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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)

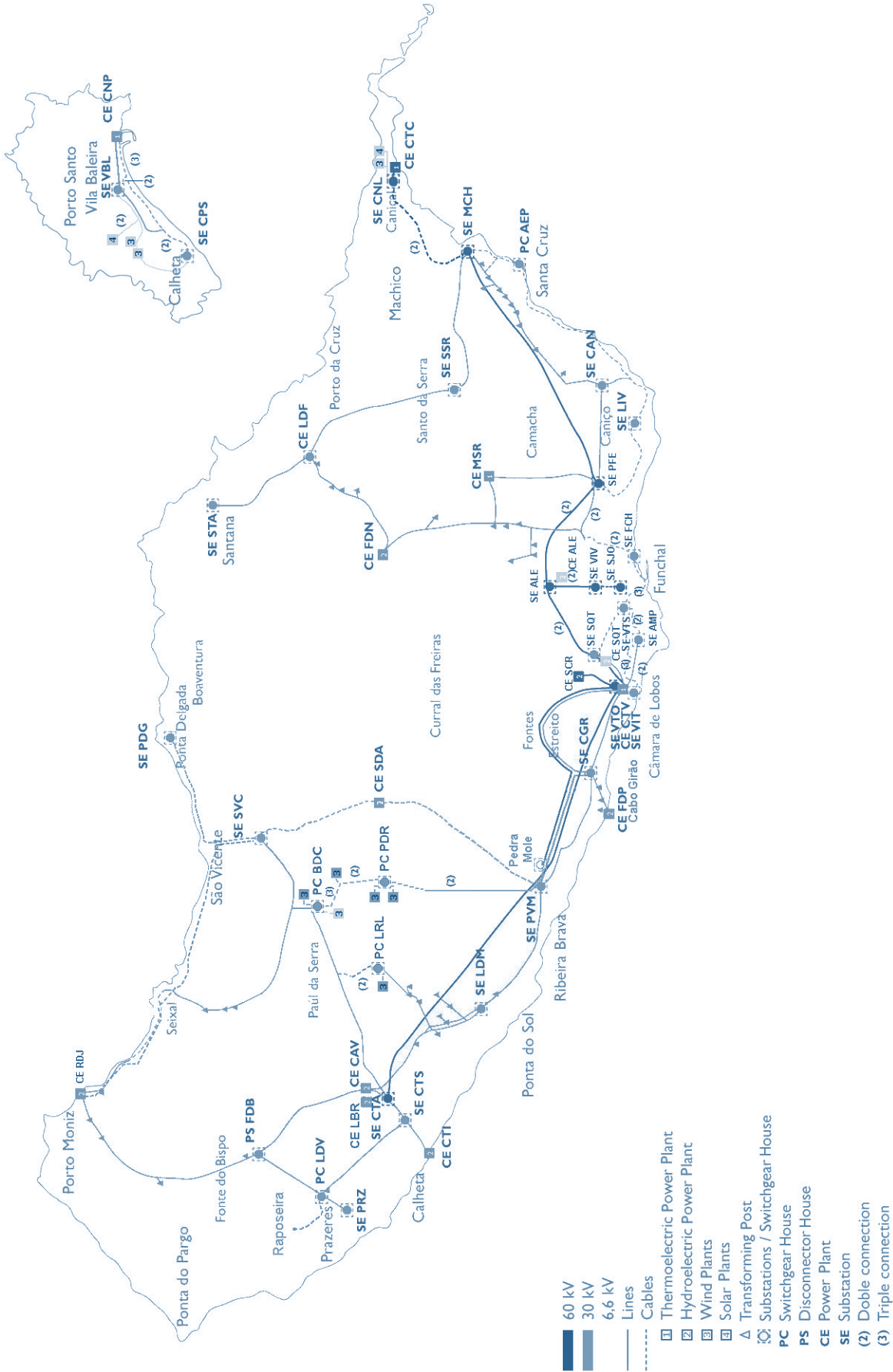
Rui Alberto Faria Rebelo (Chairman of the Board)

Mário Eugénio Jardim Fernandes (Board Member)

Organigram



Transmission Network




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

GWh	2006	2007	2008	2009	2010
Madeira Island	642.66	645.71	694.07	673.52	616.70
Hydroelectric	108.67	62.76	79.60	135.49	126.70
Thermoelectric (Vitória)	533.99	582.95	614.47	538.03	490.00
Porto Santo Island	37.47	37.42	39.35	37.58	32.82
Thermoelectric	36.77	36.76	38.47	36.93	32.18
Wind Plants	0.70	0.66	0.88	0.65	0.63
Total RAM	680.13	683.13	733.42	711.09	649.52

Note: RAM - Autonomous Region of Madeira

Electric energy acquisition - Other entities

GWh	2006	2007	2008	2009	2010
Madeira Island	251.31	255.21	247.21	266.96	308.24
Hydroelectric	4.19	3.55	4.10	4.65	5.00
Wind Plants	15.44	12.07	13.09	36.90	67.33
Thermoelectric (Canical)	192.35	201.49	192.81	188.60	194.85
Waste*	39.33	38.11	37.22	36.51	39.41
Photovoltaic**	-	-	-	0.29	1.65
Porto Santo Island	1.04	1.19	1.29	1.18	3.80
Wind Plants	1.04	1.19	1.29	1.17	1.31
Photovoltaic**	-	-	-	0.01	2.49
Total RAM	252.35	256.40	248.51	268.13	312.05

*Solid Waste Incineration

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

RAM's energy balance - 2010

GWh	Net Demand	Billing
Madeira Island	911.32	830.80
Porto Santo Island	34.25	32.71
Total RAM	945.56	863.51

Substations

	2006	2007	2008	2009	2010
Madeira Island					
Number	27	28	28	28	28
Installed power (MVA)	445	485	528	528	533
Porto Santo Island					
Number	3	3	3	3	3
Installed power (MVA)	16	16	16	18	18
Total RAM					
Number	30	31	31	31	31
Installed power (MVA)	461	501	544	546	551

Transforming Posts					
	2006	2007	2008	2009	2010
Madeira Island					
Number	1,535	1,583	1,644	1,656	1,667
Installed power (MVA)	630	666	696	716	723
Porto Santo Island					
Number	83	91	93	93	92
Installed power (MVA)	30	35	35	35	34
Total RAM					
Number	1,618	1,674	1,737	1,749	1,759
Installed power (MVA)	660	701	731	751	757

Transmission and Distribution Network - RAM					
Km	2006	2007	2008	2009	2010
Low Voltage					
Overhead lines	2,997	3,013	3,017	3,007	2,999
Underground cables	802	839	868	906	925
6.6 kV					
Overhead lines	539	546	541	539	532
Underground cables	592	650	699	748	784
30 kV					
Overhead lines	236	237	243	245	250
Underground cables	121	136	144	147	150
60 kV					
Overhead lines	68	69	69	69	64
Underground cables	0	10	10	10	10
Total RAM	5,355	5,499	5,591	5,672	5,714

Commercial Data					
	2006	2007	2008	2009	2010
Madeira Island					
Number of Consumers	126,504	128,488	129,636	130,786	131,962
Consumption (GWh)	798.42	805.36	839.32	842.00	830.80
Households and Agriculture	263.51	255.54	259.76	265.25	265.64
Services and Commerce	334.65	337.49	358.50	364.32	349.46
Public Services	57.24	59.11	60.02	60.81	61.29
Industry	75.26	75.74	74.57	70.80	69.63
Public Lighting	67.76	77.48	86.47	80.82	84.78
Porto Santo Island					
Number of Consumers	4,275	4,414	4,477	4,560	4,621
Consumption (GWh)	34.98	34.39	36.67	34.92	32.71
Households and Agriculture	7.21	7.10	7.43	7.51	7.31
Services and Commerce	12.77	12.37	14.23	13.55	12.00
Public Services	3.31	3.53	3.65	3.52	3.19
Industry	9.77	9.43	8.96	7.93	7.87
Public Lighting	1.92	1.96	2.40	2.41	2.34
Total RAM					
Number of Consumers	130,779	132,902	134,113	135,347	136,584
Consumption (GWh)	833.40	839.75	876.00	876.92	863.51

Human Resources					
	2006	2007	2008	2009	2010
Nº of Employees	869	868	865	859	851

Consolidated Financial Data					
€'000	2006	2007	2008	2009*	2010*
Turnover	137,436	145,107	171,441	153,259	174,497
Operating income	10,579	10,866	12,847	17,021	18,513
Net income	4,510	4,558	3,760	6,050	4,823
Net assets	567,034	558,697	635,143	628,937	667,191
Net fixed assets	322,226	334,054	390,602	399,295	417,084
Shareholders' equity	153,820	153,768	154,166	129,738	130,519
Investment	40,548	39,926	66,823	57,455	46,537

*According to the "Accounting Standard System" (SNC)

Summary

In 20th February, 2010, Madeira Island was tragically hit by the "Storm" which, unfortunately, caused human losses and severe material damages, with a global estimated value of circa 1,000 million Euros. The consequences of this "Storm" affected the normal EEM's operation and significantly important infrastructures of the Madeira electric system, reaching the electric sector damage, regards the public service, in the amount of 10.4 million Euros.

Globally, EEM's investments amounted to 46,537 thousand Euros, with the following relative distribution by area of activity: 57.5% in production, 24.4% in distribution/commercialization, 12.1% in transmission and 5.8% in other accomplishments. Also worth noting the investment of 75 thousand Euros in EEM's subsidiaries, which corresponds to 0.2% of the total invested.

Production

The achieved investments in the production area amounted to 26,762 thousand Euros, mainly in:

- Conclusion of the new Thermoelectric Power Plant - Vitória III construction;
- Great repairs in n°s 2, 4, 7 and 15 generating Power Groups (CTV I and II);
- Conclusion of the access to Socorridos Hydroelectric Power Plant water penstock;
- Rehabilitation / reconstruction of hydroelectric canal system, mainly in Serra de Água, Calheta and Fajã da Nogueira, due to the "Storm".

Transmission

The accomplished investments in the transmission area amounted to 5,640 thousand Euros, essentially in the reinforcement of the transmission network, substations/switchgear posts remodelling and power improvements.

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

- Completion of the transferring service of the old switchgear equipment to the installed in the new Vitória Substation (60 kV);
- Assembly of differential protections in the substations of Caniçal, Viveiros, Lombo do Doutor, Serra de Água and Vila Baleira;
- Power improvement of 5 MVA in Ponte Vermelha Substation;
- Major repair works in the Substation of the Serra de Água Hydroelectric Power Plant due to the "Storm".

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

- Conclusion of a double connection construction between Paúl da Serra and Pedra Mole location;
- Partial remodelling of the 30 kV underground cable connection between São Vicente Substation and Ribeira da Janela Hydroelectric Power Plant;
- Completion of the underground connection between Ponte Vermelha Substation and Serra de Água Hydroelectric Power Plant.

Distribution/Commercialization

The achieved investments in the distribution/commercialization sector reached the amount of 11,367 thousand Euros, from which 3,210 thousand Euros were related with repair actions caused by the “Storm”, being detailed as follows:

- Connection of 22 new transforming posts for public service;
- Connection of 4 new private transforming posts to network;
- Launching of medium voltage network in 28.58 km;
- Remodelling of medium voltage network in 17.85 km;
- Launching of low voltage network in 3.13 km;
- Remodelling of low voltage network in 55.97 km;
- Installation of 181 new public lighting luminaries;
- Replacement of 1,009 public lighting luminaries;
- The electric energy sales achieved 830.80 GWh in Madeira Island and 32.71 GWh in Porto Santo Island, totalizing 863.51 GWh in RAM;
- The number of clients connected to the network, in December 31st, 2010, was 131,962 and 4,621 in Madeira and Porto Santo islands, respectively.

Other accomplishments

The fulfilled investments concerning unspecified areas, in a transversal way to the Company, were namely: general installations, equipments, tools and information systems, reaching the amount of 2,692 thousand Euros. In this area, it is important to highlight the installations and information systems, with particular emphasis on the following projects:

- Installation of an emergency energy power group in the Headquarters building;
- Initiation of the changing process to the BI system – Business Intelligence – Reporting tools;
- Implementation of several improvements to the SAP system;
- Improvements in information system;
- Initiation of the Data Centre renewal process;
- Implementation of the Accounting Standards System – SNC;
- Initiation of the installing process of WFM – Work Force Management (SGE – Team Management System);
- Repair works in affected installations by the “Storm”.

I. Production

In 2010, the investments in the production area amounted to 26,762 thousand Euros, considering the baseline of investments and the interventions arising from the “Storm”, being detachable: the final construction works of the new thermoelectric power plant in Madeira Island, known as CTV III, adjacent to the already existing Vitória Thermoelectric Power Plant (CTV I and II), endowed with 3 dual-fuel power groups and a steam turbine, with a total installed power of 54.4 MW, major interventions in some power groups of Vitória Thermoelectric Power Plant (CTV I and II), thus stretching the useful life of the respective power groups and also interventions in hydraulic infrastructures, particularly in the systems belonging to the hydroelectric power plants of Serra de Água, Calheta and Fajã da Nogueira, caused by the “Storm”.

A. Madeira Island

Hydroelectric utilities

Among all the investments carried out during 2010, regarding the hydroelectric power plants, were highlighted the following actions:

- Conclusion of works for the access to Socorridos Hydroelectric Power Plant water penstock;
- Starting works for the building renewal of Fajã da Nogueira Hydroelectric Power Plant;
- Realization of the 1st public tender for the Alecrim dam construction, being in a final preparation phase the occurrence of the two remaining public tenders, according to the enlargement/remodelling project for the Calheta Hydroelectric System;
- Initiation of the preliminary works for Chão da Ribeira Hydroelectric System;
- Accomplishment of several preliminary works for the future Fonte do Juncal Mini Hydro Exploitation. This is the installation of a small reversible system, with various levels of power capacity, being the turbinated water delivered to the Encumeada canal, improving the Serra de Água and Socorridos power generation systems;
- Rehabilitation / reconstruction of canals, mainly in Serra de Água, Calheta and Fajã da Nogueira hydroelectric systems, due the “Storm”.

Thermoelectric utilities

Vitória Thermoelectric Power Plant

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

- Completion of the CTV III construction, pointing out the finish:
 - of the second and third generating power groups commissioning, designated as Group n° 18 and 19;
 - of the steam turbine group installation, ending the combined cycle system, designated as Group n° 20.
- Great interventions in n° 2, 4,7, and 15 Power Groups (CTV I and II);
- Upgrade of the n° 12 Power Group oil treatment system – centrifuge.

On December 31st, 2010, 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 263.33 MW, of which 212.94 MW (80.9%) are installed in Vitória Thermoelectric Power Plant and the remaining 50.39 MW (19.1%) in hydroelectric power plants.

EEM's power system in Madeira Island - 2010

	Thermal	Hydro	Total
Nº of Power Plants	1	9	10
Installed power (MW)	212.94	50.39	263.33
Production (GWh)	490.00	126.70	616.70

EEM's thermal power plant in Madeira Island - 2010

	Units	Installed power (MW)	Max. Cont. Power* (MVA)	Production (GWh)	Net Emission (GWh)	Fuel
Vitória	1, 2	15.00	19.50	9.98		Thick Fuel-oil
Thermal	3	7.50	9.75	8.86		Thick Fuel-oil
Power	4, 5, 6	23.40	29.25	57.10		Thick Fuel-oil
Plant	7, 8, 9, 10	42.24	52.00	205.41		Thick Fuel-oil
	11, 12, 13, 14, 15	57.60	70.00	181.72		Thick Fuel-oil
	16	12.80	16.00	1.87		Dual-Fuel
	17, 18, 19, 20	54.40	68.15	25.06		Dual-Fuel
Total - CTV		212.94	264.65	490.00	477.74	

*Maximum continuous power

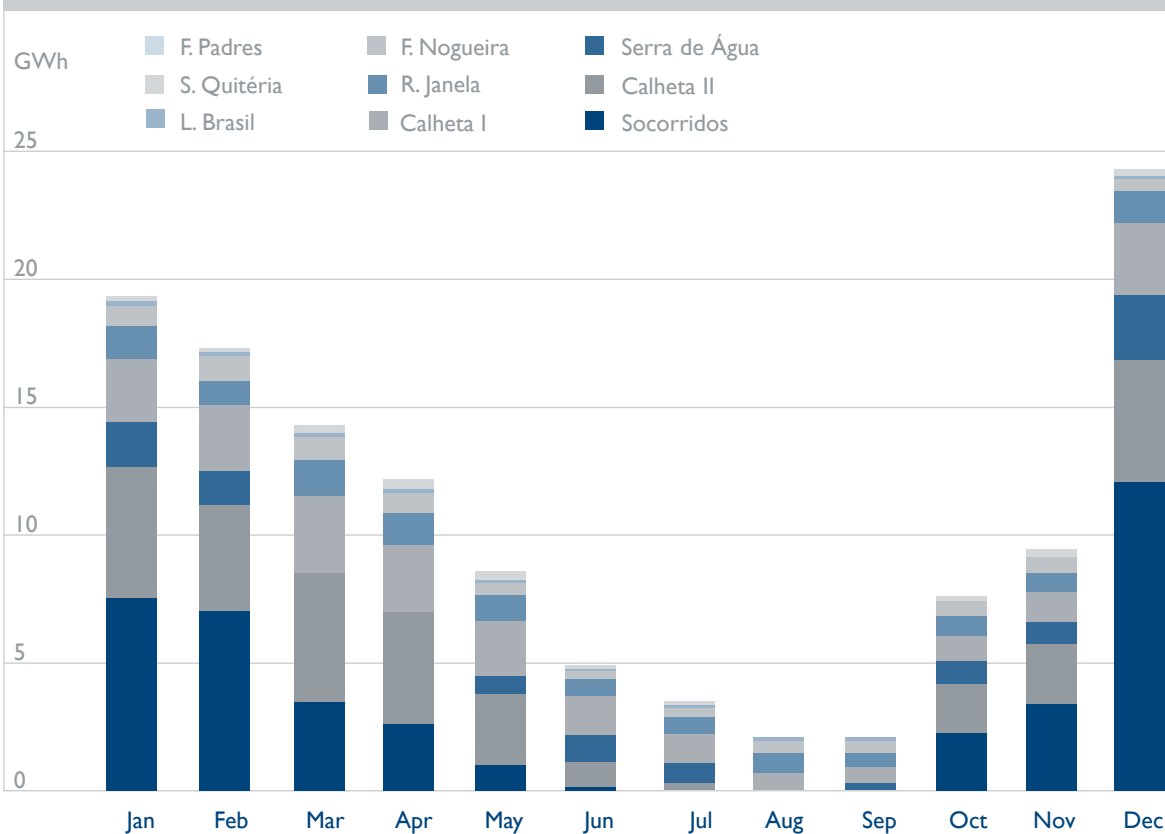
EEM's hydro power plants in Madeira Island - 2010

	Inst. Power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	4.90	11.00	10.95	430	Pelton
Calheta I	1.10	21.47	21.31	629	Pelton
	0.52			314	Pelton
	0.50			181	Pelton
	2.60			629	Pelton
Calheta II	7.30	31.97	31.93	637	Pelton
Ribeira da Janela	3.20	11.14	11.04	398	Pelton
Fajã da Nogueira	2.40	6.94	6.87	348	Pelton
Lombo do Brasil	0.17	1.47	1.47	316	Pelton
Fajã dos Padres	1.70	-	-	530	Pelton
Santa Quitéria	1.70	2.72	2.71	212	Pelton
Socorridos	24.30	39.99	39.92	457	Pelton
Hydroelectric Pumping	11.25	-	-	457	Francis
Total EEM*	50.39	126.70	126.20		

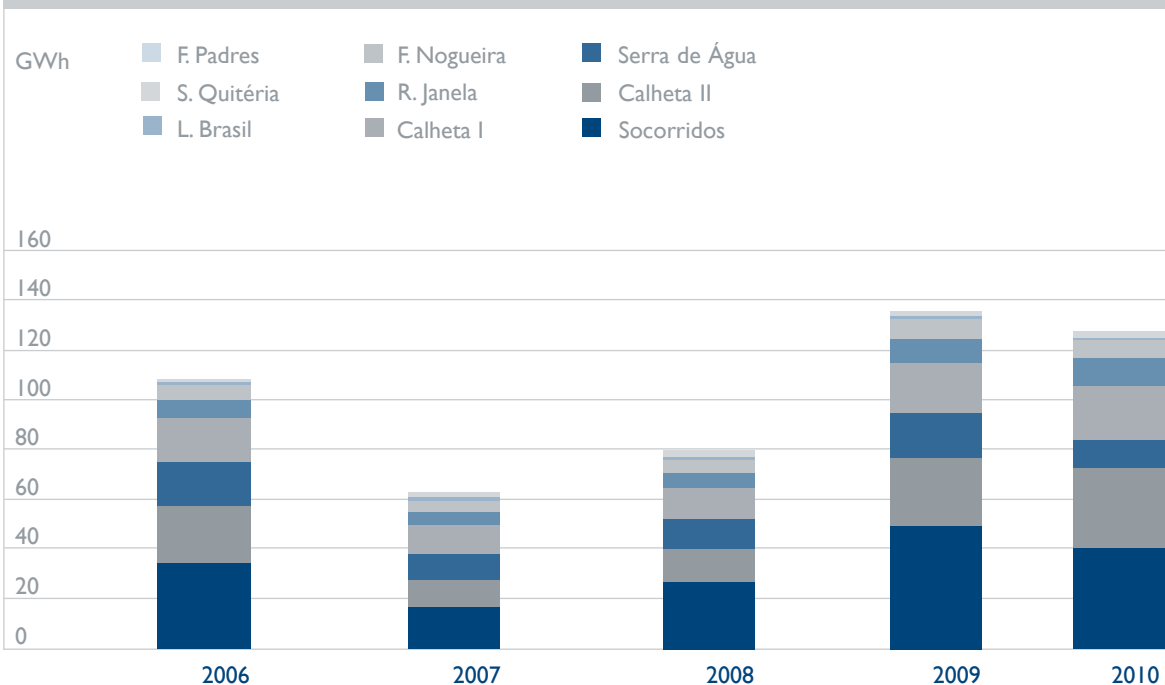
*Hydroelectric Power Pumping not included

In 2010, the total EEM energy net emission in Madeira Island, reached 603.94 GWh, 477.74 GWh (79.1%) of which generated by thermoelectric power plants and the remaining 126.70 GWh (20.9%) generated by hydroelectric plants, this value is slightly lower than the previous year, nevertheless much higher than the historical average, due to a very wet hydrologic year.

EEM monthly hydro production in Madeira Island - 2010



EEM annual hydro production in Madeira Island



The installed power in the private generating power plants amounted to 89.55 MW, more than 7.8% over 2009, due to the installation of new solar photovoltaic technology, as also to the micro generation increment. The following chart reflects the distribution of independent producers, by primary energy sources:

Private owned power plants in Madeira Island - 2010						
	Thermal	Hydro	Wind	Waste*	Photovoltaic**	Total
N° of Power Plants	1	1	8	1	269	280
Installed power (MW)	36.00	0.70	37.91	8.00	6.94	89.55
Acquisition (GWh)	194.85	5.00	67.33	39.41	1.65	308.24

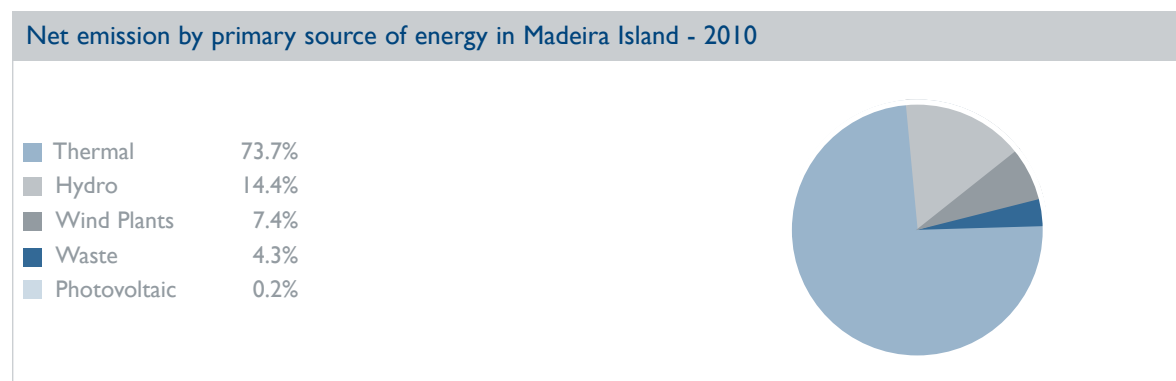
*Solid Waste Incineration

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

In 2010, the global energy issued by these generating power systems, reached to 308.24 GWh, more 15.5% than the previous year. Thus, 63.2% of this energy was provided by Caniçal Thermoelectric Power Plant, 21.8% by wind plants, 12.8% by ETRSU, 1.6% by Terça mini-hydroelectric Power Plant and the remaining 0.6% from photovoltaic producers.

The private plants contributed with energy, representing 33.8% of total emission in Madeira Island.

