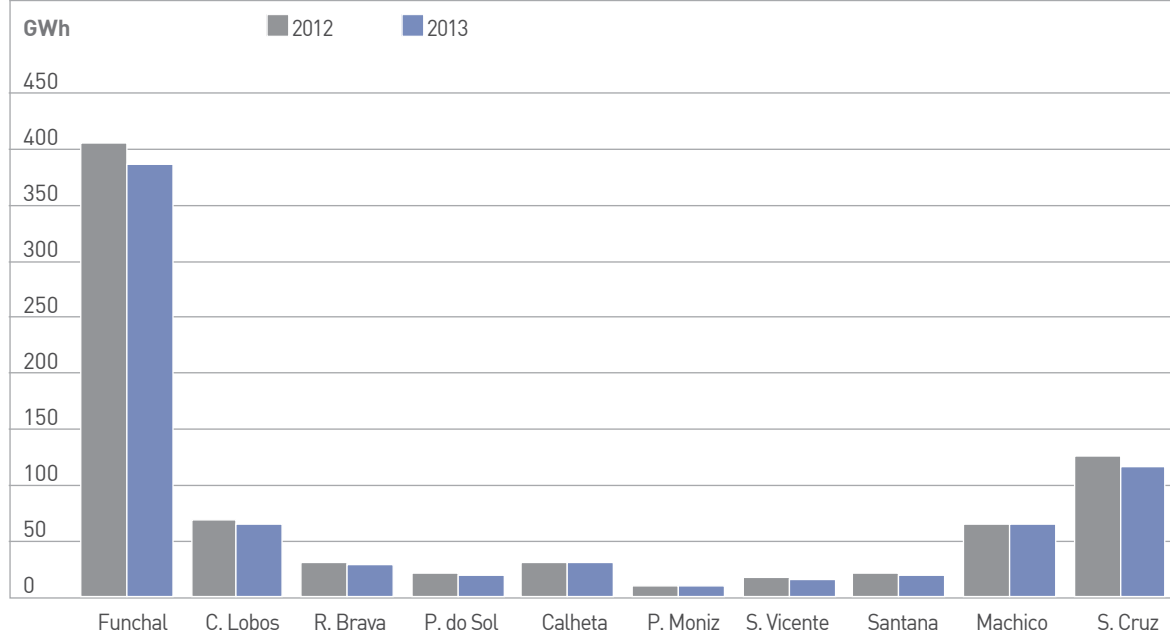
#### Consumption in Madeira Island per council - 2013

Funchal	51.3%	Porto Moniz	1.2%
Câm. de Lobos	8.5%	S. Vicente	2.1%
Rib. Brava	3.8%	Santana	2.6%
Ponta do Sol	2.6%	Machico	8.5%
Calheta	4.0%	Santa Cruz	15.4%



Regarding the consumption, the council that registered the lowest consumption rate decrease, in comparison to 2012, was the Calheta council, with a decrease of 0.9%.

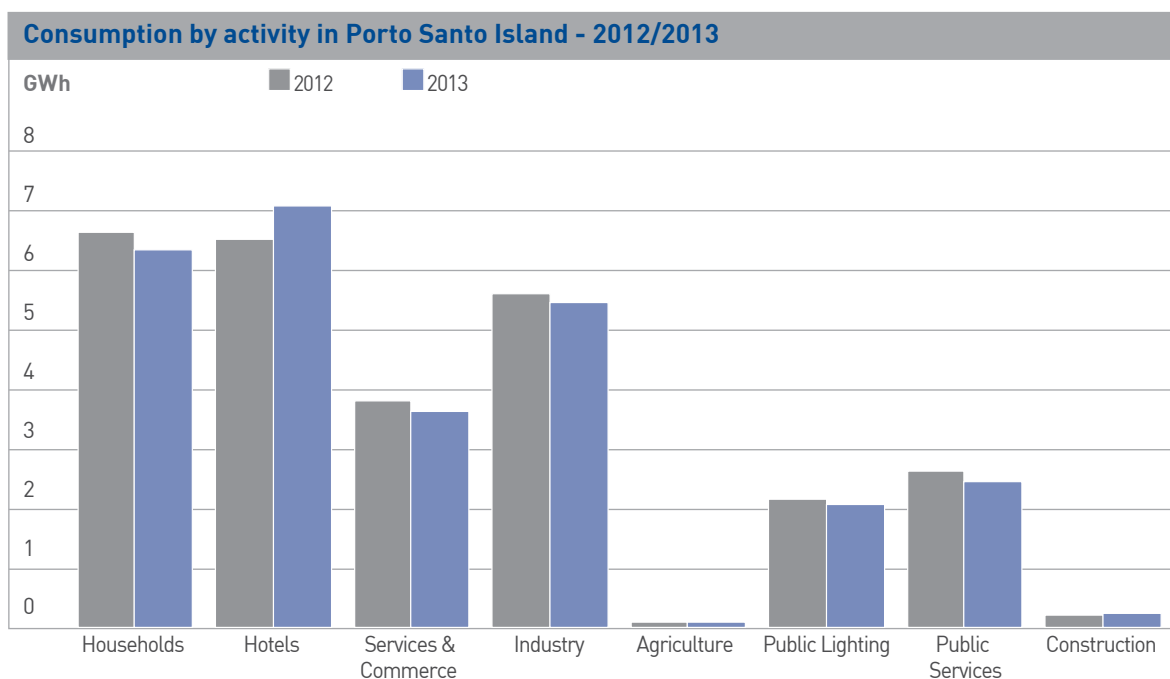
#### Consumption in Madeira Island per council - 2012/2013



In 2013, the electric network of Madeira contains 131,905 customers, of which 283 in a medium voltage level.

## B. Porto Santo Island

The evolution rate, regarding electricity consumption in the Porto Santo Island, compared to 2012, suffered a decrease of 1.1%, as a result of the economic activity slowdown.



The distribution of the main energy consumption by activities was: 25.8% in Hotels, 23.2% in Households, and 20.0% in Industry.

The Construction and Hotels sector's consumption increased by 13.8% and 8.6%, respectively, compared to 2012. On the other hand, it was registered a decrease of 12.8% in Agriculture, 6.4% in Public Services and 4.8% in Services & Commerce, compared to the previous year.

In 2013, the Porto Santo Island network contains 4,665 customers, including 20 in a medium voltage level. The consumption of medium and low voltage reached 10.46 GWh and 17.01 GWh, with a distribution of 38.1% and 61.9%, respectively.

## V. Service Quality

The characterisation of the Quality Service in RAM, is supported by the Regulation of the Quality Service (RQS), and it comprises essentially, the following areas:

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

In this context, EEM has armed itself of the necessary resources to fulfil the regulation framework, being distinguished, the following initiatives, in 2013:

- Installation and commissioning of a new equipment of Voltage Wave Quality System, in the new Pedra Mole Substation, with capacity for monitoring two voltage levels (60 and 30 kV);
- Installation of the new equipment in Vitória 30 kV Switchgear House, enabling the record of readings in both 30 kV buses;
- Commissioning of a new measuring point of the 60 kV bus, in the Vitória Switchgear House, with the equipment removed from the Vitória 30 kV Switchgear House;
- Improvements in the existent Voltage Wave System through: updating the software for communication management and database; acquiring software to verify the recorded data assessment, in order to improve the communication and recording process, enabling not only the new equipment connection, but also to adapt, more easily, to the regulatory requirements and specifications;
- Accomplishment of Customers satisfaction inquiries, aiming the general indicators of Customers evaluation and satisfaction.

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

The Service Continuity Indicators of transmission and distribution area, in 2013, are within the usual limits, meaning a suitable level of the service continuity. In this context, EEM continues to develop measures to minimize the number and duration of interruptions, through the introduction of technical improvements and remodelling of sections traditionally most affected. Outlining also the measures contemplated in the investment plan, which will allow a faster diagnosis of the cause of outages and respective location.

The Voltage Wave Quality measurements results fulfilled the conditions stipulated by the RQS. In this aspect, we highlight the introduction of new measurement points in all new substations or future renovations, enabling to monitor and control any signs of this nature.

Regarding the Commercial Quality the fulfilled indicators, in 2013, reveal that commercial activity has an equivalent performance to the previous year, which, in general are under the conditions stipulated in Service Quality Regulation (RQS). It should be noted that the EEM remains committed to the improvement of technology and human resources processes. It is worth noting the entry into productive the Work Force Management in order to automate the control of processes associated to services that require visits to customers, allowing the audit on times specified in RQS.

## VI. Unspecified Investments

The investments realised in unspecified areas by EEM in 2013, amounted to 1,711 thousand Euros, comprising the accomplishment of support infrastructures and initiatives in information area systems.

### VI.I - Support Infrastructures

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

- Acquisition of plots for the implementation of a warehouse, as well as the acquisition of land, near the João Gomes riverside, in Funchal, which will serve for the storage of larger materials to logistical support of the Public Lighting;
- Interventions of east and north facades of the Headquarters building;
- Other small interventions.

### VI.II - Information Systems

EEM continued to develop several initiatives to restructure and modernise the commercial and technical systems area, to improve the service to Customers as well as implementing changes in processes resulting from regulatory and legal charges. The main developments were as follows:

#### • SAP Developments

The upgrade of SAP platforms was mainly due to the initiation works for implementing the new SEPA direct debit systems.

#### • WFM – Work Force Management

In 2013, we accomplished the operationalisation of the EEM's work force management teams.

#### • Changes in Business Intelligence – reporting tools

During 2013, EEM has implemented a wide range of business reports, particularly in the financial component of the commercial area.

#### • Specialised Business Consulting

In continuity with the previous years, EEM developed a set of business activities included in the Specialised Business Consulting project.

#### • Data Center update (support to application platforms)

This update was due to the need to acquire more storage capacity for holding SAP copies machines during the implementation of the support package and SAP notes associated with the implementation of SEPA. This increase storage platform utilised by SAP will be reused by the virtualisation area projects, having a wide range of applications.

#### • Other projects

EEM developed during 2013 a number of projects, although in a structural scope, were confined in a small level, not presenting a high investment individually, namely: changes on the SGI and SIT technical platforms, aiming an improved integration, as well as to assure the loading of some unpredicted electric components, implementation of interactive tools concerning the new assiduity management system and the changing of some customer service processes such as improvements to the EEM site, updating the IT users support area, structure licenses (Office, SW servers, Exchange, etc. ...), among others procedures.

## VII. Human Resources

At 31st December 2013, EEM's staff was composed by 789 employees, thus being 779 as permanent staff and 10 under a short term contract.

Human Resources by functions					
	2009	2010	2011	2012	2013
Engineers	68	73	73	76	71
Others with university degree	36	36	36	37	42
Technical Engineers	9	8	8	8	8
Industrial Staff	459	459	446	411	421
Administrative Staff	256	255	249	257	235
Assistants	8	9	7	10	10
Employees under term contract	23	11	11	4	2
<b>Total</b>	<b>859</b>	<b>851</b>	<b>830</b>	<b>803</b>	<b>789</b>

From the 789 total employees, 747 rendered services in Madeira Island and the remaining 42 in Porto Santo Island.

### Professional training actions

During 2013, several training actions were accomplished, covering 408 employees in a total of 1,282 training hours, subdivided by 1.114 hours of external actions and 168 hours of internal actions.

# Economic and Financial Information





# 1 - Economic and Financial Information

## Context

In 2013, the global economic growth was situated at around 3%, which shows a slight slow down in global economic activity when compared to 3.1%, registered in the year 2012, and compared with the performance of the world economic activity in 2011 and 2010 showed a more significant decrease, around 4.5%. The mitigation in growth seen in the past two years, was in its essence, caused by private sector deleveraging in developed economies, by restrictive fiscal policies, for the deadlock in resolving the sovereign debt crisis in the Eurozone, uncertainty regarding negotiations in the U.S. Congress for limits on state debt and also by the decelerating growth of some of the major emerging economies.

The effects of the financial crisis, which began nearly five years ago, are still clearly visible in the markets and in the real economy, the global economic growth remains weak and there is still a degree of uncertainty and confidence in international financial markets.

After a recession period, the Eurozone began to improve in 2013, at a very slow and faint pace. In reality, there are still extremely high levels of unemployment, with special emphasis in youth unemployment, which associated with the decrease in available income has led to a general deterioration of living conditions of the population, causing social and political tensions which are not contributing positively to the required implementation of structural reforms.

Following the sovereign debt crisis that hit Europe, which determined that several Member States Governments of the European Union had to assume policies for fiscal consolidation, particularly in larger countries such as Italy and Spain, but also extensible to other peripheral countries such as Portugal, Ireland and Cyprus, the imbalances and the asymmetries between the center of Europe (balanced) and the periphery (unbalanced) became more visible and accentuated. In conclusion, the Eurozone GDP is expected to drop 0.4% in 2013, which represents a weak trend due to the contraction of 0.6% recorded in 2012. Though the Eurozone begins to show some signs of recovery, significant obstacles remain, most notably: a weak level of investment, difficult conditions of access to credit and a depressed job market, naturally delaying/conditioning the investment needed for a sustained economic recovery in terms of growth and employment.

In 2013, Portugal continued to implement the “Programa de Assistência Económica e Financeira” (PAEF) established with the Troika (ECB, EU and IMF), which included the adoption of a set of additional fiscal consolidation measures in the State Budget for 2013, which represented an increased tax burden, particularly in IRS; to which adds additional public spending cuts and reform measures of the State, with particular focus on the benefits and income of public staff and pensioners. The Portuguese economy began the year continuing the recession that drags on since 2010, showing, however, mostly from the 2nd half of 2013, an encouraging growth, although mild as already mentioned.

The impact that this new set of adjustment measures had in the Portuguese economy, given the necessary and insurmountable correction of macroeconomic imbalances existing until then (excess debt, budget and financial deficit), and that somehow, were cut across the various agents, namely: state, corporate and private, adding the spread of the crisis caused by sovereign debt in some of our major trading partners including Spain and Italy. It should be noted, however, that despite the expected contraction of the Portuguese economy arising from the application of a demanding program of adjustment it is notorious a progressive correction of imbalances, especially the reduction of the trade deficit and a more favourable than foreseen exports performance.

Regarding the implementation of the PAEF, the results of the 10th Troika Review indicates that the program continues to be globally performed in line with expectations, sorting the results obtained so far as positive, with the Entities acknowledging that it starts to emerge some signs of economic

recovery even though considered “fragile”. It is also noteworthy that the sense and confidence of the markets on the Portuguese sovereign debt has improved, recognised in the most recent debt issuance to 10 years, with interest rates of 3.6% and with a demand 3.5 times higher than supply.

The difficult and restrictive financing conditions of the Portuguese Republic in recent years have extended to the banking sector, resulting in an increase in household savings. In fact the “Ricardiana” economic theory developed by David Ricardo, one of the founders of the English classical school of political economy, argues that in times of greater austerity there is a greater propensity to save, which came to be confirmed in Portugal, with the rate of savings arising from 9.7% in 2011 to 12.0% in 2012 and 13.0% over 2013.

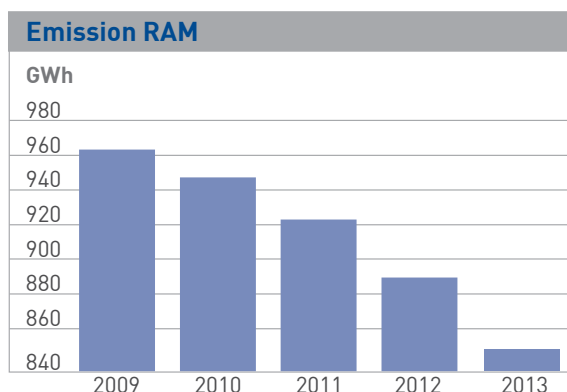
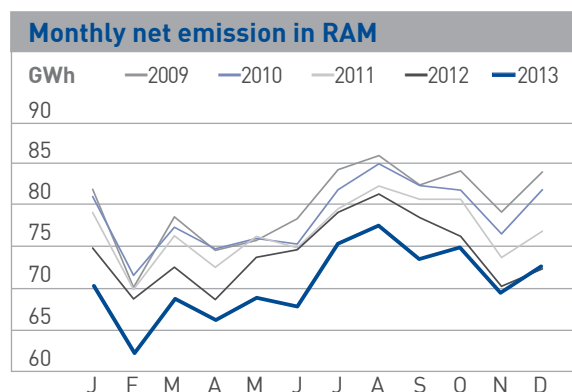
In this particularly adverse environment and in continuity with what has happened in the year 2012, it’s no surprise that 2013 was confirmed as another difficult year for Portuguese companies, because despite national banks have given some signs of some liquidity to finance the economy, the available financial resources are rare and expensive.

In the specific case of the Autonomous Region of Madeira, the year 2013 was marked by a continuation of the implementation of the adjustment program specific to the region, signed between the Regional Government and the Government of the Republic, named PAEF-RAM. This program includes a comprehensive set of measures to address the following objectives: to allow fiscal consolidation of the Autonomous Region of Madeira in order to restore the sustainability of public finances and restore the financing capacity of autonomous region. This path has been strictly enforced by the Regional Government of Madeira, as presented in the positive reviews on a quarterly basis, conducted by the Ministry of Finance of Portugal, which are crucial for achieving the disbursements necessary to meet the financing requirements of the region.

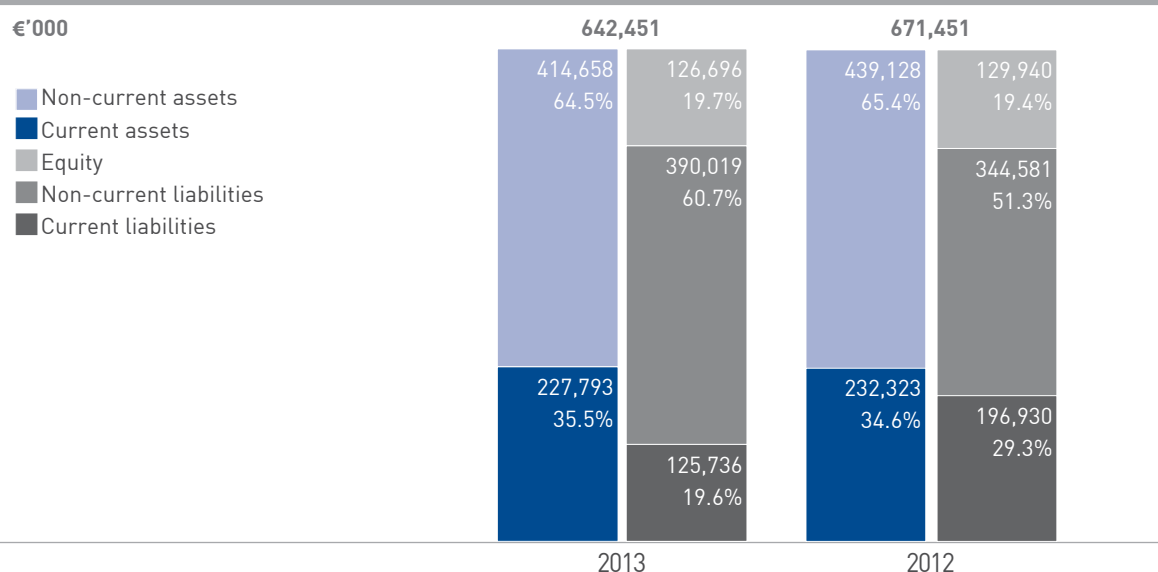
In this extraordinarily restrictive and adverse context, the EEM activities were strongly conditioned by the economic environment that surrounds it, therefore it was not possible to comply with the outlined investment plan for tariffs purpose, registering a decline of -82.3%, thus taking the company in line with the previous year, a contingency investment plan.

After the balance sheet date, more precisely in January 2014, and with no effect in the year 2013 were received amounts owed relating to tariff Convergence Agreement of electricity covering the years 1998-2002 in the amount of 18,622,560 Euros and the Tariff Compensation for 2009 in the amount of 25,612,181 Euros. The failure to comply with the settlement of these amounts, until January 2014, brought negative consequences for the company, and to its financial stability.

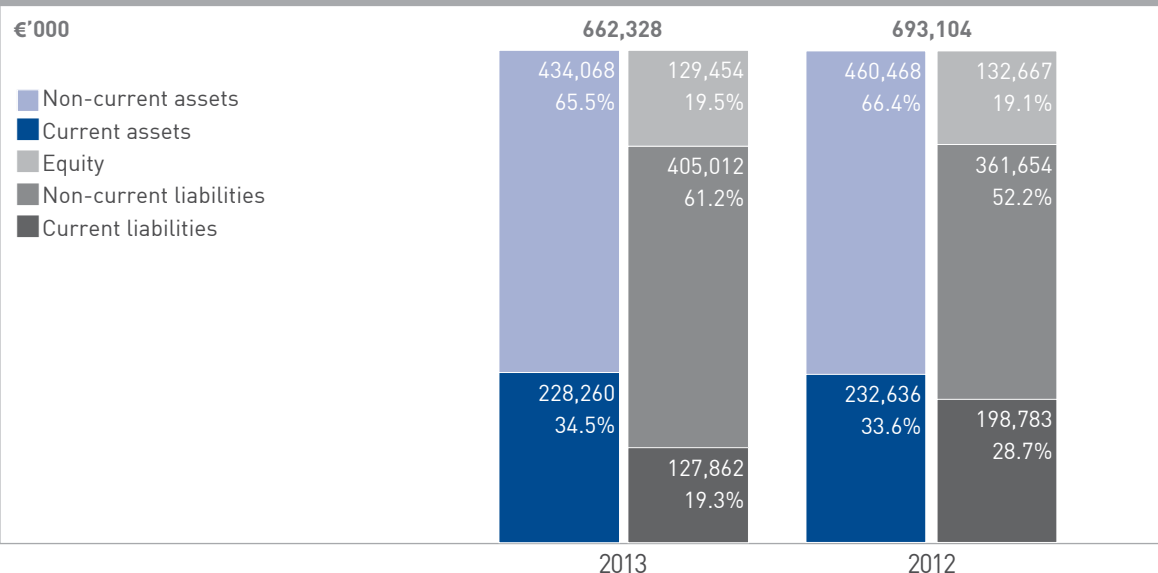
Taking into consideration what was mentioned above, EEM was left with the only possibility of taking a very criterions governance plan and simultaneously limited in a restrictive macroeconomic scenario of recession witch has caused a contraction of the production of electricity in recent years, with a decrease of 11.7% between 2009 and 2013, as shown by the following graphs:



### Individual Balance Sheet Structure



### Consolidated Balance Sheet Structure



## Balance

The total value of EEM balance in 2013 amounted to 642,451 thousand Euros (consolidated: 662,328 thousand Euros), decreasing 4.3% compared to 2012 (consolidated: 4.4%). Also the total net tangible assets and intangible assets, which represents 53.5% of the total assets of EEM (consolidated: 55.8%) reached 343,984 thousand Euros (consolidated: 369,770 thousand Euros), with a decrease of 5.4% compared to 2012 (consolidated: 5.5%).

Taking in consideration the economic and financial scenario of recent years, EEM, and in line with, what happened in 2011, adopted a very selective and quite moderate plan of investments. Nevertheless, in 2013 the total investment amounted to 12,462 thousand Euros (consolidated: 12,667 thousand Euros), an increase of 34.9% (consolidated: 35.5%) compared to the value of 9,239 thousand of Euros carried out in 2012 (consolidated 9,350 thousand Euros).

This increase was due to the fact that there was a need to initiate a series of works that were deferred by virtue of the financial environment in 2011 and 2012.

The investment is divided by the main activities of the EEM, as follows:

• Production:	2,125 thousand Euros;
• Transmission:	4,231 thousand Euros;
• Distribution/Commercialisation:	4,395 thousand Euros;
• Other activities:	1,711 thousand Euros;
• Subsidiary companies:	205 thousand Euros.

In the Production area, the investment in hydroelectric power plants amounted to 1,255 thousand Euros, including 431 thousand Euros related to remodelling of the hydroelectric system of Calheta and 463 thousand Euros spent on the reconstruction of various canals.

In the Transmission area, several interventions were performed at substations (3,069 thousand Euros) and dispatch/control monitoring centers (959 thousand Euros), being highlighted the investment in Pedra Mole Substation, amounting to 2,771 thousand Euros).

In the areas of Distribution/Commercialisation the most significant investments were made in low voltage networks (2,476 thousand Euros), medium voltage networks (868 thousand Euros), counting and measuring equipment's (564 thousand Euros) and transformation posts (329 thousand Euros).

In Other activities the investment regards essentially the information and communication systems which amounted to 812 thousand Euros. In the acquisition/remodelling of land and buildings were spent 803 thousand Euros.

Regarding the Subsidiary companies, no significant investment was made during the year 2013, reaching a total of 205 thousand Euros.

The balance Other investments presented a decrease of 967 thousand Euros worth of shares on an individual basis, was due mainly to the reduction of 1,213 thousand Euros in the fair value of listed shares on the stock exchange, combining with the increase in 326 thousand Euros of investments recorded by the equity method (MEP). During 2013, the company settled the "Sociedade Comboio do Monte", whose participation was recorded for 16 thousand Euros. On a consolidated basis, through the annulment of shares in Group companies, the financial investments, as a whole, devalued 1,292 thousand Euros.

The remaining items of non-current Assets, including protocols and contracts with Official Entities and tariff Convergence due to receive in more than one year, as well as deferred taxes, amounted to 53,690 thousand Euros (consolidated: 53,523 thousand Euros), having suffered a decrease of 6.5% compared to the previous year. This evolution stems mainly from the fact that the adjustment of the tariff 2012, receivable two years later (in this case in 2014), amounting to 22,531 thousand Euros have been transferred to current assets and by having been celebrated protocols of medium and long-term settlement of debts with Public Entities amounting to 13,261 thousand Euros, thus transferred from current to non-current assets.

The net deferred taxes increased 5,567 thousand Euros due to the change in FAQ 13 from CNC, which led to the transfer of the related deferred tax liability on government grants not recoverable to Other payables caption, whose effect was attenuated by means of changing the corporation tax rate in 2014 to 23% in accordance with the NCRF 22.

<b>Long-Term Capital</b>				
€'000	Group		Individual	
	2013	2012	2013	2012
<b>Shareholders' equity</b>				
Amount	129,454	132,667	126,696	129,940
%	24.2%	27.0%	24.5%	27.0%
<b>Medium and long-term liabilities</b>				
Amount	405,012	361,654	390,019	344,581
%	75.8%	73.0%	75.5%	73.0%
<b>Long-term capital</b>				
Amount	534,466	494,321	516,715	474,521
%	100.0%	100.0%	100.0%	100.0%

The Long-term Capital (Equity capital and medium-long term liabilities) represent 80.4% (consolidated: 80.7%) of the total balance, ensuring an adequate coverage of financial fixed assets.

The Shareholders' equity in the amount of 126,696 thousand Euros (consolidated: 129,454 thousand Euros), decreased by 2.5% (consolidated: 2.4%), and the net income reached 4,174 thousand Euros (profit attributable to the Group: 4,128 thousand Euros).

The Medium and long-term liabilities increased 13.2% over the previous year, mainly due to the disbursement of the last instalment in the amount of 35,000 thousand Euros, a loan from the EIB, yielding a net increase of the amount outstanding in the medium and long-term, from financial institutions in the amount of 31,976 thousand Euros.