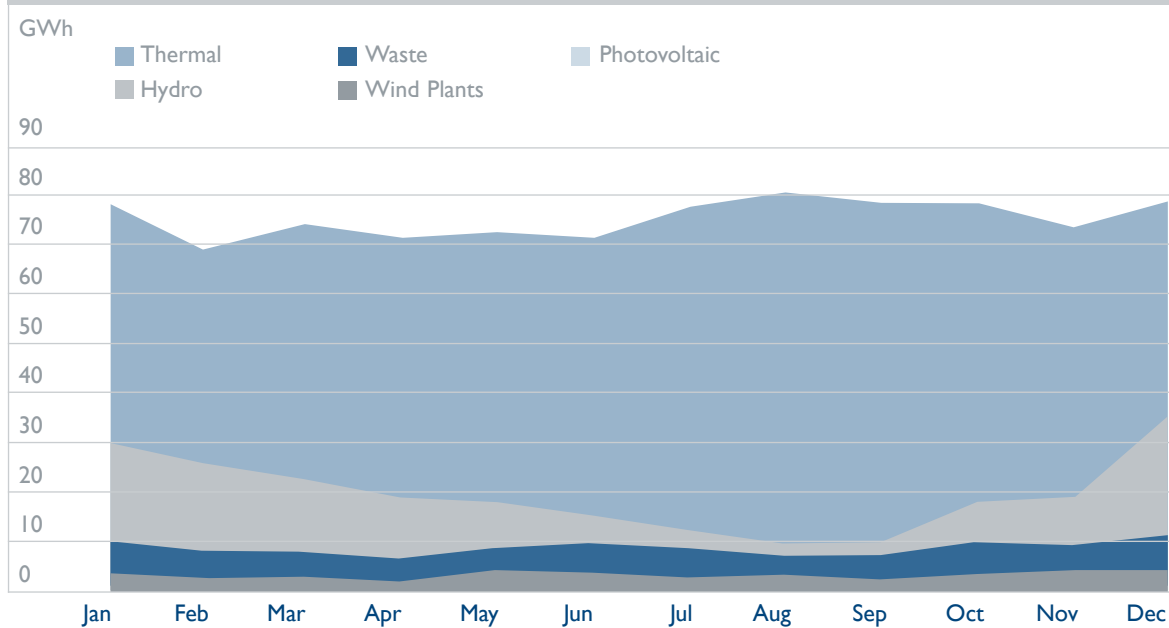
The net emission distribution through the network system (EEM system and private producers) in the Madeira Island, in 2010 is presented as follows:



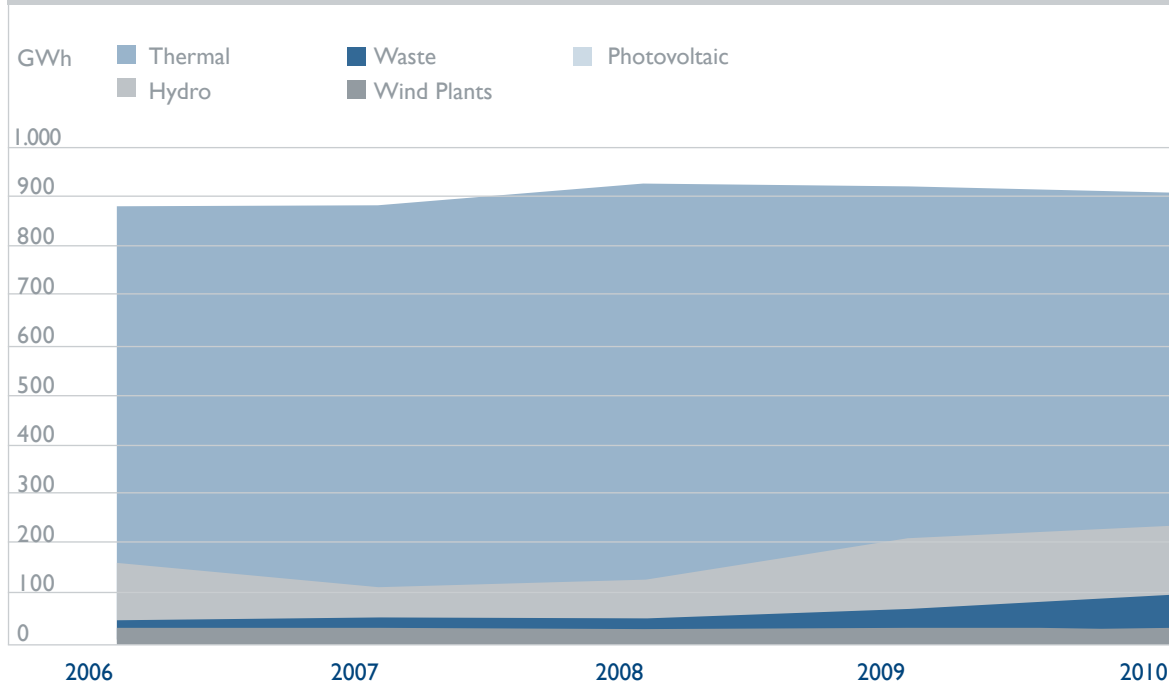
Thus, the renewable component, in 2010, amounted to 26.3% of the total energy emitted into the electric network and the remaining 73.7% came from fossil combustibles.

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

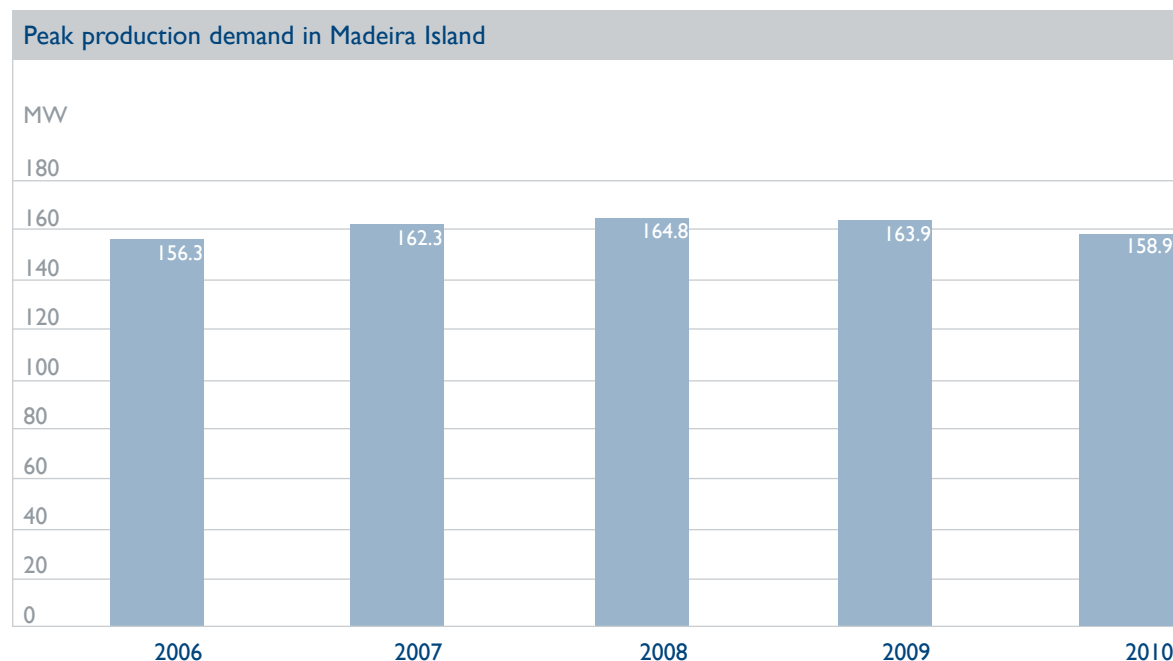
Monthly net emission in Madeira Island - 2010



Annual net emission by primary source of energy in Madeira Island



The peak load in Madeira Island occurred in January, reaching the value of 158.9 MW, representing a decrease of 3.1%, comparing to 2009.



The consumption of fuel and lubricants, in Vitória Thermoelectric Power Plant amounted to 108,681 and 866 thousand liters, respectively. This consumption represents a significant decrease of 10.1%, 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 efficiency.

Fuel and lubricant consumption in the EEM system in Madeira Island - 2010			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Vitória Thermal Power Plant	107,251	1,431	866

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 producers. The total installed power amounted to 20.43 MW, shared by Porto Santo Thermoelectric Power Plant, which contributed with 17.28 MW (84.6%), by the solar power plant and microgeneration installations with 2.04 MW (10.0%), and by the two wind plants, with the remaining contribution of 1.11 MW (5.4%).

Porto Santo Thermoelectric Power Plant

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

- Initiation of the acquisition device for a frequency control system;
- Replacement of DC 110V/24V systems, affected to the Plant's support generating services.



EEM's power system in Porto Santo Island - 2010

	EEM		ENEREEM	Privates	Total
	Thermal	Wind Plants	Wind Plants	Photovoltaic*	
Nº of Power Plants	1	1	1	13	16
Installed power (MW)	17.28	0.45	0.66	2.04	20.43
Net Emission (GWh)	29.81	0.63	1.31	2.49	34.25

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

EEM's thermal power plant in Porto Santo Island - 2010

	Units	Installed power		Max. Cont. Power**	Production	Net Emission	Fuel
		(MW)	(MVA)	(MW)	(GWh)	(GWh)	
Porto Santo	1,2*	10.00	12.86	-	0.01		Diesel
Thermal Power	3,4,5	12.96	15.30	11.40	22.97		Thick Fuel-oil
Plant	6	4.32	5.10	3.80	9.20		Thick Fuel-oil
Total - CTPS		17.28	20.40	15.20	32.18	29.81	

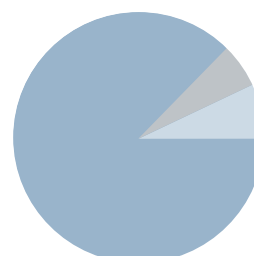
*Decommissioned power unit groups in 2008

**Maximum continuous power

In 2010, the energy issued by the generating power system in Porto Santo Island, reached 34.25 GWh, of which 29.81 GWh (87.0%) were produced by the thermoelectric plant, 2.49 GWh (7.3%) by solar source and the remaining 1.94 GWh (5.7%) by the wind plants.

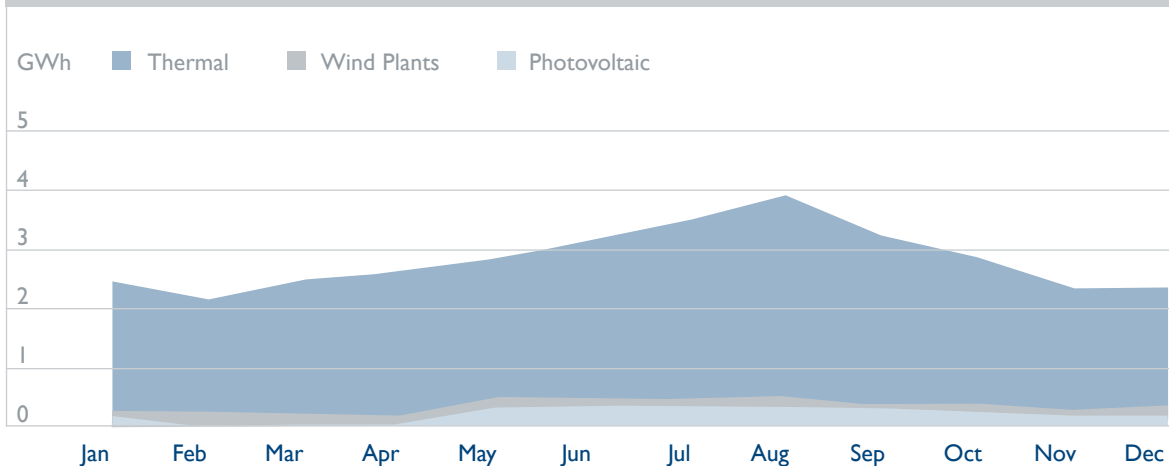
Net emission by primary source of energy in Porto Santo Island - 2010

Thermal	87.0%
Wind plants	5.7%
Photovoltaic	7.3%

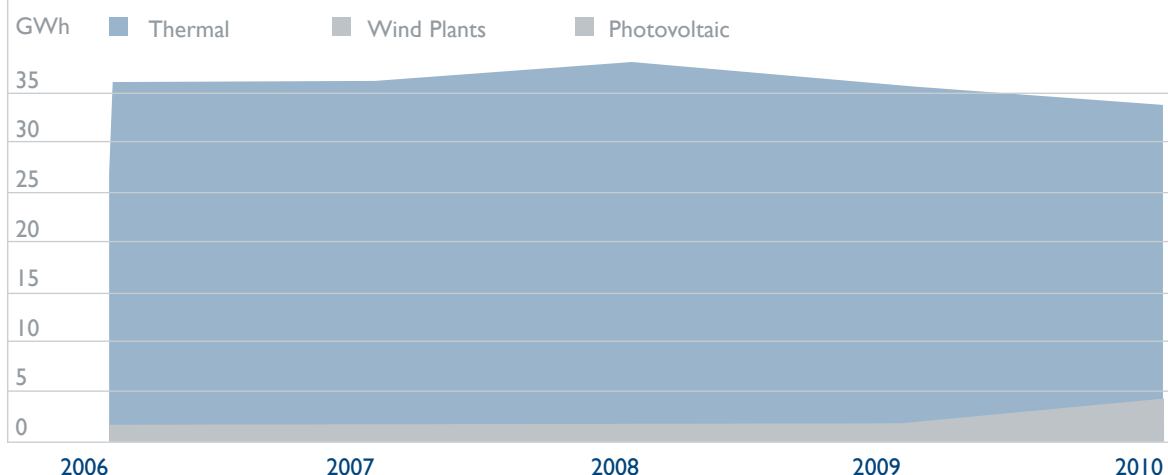


The monthly and annual net emission evolution by primary sources can be presented as follows:

Monthly net emission in Porto Santo Island - 2010



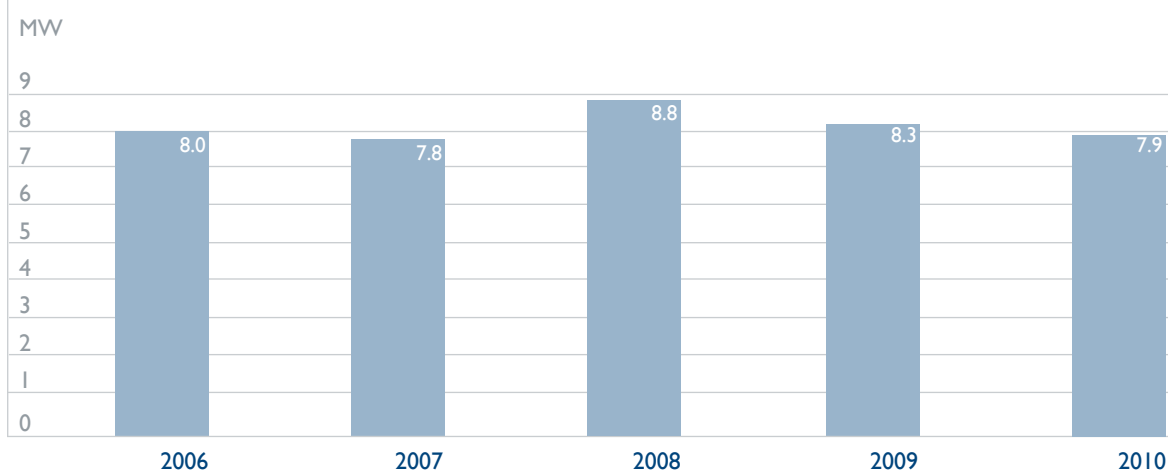
Annual net emission by primary source of energy in Porto Santo Island



In Porto Santo Island, the wind power energy contribution has remained approximately constant for the last years, pointing out also the significant solar component incrementing, being the thermoelectric plant responsible for the energy emission compensations.

The yearly peak load in Porto Santo Island occurred in August, registering 7.9 MW, 4.7% lower than the one recorded in 2009.

Peak production demand in Porto Santo Island



The consumption of fuel and lubricants in Porto Santo Thermoelectric Power Plant amounted to 8,377 and 39 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo Island - 2010

liters '000	Thick Fuel-oil	Diesel	Lubricant
Porto Santo Thermal Power Plant	7,710	668	39

There was a decrease in fuel consumption of around 10.1% over the previous year, particularly motivated by the decrease in energy demand, as well as by the solar component.

II. Transmission

In transmission, the accomplished investments most significant were substations/switchgear houses and transmission lines, in a global amount of 5,640 thousand Euros.

Substations and Switchgear Houses

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

- Conclusion of the transferring service from the old equipments to the new ones, installed in the new 60 kV Vitória Substation, which corresponds to a new building and a isolated SF6 (GIS) dual-bus, with 17 cells;
- Replacement of the 10 MVA transformer in Ponte Vermelha Substation, by a 15 MVA one, maintaining the first one in reserve;
- Assembly of differential protections in the substations of Caniçal, Viveiros, Lombo do Doutor, Serra de Água and Vila Baleira;
- Testing, parameterization and commissioning of the lines differential protection in the substations of Caniçal, Palheiro Ferreiro, São João, Viveiros, Lombo do Doutor, Serra de Água and Vila Baleira;
- Monitoring of the construction works for the roof waterproofing of the Fajã da Nogueira Hydroelectric Power Plant, regarding plant substation equipments;
- Completion of the migration works for the new Protection, Monitoring and Control System in Viveiros Substation;
- Decommissioning of the dual-bus and all stone-cells of Ponte Vermelha Substation, at the 30 kV level and transferring the remain service to the containerized block installed in this Power Plant;
- Beginning of the decommissioning works of the Vila Baleira Substation stone dual-bus at 30 kV, for a compact mono block installation, transferred from Calheta Substation;
- Major repairs in the Serra de Água Hydroelectric Power Plant Substation, due to the “Storm”, regarding the transformer and the 30 kV and 6.6 kV monoblocks, as also all equipments affected in the substation, which were severely damaged by flooding;

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

- Monitoring the inspection and maintenance works, in the Vila Baleira Substation, under the 10 years of operating;
- Continuation of the improvement program of the substations transforming units;
- Thermo graphical inspections in electric power equipment.

Substations in RAM - 2010

	Installed power (MVA)			Total	Capacitors MVar
	30/6.6 kV	60/30 kV	60/6.6 kV		
Madeira Island	238.0	170.0	125.0	533.0	32.0
Funchal	3 x 10.0	-	-	30.0	6.0
Amparo	2 x 10.0	-	-	20.0	2.0
Vitória 6.6 kV	2 x 10.0	-	-	20.0	4.0
Vitória	-	4 x 25.0	-	100.0	-
Santa Quitéria	10.0	-	-	10.0	-
Virtudes	2 x 15.0	-	-	30.0	2.0
Alegria	-	-	10.0	10.0	-
Viveiros	-	-	2 x 15.0	30.0	4.0
Ponte Vermelha	15.0	-	-	15.0	2.0
Lombo do Meio	4.0	-	-	4.0	-
Central da Calheta	2 x 0.5	-	-	1.0	-
Calheta	10.0	-	-	10.0	-
Lombo do Doutor	-	25.0	-	25.0	-
Ribeira da Janela	6.0	-	-	6.0	-
Serra de Água	4.0	-	-	4.0	-
Lombo do Faial	6.0	-	-	6.0	-
Santana	6.0	-	-	6.0	-
Machico	-	15.0	10.0 + 15.0	40.0	2.0
Assomada	2 x 10.0	-	-	20.0	2.0
Livramento	2 x 10.0	-	-	20.0	2.0
Palheiro Ferreiro	-	2 x 15.0	2 x 10.0	50.0	2.0
São Vicente	6.0	-	-	6.0	-
Prazeres	2 x 2.0	-	-	4.0	-
Canical	-	-	10.0	10.0	-
Cabo Girão	10.0	-	-	10.0	-
Santo da Serra	6.0	-	-	6.0	-
Ponta Delgada	10.0	-	-	10.0	-
São João	-	-	2 x 15.0	30.0	4.0
Porto Santo Island	18.0	-	-	18.0	-
Nova Central	4.0	-	-	4.0	-
Vila Baleira	2 x 4.0	-	-	8.0	-
Calheta	6.0	-	-	6.0	-
Total RAM	256.0	170.0	125.0	551.0	32.0

Transmission network

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

- Completion of the double overhead line between Paúl da Serra (nearby the Pedras Switchgear House) and Pedra Mole locations;
- Partial remodelling of the 30 kV underground connection between São Vicente Substation and the Ribeira da Janela Hydroelectric Power Plant;
- Improvement of the 30 kV overhead line between the substations of Machico and Assomada;
- Completion of the underground infrastructures construction for 60 kV underground connections between the Rotunda da Magnólia and Virtudes Substation;
- Conclusion of the underground cable between the Ponte Vermelha Substation and the Serra de Água Hydroelectric Power Plant. This connection had been partially constructed but its finalization was anticipated due the “Storm” and the subsequent damages in the already existent line between these two installations.

Other interventions took place, including the replacement of suspension isolators, terminal boxes, supports displacement required by clients, as well as the deforesting about 35 km of electric grid lines surroundings and cleaning overhead lines supports, of which 12.5 km in HV and 22.5 km in MV.

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

- Inspection of overhead lines in an extension of 208 km, being 49 km in HV and the remaining ones in 30 kV MV;
- Inspection of underground 60 kV and 30 kV connection chambers, along circa 92 km extension.

Transmission Network in RAM - 2010			
	Madeira	Porto Santo	Total RAM
Substations 60/30/6.6 kV			
Number of units	8	-	8
Installed power (MVA)	295.00	-	295.00
Substations 30/6.6 kV			
Number of units	20	3	23
Installed power (MVA)	238.00	18.00	256.00
60 kV Network			
	74.05	-	74.05
Overhead lines (km)	63.84	-	63.84
Underground cables (km)	10.21	-	10.21
30 kV Network*			
	384.77	15.30	400.07
Overhead lines (km)	245.32	5.10	250.42
Underground cables (km)	139.45	10.20	149.65
Optic Fibre (km)			
	404.54	9.11	413.65

*30 kV Distribution Network included

The following table shows the evolution in the transmission network occurred in 2010:

Evolution of the Transmission Network in RAM - 2010			
Km	Madeira	Porto Santo	Total RAM
Transmission Network Expansion			
60 kV Network			
	(4.81)	-	(4.81)
Overhead lines (km)	(4.81)	-	(4.81)
Underground cables (km)	-	-	-
30 kV Network*			
	7.86	-	7.86
Overhead lines (km)	5.36	-	5.36
Underground cables (km)	2.50	-	2.50
Transmission Network Renewals			
60 kV Network			
	-	-	-
Overhead lines (km)	-	-	-
Underground cables (km)	-	-	-
30 kV Network*			
	20.00	-	20.00
Overhead lines (km)	2.39	-	2.39
Underground cables (km)	17.61	-	17.61

*30 kV Distribution Network included

Telecommunications

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

- Expansion of optical-fibre cable in its backbone, namely:
 - Network expansion:
 - Santa Quitéria Substation – Viveiros Substation;
 - Santa Quitéria Substation – Technical room in the Vitória Dispatch Centre;
 - Amparo Substation – São João Substation;
 - Amparo Substation – Technical room in the Vitória Dispatch Centre;
 - Santa Quitéria Substation – Virtudes Substation.
 - Reinforcement of optical-fibre availabilities along the courses of Viveiros Substation and the Largo da Saúde Transforming Post.
- Acquisition of telecommunication equipments for optical-fibre cables:
 - New sites in PDH network system, supporting the following substations remote control:
 - Santo da Serra Substation;
 - 60 kV Vitória Substation.
 - New sites in SDH network system:
 - Porto Moniz Office;
 - Ribeira da Janela Hydroelectric Power Plant;
 - Calheta de Inverno Hydroelectric Power Plant;
 - Santa Cruz Office;
 - 60 kV Vitória Substation;
 - Pico Topeiro telecommunication technical room (due the “Storm”).
 - Santo da Serra Substation;
 - Reconstruction of optical-fibre network system, damaged by the “Storm”:
 - Ponte Vermelha Substation – Encumeada;
 - Lombo do Doutor Substation;
 - Calheta Substation;
 - Ponte Vermelha Substation;
 - São Vicente Substation.
- Telecommunication technical rooms:
 - Remodelling of Viveiros telecommunication room;
 - Acquisition of two technical rooms for communications, one for Ponte Vermelha Substation and the other one for Machico Substation.

Dispatch Centre

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

- Extension of the remote control to the following facilities:
 - Enervento Wind Plant;
 - ENEREEM Bica da Cana Wind Plant;
 - Vitória III Thermoelectric Power Plant;
 - Two transforming posts in Porto Santo Island.
- Non-available Management System operation;
- Development of the statistic model for the wind power capacity prevention;
- Regarding the “Storm”, were accomplished the following actions;
 - Creation of an emergency dispatch in Ribeira da Janela Hydroelectric Power Plant;
 - Grubbing up of connections for the Emergency Dispatch between the facilities of São Vicente, Bica da Cana, Serra de Água and the wind plants;
 - Creation of an emergency attending office in the dispatch room of the Contact Centre.
- Contents of the intranet site <http://despacho>:
 - Improvement and historical availability in application of the Interactive Load Charge Diagram;
 - Development of an application for an Interactive Daily Information.
- Maintenance of equipments attached to the Dispatch Centre.

III. Distribution

Concerning the distribution network, the investment was directed mainly to the renovation and construction of new medium voltage lines (MV), transforming posts, low voltage and public illumination networks (LV / PL). Part of the investment attached to this sector accomplished the necessary investments for the reparations due the “Storm”, reaching the amount of 3,210 thousand Euros.

Distribution Network in RAM - 2010

Km	Madeira	Porto Santo	Total RAM
6.6 kV Network	1,241.50	74.07	1,315.57
Overhead lines	512.45	19.55	532.00
Underground cables	729.05	54.52	783.57
Low Voltage Network	3,804.28	120.19	3,924.47
Overhead lines	2,943.90	55.18	2,999.08
Underground cables	860.38	65.01	925.39

Transforming Posts by council in RAM - 2010

	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	103	78,265	468	252,765	571	331,030
Câmara de Lobos	17	10,390	114	42,985	131	53,375
Ribeira Brava	5	2,410	112	34,275	117	36,685
Ponta do Sol	4	1,330	58	19,795	62	21,125
Calheta	4	1,530	125	33,425	129	34,955
Porto Moniz	-	-	49	12,630	49	12,630
São Vicente	5	1,610	55	16,775	60	18,385
Santana	9	5,335	88	20,410	97	25,745
Machico	31	17,295	123	48,140	154	65,435
Santa Cruz	35	22,750	262	100,410	297	123,160
Porto Santo	21	12,535	71	21,810	92	34,345
Total RAM	234	153,450	1,525	603,420	1,759	756,870

The councils with more installed capacity are Funchal, Santa Cruz and Machico with 331,030 kVA, 123,160 kVA and 65,435 kVA, respectively.

A. Madeira Island

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

- Installation of 22 new public transforming posts with an installed power of 9,125 kVA and 4 new private ones with an installed power of 2,150 kVA;
- Enlargement of the medium voltage network in 25.69 km;
- Improvement of the medium voltage network in 17.29 km;
- Enlargement of the low voltage network in 2.61 km;
- Improvement of the low voltage network in 52.17 km;
- Installation of 133 new public lighting luminaries;
- Replacement of 986 public lighting luminaries.