Contributing to this increase, arises in 2013 under Other payables - non-current caption in the amount of 10,757 thousand Euros, corresponding to the 2013 tariff Adjustment to be returned in 2015 (4,922 thousand Euros) and the transfer to deferred tax liability caption in the amount of 5,835 thousand Euros (consolidated: 5,857 thousand Euros) related to non-repayable investment subsidies, due to the aforementioned change occurred in the writing of FAQ 13 of the CNC.

Still in Medium and long-term liabilities, there was an increase in liabilities for post-employment benefits in the amount of 379 thousand Euros, due to the update of actuarial assumptions.

## Working Capital

€'000	Group		Individual	
	2013	2012	2013	2012
Current assets	228,260	232,636	227,793	232,323
Current liabilities	127,862	198,783	125,736	196,930
Working capital	100,398	33,853	102,057	35,393

The Current assets in the amount of 227,793 thousand Euros (232,323 thousand Euros in 2012), shows a decrease of 4,530 thousand Euros.

This variation results from the reduction of the net balance of clients around 14,111 thousand Euros, as a result of the Protocols with Public Entities and by the recovery of debts from clients, as well as the decrease of 1,600 thousand Euros of the collateral of an international transaction coverage interest rate, which more than offset the positive change of the caption Other receivables which resulted from the increase in the balance of tariff compensation in the amount of 8,368 thousand Euros and the loans to affiliated companies in the amount of 4,225 thousand Euros.

The Current liabilities amounted to 125,736 thousand Euros, a decrease of 71,194 thousand Euros compared to 2012.

This variation is mainly explained by the reduction of capital in short-term debt to credit institutions in the amount of 56,310 thousand Euros, reduction in balance of suppliers and other creditors (including the State) in the amount of 11,715 thousand Euros and the reduction of 2,323 thousand Euros of Other financial liabilities, through the evolution of a Mark to Market of an international transaction coverage rate. The current liabilities amounted to 125,736 thousand Euros, a decrease of 71,194 thousand Euros compared to 2012.

The overall loans obtained with financial institutions decreased by 24,334 thousand Euros (consolidated: decrease of 26,152 thousand Euros), while the medium and long term loans represented 90.0% (2012: 76.1 %) of the value of bank liabilities in 2013.

## Income Statement

### Operating Income

#### Operating Revenues

€'000	Group					Individual				
	2013	%	2012	%	△ %	2013	%	2012	%	△ %
Sales	198,521	94.1%	216,670	92.8%	(8.4%)	198,570	93.9%	216,718	92.6%	(8.4%)
Services rendered by third parties	1,163	0.6%	1,124	0.5%	3.5%	506	0.2%	439	0.2%	15.3%
Imputed gains of associates	542	0.3%	495	0.2%	9.5%	1,847	0.9%	1,660	0.7%	11.3%
Own work capitalised	5,856	2.8%	5,946	2.5%	(1.5%)	5,856	2.8%	5,946	2.5%	(1.5%)
Other revenues	4,678	2.2%	9,436	4.0%	(50.4%)	4,647	2.2%	9,424	4.0%	(50.7%)
<b>Total</b>	<b>210,760</b>	<b>100.0%</b>	<b>233,671</b>	<b>100.0%</b>	<b>(9.8%)</b>	<b>211,426</b>	<b>100.0%</b>	<b>234,187</b>	<b>100.0%</b>	<b>(9.7%)</b>

In 2013, on an individual basis, the caption Sales amounted to 198,570 thousand Euros (216,718 thousand Euros in 2012), including:

- 120,196 thousand Euros in energy sales;
- 83,670 thousand Euros in tariff Convergence 2013;
- -4,824 thousand Euros related to the 2013 tariff Adjustment to return in 2015;
- -481 thousand Euros related to the correction of the 2012 Adjustment to receive in 2014;
- 9 thousand Euros on sales of goods.

The energy sales in the Autonomous Region amounted to 120,196 thousand Euros (2012: 121,965 thousand Euros), representing a decrease of 1.5% compared to last year. This evolution follows the average rise in electricity rates by 3.4% and a 4.7% decrease in the consumption of electricity.

The investments executed by EEM through work own capitalised, amounted to 5,856 thousand Euros, representing a slight decrease of 1.5% over the previous year (5,964 thousand Euros).

The caption Other operating income reached 4,647 thousand Euros, representing a decrease of 4,777 thousand Euros compared to 2012. This caption includes 2,679 thousand Euros relating to the recognition in government grants (2012: 3,972 thousand Euros) and 1,695 thousand Euros regarding the value of the subsidy to exploitation on the value of CO2 allowances, consumed in 2013, which had been allocated for free in 2012 under the PNALE II (2012: 5,200 thousand Euros). Should be noted that with the publication of Decree-Law 38/2013, of 15 March, transposing into national law Directive N.º 2003/87/CE of the European Parliament and of the Council of 13 October 2003 on the establishment of a trading system allowances for greenhouse gas emissions (CELE), new rules for the allocation of allowances for the post-2012 period were stipulated, no longer being the production of electricity eligible for the assignment of free emission allowances.

## Expenses

Operating Expenses										
€'000	Group					Individual				
	2013	%	2012	%	△ %	2013	%	2012	%	△ %
Cost of sales - Materials	4,826	3.2%	4,027	2.4%	19.8%	4,825	3.1%	4,027	2.4%	19.8%
Cost of sales - Raw material	52,187	34.0%	64,454	38.5%	(19.0%)	52,187	33.6%	64,455	37.7%	(19.0%)
Cost of sales - Electric energy acquisition	46,122	30.2%	48,559	29.0%	(5.0%)	49,887	32.0%	52,515	30.7%	(5.0%)
Services rendered by third parties	10,667	7.0%	10,131	6.0%	5.3%	10,204	6.5%	9,596	5.6%	6.3%
Staff expenses	30,338	19.9%	30,004	17.9%	1.1%	30,166	19.3%	29,839	17.5%	1.1%
Others	8,679	5.7%	10,447	6.2%	(16.9%)	8,633	5.5%	10,383	6.1%	(16.9%)
<b>Operating Expenses Subtotal</b>	<b>152,819</b>	<b>100.0%</b>	<b>167,622</b>	<b>100.0%</b>	<b>(8.8%)</b>	<b>155,902</b>	<b>100.0%</b>	<b>170,815</b>	<b>100.0%</b>	<b>(8.7%)</b>

Other Operating Expenses										
€'000	Group					Individual				
	2013	%	2012	%	△ %	2013	%	2012	%	△ %
Impairment	(3,922)	(12.4%)	3,445	8.4%	(213.8%)	(3,922)	(13.2%)	3,445	8.8%	(213.8%)
Provisions	2,115	6.7%	1,950	4.8%	8.5%	2,115	7.1%	1,950	5.0%	8.5%
Impairment of investment (gains/reductions)	3,313	10.5%	-	0.0%	0.0%	3,267	11.0%	40	0.1%	8067.5%
Gains/Reductions of fair value	(1,110)	(3.5%)	3,785	9.2%	(129.3%)	(1,110)	(3.7%)	3,785	9.7%	(129.3%)
Depreciations and adjustments	31,174	98.7%	31,818	77.6%	(2.0%)	29,340	98.8%	29,961	76.4%	(2.1%)
<b>Other Operating Expenses Subtotal</b>	<b>31,570</b>	<b>100.0%</b>	<b>40,998</b>	<b>100.0%</b>	<b>(23.0%)</b>	<b>29,690</b>	<b>100.0%</b>	<b>39,181</b>	<b>100.0%</b>	<b>(24.2%)</b>
<b>Total</b>	<b>184,389</b>		<b>208,620</b>		<b>(11.6%)</b>	<b>185,592</b>		<b>209,996</b>		<b>(11.6%)</b>

The Operating expenses amounted to 155,902 thousand Euros (consolidated: 152,819 thousand Euros), representing a decrease of 8.7% compared to 2012 (consolidated: 8.8%). This decrease of 14,913 thousand Euros (consolidated: 14,803 thousand Euros), is essentially explained by the details given in the following paragraphs.

The consumption of materials shows an increase of 798 thousand Euros. This evolution is explained by the increase of maintenance and interventions of equipment that affects the production activity. Still this caption remains with relatively low values compared to 2010, year on that this caption amounted to 8,753 thousand Euros.



The cost of raw materials, including fuel, amounted to 52,187 thousand Euros, showing a decrease of 12,268 thousand Euros (19.0%) over the previous year. The evolution of the average Brent price associated with the depreciation of the U.S. dollar led to a reduction in the average unit cost of fuel in 2013 (the average unit cost of fuel in 2013 decreased 11.0% compared to 2012). In addition, the production of thermal origin decreased by approximately 8% due to the decrease in demand.

Thus, the decrease of 42.5 GWh in the total energy produced in RAM, has been almost entirely accommodated by the reduction in thermal output of EEM in 42.3 GWh.

<b>EEM's Production</b>								
GWh	Group				Individual			
	2013	%	2012	%	2013	%	2012	%
Hydro	71.76	12.6%	70.90	11.6%	71.76	13.7%	70.90	12.6%
Wind plants*	45.89	8.1%	47.99	7.8%	0.29	0.1%	0.09	0.0%
Thermal	450.32	79.3%	492.62	80.6%	450.32	86.2%	492.62	87.4%
<b>Total</b>	<b>567.97</b>	<b>100.0%</b>	<b>611.51</b>	<b>100.0%</b>	<b>522.37</b>	<b>100.0%</b>	<b>563.61</b>	<b>100.0%</b>

\*The production of ENEREEM was 45.60 GWh in 2013 and 47.90 GWh in 2012.

The acquisition of energy from third parties remained roughly the same of the previous year, reaching 337.3 GWh, including 45.60 GWh acquired from Enereem, the company responsible for the management of wind farms of EEM Group.

<b>Electric energy acquisition</b>								
GWh	Group				Individual			
	2013	%	2012	%	2013	%	2012	%
Hydro	4.95	1.7%	4.20	1.4%	4.95	1.5%	4.20	1.2%
Wind plants	36.70	12.6%	35.47	12.2%	82.30	24.4%	83.37	24.6%
Thermal	192.12	65.9%	192.40	66.3%	192.12	57.0%	192.40	56.9%
Waste incineration	25.71	8.8%	27.72	9.5%	25.71	7.6%	27.72	8.2%
Photovoltaic	27.46	9.4%	27.34	9.4%	27.46	8.1%	27.34	8.1%
Mini/Micro generation	4.73	1.6%	3.47	1.2%	4.73	1.4%	3.47	1.0%
<b>Total</b>	<b>291.67</b>	<b>100%</b>	<b>290.60</b>	<b>100.0%</b>	<b>337.27</b>	<b>100.0%</b>	<b>338.50</b>	<b>100.0%</b>

The average unit cost of purchased energy decreased, leading to a reduction of the total purchase by 5.0% compared to 2012. This was achieved especially by the energy of thermal origin, the most relevant in the mix of energy purchases to third parties (individual: 57.0%; consolidated: 65.9%) due to the reduction in the price of raw materials, as mentioned above. As can be seen from the previous table, the mix of acquisitions by energy source maintained roughly the same composition as in the previous year. Despite the low relevance in absolute terms, we highlight the evolution of mini / micro production, which increases 36.3% compared to 2012.

Thus, the cost of the acquisition of energy to third parties decreased by 5.0%, in other words, -2,628 thousand Euros (consolidated: 5.0%, -2,437 thousand Euros), reaching 49,887 thousand Euros (consolidated: 46,122 thousand Euros). Individual accounts include 3,765 thousand Euros of energy acquired to the subsidiary Enereem.

The caption Supplies and services increased 6.3% (consolidated: 5.3%). This growth is due mainly to the increase registered in maintenance and repair, of equipment's that affects the production activity.

The total Staff expenses caption amounted to 30,166 thousand Euros, showing an increase of 1.1% compared to the amount of this caption in 2012 (29,839 thousand Euros). This variation is in essence due to the following factors:

- in 2013, and as in previous years, the EEM and its subsidiaries have fully implemented the application of the salary reduction measures included in the State Budget for 2013, aiming to reduce the salaries applicable to sovereign bodies and Public Administration including public institutes, regulatory authorities and public companies. EEM being a public company held exclusively by public capital (Regional Legislative Decree n.º 14/94/M, of 3 June) and since the Madeira Regional Government undertook a rigorous implementation of measures to reduce remuneration (included in State budgets), covering public managers and employees of Public Enterprises of exclusive or majority public capital and public regional business entities (42/2012/M regional Legislative Decree of 31 December), EEM proceeded to apply a progressive reduction rates system, covering the monthly remunerations exceeding 1,500 Euros.

Moreover, in 2012, the full suspension of holiday pay and Christmas was in force for workers in the public sector, with salaries above 1,100 Euros, and partially for workers with wages between 600 and 1,100 Euros. Thus, in 2012, the EEM has not registered the charge relating to the Christmas year subsidy, considering only 13 months' salary, following the declaration of unconstitutionality of the norm of the state budget for 2013 which provided for the suspension of holiday pay.

In the accounts for 2013, according to the law, personnel expenses shall include the identical salary reductions to 2012, but considering the Christmas subsidy burden by mirroring 14 months of pay, resulting in an increase in spending with staff caption of 5.8% over the previous year;

- EEM has been implementing a rigorous workers admissions policy. The continuity of this policy, together with the constant demand for ever greater efficiency in resources in general, and human resources in particular, as well as setting limits for the reduction in the number of workers, due to the adjustment program, which allowed in 2013 a reduction of 14 active employees, which means a reduction of 803 to 789 active workers, corresponding to -1.7% compared to 2012. Compared to 2010 there is a decrease of 7.3%;
- In accordance with market and sector best practices there were reviewed some of the basic assumptions of the actuarial study on the post-employment benefit liabilities, including the discount rate and the mortality table. Thus, pension spending recorded in 2013 amounted to 2,397 thousand Euros.

Thus, although overall staff costs present a growth of 1.1%, excluding the gain corresponding to the fees paid with the Christmas subsidy in 2013 and suspended in 2012, personnel costs decreased by 4.8% over the year above.

The amount recorded in Other expenses and losses caption amounted to 8,633 thousand Euros, decreasing by 16.9% over the previous year. This caption recorded 7,540 thousand Euros (7,601 thousand Euros in 2012) relating to municipal occupancy rate of the public domain for electrical infrastructure, by applying the rate of 7.5% on sales of electric energy at low tension in each municipality in the Autonomous Region of Madeira. The remaining amount of other expenses and losses caption correspond essentially to direct and indirect (Imposto Selo) taxes, expenses related to easements (surface rights) and indemnities paid to customers for damages caused by network disruption. These expenses have decreased by 251 thousand Euros compared to the previous year. However, much of the variation in this caption derives from the accounting capital loss, recorded in 2012, amounting to 1,438 thousand Euros, resulting from the difference between the total value of sales of CO2 allowances and its book value (see note "European Emission Trading System" in Section 3), which in 2013 has not occurred because no allowances sales were made.

The impairment of receivables shows in 2013 a reversal of 3,922 thousand Euros, reflecting a shift in capacity and efficiency of collecting debts from customers. As previously mentioned, protocols were celebrated throughout 2013, with Public Entities, with the objective of defining plans for the recovery of outstanding amounts from previous years. There was also a decrease of 6,395 thousand Euros of the total outstanding amount by way of recovery of debts which had significant amount overdue, as well as greater efficiency in collecting current debt, especially from public entities.

The amount recorded in Provisions reached 2,115 thousand Euros, refers to the strengthening of the provision to meet the contingencies arising from EEM's activity.

The Impairment of non-depreciable investments recorded in 2013, amounting to 3,313 thousand Euros, is related to the uncertainty about the future development of the work currently in progress for the construction of a terminal for unloading liquefied natural gas (LNG). Given the changes in the economic and financial environment, since the beginning of the preparatory work on this project, which brought restrictions on the ability to obtain bank financing as conducted to a review of the assumptions that were based on the evaluation of the viability of this project, namely, regarding the outlook for economic growth with direct influence on estimates of consumption of this product, EEM considered suspending the activities related to it but has not, however, abandoned the goal of building an LNG terminal in Madeira.

As mentioned above, and understanding how fundamental the use of LNG in the production of electricity, either for reasons of diversification of energy sources used or for environmental reasons, such as reducing the emission of harmful gases, EEM decided for a mid-term and flexible solution, based on the installation of a natural gas unit for reception, storage and regasification of natural gas to supply only the three dual-fuel groups that are located on "Nave III" of CTV. The EEM launched in due course, an international public tender for the supply of LNG to this "Nave" aiming to replace the fuel-oil currently consumed by these three groups, with the beginning of the use of this raw material in the month of March 2014.

The positive change in fair value in the amount of 1,110 thousand Euros, arises from the net effect of the resulting increase of 2,323 thousand Euros in financial derivative instruments, at fair value through profit or loss, and the devaluations recorded on quoted investments, amounting of 1,213 thousand Euros.

In 2013, the value of the Depreciation and amortisation from EEM amounted to 29,340 thousand Euros (consolidated: 31,174 thousand Euros), 2.1% less than in 2012. This caption includes amortisation expenses relating to the consumption of CO2 allowances of the year, which amounted to 1,986 thousand Euros (2,295 thousand Euros in 2012) (see note "European Emission Trading System" in Section 3). Thus, the remaining amount referring to the depreciation and amortisation expenses relating to fixed tangible and intangible assets in 27,354 thousand Euros (consolidated: 29,188 thousand Euros), representing a decrease of 1.1% from 2012.

The caption Interest and similar income in the amount of 2,860 thousand Euros, increased by 38.9% over the previous year. This increase was due primarily to the recognition of interest relating to tariff convergence of 2009, received at the beginning of 2014, amounting to 1,439 thousand Euros. The interest charged for late payment of energy remained at the same level as the previous year, amounting to 707 thousand Euros.

The Interest and similar expenses, reached 22,437 thousand Euros (consolidated: 22,586 thousand Euros), representing a decrease of 3.1% compared to 2012. It should be noted that the amount of interest and similar expenses is net of capitalised financing charges, the amount of which in 2013 was 303 thousand Euros (277 thousand Euros in 2012). For this positive development, contributed the reduction in capital owed to financial institutions in 24,334 thousand Euros, and the average decrease of the reference rates over the previous year. Throughout 2013, and unlike last year, there was no worsening of spreads and commissions associated with the financing liabilities.

## Results

Results										
€'000	Group					Individual				
	2013	%	2012	%	△ %	2013	%	2012	%	△ %
Profit before depreciation, financing costs and taxes	198,521	94.1%	216,670	92.8%	(8.4%)	198,570	93.9%	216,718	92.6%	(8.4%)
Operating results	1,163	0.6%	1,124	0.5%	3.5%	506	0.2%	439	0.2%	15.3%
Financial results	542	0.3%	495	0.2%	9.5%	1,847	0.9%	1,660	0.7%	11.3%
Profit before tax	542	0.3%	495	0.2%	9.5%	1,847	0.9%	1,660	0.7%	11.3%
Income tax	5,856	2.8%	5,946	2.5%	(1.5%)	5,856	2.8%	5,946	2.5%	(1.5%)
Net income	4,678	2.2%	9,436	4.0%	(50.4%)	4,647	2.2%	9,424	4.0%	(50.7%)
<b>Total</b>	<b>211,302</b>	<b>100.0%</b>	<b>234,166</b>	<b>100.0%</b>	<b>(9.8%)</b>	<b>213,273</b>	<b>100.0%</b>	<b>235,847</b>	<b>100.0%</b>	<b>(9.7%)</b>

The Net cash flow before depreciation, financing costs and taxes in 2013, shows an increase of 1.9% (consolidated: 1.2%) compared to 2012, reaching 55,174 thousand Euros (54,152 thousand Euros in 2012). The consolidated results before depreciation, financing costs and taxes amounted to 57,545 thousand Euros (2012: 56,869 thousand Euros).

A very significant change in Income tax is related to the impact of the change in the corporate tax rate from 25% to 23% in deferred taxes as well, with the amendment to the FAQ of CNC 13, previously mentioned, implying that, from 2013 onwards it won't be reflected in the income statement, the deferred tax associated with the recognition in income of the year of investment subsidies.

## EEM's Contributions to the State

In 2013, EEM Group and its employees have contributed directly to the Portuguese State, revenues in the amount of 47,745 thousand Euros, showing a large increase over the previous year, as shown in the following table:

EEM's contributions for the State										
€'000	Group					Individual				
	2013	%	2012	%	△ %	2013	%	2012	%	△ %
<b>Company:</b>										
Corporate income tax	961		1,285		(25.2%)	578		875		(33.9%)
Other tax	31,920		21,715		47.0%	31,118		20,767		49.8%
Social security costs	5,158		4,607		12.0%	5,127		4,578		12.0%
	<b>38,039</b>	<b>83.2%</b>	<b>27,607</b>	<b>83.0%</b>	<b>37.8%</b>	<b>36,823</b>	<b>82.8%</b>	<b>26,220</b>	<b>82.4%</b>	<b>40.4%</b>
<b>Staff:</b>										
Personnel income tax	5,267		3,513		49.9%	5,223		3,482		50.0%
Social security costs	2,439		2,134		14.3%	2,425		2,120		14.4%
	<b>7,706</b>	<b>16.8%</b>	<b>5,647</b>	<b>17.0%</b>	<b>36.5%</b>	<b>7,648</b>	<b>17.2%</b>	<b>5,602</b>	<b>17.6%</b>	<b>36.5%</b>
<b>Total</b>	<b>45,745</b>		<b>33,254</b>		<b>37.6%</b>	<b>44,471</b>		<b>31,822</b>		<b>39.7%</b>

This growth is largely explained by the fact that the VAT rate of 22% has been applied to sales of energy, throughout the year 2013 (in April 2012, the rate of VAT on energy sales rose 16% to 22%).

The increase in the income tax is related to differences between book and tax results, resulting mainly from the application of the equity method, spending on post-employment benefits and provisions with no tax relevance.

The increase in social charges and items of IRS is directly associated with the evolution of personnel expenses as well as higher taxes on the income of singular individuals, occurred in 2013.

## Gross Added Value

The gross added value reached the amount of 83,843 thousand Euros (consolidated: 87,738 thousand Euros), representing a decrease of 8.4% (consolidated: 8.2%) compared to 2012.

## Companies included in consolidation method

The subsidiaries included in the consolidation by the integral consolidation method, as at 31 December 2013 are presented as follows:

Designation							
€'000	Share Capital	Total Assets	Total Liabilities	Total Equity	Sales and services Rendered	Net Profit for the Period	% Group
Casa da Luz - Empreend. Turísticos Similares, Unip., Lda.	99,760	2,324,255	1,907,552	416,703	30,976	8,836	100.00%
Enereem - Energias Renováveis, Lda.	49,880	23,910,340	17,894,859	6,015,481	3,765,167	1,021,636	92.50%
Emacom - Telecomunicações da Madeira, Unip., Lda.	49,880	1,347,168	859,473	487,695	898,197	427,815	100.00%

Enereem - Energias Renováveis, Lda. (Enereem), whose main activity is the production of energy from renewable sources, with the main focus on wind component. Being the Company with the largest installed wind capacity in RAM, it has added responsibilities on the balance of the regional power system, looking to contribute so that they can safely reach levels of integration of wind power without parallel in isolated and small scale networks so it should not be reductively perceived as a mere instrument of EEM Group for the production of energy.

Emacom, Telecomunicações da Madeira, Unipessoal, Lda. (Emacom), is the entity responsible for the EEM Group Contact Center, fulfilling a vital role in managing the associated telecommunications, transport and distribution activities of electric energy.

Casa da Luz - Empreendimentos Turísticos, Similares Unipessoal, Lda. (Museu Casa da Luz), whose main activity is the exploration of the museum. Apart from reflecting the history of electricity in Madeira from 1897 to date, from the simple knowledge of electricity to its widespread use in multiple applications, also intends to be a place of knowledge transmission, which projects the role that electricity is expected to play and discuss the importance of renewable energy and rational use of energy. Thus characterised as something intrinsic to EEM, the memory and heritage of its history and culture, as well as a good that transcends when considered in its size and significance to the regional heritage.

## Economic and Financial Indicators

### Economic Structure

€'000	Group		Individual	
	2013	2012	2013	2012
Net income	4,128	4,541	4,174	4,500
Sales and services provided	199,685	217,794	199,076	217,158
EBITDA	57,545	56,869	55,174	54,152
Depreciations and adjustments	31,174	31,818	29,340	29,961
Financial expenses	22,586	23,519	22,437	23,164
Staff expenses	30,338	30,004	30,166	29,839
Gross value added	87,738	95,558	83,843	91,552
N.º of employees	799	814	789	803
Staff productivity	110	117	106	114
Average costs per employee	38	37	38	37
Financial expenses in gross value added	0.26	0.25	0.27	0.25
Staff costs in gross value added	0.35	0.31	0.36	0.33
Depreciations and adjustments in cash flow EBITDA	0.54	0.56	0.53	0.55
Return on Equity	3.19%	3.42%	3.29%	3.46%
Net income / Energy power sales and services provided	2.07%	2.08%	2.10%	2.07%

### Financial Structure

€'000	Group		Individual	
	2013	2012	2013	2012
Current assets	228,260	232,636	227,793	232,323
Non-current assets	434,068	460,468	414,658	439,128
Total assets	662,328	693,104	642,451	671,451
Current liabilities	127,862	198,783	125,736	196,930
Non-current liabilities	405,012	361,654	390,019	344,581
Total liabilities	532,874	560,437	515,755	541,511
Bank debts	396,678	423,101	380,311	404,915
Equity	129,454	132,667	126,696	129,940
Fixed capital	534,466	494,321	516,715	474,521
Working capital	100,398	33,853	102,057	35,393
Coverage of non-current assets by equity	0.30	0.29	0.31	0.30
Coverage of non-current assets by fixed capital	1.23	1.07	1.25	1.08
Indebtedness - (Total liabilities / Total assets)	0.80	0.81	0.80	0.81
Shareholders' equity / Total assets	0.20	0.19	0.20	0.19
Non-current liabilities / Fixed capital	0.76	0.73	0.75	0.73
Solvency - (Total liabilities / Total assets)	1.24	1.24	1.25	1.24
Liquidity - (Current assets / Short-term liabilities)	1.79	1.17	1.81	1.18

## Other disclosures

The relevant facts that occurred after the end of the financial year are disclosed in Note 46 of the individual and consolidated financial statements.

Under Article 397º of the CSC, during the year 2013 did not exist, authorisations for transactions between the Company and its Directors.

Under Article 447º of the CSC, members of the governing bodies do not hold title to any shares and/or obligations of the Company, to the extent that this is wholly owned by the Government of the Autonomous Region of Madeira.

The company does not have any outstanding debts to the Tax Administration, or Social Security.

## **2 - Proposed Appropriation of net Income**

In accordance with article 19° of EEM's Statues, the Board of Directors proposes the following application of 2013 Company's net Income, amounting to 4,174,217.67 Euros:

Statutory Reserve	417,421.77 Euros
Retained Earnings	3,756,795.90 Euros

## 3 - Environment

### Introduction

The great challenge towards the Autonomous Region of Madeira, regarding the electric energy domain, is to reconcile the socio-economic development with the need to reduce the demand for imported energy and dependence on foreign energy, while minimizing the environmental impacts resulting from the use of fossil fuels.