B. Porto Santo Island

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

- Enlargement of the medium voltage network in 2.89 km;
- Improvement of the medium voltage network in 0.56 km;
- Enlargement of the low voltage network in 0.52 km;
- Improvement of the low voltage network in 3.80 km;
- Installation of 48 new public lighting luminaries;
- Replacement of 23 public lighting luminaries.

Evolution of the Distribution network in RAM - 2010

	Dist. N.E.O.*	Funchal	Total Madeira	Porto Santo	Total RAM
Distribution Network Expansion					
Transforming Posts for public service					
Number of units	14	8	22	-	22
Power (kVA)	6,130	2,995	9,125	-	9,125
Transforming Posts for private service					
Number of units	2	2	4	-	4
Power (kVA)	900	1,250	2,150	-	2,150
6.6 kV Network	14.57	11.12	25.69	2.89	28.58
Overhead lines (km)	(6.65)	(0.20)	(6.85)	(0.49)	(7.34)
Underground cables (km)	21.22	11.32	32.54	3.38	35.92
Low Voltage Network	1.69	0.92	2.61	0.52	3.13
Overhead lines (km)	(4.06)	(0.12)	(4.18)	(8.24)	(12.42)
Underground cables (km)	5.75	1.04	6.79	8.76	15.55
Distribution Network Renewals					
Transforming Posts for public service					
Number of units	6	2	8	-	8
Power (kVA)	100	715	815	-	815
Transforming Posts for private service					
Number of units	-	-	-	-	-
Power (kVA)	-	-	-	-	-
Deactivated Transforming Posts					
Number of units	(8)	(7)	(15)	(1)	(16)
Power (kVA)	(3,935)	(1,780)	(5,715)	(250)	(5,965)
6.6 kV Network	8.96	8.33	17.29	0.56	17.85
Overhead lines (km)	6.41	3.49	9.90	-	9.90
Underground cables (km)	2.55	4.84	7.39	0.56	7.95
Low Voltage Network	38.87	13.30	52.17	3.80	55.97
Overhead lines (km)	35.94	9.35	45.29	2.92	48.21
Underground cables (km)	2.93	3.95	6.88	0.88	7.76

*North, East and West

IV. Commercialization

The RAM's energy balance, in 2010, is presented as follows:

RAM's energy balance - 2010			
MWh	Madeira	Porto Santo	Total RAM
EEM - Power plants productions	616,697	32,818	649,514
Thermal	490,002	32,183	522,185
Fuel	488,137	32,172	520,309
Diesel	1,865	11	1,876
Hydro	126,694	-	126,694
Wind	-	635	635
Power plants consumptions and losses	12,761	2,375	15,136
Total EEM energy net emission	603,936	30,442	634,378
Other acquisitions - SEPM*	194,854	-	194,854
Thermal	194,854	-	194,854
Fuel	194,854	-	194,854
Total special status generation	113,390	3,804	117,194
Hydro	4,998	-	4,998
Wind	67,326	1,310	68,636
Waste**	39,412	-	39,412
Photovoltaic	684	2,452	3,136
Microgeneration***	971	42	1,013
Total net generation	912,180	34,246	946,426
Hydroelectric pumping	863	-	863
Total net demand SEPM*	911,316	34,246	945,562
Proper consumptions	943	31	974
Total energy sales SEPM*	830,801	32,707	863,508
MV	170,647	11,886	182,533
LV	660,155	20,820	680,975
Total net delivery	831,744	32,738	864,482
Losses	79,572	1,508	81,080

*SEPM - Public Electricity Supply System of Madeira Island

**Solid Waste Incineration

***Microgeneration (D-Law 363/2007 Nov, 2nd)

The energy consumption in 2010, presented the decreased rates of 1.3% and 6.3% in Madeira and Porto Santo islands, respectively.

Energy sales to SEPM clients per tension level and tariffs regime - 2010						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	182.53	154.62	439.24	87.11	863.51

Note:

HV - High Voltage

NLV - Normal Low Voltage

MV - Medium Voltage

PL - Public Lighting

SLV - Special Low Voltage

SEPM - Public Electricity Supply System of Madeira Island

The RAM consumption in Medium Voltage reached 182.53 GWh, while in Low Voltage was 680.97 GWh, which corresponds to a distribution of 21.1% and 78.9% of the total consumption.

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

Consumption by activity in RAM - 2010										
GWh	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
Madeira Island	259.93	146.96	195.50	69.63	5.71	84.78	61.29	7.00	830.80	100.0%
	31.3%	17.7%	23.5%	8.4%	0.7%	10.2%	7.4%	0.8%	100.0%	
Funchal	110.86	103.73	132.86	15.43	0.50	19.28	34.67	2.20	419.53	50.5%
Câm. Lobos	30.25	5.47	9.17	10.87	0.30	11.58	2.83	0.91	71.38	8.6%
Rib. Brava	12.47	2.56	7.57	1.24	0.07	6.89	1.56	0.43	32.79	3.9%
Ponta do Sol	9.01	2.22	2.18	1.73	0.62	3.74	1.39	0.61	21.49	2.6%
Calheta	13.42	4.07	4.08	1.34	0.67	6.76	1.40	0.22	31.96	3.8%
Porto Moniz	5.71	1.48	1.49	0.33	0.33	3.66	0.72	0.03	13.75	1.6%
S.Vicente	5.91	2.41	1.81	0.87	0.13	4.89	0.88	1.14	18.04	2.2%
Santana	7.91	2.06	3.42	0.76	0.36	5.05	1.37	0.31	21.25	2.6%
Machico	22.30	5.36	10.87	15.28	0.91	10.55	3.19	0.49	68.94	8.3%
Santa Cruz	42.08	17.60	22.06	21.77	1.84	12.39	13.29	0.66	131.68	15.9%
Porto Santo Island	7.25	6.44	5.35	7.87	0.06	2.34	3.19	0.21	32.71	
	22.2%	19.7%	16.4%	24.0%	0.2%	7.1%	9.8%	0.6%	100.0%	
Total RAM	267.18	153.40	200.86	77.49	5.78	87.11	64.48	7.21	863.51	
	30.9%	17.8%	23.2%	9.0%	0.7%	10.1%	7.5%	0.8%	100.0%	

Consumers by activity in RAM - 2010										
	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construct.	Total	%
Madeira Island	110,021	2,096	13,024	998	1,199	1,677	2,229	718	131,962	100.0%
	83.3%	1.6%	9.9%	0.8%	0.9%	1.3%	1.7%	0.5%	100.0%	
Funchal	45,960	1,062	7,592	297	100	451	1,115	212	56,790	43.0%
Câm. Lobos	11,939	142	1,129	92	206	145	196	99	13,948	10.6%
Rib. Brava	5,976	73	475	49	53	139	99	46	6,910	5.2%
Ponta do Sol	4,271	56	306	45	84	70	73	43	4,947	3.7%
Calheta	6,493	93	403	61	73	155	123	79	7,479	5.7%
Porto Moniz	1,646	51	137	19	82	78	78	7	2,098	1.6%
S.Vicente	3,064	64	230	27	188	74	72	33	3,751	2.8%
Santana	4,267	71	338	37	137	109	108	21	5,088	3.9%
Machico	8,563	198	799	118	116	187	152	82	10,217	7.7%
Santa Cruz	17,842	287	1,613	254	160	269	213	95	20,734	15.7%
Porto Santo Island	3,868	84	387	46	18	67	90	61	4,621	
	83.7%	1.8%	8.4%	1.0%	0.4%	1.5%	1.9%	1.3%	100.0%	
Total RAM	113,889	2,180	13,411	1,044	1,217	1,744	2,320	779	136,584	
	83.4%	1.6%	9.8%	0.8%	0.9%	1.3%	1.6%	0.6%	100.0%	

In December 2010, the average number of clients connected to the electric network of RAM, reached 136,584, presenting an increase of nearly 0.9% comparing to 2009.

Consumption / Clients - Distribution by activity in RAM - 2010

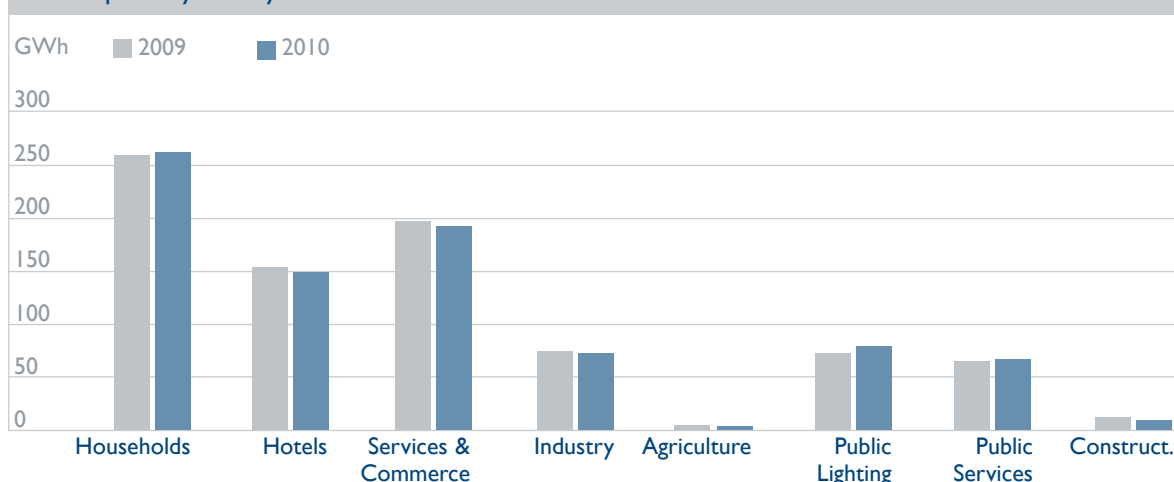
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client
Madeira Island	830.80	131,962	6.30	660.15	131,739	5.01	259.93	110,021	2.36
Funchal	419.53	56,790	7.39	311.52	56,677	5.50	110.86	45,960	2.41
Câm. Lobos	71.38	13,948	5.12	61.16	13,932	4.39	30.25	11,939	2.53
Rib. Brava	32.79	6,910	4.74	32.20	6,907	4.66	12.47	5,976	2.09
Ponta do Sol	21.49	4,947	4.34	19.90	4,943	4.03	9.01	4,271	2.11
Calheta	31.96	7,479	4.27	31.76	7,475	4.25	13.42	6,493	2.07
Porto Moniz	13.75	2,098	6.55	13.72	2,097	6.54	5.71	1,646	3.47
S.Vicente	18.04	3,751	4.81	16.84	3,745	4.50	5.91	3,064	1.93
Santana	21.25	5,088	4.18	19.45	5,081	3.83	7.91	4,267	1.85
Machico	68.94	10,217	6.75	52.22	10,184	5.13	22.30	8,563	2.60
Santa Cruz	131.68	20,734	6.35	101.40	20,697	4.90	42.08	17,842	2.36
Porto Santo Island	32.71	4,621	7.08	20.82	4,601	4.53	7.25	3,868	1.87
Total RAM	863.51	136,583	6.32	680.97	136,340	4.99	267.18	113,889	2.35

The average consumption per client ascended to 6.32 MWh/client. The highest consumption values were registered in the councils of Funchal, Porto Santo, Machico and Porto Moniz. The average consumption in the Households sector of the RAM reached the amount of 2.35 MWh per client, slightly inferior to the previous year, being the highest values verified in the councils of Porto Moniz, Machico, Câmara de Lobos and Funchal.

A. Madeira Island

In Madeira Island, the consumption distribution by sectors is similar to the recent years. The Households consumption presented the highest percentage with 31.3%, followed by the Services and Commerce sector with 23.5% and Hotels with 17.7%.

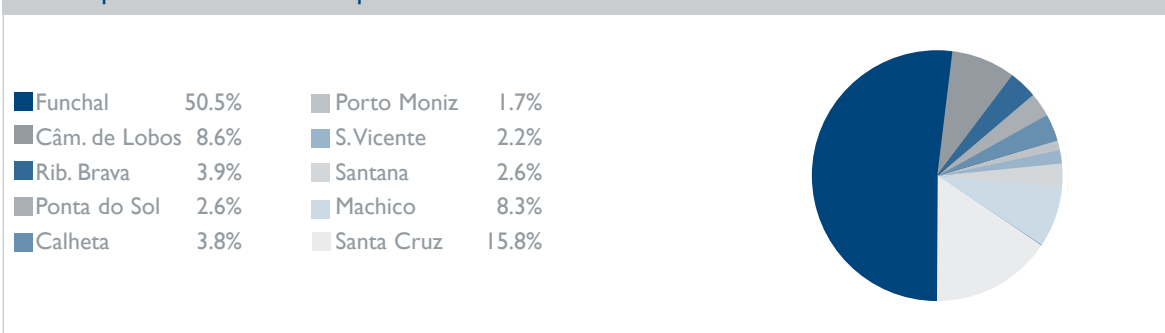
Consumption by activity in Madeira Island - 2009/2010



The council of Funchal with 43.0% of the total number of clients registered 50.5% of the total consumption in Madeira Island, followed by the councils of Santa Cruz with 15.9%, Câmara de Lobos with 8.6% and Machico with 8.3%.

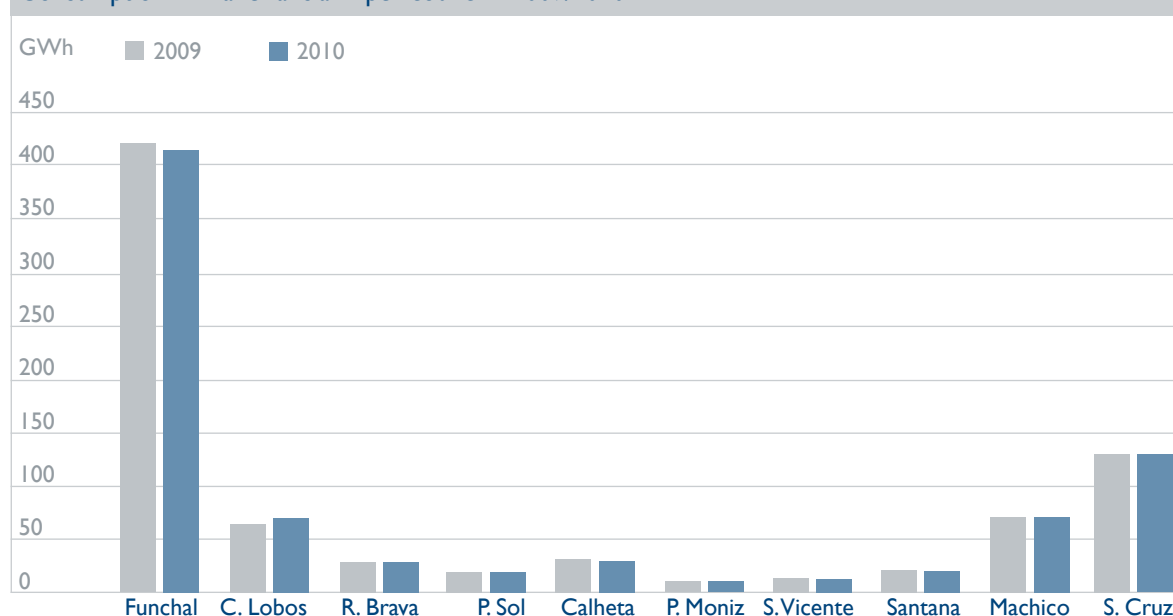
In terms of consumption evolution by sector, there was an increase of 4.7% in Public Lighting, 0.8% in Public Services and 0.3% in Households. On the other hand, there was a decrease in consumption of, 4.8% in Agriculture, 2.7% in Hotels, 2.0% in Services and Commerce and 1.7% in Industry, compared to the previous year.

Consumption in Madeira Island per council - 2010



Regarding the consumption decrease, the council that registered the best consumption rate growth, in comparison to 2009, was Câmara de Lobos council, with 1.3%.

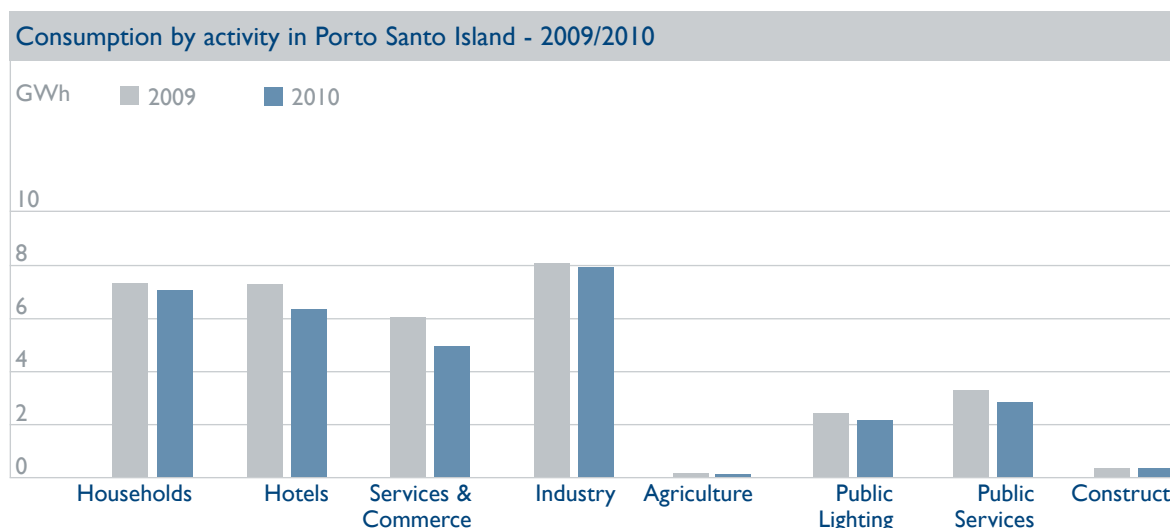
Consumption in Madeira Island per council - 2009/2010



In 2010, 1,176 new consumers were connected to the Madeira electric network, totaling 131,962 clients (an increase of 0.9%), thus being 223 in the medium voltage level.

B. Porto Santo Island

The evolution rate, concerning electricity consumption in the Porto Santo Island, in 2010 compared to 2009, suffered a decrease of 6.3%, as a result of the economic activity slowdown.



The distribution of the main energy consumption by activities was: 24.0% in Industry, 22.2% in Households and 19.7% in Hotels.

In terms of consumption trends by sector, there was no rate growth comparing to 2009. However, it was registered a decrease of 12.5% in Hotels, 10.4% in Services and Commerce, 9.3% in Public Services, 9.2% in Agriculture, 6.1% in Construction sector, 3.2% in Public Lighting, 2.5% in Households and 0.8% in Industry, compared to the previous year.

Concerning the new consumers, 61 were connected to the electric network, totalizing 4,621 clients (an increase of 1.3%), from which 21 are in medium voltage. The medium and low voltage consumption amounted to 11.89 GWh and 20.82 GWh, with a distribution of 36.3% and 63.7%, respectively.

V. Service Quality

The characterization of the Quality Service in RAM, is supported in 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 with the necessary resources to fulfil the regulation framework, being distinguished, the following initiatives, in 2010:

- Conclusion of the unavailability registration process through the SGI (Non - Availability Management System), which will allow to determinate the Service Continuity Indicators levels. For the first time, all the unavailability reports were processed integrally through this system, all over the year;
- Accomplishment of improvement investments in the Voltage Wave Quality, having for goal, a better communication and report process, thus increasing its functioning, through direct impacts in communications costs reduction;
- 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.

RQS Audits

In terms of the Quality Regulation Service, EEM is committed to fulfil a quality internal auditing, which, for the RQS 2009, took place in 2010, supported in external services, in name of efficacy/ transparency.

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



VI. Unspecified Investments

The investments realized in unspecified areas by EEM in 2010, amounted to 2,692 thousand Euros and can be presented as the accomplishment of support infrastructures construction and initiatives in information area systems. Some investments were consequence of the damages caused by the “Storm”.

VI.I - Infrastructures of Support

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

- Beginning of the installation for an emergency generating power group in EEM headquarters;
- Accomplishment of special interventions due the damages caused by the “Storm”, namely in the EEM’s offices in Rua do Carmo and SIAM.

VI.II - Information Systems

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

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

This project refers to the inventory works, regarding the electric grid, from the generating power plants up to the final Customers, being an indispensable basis for planning, electric grid management and also for the technical and commercial quality characterization. The recording phase was concluded in 2008, being later updated and having continuity along 2010, through external service contracts.

It’s has to be pointed out, that the implementation of this project presents an important goal for EEM’s management, constituting the basis for a wide set of integrated applications beyond the already mentioned, as for instance, the SGI (Non-availability Management System), the SIT DM (Design Manager), concerning the project area and also commercial applications (SAP), including the Contact Centre, with inevitable repercussions in a level of internal procedures.

- **Business Intelligence (BI) changes – Reporting tools**

With all changes initiated during 2010, EEM intends to provide, both internally and for third parties, updated information, through reporting tools, which recurring from legal requirements or from new management needs, suffers adjustments over the years. These systems handle large information volumes, without degrading the operating systems performance, thus avoiding, in case of EEM, high waiting times in customer attendance.

- **SAP**

Implementation of several improvements to the SAP system, namely:

- Implementation of application controls;
- Invoices certification;
- Integration in the digital archive;
- Electronic invoice.

On this platform, in 2010, the upgrade was fulfilled, to ensure the support of application by the supplier.

As part of this SAP upgrade it was also necessary to provide an updated performance of the actual hardware support platform.

- **Internet/Intranet service**

During 2010, were accomplished some improvements and new services launching, specially:

- Restructuring of the portal interface and contents;
- Implementation of the contact data changing process;
- Implementation of the contracted rate change process;
- Restructuring of the “EEM.net” mailbox online service.

- **Data Centre renovation**

EEM’s Data Centre is the location of the main net server concentration, assuring the fundamental systems for the operating services, particularly:

- System of resources authentication – Domain Controllers servers;
- Commercial system: SAP Productive, Development and Quality Environments;
- System of Security, Access Control and Firewall: Panda Gate Defender Server, IsaServer, PIX and Panda Console;
- Mailbox System – Exchange Servers;
- Password Attendance System – Inline Server;
- Database for the geo loading of the electric grid system – SIT;
- EEM’s Institutional Portal – WEB Servers;
- EEM’s costumers database – SQL Server;
- BI - Business Intelligence System.

The Data Centre renovation process began, in order to enable this service with higher standard levels of security, integrity and availability in the several Company’s platforms.



- **WFM – Work Force Management**

In 2010, the implementation works for this system were initiated, being accomplished the launching of the public tender for its acquisition. This platform focuses the SGI and SAP/IS-U work force management systems, which may have an impact on the Planning and Maintenance System (PM-non-existent in EEM), enabling a completion cycle between the relation Customer/EEM.

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

During 2009, through a statutory requirement it was necessary to implement new accounting standards established by the SNC, with direct influence on all areas of the Company business supported by ERP (SAP). Facing this implementation complexity, part of the works was accomplished in 2010.

- **Share Point SAP – HCM**

The Share Point project aims to provide an interactive tool among EEM's employees, in order to facilitate the administrative processes of human resources management. The adjustments of the project intend to get more efficiency in assiduity justification, to which all employees are constrained.

VII. Human Resources

As at 31st December 2010, EEM's staff was composed by 851 employees, thus being 830 as permanent staff and 21 under a short term contract.

Human Resources by functions					
	2006	2007	2008	2009	2010
Engineers	57	64	74	68	73
Others with university degree	24	28	29	36	36
Technical Engineers	10	9	11	9	8
Industrial Staff	514	467	450	459	459
Administrative Staff	236	273	262	256	255
Assistants	20	11	12	8	9
Employees under term contract	8	16	27	23	11
Total	869	868	865	859	851

From the 851 total employees, 804 rendered services in Madeira Island and the remaining 47 in Porto Santo Island.

Professional training actions

During 2010, several training actions were accomplished, benefiting 471 employees in a total of 7,550 training hours, subdivided by 7,365 hours of external actions and 185 hours of internal actions.



Taking into account that the financial statements of the Empresa de Electricidade da Madeira, S.A., is not materially affected by the consolidation of the companies Casa da Luz, Lda., Emacom Lda. and Enereem Lda., the Board considers that the opinion issued for the consolidated accounts is extended to individual accounts of EEM, S.A..

I - Economic and Financial Information

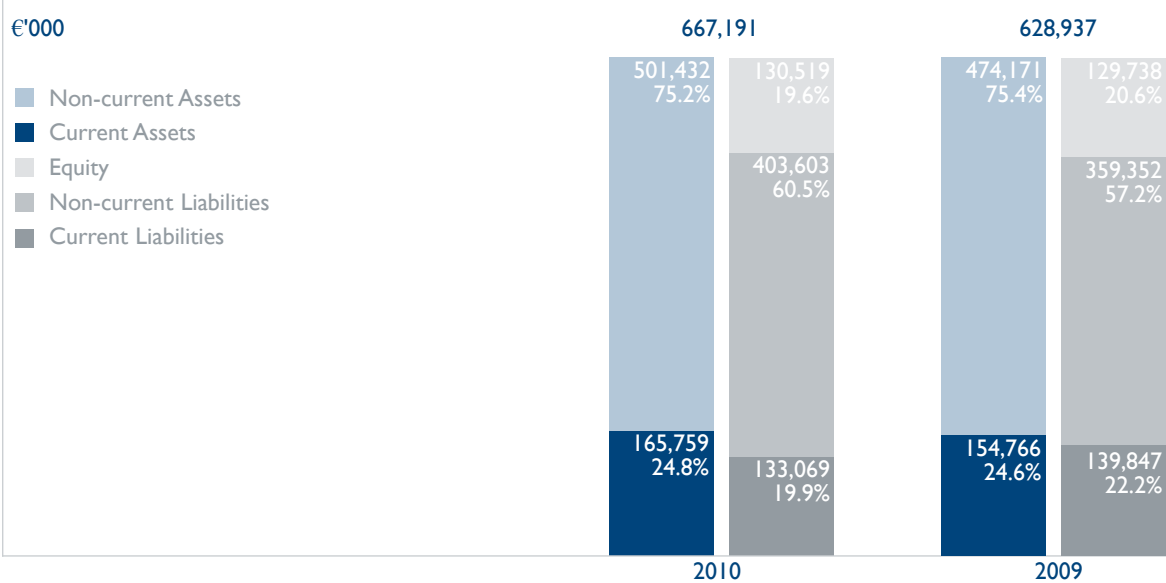
Adoption of new accounting standards (SNC)

These are the first financial statements prepared in accordance with SNC (“Sistema de Normalização Contabilística”), having EEM undertaken the respective transition adjustments. This being the first year of implementation of the SNC, were also prepared comparative financial statements for the year ended as at 31 December 2009, in accordance with “NCRF 3 – Adopção pela primeira vez das Normas Contabilísticas e de Relato Financeiro”. Thus all the analysis throughout this document, takes into account the information of the previous year also prepared according to the SNC.