Following the strategic guidance for sustainable development framed in the Sustainable Energy Action Plan, EEM, during 2013, continuing with the previous year projects and launched new environmental challenges in order to prevent, reduce and repair environmental damages reaching a total cost of 1,400 thousand Euros, divided through the following domains:

Environment			
€'000	Investment	Exploitation Costs	Global
Residual waters management	-	7	7
Waste management	-	250	250
Other environmental protection activities	49	94	143
Noise and vibration protection	-	9	9
Biodiversity and landscape protection	-	53	53
Air and climate protection	359	469	828
Soils, underground and superficial waters protection	-	110	110
<b>Total</b>	<b>409</b>	<b>991</b>	<b>1,400</b>

There was an overall decrease of 25.5%, compared to 2012, that amounted to 1,880 thousand Euros, justified by an investment slowdown, reflecting the adverse global economic situation. However, on the other hand, there was a significant increase in operating costs for protection activities such as noise and vibration, as well in biodiversity and landscape, as in air and climate quality.

It should be pointed out, during the year the sale of residues in the amount of 38 thousand Euros, of which 34 thousand Euros regarding ferrous and non-ferrous materials, value thus deducted directly to waste management in the amount of 250 thousand Euros.

In the Other activities of the Environmental Protection caption that covers the following main actions: environmental management procedures, accountancy and reports, professional training actions in this specific area and further issues not included in the other caption referred in this table.

### Environmental Performance

EEM has an Environmental Management System, certified according to the reference standard NP EN ISO 14001 since 2012, embracing all sectors of activity developed by EEM in Madeira Island, which is proving to be a key management tool to promote a continuous improvement and raise its environmental performance.



## EEM's Objectives and Environmental Management Program Plan

Regarding to the EEM's Objectives and Environmental Management Program Plan for 2013, there was a 65% overall implementation of the proposed environmental objectives, as referred below. However, as can be observed, such rate does not allow an assessment of compliance by goal, in some cases of 100%, whereas in others, the process has not started, shifting to the 2014 program.

Environmental objective	Achievement [%]
Internal auditing	100.0%
Training actions	11.0%
Update of environmental legislation	81.0%
Reduce the water consumption	48.0%
Reduce the specific water consumption	0.0%
Preservation and conservation of the hydro domain surrounding CTV	100.0%
Reduce the consumption of electricity	72.0%
Promote the use of the electric car	0.0%
Reduce the paper consumption	0.0%
Optimise the fuel-oil consumption	81.0%
Optimise the diesel consumption in EEM's auto fleet	0.0%
Quantify the EEM's municipal solid waste	92.0%
Reduce the gas emissions of the Public Electricity Supply System (SEPM)	100.0%
Monitoring of the surrounding air quality of CTV	100.0%
Minimise the occurrence of spills	0.0%
Implementation of rules on fire safety in buildings	93.0%
Study of acoustic conditioning of hydropower plants that don't comply with general noise regulation	67.0%
Characterisation of noise emissions from Substations	25.0%
<b>Global accomplishment</b>	<b>65.0%</b>

Regarding the main environmental actions controlled during 2013, it has to be highlighted the following:

### Gas emissions on the Public Electricity Supply System (SEPM)

In 2013, the variation in atmospheric emissions from power plants owned by EEM reached the following values, compared to 2012:

Pollutant	2013	2012	△ %
<b>Ton</b>			
Carbon Dioxide (CO2)	310,950	332,173	(6.4%)
Sulfur Dioxide (SO2)	1,421	1,472	(3.5%)
Nitrogen Monoxide (NOX)	5,781	6,048	(4.4%)
Particles (PM10)	104	134	(22.4%)

The pollutant reduction is associated with the decrease of the energy production in EEM's thermic power plants, approximately 8.6% (2013: 450.3 GWh) comparatively to the previous year (2012: 492.6 GWh). Regarding the significant reduction of pollutant particles, it is related to the decommissioning of the least efficient and most polluting generating power groups of "Nave I", in the Vitória Thermoelectric Power Plant (CTV).

## Water consumption

The monitoring of consumption, in an Environmental Management System allows the setting of goals and targets for reduction.

Water consumption			
	2013	2012	△ %
Water consumption (m3)	21,085	22,332	(5.6%)
Water consumption (m3)/EEM's energy production (GWh)	40.4	39.6	1.9%
Water consumption (m3)/N.º of employees	26.7	27.8	(3.9%)

In 2013, there was a decrease of 5.6% in EEM's water consumption, compared to 2012.

## Electricity consumption

EEM's total electricity consumption is presented as follows:

Electricity consumption			
	2013	2012	△ %
Electricity consumption [MWh]	976,424	962,422	1.5%
Electricity consumption/EEM's energy production (MWh)	1,869	1,708	9.5%
Electricity consumption MWh/N.º of employees	1,238	1,199	3.3%

In 2013, there was an increase in consumption of 1.5% compared to 2012, responsible for the additional emission of about 9,669 tons of CO<sub>2</sub>, 44 tons of SO<sub>2</sub>, 180 tons of NO<sub>x</sub> and 3 tons of particles.

## Waste production

The type of waste generated by EEM is very wide ranged due to its activity, covering production, transportation, distribution and commercialisation of energy, comprising diversified residue as oils, fuel, electrical and electronic discarded equipment, scrap, wood packing, cartridges and municipal solid waste.

In order to ensure a correct waste management, conditions were undertaken for proper deposit and selective waste separation, as well as delivery mechanisms to the respective waste management operators, duly licensed for recovery/ disposal operations.

Waste production			
Kg	2013	2012	△ %
Hazardous waste	1,266,673	1,234,042	2.6%
Non hazardous waste	249,142	281,544	(11.5%)
<b>Total</b>	<b>1,515,815</b>	<b>1,515,586</b>	<b>0.0%</b>

In 2013, the total waste amounted to 1,516 tons, which remained almost unchanged compared to 2012, although registering an increase of hazardous waste, mainly due to the repairing works in the EEM's headquarters, caused by the construction works of the "mouth of João Gomes and Santa Luzia streams", in the section that runs along EEM's building, forcing the placement of underground anchors in the yard/picket service, which could reach the old Funchal Thermoelectric Power Plant's infrastructures, namely 2 reservoirs, from where 86,000 liters of contaminated water and 28,000 liters of sludge with hydrocarbons were removed.

According to the classification established by the European Waste List, 17 different types of waste were declared, being 47.1% considered hazardous and the remaining 53.9% non-hazardous.

#### Noise

EEM has proceeded with the verification of the noise compliance in the surroundings, of its operating facilities, which are passible of an environmental discomfort, having started works on the thermo and hydro power plants. From the results of these assessments, acoustic conditioning projects were developed for plants that were not complying with the values under the general noise regulation. The works are graded according to the number of sensitive receptors in the surroundings and planned to run simultaneously with other intervention works namely interventions/ improvement of the plants.

In 2013, focus was given to substations, being fulfilled a noise emission characterisation of Pedra Mole Substation, in order to evaluate the acoustic conditioning designed and installed. Additionally, a noise evaluation procedure was undertaken throughout 25 electric substations, which integrate the EEM's transmission grid, aiming its acoustic characterisation and evaluation that according to the legislative framework, have sensitive receptors in the vicinity.

#### Other accomplished activities

It should be referred that beyond the already mentioned activities directed specifically to environmental protection, there are many others, although having a smaller scope, are also closely linked to the best environmental practices, which are, as well, worth mentioning. The main activities, related directly or non-directly to the environment, fulfilled by the EEM's Group, in 2013.

### Accomplished activities

#### Production

##### • European Union Emission Trading System

EEM has two facilities covered by the European Union Trading System, with greenhouse gas emissions tittles: Vitória Thermoelectric Power Plant ("TE.GEE.RAM 076.05.II") and the Porto Santo Thermoelectric Power Plant ("TE.GEE.RAM 075.04.II").

With the publication of the Decree-Law 78/2013, of March 15th, transposing into national law the Directive N.º 2003/87/EC, of the European Parliament and Council, of 13th October 2003, on the creation of a trading system licenses for greenhouse gas emissions (CELE), new rules for license allocation were settled for the period after 2012, that exclude electricity production as eligible for free emission allowances.

Facing the legal void on the management framework of the CO2 emission gas licenses and based on the recommendations of the Energy Services Regulatory Authority (ERSE) for this matter, EEM adopted along 2013 a rational management of these licenses. With this objective, to cover the greenhouse gas emissions, 245,618 free licenses were attributed by PNALE II, which were transferred from the previous year, being the remaining ones obtained during 2013, by an average price, very similar to the one in EUA. Additionally, 34,668 gas emission licenses were transferred to 2014, corresponding to 11% of the yearly emissions, reaching 2.92 Euros/license, well below the average of the last quarter of 2013 and 1st quarter 2014.

In 2013, EEM released into the atmosphere 310,950 tons of CO2, from which 288,347 in Madeira Island and 22,603 in Porto Santo Island.

During 2013, EEM purchased 100,000 greenhouse gas emission licenses, being 60,000 at an average price of 4.60 Euros/license and the remaining 40,000 at 2.92 Euros/license, using the FIFO method

for its evaluation.

In Depreciation and amortisation costs caption of the EEM's accounting reports, 1,986 thousand Euros are registered, regarding the gas emissions valuation during 2013, whose licenses were already owned by the EEM, corresponding to an amount of 245,618 free licenses in 2012, at a value of 6.90 Euros/license, and 65,332 licenses acquired during 2013, at an average price of 4.46 Euros/license.

In Other incomes and profits caption, 1,695 thousand Euros are included, concerning the consumed licenses, transferred from the previous year and freely attributed.

EEM also registered costs with the emission licenses management in the amount of 15 thousand Euros and commissions through the accomplished transactions of 10 thousand Euros, accounted in Services rendered by third parties caption. For the calculation of the allowed revenues, 15 thousand Euros were considered as license management and only 7 thousand Euros as commissions through the accomplished transactions, referring to the licenses used to cover the gas emissions in 2013 (65,332 x 0.10 Euros).

Given the movements along the year, 101 thousand Euros, included in the account of Intangible assets (net debit balance), corresponding to 34,668 licenses that were carried over into the year 2014.

The effect of movements (transactions and emissions) of CO2 allowances in the year 2013 is presented in the following table:

<b>CO2 impact in EEM's incomes</b>	
€'000	2013
<b>Direct effect:</b>	
Emissions	(1,986)
From which were freely attributed (previous years)	1,695
Commissions	(25)
	<b>(317)</b>
<b>Permitted incomes effect:</b>	
Emissions	292
Accepted commissions	22
	<b>313</b>
<b>Total</b>	<b>(3)</b>

### • **Action Plan to minimize the environmental damages, regarding the Prevention and Integrated Control of Environmental Pollution**

In 2013, monitoring actions were undertaken and the respective Annual Environmental Report was delivered to the Regional Environmental Authority, according to the Decree-Law N.º 02/2009, of 28 February, 2011, amending and replacing the previous Environmental License, N.º 02/2009, of 28 December, 2009, settled by the Decree-Law N.º 173/2008, of 26 August, referred to the Integrated Pollution Prevention and Control for Vitória Thermoelectric Power Plant (CTV).

### **Consumption Efficiency Promotion Plan in electric energy consumption**

The Consumption Efficiency Promotion Plan (PPEC) is settled by the Energy Services Regulatory Authority (ERSE), and aims to implement measures to promote rational electric consumption habits and the use of more efficient equipment by consumers.

As part of its duties, EEM has been proposing and implementing measures to promote an efficient consumption, being approved policies within the PPEC 2007-2008 and PPEC 2009-2010. In 2013, the application for “Regulation systems of luminous flux, LED street lighting on roads and monuments in RAM” was submitted and approved by ERSE.

The present measure falls within the Ep1m4 – Efficient Street Lighting of the National Action Plan for Energetic Efficient Program (PNAEE), and in the action of “3.13 Energetic Efficiency Program in Public Services – replacement of the existent low efficiency lamps and luminaires, and the installation of control and management systems” of the Sustainable Energy Action Plans in Madeira and Porto Santo islands, which were approved through the Resolution N.º 244/2012, of the Madeira Autonomous Region Government and developed under the Islands Pact, an initiative from the European Commission.

### **Investments with environmental benefits**

As result of the efforts on maximizing the use of renewable energies in 2013, EEM’s Group gave its contribution so that 27% of the total production was provided by renewable sources and aims to achieve together with other producers of this sector, about 50% in 2020.

As a result of the fulfilled infrastructures in renewable energies, largely carried out by EEM’s Group, in 2013, an amount of 216.7 GWh of green energy was emitted into the network, avoiding the annual emissions of 148,202 tons of CO<sub>2</sub>, 695 tons of SO<sub>2</sub>, 2,816 tons of NO<sub>x</sub> and 48 tons of particles, also avoiding the consumption of 46,770 tons of fuel-oil.

In addition to the impact that renewable energies have on the environment, it’s important to highlight the large scope that these investments have in the macro economy of regions, like ours, heavily dependent on imported petroleum products.

### • **Hydroelectric energy - Expansion of the Calheta Hydroelectric Exploitation System**

In this context, the “Expansion of the Calheta Hydroelectric Exploitation System” (AAHC), assumes a prominent role, concerning the direct and indirect impact that will have in the exploitation of the endogenous renewable resources. This project concerns the expansion of hydroelectric production capacity, as well as its transformation into a reversible system, through a storage reservoir and water pumping system, enabling the accommodation of additional wind power, integrating the following main interventions:

- Construction of the Pico da Urze storage reservoir (1,000,000 m<sup>3</sup>);
- Construction of the Calheta restoring reservoir (73,500 m<sup>3</sup>);
- Construction of the Calheta III Hydroelectric Power Plant (2x15 MW);
- Construction of the Calheta Power Pumping System (3x5.9 MW);

- Construction of the water penstock/pumping system with a diameter of 1500 mm and an extension of about 3.5 km; from the Pico da Urze storage reservoir to the new Calheta III Hydroelectric Power Plant;
- Construction of the Paúl Power Pumping System (2x90 kW);
- Renovation/expansion of the 60/30kV Lombo Doutor Substation;
- Expansion of the hydro conducting capacity of the Levada do Paúl II (10.6 km);
- Expansion of the hydro conducting capacity of the Levada Velha do Paúl (1.6 km);
- Remodelling of the Levada do Lombo do Salão (1.8 km).

This investment will allow a constant exploitation of the facilities during the entire year, regardless the rainfall regime, contributing to the load diagram management and also to guarantee the security and quality of the energy supply in the isolated, not interconnected and small dimension electric system, such as the one in Madeira.

The project will provide an additional hydroelectric energy production of 15 GWh/year with direct inflows, not including output from the pumped water energy storage. Beyond the energy produced by this project, the storage system will allow a significant increase in the capacity of reception of renewable energy in the power grid of Madeira Island. It is estimated that the project will provide an increase of about 45% of the reception capacity of renewable energy in the power grid, compared with the annual average of 167.6 GWh between 2005 and 2010. The project can thus induce a reduction of fossil resources import in 16,000 tep/year of and of CO<sub>2</sub> emissions in 52,600 t/year.

The completion of the Calheta hydroelectric exploitation expansion has an estimated total cost of around 66 million Euros, including aspects of planning and project design, land acquisition, construction, facilities and machinery, comprising the supply and installation of electric, mechanic and electromechanical equipment, technical assistance, publicity and supervision during of the construction works.

It is important to point out that this project contributes to the regional policies for energy, water and environment, accomplishing the responsibility of the Autonomous Region of Madeira, within the indispensable participation of the European regions, towards the European Union (EU) policies implementation.

### • Wind energy

The year 2013, was marked by the fact that, for the second consecutive year, the wind component has taken the lead in the energy mix from renewable sources in Madeira Island. Thus, the wind power contribution to the emitted energy in the Madeira's electric grid amounted 9.95% and the hydro power 9.28%, which resulted in the return of investments made in the wind sector and also by the low hydrological regime during 2013 and 2012. In comparative terms, the wind power energy emission had a slight decreased of 1.1% (2013: 82.6 GWh), compared to the previous year (2012: 83.5 GWh).

In fact, wind power plants operating in small isolated power grids, such as Madeira and Porto Santo, are naturally submitted to power limitations for technical and network security reasons, particularly in the occurrence of the high renewable production in off-peak hours and in situations where the parks cause instability in the network, where the EEM's dispatch center responsible for Madeira's Public Electric System (SEPM) is forced to limit and/or shut off this power source.

Once performed a detailed analysis about the wind power plants restrictions, it was concluded that:

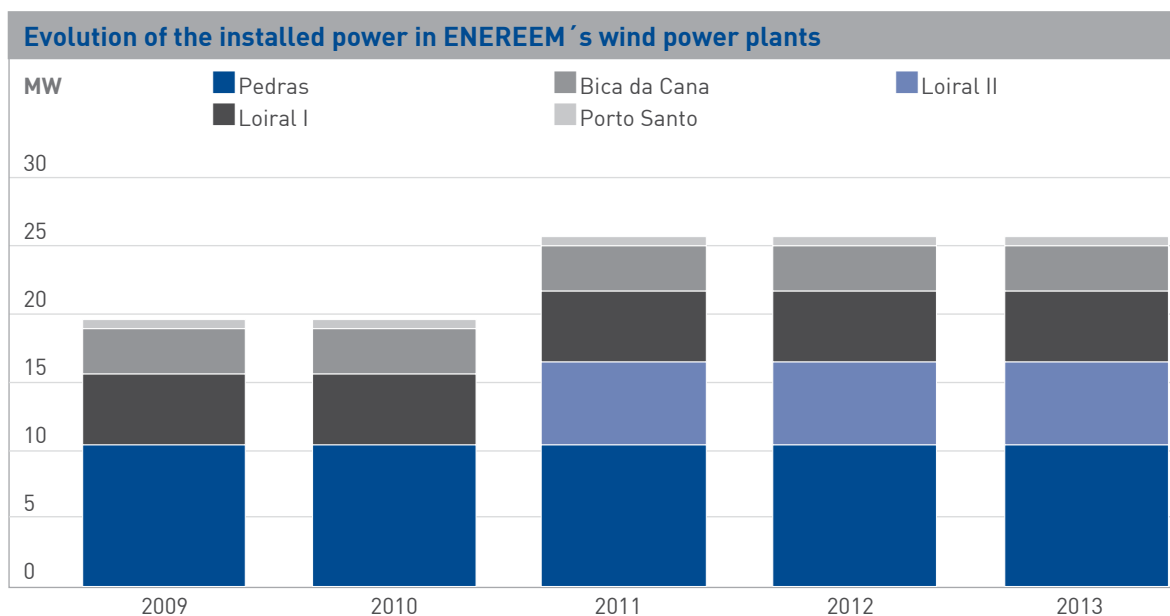
- 75% of the total limited energy, occurs during the off-peak hours, situation that corresponds to the minimum of the load diagram, not allowing the accommodation of all available renewable energy, affected by the thermoelectric component (technical minimums) indispensable for frequency regulation of the system, in order to prevent its collapse, which results in partial outages, and in the most serious cases, in blackouts;
- The remaining 25% of the limited energy occurs due to the instability caused by the wind parks as a result of fluctuations in production. This percentage value includes cases in which turbines stop when the wind speed reaches 25 m/s.

Contributing for the reduction of the wind energy accommodation capacity, beyond the already mentioned reasons, is the decrease of energy consumption, which stood at -4.8% and -1.1%, in Madeira and Porto Santo islands, respectively, thus together with technical constraints, made it, impossible to accommodate all energy provided by this renewable source.

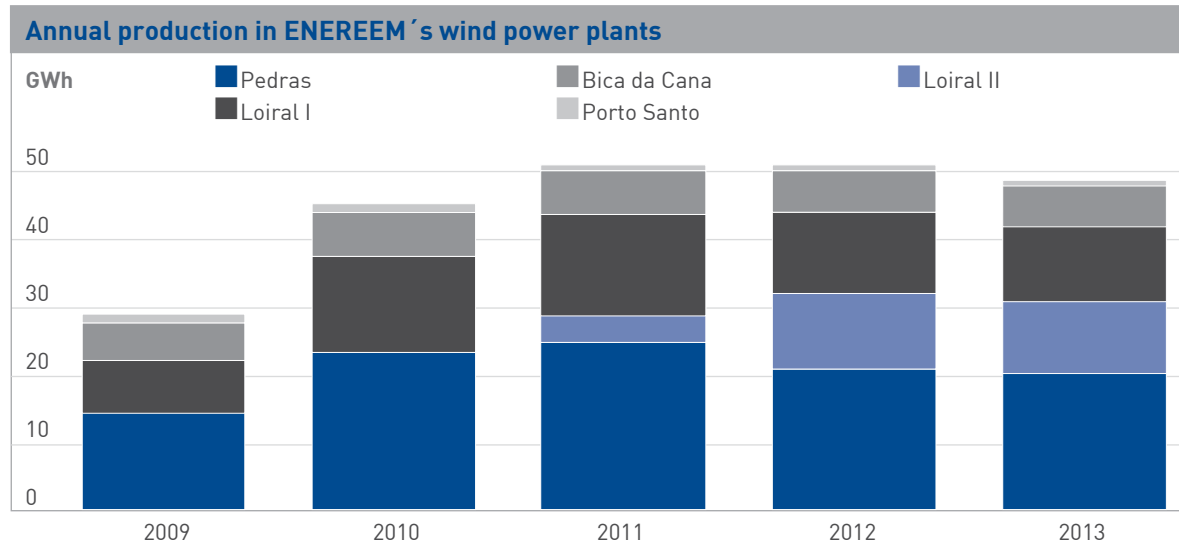
Even so, wind energy, a form of irregular and intermittent power, is having a considerable level of network integration, mainly due to project design of the wind farms management and control systems, responsibility of the EEM's dispatch center, which attempts, at all times, to maximize the penetration of this renewable energy source, allowing a wind power energy integration, without parallel, in these small and isolated grids, without disregarding the grids safety levels.

## Exploitation data

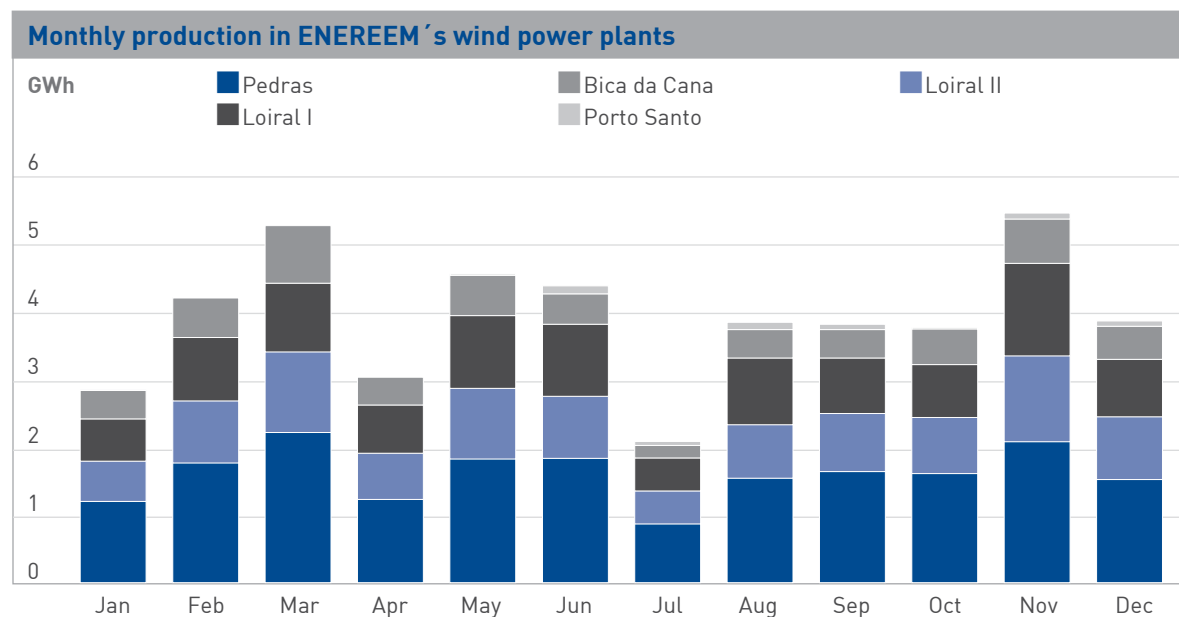
As at December 31, 2013, ENEREEM owned 5 wind power plants in operation, spread across Madeira and Porto Santo islands, with a total installed power of 25,260 kW, of which 24,600 kW (97.4%) in 4 wind power plants located in Paúl da Serra and the remaining 660 kW (2.6%), in Porto Santo wind power plant.



The energy production of the 5 wind power plants, in 2013, reached 46,358,376 kWh, of which 45,766,898 kWh and 591,478 kWh were produced by wind power plants in Madeira and Porto Santo islands, respectively.



Regarding the energy issued, thus meaning the energy delivered to the network, ENEREEM's wind power plants emitted 45,600,468 kWh, in 2013, presenting 5.4% of the total energy emitted in the SEPM.

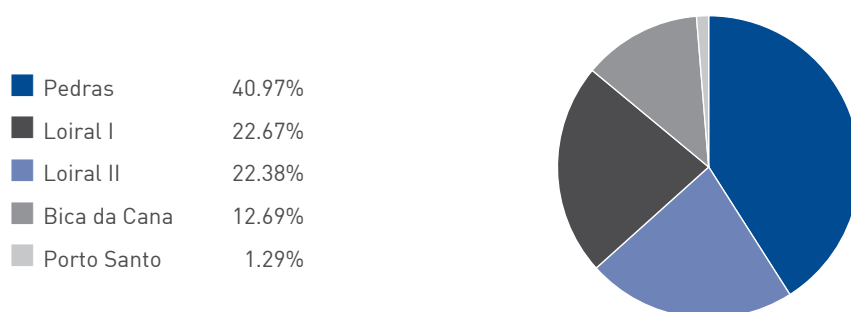




According to the graph, the most favourable months of wind resource are February, March, May, June and November, jointly assuring 50.7% of the total energy emitted by ENEREEM's wind power plants.

In Paúl da Serra 45,010,666 kWh were emitted, assuring 55.1% of the total emitted energy by this energy source in the network of Madeira Island. The Pedras wind power plant had the major contribution of 41.0% of the total energy emitted by the 5 ENEREEM's wind power plants.

#### Energy emitted distribution ENEREEM's wind power plants in 2013



Regarding the Porto Santo wind power plant, with an installed power capacity of 660 kW, the production reached 591,478 kWh, showing a decrease of 21.9% compared to the last year, due to the accommodation of other renewable energy sources in the network and the significant decrease on consumption of this island.

The emission of wind power in Porto Santo, jointly secured with the EEM's wind power plant, reached 877,982 kWh, representing 3.1% of the total electric energy emitted to the network on the island.

In environmental terms, the avoided emissions accounted through the exploitation of the 4 wind plants reached, in 2013: 30,659 tons of CO<sub>2</sub>, 145.3 tons of SO<sub>2</sub>, 588.3 tons of NO<sub>x</sub> and 9.9 tons of particles, avoiding the consumption of 9,717.6 tons of fuel-oil.

Regarding the operating wind power plant in Porto Santo, the accomplished environmental gain was: 494 tons of CO<sub>2</sub>, 5.4 tons of NO<sub>x</sub> and 0.2 tons of particles, avoiding the consumption of 126.2 tons of fuel-oil.