The recognized transition adjustments are described and quantified in the notes to financial statements.

Balance Sheet Structure

€'000



Balance

In 2010, the EEM's Balance Sheet amounted to 667,191 thousand Euros, representing an increase of 6.1% compared to 2009.

Assets		
€'000	2010	2009
Gross assets	823,503	778,119
Accumulated depreciation and adjustments	406,419	378,824
Net assets	417,084	399,295

The net value of Fixed assets, represents approximately 62.5% of the Company's total Balance Sheet, amounting to 417,084 thousand Euros, presenting an increase of 4.5% comparatively to 2009.

In 2010, the Island of Madeira is marked by the tragic February 2010's intemperie, which resulted in the unfortunate loss of human lives and substantial material damage, estimated globally about 1,000 million Euros. The effects of the intemperie also affected the regular activities of EEM, and significantly, major infrastructure of the electrical network of Madeira, and the estimate of the damage, amounted to 10.4 million Euros.

This disastrous and extraordinary event, determined the necessity of a "contingency" plan to meet the recovery of affected infrastructures, leading also to the reordering of investment priorities, substantially different from those initially planned.

Nevertheless, it was possible to implement various infrastructures in the areas of production, transmission and distribution of energy which allow increasing the reliability, safety and quality of the entire regional electricity system.

The investment plan of EEM in 2010 amounted to 46,537 thousand Euros, representing a decrease of 19.0% over the amount realized in 2009 (57,455 thousand Euros).

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

• Production:	26,762	thousand Euros;
• Transmission:	5,640	thousand Euros;
• Distribution/Commercialization:	11,367	thousand Euros;
• Other activities:	2,692	thousand Euros;
• Subsidiary companies:	75	thousand Euros.

During 2010, it is important to highlight the conclusion of the new Vitória Thermal Power Plant (CTV III), nearby located to the existing Vitória Thermal Power Plant (CTV I and II). The total amount invested in this new Thermal Power Plant reached 57,414 thousand Euros (19,064 thousand Euros in 2010), includes 3 dual-fuel thermoelectric power groups, with an installed power of 52 MW, and also one steam turbine to improve plant efficiency and all equipment necessary for their proper functioning and interconnection to the transmission network.

This fundamental investment, now completed, allows to adapt the structure of production on thermal bases to the needs/demands of the energy network, replacing equipments at the end of useful life, for new generators with a vastly improved environmental performance.

In Vitória Thermal Power Plant (CTV I and II), huge interventions were performed in the power groups, including the replacement of important mechanical components, which allows to increase the useful life of the equipments, with inherent gains on reliability and security, in the amount of 1,296 thousand Euros. In CTV plant was also realized the execution project regarding the second phase of consolidation and stability of the slope nearby the CTV I and II.

During 2010, EEM continued the plan for the introduction of natural gas in Madeira Island. This project is a structural strategy measure with a significant impact in the development of the entire regional economy, contributing extraordinarily towards environmental protection in harmony with international goals, allowing, as well, to diversify the supply sources, which in an international scope of actual markets, will represent an undeniable security factor. The investment in 2010 amounted to 595 thousand Euros.

Following the damage caused by February 2010's intemperie, EEM has made several interventions, essentially in the recovery of channels and repair of hydroelectric plants, amounted to 3,161 thousand Euros.

In the transmission area, the main investments accomplished were in the transmission network reaching to 4,321 thousand Euros and in the dispatch and control monitoring centers amounted to 911 thousand Euros. Concerning the transmission network, the main investment were in several underground lines, ascending to 1,615 thousand Euros (including 180 thousand Euros for the intemperie), as well as the maintenance made in the transmission network, following the damage caused by the intemperie, which amounted to 1,428 thousand Euros. The dispatch and control monitoring centers it is important to highlight the launch of fiber optic cables in the amount of 618 thousand Euros.

Concerning the distribution area, the investment plan undertaken by the Company essentially aims improvements in the existing lines and the construction of new Medium Voltage Lines, Transforming Posts and Low Voltage Network / Public Lighting that reached the amount of 3,936 thousand Euros, 1,240 thousand Euros and 4,895 thousand Euros, respectively. Under the PPDA (Environmental Promotion Performance Plan), were also made various interventions in the Medium Voltage and Low Voltage lines, which together amounted to 236 thousand Euros. The investment in counting, measure and power control equipments of electric energy consumption reached 1,061 thousand Euros.

The investments carried out in other accomplishments include IT systems and communications, administrative equipment, buildings and others. In this area it is important to highlight the investment carried out by the Company in IT systems, amounting to 2,492 thousand Euros.

The balance Other investments, presented a decrease of 1,470 thousand Euros mainly due to the reduction in the fair value of the investments quoted in the markets.

Other non-current Assets items, including protocols, contracts with Official entities, and Tariffs Convergence for Electric Energy, as well as, deferred taxes, amounted to 66,626 thousand Euros, representing an increase of 19.6% compared to the previous year. This evolution derived essentially from the fact that the 2010 Tariff Compensation, receiving two years later (in this case 2012) is much higher than that calculated in 2009 (18,381 thousand Euros in 2010 and 2,076 thousand Euros in 2009) and the reduction in non-current value of the amounts to be received from the Central Government concerning the Tariff Convergence for the period 1998 - 2002 (recorded at amortized cost), which was transferred to current Assets (7,961 thousand Euros in 2010 and 11,695 thousands of Euros in 2009).

Long-Term Capital		
€'000	2010	2009
Shareholders' equity		
Amount	130,519	129,738
%	24.4%	26.5%
Medium and long-term liabilities		
Amount	403,603	359,352
%	75.6%	73.5%
Long-term capital		
Amount	534,122	489,090
%	100.0%	100.0%

The amount of long-term Capital, which represents 80.1% of the total Balance, ensures an adequate coverage of Company's fixed Assets.

EEM's Shareholders' Equity presented a slight increase during 2010, reaching the amount of 130,519 thousand Euros, which includes the Company's net Income attributable to the Group that has reached 4,823 thousand Euros.

The non-current Liabilities increased by 12.3% over the previous year, due in large part to the increase in the medium and long term financing activities. During the year 2010 the first drawdown was deduced, amounting to 25,000 thousand Euros, a loan from the European Investment Bank (EIB), in the amount of 75,000 thousand Euros, with a 16 years maturity. Additionally, EEM agreed the issuance of 20,000 thousand Euros of commercial paper with a 3 years maturity with BCP.

This increase of 45,000 thousand Euros in financing for medium/long term, allowed a decrease in EEM short-term funding, amounting to 32,303 thousand Euros. Thus, the financial debt, recorded an overall increase of 13,380 thousand Euros, the weight of loans to medium and long term amounted to 91.5% in 2010 (2009: 82.7%) of the total.

Working Capital		
€'000	2010	2009
Current assets	165,759	154,766
Current liabilities	133,069	139,847
Working capital	32,690	14,919

The current Assets amounting to 165,759 thousand Euros (154,766 thousand Euros in 2009) presents an increase of 10,993 thousand Euros, which results from the increase in customers balance, net of impairment in the amount of 6,692 thousand Euro and the increased value of stocks in 2,382 thousand Euros. Following the February 2010's intemperie, EEM extended by 15 days the settlement deadline on energy invoices in order to mitigate the short-term effects on economic activities. Regarding the increase in stocks, there was a decrease of 1,509 thousand Euros worth of raw material in storage, and, although the fuel stock increased by 3,891 thousand Euros.

The current Liabilities amounted to 133,069 thousand Euros, a decrease of 6,779 thousand Euros compared to 2009. This decrease is mainly explained by the net effect of reducing the debts to credit institutions, as noted above, and to the increase in spending by the addition of Creditors in the amount of 22,179 thousand Euros, relating to the 2011 Tariff Convergence, being noted that this amount on the adjustment of 2009 is reflected in the tariff convergence of 2011, has a counterpart in the current Assets, a debt of 24,173 thousand Euros and also the tariff convergence for 2009, assigned to the Tariff Convergence between the Mainland and the Autonomous Regions following the Ministerial Order of 3 October 2008, issued by the Minister of Economy and Innovation, which has not yet been regularized and transferred to EEM.

Income Statement

Operating Income

Operating Revenues					
€'000	2010	%	2009	% Change %	
Sales	173,519	84.2%	152,292	81.1%	13.9%
Services rendered by third parties	978	0.5%	967	0.5%	1.1%
Exploitation subsidies	201	0.1%	-	0.0%	N/A
Imputed gains of associates	489	0.2%	488	0.3%	0.2%
Own work capitalised	19,375	9.4%	21,274	11.3%	(8.9%)
Other revenues	11,434	5.6%	12,684	6.8%	(9.9%)
Total	205,996	100.0%	187,705	100.0%	9.7%

In 2010, the balance Sales amounted to 173,519 thousand Euros (152,292 thousand Euros in 2009), including:

- 117,493 thousand Euros, on energy sales;
- 36,857 thousand Euros in Tariff compensation;
- 1,178 thousand Euros relating to the correction of the 2009 Tariff Compensation to receive in 2011;
- 18,009 thousand Euros relating to the 2010 Tariff Compensation to receive in 2012;
- -177 thousand Euros, for the Environmental Promotion Performance Plan (PPDA);
- 159 thousand Euros of sales of goods under the Consumption Efficiency Promotion Plan (PPEC).

The energy Sales in the Autonomous Region of Madeira ascended to 117,493 thousand Euros (2009: 116,166 thousand Euros), representing an increase of 1.1% over the previous year. This increase results, due to the raise of average tariffs by 2.7%, since the consumption decreased on 1.5%.

The investments executed by EEM through Own work capitalised amounted to 19,375 thousand Euros representing a decrease of (8.9%) in relation to 2009, (21,274 thousand Euros).

The balance other Gains reached 11,434 thousand Euros, showing a decrease of 1,250 thousand Euros compared with 2009, due mainly to the decrease in the value of the subsidy to exploitation on the value of CO2 allowances, consumed and sold in 2010 that had been allocated for free to the EEM in PNALE II. In addition to the value of CO2 allowances, which amounted to 6,748 thousand Euros, also includes 4,441 thousand Euros relating to the allocation of investment subsidies.

Expenses

Operating Expenses					
€'000	2010	%	2009	% Change %	
Cost of sales - Materials	8,753	4.7%	9,708	5.7%	(9.8%)
Cost of sales - Raw material	47,041	25.0%	40,018	23.4%	17.5%
Cost of sales - Electric energy acquisition	31,413	16.8%	23,459	13.7%	33.9%
Services rendered by third parties	15,372	8.2%	16,980	9.9%	(9.5%)
Staff expenses	35,356	18.9%	33,763	19.8%	4.7%
Impairment	1,587	0.8%	1,147	0.7%	38.4%
Provisions	1,542	0.8%	3,058	1.8%	(49.6%)
Gains/Reductions of fair value	3,616	1.9%	97	0.1%	3,627.8%
Others	8,750	4.7%	9,167	5.4%	(4.5%)
Depreciations and adjustments	34,053	18.2%	33,287	19.5%	2.3%
Total	187,483	100.0%	170,684	100.0%	9.8%

The Operating expense ascended to 187,483 thousand Euros, representing a increase of 9.8% comparatively to 2009. The increase of 16,799 thousand Euros, is mainly explained by the reasons mentioned in the following paragraphs.

The consumption of materials presented a decrease of 955 thousand Euros, of which 89.0% resulting in a lower incorporation of such materials in works on its own account executed by EEM.

The cost of raw materials, which includes fuel, ascended to 47,041 thousand Euros, an increase of 7,023 thousand Euros (17.5%) in the previous year. The cost of electric energy acquired to third parties increased 33.9%, reaching 31,413 thousand Euros.

The increase in fuel costs was due to the strong increase in average oil price in international primary market and the appreciation of the US dollar against the Euro, leading to a variation of the overall cost per unit of fuel +30.8% compared 2009.

There was also a significant increase in production from renewable energy (+29 GWh compared to 2009), because in 2010, was the first full year of operation of the new wind farms, installed in 2009, and also the entry into operation of new photovoltaic parks.

In 2010, EEM managed to obtain an increased efficiency in fuel consumption (about 1.1%), due to the conclusion of the new Vitória Thermal Power Plant (CTV III).

Thus, the combined effect of increasing production from renewable energy and the reducing of the energy consumption in RAM 2010 (-1.53%), has limited the production of thermal energy from EEM, decreasing circa 9.2% (522 GWh in 2010 compared with 575 GWh in 2009), contributing, together with greater efficiency in production to a change in fuel costs less pronounced than the increase in the overall cost.

EEM Group Production				
GWh	2010	%	2009	%
Hydro	126.69	18.3%	135.49	18.4%
Wind plants	42.87	6.2%	27.87	3.8%
Thermal	522.18	75.5%	574.96	77.8%
Total	691.74	100.0%	738.32	100.0%

The increase in electricity purchase cost to third parties, derives from increased quantity purchased (+29 GWh), as well as with the growth in unit price, specially energy originated by thermal plants, the most relevant part in EEM acquisition mix, representing 72.2%.

Similar to what occurred in the production of EEM Group, the weight of the production of thermal origin in the total mix of purchases from third parties, decreased from 78.3% in 2009 to 72.2% in 2010.

Electric energy acquisition				
GWh	2010	%	2009	%
Hydro	5.00	1.9%	4.65	1.9%
Wind plants	26.40	9.8%	10.86	4.5%
Thermal	194.86	72.2%	188.60	78.3%
Waste incineration	39.41	14.6%	36.51	15.2%
Photovoltaic	4.15	1.5%	0.29	0.1%
Total	269.82	100.0%	240.91	100.0%

The balance Services rendered by third parties presents a decrease of 9.5%, due to a lower allocation of this balance to works on its own account (-15.1%), and also due to a reduction of 1.7% in operating expensive.

In 2010, 54.3% of Services rendered by third parties, were related to Own work capitalised.

The staff expenses grew by 4.7% over 2009. This variation was registered mainly due the following reasons:

Active Personnel expenses

Despite the human resource requirements generated by the entry into operation of the new Vitória Thermal Power Plant (CTV III), the EEM admission policy still continues restrict, allowing in 2010, to a decrease in the number of workers of approximately 1.0% (851 active in 2010 compared to 859 in 2009).

In 2010, the amount of personal expenses, before deducting the value of Own work capitalised, but with the costs of retirement benefits amounted to 35,155 thousand Euros.

This amount includes compensations paid in 2010, in an amount of 2,580 thousand Euros (about 355

thousand Euros in 2009). Following some complaints carried out by employees of the Company, on which has been detected a number of situations in which was proved that in the early 90s, the rules established by the Company Agreement, relating to Career Plans were not fully met, thus assisting to workers, the right to be paid and adjusted through remuneration.

Thus, the amount of personal expenses, before deducting the value of Own work capitalised, and net of pensions benefits costs, redundancy payments and compensation paid during the year amounted to 32,575 thousand Euros, which represents an increase of only 1.3% in comparison to 2009 (32,505 thousand Euros net of 355 thousand Euros - relating to compensation of remuneration paid in 2009). This variation was essentially related to an increase in compensation per employee of 1.5%, in line with the increases in the sector, plus the automatic careers promotion increases, partially offset by a reduction in the number of active workers. This, contributed to an increase in this balance less than the increase observed in the costs per worker.

Pensions expenses

EEM workers, which in February 29, 1974, were already in the Company, are covered by retirement and pre-retirement benefits. Expenses incurred by EEM with the workers in the situation of retirement includes the assignment of a pension supplement that generally corresponds from 25.0% to 35.0% of the worker's pay, being the remaining supported by the Social Security Entities. However, all costs with pre-retired workers are fully supported by EEM.

During 2007, the legal framework resulting from the publication of Law No. 60/2005 of 29 December has been substantially revised by Decree-Law No. 187/2007 of 10 May, allowing workers with long careers and with an age less to 65 years, to retire without penalty. Thus, in accordance with this Law, it was possible to retire during the year 2010, eight workers (2009: 11, 2008: 8 and 2007: 13), which fulfilled the conditions for access to retirement without penalty, assuming EEM only their retirement supplement.

In 2010, following the change in accounting standards, EEM started to apply NCRF 28, IAS 19 refers to the accounting framework of this matter, keeping, however, the actuarial study as the basis of accounting records. However, according to the accounting standards, spending on pensions that had been deferred in the first year of application of DC No. 19 and was to be recognized each year (1,378 thousand Euros) by 2011, can no longer be deferred. The Company proceeded at the time of accounting transition to transfer the remaining amount in the balance sheet (deferred costs in POC), which amounted to 2,756 thousand Euros and that had not been recognized in the Income Statement (Staff costs) to retained Earnings.

Following the measures included in the Portuguese State Budget, which determines a pay cut in 2011, and the post-pone of pensions and salaries for the years 2011, 2012 and 2013, the actuarial study was set in accordance with those measures, while keeping unchanged the remaining actuarial assumptions.

The combined effect of changes in accounting standards, in actuarial assumptions above mentioned

(post-pone wages and pensions) and also the fact that EEM have come to advice, successfully, the employees to ensure early retirement on Social Security Entities, even before reaching 65 years old, determines a positive impact on actuarial liabilities calculated in the study, resulting in a strong decrease in pension expenses, that in 2010 only amounted to 201 thousand Euros.

The amount of Impairment of receivables (customers), in 2010 amounted to 1,587 thousand Euros, which represents a growth of 38.4% over the previous year (1,147 thousand Euros in 2009).

EEM recognized a Provision for other liabilities and charges in the amount of 1,542 thousand Euros, to meet contingencies arising from their activities.

Fair value reductions are related to adjustments on investments and financial instruments listed at Fair value.

The amount of other Losses amounted to 8,750 thousand Euros, represent a reduction of 4.5% over 2009 (9,167 thousand Euros in 2009).

This balance includes an aggregate of items which, in the previous accounting standards, complied with the operating costs (taxes and other costs and operating losses - OPEX), but also the financial costs and extraordinary costs.

Also, was recorded 7,476 thousand Euros (7,305 thousand Euros in 2009) related to the use of the regional public domain, the Municipal network tax was fixed in 7.5% of the yearly low tension levels sales amount (including Public Lighting) registered in each Municipality of the Autonomous Region of Madeira.

The remaining amounts included in this balance essentially corresponds to indirect taxation (Imposto Selo), expenses relating to easements (surface rights) and compensation paid to customers for damages caused by network variances. These costs decreased in comparison to the previous year. In 2010, the value of depreciation and Amortization amounted to 34,053 of EEM thousand Euros (2.3% more than in 2009).

Following the change in accounting standards, this balance includes amortization expense related to the consumption of CO2 allowances in the year, which amounted to 4,672 thousand Euros (5,890 thousand Euros in 2009). Thus, the amount for depreciation and amortization expenses relating to the remaining tangible and intangible assets totalizing 29,381 thousand Euros, representing an increase of 1,984 thousand Euros compared to 2009.

The balance Interest and other income, ascended to 1,722 thousand Euros, representing a decreasing of 53.7% over the previous year. This evolution was due to the decrease of interest on the tariff adjustment in about 962 thousand Euros, as well as the reduction of the income generated by the application of the amortized cost of debt of the Central Government regarding the tariff convergence for the 1998-2002 in 738 thousand Euros.

The balance Interest and other losses, amounted to 15,756 thousand Euros, which represents an increase of 5.6% over the previous year. This increase is justified by the record of 1,259 thousand Euros of interest on the adjustment of tariffs in 2009 to be returned in 2011. These costs are net of capitalized financing charges, whose value in 2010 was 1,081 thousand Euros (347 thousand Euros in 2009), these expenses increased 2.0%.

The financial crisis actually affecting liquidity in international markets, as well as EEM's rating reduction, as a result of the Portuguese Republic rating reduction and, consequently, the Autonomous Region of Madeira rating reduction, led to an increase in spreads applied to bank liabilities, leading to an increase of the related financial costs.

Net Cash Flow

The Net cash flow before tax and financial charges in 2010, show an increase of 4.5% over 2009. This positive development is reflected in EBITDA, which totaled in the value of 52,566 thousand Euros (50,309 thousand Euros in 2009).

EEM's Contributions to the State

In 2010, the Company and its workers contributed directly with 17,648 thousand Euros to the Portuguese State, representing an increase comparatively to 2009 presented as follows:

EEM's contributions for the State				
€'000	2010	%	2009	% Change %
Company:				
Corporate income tax	458		1,166	(60.7%)
Other tax	2,971		1,740	70.7%
Social security costs	6,273		5,861	7.0%
	9,702	55.0%	8,767	56.0%
Staff :				
Personal income tax	5,041		4,180	20.6%
Social security costs	2,905		2,714	7.0%
	7,946	45.0%	6,894	44.0%
Total	17,648		15,661	12.7%

The reduction in the corporate income tax is related to significant differences between the accounting and tax system, resulting mainly from the application of the equity method, the post-employment benefit costs and the reduction of reserves without tax relevance.

The increase of 70.7% in other tax, regarding Value added Tax (VAT), and is related to the mechanism of reverse charge due to purchase volume during the year.

The increases occurred in the categories of payroll taxes and IRS, are in line with evolution on staff costs, as described above.

Gross Added Value

The Gross added value, reached the amount of 93,978 thousand Euros, an increase of 6.9% compared to 2009.

Economic and Financial Indicators

Economic Structure		
€'000	2010	2009
Net income	4,823	6,050
Sales and services provided	174,497	153,259
EBITDA	52,566	50,309
Depreciations and adjustments	34,053	33,288
Financial expenses	15,576	14,746
Staff costs	35,356	33,763
Gross value added	93,978	87,885
N° of employees	860	867
Staff productivity	109	101
Average costs per employee	41	39
Financial expenses in gross value added	0.17	0.17
Staff costs in gross value added	0.38	0.38
Depreciations and adjustments in cash flow EBITDA	0.65	0.66
Return on Equity	3.7%	4.6%
Net income/Power energy sales and services provided	2.7%	3.9%

Financial Structure		
€'000	2010	2009
Current assets	165,759	154,766
Non-current assets	501,432	474,171
Total assets	667,191	628,937
Current liabilities	133,069	139,847
Non-current liabilities	403,603	359,352
Total liabilities	536,672	499,199
Bank debts	392,874	379,494
Equity	130,519	129,738
Fixed capital	534,122	489,090
Working capital	32,690	14,919
Coverage of non-current assets by equity	0.26	0.27
Coverage of non-current assets by fixed capital	1.07	1.03
Indebtedness - (Total liabilities / Total assets)	0.80	0.79
Shareholders' equity / Total assets	0.20	0.21
Non-current liabilities / Fixed capital	0.76	0.73
Solvency - (Total assets / Total liabilities)	1.24	1.26
Liquidity - (Current assets / Short-term liabilities)	1.25	1.11

2 - Proposed Appropriation of Net Income

In accordance with the article 19 of EEM's Statutes, the Board of Directors proposes the following application of 2010 Company's net Income, amounting to 4,860,171.09 Euros:

Statutory Reserve:	486,017.11 Euros
Retained Earnings:	4,374,153.98 Euros

3 - Environment

Introduction

The strategy developed by the Autonomous Region of Madeira – RAM for the electric sector, based on an evaluation of prospective evolution, has an environmental priority goals the maximization of renewable resources exploitation, the use of even less polluted fuel and the promotion of energy efficiency, on the offering and demanding perspective, with special concern on the demand side.

According to these guidelines, the EEM group, as the main agent of local energetic policies, has carried out its activity in a sustainable way, assuring the legal and regulating requests of environmental matter, adopting pollution prevention measures, to continually improve its environmental performance.

During 2010, the initiated projects in the previous year were continued, and new environmental challenges were launched, reaching the total cost of 2.687 thousand Euros in prevention, reduction and repairing of possible environmental damages, distributed by the following areas:

Environment			
€'000	Investment	Exploitation Costs	Global
Residual waters management	-	8	8
Waste management	-	311	311
Other environmental protection activities	1,652	277	1,929
Biodiversity and landscape protection	-	44	44
Air and climate protection	-	221	221
Soils, underground and superficial waters protection	28	147	175
Total	1,680	1,007	2,687

The Other Environmental Protection Activities agglutinates the following main actions: environmental management procedures, accountancy and reports; training and formation of staff in this specific area; and other issues not included in the others headings referred in this table.

Accomplished activities

To be pointed out, besides the above referred activities on environmental protection, there are many others, although with greater range, are deeply connected to the best environmental practices, which are important to indicate. In this context, we present the main activities directly and indirectly connected to the environment, accomplished by EEM's group, in the year 2010.

Production

- **Vitória Thermoelectric Power Plant (CTV III)**

The CTV enlargement works were concluded in 2010, that comprehended the construction of Nave III building and the installation of 3 dual-fuel groups, with a generating power of 17,1 MW each, as well as a 4,6 MW steam turbine for heat exploitation, allowing a combined cycle functioning. This project, being fundamental for the liability and security of the local electric system, is integrated in the Madeira's natural gas introduction plan, aiming to enlarge the electric system the global efficiency and also to decrease the environmental and economic impact of CO₂ emissions, from fuel oil use to produce electricity.

It's important to point out that the conception of Nave III took in consideration all environmental requirements, in order to guarantee the security and health issues of the surrounding population and also to assure that all the construction and exploitation activities had no unsustainable consequences for the environment. The new Nave is endowed with the best available technologies, according to national and communitarian legislation.

The construction was submitted to, an environmental impact study and supervision, and was accomplished according to the settled plan, without incidents.

This project, besides ensuring a more reliable guarantee of power supply, also comprises important environmental benefits, serving as anchor for the future introduction of natural gas in Madeira, allowing substantial reductions of CO₂, and dangerous waste production, polluted discharges in residual waters and also noise emissions, even when operating with fuel oil, as the improvements in the generating power technologies and in the support systems allow a substantial decrease of environmental pressure.