#### • Marine biofuel oil - CO<sub>2</sub> capture

The Marine biofuel oil project has as its main purpose the capture and biological utilisation of CO<sub>2</sub>, in order to get biofuel oil with physicochemical characteristics similar to the conventional fuel-oil used in EEM's thermoelectric power plants. With this project, it is intended to turn Porto Santo into a self-sustaining island, in electric energy terms, reversing a situation of almost total dependence on fossil fuels in electricity generation.

In 2013, the installation works of the equipment were concluded. This unit equipped with 67 reactors is already able to obtain biofuel oil from its biomass production. The first results, in terms of biofuel production, allow us to face, with optimism, the compliance of the European Union recommendations on fuel production from microalgae, continuously intending to generate energy based on environmental sustainable sources.

During this consolidation phase of production process, studies are being developed in parallel, aiming to increase the investment's sustainability. Still, on an experimental basis, in the unit's scale, we are striving to use the biomass as a mean to obtain sub products with added value, in order to avoid that the biomass transformation is reduced merely to the production of biofuel oil.

The entire growth process is followed in the laboratory unit to ensure a proper monitoring of sea water quality, CO<sub>2</sub> concentration at all times and the growth method of microalgae, essential factors for obtaining biomass, an essential element in the chain production.

### • GNL Project (liquefied natural gas)

At the end of 2013, the construction of the private owned Liquefied Natural Gas Autonomous Unit (UAG), which will supply natural gas to the Vitória III Thermoelectric Power Plant (CTV III), was initiated. The installation of this UAG results of the procedure launched by EEM – “Public Tender for the supply of natural gas to the Vitória III Thermoelectric Power Plant, of EEM – Empresa de Electricidade da Madeira, S.A.”, being maintained and operated by the tender winner group, with which EEM established a Contract for the Natural Gas Supply.

The UAG is located south of Socorridos bridge, nearby CTV III having EEM provided the necessary support for the facility licensing, that was designed for an natural gas emission flow of 10,500 m<sup>3</sup> (n)/h with a reservoir storage capacity of 3 x 199 m<sup>3</sup> (three surface storage reservoirs of 199 m<sup>3</sup> geometric capacity).

The contract stipulates an annual supply of natural gas between 240 and 450 GWh, during a period of 8 years, which will allow the reduction of the CO<sub>2</sub> emissions about 200 gr per kWh produced, when compared with the fuel-oil utilisation, considering that, in both cases, the generators are operating in a combined cycle.

Parallel preparations were performed in CTV III allowing the conversion of the facility, aimed at replacing the fuel currently consumed by the three groups, establishing a competitive cost per kWh of produced energy by natural gas in comparison to fuel-oil.

With this new facilities, EEM, in compliance with the main guidelines of the Energetic Policy Plan of the Autonomous Region of Madeira, intends to assure security of supply, economic competitiveness, environmental protection and diversification of the fuels based on fossil resources to produce electricity.

### • Geothermic potential

Following the studies conducted to evaluate the geothermal potential in Madeira Island, a task undertaken by the “Laboratório Nacional de Energia e Geologia”, the National Laboratory of Energy and Geology, two sites were considered promising locations to install a pilot induced geothermal power plant.

After this preliminary assessment, further studies shall be undertaken in order to characterise the geothermal reservoir through soundings of the pre-identified locations, followed by the stimulation of the reservoir phase and ultimately with the installation of the geothermal power plant, in case the economic analysis points out the viability of the project.

### • Electric mobility in RAM

The transport sector accounts for over 50% of the final energy consumption in RAM, presenting itself in the coming years, as one of the greatest challenges of regional energy policy. The program of the electric mobility (PMEM), in RAM, can make a huge contribution to minimize the known adverse effects that the transport sector has on the environment.

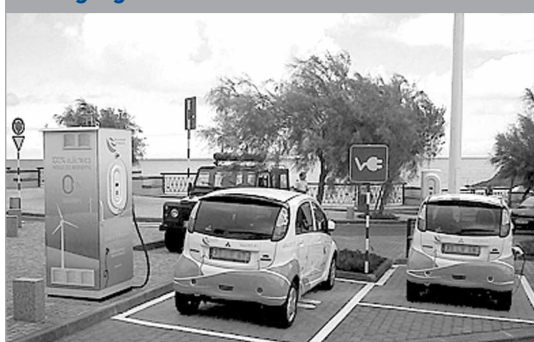
During 2013, based on the past experience, a review of the Electric Mobility Program (PMEM) was undertaken, which included, among other issues, the redefinition of the target groups, new scenarios of electric vehicles penetration, the reviewing of the main activities of electric mobility framework, a reorganisation of network management and information systems functions, support of market participants and service users, evaluating and improving mobility models adopted in order to ensure

a sustainable activity of all agents, trying to stimulate demand and thus extending the pilot phase time. These activities were realised at a national level, with participation of the Autonomous regions and certainly will be positively reflected in the electric mobility program of RAM.

Two years after the installation of the first electric charging station for the electric mobility network in Autonomous Region of Madeira, EEM, in 2013, has assumed the leadership of PMEM's work group, continuing to ensure the preventive maintenance of the infrastructure for the 5 public electric station's already installed, and fulfilled improvement actions, with the help of the station's manufactures, during July, which included the replacement of equipment and materials damaged by external factors to EEM, as well as conducting operating activities in order to evaluate the correct operation of each Charging Station (PC) for Electric Vehicles (EV) in RAM.

Thus, EEM has continued to contribute to the investment boosting for this type of technology and has managed the two 100% electric cars, seeking to be an example as a user of electric mobility.

### Charging Stations



Council	N.º of charging stations
Funchal	2 Normal
Porto Moniz	2 Normal 1 Fast
Calheta	2 Normal 1 Fast
Santana	2 Normal
Porto Santo	2 Normal

### EEM' Fleet



#### Two 100% electric vehicles

#### Data of 2013

10,167 kms traveled;

1.6 MWh/year consumption;

with an average of 17 kWh/100km.

## 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 2013, the Board of Directors wishes to express a word of gratitude for the support received from all the different entities with whom we have cooperated over the year, particularly our shareholder, the Regional Government of Madeira, represented by its Vice-President, responsible for the leadership of the energy sector in Madeira.

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

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

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

The Board of Directors:

Rui Alberto Faria Rebelo (Chairman of the Board)  
 João Heliodoro da Silva Dantas (Vice-Chairman of the Board)  
 Mário Eugénio Jardim Fernandes (Board Member)



# Consolidated and Individual Financial Statements

## EEM - Empresa de Electricidade da Madeira

### Consolidated Balance Sheet as at 31 December 2013 and 2012

	Notes	2013 Euros	2012 Euros
<b>Non-Current Assets</b>			
Tangible fixed assets	7	366,693,035	385,863,288
Intangible assets	8	3,077,343	5,364,818
Investments - Equity method	9	10,252,109	10,251,401
Investments - Other methods	10	522,716	1,815,803
Clients	11	40,604,079	27,343,448
Other receivables	12	-	22,531,172
Deferred tax assets	13	12,918,785	7,298,330
<b>Total Non-Current Assets</b>		<b>434,068,067</b>	<b>460,468,260</b>
<b>Current Assets</b>			
Inventories	15	15,150,239	15,752,142
Clients	11	72,115,665	86,161,588
Tax receivable	14	376,845	3,669
Shareholders	16	18,196,377	13,971,454
Other receivables	12	117,331,237	110,085,459
Deferrals	17	270,672	311,684
Other financial assets	18	4,570,000	6,170,000
Cash and deposits at banks	4	248,624	180,093
<b>Total Current Assets</b>		<b>228,259,659</b>	<b>232,636,089</b>
<b>Total Assets</b>		<b>662,327,726</b>	<b>693,104,349</b>
<b>Equity</b>			
Share capital	19	20,000,000	20,000,000
Legal reserves	20	4,020,148	4,020,148
Other reserves		15,999,507	15,549,486
Retained earnings	21	51,982,671	53,915,334
Financial assets adjustments	22	901,421	917,676
Revaluation reserves	23	9,347,573	9,953,983
Other changes in equity	24	22,623,502	23,395,093
Consolidated net profit for the period attributable to equity holders of EEM		4,127,908	4,540,673
<b>Total Equity attributable to equity holders of EEM</b>		<b>129,002,730</b>	<b>132,292,393</b>
Minority interests	25	451,161	375,156
<b>Total Equity</b>		<b>129,453,891</b>	<b>132,667,549</b>
<b>Non-Current Liabilities</b>			
Provisions	26	14,769,037	12,654,307
Financial debt	27	354,956,338	324,587,249
Employee benefits	28	24,079,872	23,700,478
Other payables	30	10,778,793	-
Deferrals	17	428,125	711,875
<b>Total Non-Current Liabilities</b>		<b>405,012,165</b>	<b>361,653,909</b>
<b>Current Liabilities</b>			
Suppliers	29	35,402,385	66,171,626
Tax Payable	14	7,314,726	8,477,320
Financial debt	27	41,721,725	98,513,523
Other payables	30	36,128,241	16,010,111
Deferrals	17	315,000	307,500
Other financial liabilities	31	6,979,593	9,302,811
<b>Total Current Liabilities</b>		<b>127,861,670</b>	<b>198,782,891</b>
<b>Total Liabilities</b>		<b>532,873,835</b>	<b>560,436,800</b>
<b>Total Equity and Liabilities</b>		<b>662,327,726</b>	<b>693,104,349</b>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

## EEM - Empresa de Electricidade da Madeira

### Consolidated Income Statement

for the periods ended 31 December 2013 and 2012

	<u>Notes</u>	<u>2013</u> <u>Euros</u>	<u>2012</u> <u>Euros</u>
Sales and services rendered	32	199,684,724	217,793,515
Gains/(losses) on subsidiaries, associated companies and joint ventures	33	541,697	494,512
Own work capitalised	34	5,855,747	5,946,011
Cost of sales	32	(103,135,126)	(117,039,856)
Supplies and services	35	(10,666,608)	(10,131,467)
Personnel costs	36	(30,338,346)	(30,003,674)
Impairment of trade receivables (losses/reversals)	11 and 12	3,922,048	(3,444,660)
Provisions (charges/reversals)	26	(2,114,730)	(1,950,000)
Impairment of non-depreciable/amortizable investments (gains/losses)	7	(3,313,210)	-
Fair value gains/losses	37	1,110,089	(3,784,984)
Other gains	38	4,678,156	9,437,497
Other losses	39	(8,679,419)	(10,447,471)
<b>Profit before depreciation, interest and income taxes</b>		<b><u>57,545,022</u></b>	<b><u>56,869,423</u></b>
Losses/reversals of depreciation and amortisation	7 and 8	(31,174,499)	(31,818,260)
<b>Operating profit (before interest and income taxes)</b>		<b><u>26,370,523</u></b>	<b><u>25,051,163</u></b>
Interest and other income obtained	40	2,859,897	2,058,221
Interest and other losses supported	40	(22,585,777)	(23,519,195)
<b>Profit before income taxes</b>		<b><u>6,644,643</u></b>	<b><u>3,590,189</u></b>
Income taxes	41	(2,440,112)	1,019,981
<b>Consolidated net profit for the period</b>		<b><u>4,204,531</u></b>	<b><u>4,610,170</u></b>
<b>Consolidated net profit for the period attributable to:</b>			
Equity holders of EEM		4,127,908	4,540,673
Minority interests		76,623	69,497
		<b><u>4,204,531</u></b>	<b><u>4,610,170</u></b>
Earnings per share (Basic)		1.03	1.14

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements



## EEM - Empresa de Electricidade da Madeira

### Consolidated Statement of Changes in Shareholders' Equity for the periods ended 31 December 2013 and 2012

(Amounts expressed in Euros)

Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other changes in equity	Net profit for the period	Total	Minority interests	Total equity
<b>Balance on 1 January 2012</b>	1	20,000,000	4,020,148	15,027,582	52,716,654	718,341	10,722,252	5,649,990	133,225,260	306,673	133,531,933
<b>Changes in the period:</b>											
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	768,269	(768,269)	-	-	-	-	-
Investments in associated companies adjustments		-	-	-	(202,310)	199,335	-	-	(2,975)	-	(2,975)
Government grants (net of taxes)		-	-	-	(995,365)	-	(975,200)	-	(1,970,565)	(1,014)	(1,971,579)
<b>Balance on 31 December 2012</b>	2	-	-	-	(429,406)	199,335	(975,200)	-	(1,973,540)	(1,014)	(1,974,554)
<b>Net profit for the period</b>	3							4,540,673	4,540,673	69,497	4,610,170
<b>Comprehensive income</b>	4=2+3							4,540,673	2,567,133	68,483	2,635,616
<b>Operations with equity holders during the period:</b>											
Dividends		-	-	-	(3,500,000)	-	-	-	(3,500,000)	-	(3,500,000)
Transfer of the net profit for the period		-	-	521,904	5,128,086	-	-	(5,649,990)	-	-	-
<b>Balance on 31 December 2012</b>	5	-	-	521,904	1,628,086	-	-	(5,649,990)	(3,500,000)	-	(3,500,000)
<b>Balance on 31 December 2012</b>	6=1+2+3+5	20,000,000	4,020,148	15,549,486	53,915,334	917,676	9,953,983	4,540,673	132,292,393	375,156	132,667,549
<b>Changes in the period:</b>											
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	679,131	(606,410)	-	-	72,721	-	72,721
Investments in associated companies adjustments		-	-	-	75,266	(16,255)	-	-	59,011	-	59,011
Government grants (net of taxes)		-	-	-	(750,072)	-	(772,241)	-	(1,522,313)	(618)	(1,522,931)
Other changes recognized in equity		-	-	-	(6,027,640)	-	650	-	(6,026,990)	-	(6,026,990)
<b>Net profit for the period</b>	7	-	-	-	(6,023,315)	(16,255)	(606,410)	(771,591)	(7,417,571)	(618)	(7,418,189)
<b>Comprehensive income</b>	8							4,127,908	4,127,908	76,623	4,204,531
<b>Operations with equity holders during the period:</b>											
Transfer of the net profit for the period	9=7+8	-	-	450,021	4,090,652	-	-	(4,540,673)	-	-	-
<b>Balance on 31 December 2013</b>	10	-	-	450,021	4,090,652	-	-	(4,540,673)	-	-	-
<b>Balance on 31 December 2013</b>	11=6+7+8+10	20,000,000	4,020,148	15,999,507	51,982,671	901,421	9,347,573	4,127,908	129,002,730	451,161	129,453,891

See accompanying notes to the Financial Statements

## EEM - Empresa de Electricidade da Madeira

### Consolidated Cash Flow Statement

for the periods ended 31 December 2013 and 2012

	<u>2013</u> <u>Euros</u>	<u>2012</u> <u>Euros</u>
<b>Cash flows arising from operating activities</b>		
Cash receipts from clients	267,844,439	232,059,238
Cash paid to suppliers	(140,046,167)	(139,935,060)
Payments to employees and pensioniers	(30,211,819)	(27,565,891)
Net cash from operations	<u>97,586,453</u>	<u>64,558,287</u>
Income tax received/(paid)	(1,985,597)	(766,166)
Other receipts/(payments)	<u>(36,856,802)</u>	<u>(22,407,614)</u>
<b>Net cash from operating activities (1)</b>	<b><u>58,744,054</u></b>	<b><u>41,384,507</u></b>
<b>Cash flows arising from investing activities</b>		
Cash payments relating to:		
Tangible fixed assets	(6,594,720)	(4,742,168)
Intangible assets	(1,551,270)	(660,283)
Other assets	(4,224,924)	(4,821,829)
Cash receipts relating to:		
Tangible fixed assets	-	3,547
Intangible assets	-	1,467,050
Financial investments	73,872	-
Other assets	-	666,257
Government grants	-	2,685,247
Interest and other income	31,790	59,686
Dividends	900,000	650,000
<b>Net cash from investing activities (2)</b>	<b><u>(11,365,252)</u></b>	<b><u>(4,692,493)</u></b>
<b>Cash flows arising from financing activities</b>		
Cash receipts relating to:		
Loans obtained	42,000,000	2,820,047
Other financing transactions	1,600,000	-
Cash payments relating to:		
Repayment of loans	(68,151,913)	(8,870,303)
Interest and similar costs	(22,758,358)	(23,061,991)
Dividends	-	(3,500,000)
Other financing activities	-	(4,160,000)
<b>Net cash from financing activities (3)</b>	<b><u>(47,310,271)</u></b>	<b><u>(36,772,247)</u></b>
<b>Net changes in cash and cash equivalents (1 + 2 + 3)</b>	<b>68,531</b>	<b>(80,233)</b>
<b>Cash and cash equivalents balance at the beginning of the period</b>	<b><u>180,093</u></b>	<b><u>260,326</u></b>
<b>Cash and cash equivalents balance at the end of the period</b>	<b><u>248,624</u></b>	<b><u>180,093</u></b>

See accompanying notes to the Financial Statements

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

### Balance Sheet as at 31 December 2013 and 2012

	Notes	2013 Euros	2012 Euros
<b>Non-Current Assets</b>			
Tangible fixed assets	7	340,929,519	358,418,871
Intangible assets	8	3,054,349	5,363,111
Investments - Equity method	9	16,461,601	16,135,937
Investments - Other methods	10	522,716	1,815,803
Clients	11	40,604,079	27,343,448
Other receivables	12	-	22,531,172
Deferred tax assets	13	13,086,391	7,519,406
<b>Total Non-Current Assets</b>		<b>414,658,655</b>	<b>439,127,748</b>
<b>Current Assets</b>			
Inventories	15	15,114,262	15,714,991
Clients	11	71,908,802	86,019,444
Tax receivable	14	284,367	-
Shareholders	16	18,196,377	13,971,454
Other receivables	12	117,327,648	110,082,385
Deferrals	17	213,364	219,748
Other financial assets	18	4,570,000	6,170,000
Cash and deposits at banks	4	177,967	144,880
<b>Total Current Assets</b>		<b>227,792,787</b>	<b>232,322,902</b>
<b>Total Assets</b>		<b>642,451,442</b>	<b>671,450,650</b>
<b>Equity</b>			
Share capital	19	20,000,000	20,000,000
Legal reserves	20	4,020,148	4,020,148
Other reserves		15,999,507	15,549,486
Retained earnings	21	45,710,602	48,471,979
Financial assets adjustments	22	4,957,217	4,192,811
Revaluation reserves	23	9,347,573	9,953,983
Other changes in equity	24	22,486,752	23,250,754
Net profit for the period		4,174,218	4,500,208
<b>Total Equity</b>		<b>126,696,017</b>	<b>129,939,369</b>
<b>Non-Current Liabilities</b>			
Provisions	26	14,769,037	12,654,307
Financial debt	27	340,413,246	308,226,270
Employee benefits	28	24,079,872	23,700,478
Other payables	30	10,757,046	-
<b>Total Non-Current Liabilities</b>		<b>390,019,201</b>	<b>344,581,055</b>
<b>Current Liabilities</b>			
Suppliers	29	35,351,313	66,087,692
Tax payable	14	7,054,429	8,174,487
Shareholders	16	550,000	915,000
Financial debt	27	39,897,449	96,688,688
Other payables	30	35,903,440	15,761,548
Other financial liabilities	31	6,979,593	9,302,811
<b>Total Current Liabilities</b>		<b>125,736,224</b>	<b>196,930,226</b>
<b>Total Liabilities</b>		<b>515,755,425</b>	<b>541,511,281</b>
<b>Total Equity and Liabilities</b>		<b>642,451,442</b>	<b>671,450,650</b>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

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

### Income Statement

for the periods ended 31 December 2013 and 2012

	Notes	2013 Euros	2012 Euros
Sales and services rendered	32	199,076,187	217,157,730
Gains/(losses) on subsidiaries, associated companies and joint ventures	33	1,846,738	1,659,688
Own work capitalised	34	5,855,747	5,946,011
Cost of sales	32	(106,899,120)	(120,995,477)
Supplies and services	35	(10,203,607)	(9,596,043)
Personnel costs	36	(30,165,784)	(29,839,486)
Impairment of trade receivables (losses/reversals)	11 and 12	3,922,048	(3,444,660)
Provisions (charges/reversals)	26	(2,114,730)	(1,950,000)
Impairment of non-depreciable/amortisable investments (losses/reversals)	7 and 9	(3,266,901)	(40,464)
Fair value gains/losses	37	1,110,089	(3,784,984)
Other gains	38	4,646,694	9,423,543
Other losses	39	(8,633,344)	(10,383,416)
<b>Profit before depreciation, interest and income taxes</b>		<b>55,174,017</b>	<b>54,152,442</b>
Losses/reversals of depreciation and amortisation	7 and 8	(29,339,996)	(29,961,067)
<b>Operating profit (before interest and income taxes)</b>		<b>25,834,021</b>	<b>24,191,375</b>
Interest and other income obtained	40	2,859,898	2,058,221
Interest and other losses supported	40	(22,436,620)	(23,164,423)
<b>Profit before income taxes</b>		<b>6,257,299</b>	<b>3,085,173</b>
Income taxes	41	(2,083,081)	1,415,035
<b>Net profit for the period</b>		<b>4,174,218</b>	<b>4,500,208</b>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

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

### Statement of Changes in Shareholders' Equity for the periods ended 31 December 2013 and 2012

(Amounts expressed in Euros)										
	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other changes in equity	Net profit for the period	Total
<b>Balance on 1 January 2012</b>										
	1	20,000,000	4,020,148	15,027,582	48,685,597	3,022,262	10,722,252	24,215,824	5,219,037	130,912,702
<b>Changes in the period:</b>										
		-	-	-	768,269	-	(768,269)	-	-	-
		-	-	-	(1,186,019)	1,170,549	-	-	-	(15,470)
		-	-	-	(993,001)	-	-	(965,070)	-	(1,958,071)
	2	-	-	-	(1,410,751)	1,170,549	(768,269)	(965,070)	-	(1,973,541)
<b>Net profit for the period</b>										
	3								4,500,208	4,500,208
<b>Comprehensive income</b>										
	4=2+3								4,500,208	2,526,667
<b>Operations with equity holders during the period:</b>										
		-	-	-	(3,500,000)	-	-	-	-	(3,500,000)
		-	-	521,904	4,697,133	-	-	-	(5,219,037)	-
	5	-	-	521,904	1,197,133	-	-	-	(5,219,037)	(3,500,000)
	6=1+2+3+5	20,000,000	4,020,148	15,549,486	48,471,979	4,192,811	9,953,983	23,250,754	4,500,208	129,939,369
<b>Changes in the period:</b>										
		-	-	-	679,131	-	(606,410)	-	-	72,721
		-	-	-	(712,365)	764,406	-	-	-	52,041
		-	-	-	(750,690)	-	-	(764,002)	-	(1,514,692)
		-	-	-	(6,027,640)	-	-	-	-	(6,027,640)
	7	-	-	-	(6,811,564)	764,406	(606,410)	(764,002)	-	(7,417,570)
<b>Net profit for the period</b>										
	8								4,174,218	4,174,218
<b>Comprehensive income</b>										
	9=7+8								4,174,218	(3,243,352)
<b>Operations with equity holders during the period:</b>										
		-	-	450,021	4,050,187	-	-	-	(4,500,208)	-
	10	-	-	450,021	4,050,187	-	-	-	(4,500,208)	-
	11=6+7+8+10	20,000,000	4,020,148	15,999,507	45,710,602	4,957,217	9,347,573	22,486,752	4,174,218	126,696,017

See accompanying notes to the Financial Statements

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

### Cash Flow Statement for the periods ended 31 December 2013 and 2012

	<b>2013</b>	<b>2012</b>
	<b>Euros</b>	<b>Euros</b>
<b>Cash flows arising from operating activities</b>		
Cash receipts from clients	267,518,628	231,204,627
Cash paid to suppliers	(144,123,683)	(145,045,911)
Payments to employees and pensioniers	(30,038,083)	(27,404,870)
Net cash from operations	93,356,862	58,753,846
Income tax received/(paid)	(1,432,060)	(382,153)
Other receipts/(payments)	(36,047,427)	(21,527,440)
<b>Net cash from operating activities (1)</b>	<b>55,877,375</b>	<b>36,844,253</b>
<b>Cash flows arising from investing activities</b>		
Cash payments relating to:		
Tangible fixed assets	(6,398,733)	(3,967,897)
Intangible assets	(1,538,049)	(660,283)
Other assets	(4,224,924)	(4,861,914)
Cash receipts relating to:		
Intangible assets	-	1,467,050
Financial investments	73,872	-
Other assets	643,272	1,377,282
Government grants	-	2,685,247
Interest and other income	31,790	59,686
Dividends	1,276,152	1,308,914
<b>Net cash from investing activities (2)</b>	<b>(10,136,620)</b>	<b>(2,591,915)</b>
<b>Cash flows arising from financing activities</b>		
Cash receipts relating to:		
Loans obtained	42,000,000	2,820,047
Other financing activities	1,600,000	365,000
Cash payments relating to:		
Repayment of loans	(66,334,027)	(7,044,343)
Interest and similar costs	(22,608,641)	(22,694,562)
Dividends	-	(3,500,000)
Other financing activities	(365,000)	(4,160,000)
<b>Net cash from financing activities (3)</b>	<b>(45,707,668)</b>	<b>(34,213,858)</b>
<b>Net changes in cash and cash equivalents (1 + 2 + 3)</b>	<b>33,087</b>	<b>38,480</b>
<b>Cash and cash equivalents balance at the beginning of the period</b>	<b>144,880</b>	<b>106,400</b>
<b>Cash and cash equivalents balance at the end of the period</b>	<b>177,967</b>	<b>144,880</b>

See accompanying notes to the Financial Statements

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

### **Notes to the Financial Statements 31 December 2013 and 2012**

Annex to the Financial Statements

#### **1. Entity identification**

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, 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 standardisation 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 are 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 3.2 k)).

The subsidiaries owned by EEM are presented in Note 6 to the financial statements.

## 2. Accounting standards applied in the financial statements

- 2.1** EEM's financial statements were prepared according with the Portuguese accounting standards "Sistema de Normalização Contabilística" (SNC), as required by Decree-Law no. 158/2009, of 13 July. SNC is composed by "Financial Statement Presentation Basis" (BADF), "Financial Statement Templates" (MDF), "Accounts Code" (CC), "Accounting and Financial Reports Standards" (NCRF), "Interpretative Standards" (NI) and "Conceptual Framework".

The financial statements which include the balance sheet, the income statement by nature, the statement of changes in shareholder's equity, the cash flow statement and the notes to the financial statements, were approved by the Board of Directors as at 25 March 2014. These financial statements are presented in Euros and prepared on a continuity and accrual basis, under which items are recognised as assets, liabilities, equity, income and expenses when they meet the definitions and recognition criteria for those elements establish in the conceptual framework, in accordance with the qualitative features of comprehensibility, relevance, materiality, reliability, faithful representation, substance over form, neutrality, prudence, completeness and comparability.

The accounting policies, presented in Note 3, were used in the preparation of the financial statements for the period ended 31 December 2013 and for the comparative financial information presented in these financial statements for the period ended 31 December 2012.

- 2.2** There were no exceptions to SNC disposals.

- 2.3** However, we draw attention to the fact that on April 9, 2013, the Accounting Standards Committee (ASC) through FAQ no. 13 published on its online website, has revised its initial understanding regarding the impact of the accounting framework taxation of non-refundable grants related to depreciable fixed tangible and intangible assets with finite useful lives. The ASC considers that there is no taxable temporary difference associated with non-repayable government grants related to depreciable tangible fixed assets and intangible assets with finite useful lives in accordance with NCRF 25.5. Consequently, ASC understands that there is no deferred tax liability to be recorded and the tax component associated with these tax grants has to be presented under Other liabilities. Additionally, the reversal of the tax period recorded in Other payables has been recorded since 2013 under the caption Other changes recognised in equity.

As at December 31, 2013, the tax component associated with non-repayable government grants related to depreciable tangible assets, which has been presented under Other payables caption, amounts to 5,834,965 Euros (2012: 6,999,562 Euros recorded under deferred tax) on an individual basis and 5,856,712 Euros (2012: 7,026,576 Euros recorded under deferred tax) on a consolidated basis. Additionally, the reversal of the tax component recorded during the year 2013 against Other changes recognised in equity amounts to 657,208 Euros (2012: 980,388 Euros recorded under Income taxes) on an individual basis and 660,585 Euros (2012: 983,765 Euros recorded under Income taxes) on a consolidated basis. Thus, the comparability of the aforementioned items in the financial statements is influenced by these changes.



### 3. Accounting policies

The main accounting policies applied in the preparation of the financial statements are presented as follows:

#### 3.1 Measurement basis used in the preparation of the financial statements

The consolidated financial statements as at 31 December 2013 and 2012 reflect the assets, liabilities and results of EEM and its subsidiaries, namely, Casa da Luz, Emacom and Enereem (see Note 6), and the results attributable to EEM from its associated companies. These accounting policies were consistently applied in all companies. The financial statements were prepared under the historical cost principle.

The preparation of the financial statements in accordance with NCRF requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity, or where assumptions and estimates are considered to be significant, are presented in Note 3.3. Critical accounting estimates and judgments in preparing the financial statements.

#### 3.2 Other significant accounting policies

##### a) Basis of consolidation

###### *Investments in subsidiaries*

Investments in subsidiaries where EEM has control are fully consolidated from the date EEM assumes control over their financial and operating activities until the moment that control ceases to exist. Control is presumed to exist when EEM owns more than half of the voting rights. Control also exists when EEM has the power, directly or indirectly, to manage the financial and operating policies of the entity to obtain benefits from its activities, even if the percentage of shareholding is less than 50%.

In an individual basis, the investments in subsidiaries where EEM has direct or indirect control are accounted under the equity method from the date EEM assumes control over their financial and operating policies until the moment that control ceases to exist.

###### *Investments on associated companies*

Investments in associated companies are accounted for by the equity method from the date the EEM acquires significant influence, directly or indirectly, to the date it ceases. Associated companies are entities over which EEM has significant influence, but not control, over its financial and operating policies. When EEM holds more than 20% of the voting rights of the investee it is presumed to have significant influence. If EEM holds less than 20% of the voting rights of the investee, it is presumed not to have significant influence, unless such influence can be clearly demonstrated.

###### *Balances and transactions eliminated on consolidation*

Inter-company balances and transactions, including any unrealised gains and losses, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses arising on transactions with associated companies are eliminated to the extent of the Group's interest in those entities.

### *Other investments*

The investments in which the EEM Group holds less than 20% of the voting rights and over which have no significant influence on the financial and operating policies are accounted at fair value through profit or loss.

The fair value of listed investments in active markets is based on current bid price. The Group determines the fair value of unlisted securities through (i) valuation methodologies, such as the price of similar recent arm's length transactions and discounted cash flow techniques; and (ii) valuation assumptions based on market information. Financial assets whose fair value cannot be reliably measured are stated at cost, being any impairment loss booked against the income statement.

## **b) Tangible fixed assets**

Tangible fixed assets are accounted at cost plus all expenditure directly attributable to bring the asset to the location and working condition for its intended use, less accumulated depreciation and impairment losses.

On transition to NCRF, EEM decided to consider as deemed cost the revalued amount of the tangible fixed assets (determined under the legal revaluations realised in previous periods), in accordance with the previous accounting policy.

Subsequent costs are recognised as Tangible fixed assets only when it is probable that future economic benefits associated with the item will flow to EEM. Repair and maintenance costs are charged to the income statement as incurred, in an accrual basis.

EEM carries out impairment tests whenever events or circumstances may indicate that the book value of an asset exceeds its recoverable amount, being any impairment recognised in the income statement. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

Land is not depreciated. Depreciation of the other tangible fixed assets is calculated on a straight-line basis over their estimated useful lives, after deducting the residual value, as follows:

	<b><u>N.º of years</u></b>
Buildings	10 to 50
Basic equipment	3 to 33
Transport equipment	4 to 5
Office equipment	4 to 16
Other	4 to 20

The useful lives, the depreciation method and the residual value are revised annually. The effect of changes in these estimates is recognised prospectively in the income statement.

Any gains or losses resulting from assets disposals are calculated by the difference between the receivable amount and the book value, being recognised as income or cost in the period. In disposals of revaluated assets the amount included in the revaluation reserves is transferred to retained earnings.

### c) Intangible assets

EEM recognises an intangible asset if identifiable, if assumes control over it, and is expected to provide future economic benefits to the entity and its cost can be reliably measurable.

#### *Intangible assets with defined useful life*

The intangible assets with defined useful life are registered at acquisition cost net of accumulated depreciations and impairment losses.

EEM assesses for impairment whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, any impairment being recognised in the income statement. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

#### *Internally generated intangible assets*

Research expenditures are recorded as cost when incurred. EEM recognises internally generated intangible assets when it is possible to demonstrate:

- Its technical feasibility to complete the intangible asset so that it will be available for use or sale;
- Its intention to complete the intangible asset and to use or sell it;
- Its ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of internally generated intangible asset comprises all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in the manner intended by Management.

#### *Acquisition and development of software*

The costs of purchasing software and the costs incurred by EEM to implement it are capitalised. These costs are amortised on a straight-line basis over the expected useful life of the software.

Costs incurred by EEM directly related to the development of software that are expected to generate economic benefits beyond one year are recognised as intangible assets. Such costs include employee costs directly associated to the project and are amortised on a straight-line basis over the estimated useful life of the software.

Software maintenance costs are charged to the income statement when incurred.

### *Industrial property and other rights*

Industrial property and other rights are depreciated on a straight-line basis over the estimated useful life.

The estimated useful lives are as follows:

	<u>No. of years</u>
Software	6
Industrial property and other rights	10 to 33

### *Payments by extension of the tariff period in accordance with Decree-Law 35/2013*

Payments made in order to comply with the Decree-Law 35/2013 are recorded as intangible assets in progress being amortised based on the straight line method over a period of seven years from the date of termination of the regulatory period of 15 years applicable to each park.

## **d) Borrowing costs capitalised**

Borrowing costs that are directly attributable to the acquisition or construction of assets are capitalised as part of the cost of the assets.

A qualifying asset is an asset that needs a substantial period of time to be ready for its intended use or sale. The amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on those assets, net of investment government grants. The capitalisation rate corresponds to the weighted average of the borrowing costs applicable to the outstanding borrowings during the period.

The capitalisation of borrowing costs begins when expenditures for the assets are being incurred, borrowing costs have been incurred and activities necessary to prepare all or part of the assets for their intended use or sale are in progress.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying assets for their intended use or sale are completed.

## **e) Leases**

Leases 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. A lease is classified as an operating lease if it does not transfers substantially all the risks and rewards incidental to ownership to the lessee.

### *Operating leases*

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

### *Finance leases*

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

Instalments comprise: (i) an interest charge which is recognised in the income statement; (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.

#### **f) 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.

Inventories costs are reduced to its net realisable value every time these assets are booked at a higher amount than the expected amount to be obtained through its usage or sale.

#### **g) Accounts receivable**

Accounts receivable are initially recognised at fair value, being subsequently measured at amortised cost based on the effective interest rate method, less impairment losses.

Impairment losses are recorded based on the regular evaluation of objective evidence 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.

#### **h) 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.

#### **i) 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 for tax years beginning after 2012 (Social Security: 5 years).

If there are tax losses, this period is 5 years for tax years beginning after 2012, 4 years for the years 2011 and 2010 and 6 years for the previous years.

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. At each balance sheet date, all temporary differences resulting from deferred tax assets are reviewed in order to recognise or adjust it, depending on the current expectations of future recovery.

As established in paragraph 68 of NCRF 25, EEM compensates the deferred tax assets and liabilities whenever (i) it has a legally enforceable right to offset current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Law no. 2/2014, of January 16, 2014, which approved the Reform of the IRC (income tax), introduced a series of new tax measures. The main measures are related to the reduction of the corporate income tax rate and the increase of the period for reporting tax losses:

- The corporate tax rate is reduced from 25% to 23% in 2014, to which is added the municipal and state tax. Additionally a new tier of state was established for the surcharge that covers the portion of taxable income that exceeds 35 million Euros, which is subject to a rate of 7%. This rate change was held in RAM via the Regional Legislative Decree no. 31-A/2013/M of December 31, 2013. Since they had already been enacted at the balance sheet date, these tax rates were considered in the calculation of deferred tax assets and liabilities as at December 31, 2013;
- The period to report the tax losses carried forward from previous years was extended from 5 to 12 years (for losses incurred on or after January 1, 2014 only). Additionally, the deduction limit is reduced from the current 75% to 70% of taxable income for the year in which they are reported.

#### **j) Foreign exchange transactions**

Foreign exchange transactions 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. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the exchange rate as at the date the fair value was determined.

#### **k) Government grants**

Non-refundable government grants and other similar grants related to tangible and intangible assets are initially recognised in equity and subsequently, for those that relate to depreciable fixed tangible and intangible assets with finite useful lives, allocated on a systematic basis as income over the periods necessary to match them with the related costs which they are intended to compensate. As for those respecting non-depreciable fixed tangible and intangible assets with indefinite useful lives, they are kept in equity, unless the respective amount is needed to compensate for any impairment loss.

Refundable government grants and other similar grants are booked as liabilities.

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

The subsidies granted by governmental entities, in order to compensate the reduction 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.

#### *Transfers of assets from customers*

The works carried out in the distribution network at customer request and invoiced to them are recorded as tangible fixed assets as long as they meet the capitalisation requirements. The received amounts are recorded in the income statement.

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

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

### **l) Provisions**

Provisions are recognised when:

- EEM has a present, legal or constructive obligation as result of a past event;
- It is probable that settlement will be required in the future;
- A reliable estimate of the obligation can be made.

On an annual basis, provisions are subject to review, according with the expectation of their future liabilities.

### **m) Employee benefits**

#### *Pensions*

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 discount rate used is determined based on market rates associated with corporate bonds with high rating, denominated in the currency in which benefits will be paid and with a similar maturity to the maturity date of the liability.

Actuarial gains and losses resulting from (i) differences between financial and actuarial assumptions used and actual amounts; and (ii) changes in the actuarial assumptions, are recognised in the income statement in accordance with IAS 19 – Employee Benefits, as adopted by the original text of Regulation no. 1126/2008, of 3 November.

EEM recognises as cost in the income statement a total net amount that includes (i) current service cost; (ii) interest cost; (iii) estimated return of the fund assets; (iv) the effect of early retirements; and (v) the effect of curtailments.

#### **n) 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 accrual concept. Differences between amounts received and paid and the corresponding revenues and charges are recorded under other assets or liabilities depending on whether they are receivable or payable amounts.

Revenue is measured at fair value of the received or receivable retribution. Revenue comprise the amounts of electricity sales invoiced and related services rendered, net of value added taxes, rebates and discounts and the elimination of sales between Group companies.

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

#### **o) 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 equity 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 (FIFO). These emissions are registered as depreciation expenses in the period they take place. When the emissions for the period exceeds the licenses held, is charged a provision for the amount necessary to acquire the licenses in the market, as at the balance sheet date.

The subsidies initially recorded against equity are subsequently amortised over the period in which they are attributed, on the same proportion as the consumptions, against the income statement. In accordance with the regulation disposals defined by ERSE, the amount recognised in equity arising from the licenses freely attributed and not consumed is reclassified to the balance Other payables, 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.

Under Decree-Law 38/2013, of 15 March, transposing into national law Directive no. 2003/87/CE of the European Parliament and of the Council of 13 October 2003 on the establishment of a trading regime for emission allowances for greenhouse gas emissions (CELE), EEM stopped receiving freely attributed emission allowances, resorting to the market to acquire all the necessary licenses for its operating activities.

#### **p) Tariff adjustments**



In activities subject to regulation, the Regulator establishes through the tariff adjustment mechanism, the criteria to recognise gains or losses of one period in future periods. The tariff adjustments accounted for in EEM's financial statements represent the difference between the amounts invoiced by EEM (based on the applicable tariffs published by ERSE in December of the previous year) and the regulated revenue calculated based on real costs. The assets or liabilities resulting from the tariff adjustments are recovered or returned through the electricity tariffs charged to customers in subsequent periods.

Decree-Law no. 165/2008, of 21 August, recognised the unconditional right of the regulated operators to recover the tariff adjustments under a regime identical to the one used for the tariff deficits. Consequently, EEM books in the income statement the effects resulting from the recognition of tariff adjustments. According to the referred Decree-Law, the tariff adjustments determined annually will be recovered by the regulated operators even in case of insolvency or cease of operations. ERSE is the entity responsible to establish the method to ensure that the entity entitled to these rights continues to recover the tariff adjustments until its complete payment. The Decree-Law also allows the transfer of the right to receive the tariff adjustment to third parties, in whole or in part, through future electricity tariffs.

#### **q) Financial instruments**

EEM recognises a financial asset, a financial liability or an equity instrument only when it becomes part of the financial instrument contract dispositions.

EEM measures the financial instruments at their amortised cost, net of impairment losses, when they fulfil the following conditions:

- Are repayable on demand or have a defined maturity;
- The returns for its holder are (i) a fixed amount; (ii) determined based on a fixed interest rate over the instrument life or based on a variable rate that is a typical market index for financing transactions or that includes a spread over the same index; and
- Do not contain any contractual clause that may result in the loss of the nominal value and accumulated interest (excluding the typical credit risks cases).

The remaining financial instruments are recognised at fair value or at acquisition cost, net of impairment, when it is not possible to reliably measure the fair value.

##### *Clients and other receivables*

Clients and other receivables are recognised, at each balance sheet date, at cost or amortised cost net of impairment losses. These assets are initially recognised at their fair value plus transactions costs.

##### *Financial liabilities*

An instrument is classified as a financial liability when it contains a contractual obligation to liquidate capital and/or interest, through delivering cash or other financial asset, independently of its legal form. Financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method.

##### *Derivative financial instruments*

EEM contracts derivative financial instruments to hedge the interest rate risk arising from its financial debt portfolio (Management perspective), in order to reduce the variability in the related financial charges.

Derivative financial instruments are recognised on the trade date at fair value. Subsequently, the fair value of derivative financial instruments is re-measured on a regular basis, being the gains or losses on re-measurement recognised directly in the income statement, except for derivatives

designated as cash flow hedging instruments.

Changes in the fair value of derivatives qualified as cash flow hedges are recognised in reserves. The cumulative gains or losses recognised in reserves are reclassified to the income statement when the hedged item affects the income statement.

#### *Impairment*

At each balance sheet date an assessment is performed as to whether there is objective evidence of impairment, namely those resulting in an adverse effect on estimated future cash flows of the financial asset or group of financial assets, and every time it can be reliably measured. If there is objective evidence of impairment, the recoverable amount of the financial asset is determined, and the impairment loss is recognised in the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition.

### **r) Contingent assets and liabilities**

The Company does not recognise contingent assets and liabilities.

Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits. Assets are disclosed when an inflow of economic benefits is remote.

Assets and contingent liabilities are assessed continually to ensure that developments are appropriately reflected in the financial statements.

If it becomes probable that an outflow of economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

If it has become virtually certain that an inflow of economic benefits, the asset and related income are recognised in the financial statements of the period in which the change occurs.

Environmental contingent liabilities are not recognised in the balance sheet. If there is a possibility, less likely, that environmental damage should be rectified in the future, but the obligation is still dependent on the occurrence of an uncertain event, the Company discloses the respective contingent liability.

### **s) Expenses / Income from financing**

The expenses / income from financing include the interest paid by borrowing, interest received from such investments and income and expenses obtained and supported.

Interest is recognised according to the accrual basis.

### **t) Events occurred after the balance sheet date**

The presented financial statements reflect subsequent events occurred until 31 March 2014, date in which the Board of Directors approved them, as mentioned in Note 46. Events occurring after the balance sheet date about conditions that existed at the balance date are considered in the preparation of financial statements.

The material events occurred after the balance sheet date which do not result in adjustments are disclosed in Note 46.

## **3.3 Critical accounting estimates and judgments used in preparing the financial statements**

NCRF require the use of judgment and estimates in the decision process about certain accounting treatments, with impact in total assets, liabilities, equity, costs and income. The actual effects may differ from these estimates and judgments, namely in relation to the effect of actual costs and income.

The main accounting estimates and judgments used in applying the accounting policies are discussed in this note in order to improve the understanding of how their application affects the EEM's reported results and disclosures. A broader description of the accounting policies employed by EEM is disclosed in Note 3.2.

Considering that in many cases there are alternatives to the accounting treatment adopted by EEM, the reported results could differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present fairly, in all material respects, EEM's financial position and results. The alternative outcomes discussed below are presented solely to assist the reader in understanding the financial statements and are not intended to suggest that other alternatives or estimates would be more appropriate.

#### *Impairments of clients and other debtors*

Impairment losses related to clients and other debtors are determined by EEM based on the estimated recoverable amounts, the date of default, debt write offs and other factors. Certain circumstances and facts may change the estimated impairment losses of clients and other debtors, namely changes in the economic environment, economic sector trends, client's credit risk and increases in the rate of defaults. The evaluation process is subject to numerous estimates and judgment. Changes in the estimates and judgment could change the impairment test results which could affect the reported results.

#### *Tariff adjustments*

Tariff adjustments represent the difference between costs and income of the National Electricity System (SEN), estimated at the beginning of each period for purposes of calculating the tariff, and the actual costs and income of the Electricity System established at the end of each period. The tariff adjustments assets or liabilities are recovered or returned through electricity tariffs for customers in subsequent periods. Considering the current legislation which establishes an unconditional right of the regulated operators to recover or return the tariff adjustments, EEM registered the income of the period, the effects of the recognition of the tariff adjustment. Under the current legislation, regulated companies can also sell to a third party, in whole or in part, the right to receive the tariff adjustments through the electricity tariffs.

#### *Impairment of non-current assets*

Impairment tests are performed, whenever there is a trigger that the recoverable amount of tangible and intangible assets is less than the corresponding carrying amount. Considering the uncertainties regarding the recoverable amount of tangible and intangible assets as they are based on the best information available, changes in the assumptions can result in changes in the determination of the amount of impairment and, consequently, on the EEM's results.

#### *Assets useful life*

The assets for production, transmission and distribution of energy are amortised over their estimated period of useful life, considering the facts and circumstances existing on the date of preparation of financial statements that include, among others, the best estimates of EEM on the life of the respective assets.

In 2012, EEM Group, through its subsidiary Enereem, redefined the useful lives of the wind farms of Porto Santo and the Bica da Cana from 16 to 20 years and therefore prospectively changed the amount of the respective amortisation.

The estimated lifetime of the plants was based on technical specifications of the suppliers of assets installed in these parks certified by an external entity. Based on this information, the

remaining useful life of each asset was identified. This analysis included assumptions that require judgments and estimates used in the determination of the useful lives of the assets considered, as well as the expectation of the Management that the licenses to use the public domain of the Autonomous Region of Madeira for the production of electricity from renewable sources, shall continue until the expiration of their useful lives.

#### *Pensions and other employee benefits*

Determining pension and other employee benefits liabilities requires the use of assumptions and estimates, including actuarial projections, estimated rates of return on investments, discount rates and pension and salary growth and other factors that can impact the cost and the liability. Changes in the assumptions can materially affect the amounts determined.

#### *Provisions*

The amount recognised as a provision is the best estimate of the expense required to settle the present obligation at the balance sheet date. The use of different assumptions in the estimates and judgments from those referred to can lead to different results of those considered.

In the normal course of its activities, the EEM Group's subsidiaries have several lawsuits and contingencies (possible risk) of administrative nature, civil nature, tax and other. These lawsuits, arbitration or other involve third parties, administrative Authorities, tax Authorities and other.

These processes in which estimate losses are unlikely do not require provisioning and are periodically reassessed.

#### *Fair value of financial instruments*

Fair values are based on listed market prices, if available, otherwise fair value is determined either by the price of similar recent transactions under market conditions or determined by external entities, or by pricing models based on net present value of estimated future cash flows techniques considering market conditions, time value, yield curves and volatility factors. These methodologies may require the use of assumptions or judgments in estimating fair values. Consequently, the use of different methodologies or different assumptions or judgments in applying a particular model, could have produced different financial results from those reported.

#### *Income tax*

There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

In Portugal, the Tax Authorities are entitled to review EEM determination of its annual taxable earnings, and its subsidiaries, for a period of four years and for tax years beginning after 2012. If there are tax losses this period is five years for tax years beginning after 2012, four years for the years 2011 and 2010 and six years for the previous years. As a result, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, EEM believe that there will be no material tax assessments within the context of the financial statements.

Recognition of deferred tax assets related to tax losses carried forward is based on EEM's Board of Directors expectation that future taxable income will exist.

### **3.4 Main assumptions concerning the future**

There were no situations identified by EEM's Board of Directors threatening the continuity of EEM.

## 4. Cash Flow Statement

The Cash flow statement is presented under the direct method, by which gross cash from operational, investment and financing activities are disclosed. EEM classifies cash flows related to interests and dividends paid as financing activities and the interests and dividends received as investment activities.

**4.1** At 31 December 2013 all the cash and cash equivalent balances are available for use.

**4.2** Cash and deposits at banks are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Cash and cash equivalents	2,249	3,856	1,989	3,506
Current bank deposits	246,375	176,237	175,978	141,374
	<u>248,624</u>	<u>180,093</u>	<u>177,967</u>	<u>144,880</u>

## 5. Changes in accounting estimates and errors

During this period accounting estimates have not changed, nor were corrections due to errors made.

## 6. Consolidation perimeter

The subsidiaries consolidated under the full consolidation method as at 31 December 2013 are as follows:

(amounts expressed in Euros)

Designation	Head office	Share capital	Total assets	Total liabilities	Total equity	Sales and services rendered	Net profit for the period	%Group
Casa da Luz	Funchal	99,760	2,324,255	1,907,552	416,703	30,976	8,836	100.00%
Enereem	Funchal	49,880	23,910,340	17,894,859	6,015,481	3,765,167	1,021,636	92.50%
Emacom	Funchal	49,880	1,347,168	859,473	487,695	898,197	427,815	100.00%

The associated companies consolidated under the equity method as at 31 December 2013 are as follows:

(amounts expressed in Euros)

Designation	Head office	Share capital	Total assets	Total liabilities	Total equity	Sales and services rendered	Net profit for the period	%Group
Teleféricos da Madeira	Funchal	250,000	8,473,570	1,535,396	6,938,174	6,985,182	2,936,607	20.00%
EEM & BFS	Funchal	6,000,000	30,870,984	18,609,799	12,261,185	-	(114,062)	40.00%

During the period ended 31 December 2013 there were no transactions related to the acquisition and/or disposal of shareholdings in the companies listed above.

## 7. Tangible fixed assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gross amount:</b>				
Land	7,317,257	6,422,029	7,317,257	6,422,029
Buildings	202,666,775	201,682,386	199,455,781	198,471,392
Basic equipment	610,543,398	597,504,118	576,877,749	563,894,796
Transport equipment	388,615	378,615	197,055	197,055
Office equipment	7,737,756	7,651,850	7,582,791	7,502,982
Other	3,139,416	3,047,250	3,139,415	3,047,249
Art	63,945	63,295	-	-
Work in progress	11,065,418	14,823,730	11,065,418	14,823,730
	<u>842,922,580</u>	<u>831,573,273</u>	<u>805,635,466</u>	<u>794,359,233</u>
<b>Accumulated depreciation and impairment losses:</b>				
Depreciation of the period	(27,421,357)	(27,369,949)	(25,588,561)	(25,514,462)
Depreciation of write-offs/disposals	215,007	76,182	136,186	-
Depreciation of previous periods	(445,709,985)	(418,416,218)	(435,940,362)	(410,425,900)
Impairment losses for the period	(3,313,210)	-	(3,313,210)	-
	<u>(476,229,545)</u>	<u>(445,709,985)</u>	<u>(464,705,947)</u>	<u>(435,940,362)</u>
<b>Net amount</b>	<u>366,693,035</u>	<u>385,863,288</u>	<u>340,929,519</u>	<u>358,418,871</u>

The movements in Tangible fixed assets for the Group, during 2013, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Land	6,422,029	534,891	-	-	360,337	7,317,257
Buildings	201,682,386	769,138	-	-	215,251	202,666,775
Basic equipment	597,504,118	4,613,087	-	(245,323)	8,671,516	610,543,398
Transport equipment	378,615	10,000	-	-	-	388,615
Office equipment	7,651,850	49,179	-	-	36,727	7,737,756
Other	3,047,250	87,840	-	-	4,326	3,139,416
Art	63,295	650	-	-	-	63,945
Work in progress	14,823,730	6,123,531	-	-	(9,881,843)	11,065,418
	<u>831,573,273</u>	<u>12,188,316</u>	<u>-</u>	<u>(245,323)</u>	<u>(593,686)</u>	<u>842,922,580</u>
<b>Accumulated depreciation and impairment losses:</b>						
Buildings	(89,730,972)	(5,433,818)	-	-	-	(95,164,790)
Basic equipment	(346,118,900)	(21,570,114)	-	215,007	-	(367,474,007)
Transport equipment	(259,534)	(62,040)	-	-	-	(321,574)
Office equipment	(7,241,727)	(235,268)	-	-	-	(7,476,995)
Other	(2,358,852)	(120,117)	-	-	-	(2,478,969)
Work in progress	-	-	(3,313,210)	-	-	(3,313,210)
	<u>(445,709,985)</u>	<u>(27,421,357)</u>	<u>(3,313,210)</u>	<u>215,007</u>	<u>-</u>	<u>(476,229,545)</u>
<b>Net amount</b>	<u>385,863,288</u>					<u>366,693,035</u>

Additions recorded in 2013 include interventions in distribution lines of medium voltage (868,489 Euros), substations (3,068,649 Euros), low-voltage (2,475,598 Euros), control centers and telemetry (958,980 Euros) and metering and measuring equipment (564,174 Euros). The highlight in the transportation area is the investment made in the Pedra Mole substation, which in 2013 amounted to 2,770,611 Euros.

In the production area the investment in hydropower plants amounted to 1,255,017 Euros that include 431,208 Euros related to remodelling of the Calheta's hydroelectric system and 462,679 Euros spent on the reconstruction of various watercourses.

In addition to these investments during the period there were 302,521 Euros capitalised that relate to borrowing costs and a 5.8% capitalisation rate was used to determine these costs (see Note 40).

The impairment of non-depreciable investments recorded in 2013, amounting to 3,313,210 Euros, is related to the uncertainty about the future development of the work currently in progress for the construction of a terminal for unloading liquefied natural gas (LNG). Given the changes in the

economic and financial environment, since the beginning of the preparatory work on this project, which brought restrictions on the ability to obtain bank financing and led to a thorough review of the assumptions on which the evaluation of the viability of this project was based, namely, regarding the outlook for economic growth with direct influence on estimates of consumption of this product, EEM decided to suspend the activities related with this project, although not abandoning the goal of building an LNG terminal in Madeira.