- **European Union Emission Trading Scheme**

EEM is the owner of 2 plants under the European Union Emission Trading Scheme, with greenhouse gas emissions titles: Vitória Thermoelectric Power Plant ("TE GEE.RAM.076.03 II") and Porto Santo Thermoelectric Power Plant ("TE GEE.RAM.075.03 II").

During 2010, EEM send into the atmosphere a total of 364.144 tons of CO₂, resulting in an excess of 213.275 tons of CO₂ emission licenses, compared with the already settled amount (577.419 licenses/year during 2008/2010, according to PNALE II).

In the Depreciation costs balance of EEM's accounting reports, 4.672 thousand Euros are registered, regarding the gas emissions evaluation during 2010, whose licenses were already owned by the Company, corresponding to the total licenses amount attributed by the Portuguese Environmental Institute, in 2010.

In Others incomes balance, 6.748 thousand Euros are included, referring the valuation of consumed and sold licenses, attributed by the Environmental Institute.

The attributed licenses for 2010, according to the Bluenext rate, were valued at the price obtained on the 4th of January 2010 (-12.83 Euros/licenses), being 83.949 retained licenses from 2009, at the price of 14.64 Euros/licenses (price obtained on the 2nd January 2009). During 2010, EEM sold 150.000 emission licenses reaching the amount of 2.076 thousand Euros (83.949 licenses were retained from 2009 and 66.051 licenses were attributed for the year 2010).

In Other costs and losses balance, the amount of 24 thousand Euros is registered, referring the least value accounting, obtained by the sale of CO₂ emission licenses sold along the year. This least value accounting relates the difference between the total amount of the sold licenses and its accounting value (Intangible assets). The total 250.000 emission licenses were sold by a global amount of 2.052 thousand Euros, reaching its accounting value of 2.076 thousand Euros.

EEM also registered 46 thousand Euros as costs, with emission licenses management and commissions related to transactions already achieved. This amount was accounted in Services rendered by third parties balance, being considered as eligible to determinate the incomes allowed by the AGS regulation mechanism.

Regarding the accounting balance during the year, 1.889 thousand Euros are accounted from carried licenses to 2011, are included in Intangible assets (net debtor balance) as in Other incomes (liability balance). It's also important to point out, that with the actual Accounting Standard System (SNC) the emission licenses value, corresponding to the emissions of the year (4.672 thousand Euros) was registered in the Intangible assets balance, as well as on credit in the corresponding accumulated depreciations balance, being presented however in the Balance by its net value.

The number of emission licenses carried to 2011 (147.224 licenses), fulfils the obligation settled by the Energy Services Regulatory Agency (ERSE), as the balance coming from the current year (63.275 licenses) is inferior to 30.0% of the yearly excess (difference between the amount of attributed and consumed licenses, in 2010). Once accomplished this request, the global effect in results respects, exclusively, the CO₂ emission value (incentive to an efficient management of CO₂ emission licenses), corresponding to the half difference between the selling price and the medium rate obtained from the 15 prior days and posterior to the transaction date, achieving 22 thousand Euros, in 2010.

The total net amount of the CO₂ emission licenses trade value (2.031 thousand Euros) was deduced

to the incomes, according to the Decree-Law n° 11210/2008 and n° 1363/2008, as the licenses were freely attributed.

The CO2 emissions balance effect (transactions and emissions) is as following presented:

CO2 impact in EEM's incomes	
€'000	2010
Direct effect:	
Direct sales	2,052
Commissions	(46)
	2,007
Permitted incomes effect:	
Direct sales	(2,052)
Direct sales (ICO2)	22
Commissions	46
	(1,985)
Total	22

According to EEM's accounting policies, the accounting registration of emission licenses was based on the appendix terms: "the right of greenhouse gas emission and respective emission licenses accounting" which integrates the NCRF 26 (Environmental Issues).

- **Action Plan to minimize the environmental impacts, concerning Integrated Pollution Prevention and Control - Licenses**

In 2010, the process application for Vitória Thermoelectric Power Plant (Naves I, II and III) was executed, according to the Decree-Law n° 173/2008, of 21 st August, which settles the legal framework for Integrated Pollution Prevention and Control, amending and replacing the Environmental License n° 02/2009, of 28 December, by the Regional Environmental Authority.

Energetic Efficiency Promotion Plan in energy consumption

The Consumption Efficiency Promotion Plan has as main goals to promote the energetic efficiency in the electric sector, in order to improve a rational utilization of electric energy and consequently resources. This model, aims to implement actions by commercialists, network operators, associations and organizations for promotion and protection of consumer benefits.

The great challenge facing the RAM, concerning energy, is to conciliate the socioeconomic development with the necessity of decelerating the growing demand and foreign energy dependence, minimizing eventual environmental damages, resulting from fuel oil energy utilization.

In accordance with the Energetic Policies Plan of Autonomous Region of Madeira is fundamental to act on the demand side that represents the most significant potential to reduce energetic exterior dependence, reduce import costs and possible environmental impacts associated to electricity production.

Recognizing the high interest to implement measures to meet the demand, as a privileged way to promote the consumption efficiency and to optimize the load diagram, particularly in the Households sector, taking in account its large utilization of low efficiency lamps, where there is the opportunity to reduce consumption, significantly, through the replacement of incandescent lamps by compact fluorescent lamps, EEM continued its campaign for incandescent lamps substitution by compact fluorescent lamps. In 2010, this campaign allowed to Households sector, the acquisition of 39.700 compact fluorescent lamps, at reduced prices. As this action was a major success, it was settled to extend it, one year more.



Environmental Performance Promotion Plan – voluntary procedures

In 2010, the Environmental Performance Promotion Plan began, taking in account the 2009-2011 periods according to Energy Regulatory Entity (ERSE).

Concerning this subject, the main actions accomplished in 2010, were as follows:

- **Implementation of a EEM's environmental management system**

The environmental management system, in an implementation phase, responds to identified needs, endowing EEM with a management tool to promote a continuous improvement, concerning environmental performance, through updated data, permitting the adoption of systematic methodologies with an adequate approach to identify problems and prioritize actions. In this way, the available resources will be optimized, developing programs to minimize negative environmental impacts and making the correspondent evaluation of the results obtained.

Application area

EEM has prior mission, the production, transmission, distribution and commercialization of electric energy in Madeira and Porto Santo islands.

The main activities with environmental importance under the Environmental Management System (EMS), in implementation, include the following Company's functional areas:

- **Production;**
- **Transmission;**
- **Distribution;**
- **Support services.**

Accomplishments in 2010

During 2010, actions were accomplished, according to the SGA execution schedule, revised opportunely.

Execution schedule for 2010 - SGA												
Year	2010											
Month	J	F	M	A	M	J	J	A	S	O	N	D
Step 1: Diagnosis												
Step 2: Conception and planning												
Step 3: Implementation												
Step 4: Verification												
Step 5: Correction												
Step 6: Certification												
Step 7: Execution and attendance												

The forecasted and achieved actions are presented, as the following scheme:

Accomplished activities in 2010 - SGA	
Prevision	Accomplishment
Environmental Management Handbook Elaboration.	- Conclusion of the Environmental Management Handbook Elaboration and Approval.
EMS procedures.	- Conclusion of the SGA Elaboration and Approval Procedures; - Procedures Implementation.
Operational procedures.	- Conclusion of the Operational Procedures Elaboration and Approval; - Procedures implementation.
EMS formularies and leaflet models.	- Conclusion of the Elaboration and Approval of 39 SGA formularies and leaflet models; - Beginning of the leaflets implementation.
Environmental Management Program.	- Environmental Program Definition and Approval.
EMS Training Actions Plan.	- Elaboration of the Training Actions Plan for 2011; - Professional training actions for employees.
EMS File Plan.	- Elaboration and Implementation of the SGA File Plan.

• Impact of the Medium Voltage (MV) electric lines network, concerning bird-fauna.

The relationship between birds and overhead network lines has been widely studied, in several countries, since the late 80. In spite of all collected information about the major problems resulting from this interaction, there are still unknown particularities about island ecosystems.

Application area

Through this action, EEM pretends to estimate the MV/HV overhead network lines impacts in Paúl da Serra and Caniçal, concerning bird-fauna, namely about the Alma-negra “*Bulweria bulwerii*”, the Woodcock “*Scolopax rusticola*” and the Roque-de-Castro “*Oceanodroma castro*”, as well as to present corrective measures, aiming to reduce the number of incidents with these specimens.



Picture 1 - Alma-negra
Bulweria bulwerii



Picture 2 - Galinhola
Scolopax rusticola

Execution in 2010

During 2010, the fulfilled actions took place as the following:

Execution schedule for 2010 – Electric network lines and vulnerable bird-fauna												
Year	2010											
Month	J	F	M	A	M	J	J	A	S	O	N	D
Monthly prospecting of Paúl da Serra overhead electric network lines.												
Observation points in each electric line of Paúl da Serra.												
Woodcock “ <i>Scolopax rusticola</i> ” census.												
Monthly prospecting of the Caniçal electric line.												
Nightly tapping of the Roque-de-castro “ <i>Oceanodroma castro</i> ”.												
Experimental interchange with other projects.												
Corrective measures implementation.												
Reports delivery.												

The forecasted and achieved actions were as follows:

Accomplished activities in 2010 - Electric network lines and vulnerable bird-fauna	
Prevision	Accomplishment
- Working staff training actions.	- Working staff training actions.
- Prospecting in an extension of 7.610 m of the 30 kV electric lines in Paúl da Serra, once a month, between January and December.	- Prospecting in an extension of 7.610 m of the 30 kV electric lines in Paúl da Serra, one a month, between January and December.
- Prospecting in an extension of 1.790 m of the 6.6 kV electric lines in Paúl da Serra, once a month, between January and December.	- Prospecting in an extension of 1.790 m of the 6.6 kV electric lines in Paúl da Serra, one a month, between January and December.
- Prospecting in an extension of 1.820 m of the Caniçal electric line, once a month, between January and December.	- Prospecting in an extension of 1.820 m of the Caniçal electric line, once a month, between January and December.
- Woodcock census in Paúl da Serra, around 36 small squares, of 2 km way.	- Woodcock census in Paúl da Serra, around 49 small squares (of 2 km way); - Woodcock census in Paúl da Serra, with 49 observation points. - Note: The Census took place during the mating season, when woodcock males fly exhibitory to females, vocalizing frequently (final March).
- Nightly tapping of the Roque-de-castro in 16 locals.	- Nightly tapping of the Roque-de-castro in 19 tapping points, twice between May and December.
- Public events participation.	- Non accomplished.

• Diagnosis and minimization of public lighting impact in seabirds

The lighting pollution is widely recognized as a great threat to seabirds, disturbing its behavioural and population ecology. Taking in account the importance of a diagnosis and minimization, concerning the lighting pollution effects in Madeira Archipelago coast areas, the Project “Diagnosis and minimization of public lighting impact in seabirds” was undertaken.

The Madeira Archipelago has a population density higher than the national average (circa 300 hab/km²). In spite of that, 45.0% of population lives in Funchal city (1.500 hab/km²) and similar to what occurs all over the south coast, the capital of Madeira is the home to a large portion of the total hotels units, industries and residential areas, being the regional location with the highest light pollution, fully justifying the implementation of this measure.

Application area

The five seabird species that have different decrees of conservation, being the study focused on the species that nidify on Madeira Island. Of these, are highlighted the Cagarra Colonectris diomedea and the Patagarro Puffinus puffinus, which have a greater number of incidents.



Picture 1 - Cagarra
Calonectris diomedea



Picture 2 - Patagarro
Puffinus puffinus



Picture 3 - Alma-negra
Bulweria bulwerii



Picture 4 - Pintainho
Puffinus assimilis



Picture 5 - Roque-de-castro
Oceanodroma castro

Accomplishment in 2010

During 2010, the fulfilled actions were according the following schedule:

Execution schedule for 2010 – Birdfauna and Public Lighting Project												
Year	2010											
Month	J	F	M	A	M	J	J	A	S	O	N	D
Database file with seabird incidents.												
Visitation of each location to identify vulnerable points and nightly tapping.												
Visitation of locations with an altered lighting.												
Lectures of sensitization among local authorities and population.												
Launching and distribution of the kit "Save a seabird".												
Experimental interaction with others projects.												
Reports delivery.												

The forecasted and fulfilled activities were as follows:

Accomplished activities in 2010 – Birdfauna and Public Lighting Project	
Prevision	Accomplishment
- Compilation and analysis of incidents involving birds.	- Compilation and analysis of incidents involving birds.
- Identification of vulnerable spots in 20 locations.	- Identification of vulnerable spots in 22 locations.
- Realization of night Census to seabirds in 20 locations.	- Realization of seabirds counting in 22 locations.
- Participation in public events.	- Communication presentation in 2 events.
- Sensitization campaign over all regional councils.	- Fulfilled meetings with 8 councils and lectures in 4 councils.

• Landscape integration of LV and MV overhead electric lines network

The landscape and environmental quality settles a fundamental criterium for a sustainable development concept, taking part nowadays, of the regions and institutions brand image, as the case of EEM Group. In Autonomous Region of Madeira (RAM) environmental concerns become more and more remarkable, as a touristic resort with high quality, which must be preserved and treasured.

• Landscape integration of Low Voltage (LV) electric lines network

Application area

This procedure applies to 16 important residential locations in Madeira Island, through the Low Voltage (LV) electric network lines upgrading and Public Lighting (PL).

Execution in 2010

The estimated and executed activities, in 2010, are presented as the following frame:

Accomplished actions in 2010		
LV electric network lines requalification works	Prevision	Accomplishment
Virtudes – Funchal road	<ul style="list-style-type: none"> - New underground section - 0.26 km; - Overhead electric network to be disconnected - 0.44 km; - New underground Infra-structures - 0.065 km; - Public lighting luminaires - 12 units. 	<ul style="list-style-type: none"> - New underground section - 0.35 km; - Overhead electric network disconnected - 0.44 km; - New underground Infra-structures - 0.12 km; - Public lighting luminaires - 11 units.
Bairro dos Pescadores – Câmara de Lobos	<ul style="list-style-type: none"> - New underground section - 0.50 km; - Overhead electric network to be disconnected - 0.65 km; - New underground Infra-structures - 0.34 km; - Public lighting luminaires - 5 units. 	<ul style="list-style-type: none"> - New underground section - 0.50 km; - Overhead electric network disconnected - 0.65 km; - New underground Infra-structures - 0.34 km; - Public lighting luminaires - 5 units.
Porto da Cruz town – Machico	<ul style="list-style-type: none"> - New underground section - 0.44 km; - Overhead electric network to be disconnected - 0.78 km; - New underground Infra-structures - 0.14 km; - Public lighting luminaires - 8 units. 	<ul style="list-style-type: none"> - New underground section - 0.49 km; - Overhead electric network disconnected - 0.78 km; - New underground Infra-structures - 0.14 km; - Public lighting luminaires - 7 units.
Airport road – Santa Cruz	<ul style="list-style-type: none"> - New underground section - 0.25 km; - Overhead electric network to be disconnected - 0.20 km; - New underground Infra-structures - 0.07 km; - Public lighting luminaires - 0 units. 	<ul style="list-style-type: none"> - New underground section - 0.31 km; - Overhead electric network disconnected - 0.20 km; - New underground Infra-structures - 0.05 km; - Public lighting luminaires - 1 unit.
São Sebastião road – Santa Cruz	<ul style="list-style-type: none"> - New underground section - 0.36 km; - Overhead electric network to be disconnected - 0.40 km; - New underground Infra-structures - 0.03 km; - Public lighting luminaires - 2 units. 	<ul style="list-style-type: none"> - New underground section - 0.38 km; - Overhead electric network disconnected - 0.40 km; - New underground Infra-structures - 0.00 km; - Public lighting luminaires - 2 units.

• Landscape integration of MV overhead electric lines network

The interventions in 2010, consisted fundamentally, in the replacement of MV overhead lines network into underground cables (through already existent cables or in construction), in demolishing of the substituted overhead electric lines and in recuperation of locations affected by implantation/ demolition of network equipments, in order to maintain the surround characteristic area. All planed interventions were fulfilled.

Application area

This procedure applies to 6 intervention areas, in several regional municipalities and comprises the MV electric lines network requalification.

Accomplishment in 2010

The forecasted and executed activities, in 2010, are presented as following:

Accomplished actions in 2010		
MV electric network lines requalification works	Prevision	Accomplishment
Section VI (PT Cova do Til/PT Lombada)	- Extension to be replaced - 0.63 km.	- Replaced extension – 0.70 km.
MV electric network improvment of Caminho de São Sebastião – Santa Cruz	- Overhead electric network to be disconnected - 0.17 km; - New underground Infra-structures - 0.33 km; - Section to be replaced New - 0,36 km.	- Overhead electric network disconnected - 0.17 km; - New underground Infra-structures - 0.34 km; - Replaced section - New 0.34 km.
MV electric network remodelation of ER 214 – Machico	- Overhead electric network to be disconnected - 0.705 km; - New underground extension - 0.87 km.	- Overhead electric network disconnected - 0.705 km; - New underground extension - 0.90 km.

Besides these 3 planed interventions for 2010, in anticipation, were also achieved parts of the other two works predicted to 2011, namely the installation of underground cables network, promoted by other public entities, profiting with a shared cost, concerning the following sections:

- IV Section (PT Santa Rita / PT P.Verde II);
- V Section (PT Santa Rita / PT Cova do Til).

Sharing costs by activity for the year 2010

The shared costs, by PPDA activity, for 2010, as well as the financial rate implementation are presented as follows:

Accomplished activities of the PPDA in 2010					
Measures	Forecasted	Accomplished	Change	Change %	Rate Realization %
Implementation of an Environmental Management System in EEM	56	56	-	0.1%	100.1%
Medium voltage electric lines network impact towards some endangered of bird-fauna	36	36	-	0.2%	100.2%
Diagnosis and minimization of the electric lines network impact in marine bird-fauna	21	21	-	(0.1%)	99.9%
Landscape integration of LV (low voltage) overhead line networks	118	119	(1)	1.2%	101.2%
Landscape integration of MV (medium voltage) overhead line networks	102	116	(14)	13.2%	113.2%
Total	334	349	(15)	4.5%	104.5%

The amount accomplished in 2010, exceeded the predicted value in 15.094 thousand Euros mainly due to the anticipation of two interventions of the landscape integration of MV overhead electric lines network, mentioned above.

Investments with environmental benefits

We are currently witnessing an energy paradigm scenario, deeply marked by the following facts:

- The world energy consumption is growing;
- The lack of raw materials has strongly raised the prices of fuel oil and CO₂ emissions licenses;
- The climate changes are the forefront of concerns and policies, globally.

The awareness that natural and financial resources are finite, associated with concerns about climate changes, requires an effort concentrated towards a society with lower carbon intensity.

The strategy outlined by the Autonomous Region settles in a prospective analysis of electric system evolution, has main objectives defined: the renewable resources maximization, the utilization of cleaner fuels and also promoting the energetic efficiency.

As a result of the accomplished projects concerning renewable energies, namely undertaken by the EEM Group, Madeira has already produced green energy enough to avoid the CO₂ annual emission of 170,7 thousand tons and the importation of 54,5 thousand tons of fuel oil.

Regarding this issue, it's important to point out that, in RAM, the renewable energy contribution, in 2010, reached 25.8% (in Madeira Island 26.3%). Clearly, following the path, properly planned, in which the Region aims to achieve by 2020, the target of 50.0% of electric energy production using renewable resources.

Therefore obvious, that the EEM Group has been implementing a development model, which ensures the sustainability of the regional electrical system, and simultaneously meets and overcomes, the best practices, recommendations and goals of the European Union, regarding environmental protection.

The EEM Group has planned several diversified investments with environmental contributions, which are detachable by the size, economic and environmental impact, the hydro/wind interventions field, the natural gas introduction in Madeira Island, the production of sea bio-fuel oil in Porto Santo Island, as well as the studies of the geothermal potential in Madeira Island, which are briefly described.

• **Hydroelectric energy – Enlargement of Calheta Hydroelectric Exploitation System**

This project consists in the enlargement of the actual Calheta Hydroelectric Exploitation System and in its transformation into a reversible function, through the storage reservoir, and water pumping system. Undertaken with, the construction of a storage reservoir in Ribeiro do Alecrim, near Pico da Urze, to create a storage lagoon, which combined with night pumping, enabling a suitable regularization with the power capacity enlargement of Paúl.

The project includes the execution and assembly of the following structures:

- Pico da Urze storage reservoir, in Paúl;
- Levada Velha enlargement, in Paúl;
- Levada do Paúl II enlargement;
- Restoring reservoir in Calheta - Lombo do Doutor;
- Improvement of the Levada do Lombo do Salão;
- New Calheta Hydroelectric Power Plant;
- Calheta Power Pumping System;
- Paúl Power Pumping System;
- Water penstock and/or Pumping System;
- Disconnected House of 11 kV.

The Calheta Hydroelectric Exploitation System enlargement has as goals, the following:

- To improve the renewable resources exploitation (hydro/wind);
- To reinforce the energy supply security, through clean energy sources;
- To reduce the fuel oil products dependence;
- To contribute for the climate changes objectives, through the CO₂ gas emissions reduction;
- To create a strategic water reserve, whose size allows a continuous exploration (non seasonal) of the Calheta Hydroelectric Power System;
- To allow a flow regularization caused by heavy rainfall, thus limiting the correspondent streams flows.

The optimization of endogenous resources exploitation, in which is integrated the hydro/wind association, namely this project, will be able to provide a 30 MW hydro power capacity, to assure the peak loads and to integrate 25 MW wind power, resulting in an increase of 90 GWh of renewable production, in an average year, avoiding 49.377 ton of CO₂ gas emissions. Additionally, the great lagoon reservoir capacity to be created in Paúl (1.000.000 m³), will enable some regularization of flows from heavy rainfalls, which are occurring frequently.

The studies and projects are almost finished, being planned that the works will begin in the first semester of 2011.

During 2010, projects were carried out for implementing the various components referred above, as well as the Environmental Impact Study.

The International Public Tender for the Pico da Urze Storage Reservoir was launched, but are still to be accomplished the tendering procedures for the remaining contracts.



The project was submitted to INTERVIR + Program (Operational Program for the Economic Potential Valuation and Territorial Cohesion of RAM), being expectable, that through its economic multiplied effect and obvious environmental benefits, will obtain significant non refundable funds from European Union.

• **Wind energy**

2010 was marked as the first year of full production, regarding the new wind power plants of Loiral and Pedras, allowing a significant increase (54.0%) in production of the ENEREEM's wind farms, in Madeira Island, when compared to the previous year. This excellent performance enabled to reach almost the double (4.0% in 2009 to 7.4% in 2010). of the wind penetration, in the energetic mix of the island. To be referred that this amount of wind energy penetration and integration level was possible, as these power plants are endowed with remote command and monitoring systems, and were operated by EEM's Dispatch Center to coordinate and optimize the renewables in the electric system.

It's through this direct interaction between ENEREEM and the Madeira's Electric Transport and Distribution Operator, EEM Group shows the commitment to increase, where technically possible, the penetration of renewable power capacity in the energy mix of the Autonomous Region of Madeira, thus materializing the economic and environmental sustainability of the electric system, one of the essential strategy vectors defined by the Vice-Presidency of Government, regarding regional energy policy. Indeed, the production of renewable energy through endogenous resources, contributes to reduce emissions of greenhouse gases, allows the decrease oil import derivatives, induces a multiplier effect on the economy, greatly profiting the Region, both in environmental and in socioeconomic terms.

Aiming to reinforce the EEM Group commitment, regarding renewable energies, ENEREEM launched, in 2010, an International Public Tender for the power capacity enlargement in 6 MW of the Loiral Wind Power Plant – designated as Loiral II Wind Power Plant, with an expected net production of 16.8 GWh/year. This new project will decrease the fuel oil utilization in 3.696 tons and CO₂ emissions in 11.382 tons, among others air pollutants.

Exploration data

In 2010, the 4 wind power plants owned by ENEREEM registered the following production values:

Madeira

The energy production of the 3 wind power plants, in Paúl da Serra, reached 41.801.069 kWh, presenting an increase of 57.8% comparatively to the previous year, assuring 60.8% of the total issued by this energy source, in the emission network grid of Madeira Island.

In environmental terms, the accounting of avoided emissions through the exploitation of these 3 wind plants reached to: 28.319 tons of CO₂, 139 tons of SO₂, 616 tons of NO_x and 8,6 tons of particles, avoiding the consumption of 9.196 tons of fuel oil.

Porto Santo

The production of the wind power plant, installed in Porto Santo Island, achieved 1.311.540 kWh, representing an increase of 11.5%, relatively to the previous year, caused by more favourable weather conditions.

The total emission, in Porto Santo Island, reached 1.946.054 kWh, representing 5.6% of the total electric energy production.

In environmental terms, the accounting of avoided emissions by the exploitation of this wind plant, amounted to: 520 tons of CO₂, 6,3 tons of SO₂, 27,9 tons of NO_x and 0,5 tons of particles, avoiding 457 tons of fuel oil consumption.

• Sea bio-fuel oil – CO₂ capture

In 2010, the EEM & BFS ENERGY, S.A. partnership promoted the Capture and CO₂ Biological Use Recovery Unit by Energetic Valuation project, to the Operational Program of Economic Potential and Territorial Cohesion of Autonomous Region of Madeira - INTERVIR+.

The Project, at a licensing stage, with an expected activity in June 2011, involves the installation of a bio-fuel power plant unit, in Porto Santo Island, with a production capacity of 17.000 ton/year of sea bio-fuel oil.

The industrial unit to be settled, has as main purpose the CO₂ capture and biological utilization, in order to obtain sea bio-fuel oil with physicochemical characteristics similar to the conventional fuel oil used in thermoelectric power plants in Autonomous Region of Madeira. Through this project, we intend to turn Porto Santo in a self sufficient island, concerning electric power energy, changing the total dependence on fuel oil for electric energy production.

It is an industrial unit, pioneer in the world, holder of an emerging energy, clean and sustainable to produce and transform micro seaweed into bio-fuel oil, assuring more capture than CO₂ produced, obtaining a reduction of 6.800.000 Euros/year in fuel oil import and avoiding an annual emission of 60.000 ton/CO₂. Through this innovative production process, we intend to achieve a higher penetration of clean energies superior to 90.0%, contributing for the creation of a new tourism brand image the “Porto Santo – Green Island”, a new technological cluster, as well as for an increase of employment.

• **GNL Project (liquefied natural gas)**

During 2010, were concluded the studies, projects and legislation adaptation to endow the introduction of natural gas in Madeira, obtaining as well, the industrial and environmental licenses. The International Public Tender for EPC (Engineering, Procurement and Construction) of the GNL terminal, in Madeira was concluded.

This project constitutes a structural measure with a very significant impact on development of the entire regional economy, contributing extraordinary to protect the environment, responding positively to the international established goals. It also allows the diversification of supply sources, which, facing the international partnership is an undeniable factor of safety.

In order to reveal the importance of this raw material introduction, we can take in account the following example: considering an annual production of 400 GWh natural gas (presenting circa 50.0% of the thermoelectric production in RAM, in 2010), an annual decrease of 156.000 tons of CO₂, 2.000 tons of SO₂, 680 tons of NO_x and 40 tons of particles, will be achieved.

The gradual fuel oil energy replacement, for cleaner and environmentally friendly alternatives, such as natural gas, the cleanest fossil fuel, is one of the strategic goals of the Regional Energy Policy. In this framework, the use for the electric sector is fundamental for the viability of this raw material introduction, creating simultaneously, conditions to provide natural gas to others sectors, namely industry, transports, hotels and residential, reinforcing the creation of a new cluster in an area recognized by its economical interest, contributing to achieve and even exceed the three-twenty targets, defined by European Union for 2020.

• **Geothermal potential**

The Action Plan for the Energetic Policy of the Regional Government of Madeira considers the geothermic energy an emergent technology. This source of clean, renewable, scalable and continuously available energy has been use in volcanic and non volcanic regions, where it contributes for the electric production or thermal waters exploitation. Madeira Island has geological potential, which should be studied from the viewpoint of a real geothermic potential, and consequently, its ability to become more environmentally sustainable.

The geothermic potential can be found near the surface or at a deeper level. In the case of deep geothermic resources (3 to 5 km) is also possible to produce electricity, including through the designated “stimulated geothermal systems”, which is the case expected to be applied in Madeira Island.

In this Framework, in 2010, in a close collaboration with the National Laboratory for Energy and Geology, studies of the geothermal potential in Madeira Island, were initiated and shall be undertaken until the end of 2012.

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 2010, 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)

EEM - Empresa de Electricidade da Madeira

Consolidated Balance Sheet as at 31 December 2010 and 2009

	Notes	2010 Euros	2009 Euros
Non-Current Assets			
Tangible assets	6	408,426,234	390,955,378
Intangible assets	7	8,657,563	8,339,777
Investments - Equity method	8	9,993,240	9,694,995
Investments - Other methods	9	7,729,188	9,497,448
Clients	10	27,840,999	29,198,042
Other receivables	11	26,341,979	13,771,300
Deferred tax assets	12	12,442,698	12,714,632
Total Non-Current Assets		501,431,901	474,171,572
Current Assets			
Inventories	14	16,448,837	14,066,707
Clients	10	75,476,747	68,784,721
Tax receivable	13	1,409,546	1,340,246
Shareholders	15	1,113,374	1,034,925
Other receivables	11	69,976,028	68,501,965
Deferrals	16	274,696	250,611
Cash and deposits at banks	4	1,059,953	786,428
Total Current Assets		165,759,181	154,765,603
Total Assets		667,191,082	628,937,175
Equity			
Share capital	17	20,000,000	20,000,000
Legal reserves	18	4,020,148	4,020,148
Other reserves		14,541,565	14,141,399
Retained earnings	19	48,453,977	43,088,061
Financial assets adjustments	20	623,562	326,087
Revaluation reserves	21	11,812,572	12,703,069
Other equity variations	22	26,021,916	29,258,050
Consolidated net profit for the period attributable to equity holders of EEM		4,823,412	6,050,207
Total Equity attributable to equity holders of EEM		130,297,152	129,587,021
Minority interests	23	222,058	151,110
Total Equity		130,519,210	129,738,131
Non-Current Liabilities			
Provisions	24	10,704,307	9,162,307
Financial debt	25	359,466,636	313,784,025
Employee benefits	26	25,827,208	27,914,734
Deferred tax liabilities	12	7,605,081	8,490,676
Total Non-Current Liabilities		403,603,232	359,351,742
Current Liabilities			
Suppliers	27	53,741,026	51,285,595
Tax payable	13	1,194,747	1,683,593
Financial debt	25	33,407,217	65,709,940
Other payables	28	38,979,760	16,847,273
Deferrals	16	550,000	-
Other financial liabilities	29	5,195,890	4,320,901
Total Current Liabilities		133,068,640	139,847,302
Total Liabilities		536,671,872	499,199,044
Total Equity and Liabilities		667,191,082	628,937,175

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 2010 and 2009

	Notes	2010 Euros	2009 Euros
Sales and services rendered	30	174,496,842	153,258,678
Operating government grants	31	201,034	-
Gains/(losses) on subsidiaries, associated companies and joint ventures	32	488,868	488,097
Own work capitalised	33	19,375,357	21,273,875
Cost of sales	30	(87,206,827)	(73,184,563)
Supplies and services	34	(15,371,735)	(16,979,667)
Personnel costs	35	(35,356,216)	(33,762,591)
Impairment of trade receivables (losses/reversals)	10	(1,587,489)	(1,147,067)
Provisions (charges/reversals)	24	(1,542,000)	(3,058,000)
Fair value gains/losses	36	(3,616,271)	(96,883)
Other gains	37	11,434,001	12,683,742
Other losses	38	(8,749,799)	(9,166,806)
Profit before depreciation, interest and income taxes		52,565,765	50,308,815
Losses/reversals of depreciation and amortisation	6 and 7	(34,052,674)	(33,288,119)
Operating profit (before interest and income taxes)		18,513,091	17,020,696
Interest and other income obtained	39	1,722,419	3,722,757
Interest and other losses supported	39	(15,575,572)	(14,745,504)
Profit before income taxes		4,659,938	5,997,949
Income taxes	40	236,151	78,046
Consolidated net profit for the period		4,896,089	6,075,995
Consolidated net profit for the period attributable to:			
Equity holders of EEM		4,823,412	6,050,207
Minority interests		72,677	25,788
		4,896,089	6,075,995
Earnings per share (Basic)		1.21	1.51

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 2010 and 2009

(Amounts expressed in Euros)

	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other equity variations	Net profit for the period	Total	Minority interests	Total Equity
Balance on 1 January 2009	1	20,000,000	4,020,148	13,765,396	57,809,397	319,302	13,825,999	65,690	3,760,029	113,565,961	115,609	113,681,570
Changes in the period:												
First-time adoption of the new accounting standards		-	-	-	(18,468,713)	-	-	32,200,839	-	13,732,126	11,441	13,743,567
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	1,122,930	-	(1,122,930)	-	-	-	-	-
Investments in associated companies adjustments		-	-	-	(6,785)	6,785	-	2,700	-	2,700	-	2,700
Government grants (net of taxes)		-	-	-	(752,794)	-	-	(3,011,179)	-	(3,763,973)	(1,728)	(3,765,701)
	2	-	-	-	(18,105,362)	6,785	(1,122,930)	29,192,360	-	9,970,853	9,713	9,980,566
Net profit for the period	3								6,050,207	6,050,207	25,788	6,075,995
Comprehensive income	4 = 2 + 3								6,050,207	16,021,060	35,501	16,056,561
Operations with equity holders during the period:												
Transfer of the net profit for the period		-	-	376,003	3,384,026	-	-	-	(3,760,029)	-	-	-
	5	-	-	376,003	3,384,026	-	-	-	(3,760,029)	-	-	-
Balance on 31 December 2009	6 = 1 + 2 + 3 + 5	20,000,000	4,020,148	14,141,399	43,088,061	326,087	12,703,069	29,258,050	6,050,207	129,587,021	151,110	129,738,131
Changes in the period:												
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	890,497	-	(890,497)	-	-	-	-	-
Investments in associated companies adjustments		-	-	-	(288,097)	297,475	-	(5,095)	-	4,283	-	4,283
Government grants (net of taxes)		-	-	-	(886,525)	-	-	(3,231,039)	-	(4,117,564)	(1,729)	(4,119,293)
	7	-	-	-	(284,125)	297,475	(890,497)	(3,236,134)	-	(4,113,280)	(1,729)	(4,115,010)
Net profit for the period	8								4,823,412	4,823,412	72,677	4,896,089
Comprehensive income	9 = 7 + 8								4,823,412	710,132	70,948	781,079
Operations with equity holders during the period:												
Transfer of the net profit for the period		-	-	400,166	5,650,041	-	-	-	(6,050,207)	-	-	-
	10	-	-	400,166	5,650,041	-	-	-	(6,050,207)	-	-	-
Balance on 31 December 2010	11 = 6 + 7 + 8 + 10	20,000,000	4,020,148	14,541,565	48,453,977	623,562	11,812,572	26,021,916	4,823,412	130,297,152	222,058	130,519,210

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Cash Flow Statement for the periods ended 31 December 2010 and 2009

	2010	2009
	Euros	Euros
Cash flows arising from operating activities		
Cash receipts from clients	173,814,979	165,209,329
Cash paid to suppliers	(92,376,542)	(78,305,231)
Payments to employees and pensioniers	(32,338,346)	(35,113,983)
Net cash from operations	49,100,091	51,790,115
Income tax received/(paid)	(2,084,405)	(406,076)
Other receipts/(payments)	1,270,865	5,565,368
Net cash from operating activities (1)	48,286,551	56,949,407
Cash flows arising from investing activities		
Cash payments relating to:		
Tangible assets	(46,060,835)	(63,828,471)
Intangible assets	(2,152,791)	(321,306)
Investments	(973,022)	(5,522,693)
Other assets	(78,449)	(74,959)
Cash receipts relating to:		
Tangible assets	1,000	-
Intangible assets	2,077,170	1,604,450
Government grants	225,396	731,819
Interest and other income	600,636	2,807,342
Dividends	722,447	868,938
Net cash from investing activities (2)	(45,638,448)	(63,734,880)
Cash flows arising from financing activities		
Cash receipts relating to:		
Loans obtained	61,040,919	43,988,490
Other financing activities	-	1,734,233
Cash payments relating to:		
Repayment of loans	(47,907,221)	(24,034,441)
Interest and similar costs	(15,356,232)	(15,117,155)
Other financing activities	(152,044)	-
Net cash from financing activities (3)	(2,374,578)	6,571,127
Net changes in cash and cash equivalents (1 + 2 + 3)	273,525	(214,346)
Cash and cash equivalents balance at the beginning of the period	786,428	1,000,774
Cash and cash equivalents balance at the end of the period	1,059,953	786,428

See accompanying notes to the Financial Statements

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

Balance Sheet as at 31 December 2010 and 2009

	Notes	2010 Euros	2009 Euros
Non-Current Assets			
Tangible assets	6	384,097,418	365,140,485
Intangible assets	7	8,646,055	8,332,952
Investments - Equity method	8	13,014,259	12,074,807
Investments - Other methods	9	7,729,188	9,497,448
Clients	10	27,840,999	29,198,042
Other receivables	11	26,341,979	13,771,300
Deferred tax assets	12	12,913,100	13,178,248
Total Non-Current Assets		480,582,998	451,193,282
Current Assets			
Inventories	14	16,410,217	14,027,307
Clients	10	75,391,424	68,707,177
Tax receivable	13	1,653,923	1,276,608
Shareholders	15	1,113,374	1,034,925
Other receivables	11	69,976,212	68,506,277
Deferrals	16	121,169	143,435
Cash and deposits at banks	4	946,601	759,587
Total Current Assets		165,612,920	154,455,316
Total Assets		646,195,918	605,648,598
Equity			
Share capital	17	20,000,000	20,000,000
Legal reserves	18	4,020,148	4,020,148
Other reserves		14,541,565	14,141,399
Retained earnings	19	45,207,412	40,359,263
Financial assets adjustments	20	2,130,740	1,571,332
Revaluation reserves	21	11,812,572	12,703,069
Other equity variations	22	25,842,938	29,055,547
Net profit for the period		4,860,171	5,817,898
Total Equity		128,415,546	127,668,656
Non-Current Liabilities			
Provisions	24	10,704,307	9,162,307
Financial debt	25	339,469,885	293,379,166
Employee benefits	26	25,827,208	27,914,734
Deferred tax liabilities	12	7,401,901	8,273,383
Total Non-Current Liabilities		383,403,301	338,729,590
Current Liabilities			
Suppliers	27	55,781,018	51,262,140
Tax payable	13	1,184,190	1,620,018
Shareholders	15	400,000	-
Financial debt	25	32,966,479	65,284,517
Other payables	28	38,849,494	16,762,776
Other financial liabilities	29	5,195,890	4,320,901
Total Current Liabilities		134,377,071	139,250,352
Total Liabilities		517,780,372	477,979,942
Total Equity and Liabilities		646,195,918	605,648,598

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 2010 and 2009

	Notes	2010 Euros	2009 Euros
Sales and services rendered	30	174,149,255	153,111,245
Operating government grants	31	201,034	-
Gains/(losses) on subsidiaries, associated companies and joint ventures	32	1,526,621	837,638
Own work capitalised	33	19,375,357	21,273,875
Cost of sales	30	(90,551,294)	(75,399,307)
Supplies and services	34	(14,974,628)	(16,681,730)
Personnel costs	35	(35,211,581)	(33,656,962)
Impairment of trade receivables (losses/reversals)	10	(1,587,489)	(1,145,878)
Provisions (charges/reversals)	24	(1,542,000)	(3,058,000)
Impairment of non-depreciable/amortisable investments (losses/reversals)	8	45,948	(290,386)
Fair value gains/losses	36	(3,616,271)	(96,883)
Other gains	37	11,369,720	12,664,395
Other losses	38	(8,721,532)	(9,130,144)
Profit before depreciation, interest and income taxes		50,463,140	48,427,863
Losses/reversals of depreciation and amortisation	6 and 7	(32,506,948)	(32,087,082)
Operating profit (before interest and income taxes)		17,956,192	16,340,781
Interest and other income obtained	39	1,722,419	3,621,447
Interest and other losses supported	39	(15,255,829)	(14,363,171)
Profit before income taxes		4,422,782	5,599,057
Income taxes	40	437,389	218,841
Net profit for the period		4,860,171	5,817,898

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 2010 and 2009

(Amounts expressed in Euros)

	Notes	Share Capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other equity variations	Net profile for the period	Total
Balance on 1 January 2009	1	20,000,000	4,020,148	13,765,396	57,052,643	1,141,746	13,825,999	-	3,760,029	113,565,961
Changes in the period:										
First-time adoption of the new accounting standards		-	-	-	(20,145,056)	141,104	-	32,048,295	-	12,044,343
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	1,122,930	-	(1,122,930)	-	-	-
Investments in associated companies adjustments		-	-	-	(307,093)	288,482	-	-	-	(18,611)
Government grants (net of taxes)		-	-	-	(748,187)	-	-	(2,992,748)	-	(3,740,935)
	2	-	-	-	(20,077,406)	429,586	(1,122,930)	29,055,547	-	8,284,797
Net profit for the period	3								5,817,898	5,817,898
Comprehensive income	4 = 2 + 3								5,817,898	14,102,695
Operations with equity holders during the period:										
Transfer of the net profit for the period		-	-	376,003	3,384,026	-	-	-	(3,760,029)	-
	5	-	-	376,003	3,384,026	-	-	-	(3,760,029)	-
Balance on 31 December 2009	6 = 1 + 2 + 3 + 5	20,000,000	4,020,148	14,141,399	40,359,263	1,571,332	12,703,069	29,055,547	5,817,898	127,668,656
Changes in the period:										
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	890,497	-	(890,497)	-	-	-
Investments in associated companies adjustments		-	-	-	(576,435)	559,408	-	-	-	(17,027)
Government grants (net of taxes)		-	-	-	(883,645)	-	-	(3,212,609)	-	(4,096,254)
	7	-	-	-	(569,583)	559,408	(890,497)	(3,212,609)	-	(4,113,281)
Net profit for the period	8								4,860,171	4,860,171
Comprehensive income	9 = 7 + 8								4,860,171	746,890
Operations with equity holders during the period:										
Transfer of the net profit for the period		-	-	400,166	5,417,732	-	-	-	(5,817,898)	-
	10	-	-	400,166	5,417,732	-	-	-	(5,817,898)	-
Balance on 31 December 2010	11 = 6 + 7 + 8 + 10	20,000,000	4,020,148	14,541,565	45,207,412	2,130,740	11,812,572	25,842,938	4,860,171	128,415,546

See accompanying notes to the Financial Statements



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

Cash Flow Statement for the periods ended 31 December 2010 and 2009

	2010	2009
	Euros	Euros
Cash flows arising from operating activities		
Cash receipts from clients	172,875,270	165,494,446
Cash paid to suppliers	(93,924,192)	(81,023,851)
Payments to employees and pensioniers	(32,192,931)	(35,018,989)
Net cash from operations	46,758,147	49,451,606
Income tax received/(paid)	(2,103,244)	(173,369)
Other receipts/(payments)	1,755,109	5,970,983
Net cash from operating activities (1)	46,410,012	55,249,220
Cash flows arising from investing activities		
Cash payments relating to:		
Tangible assets	(45,773,993)	(57,825,199)
Investments assets	(2,152,791)	(321,307)
Investments	(973,022)	(5,522,691)
Cash receipts relating to:		
Tangible assets	1,000	-
Intangible assets	2,037,270	1,604,450
Other assets	87,640	142,805
Government grants	225,396	731,819
Interest and other income	600,636	2,706,032
Dividends	722,447	868,938
Net cash from investing activities (2)	(45,225,417)	(57,615,153)
Cash flows arising from financing activities		
Cash receipts relating to:		
Loans obtained	61,458,234	39,932,490
Other financing activities	-	734,354
Cash payments relating to:		
Repayment of loans	(47,249,114)	(23,626,332)
Interest and similar costs	(15,054,655)	(14,695,671)
Other financing activities	(152,046)	-
Net cash from financing activities (3)	(997,581)	2,344,841
Net changes in cash and cash equivalents (1 + 2 + 3)	187,014	(21,092)
Cash and cash equivalents balance at the beginning of the period	759,587	780,679
Cash and cash equivalents balance at the end of the period	946,601	759,587

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Notes to the Financial Statements 31 December 2010 and 2009

Annex to Financial Statements

I 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, exercised by the Regulatory Agency for Energy Services (ERSE), for the activities of generation, transport, distribution and commercialisation of electric energy. During 2002, ERSE adjusted the regulatory framework for the electric sector, namely the Tariff Regulation, in order to extend its application to the Autonomous Regions, seeking a progressive standardization of tariffs in Portugal starting 1 January 2003, under the principles of tariff convergence and electric companies financial stability. Therefore, the tariffs applied by EEM since 1 January 2003 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 5 to the financial statements.

2 Accounting standards applied in the financial statements

2.1 EEM's financial statements were prepared according with "Sistema de Normalização Contabilística" (SNC), as required by Decree-Law no. 158/2009, of 13 July. SNC is composed by "Bases para a Apresentação de Demonstrações Financeiras" (BADF), "Modelo de Demonstrações Financeiras" (MDF), "Código de Contas" (CC), "Normas Contabilísticas e de Relato Financeiro" (NCRF), "Normas Interpretativas" (NI) and "Estrutura Conceptual".

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 23 May 2011. 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 understandability, relevance, materiality, reliability, faithful representation, substance over form, neutrality, prudence, completeness and comparability.

These are the first financial statements prepared in accordance with SNC, in accordance with "NCRF 3 – Adopção pela primeira vez das Normas Contabilísticas e de Relato Financeiro". The accounting policies, presented in Note 3, were used in the preparation of the financial statements for the period ended 31 December 2010 and for the comparative financial information presented in these financial statements for the period ended 31 December 2009, as well as in determining the transition adjustments with reference to 1 January 2009.

2.2 There were not exceptions to SNC disposals.

2.3 There are not balance sheet and income statement accounts whose contents are not comparable with the previous period.

2.4 In accordance with NCRF 3, the financial statements include comparable information with reference to 31 December 2009, prepared according to SNC.

When preparing the financial statements as at 31 December 2010 and in the determination of the transition adjustments, EEM decided to apply the rules established in NCRF 3, mainly regarding the exemptions for the application of fair value or revaluation as the deemed cost considered for tangible and intangible assets.

NCRF 3 prohibits retrospective application of the following matters and therefore the 2009 figures presented in accordance with "Plano Oficial de Contabilidade" (POC) were not subject to changes: (i) derecognition of financial assets and financial liabilities; and (ii) estimates.

The impacts on EEM's consolidated financial statements of the transition from POC to SNC are detailed as follows:

	Euros
Equity according to POC as at 1 January 2009*	113,565,961
Adjustments made to equity as at 1 January 2009*	
1. Intangible assets derecognition	(103,796)
2. Valuation of equity instruments of other entities	(341,506)
3. Application of the effective interest rate method to client receivables and impairment losses	(18,275,259)
4. Tariff convergence 1998-2002	(262,949)
5. Grants obtained	32,200,839
6. Deferred tax related to non-deductable provisions	7,033,966
7. Employee benefits	(4,134,009)
8. Application of the effective interest rate method to financial debt	106,968
9. Valuation of derivative financial instruments	(2,480,797)
Other adjustments	(11,331)
Equity according to NCRF as at 1 January 2009*	127,298,087

*Excluding minority interests

	Euros
Equity according to POC as at 31 December 2009*	117,570,326
Adjustments made to equity as at 31 December 2009*	
1. Intangible assets derecognition	(221,358)
2. Valuation of equity instruments of other entities	556,911
3. Application of the effective interest rate method to client receivables and impairment losses	(18,271,478)
4. Tariff convergence 1998-2002	(928,106)
5. Grants obtained	29,175,340
6. Deferred tax related to non-deductable provisions	7,400,075
7. Employee benefits	(2,756,007)
8. Application of the effective interest rate method to financial debt	115,146
9. Valuation of derivative financial instruments	(3,456,721)
10. Customer contributions (IFRIC 18)	400,250
Other adjustments	2,643
Equity according to NCRF as at 31 December 2009*	129,587,021

*Excluding minority interests

- I. In accordance with NCRF 6, an intangible asset should only be recognised if: (i) is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow; (ii) is an identifiable non-monetary item (separable from other assets or that results from contractual or legal rights) without physical substance; and (iii) the cost of the asset can be measured reliably.

EEM derecognised as at 1 January 2010, intangible assets of 221,358 Euros (1-Jan-2009: 103,796 Euros). This amount is mainly related to studies of health and safety at work and the impact of the electric energy distribution networks in the environment, which do not meet the recognition criteria referred above.

2. In accordance with NCRF 27, investments regarding which EEM does not exercise control or significant influence should be recorded at fair value through the profit or loss. This valuation method should be adopted for the equity instruments with public available market prices or whose fair value can be determined based on other valuation techniques. However, if that fair value can not be reasonably measured, those investments should be recorded at cost less impairment losses.

Under the transition process, EEM performed the revaluation of the equity instruments of other entities against equity (negative impact of 341,506 Euros) and recorded the change in fair value during the year ended 31 December 2009, of 898,417 Euros, against the income statement for the year 2009 (positive cumulative impact on equity of 556,911 Euros).

3. In accordance with NCRF 27, receivables from customers are financial instruments that should be measured at cost or amortised cost (using the effective interest rate method), less impairment losses. Under this standard, an entity should assess at each balance sheet date the impairment of all financial assets that are not measured at fair value through profit and loss. If there is an objective evidence of impairment, the entity should recognise an impairment loss in the income statement.

Under the transition process, the impairment losses related to receivables from customers were determined based on the difference between the assets carrying amount and the present value of future cash flows, estimated based on the original effective interest rate.

Considering the profile of EEM's clients, essentially regional official entities, and the fact that there is an expectation of receiving the amounts owed by those entities gradually and without interest, it was identified a loss associated to the deferral of the receipt. Therefore, EEM has recognised, against equity, a loss of 18,271,478 Euros (1-Jan-2009: 18,275,259 Euros).

4. During April 2003, it was signed the contract concerning the Tariffs Convergence for Electric Energy between EEM, the Government of the Autonomous Region of Madeira and the Central Government. This contract establishes the rules regarding the payment to EEM of the amounts relating to the tariff reduction from 1998 to 2002, revoking the previous agreement and keeping, in essence, the compensation calculation methodology for the tariff reduction for the referred period. As at 1 January 2010, EEM presented in its financial statements, prepared in accordance with the previous accounting standards, an amount of 18,086,822 Euros, to be received in quarterly installments without interest until 31 December 2013.

In accordance with NCRF 27, these amounts should be initially booked at fair value and subsequently at amortised cost. Under the transition process, EEM recognised against equity the effects of the present value calculation for future installments and interest for past installments. The impact of this adjustment is negative by 928,106 Euros (1-Jan-09: negative impact of 262,949 Euros).

5. In accordance with NCRF 22, government grants should only be recognised when there is reasonable assurance that (i) the entity will fulfill the grant conditions; and (ii) the grants will be received. Non-refundable government grants related to depreciable tangible assets and intangible assets with a defined useful life should be initially recognised in equity and subsequently charged on a systematic basis as income over the periods necessary to match them with the expenses that are intended to compensate.

Therefore, EEM performed the reclassification of government grants and recorded the respective deferred tax against equity in the amount of 29,175,340 Euros (1-Jan-2009: 32,200,839 Euros).

These grants include amounts related to (i) works performed by customer request and invoiced to them; and (ii) payments made by customers on behalf of several works on the distribution network. EEM has adopted an accounting treatment consistent with that adopted for non-refundable government grants, considering that amounts invoiced are only attributable to the process of connecting to the network and are not refundable under any scenario.

6. Under NCRF 25, a deferred tax asset should be recognised for all deductible temporary differences, whenever it is probable the existence of future taxable profits that allow the use of those differences and the consequent tax recovery. For recognised liabilities, namely provisions for pensions and other liabilities and charges, is inherent on the recognition that the carrying amount will be liquidated in the future through an outflow of resources incorporating economic benefits. On this basis, those liabilities are only included in the taxable income calculation when the payments to settle them are performed, being recognised the corresponding deferred tax asset.

Under the transition process to NCRF, EEM has booked deferred tax assets of 7,400,075 Euros (1-Jan-09: 7,033,966 Euros), referring to non-deductable provisions.