The movements in Tangible fixed assets for the Group, during 2012, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	200,002,640	38,710	-	-	1,641,036	201,682,386
Basic equipment	589,388,034	3,989,320	-	(80,124)	4,206,888	597,504,118
Transport equipment	409,728	-	-	(31,113)	-	378,615
Office equipment	7,605,341	46,509	-	-	-	7,651,850
Other	3,017,947	29,303	-	-	-	3,047,250
Art	63,295	-	-	-	-	63,295
Work in progress	16,126,390	4,780,440	-	-	(6,083,100)	14,823,730
	<u>823,035,404</u>	<u>8,884,282</u>	<u>-</u>	<u>(111,237)</u>	<u>(235,176)</u>	<u>831,573,273</u>
<b>Accumulated depreciation and impairment losses:</b>						
Land	(84,355,982)	(5,374,990)	-	-	-	(89,730,972)
Basic equipment	(324,601,905)	(21,562,064)	-	45,069	-	(346,118,900)
Transport equipment	(227,857)	(62,790)	-	31,113	-	(259,534)
Office equipment	(6,990,071)	(251,656)	-	-	-	(7,241,727)
Other	(2,240,403)	(118,449)	-	-	-	(2,358,852)
	<u>(418,416,218)</u>	<u>(27,369,949)</u>	<u>-</u>	<u>76,182</u>	<u>-</u>	<u>(445,709,985)</u>
<b>Net amount</b>	<u>404,619,186</u>					<u>385,863,288</u>

The Acquisitions recorded in 2012 include interventions on transmission lines (317,499 Euros), medium voltage distribution (970,000 Euros), substations (540,129 Euros), posts sectioning (422,345 Euros), low voltage networks (2,654,965 Euros) and counting and measuring equipment (495,094 Euros). In the production area, investment in Hydroelectric plants amounted to 1,152,993 Euros in which 477,781 Euros will include the remodelling of the hydroelectric system of Calheta, 180,068 Euros for the hydroelectric recovery system of Fonte do Juncal / Chão da Ribeira and 373,952 Euros spent on the rebuilding various channels. There were made several interventions in thermal plants, regarding the maintenance of their productive capacity, amounting to 513,079 Euros.

In addition to these investments during 2012 there were capitalised under the caption borrowing costs in the amount of 276,800 Euros, having been used the capitalisation rate of 5.7% to determine these costs (see Note 40).

The movements in Tangible fixed assets caption on an individual basis, during the year 2013, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Land	6,422,029	534,891	-	-	360,337	7,317,257
Buildings	198,471,392	769,138	-	-	215,251	199,455,781
Basic equipment	563,894,796	4,447,623	-	(136,186)	8,671,516	576,877,749
Transport equipment	197,055	-	-	-	-	197,055
Office equipment	7,502,982	43,082	-	-	36,727	7,582,791
Other	3,047,249	87,838	-	-	4,328	3,139,415
Work in progress	14,823,730	6,123,531	-	-	(9,881,843)	11,065,418
	<u>794,359,233</u>	<u>12,006,103</u>	<u>-</u>	<u>(136,186)</u>	<u>(593,684)</u>	<u>805,635,466</u>
<b>Accumulated depreciation and impairment losses:</b>						
Buildings	(88,278,433)	(5,324,428)	-	-	-	(93,602,861)
Basic equipment	(338,037,640)	(19,895,760)	-	136,186	-	(357,797,214)
Transport equipment	(162,255)	(17,400)	-	-	-	(179,655)
Office equipment	(7,103,149)	(230,856)	-	-	-	(7,334,005)
Other	(2,358,885)	(120,117)	-	-	-	(2,479,002)
Work in progress	-	-	(3,313,210)	-	-	(3,313,210)
	<u>(435,940,362)</u>	<u>(25,588,561)</u>	<u>(3,313,210)</u>	<u>136,186</u>	<u>-</u>	<u>(464,705,947)</u>
<b>Net amount</b>	<u>358,418,871</u>					<u>340,929,519</u>

The movements in Tangible fixed assets caption on an individual basis, during the year 2012, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	196,791,646	38,710	-	-	1,641,036	198,471,392
Basic equipment	555,809,810	3,878,098	-	-	4,206,888	563,894,796
Transport equipment	197,055	-	-	-	-	197,055
Office equipment	7,456,473	46,509	-	-	-	7,502,982
Other	3,017,947	29,302	-	-	-	3,047,249
Work in progress	16,126,390	4,780,440	-	-	(6,083,100)	14,823,730
	<u>785,821,350</u>	<u>8,773,059</u>	<u>-</u>	<u>-</u>	<u>(235,176)</u>	<u>794,359,233</u>
<b>Accumulated depreciation and impairment losses:</b>						
Buildings	(83,012,833)	(5,265,600)	-	-	-	(88,278,433)
Basic equipment	(318,161,412)	(19,876,228)	-	-	-	(338,037,640)
Transport equipment	(144,855)	(17,400)	-	-	-	(162,255)
Office equipment	(6,866,365)	(236,784)	-	-	-	(7,103,149)
Other	(2,240,435)	(118,450)	-	-	-	(2,358,885)
	<u>(410,425,900)</u>	<u>(25,514,462)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(435,940,362)</u>
<b>Net amount</b>	<u>375,395,450</u>					<u>358,418,871</u>

During the years ended 31 December 2013 and 2012, the following amounts were capitalised under the caption Tangible fixed assets:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Own work capitalised:</b>				
Tangible fixed assets:				
Materials	972,826	814,880	972,826	814,880
Supplies and services	1,645,550	984,021	1,645,550	984,021
Personnel	2,114,664	1,904,271	2,114,664	1,904,271
Other	29,775	56,295	29,775	56,295
	<u>4,762,815</u>	<u>3,759,467</u>	<u>4,762,815</u>	<u>3,759,467</u>
Work in progress:				
Materials	72,935	403,783	72,935	403,783
Supplies and services	425,518	1,094,076	425,518	1,094,076
Personnel	442,490	528,457	442,490	528,457
Other	22,348	-	22,348	-
	<u>963,291</u>	<u>2,026,316</u>	<u>963,291</u>	<u>2,026,316</u>
	<u>5,726,106</u>	<u>5,785,783</u>	<u>5,726,106</u>	<u>5,785,783</u>

During 2013, the expenses incurred with these assets amounted to 5,726,105 Euros (2012: 5,785,783 Euros), being the corresponding income recorded in the income statement under the caption Own work capitalised (Note: 34).

During the period were capitalised in this caption and recorded as environmental expenditures the amounts of 408,577 Euros and 991,473 Euros, respectively.



## 8. Intangible assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gross amount:</b>				
Software	19,425,028	18,377,025	19,414,650	18,366,788
CO2 licenses	2,087,564	3,989,362	2,087,564	3,989,362
Industrial property and other rights	148,549	146,538	148,549	146,538
Intangible assets in progress	22,853	-	-	-
	<u>21,683,994</u>	<u>22,512,925</u>	<u>21,650,763</u>	<u>22,502,688</u>
<b>Accumulated amortisation and impairment losses:</b>				
Amortisation of the period	(3,753,142)	(4,448,311)	(3,751,435)	(4,446,605)
Amortisation of previous periods	(14,853,509)	(12,699,796)	(14,844,979)	(12,692,972)
	<u>(18,606,651)</u>	<u>(17,148,107)</u>	<u>(18,596,414)</u>	<u>(17,139,577)</u>
<b>Net amount</b>	<u>3,077,343</u>	<u>5,364,818</u>	<u>3,054,349</u>	<u>5,363,111</u>

The movements in this balance for the Group, during 2013, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Software	18,377,025	454,319	-	-	593,684	19,425,028
CO2 licenses	3,989,362	392,800	-	(2,294,598)	-	2,087,564
Industrial property and other rights	146,538	2,011	-	-	-	148,549
Work in progress	-	22,853	-	-	-	22,853
	<u>22,512,925</u>	<u>871,983</u>	<u>-</u>	<u>(2,294,598)</u>	<u>593,684</u>	<u>21,683,994</u>
<b>Accumulated amortisation and impairment losses:</b>						
Software	(14,827,384)	(1,760,219)	-	-	-	(16,587,603)
CO2 licenses	(2,294,598)	(1,986,334)	-	2,294,598	-	(1,986,334)
Industrial property and other rights	(26,125)	(6,589)	-	-	-	(32,714)
	<u>(17,148,107)</u>	<u>(3,753,142)</u>	<u>-</u>	<u>2,294,598</u>	<u>-</u>	<u>(18,606,651)</u>
<b>Net amount</b>	<u>5,364,818</u>					<u>3,077,343</u>

The acquisitions of Software refer, mainly, to the up-date and development of the EEM computer systems.

Under Decree-Law 38/2013, of 15 March, transposing into national law Directive no. 2003/87/CE of the European Parliament and of the Council of 13 October 2003 on the establishment of a trading regime for emission allowances for greenhouse gas emissions (CELE), EEM stopped receiving freely attributed emission allowances, resorting to the market to acquire all the necessary licenses for its operating activities.

In 2013 the EEM purchased 100,000 CO2 allowances for the amount of 392,800 Euros, corresponding to the total of increases occurring under this caption.

The reduction in the payable gross amount in the CO2 licenses caption in the amount of 2,294,598 Euros, refers to the delivery of the corresponding CO2 emissions licenses verified in 2012 (332,173 tons) being charged off against accumulated depreciation, as mentioned in Note 43.

The amortisation recorded under the caption of CO2 licenses in the amount of 1,986,334 Euros, corresponds to the consumption of CO2 made by the EEM in the development of its operational activity, as referred in the accounting policy 3.2 o).

The movements in this balance for the Group, during 2012, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Software	17,676,398	465,451	-	-	235,176	18,377,025
CO2 licenses	7,570,538	3,984,191	-	(7,565,367)	-	3,989,362
Industrial property and other rights	146,538	-	-	-	-	146,538
	<u>25,393,474</u>	<u>4,449,642</u>	<u>-</u>	<u>(7,565,367)</u>	<u>235,176</u>	<u>22,512,925</u>
<b>Accumulated amortisation and impairment losses:</b>						
Software	(12,680,142)	(2,147,242)	-	-	-	(14,827,384)
CO2 licenses	(4,660,267)	(2,294,598)	-	4,660,267	-	(2,294,598)
Industrial property and other rights	(19,654)	(6,471)	-	-	-	(26,125)
	<u>(17,360,063)</u>	<u>(4,448,311)</u>	<u>-</u>	<u>4,660,267</u>	<u>-</u>	<u>(17,148,107)</u>
<b>Net amount</b>	<u>8,033,411</u>					<u>5,364,818</u>

In 2012 the acquisitions of Software refer, mainly, to the up-date and development of the EEM computer systems.

EEM recorded in the caption CO2 licenses, as at 1 January 2012 3,984,191 Euros related to the CO2 licenses freely attributed in 2012 by “Instituto do Ambiente” (577,419 tons of Emission Unit Allowance: EUA) as mentioned in Note 43.

The reduction in 2012 in the caption CO2 licenses includes 4,660,267 Euros related to the licenses delivered concerning the 2011 consumptions (335,271 tons of EUA).

Additionally, during 2012, EEM performed several operations under which sold 209,000 tons of EUA by 1,446,150 Euros (net of commissions), which had an impact in the same amount in the income statement, due to the recognition of a loss in the sale of EUA (1,458,950 Euros including 20,900 Euros of commissions see Note 39) and of the subsidy associated to the EUA freely attributed that were sold (2,905,100 Euros see Note 38).

Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to 8,547 Euros (including the effect of the Tariff compensation of 2012 in the income statement).

The depreciation recorded in the caption CO2 licenses in 2012, in the amount of 2,294,598 Euros, refers to CO2 consumptions performed by EEM in the course of its operational activity, as referred in Note 3.2 o).

The movements in this caption on an individual basis, during the year 2013, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Software	18,366,788	454,178	-	-	593,684	19,414,650
CO2 licenses	3,989,362	392,800	-	(2,294,598)	-	2,087,564
Industrial property and other rights	146,538	2,011	-	-	-	148,549
	<u>22,502,688</u>	<u>848,989</u>	<u>-</u>	<u>(2,294,598)</u>	<u>593,684</u>	<u>21,650,763</u>
<b>Accumulated amortisation and impairment losses:</b>						
Software	(14,818,854)	(1,758,512)	-	-	-	(16,577,366)
CO2 licenses	(2,294,598)	(1,986,334)	-	2,294,598	-	(1,986,334)
Industrial property and other rights	(26,125)	(6,589)	-	-	-	(32,714)
	<u>(17,139,577)</u>	<u>(3,751,435)</u>	<u>-</u>	<u>2,294,598</u>	<u>-</u>	<u>(18,596,414)</u>
<b>Net amount</b>	<u>5,363,111</u>					<u>3,054,349</u>

The movements in this caption on an individual basis, during the year 2012, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Software	17,666,161	465,451	-	-	235,176	18,366,788
CO2 licenses	7,570,538	3,984,191	-	(7,565,367)	-	3,989,362
Industrial property and other rights	146,538	-	-	-	-	146,538
	<u>25,383,237</u>	<u>4,449,642</u>	<u>-</u>	<u>(7,565,367)</u>	<u>235,176</u>	<u>22,502,688</u>
<b>Accumulated amortisation and impairment losses:</b>						
Software	(12,673,318)	(2,145,536)	-	-	-	(14,818,854)
CO2 licenses	(4,660,267)	(2,294,598)	-	4,660,267	-	(2,294,598)
Industrial property and other rights	(19,654)	(6,471)	-	-	-	(26,125)
	<u>(17,353,239)</u>	<u>(4,446,605)</u>	<u>-</u>	<u>4,660,267</u>	<u>-</u>	<u>(17,139,577)</u>
<b>Net amount</b>	<u>8,029,998</u>					<u>5,363,111</u>

During 2013 the expenses incurred with Intangible assets amounted to 73,463 Euros (2012: 105,584 Euros), being the corresponding income recorded in the income statement under the caption Own work capitalised (Note 34).

## 9. Investments - Equity method

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Subsidiaries	-	-	6,209,491	5,884,536
Associated companies	10,252,109	10,251,401	10,252,110	10,251,401
	<u>10,252,109</u>	<u>10,251,401</u>	<u>16,461,601</u>	<u>16,135,937</u>

The detail of this balance, on an individual basis, is analysed as follows:

	Dec 2013			Dec 2012		
	Gross amount Euros	Impairment Euros	Net amount Euros	Gross amount Euros	Impairment Euros	Net amount Euros
<b>Subsidiaries:</b>						
Museu - Casa da Luz	2,306,714	(2,306,714)	-	2,353,023	(2,353,023)	-
Enereem	5,721,797	-	5,721,797	5,448,505	-	5,448,505
Emacom	487,694	-	487,694	436,031	-	436,031
	<u>8,516,205</u>	<u>(2,306,714)</u>	<u>6,209,491</u>	<u>8,237,559</u>	<u>(2,353,023)</u>	<u>5,884,536</u>
<b>Associated companies:</b>						
Teleféricos da Madeira	1,387,635	-	1,387,635	1,341,302	-	1,341,302
EEM & BFS	8,864,475	-	8,864,475	8,910,099	-	8,910,099
	<u>10,252,110</u>	<u>-</u>	<u>10,252,110</u>	<u>10,251,401</u>	<u>-</u>	<u>10,251,401</u>
	<u>18,768,315</u>	<u>(2,306,714)</u>	<u>16,461,601</u>	<u>18,488,960</u>	<u>(2,353,023)</u>	<u>16,135,937</u>

As referred under the accounting policy 3.2 a) and in accordance with NCRF 13, in an individual basis, the investments in subsidiaries and associated companies in which EEM has, respectively, control or significant influence, are recorded by the equity method. However, in a consolidated basis, the investments in subsidiaries are fully consolidated.

The movements in this balance on an individual basis, during 2013, are analysed as follows:

	Balance at 1 January Euros	Acquisitions / Charges Euros	Disposals / Reductions Euros	Equity Method Euros	Other Variations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Casa da Luz	2,353,023	-	-	8,868	(55,177)	2,306,714
Enereem	5,448,505	-	-	861,387	(588,095)	5,721,797
Emacom	436,031	-	-	51,663	-	487,694
Teleféricos da Madeira	1,341,302	-	-	46,333	-	1,387,635
EEM & BFS	8,910,099	-	-	(45,624)	-	8,864,475
	18,488,960	-	-	922,627	(643,272)	18,768,315
<b>Impairment:</b>						
Casa da Luz	(2,353,023)	-	46,309	-	-	(2,306,714)
	(2,353,023)	-	46,309	-	-	(2,306,714)
	16,135,937					16,461,601

In the column Equity method is presented the effects of the application of this consolidation method, being this variation a result of the appropriation of the net profit of the period of the subsidiaries and associated companies, in the amount of 1,846,738 Euros, and of negative variations in the equity of the subsidiaries and associated companies, in the amount of 924,111 Euros.

The caption Other variations corresponds to variations in loans granted considered as equity instruments under NCRF.

The resumed financial information relative to subsidiaries and associated companies is presented in Note 6.

The movements in this balance during 2012 on an individual basis, are analysed as follows:

	Balance at 1 January Euros	Acquisitions / Charges Euros	Disposals / Reductions Euros	Equity Method Euros	Other Variations Euros	Balance at 31 December Euros
<b>Gross amount:</b>						
Casa da Luz	2,312,559	-	-	379	40,085	2,353,023
Enereem	5,383,379	-	-	776,151	(711,025)	5,448,505
Emacom	718,794	-	-	(282,763)	-	436,031
Teleféricos da Madeira	1,219,543	-	-	121,759	-	1,341,302
EEM & BFS	8,940,320	-	-	(30,221)	-	8,910,099
	18,574,595	-	-	585,305	(670,940)	18,488,960
<b>Impairment:</b>						
Casa da Luz	(2,312,559)	(40,464)	-	-	-	(2,353,023)
	(2,312,559)	(40,464)	-	-	-	(2,353,023)
	16,262,036					16,135,937

In the column Equity method is presented the effects of the application of this consolidation method in 2012, being this variation a result of the appropriation of the net profit of the period of the subsidiaries and associated companies, in the amount of 1,661,288 Euros, and of negative variations in the equity of the subsidiaries and associated companies, in the amount of 1,075,983 Euros.

## 10. Investments - Other methods

The detail of this balance is analysed as follows:

		Dec 2013			Dec 2012		
	Method	Gross amount Euros	Impairment Euros	Net amount Euros	Gross amount Euros	Impairment Euros	Net amount Euros
Banif - Banco Internacional do Funchal, S.A.	Fair value	85,626	-	85,626	1,136,490	-	1,136,490
Luso Carbon Fund	Fair value	383,100	-	383,100	609,323	-	609,323
Horários do Funchal, S.A.	Acquisition cost	611,027	(611,027)	-	611,027	(611,027)	-
Companhia Logística de Combustíveis da Madeira, S.A.	Acquisition cost	50,000	-	50,000	50,000	-	50,000
Madibel Indústrias de Alimentos e Bebidas, S.A.	Acquisition cost	20,141	(20,141)	-	20,141	(20,141)	-
Comboio do Monte, S.A.	Acquisition cost	-	-	-	16,000	-	16,000
Centro de Empresas e Inovação da Madeira, Lda.	Acquisition cost	3,990	-	3,990	3,990	-	3,990
		1,153,884	(631,168)	522,716	2,446,971	(631,168)	1,815,803

During the year 2012 occurred the extinction of Banif - SGPS, S.A., as part of its merge with Banif - Banco Internacional do Funchal, S.A. (Banif, S.A.), having now the status of a public company listed on the public investment Stock Exchange. Following the merge shares of Banif S.A. were allocated in the proportion of one to one, to the former shareholder of Banif SGPS.

The movement of investments during the year 2013 is analysed as follows:

	Balance at 1 January Euros	Acquisitions Euros	Disposals Euros	Changes in fair value Euros	Capital Amortisation Euros	Impairment Euros	Balance at 31 December Euros
Banif - Banco Internacional do Funchal, S.A.	1,136,490	-	-	(1,050,864)	-	-	85,626
Luso Carbon Fund	609,323	-	-	(162,265)	(63,958)	-	383,100
Companhia Logística de Combustíveis da Madeira, S.A.	50,000	-	-	-	-	-	50,000
Comboio do Monte, S.A.	16,000	-	-	-	(9,914)	(6,086)	-
Centro de Empresas e Inovação da Madeira, Lda.	3,990	-	-	-	-	-	3,990
	<u>1,815,803</u>	<u>-</u>	<u>-</u>	<u>(1,213,129)</u>	<u>(73,872)</u>	<u>(6,086)</u>	<u>522,716</u>

As at 31 December 2013, the investments held in Banif - Banco Internacional do Funchal, S.A. and Luso Carbon Fund decreased 1,050,864 Euros and 162,265 Euros respectively, this impairment was recognised in the fair value reductions (see Note 37).

During the year 2013 occurred the dissolution and liquidation of the Comboio do Monte, S.A. company.

The movement of investments during the year 2012 is analysed as follows:

	Balance at 1 January Euros	Acquisitions Euros	Disposals Euros	Changes in fair value Euros	Capital Amortisation Euros	Impairment Euros	Balance at 31 December Euros
Banif - SGPS, S.A.	2,646,621	-	-	(1,510,131)	-	-	1,136,490
Luso Carbon Fund	764,577	-	-	(155,254)	-	-	609,323
Companhia Logística de Combustíveis da Madeira, S.A.	50,000	-	-	-	-	-	50,000
Comboio do Monte, S.A.	16,000	-	-	-	-	-	16,000
Centro de Empresas e Inovação da Madeira, Lda.	3,990	-	-	-	-	-	3,990
	<u>3,481,188</u>	<u>-</u>	<u>-</u>	<u>(1,665,385)</u>	<u>-</u>	<u>-</u>	<u>1,815,803</u>

As at 31 December 2012, the investments held in Banif - Banco Internacional do Funchal, S.A. and Luso Carbon Fund decreased 1,510,131 Euros and 155,254 Euros, respectively, this impairment was recognised in the fair value reductions (see Note 37).

## 11. Clients

The Clients are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gross amount:</b>				
<b>Non-current assets:</b>				
Official entities with protocol	49,718,281	34,446,202	49,718,281	34,446,202
	49,718,281	34,446,202	49,718,281	34,446,202
<b>Current assets:</b>				
Official entities with protocol	7,566,140	2,666,948	7,566,140	2,666,948
Official entities without protocol	46,415,829	76,918,927	46,415,714	76,918,812
Private clients	44,799,694	40,798,213	44,590,280	40,653,518
	98,781,663	120,384,088	98,572,134	120,239,278
	148,499,944	154,830,290	148,290,415	154,685,480
<b>Impairment:</b>				
Non-current assets	(9,114,202)	(7,102,754)	(9,114,202)	(7,102,754)
Current assets	(26,665,998)	(34,222,500)	(26,663,332)	(34,219,834)
	(35,780,200)	(41,325,254)	(35,777,534)	(41,322,588)
<b>Net amount</b>	<b>112,719,744</b>	<b>113,505,036</b>	<b>112,512,881</b>	<b>113,362,892</b>

The balance Official entities with protocol, in the amount of 57,284,421 Euros (2012: 37,113,150 Euros), 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 5 and 30 years, without interest and in a monthly based instalments, with protocols totalling 25,941,813 Euros (2012: Euros 2,821,633) celebrated in 2013. Under these protocols, EEM has received during 2013 the amount of 5,770,543 Euros (2012: 3,412,736 Euros).

The balance Official entities without protocol, in the amount of 46,415,829 Euros (2012: 76,918,927 Euros), relates to amounts invoiced to regional official entities until 31 December 2013 regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes 23,324,403 Euros (2012: 30,718,101 Euros) related to public lightning.

In 2013, the movements in Impairment losses, for the Group, are analysed as follows:

	Balance at 1 January Euros	Charge-off Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
<b>Impairment losses:</b>					
<b>Non-current assets:</b>					
Official entities with protocol	(7,102,754)	-	(2,011,448)	-	(9,114,202)
	(7,102,754)	-	(2,011,448)	-	(9,114,202)
<b>Current assets:</b>					
Official entities with protocol	(680,554)	-	-	514,636	(165,918)
Official entities without protocol	(19,943,291)	-	-	8,737,580	(11,205,711)
Private clients	(13,598,655)	-	(1,695,714)	-	(15,294,369)
	(34,222,500)	-	(1,695,714)	9,252,216	(26,665,998)
	(41,325,254)	-	(3,707,162)	9,252,216	(35,780,200)

In 2012, the movements in Impairment losses, for the Group, are analysed as follows:

	Balance at 1 January Euros	Charge-off Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
<b>Impairment losses:</b>					
<b>Non-current assets:</b>					
Official entities with protocol	(7,383,973)	-	-	281,219	(7,102,754)
	(7,383,973)	-	-	281,219	(7,102,754)
<b>Current assets:</b>					
Official entities with protocol	(74,616)	-	(605,938)	-	(680,554)
Official entities without protocol	(20,268,010)	-	-	324,719	(19,943,291)
Private clients	(11,111,744)	957,749	(3,444,660)	-	(13,598,655)
	(31,454,370)	957,749	(4,050,598)	324,719	(34,222,500)
	(38,838,343)	957,749	(4,050,598)	605,938	(41,325,254)

The change-off of impairment of private clients in the amount of 957,749 Euros corresponds to the write-off of amounts due with significant seniority (uncollectible), whose impairment was already fully registered.

## 12. Other receivables

The detail of this balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gross amount:</b>				
<b>Non-current assets:</b>				
Tariff compensation	-	22,531,172	-	22,531,172
	-	22,531,172	-	22,531,172
<b>Current assets:</b>				
Tariff compensation	83,946,630	75,578,265	83,946,630	75,578,265
Tariff convergence	18,622,560	18,411,010	18,622,560	18,411,010
REN	9,567,204	8,684,089	9,567,204	8,684,089
Energy to invoice	5,137,625	5,738,061	5,141,830	5,742,777
Other	2,680,224	2,758,704	2,672,430	2,750,914
	119,954,243	111,170,129	119,950,654	111,167,055
	119,954,243	133,701,301	119,950,654	133,698,227
<b>Impairment:</b>				
Current assets	(2,623,006)	(1,084,670)	(2,623,006)	(1,084,670)
	(2,623,006)	(1,084,670)	(2,623,006)	(1,084,670)
<b>Net amount</b>	<b>117,331,237</b>	<b>132,616,631</b>	<b>117,327,648</b>	<b>132,613,557</b>

The balance Tariff compensation, in the amount of 83,946,630 Euros (2012: 98,109,437 Euros), 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 is detailed, per year of receiving, as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Assets:</b>				
Tariff compensation of 2008	-	6,027,640	-	6,027,640
Tariff compensation of 2009	32,040,463	30,601,468	32,040,463	30,601,468
Tariff compensation of 2010	6,967,563	6,967,563	6,967,563	6,967,563
Tariff compensation of 2011	7,305,443	7,305,443	7,305,443	7,305,443
Tariff compensation of 2012	7,476,180	7,476,180	7,476,180	7,476,180
Tariff compensation of 2013	7,665,104	17,199,971	7,665,104	17,199,971
Tariff compensation of 2014	22,491,877	22,531,172	22,491,877	22,531,172
	83,946,630	98,109,437	83,946,630	98,109,437
<b>Liabilities (see Note 30):</b>				
Tariff compensation of 2015	(4,922,081)	-	(4,922,081)	-
	(4,922,081)	-	(4,922,081)	-
	<b>79,024,549</b>	<b>98,109,437</b>	<b>79,024,549</b>	<b>98,109,437</b>

It should be noted that in 2013, as disclosed in note 21, EEM derecognised the assets relating to municipal network tax of 2006, in the amount of 6,027,640 Euros, against retained earnings.

As mentioned in Note 46, in January 2014, EEM received 25,612,181 Euros compensation relating to the 2009 tariff.



The Tariff Convergence caption in the amount of 18,622,560 Euros (2012: 18,411,010 Euros), corresponds to the difference between the values recorded in the operating account for the years 1998 to 2002 and those actually received under the contract signed between EEM, the Government of Madeira and the Central Government, which provided for the payment of the amount due in 40 quarterly instalments plus interest on late payments, as at December 31, 2013, which amounted to 535,739 Euros. Under this contract, EEM received from the Central Government in previous years, the amount of 26,713,636 Euros (including capital and interest on late payments) plus VAT at the rate of 4%. The tariff convergence rate is recorded at amortised cost, whereat there was an impairment loss associated with it in the amount of 84,670 Euros in 2012, which was fully reversed in 2013.

As mentioned in Note 46, EEM received the entire amount recorded under tariff convergence during the month of January 2014.

The REN caption that amounts to 9,567,204 Euros (2012: 8,684,089 Euros), corresponds to the value of tariff convergence of December 2013, transferred monthly to the EEM.

In 2013, the movements in Impairment losses for the Group are analysed as follows:

	Balance at 1 January Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
<b>Impairment losses:</b>				
<b>Current assets:</b>				
Tariff convergence	(84,670)	-	84,670	-
Other receivables	(1,000,000)	(1,623,006)	-	(2,623,006)
	<u>(1,084,670)</u>	<u>(1,623,006)</u>	<u>84,670</u>	<u>(2,623,006)</u>

The Impairment losses result from the net present value calculation of the payment plan referred above, which establishes the payment of the debt in 40 quarterly payments without interest. The period reversal corresponds to the unwinding of the amount to receive throughout this payment plan (see note 40).

In 2012, the movements in Impairment losses for the Group are analysed as follows:

	Balance at 1 January Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
<b>Impairment losses:</b>				
<b>Non-current assets:</b>				
Tariff convergence	(216,915)	-	216,915	-
	<u>(216,915)</u>	<u>-</u>	<u>216,915</u>	<u>-</u>
<b>Current assets:</b>				
Tariff convergence	(84,670)	-	-	(84,670)
Other receivables	(1,000,000)	-	-	(1,000,000)
	<u>(1,084,670)</u>	<u>-</u>	<u>-</u>	<u>(1,084,670)</u>
	<u>(1,301,585)</u>	<u>-</u>	<u>216,915</u>	<u>(1,084,670)</u>

### 13. Deferred tax assets and liabilities

In its consolidated financial statements, EEM records the tax effect arising from temporary differences between the carrying amounts of assets and liabilities and their respective tax basis, which is analysed as follows:

	Deferred tax assets		Deferred tax liabilities		Deferred tax (net)	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Transition adjustment	168,064	365,356	-	-	168,064	365,356
Non-deductable provisions	13,003,428	15,150,393	-	-	13,003,428	15,150,393
Depreciations without tax consequences	762,038	-	10,859	206,384	751,179	(206,384)
Accounting revaluations	-	-	836,280	984,459	(836,280)	(984,459)
Non-refundable grants	-	-	-	7,026,576	-	(7,026,576)
Others	-	-	167,606	-	(167,606)	-
	<u>13,933,530</u>	<u>15,515,749</u>	<u>1,014,745</u>	<u>8,217,419</u>	<u>12,918,785</u>	<u>7,298,330</u>

In its individual financial statements, EEM records the tax effect arising from temporary differences between the carrying amounts of assets and liabilities and their respective tax basis, which is analysed as follows:

	Deferred tax assets		Deferred tax liabilities		Deferred tax (net)	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Transition adjustment	168,064	365,356	-	-	168,064	365,356
Non-deductable provisions	13,003,428	15,150,393	-	-	13,003,428	15,150,393
Depreciations without tax consequences	762,038	-	10,859	12,322	751,179	(12,322)
Accounting revaluations	-	-	836,280	984,459	(836,280)	(984,459)
Non-refundable grants	-	-	-	6,999,562	-	(6,999,562)
	<u>13,933,530</u>	<u>15,515,749</u>	<u>847,139</u>	<u>7,996,343</u>	<u>13,086,391</u>	<u>7,519,406</u>

As mentioned in Note 2.3, after its publication on 9 April 2013, FAQ no. 13 of the Accounting Standards Committee (ASC), EEM has come to recognise under Other payables the tax component associated with non-refundable government grants related to depreciable tangible assets that as at December 31, 2013 amounts to 5,856,712 Euros on a consolidated basis and 5,834,965 Euros on an individual basis. On December 31, 2012 this component of tax in the amount of 7,026,576 Euros on a consolidated basis and 6,999,562 Euros on an individual basis, was recorded in the caption Deferred tax liabilities.

The movements in deferred taxes for the Group and in an individual basis, for 2013 and 2012, are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Balance at 1 January</b>	7,298,330	5,664,696	7,519,406	5,901,030
Charges to the income statement	(1,478,841)	2,304,946	(1,505,297)	2,289,688
Charges against reserves	72,720	(671,312)	72,720	(671,312)
Other changes	7,026,576	-	6,999,562	-
<b>Balance at 31 December</b>	<u>12,918,785</u>	<u>7,298,330</u>	<u>13,086,391</u>	<u>7,519,406</u>

The caption other changes relates to the reclassification effect of the tax component associated with non-refundable Government grants as mentioned above.

The Regional Legislative Decree No. 31-A/2013/M, of 31 December, changed the applicable IRC (income tax) rate in the Autonomous Region of Madeira in 2014, from 25% to 23%. In accordance with NCRF 25.44, deferred tax assets and liabilities should be measured using the tax rates that are expected to be applied in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that are approved at the balance sheet date, therefore the deferred taxes were calculated using the 23% tax rate.

## 14. State and other public entities

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Tax receivable:</b>				
Income tax	376,845	3,669	283,933	-
Other tax	-	-	434	-
	<u>376,845</u>	<u>3,669</u>	<u>284,367</u>	<u>-</u>
<b>Tax payable:</b>				
Income tax	22,634	681,728	-	578,286
Withholding tax	433,910	1,044,465	424,719	1,041,894
Value added tax (VAT)	5,996,630	5,877,550	5,771,108	5,683,825
Other taxes	256,222	292,934	256,242	292,954
Social Security contributions	582,330	556,643	579,360	553,528
Local municipality tax	23,000	24,000	23,000	24,000
	<u>7,314,726</u>	<u>8,477,320</u>	<u>7,054,429</u>	<u>8,174,487</u>

## 15. Inventories

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gross amount:</b>				
Goods	9,108,123	9,062,603	9,070,093	9,023,399
Raw materials	6,299,342	6,946,765	6,299,342	6,946,765
	<u>15,407,465</u>	<u>16,009,368</u>	<u>15,369,435</u>	<u>15,970,164</u>
<b>Impairment:</b>				
Impairment for inventories depreciation	(257,226)	(257,226)	(255,173)	(255,173)
	<u>(257,226)</u>	<u>(257,226)</u>	<u>(255,173)</u>	<u>(255,173)</u>
	<u>15,150,239</u>	<u>15,752,142</u>	<u>15,114,262</u>	<u>15,714,991</u>

The balance Goods includes electric cables, material to be incorporated in the transport and distribution networks and thermoelectric backup components for power plants.

In 2013, the movements in Impairment losses, for the Group, are analysed as follows:

	Balance at 1 January Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
<b>Impairment losses:</b>				
Goods	(183,324)	-	-	(183,324)
Raw materials	(73,902)	-	-	(73,902)
	<u>(257,226)</u>	<u>-</u>	<u>-</u>	<u>(257,226)</u>

## 16. Shareholders

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Current assets:</b>				
EEM & BFS	18,196,377	13,971,454	18,196,377	13,971,454
	<u>18,196,377</u>	<u>13,971,454</u>	<u>18,196,377</u>	<u>13,971,454</u>
<b>Current liabilities:</b>				
Emacom	-	-	(550,000)	(915,000)
	<u>-</u>	<u>-</u>	<u>(550,000)</u>	<u>(915,000)</u>
	<u>18,196,377</u>	<u>13,971,454</u>	<u>17,646,377</u>	<u>13,056,454</u>

## 17. Deferrals

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Assets:</b>				
Deferred expenses:				
Insurance premiums	255,916	219,822	198,608	219,748
Other deferred expenses	14,756	91,862	14,756	-
	<u>270,672</u>	<u>311,684</u>	<u>213,364</u>	<u>219,748</u>
<b>Liabilities:</b>				
Deferred income:				
Services rendered	743,125	1,019,375	-	-
	<u>743,125</u>	<u>1,019,375</u>	<u>-</u>	<u>-</u>

According to its maturity, this balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Assets:</b>				
Deferred expenses:				
Current	270,672	311,684	213,364	219,748
	<u>270,672</u>	<u>311,684</u>	<u>213,364</u>	<u>219,748</u>
<b>Liabilities:</b>				
Deferred income:				
Non-current	428,125	711,875	-	-
Current	315,000	307,500	-	-
	<u>743,125</u>	<u>1,019,375</u>	<u>-</u>	<u>-</u>

As at 31 December 2013 and 2012, for the Group, the deferred expenses refer, mainly, to amounts paid related with the multi-risk insurance policy for the electricity generating plants and to the agreements celebrated with Vestas Portugal for the warranty and maintenance of Enereem wind farms.

The deferred income results from the amount received by Emacom under an agreement for the rental of telecommunication circuits for a 5 years period, with maturity between 2015 and 2018, respectively.

## 18. Other financial assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Collateral Swap Barclays PLC	4,570,000	6,170,000	4,570,000	6,170,000
	4,570,000	6,170,000	4,570,000	6,170,000

Under the terms of the contract signed with Barclays PLC for the interest rate swap (see Note 31), EEM is required to make a deposit whenever the fair value of the derivative is negative by an amount that exceeds 4 million Euros (threshold until 17 May 2012) or exceeds 3 million Euros (threshold after 17 May 2012). On this basis the EEM made a deposit to meet this contractual requirement, in the amount of 4.570.000 Euros as at 31 December 2013 (2012: 6.170.000 Euros). The obligation to provide the deposit as collateral for this transaction arose after the downgrade of EEM rating, following the downgrade of the Portuguese Republic and consequently of the Autonomous Region of Madeira.

## 19. Share capital

The share capital, in the amount of 20,000,000 Euros, is represented by 4,000,000 shares with a nominal value of 5 Euros each, and is fully paid as at 31 December 2013, being entirely held by Madeira's Regional Government.

## 20. Legal reserves

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 in earlier periods EEM has already reached the limit of the legal reserve, as mentioned above, it was not charged against this balance any amount of the profit for the period ended 31 December 2012.

## 21. Retained earnings

In 2013, the variation of this caption, for the Group is as follows:

- In 2012, includes the application of the profit for the period ended 31 December 2012 in the amount of 4,090,652 Euros;
- Additionally, this variation includes the realisation of the tangible and intangible assets revaluation reserves, in the amount of 679,131 Euros, the reclassification to the caption Financial assets adjustments of the net profit for the period appropriated from its associated companies by the application of the equity method and not distributed, in the amount of 75,266 Euros;
- Reclassification of Other changes in equity of the associated deferred tax subsidies recognised in equity by EEM, amounting to 750,690 Euros following the change occurred in FAQ 13, as described in Note 2.3;
- Derecognition by Retained earnings, of the asset corresponding to the municipal network tax of 2006, in the amount of 6,027,640 Euros.

## 22. Financial assets adjustments

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Equity Method:</b>				
Non-distributed profits	836,007	911,273	4,776,423	4,064,057
Other variations	65,414	6,403	180,794	128,754
	<u>901,421</u>	<u>917,676</u>	<u>4,957,217</u>	<u>4,192,811</u>

## 23. Revaluation reserves

This balance is related to revaluation reserves originated by the tangible and intangible assets legal revaluations performed by EEM, amounting to 9,347,573 Euros (2012: 9,953,983 Euros).

## 24. Other changes in equity

The balance Other changes in equity is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Government grants	28,416,269	31,109,064	28,321,717	31,001,006
Deferred tax - Government grants	(5,856,712)	(7,777,266)	(5,834,965)	(7,750,252)
Donations	63,945	63,295	-	-
	<u>22,623,502</u>	<u>23,395,093</u>	<u>22,486,752</u>	<u>23,250,754</u>

The movements in Other changes in equity for the Group and in an individual basis, for 2013 and 2012, are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Balance at 1 January</b>	23,395,093	24,370,293	23,250,754	24,215,824
Government grants recognised in the period	-	2,685,247	-	2,685,247
Deferred tax - Government grants recognised in the period	-	(671,312)	-	(671,312)
Government grants reclassified to profit or loss	(2,692,795)	(3,985,513)	(2,679,287)	(3,972,006)
Deferred tax - Government grants reclassified to profit or loss	660,584	996,378	657,207	993,001
Deferred tax - Change in tax rate	509,279	-	507,388	-
Other changes	751,341	-	750,690	-
<b>Balance at 31 December</b>	<u>22,623,502</u>	<u>23,395,093</u>	<u>22,486,752</u>	<u>23,250,754</u>

The other changes caption, registers the reclassification of retained earnings of the deferred tax associated to subsidies recognised in equity in the amount of 750,690 Euros following the change occurred in FAQ 13, as described in Note 2.3.

## 25. Minority interests

The caption Minority interests, refers to the investment held by Aream - Agência Regional da Energia e Ambiente on the subsidiary 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 451,161 Euros (2012: 375,156 Euros).

## 26. Provisions

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Contingencies arising from commercial activities	12,088,037	8,200,000	12,088,037	8,200,000
Other liabilities and charges	2,681,000	4,454,307	2,681,000	4,454,307
	<u>14,769,037</u>	<u>12,654,307</u>	<u>14,769,037</u>	<u>12,654,307</u>

In 2013, the movements in Provisions, for the Group, are analysed as follows:

	1 January Euros	Charges Euros	Reversals Euros	31 December Euros
Contingencies arising from commercial activities	8,200,000	3,888,037	-	12,088,037
Other liabilities and charges	4,454,307	101,057	(1,874,364)	2,681,000
	<u>12,654,307</u>	<u>3,989,094</u>	<u>(1,874,364)</u>	<u>14,769,037</u>

In 2013 EEM strengthened the provision to meet the contingencies arising from its commercial activity, in the amount of 3,888,037 Euros (2012: 8,200,000 Euros).

In 2012, the movements in Provisions, for the Group, are analysed as follows:

	1 January Euros	Charges Euros	Reversals Euros	31 December Euros
Municipal network tax of 2006	6,027,640	-	(6,027,640)	-
Contingencies arising from commercial activities	-	8,200,000	-	8,200,000
Other liabilities and charges	4,676,667	-	(222,360)	4,454,307
	<u>10,704,307</u>	<u>8,200,000</u>	<u>(6,250,000)</u>	<u>12,654,307</u>

During 2007, a provision was made in the amount of 6,027,640 Euros, considering recoverability risk of the amount paid by EEM for the utilisation of municipal public domain for 2006. During the year 2012 this provision was reversed.

## 27. Financial debt

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Non-current liabilities:</b>				
Foreign loans	332,364,277	302,569,787	332,364,278	302,569,787
Other loans	22,592,061	22,017,462	8,048,968	5,656,483
	354,956,338	324,587,249	340,413,246	308,226,270
<b>Current liabilities:</b>				
Short term loans	6,675,902	54,777,366	6,675,902	54,777,366
Foreign loans	7,367,625	16,269,918	7,367,625	16,269,918
Other loans	27,678,198	27,466,239	25,853,922	25,641,404
	41,721,725	98,513,523	39,897,449	96,688,688
	396,678,063	423,100,772	380,310,695	404,914,958

In 2005, the EEM contracted a loan of 220,000,000 Euros from a bank syndicate composed by of Dexia, KfW and BNG, maturing in 2020. This financing consists of two instalments, one of 154,000,000 Euros subject to a fixed rate of 3.745% + spread, and another 66,000,000 Euros subject to variable rate indexed to Euribor 6 months + spread. To hedge the variability of interest rate associated with the instalment of 66,000,000 Euros, was hired a interest rate swap, thus fixing the interest rate at 3.55% + spread (see Note 31).

As at 28 May 2010, EEM agreed a credit facility with European Investment Bank (EIB) in the total amount of 75,000,000 Euros with the purpose of improving the electricity production, transmission and distribution infrastructures in the Autonomous Region of Madeira. During 2013, EEM increased the amount used from this credit facility by 35,000,000 Euros, which is booked in the Foreign loans caption.

In 2013, Financial debt by maturity, for the Group, is analysed as follows:

	Up to 1 year Euros	From 1 to 5 years Euros	More than 5 years Euros	Total Euros
<b>Non-current liabilities:</b>				
Foreign loans	-	45,765,853	286,598,424	332,364,277
Other loans	-	13,713,372	8,878,689	22,592,061
	-	59,479,225	295,477,113	354,956,338
<b>Current liabilities:</b>				
Short term loans	6,675,902	-	-	6,675,902
Foreign loans	7,367,625	-	-	7,367,625
Other loans	27,678,198	-	-	27,678,198
	41,721,725	-	-	41,721,725
	41,721,725	59,479,225	295,477,113	396,678,063



In 2012, Financial debt by maturity, for the Group, is analysed as follows:

	Up to 1 year Euros	From 1 to 5 years Euros	More than 5 years Euros	Total Euros
<b>Non-current liabilities:</b>				
Foreign loans	-	30,825,896	271,743,891	302,569,787
Other loans	-	12,928,030	9,089,432	22,017,462
	-	43,753,926	280,833,323	324,587,249
<b>Current liabilities:</b>				
Short term loans	54,777,366	-	-	54,777,366
Foreign loans	16,269,918	-	-	16,269,918
Other loans	27,466,239	-	-	27,466,239
	98,513,523	-	-	98,513,523
	98,513,523	43,753,926	280,833,323	423,100,772

As at 31 December 2013, the scheduled repayments of the Group's debt including interest accrual are as follows:

	2014 Euros	2015 Euros	2016 Euros	2017 Euros	2018 Euros	Following years Euros	Total Euros
Non-current liabilities	-	14,888,903	14,869,523	14,863,588	14,857,210	295,477,114	354,956,338
Current liabilities	41,721,725	-	-	-	-	-	41,721,725
	41,721,725	14,888,903	14,869,523	14,863,588	14,857,210	295,477,114	396,678,063

Following the financial crisis that is affecting the liquidity in international markets, EEM's rating was downgraded, as a result of the Portuguese Republic rating downgrade and, consequently, the Autonomous Region of Madeira. Regarding the 220 million Euros syndicated loan, the referred downgrade to a note below Baa2 demanded, in 2011, an unconditional and irrevocable guarantee from the Autonomous Region of Madeira Government.

As at 31 December 2012, the scheduled repayments of the Group's debt including interest accrual are as follows:

	2013 Euros	2014 Euros	2015 Euros	2016 Euros	2017 Euros	Following years Euros	Total Euros
Non-current liabilities	-	12,674,369	10,377,667	10,354,313	10,347,577	280,833,323	324,587,249
Current liabilities	98,513,523	-	-	-	-	-	98,513,523
	98,513,523	12,674,369	10,377,667	10,354,313	10,347,577	280,833,323	423,100,772

## 28. Employee benefits

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 referred in the accounting policy stated in Note 3.2. m) EEM adopts an accounting policy that provides for the recognition of actuarial gains and losses in the income statement for the year. Actuarial losses were recognised in the amount of 1,587,955 Euros in the year 2013 and gains in the amount of 1,570,464 Euros in 2012.

As at 31 December 2013 and 2012, the liabilities for past services associated to the pension plan were the following:

	Dec 2013 Euros	Dec 2012 Euros
<b>Evolution of liabilities:</b>		
Liabilities at the beginning of the year	23,700,478	23,079,307
Current service cost	38,528	46,634
Interest cost	770,266	1,096,267
Benefits paid	(2,017,355)	(2,092,194)
Actuarial gains and losses	1,587,955	1,570,464
<b>Liabilities at the end of the year</b>	<b>24,079,872</b>	<b>23,700,478</b>

As at 31 December 2013 and 2012, the number of participants covered by this pension plan is analysed as follows:

	Dec 2013	Dec 2012
Employees	43	49
Pre-pensioners	21	21
Pensioners	239	243
	<b>303</b>	<b>313</b>

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

	Dec 2013	Dec 2012
Salaries increase rate	2.00% (a)	2.00% (a)
Pre-pensioners pensions increase rate	1.75%	1.75%
Pensioners pensions increase rate	1.75%	1.75%
Discount rate	3.00%	3.25%
Mortality table:		
Women	TV88/90	TV88/90
Men	TV88/90	TV73/77 + 1 year
Disability rate	EVK 80	EVK 80

(a) For the years 2014 and 2013 it was not considered any salaries increase.

The liabilities with the pension plan are covered by pension provisions, as shown below:

	<b>Dec 2013 Euros</b>	<b>Dec 2012 Euros</b>
<b>Liabilities as at 31 December:</b>		
Employees	1,615,030	1,921,060
Pre-pensioners	2,772,364	2,898,518
Pensioners	19,692,478	18,880,900
	<u>24,079,872</u>	<u>23,700,478</u>
<b>Liabilities to be covered:</b>		
Provisions charged	<u>24,079,872</u>	<u>23,700,478</u>
<b>Liabilities not covered</b>	<u>-</u>	<u>-</u>

In 2013, the EEM recorded a cost with supplementary retirement and pre-retirement in the amount of 2,396,749 Euros (2011: 2,713,365 Euros), which is analysed as follows:

	<b>Dec 2013 Euros</b>	<b>Dec 2012 Euros</b>
<b>Cost for the year:</b>		
Current service cost	38,528	46,634
Interest costs	770,266	1,096,267
Actuarial gains and losses	1,587,955	1,570,464
<b>Net cost for the year</b>	<u>2,396,749</u>	<u>2,713,365</u>

## 29. Suppliers

This balance is analysed as follows:

	<b>Group</b>		<b>Individual</b>	
	<b>Dec 2013 Euros</b>	<b>Dec 2012 Euros</b>	<b>Dec 2013 Euros</b>	<b>Dec 2012 Euros</b>
<b>Suppliers:</b>				
General	32,935,463	62,428,341	32,592,143	61,993,522
Subsidiaries	-	-	294,463	354,494
Suppliers of tangible assets	<u>2,466,922</u>	<u>3,743,285</u>	<u>2,464,707</u>	<u>3,739,676</u>
	<u>35,402,385</u>	<u>66,171,626</u>	<u>35,351,313</u>	<u>66,087,692</u>

The caption Suppliers – General includes, mainly, fuel and electric energy supplies. On an individual basis, the caption Suppliers – Subsidiaries is related to services rendered by Emacom and the Casa da Luz to EEM.

### 30. Other payables

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Non-current liabilities:</b>				
Accrued costs:				
Tariff compensation 2015 (see Note 12)	4,922,081	-	4,922,081	-
Tax associated with investment subsidies	5,856,712	-	5,834,965	-
	<u>10,778,793</u>	<u>-</u>	<u>10,757,046</u>	<u>-</u>
<b>Current liabilities:</b>				
Accrued costs:				
Municipal network tax (see Note 40)	7,540,345	7,600,877	7,540,345	7,600,877
Holiday pay and subsidies	3,338,155	3,702,049	3,321,907	3,684,206
Other accrued costs	1,943,131	629,043	1,734,577	405,228
National Electric System (CO2)	-	1,694,764	-	1,694,764
Other creditors	23,306,610	2,383,378	23,306,611	2,376,473
	<u>36,128,241</u>	<u>16,010,111</u>	<u>35,903,440</u>	<u>15,761,548</u>
	<u>46,907,034</u>	<u>16,010,111</u>	<u>46,660,486</u>	<u>15,761,548</u>

The caption Municipal network tax refers to the 2013 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.

The caption National Electric System (CO2) refers to the CO2 licenses freely attributed and not yet consumed, as referred in Note 43. During the year 2013 there weren't assigned any CO2 freely attributed licenses, as described in note 3.2 o).

The tariff compensation caption corresponds to the tariff compensation in 2013 to render in 2015.

In 2013, and according to Note 2.3, the tax associated with non-reimbursable grants related to depreciable tangible fixed assets and intangible assets with indefinite useful lives was reclassified from the caption under the heading Deferred tax under Other accounts payable.

In Other liabilities caption are included confirming supplier invoices in the amount of 20,953,409 Euros and security deposits, relating to deposits paid by consumers of electricity, amounting to 2,166,484 Euros.

### 31. Other financial liabilities

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Interest rate swaps	6,979,593	9,302,811	6,979,593	9,302,811
	<u>6,979,593</u>	<u>9,302,811</u>	<u>6,979,593</u>	<u>9,302,811</u>

The caption Interest rate swaps corresponds to the fair value of the interest rate derivative agreed to hedge the variability of the interest charges associated to the component of 66,000,000 Euros of the 220,000,000 Euros syndicated loan, obtained in 2005 by EEM under the restructuring of its financial liabilities. Under this swap, which matures in 15 November 2017, EEM receives a variable interest rate (Euribor 6 months) and pays a fixed interest rate of 3.55% over the notional amount referred above. Under this agreement, a deposit was made as collateral for this swap whose value amounts to 4,570,000 Euros (2012: 6,170,000 Euros) (see Note 18).

### 32. Sales and services rendered and Cost of sales

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Sales:</b>				
Energy	120,148,064	121,916,191	120,196,252	121,964,914
Tariff compensation	78,365,293	94,740,481	78,365,293	94,740,481
Services rendered	1,162,567	1,123,888	505,914	439,491
Goods	8,800	12,955	8,728	12,844
	<u>199,684,724</u>	<u>217,793,515</u>	<u>199,076,187</u>	<u>217,157,730</u>
<b>Cost of sales:</b>				
Raw materials	52,186,958	64,454,358	52,186,958	64,454,359
Energy purchased from third parties	46,122,225	48,558,708	49,887,392	52,514,695
Goods	4,825,943	4,026,790	4,824,770	4,026,423
	<u>103,135,126</u>	<u>117,039,856</u>	<u>106,899,120</u>	<u>120,995,477</u>

The caption Tariff compensation includes the amounts of 83,669,921 Euros attributed to EEM related to the 2013 Tariff convergence, (4,823,867) Euros related to the 2013 Tariff compensation to render in 2015 and (480,761) Euros related to the ERSE downward revision of the 2012 Tariff compensation estimate, receivable through the electric energy tariff in 2014.