7. In accordance with Accounting Rule no. 19, applied until 31 December 2009, the liabilities arising from past service costs of employees still on duty on the date of transition to this standard were being deferred over the average remaining service period of the employees under the plan. This deferral results from the transitional provisions of Accounting Rule no. 19 and not from the introduction of a defined benefit plan or changes to the existing benefits, therefore, EEM has made an adjustment against retained earnings of 2,756,007 Euros (1-Jan-09: 4,134,009 Euros).
8. Under NCRF 27, EEM should record the financial debt at amortised cost based on the effective interest rate method. On this basis, EEM calculated the effect of applying this method, booking it against equity in the amount of 115,146 Euros (1-Jan-09: 106,968 Euros).

9. Derivative financial instruments should be classified, for accounting purposes, in accordance with NCRF 27 and should be booked, at each balance sheet date, at fair value against profit or loss, except when hedge accounting is applied.

EEM agreed, in previous years, derivative financial instruments (swaps and options) to hedge its exposure to the interest rate risk associated to its portfolio of bank loans in order to reduce the variability of their financial charges. Despite these financial instruments have been hired to cover the risk of interest rate, EEM did not adopted hedge accounting, and recorded at the transition date a negative fair value for these financial instruments against equity, in the amount of 3,456,721 Euros (1-Jan-09: negative fair value of 2,480,797 Euros).

10. The transfers of assets from customer occurred after 1 January 2009 were, considering the supplementary recourse to IFRS due to the NCRF gap, accounted under the IFRIC 18 - Transfers of Assets from Customers disposals (early adoption at that date). The fact that users of the energy distribution network that transfer the assets to EEM pay the same price by the use of the network than the users who did not transfer any asset, indicates that the obligation to provide continuous access to the network is not a service separately identifiable in the transaction. Therefore, connecting a customer to the network is the only service rendered in return of the assets, by which revenue should be entirely recognised in profit and loss on the asset transfer date. Additionally, the revenue associated to the transaction should be recognised by the amount paid by customers, which is the best indicator of the asset fair value at the transaction date.

Considering the above mentioned, EEM has recognised the transfers of assets from customer since 1 January 2009 against the net profit for the period of 2009 (presented for comparative purposes), in the amount of 400,250 Euros.

The reconciliation of the consolidated net profit for the period reported under POC with the consolidated net profit for the period according to NCRF for the period ended 31 December 2009, is presented as follows:

	Euros
Net profit for the period 2009 according to POC*	4,001,665
Adjustments made to profit and loss balances for the period ended in 31 December 2009*	
1. Intangible assets derecognition	(117,562)
2. Valuation of equity instruments of other entities	898,417
3. Application of the effective interest rate method to client receivables and impairment losses	3,781
4. Tariff convergence 1998-2002	(665,157)
5. Grants obtained	748,187
6. Deferred tax related to non-deductable provisions	366,109
7. Employee benefits	1,378,002
8. Application of the effective interest rate method to financial debt	8,178
9. Valuation of derivative financial instruments	(975,924)
10. Customer contributions (IFRIC 18)	400,250
Other adjustments	4,261
Net profit for the period 2009 according to NCRF*	6,050,207

*Excluding minority interests

The transition of POC to SNC had the following impacts on the individual financial statements of EEM:

	Euros
Equity according to POC as at 1 January 2009	113,565,961
Adjustments made to equity as at 1 January 2009	
1. Intangible assets derecognition	(103,796)
2. Valuation of equity instruments of other entities	(341,506)
3. Application of the effective interest rate method to client receivables and impairment losses	(18,275,259)
4. Tariff convergence 1998-2002	(262,949)
5. Grants obtained	32,048,295
6. Deferred tax related to non-deductable provisions	7,033,966
7. Employee benefits	(4,134,009)
8. Application of the effective interest rate method to financial debt	106,968
9. Valuation of derivative financial instruments	(2,480,797)
11. Investments in affiliates and application of the equity method	(1,546,570)
Equity according to NCRF as at 1 January 2009	125,610,304

	Euros
Equity according to POC as at 31 December 2009	117,570,326
Adjustments made to equity as at 31 December 2009	
1. Intangible assets derecognition	(221,358)
2. Valuation of equity instruments of other entities	556,911
3. Application of the effective interest rate method to client receivables and impairment losses	(18,271,478)
4. Tariff convergence 1998-2002	(928,106)
5. Grants obtained	29,055,547
6. Deferred tax related to non-deductable provisions	7,400,075
7. Employee benefits	(2,756,007)
8. Application of the effective interest rate method to financial debt	115,147
9. Valuation of derivative financial instruments	(3,456,721)
10. Customer contributions (IFRIC 18)	400,250
11. Investments in affiliates and application of the equity method	(1,795,930)
Equity according to NCRF as at 31 December 2009	127,668,656

11. In EEM's individual financial statements, the loans granted to subsidiaries and associated companies should be analysed in accordance with NCRF 27. Under this standard, these loans should be recorded at amortised cost if they fulfill the following conditions: (i) are repayable on demand or have a defined maturity date; (ii) the return is a fixed amount or calculated by the application of a fixed interest rate or a variable interest rate based on market benchmarks; and (iii) do not contain any clause that could result in the loss of nominal value and accrued interest.

EEM funds its subsidiaries through interest-free loans and without a defined maturity date, which are booked at their nominal value. In accordance with NCRF 27, EEM should record the loans that are interest-free and which have no defined maturity date as an equity instruments (financial investment in the subsidiary), which should be subject to an impairment test at each balance sheet date.

Under the previous accounting standards EEM recorded, in its individual financial statements, the financial investments in subsidiaries by the equity method. Therefore, there is no impact arising from the application of NCRF 15, except for the effects arising from the conversion to SNC of the financial statements of EEM's subsidiaries.

The aggregated effect of this adjustment in equity is negative by 1,795,930 Euros (1-Jan-09: 1,546,570 Euros).

The reconciliation of the individual net profit for the period reported under POC with the individual net profit for the period according to NCRF for the period ended 31 December 2009 is presented as follows:

	Euros
Net profit for the period 2009 according to POC	4,001,665
Adjustments made to profit and loss balances for the period ended in 31 December 2009	
1. Intangible assets derecognition	(117,562)
2. Valuation of equity instruments of other entities	898,417
3. Application of the effective interest rate method to client receivables and impairment losses	3,781
4. Tariff convergence 1998-2002	(665,157)
5. Grants obtained	748,187
6. Deferred tax related to non-deductable provisions	366,109
7. Employee benefits	1,378,002
8. Application of the effective interest rate method to financial debt	8,179
9. Valuation of derivative financial instruments	(975,924)
10. Customer contributions (IFRIC 18)	400,250
11. Investments in affiliates and application of the equity method	(228,049)
Net profit for the period 2009 according to NCRF	<u>5,817,898</u>

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 financial statements

The consolidated financial statements as at 31 December 2010 and 2009 reflect the assets, liabilities and results of EEM and its subsidiaries, Museu – Casa da Luz, Emacom and Enereem (see Note 5), and the results attributable to EEM from its associated companies. These accounting policies were consistently applied in all companies.

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 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 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.

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

Subsequent costs are recognised as Tangible 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 assets is calculated on a straight-line basis over their estimated useful lives, after deducting the residual value, as follows:

	<u>No. of years</u>
Buildings	10 to 50
Basic equipment	3 to 33
Transport equipment	4 to 6
Office equipment	4 to 16
Other equipment	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 costs 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:

- the technical feasibility to complete the intangible asset so that it will be available for use or sale;
- the 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;
- 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

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 installments.

Installments 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 everytime 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 after the year to which they relate (Social Security: 5 years).

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

Current tax is the tax expected to be paid based on the taxable profit for the 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; (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

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 with tangible and intangible fixed assets are, initially, recognised against shareholders' equity and, subsequently, charged as income over the periods needed to offset the costs incurred. Subsidies are recorded on a cash basis.

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 commercialization of electric energy and are determined by the application of the rules defined in the tariff convergence process.

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

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 capitalizations 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 are recognised in income statement when there is reasonable assurance that the amounts will be received.

I) 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) Employees 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 – Employees 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; and (iv) the effect of early retirements.

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

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 accruals 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, disposals 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 recognized 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.

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 measures the financial instruments at their amortised cost, net of impairment losses, when they fulfill 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;
- does 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 interests, 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 remeasured on a regular basis, being the gains or losses on remeasurement 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) Events occurred after the balance sheet date

The presented financial statements reflect subsequent events occurred until 23 May 2011, date in which the Board of Directors approve them, as mentioned in Note 45. 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 45.

3.3 Critical accounting estimates and judgments in preparing the financial statements

NCRF require the use of judgment and the making of 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 estimated 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 booked in 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.

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.

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, for a period of four and six years (four annual periods starting from 2010), in case of tax losses carried forward. 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 2010 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 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Current bank deposits	1,059,427	785,380	946,127	758,722
Cash and cash equivalents	526	1,048	474	865
	<u>1,059,953</u>	<u>786,428</u>	<u>946,601</u>	<u>759,587</u>

5 Consolidation perimeter

The subsidiaries consolidated under the full consolidation method as at 31 December 2010 are as follows:

Designation	Head office	Share capital	Total assets	Total liabilities	Total equity	(amounts expressed in Euros)		
						Sales and services rendered	Net profit for the period	% Group
Casa da Luz - Empreendimentos Turísticos Similares, Unipessoal, Lda.	Funchal	99,760	2,441,021	2,032,065	408,956	89,027	10,562	100.00%
Enereem - Energias Renováveis, Lda.	Funchal	49,880	23,950,292	20,989,513	2,960,779	3,345,247	969,030	92.50%
Emacom - Telecomunicações da Madeira, Unipessoal, Lda.	Funchal	49,880	1,109,289	643,795	465,494	630,045	203,515	100.00%

The associated companies consolidated under the equity consolidation method as at 31 December 2010 are as follows:

Designation	Head office	Share capital	Total assets	Total liabilities	Total equity	(amounts expressed in Euros)		
						Sales and services rendered	Net profit for the period	% Group
Teleféricos da Madeira, S.A.	Funchal	250,000	7,111,193	2,025,027	5,086,166	5,014,546	2,473,896	20.00%
EEM & BFS – Energy, S.A.	Funchal	6,000,000	12,600,000	63,984	12,536,016	-	(16,777)	40.00%

During the period ended 31 December 2010 there were no transactions related to the acquisition and/or disposal of interests in the companies listed above.

6 Tangible assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gross amount:				
Land	6,422,029	6,422,029	6,422,029	6,422,029
Buildings	195,828,245	193,978,329	192,617,251	190,768,077
Basic equipment	571,484,066	524,688,300	544,363,912	497,595,788
Transport equipment	209,215	226,374	165,102	182,261
Office equipment	7,434,039	6,962,155	7,292,116	6,822,121
Other	2,853,122	2,712,755	2,853,122	2,712,755
Art	63,295	68,390	-	-
Work in progress	15,538,207	20,980,557	15,505,442	20,980,557
	<u>799,832,218</u>	<u>756,038,889</u>	<u>769,218,974</u>	<u>725,483,588</u>
Accumulated depreciation and impairment losses:				
Related to the period	(26,879,442)	(25,073,157)	(25,335,422)	(23,873,826)
Related to previous periods	(364,526,542)	(340,010,354)	(359,786,134)	(336,469,277)
	<u>(391,405,984)</u>	<u>(365,083,511)</u>	<u>(385,121,556)</u>	<u>(360,343,103)</u>
Net amount	<u>408,426,234</u>	<u>390,955,378</u>	<u>384,097,418</u>	<u>365,140,485</u>

The movements in Tangible assets for the Group, during 2010, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	193,978,329	13,950	-	-	1,835,966	195,828,245
Basic equipment	524,688,300	14,361,046	-	(556,868)	32,991,588	571,484,066
Transport equipment	226,374	-	-	(17,159)	-	209,215
Office equipment	6,962,155	229,796	-	-	242,088	7,434,039
Other	2,712,755	89,572	-	-	50,795	2,853,122
Art	68,390	5,650	-	(10,745)	-	63,295
Work in progress	20,980,557	30,597,146	-	-	(36,039,496)	15,538,207
	<u>756,038,889</u>	<u>45,297,160</u>	<u>-</u>	<u>(584,772)</u>	<u>(919,059)</u>	<u>799,832,218</u>
Accumulated depreciation and impairment losses:						
Buildings	(73,827,545)	(5,200,866)	-	-	-	(79,028,411)
Basic equipment	(282,801,932)	(21,154,087)	-	539,810	-	(303,416,209)
Transport equipment	(177,081)	(23,021)	-	17,159	-	(182,943)
Office equipment	(6,300,383)	(370,628)	-	-	-	(6,671,011)
Other	(1,976,570)	(130,840)	-	-	-	(2,107,410)
	<u>(365,083,511)</u>	<u>(26,879,442)</u>	<u>-</u>	<u>556,969</u>	<u>-</u>	<u>(391,405,984)</u>
Net amount	<u>390,955,378</u>					<u>408,426,234</u>

The acquisitions for the period refer, mainly, to the acquisition of equipment for “Central Térmica da Vitória” (CTV III), in the amount of 19,063,758 Euros, infrastructure reconstruction works carried out following the February 2010’s intemperie, in the amount of 8,276,572 Euros, and improvements in the energy transport and distribution networks in the amount of 8,373,583 Euros.

The transfers from the Work in progress caption to other captions in tangible assets reflect, mainly, the conclusion of the construction of “Central Térmica da Vitória” (CTV III), with the start up of 18 and 19 Groups operation, in the amount of 23,225,077 Euros, and the steam turbine, in the amount of 5,250,125 Euros.

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

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Land	6,009,176	306,692	-	-	106,161	6,422,029
Buildings	187,651,078	46,863	-	-	6,280,388	193,978,329
Basic equipment	456,958,586	17,436,799	-	-	50,292,915	524,688,300
Transport equipment	213,374	13,000	-	-	-	226,374
Office equipment	4,316,230	1,832,899	-	-	813,026	6,962,155
Other	2,165,119	62,929	-	-	484,707	2,712,755
Art	65,690	2,700	-	-	-	68,390
Work in progress	41,274,118	37,683,636	-	-	(57,977,197)	20,980,557
	<u>698,653,371</u>	<u>57,385,518</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>756,038,889</u>
Accumulated depreciation and impairment losses:						
Buildings	(68,738,300)	(5,089,245)	-	-	-	(73,827,545)
Basic equipment	(263,128,388)	(19,673,544)	-	-	-	(282,801,932)
Transport equipment	(154,061)	(23,020)	-	-	-	(177,081)
Office equipment	(6,143,751)	(156,632)	-	-	-	(6,300,383)
Other	(1,845,854)	(130,716)	-	-	-	(1,976,570)
	<u>(340,010,354)</u>	<u>(25,073,157)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(365,083,511)</u>
Net amount	<u>358,643,017</u>					<u>390,955,378</u>

The movements in Tangible assets for the Company, during 2010, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	190,768,077	13,208	-	-	1,835,966	192,617,251
Basic equipment	497,595,788	14,333,404	-	(556,868)	32,991,588	544,363,912
Transport equipment	182,261	-	-	(17,159)	-	165,102
Office equipment	6,822,121	227,907	-	-	242,088	7,292,116
Other	2,712,755	89,572	-	-	50,795	2,853,122
Work in progress	20,980,557	30,564,381	-	-	(36,039,496)	15,505,442
	<u>725,483,588</u>	<u>45,228,472</u>	<u>-</u>	<u>(574,027)</u>	<u>(919,059)</u>	<u>769,218,974</u>
Accumulated depreciation and impairment losses:						
Buildings	(72,695,060)	(5,099,591)	-	-	-	(77,794,651)
Basic equipment	(279,309,698)	(19,737,079)	-	539,810	-	(298,506,967)
Transport equipment	(158,275)	(11,993)	-	17,159	-	(153,109)
Office equipment	(6,203,466)	(355,920)	-	-	-	(6,559,386)
Other	(1,976,604)	(130,839)	-	-	-	(2,107,443)
	<u>(360,343,103)</u>	<u>(25,335,422)</u>	<u>-</u>	<u>556,969</u>	<u>-</u>	<u>(385,121,556)</u>
Net amount	<u>365,140,485</u>					<u>384,097,418</u>

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

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Land	6,009,176	306,692	-	-	106,161	6,422,029
Buildings	184,511,689	35,081	-	-	6,221,307	190,768,077
Basic equipment	451,151,665	16,674,624	-	-	29,769,499	497,595,788
Transport equipment	182,261	-	-	-	-	182,261
Office equipment	4,196,618	1,812,477	-	-	813,026	6,822,121
Other	2,165,119	62,929	-	-	484,707	2,712,755
Work in progress	22,008,017	36,367,240	-	-	(37,394,700)	20,980,557
	<u>670,224,545</u>	<u>55,259,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>725,483,588</u>
Accumulated depreciation and impairment losses:						
Buildings	(67,707,024)	(4,988,036)	-	-	-	(72,695,060)
Basic equipment	(260,700,090)	(18,609,608)	-	-	-	(279,309,698)
Transport equipment	(146,282)	(11,993)	-	-	-	(158,275)
Office equipment	(6,058,955)	(144,511)	-	-	-	(6,203,466)
Other	(1,856,926)	(119,678)	-	-	-	(1,976,604)
	<u>(336,469,277)</u>	<u>(23,873,826)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(360,343,103)</u>
Net amount	<u>333,755,268</u>					<u>365,140,485</u>

During the years ended 31 December 2010 and 2009, capitalised under the caption Tangible assets the following amounts:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Own work capitalised:				
Tangible assets:				
Materials	4,546,327	5,590,787	4,546,327	5,590,787
Supplies and services	5,619,579	7,110,115	5,619,579	7,110,115
Personnel	3,240,135	3,589,500	3,240,135	3,589,500
Other	45,140	84,697	45,140	84,697
	<u>13,451,181</u>	<u>16,375,099</u>	<u>13,451,181</u>	<u>16,375,099</u>
Work in progress:				
Materials	1,003,753	808,387	1,003,753	808,387
Supplies and services	2,689,076	2,727,495	2,689,076	2,727,495
Personnel	1,771,979	1,194,045	1,771,979	1,194,045
Other	36,237	84,905	36,237	84,905
	<u>5,501,045</u>	<u>4,814,832</u>	<u>5,501,045</u>	<u>4,814,832</u>
	<u>18,952,226</u>	<u>21,189,931</u>	<u>18,952,226</u>	<u>21,189,931</u>

During 2010, the expenses incurred with these assets amounted to 18,952,226 Euros (2009: 21,189,931 Euros), being the corresponding income recorded in the income statement under the caption Own work capitalised.

During the period were capitalised in this caption and recorded as environmental expenditures the amounts of 1,680,182 Euros and 1,007,294 Euros, respectively.

During the period were capitalised in this caption borrowing costs in the amount of 1,081,055 Euros, considering a capitalization rate of 4.04% (see Note 39).

7 Intangible assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gross amount:				
Software	16,962,699	14,832,648	16,946,072	14,822,411
CO2 licenses	6,560,851	7,128,641	6,560,851	7,128,641
Industrial property and other rights	146,538	117,408	146,538	117,408
	<u>23,670,088</u>	<u>22,078,697</u>	<u>23,653,461</u>	<u>22,068,460</u>
Accumulated amortization and impairment losses:				
Related to the period	(7,173,232)	(8,214,962)	(7,171,526)	(8,213,256)
Related to previous periods	(7,839,293)	(5,523,958)	(7,835,881)	(5,522,252)
	<u>(15,012,525)</u>	<u>(13,738,920)</u>	<u>(15,007,407)</u>	<u>(13,735,508)</u>
Net amount	<u>8,657,563</u>	<u>8,339,777</u>	<u>8,646,055</u>	<u>8,332,952</u>

The movements in this balance for the Group, during 2010, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Software	14,832,648	1,240,122	-	-	889,929	16,962,699
CO2 licenses	7,128,641	7,408,285	-	(7,976,075)	-	6,560,851
Industrial property and other rights	117,408	-	-	-	29,130	146,538
	<u>22,078,697</u>	<u>8,648,407</u>	<u>-</u>	<u>(7,976,075)</u>	<u>919,059</u>	<u>23,670,088</u>
Accumulated amortization and impairment losses:						
Software	(7,832,580)	(2,494,794)	-	-	-	(10,327,374)
CO2 licenses	(5,899,627)	(4,671,968)	-	5,899,627	-	(4,671,968)
Industrial property and other rights	(6,713)	(6,470)	-	-	-	(13,183)
	<u>(13,738,920)</u>	<u>(7,173,232)</u>	<u>-</u>	<u>5,899,627</u>	<u>-</u>	<u>(15,012,525)</u>
Net amount	<u>8,339,777</u>					<u>8,657,563</u>

The acquisitions of Software refer, mainly, to the register and characterization of the electric network in the integrated management system of the electric network of the Autonomous Region of Madeira (SIT), as well as to the development made in the informatic systems of EEM related with the application of the new accounting framework SNC.

EEM recorded in the caption CO2 licenses, as at 1 January 2010, 7,408,285 Euros related to the CO2 licenses freely attributed in 2010 by Instituto do Ambiente (577,419 tons of Emission Unit Allowance: EUA).

The reduction in the caption CO2 licenses includes 5,899,627 Euros related to the licenses delivered concerning the 2009 consumptions (402,980 tons of EUA), as referred in Note 42.

Additionally, during this period, EEM performed several operations under which sold 150,000 tons of EUA by 2,037,270 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 (39,178 Euros including 15,000 Euros of commissions: see Note 42) and of the subsidy associated to the EUA freely attributed that were sold (2,076,448 Euros: see Note 37). Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to 21,636 Euros (including the effect of the Tariff compensation of 2010 in the income statement).

The depreciation recorded in the caption CO2 licenses, in the amount of 4,671,968 Euros (2009: 5,899,627 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 balance for the Group, during 2009, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Software	12,983,042	1,849,606	-	-	-	14,832,648
CO2 licenses	9,604,717	8,453,414	-	(10,929,490)	-	7,128,641
Industrial property and other rights	58,597	58,811	-	-	-	117,408
	<u>22,646,356</u>	<u>10,361,831</u>	<u>-</u>	<u>(10,929,490)</u>	<u>-</u>	<u>22,078,697</u>
Accumulated amortization and impairment losses:						
Software	(5,520,803)	(2,311,777)	-	-	-	(7,832,580)
CO2 licenses	(8,910,725)	(5,899,627)	-	8,910,725	-	(5,899,627)
Industrial property and other rights	(3,155)	(3,558)	-	-	-	(6,713)
	<u>(14,434,683)</u>	<u>(8,214,962)</u>	<u>-</u>	<u>8,910,725</u>	<u>-</u>	<u>(13,738,920)</u>
Net amount	<u>8,211,673</u>					<u>8,339,777</u>

The movements in this balance for the Company, during 2010, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Software	14,822,411	1,233,733	-	-	889,929	16,946,073
CO2 licenses	7,128,641	7,408,285	-	(7,976,075)	-	6,560,851
Industrial property and other rights	117,408	-	-	-	29,130	146,538
	<u>22,068,460</u>	<u>8,642,018</u>	<u>-</u>	<u>(7,976,075)</u>	<u>919,059</u>	<u>23,653,462</u>
Accumulated amortization and impairment losses:						
Software	(7,829,168)	(2,493,088)	-	-	-	(10,322,256)
CO2 licenses	(5,899,627)	(4,671,968)	-	5,899,627	-	(4,671,968)
Industrial property and other rights	(6,713)	(6,470)	-	-	-	(13,183)
	<u>(13,735,508)</u>	<u>(7,171,526)</u>	<u>-</u>	<u>5,899,627</u>	<u>-</u>	<u>(15,007,407)</u>
Net amount	<u>8,332,952</u>					<u>8,646,055</u>

The movements in this balance for the Company, during 2009, are analysed as follows:

	Balance on 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance on 31 December Euros
Gross amount:						
Software	12,248,116	2,574,295	-	-	-	14,822,411
CO2 licenses	9,604,717	8,453,414	-	(10,929,490)	-	7,128,641
Industrial property and other rights	58,597	58,811	-	-	-	117,408
	<u>21,911,430</u>	<u>11,086,520</u>	<u>-</u>	<u>(10,929,490)</u>	<u>-</u>	<u>22,068,460</u>
Accumulated amortization and impairment losses:						
Software	(5,519,097)	(2,310,071)	-	-	-	(7,829,168)
CO2 licenses	(8,910,725)	(5,899,627)	-	8,910,725	-	(5,899,627)
Industrial property and other rights	(3,155)	(3,558)	-	-	-	(6,713)
	<u>(14,432,977)</u>	<u>(8,213,256)</u>	<u>-</u>	<u>8,910,725</u>	<u>-</u>	<u>(13,735,508)</u>
Net amount	<u>7,478,453</u>					<u>8,332,952</u>

During 2010, the expenses incurred with Intangible assets amounted to 463,511 Euros (2009: 358,434 Euros), being the corresponding income recorded in the income statement under the caption Own work capitalised.

8 Investments – Equity method

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Subsidiaries	-	-	3,021,019	2,379,812
Associated companies	9,993,240	9,694,995	9,993,240	9,694,995
	<u>9,993,240</u>	<u>9,694,995</u>	<u>13,014,259</u>	<u>12,074,807</u>

The detail of this balance, for the Company, is analysed as follows:

	Dec 2010			Dec 2009		
	Gross amount Euros	Impairment Euros	Net amount Euros	Gross amount Euros	Impairment Euros	Net amount Euros
Subsidiaries:						
Museu - Casa da Luz	2,352,007	(2,352,007)	-	2,397,955	(2,397,955)	-
Enereem	2,555,525	-	2,555,525	1,867,833	-	1,867,833
Emacom	465,494	-	465,494	511,979	-	511,979
	<u>5,373,026</u>	<u>(2,352,007)</u>	<u>3,021,019</u>	<u>4,777,767</u>	<u>(2,397,955)</u>	<u>2,379,812</u>
Associated companies:						
Teleféricos da Madeira	1,017,233	-	1,017,233	694,995	-	694,995
EEM & BFS	8,976,007	-	8,976,007	9,000,000	-	9,000,000
	<u>9,993,240</u>	<u>-</u>	<u>9,993,240</u>	<u>9,694,995</u>	<u>-</u>	<u>9,694,995</u>
	<u>15,366,266</u>	<u>(2,352,007)</u>	<u>13,014,259</u>	<u>14,472,762</u>	<u>(2,397,955)</u>	<u>12,074,807</u>

As referred under 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 for the Company, during 2010, are analysed as follows:

	Balance at 1 January Euros	Acquisition / Charge Euros	Disposal / Reduction Euros	Equity method Euros	Other variations Euros	Balance at 31 December Euros
Gross amount:						
Museu - Casa da Luz	2,397,955	-	-	3,739	(49,687)	2,352,007
Enereem	1,867,833	-	-	804,092	(116,400)	2,555,525
Emacom	511,979	-	-	(46,485)	-	465,494
Teleféricos da Madeira	694,995	-	-	322,238	-	1,017,233
EEM & BFS	9,000,000	-	-	(23,993)	-	8,976,007
	<u>14,472,762</u>	<u>-</u>	<u>-</u>	<u>1,059,591</u>	<u>(166,087)</u>	<u>15,366,266</u>
Impairment:						
Museu - Casa da Luz	(2,397,955)	-	45,948	-	-	(2,352,007)
	<u>(2,397,955)</u>	<u>-</u>	<u>45,948</u>	<u>-</u>	<u>-</u>	<u>(2,352,007)</u>
	<u>12,074,807</u>					<u>13,014,259</u>

In the column Equity method is presented the effects of the application 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 1,526,621 Euros, and of negative variations in the equity of the subsidiaries and associated companies, in the amount of 467,030 Euros.