### 33. Gains/(losses) on subsidiaries, associated companies and joint ventures

The Gains/(losses) on subsidiaries, associated companies and joint ventures resulting from the application of the equity method are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gains:</b>				
Subsidiaries	-	-	1,305,041	1,165,176
Associated companies	587,321	524,733	587,321	524,733
	587,321	524,733	1,892,362	1,689,909
<b>Losses:</b>				
Associated companies	(45,624)	(30,221)	(45,624)	(30,221)
	(45,624)	(30,221)	(45,624)	(30,221)
	541,697	494,512	1,846,738	1,659,688

### 34. Own work capitalised

The balance Own work capitalised is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Own work capitalised:</b>				
Tangible and intangible assets	5,799,568	5,891,367	5,799,568	5,891,367
Other	56,179	54,644	56,179	54,644
	5,855,747	5,946,011	5,855,747	5,946,011

### 35. Supplies and services

The balance Supplies and services is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Supplies and services:</b>				
Subcontracts	2,209,688	2,242,363	2,209,689	2,240,130
Specialised works	1,764,519	1,816,357	1,747,423	1,798,037
Maintenance and repairs	2,377,852	1,631,592	1,888,392	1,110,933
Rent and leases	1,060,115	1,044,641	1,084,954	1,069,186
Insurances	727,744	782,841	661,404	711,863
Communications	711,964	680,608	951,230	899,976
Fuel and water	422,546	412,230	419,996	410,066
Other supplies and services	1,392,180	1,520,835	1,240,519	1,355,852
	10,666,608	10,131,467	10,203,607	9,596,043

The caption Specialised works includes expenses with financial, legal and IT advisory services.

### 36. Personnel costs

The balance Personnel costs is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Personnel costs:</b>				
Board of Directors remuneration	211,284	201,061	211,284	201,061
Employee's remuneration and other	22,457,132	21,951,856	22,317,387	21,817,786
Employee benefits	2,396,749	2,713,365	2,396,749	2,713,365
Social charges on remuneration	5,032,871	4,858,986	5,001,699	4,829,988
Insurance policies	202,296	223,756	200,735	222,744
Others	38,014	54,650	37,930	54,542
	<u>30,338,346</u>	<u>30,003,674</u>	<u>30,165,784</u>	<u>29,839,486</u>

The average number of employees for the Group companies during the period amounts to 807 (2012: 827).

### 37. Fair value gains/losses

The balance Fair value gains/losses is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Gains:</b>				
Derivative financial instruments	2,323,218	-	2,323,218	-
	<u>2,323,218</u>	<u>-</u>	<u>2,323,218</u>	<u>-</u>
<b>Losses:</b>				
Investments - Other methods	(1,213,129)	(1,665,385)	(1,213,129)	(1,665,385)
Derivative financial instruments	-	(2,119,599)	-	(2,119,599)
	<u>(1,213,129)</u>	<u>(3,784,984)</u>	<u>(1,213,129)</u>	<u>(3,784,984)</u>
	<u>1,110,089</u>	<u>(3,784,984)</u>	<u>1,110,089</u>	<u>(3,784,984)</u>

### 38. Other gains

The balance Other gains is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
CO2 licenses	1,694,764	5,199,698	1,694,764	5,199,698
Investment grants	2,692,795	3,985,513	2,679,287	3,972,006
Other income	290,597	252,286	272,643	251,839
	<u>4,678,156</u>	<u>9,437,497</u>	<u>4,646,694</u>	<u>9,423,543</u>

The caption CO2 licenses corresponds to amortisation of the amount recognised against equity arising from the licenses freely attributed, as referred in Note 3 o). In 2013, this caption corresponds solely to licenses to cover emissions in 2013, while in 2012, 2,905,100 Euros refers to sold licenses and 2,294,598 Euros refers to licenses to cover emissions of that year (Note 8).

In 2013 the caption Others includes 7,944 Euros as an excess estimated tax on the income of the previous exercise.

### 39. Other losses

The balance Other losses is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Municipal network tax	7,540,345	7,600,877	7,540,345	7,600,877
Stamp duty	876,827	825,899	870,818	811,220
CO2 licenses	-	1,438,050	-	1,438,050
Other	262,247	582,645	222,181	533,269
	<u>8,679,419</u>	<u>10,447,471</u>	<u>8,633,344</u>	<u>10,383,416</u>

The caption Municipal network tax refers to the 2013 local tax rate owed by EEM, as referred in Note 30.

In 2012 the caption CO2 licenses emission corresponds to a loss obtained by the difference between the total value of sales of licenses and their book value.

Also in 2012 the caption Others includes 350,749 Euros related to an insufficient income tax estimative of the previous year.

### 40. Financial income/costs

The balances Interest and other income obtained and Interest and other losses supported are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Interest and other income obtained:</b>				
Late payment charges	707,425	776,643	707,425	776,643
Interest income - Tariff adjustment	1,524,461	573,534	1,524,461	573,534
Interest income - Tariff convergence	211,550	181,443	211,550	181,443
Unwinding of tariff convergence	84,670	216,915	84,670	216,915
Dividends	300,000	250,000	300,000	250,000
Other	31,791	59,686	31,792	59,686
	<u>2,859,897</u>	<u>2,058,221</u>	<u>2,859,898</u>	<u>2,058,221</u>
<b>Interest and other losses supported:</b>				
Interest expense from financial debt	17,327,853	19,373,824	17,179,231	19,019,465
Commissions and banking services	4,445,167	3,303,784	4,444,632	3,303,371
Capitalised interest expense from financial debt	(302,521)	(276,800)	(302,521)	(276,800)
Other	1,115,278	1,118,387	1,115,278	1,118,387
	<u>22,585,777</u>	<u>23,519,195</u>	<u>22,436,620</u>	<u>23,164,423</u>
<b>Financial results</b>	<u>(19,725,880)</u>	<u>(21,460,974)</u>	<u>(19,576,722)</u>	<u>(21,106,202)</u>

Under the terms mentioned in Note 12, the tariff convergence for the 1998-2002 period will be settled in quarterly instalments without interest and therefore EEM recorded the net present value of this receivable against equity, at the transition date to NCRF. Therefore, EEM recorded the respective unwinding in the years ended 31 December 2013 and 2012 in the amounts of 84,670 Euros and 216,915 Euros, respectively.

The caption Capitalised interest expense from financial debt refers to the interest charges attributable to the acquisition, construction or production of the company assets, in accordance with the accounting policy referred in note 3.2. d).



The caption Dividends - Interest and similar income, relates to dividends paid by associated company Companhia Logística de Combustíveis da Madeira, S.A. (CLCM) during the year 2013.

In 2013 the caption Interest and other losses supported concerns the costs with the unconditional and irrevocable guarantee (aval) obtained from the Government of the Autonomous Region of Madeira in order to meet the requirements of the 220 million Euros syndicated loan as a result of the reduction in EEM's rating to a note below the Baa2, resulting from the rating reduction of Portugal and consequently of the Autonomous Region of Madeira. In 2012, costs incurred with the agreement amounted to 1,118,333 Euros.

## 41. Income taxes

This balance is analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Current tax	961,271	1,284,965	577,784	874,653
Deferred tax	1,478,841	(2,304,946)	1,505,297	(2,289,688)
	<u>2,440,112</u>	<u>(1,019,981)</u>	<u>2,083,081</u>	<u>(1,415,035)</u>

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

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2013 and 2012, is analysed as follow:

	2013			2012		
	Rate	Tax Basis	Tax	Rate	Tax Basis	Tax
Income tax calculated based on the statutory tax rate	25.00%	6,740,967	1,685,242	25.00%	3,590,189	897,547
Tax benefits	(22.06%)	(5,948,739)	(1,487,185)	(11.83%)	(1,698,590)	(424,648)
Subsidies	-	-	-	(48.57%)	(6,974,765)	(1,743,691)
Equity method	(2.18%)	(587,321)	(146,830)	(3.45%)	(496,112)	(124,028)
Tax-exempt dividends	(1.11%)	(300,000)	(75,000)	(1.74%)	(250,000)	(62,500)
Autonomous taxation	0.72%	194,677	48,669	1.20%	172,320	43,080
Non-deductible tax losses	0.24%	63,430	15,857	0.47%	68,136	17,034
Tariff adjustment	(4.10%)	(1,105,560)	(276,390)	-	-	-
Changes in estimates	-	-	-	9.77%	1,402,949	350,737
Provisions without tax consequences	19.33%	5,211,810	1,302,953	(0.08%)	(11,431)	(2,858)
State tax	2.60%	701,219	175,305	-	-	-
Other adjustments	0.01%	1,823	455	0.82%	117,382	29,347
Tax rate change	17.76%	4,788,144	1,197,036	-	-	-
	<u>36.20%</u>	<u>9,760,450</u>	<u>2,440,112</u>	<u>(28.41%)</u>	<u>(4,079,922)</u>	<u>(1,019,980)</u>

The Regional Legislative Decree No. 31-A/2013/M, of 31 December, changed the applicable IRC rate in the Autonomous Region of Madeira in 2014, from 25% to 23%. In accordance with the provisions of the NCRF 25.44, deferred tax assets and liabilities should be measured at the tax rates that are expected to be applied in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that are approved at the balance sheet date.

The effects of these changes in the tax rate were considered in the determination of deferred tax assets recorded in the financial statements for the period ended December 31, 2013. The respective impacts are disclosed under the caption Tax rate change (deferred tax effect).

Law no. 10/2009, of 10 March, whose validity has been successively extended introduced a new array of measures to encourage investment and employment, among which stands out the Investment Assistance Tax System (RFAl).

However, from 2013, with the publication of the 2013 State Budget and DL 82/2013, EEM can no longer benefit from RFAI for investments made from that year, but may take advantage of the benefit obtained through the investment made between 2009 and 2012 until its end.

EEM, in its estimate of income tax for 2013, benefited from the tax incentive provided by this diploma, in the form of a tax deduction in the amount of 419,788 Euros (331,528 Euros in 2012). The application of the limit on the use of tax benefits imposed by Article 92 of the CIRC, has not led to any increase in the tax amount (2012: 200,409 Euros).

The subsidiary Enereem, in the estimating of the 2013 IRC, benefited from the tax incentive provided by this diploma, on the form of a deduction to the collection in the amount of 80,054 Euros (77,206 Euros in 2012). The application of the limit on the use of tax benefits imposed by Article 92 of the CIRC, has not led to any increase to the collection (2012: EUR 46,773).

## 42. Operating leases

The total non-cancellable future operating lease payments are presented as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
<b>Future payments:</b>				
Less than one year	563,720	554,270	639,897	626,578
Between one and five years	185,677	712,936	194,714	793,314
	<u>749,397</u>	<u>1,267,206</u>	<u>834,611</u>	<u>1,419,892</u>

To these values, VAT should be added at the legal rate in force in the period in which the invoicing rents will be issued.

The Operating leases caption corresponds to EEM's fleet leases.

## 43. CO2 licenses

The CO2 licenses movements are analysed as follows:

	December 2013		December 2012	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	245,618	6.90	209,372	13.90
CO2 licenses freely attributed	-	-	577,419	6.90
CO2 licenses acquired	100,000	3.93	-	-
CO2 licenses sold	-	-	(209,000)	13.90
	<u>345,618</u>		<u>577,791</u>	
CO2 licenses to return regarding the year consumption	(310,950)		(332,173)	
Excess / (Insufficiency) of CO2 licenses	<u>34,668</u>	2.92	<u>245,618</u>	6.90
Assets / (Liabilities) – Euros	<u>101,230</u>		<u>1,694,764</u>	

Under Decree-Law 38/2013, of 15 March, transposing into national law Directive no. 2003/87/CE of the European Parliament and of the Council of 13 October 2003 on the establishment of a trading regime for emission allowances for greenhouse gas emissions (CELE), EEM stopped receiving freely attributed emission allowances, resorting to the market to acquire all the necessary licenses for its operating activities.

In 2012, in accordance with the provisions of PNALE II, there were, 577,419 CO2 emission allowances attributed do EEM.

As mentioned in Note 8, during the year 2013 EEM has purchased 100,000 licenses. The overall impact on results from transactions with CO2 allowances amounts to a cost of 3,467 Euros (including the effect on results in the tariff compensation of 2013), through the regulatory mechanism.

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 8).

## 44. Related parties

### *Shareholders*

As at 31 December 2013, EEM's share capital is entirely held by Madeira's Regional Government, as referred in Note 19.

### *Remuneration of company officers*

During the periods ended 31 December 2013 and 2012, the remuneration cost of the Board of Directors is presented as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Short term employee benefits	264,886	246,799	264,886	246,799
	<u>264,886</u>	<u>246,799</u>	<u>264,886</u>	<u>246,799</u>

As at 31 December 2013, the expenses with the Statutory Auditor amounted to 57,750 Euros (2012: 60,750 Euros).

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

In the normal development of its activity, EEM performs business operations and transactions with several entities, among which include companies that are in a control or group related with EEM. These transactions are conducted on normal market conditions for similar transactions, regardless of its relevance, and are part of the current activity of the EEM.

The balances and transactions between EEM and its subsidiaries, associated companies and other investments, for the year ended 31 December 2013, are analysed as follows:

	Asset			Liability	
	Clients	Accrued income	Loans granted	Suppliers	Other Creditors
Enereem	2,104	2,329	608,637	-	-
Casa da Luz	1,982	1,717	1,890,011	-	(18,860)
Emacom	436	159	-	(294,463)	(550,000)
EEM & BFS	179,344	6,651	18,196,377	-	-
Teleféricos da Madeira	45,133	6,000	-	-	-
Companhia Logística de Combustíveis da Madeira	12,706	10,863	-	-	-
	241,705	27,719	20,695,025	(294,463)	(568,860)

Transactions				
Sales	Other income	Financial income	Cost of sales	Suppliers and services
Enereem	(26,770)	(22,853)	-	3,765,167
Casa da Luz	(19,332)	-	-	-
Emacom	(9,595)	-	-	-
EEM & BFS	(70,271)	-	-	-
Teleféricos da Madeira	(79,025)	-	(29,474)	-
Companhia Logística de Combustíveis da Madeira	(122,226)	-	-	-
	(327,219)	(22,853)	(29,474)	3,765,167

The balances between EEM and its subsidiaries are eliminated during the consolidation process, as referred in Note 3.1.

The balances and transactions between EEM and its subsidiaries, associated companies and other investments, for the year ended 31 December 2012, are analysed as follows:

	Asset			Liability	
	Clients	Accrued income	Loans granted	Suppliers	Other creditors
Enereem	-	3,021	1,196,732	-	-
Casa da Luz	25,018	1,551	1,945,188	(83,829)	-
Emacom	466	142	-	(270,665)	(915,000)
EEM & BFS	93,197	6,977	13,971,454	-	-
Teleféricos da Madeira	39,329	5,929	-	-	-
Companhia Logística de Combustíveis da Madeira	14,443	12,163	-	-	-
	172,453	29,783	17,113,374	(354,494)	(915,000)

Transactions				
Sales	Other income	Financial income	Cost of sales	Suppliers and services
Enereem	(28,082)	-	-	3,955,987
Casa da Luz	(18,516)	-	-	-
Emacom	(2,125)	(7,132)	-	-
EEM & BFS	(51,582)	-	-	-
Teleféricos da Madeira	(75,190)	-	(29,474)	-
Companhia Logística de Combustíveis da Madeira	(132,522)	-	(28,365)	-
	(308,017)	(7,132)	(57,839)	3,955,987

## 45 Commitments

As at 31 December 2013 and 2012, the commitments not included in the balance sheet, referring to bank guarantees, are analysed as follows:

	Group		Individual	
	Dec 2013 Euros	Dec 2012 Euros	Dec 2013 Euros	Dec 2012 Euros
Bank guarantees provided by others on behalf of EEM	119,166,666	89,583,333	119,166,666	89,583,333
Bank guarantees provided by EEM	13,633	13,633	13,633	13,633
	<u>119,180,299</u>	<u>89,596,966</u>	<u>119,180,299</u>	<u>89,596,966</u>

EEM's commitments through bank guarantees provided on behalf of EEM were agreed with the following financial institutions: Banco Espírito Santo, Banco Português de Investimento, Caixa Geral de Depósitos, Banco Espírito Santo de Investimento and Banco Santander Totta, in favour of European Investment Bank, in the amount of 119,166,666 Euros (2012: 89,583,333 Euros).

The amount of 13,633 Euros relating to bank guarantees given by EEM relate primarily to guarantees in favour of the Labour Court of Funchal.

## 46. Subsequent events

The settlement of amounts included under the caption Other receivables (Note 12) occurred after the balance sheet date, which not giving rise to adjustments in the financial statements should, given its relevance, be subject to disclosure.

In January 2014, the amounts due for the tariff Convergence Agreement of electricity covering the years 1998 to 2002 and 2009 tariff compensation in the amount of 18,622,560 Euros and 25,612,181 Euros, respectively were received.

After the balance sheet date there were no events that may lead to adjustments in the financial statements of the company.

## 47. Explanation added for translation

These financial statements are a translation of financial statements originally issued in Portuguese in accordance with generally accepted accounting principles in Portugal. In the event of discrepancies, the Portuguese language version prevails.

# Statutory Auditor's Report Consolidated Financial Statements



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

Telephone: +351 210 110 000  
Fax: +351 210 110 121  
Internet: www.kpmg.pt

## STATUTORY AUDITOR'S REPORT CONSOLIDATED FINANCIAL STATEMENTS

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

In case of doubt or misinterpretation the Portuguese version will prevail.)

### 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 2013 (which shows total assets of Euro 662,327,726 and a total equity attributable to the equity holders of EEM of Euro 129,002,730, including a net profit/loss attributable to equity holders of Euro 4,127,908, the consolidated income statement, statement of changes in equity and statement of cash flows for the year then ended and the corresponding Notes.

### Responsibilities

- 2 Management is responsible for the preparation of consolidated financial statements that give a true and fair view of the financial position of the group of companies included in the consolidation, the consolidated results of its operations, the consolidated changes in equity and its 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 these financial statements based on our audit.

### Scope

- 4 Except for the matters referred to in paragraphs 7 to 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 from material misstatements. For this purpose our audit included:
  - the verification that the financial statements of the companies included in the consolidation have been properly examined and, for the significant situations which have not been examined, the verification, on a test basis, of the information underlying the figures and disclosures contained in the financial statements, and an assessment of the estimates, based on judgments and criteria defined by Management, used in their preparation;
  - the verification of the consolidation procedures and of the application of the equity method;
  - the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
  - the appropriateness 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 Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A.  
Capital Social: 3.120.000 Euros - Pessoa  
Colectiva N.º PT 502 161 078 - Inscrição na  
O.R.O.C. N.º 189 - Inscrição na C.M.V.M. N.º  
9093

Matriculada na Conservatória do  
registo Comercial de Lisboa sob o  
PT 502 161 078





- 5 Our audit also included the verification that the consolidated financial information included in the consolidated management report is consistent with the consolidated financial statements.
- 6 We believe that our audit provides a reasonable basis for our opinion.

#### Qualifications

- 7 Under the responsibilities defined by 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 at 1 January 2006, the constitution of a Municipalities Association for which the responsibilities regarding the urban and rural public lightning were transferred, including the ability to collect an annual tax for the utilisation of the municipal public domain by the production equipment and by the electric energy transport and distribution networks of EEM (municipal network tax).

In this context, the Regional Decree-Law n.º 2/2007/M was published to regulate the transfer of the responsibility related to the rural and urban public lightning from the Regional Government to the Municipalities of the Autonomous Region of Madeira as well as to limit the municipal network tax rate.

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, for the period's from 2007 to 2013, costs related to the municipal network tax in the total amount of Euro 50,983,794. Considering the assumption that the costs incurred with the municipal network tax are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.

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

At the date of this Statutory Auditor's Opinion the measures and mechanisms that will ensure the recovery of the assets arising from the municipal network tax for the periods from 2007 to 2013, in the amount of Euro 50,983,794, are not defined and implemented. Therefore, it is not possible to estimate when these payments will occur and the impact, if any, in EEM shareholders' equity and profit for the period as at 31 December 2013.

- 8 As at 27 January 2012, following the financial assistance request by the Regional Government to the Central Government the Financial and Economic Adjustment Programme for the Autonomous Region of Madeira (Programme) was published, in order to reverse the unbalanced financial situation of the Autonomous Region of Madeira and ensure the sustainability of the public finances. The Programme sets out, among others measures, the renegotiation of the regional official entities debts, through the establishment of payment plans.





As at 31 December 2013, EEM booked, under the caption Clients, debts from regional official entities with a significant seniority amounting to Euro 83,214,419, net of impairment, as disclosed in Note 11 to the financial statements. These debts include a total amount of Euro 48,004,301, net of impairment, relating to debts from regional official entities with protocol, with defined payment plans without interest, of which Euro 25,941,813 payment plans were established during 2013. It should be noted that, under the existing protocols, EEM received in period ended 31 December 2013 an amount of Euro 5,770,543.

The caption Clients also includes debts from regional official entities without protocol amounting to Euro 35,210,118, net of impairment. The receipt of the official entities debts without protocol depends on the ability to pay of these entities, therefore it is not possible to estimate these receipts dates and the impact, if any, in EEM shareholders' equity and profit for the period as at 31 December 2013.

- 9 The Company EEM & BFS – Energy, S.A. (EEM & BFS), owned in 40% by EEM, is in the final stage of the construction of a biofuel plant, on Porto Santo island, for the capture and biological use of CO<sub>2</sub> for biofuel production with physical and chemical characteristics similar to conventional fuel. During the years 2011 to 2013, EEM paid to suppliers for the construction of the plant a total amount of Euro 18,196,377, that are pending settlement by EEM&BFS to EEM. Therefore, as at 31 December 2013, the total assets booked in EEM consolidated financial statements relating to EEM & BFS projects, including the investment in this associated company in the amount of Euro 8,864,475, amounts to Euro 27,060,852.

According with EEM information, the biofuel production with physical and chemical characteristics similar to conventional fuel in order to supply fuel to Porto Santo Power Plant, may not ensure the recovery of investment already made. Therefore, the Company is studying additional alternatives to use the biomass produced by the factory. At of the date of this Consolidated Statutory Auditor's Opinion, it is not possible to ensure the future economic benefits for the recovery of these assets, not being possible to demonstrate the feasibility of recovering the investment and the impact, if any, in EEM shareholders' equity and profit for the period as at 31 December 2013.

- 10 On February 2010, a natural disaster occurred in Autonomous Region of Madeira, which caused significant damages on the hydroelectric production equipment and on the electric transport and distribution networks of EEM. In November 2011, EEM received a compensation from an insurance company for those losses in the amount of Euro 3,103,673, recorded against shareholders equity. This amount is being amortised against profit and loss in accordance with the useful life of the related assets. Therefore, as at 31 December 2013 the amount recorded in shareholders equity amounts to Euro 2,952,302. As at 31 December 2013, we consider that this compensation should be included in Retained earnings, therefore these are understated in the amount of Euros 3,002,758 and the caption Other changes in equity and the net profit for the period are overstated in the amount of Euros 2,952,302 and Euros 50,456, respectively.
- 11 The caption Financial debt includes short term cash equivalents in the amount of Euro 23,700,000. On this basis, as at 31 December 2013 the captions Financial debt and Cash and deposits at banks, of the Consolidated Balance and Consolidated Cash Flow Statement, are understated by this amount.



### Qualified opinion

- 12 In our opinion, except for the effect of the adjustments, if any, that might result from the matters described in paragraphs 7 to 9 above, and except for the effect of the matters described in paragraphs 10 to 11 above, the referred consolidated financial statements, present fairly, in all material respects, the consolidated financial position of **EEM – Empresa de Electricidade da Madeira, S.A.** as at 31 December 2013, the consolidated results of its operations, the consolidated changes in equity and its consolidated cash flows for the year then ended in accordance with generally accepted accounting principles in Portugal.

### Emphasis of matter

- 13 Without qualifying our opinion expressed in the paragraph above, we draw attention to the following situations:
- 13.1 The Consolidated Statutory Auditor's Opinion for the period ended 31 December 2012, issued as at 13 May 2013, included in paragraph 8 a scope limitation regarding the recovery of the amounts to be received regarding the 2009 tariff convergence in the amount of Euro 24,173,186 as well as amounts owed by the Central Government regarding tariff convergence from 1998 to 2002 in the amount of Euro 18,326,340, for which it was not possible to estimate the receipts date. During January 2014, these amounts were received by EEM, therefore, as at 31 December 2013, this issue is solved.
- Additionally, the referred paragraph included a limitation of scope qualification regarding the recovery of the debts from regional official entities. As at 31 December 2013, as referred in paragraph 8 above, the debts from regional official entities included the total amount of Euro 48,004,301, net of impairment, relating to the debts from regional official entities with protocol, of which Euro 25,941,813 payment plans were established during 2013 and having EEM received in the same period, an amount of Euro 5,770,543 under the existing protocols. As at 31 December 2013, the limitation of scope relating receipts date of the debts from regional official entities with protocol is solved.
- 13.2 The Consolidated Statutory Auditor's Opinion for the period ended 31 December 2012, issued as at 13 May 2013, included in paragraph 7.1 a scope limitation regarding the recovery of the assets arising from the municipal network tax for the periods from 2006 to 2012. As at 31 December 2013, EEM wrote-off this asset component relating to the 2006 period, in the amount of Euro 6,027,640, against retained earnings. Therefore, as at 31 December 2013, this issue is resolved.
- 13.3 The Consolidated Statutory Auditor's Opinion for the period ended 31 December 2012, issued as at 13 May 2013, included in paragraph 7.2 a disagreement regarding the provision for liabilities and charges reversal recorded in the 2012 profit of an amount equivalent to the municipal network tax recorded as at 31 December 2006 in the amount of Euro 6,027,640. This issue does not have impact in the consolidated financial statements as at 31 December 2013.



**Report on other legal requirements**

- 14 It is also our opinion that the financial information included in the consolidated management report is consistent with the consolidated financial statements for the year.

Lisbon, 30 April 2014

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**KPMG & Associados**  
**Sociedade de Revisores Oficiais de Contas, S.A. (n.º 189)**  
represented by  
José Eduardo Urpina Portugal (ROC n.º 1336)

# Extract of the Minute of the General Assembly Meeting

## MINUTE NUMBER THIRTY TWO

- «On the thirtieth of April of two thousand and fourteen at ten o'clock AM, in accordance with paragraph one of the 376th article of the Commercial Companies Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., was gathered in its headquarters at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, a collective entity registered in the Commercial Registry of Funchal number 511010435.

At the meeting there were present 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 and Engineer Mário Eugénio Jardim Fernandes, as well as the single shareholder, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total Share capital, valued at twenty million Euros, for which reasons the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and regarding the following order of tasks:

**POINT ONE:** The Annual Report of 2013;

**POINT TWO:** Deliberate on application of net profits;

**POINT THREE:** Management Report and Consolidated Accounts of 2013;

**POINT FOUR:** Deliberate on the general assessment of the administration and fiscal supervision.

- Once the session was opened, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2013 as well as the proposal for the application of results, which was proposed the following application of net income for the year amounting to 4,174,217.67 €:

Retained Earnings: 3,756,795.90 €

Statutory Reserve: 417,421.77 €

- Once the document in question was appreciated and the proposal presented, it was resolved unanimously to approve it.
- Regarding point three, the Executive Board of EEM presented the Annual Report and Consolidated Accounts of 2013, with the net income of the year, amounting to 4,204,531.14€ of which 4,127,908.43€ are attributable to the EEM. After proper consideration it was resolved to approve them unanimously.
- Regarding point four, the Autonomous Region of Madeira, single shareholder of EEM, represented by Dr. Paulo Jorge Figueiroa de França Gomes reaffirmed its confidence in the Executive Board of the company and in its fiscal supervisors.
- As no other issues were there to be discussed, the meeting was closed and the present minute written, which, after having been read and approved, was properly signed.»



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