The caption Other variations corresponds to the reimbursement of the loans granted considered on equity instruments under NCRF.

The resumed financial information relative to subsidiaries and associated companies is presented in Note 5.

The movements in this balance for the Company, during 2009, are analysed as follows:

	Balance at 1 January Euros	Acquisition / Charge Euros	Disposal / Reduction Euros	Equity method Euros	Other variations Euros	Balance at 31 December Euros
Gross amount:						
Museu - Casa da Luz	2,154,711	-	-	346,633	(103,389)	2,397,955
Enereem	1,455,620	-	-	276,589	135,625	1,867,834
Emacom	1,110,354	-	-	(598,375)	-	511,979
Teleféricos da Madeira	706,897	-	-	(11,903)	-	694,994
EEM & BFS	4,612,500	4,387,500	-	-	-	9,000,000
	<u>10,040,082</u>	<u>4,387,500</u>	<u>-</u>	<u>12,944</u>	<u>32,236</u>	<u>14,472,762</u>
Impairment:						
Museu - Casa da Luz	(2,107,569)	(290,386)	-	-	-	(2,397,955)
	<u>(2,107,569)</u>	<u>(290,386)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,397,955)</u>
	<u>7,932,513</u>					<u>12,074,807</u>

In the column Equity method is presented the effects of the application 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 837,638 Euros, and of negative variations in the equity of the subsidiaries and associated companies, in the amount of 824,694 Euros.

The caption Other variations corresponds to the reimbursement of the loans granted considered as equity instruments under NCRF.

9 Investments – Other methods

The detail of this balance is analysed as follows:

	Method	Dec 2010			Dec 2009		
		Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
		Euros	Euros	Euros	Euros	Euros	Euros
Banif - SGPS, S.A.	Fair value	6,694,393	-	6,694,393	8,445,834	-	8,445,834
Luso Carbon Fund	Fair value	964,805	-	964,805	981,624	-	981,624
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	16,000	-	16,000
Centro de Empresas e Inovação da Madeira, Lda.	Acquisition cost	3,990	-	3,990	3,990	-	3,990
		8,360,356	(631,168)	7,729,188	10,128,616	(631,168)	9,497,448

The movements in this balance, during 2010, are analysed as follows:

	Balance at	Acquisitions	Disposals	Changes in		Balance at
	1 January			fair value	Impairment	31 December
	Euros	Euros	Euros	Euros	Euros	Euros
Banif - SGPS, S.A.	8,445,834	973,022	-	(2,724,462)	-	6,694,394
Luso Carbon Fund	981,624	-	-	(16,820)	-	964,804
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
	9,497,448	973,022	-	(2,741,282)	-	7,729,188

During 2010, the EEM Group subscribed 973,022 shares of Banif – SGPS, S.A., for the price of 1 Euro per share, in a total investment of 973,022 Euros. This acquisition is included in a capital increase realised by Banif – SGPS, S.A. through a Subscription Public Offer reserved to shareholders, in the amount of 80,000,000 Euros. As at 31 December 2010, the investment held in Banif – SGPS, S.A. decreased by 2,724,462 Euros, being this decrease in fair value booked against Fair value losses (see Note 36).

The movements in this balance, during 2009, are analysed as follows:

	Balance at	Acquisitions	Disposals	Changes in		Balance at
	1 January			fair value	Impairment	31 December
	Euros	Euros	Euros	Euros	Euros	Euros
Banif - SGPS, S.A.	6,130,042	1,135,192	-	1,180,600	-	8,445,834
Luso Carbon Fund	1,039,203	-	-	(57,579)	-	981,624
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
	7,239,235	1,135,192	-	1,123,021	-	9,497,448

As at 14 October 2009, Banif – SGPS, S.A. has realised a capital increase reserved to shareholders in the amount of 140,000,000 Euros, through the emission of 140 million ordinary, nominative and contractual shares, with a nominal value of 1 Euro each. Under this capital increase, EEM has acquired 1,135,192 new shares by 1 Euro each. As at 31 December 2009, the investment held in Banif – SGPS, S.A. increased by 1,180,600 Euros, being this fair value change recorded against Fair value gains (see Note 36).

10 Clients

The Clients are analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gross amount:				
Non-current assets:				
Official entities with protocol	35,874,045	37,906,727	35,874,045	37,906,727
	<u>35,874,045</u>	<u>37,906,727</u>	<u>35,874,045</u>	<u>37,906,727</u>
Current assets:				
Official entities with protocol	3,840,090	3,580,306	3,840,090	3,580,306
Official entities without protocol	66,566,233	62,415,240	66,564,569	62,415,240
Private clients	30,932,381	25,909,686	30,839,770	25,829,224
Other clients and debtors	512,002	990,320	518,288	990,572
	<u>101,850,706</u>	<u>92,895,552</u>	<u>101,762,717</u>	<u>92,815,342</u>
	<u>137,724,751</u>	<u>130,802,279</u>	<u>137,636,762</u>	<u>130,722,069</u>
Impairment:				
Non-current assets	(8,033,046)	(8,708,685)	(8,033,046)	(8,708,685)
Current assets	(26,373,959)	(24,110,831)	(26,371,293)	(24,108,165)
	<u>(34,407,005)</u>	<u>(32,819,516)</u>	<u>(34,404,339)</u>	<u>(32,816,850)</u>
Net amount:	<u>103,317,746</u>	<u>97,982,763</u>	<u>103,232,423</u>	<u>97,905,219</u>

The balance Official entities with protocol, in the amount of 39,714,135 Euros (2009: 41,487,033 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 10 and 30 years, without interest and in a monthly based installments. Under these protocols, EEM has received during 2010 the amount of 2,171,985 Euros (2009: 2,484,431 Euros).

The balance Official entities without protocol, in the amount of 66,566,233 Euros (2009: 62,415,240 Euros), relates to amounts invoiced to regional official entities until 31 December 2010 regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes 29,427,735 Euros (2009: 28,944,438 Euros) related to public lightning.

In 2010, 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
Impairment losses:				
Non-current assets				
Official entities with protocol	(8,708,685)	-	675,639	(8,033,046)
	(8,708,685)	-	675,639	(8,033,046)
Current assets				
Official entities with protocol	(71,927)	(1,995)	-	(73,922)
Official entities without protocol	(14,899,542)	(670,090)	-	(15,569,632)
Private clients	(9,139,362)	(1,591,043)	-	(10,730,405)
	(24,110,831)	(2,263,128)	-	(26,373,959)
	(32,819,516)	(2,263,128)	675,639	(34,407,005)

In 2009, 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
Impairment losses:				
Non-current assets				
Official entities with protocol	(9,140,718)	-	432,033	(8,708,685)
	(9,140,718)	-	432,033	(8,708,685)
Current assets				
Official entities with protocol	(70,271)	(1,656)	-	(71,927)
Official entities without protocol	(14,446,637)	(452,905)	-	(14,899,542)
Private clients	(8,014,823)	(1,124,539)	-	(9,139,362)
	(22,531,731)	(1,579,100)	-	(24,110,831)
	(31,672,449)	(1,579,100)	432,033	(32,819,516)

II Other receivables

The detail of this balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gross amount:				
Non-current assets				
Tariff compensation	18,380,509	2,076,207	18,380,509	2,076,207
Tariff convergence	8,545,828	12,767,168	8,545,828	12,767,168
	26,926,337	14,843,375	26,926,337	14,843,375
Current assets				
Tariff compensation	43,596,671	49,717,485	43,596,671	49,717,485
Tariff convergence	9,575,377	5,319,654	9,575,377	5,319,654
REN	5,843,259	1,964,941	5,843,259	1,964,941
Energy sales	7,984,494	8,569,803	7,985,899	8,571,292
Other	3,064,283	3,018,139	3,063,062	3,020,962
	70,064,084	68,590,022	70,064,268	68,594,334
	96,990,421	83,433,397	96,990,605	83,437,709
Impairment:				
Non-current assets	(584,358)	(1,072,076)	(584,358)	(1,072,076)
Current assets	(88,056)	(88,056)	(88,056)	(88,056)
	(672,414)	(1,160,132)	(672,414)	(1,160,132)
Net amount:	96,318,007	82,273,265	96,318,191	82,277,577

The balance Tariff compensation, in the amount of 61,977,180 Euros (2009: 51,793,692 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 as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Asset				
Tariff compensation of 2006	6,027,640	6,027,640	6,027,640	6,027,640
Tariff compensation of 2007	30,601,468	6,428,282	30,601,468	6,428,282
Tariff compensation of 2008	6,967,563	37,261,563	6,967,563	37,261,563
Tariff compensation of 2009	-	2,076,207	-	2,076,207
Tariff compensation of 2010	18,380,509	-	18,380,509	-
	<u>61,977,180</u>	<u>51,793,692</u>	<u>61,977,180</u>	<u>51,793,692</u>
Liability (see Note 28)				
Tariff compensation of 2009	(22,178,622)	-	(22,178,622)	-
	<u>(22,178,622)</u>	<u>-</u>	<u>(22,178,622)</u>	<u>-</u>
	<u>39,798,558</u>	<u>51,793,692</u>	<u>39,798,558</u>	<u>51,793,692</u>

The balance Tariff convergence, in the amount of 18,121,205 Euros (2009: 18,086,822 Euros), results from the difference between the amounts recorded in the income statement from 1998 until 2002 and the amounts received regarding the same period, under the contract signed between EEM, the Regional Government and the Central Government, that establishes the payment of the debt in 40 quarterly installments. Under this contract, EEM received from the Central Government, in earlier periods, the amount of 26,713,636 Euros (including capital and interest), plus VAT at a rate of 4%. The amount received in the period ended in 31 December 2009 includes interest in the amount of 2,091,040 Euros.

The balance REN, in the amount of 5,843,259 Euros (2009: 1,964,641 Euros), refers to the tariff convergence for December 2010, monthly transferred to EEM.

In 2010, 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
Impairment losses:				
Non-current asset				
Tariff convergence	(1,072,076)	-	487,718	(584,358)
	<u>(1,072,076)</u>	<u>-</u>	<u>487,718</u>	<u>(584,358)</u>
Current asset				
Tariff convergence	(88,056)	-	-	(88,056)
	<u>(88,056)</u>	<u>-</u>	<u>-</u>	<u>(88,056)</u>
	<u>(1,160,132)</u>	<u>-</u>	<u>487,718</u>	<u>(672,414)</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 through this payment plan.

In 2009, 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
Impairment losses:				
Non-current asset				
Tariff convergence	(1,684,657)	-	612,581	(1,072,076)
	(1,684,657)	-	612,581	(1,072,076)
Current asset				
Tariff convergence	(88,056)	-	-	(88,056)
	(88,056)	-	-	(88,056)
	(1,772,713)	-	612,581	(1,160,132)

12 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	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Transition adjustment	584,570	730,712	-	-
Tax losses	-	15,975	-	-
Non-deductable provisions	11,858,128	11,967,945	-	-
Depreciations without tax consequences	-	-	183,364	183,764
Accounting revaluations	-	-	932,063	1,009,497
Non-refundable grants	-	-	6,489,654	7,297,415
	12,442,698	12,714,632	7,605,081	8,490,676

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	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Transition adjustment	584,570	730,712	-	-
Non-deductable provisions	11,858,128	11,967,945	-	-
Investments	470,402	479,591	-	-
Depreciations without tax consequences	-	-	9,105	-
Accounting revaluations	-	-	932,063	1,009,497
Non-refundable grants	-	-	6,460,733	7,263,886
	12,913,100	13,178,248	7,401,901	8,273,383

The movements in deferred taxes for the Group and in an individual basis, for 2010 and 2009, are analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Balance at 1 January	4,223,956	2,980,224	4,904,865	3,522,842
Charges to the income statement	694,153	1,243,732	686,826	1,382,023
Charges against reserves	(80,492)	-	(80,492)	-
Balance at 31 December	<u>4,837,617</u>	<u>4,223,956</u>	<u>5,511,199</u>	<u>4,904,865</u>

13 State and other public entities

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Tax receivable:				
Income tax	1,032,335	60,580	1,199,218	-
Value added tax (VAT)	377,206	1,279,666	454,705	1,276,608
Other taxes	5	-	-	-
	<u>1,409,546</u>	<u>1,340,246</u>	<u>1,653,923</u>	<u>1,276,608</u>
Tax payable:				
Income tax	-	657,218	-	657,161
Withholding tax	433,543	302,727	425,450	298,153
Value added tax (VAT)	-	56,799	-	-
Other taxes	44,484	32,747	44,499	32,747
Social Security contributions	698,603	615,184	696,124	613,039
Local municipality tax	18,117	18,918	18,117	18,918
	<u>1,194,747</u>	<u>1,683,593</u>	<u>1,184,190</u>	<u>1,620,018</u>

14 Inventories

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gross amount:				
Goods	10,167,545	11,741,444	10,126,873	11,634,794
Raw materials	6,538,518	2,647,686	6,538,517	2,647,686
	<u>16,706,063</u>	<u>14,389,130</u>	<u>16,665,390</u>	<u>14,282,480</u>
Impairment:				
Impairment for inventories depreciation	(257,226)	(322,423)	(255,173)	(255,173)
	<u>(257,226)</u>	<u>(322,423)</u>	<u>(255,173)</u>	<u>(255,173)</u>
	<u>16,448,837</u>	<u>14,066,707</u>	<u>16,410,217</u>	<u>14,027,307</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 2010 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
Impairment losses:				
Goods	(248,521)	-	65,197	(183,324)
Raw materials	(73,902)	-	-	(73,902)
	<u>(322,423)</u>	<u>-</u>	<u>65,197</u>	<u>(257,226)</u>

15 Shareholders

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Current assets:				
Companhia Logística de Combustíveis da Madeira	1,053,390	1,009,497	1,053,390	1,009,497
EEM & BFS	59,984	25,428	59,984	25,428
	<u>1,113,374</u>	<u>1,034,925</u>	<u>1,113,374</u>	<u>1,034,925</u>
Current liabilities:				
Emacom	-	-	(400,000)	-
	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>-</u>
	<u>1,113,374</u>	<u>1,034,925</u>	<u>713,374</u>	<u>1,034,925</u>

16 Deferrals

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Assets:				
Deferred expenses:				
Insurance premiums	166,966	142,881	120,539	142,805
Other deferred expenses	107,730	107,730	630	630
	<u>274,696</u>	<u>250,611</u>	<u>121,169</u>	<u>143,435</u>
Liabilities:				
Deferred income:				
Services rendered	550,000	-	-	-
	<u>550,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

As at 31 December 2010 and 2009, 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 agreement celebrated with Vestas Portugal for the warranty and maintenance of Enereem wind farms, until April 2011.

In 2010, for the Group, 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 in 2015.

17 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, being entirely held by Madeira's Regional Government.

18 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 2009.

19 Retained earnings

In 2010, this caption variation, for the Group, includes the application of the profit for the period ended 31 December 2009 in the amount of 5,650,041 Euros. Additionally, this variation includes the realization of the tangible and intangible assets revaluation reserves, in the amount of 890,497 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 288,097 Euros, and the reclassification to on Other equity variations caption of the deferred tax associated to the Government grants recognised in equity that were reclassified to income during the period ended 31 December 2010.

20 Financial assets adjustments

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Equity method:				
Non-distributed profits	614,184	326,087	1,959,584	1,383,149
Other variations	9,378	-	171,156	188,183
	<u>623,562</u>	<u>326,087</u>	<u>2,130,740</u>	<u>1,571,332</u>

21 Revaluation reserves

This balance is related to revaluation reserves originated by the tangible assets legal revaluations performed by EEM, amounting to 11,812,572 Euros (2009: 12,703,069 Euros).

22 Other equity variations

The balance Other equity variations is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Government grants	32,448,275	36,487,075	32,303,671	36,319,433
Deferred tax - Government grants	(6,489,654)	(7,297,415)	(6,460,733)	(7,263,886)
Donations	63,295	68,390	-	-
	<u>26,021,916</u>	<u>29,258,050</u>	<u>25,842,938</u>	<u>29,055,547</u>

The movements in Other equity variations for the Group and in an individual basis, for 2010 and 2009, are analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Balance at 1 January	29,258,050	32,266,528	29,055,547	32,048,295
Government grants recognised in the period	402,461	710,856	402,461	710,856
Deferred tax - Government grants recognised in the period	(80,492)	(142,172)	(80,492)	(142,172)
Government grants reclassified to profit or loss	(4,441,260)	(4,474,828)	(4,418,222)	(4,451,790)
Deferred tax - Government grants reclassified to profit or loss	888,252	894,966	883,644	890,358
Other variations	(5,095)	2,700	-	-
Balance at 31 December	<u>26,021,916</u>	<u>29,258,050</u>	<u>25,842,938</u>	<u>29,055,547</u>

23 Minority interests

The caption Minority interests refers to the investment held by Aream - Agência Regional da Energia e Ambiente da Região Autónoma da Madeira on Enereem.

The 92.5% investment held by EEM was consolidated under the full consolidation method, originating minority interests related to the remaining 7.5% investment on Enereem, in the amount of 222,058 Euros (2009: 151,110 Euros).

24 Provisions

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Municipal network tax of 2006	6,027,640	6,027,640	6,027,640	6,027,640
Other liabilities and charges	4,676,667	3,134,667	4,676,667	3,134,667
	<u>10,704,307</u>	<u>9,162,307</u>	<u>10,704,307</u>	<u>9,162,307</u>

During 2007, it was charged a provision against retained earnings in the amount of 6,027,640 Euros, considering the risk of non-recovery of the amount paid by EEM for the 2006 usage of the Municipal public domain, as mentioned in Note 28.

Additionally, during 2010, EEM recorded a provision for other liabilities and charges in the amount of 4,600,000 Euros for other contingencies arising from its operational activity.

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

In 2010, the movements in Provisions, for the Group, are analysed as follows:

	I January Euros	Charges Euros	Charge-off Euros	Reversals Euros	Unwinding Euros	31 December Euros
Municipal network tax of 2006	6,027,640	-	-	-	-	6,027,640
Other liabilities and charges	3,134,667	4,600,000	-	(3,058,000)	-	4,676,667
	9,162,307	4,600,000	-	(3,058,000)	-	10,704,307

In 2009, the movements in Provisions, for the Group, are analysed as follows:

	I January Euros	Charges Euros	Charge-off Euros	Reversals Euros	Unwinding Euros	31 December Euros
Municipal network tax of 2006	6,027,640	-	-	-	-	6,027,640
Other liabilities and charges	76,667	3,058,000	-	-	-	3,134,667
	6,104,307	3,058,000	-	-	-	9,162,307

25 Financial debt

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Non-current liabilities:				
Foreign loans	308,286,327	286,222,459	308,286,327	286,222,459
Other loans	51,180,309	27,561,566	31,183,558	7,156,707
	359,466,636	313,784,025	339,469,885	293,379,166
Current liabilities:				
Short term loans	21,593,337	49,029,618	21,593,337	49,029,618
Foreign loans	4,835,215	4,754,189	4,835,215	4,754,189
Other loans	6,978,665	11,926,133	6,537,927	11,500,710
	33,407,217	65,709,940	32,966,479	65,284,517
	392,873,853	379,493,965	372,436,364	358,663,683

As at 28 May 2010, EEM agreed a credit facility with European Investment Bank (EIB) in the 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 2010, EEM used this credit facility in the amount of 25,000,000 Euros, which is booked in the Foreign loans caption.

In September 2010, EEM agreed the issuance of 20,000,000 Euros of commercial paper with a 3 years maturity, which is presented under the Other loans caption. This amount was used, mainly, for the payment of amounts due under short term loans.

In 2010, 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
Non-current liabilities:				
Foreign loans	-	33,247,565	275,038,762	308,286,327
Other loans	-	38,455,103	12,725,206	51,180,309
	-	71,702,668	287,763,968	359,466,636
Current liabilities:				
Short term loans	21,593,337	-	-	21,593,337
Foreign loans	4,835,215	-	-	4,835,215
Other loans	6,978,665	-	-	6,978,665
	33,407,217	-	-	33,407,217
	33,407,217	71,702,668	287,763,968	392,873,853

In 2009, 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
Non-current liabilities:				
Foreign loans	-	28,761,210	257,461,249	286,222,459
Other loans	-	13,018,474	14,543,092	27,561,566
	-	41,779,684	272,004,341	313,784,025
Current liabilities:				
Short term loans	49,029,618	-	-	49,029,618
Foreign loans	4,754,189	-	-	4,754,189
Other loans	11,926,133	-	-	11,926,133
	65,709,940	-	-	65,709,940
	65,709,940	41,779,684	272,004,341	379,493,965

As at 31 December 2010, the scheduled repayments of the Group's debt including interest accrual are as follows:

	2011 Euros	2012 Euros	2013 Euros	2014 Euros	2015 Euros	Following years Euros	Total Euros
Non-current liabilities	-	21,044,113	30,761,813	10,784,878	9,111,864	287,763,968	359,466,636
Current liabilities	33,407,217	-	-	-	-	-	33,407,217
	33,407,217	21,044,113	30,761,813	10,784,878	9,111,864	287,763,968	392,873,853

As at 31 December 2009, the scheduled repayments of the Group's debt including interest accrual are as follows:

	2010 Euros	2011 Euros	2012 Euros	2013 Euros	2014 Euros	Following years Euros	Total Euros
Non-current liabilities	-	7,413,463	18,086,778	8,142,953	8,136,490	272,004,341	313,784,025
Current liabilities	65,709,940	-	-	-	-	-	65,709,940
	65,709,940	7,413,463	18,086,778	8,142,953	8,136,490	272,004,341	379,493,965

The financial crisis actually affecting liquidity in international markets, as well as EEM's rating reduction, as a result of the Portuguese Republic rating reduction and, consequently, the Autonomous Region of Madeira rating reduction, led to an increase in spreads applied to bank financing. In what concerns the 220 million Euros syndicated loan, the referred reduction to a note below Baa2 demands an unconditional and irrevocable guarantee from the Autonomous Region of Madeira Government, leading to an increase of the related financial costs.

26 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 under accounting policy presented in the Note 3.2, EEM defined, at the transition date to NCRF, an accounting policy that allows the recognition of actuarial gains and losses against the income statement, in the same terms that in the previous accounting framework. The actuarial gains recognised in the income statement for the periods ended 31 December 2010 and 2009 amount to 1,405,763 Euros and 425,698 Euros, respectively.

As at 31 December 2010 and 2009, the liabilities for past services associated to the pension plan were the following:

	Dec 2010 Euros	Dec 2009 Euros
Evolution of liabilities:		
Liabilities at the beginning of the year	32,878,110	33,914,668
Current service cost	243,442	263,655
Interest cost	1,561,710	1,610,947
Benefits paid	(2,288,380)	(2,485,462)
Actuarial gains and losses	(1,405,763)	(425,698)
Liabilities at the end of the year	30,989,119	32,878,110

During 2010, the evolution of the liabilities results, essentially, from the reduction of the number of pre-pensioners covered by this pension plan. This change results in a reduction of the liabilities since EEM will only support the difference between the retirement pension for limit of age or disability attributed by the Social Security and the last salary received by the employee.

As at 31 December 2010 and 2009, the number of participants covered by this pension plan is analysed as follows:

	Dec 2010	Dec 2009
Employees	68	70
Pre-pensioners	19	24
Pensioners	236	233
	323	327

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

	Dec 2010	Dec 2009
Salaries increase rate	2.75% (a)	2.75%
Pre-pensioners pensions increase rate	1.75%	1.75%
Pensioners pensions increase rate	1.75%	1.75%
Expected return of plan assets	4.75%	4.75%
Discount rate	4.75%	4.75%
Mortality table:		
Women	TV88/90	TV88/90
Men	TV73/77	TV73/77
	+ 1 year	+ 1 year
Disability rate	EVK 80	EVK 80

(a) For the years 2011, 2012 and 2013 it was not considered any salaries increase.

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

	Dec 2010 Euros	Dec 2009 Euros
Liabilities as at 31 December:		
Employees	9,542,349	10,063,001
Pre-pensioners	3,745,537	5,310,672
Pensioners	17,701,233	17,504,437
	<u>30,989,119</u>	<u>32,878,110</u>
Liabilities to be covered:		
Insurance coverage	5,161,911	4,963,376
Provisions charged	<u>25,827,208</u>	<u>27,914,734</u>
Liabilities not covered	<u>-</u>	<u>-</u>

During 2010, EEM has accounted as pension costs an amount of 200,854 Euros (2009: 1,258,005 Euros), which are analysed as follows:

	Dec 2010 Euros	Dec 2009 Euros
Cost for the year:		
Current service cost	243,442	263,655
Interest costs	1,561,710	1,610,947
Actuarial gains and losses	(1,405,763)	(425,698)
Return on plan assets	<u>(198,535)</u>	<u>(190,899)</u>
Net cost for the year	<u>200,854</u>	<u>1,258,005</u>

27 Suppliers

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Suppliers:				
General	47,701,188	42,399,055	47,679,321	42,386,071
Subsidiaries	-	-	2,061,859	221,409
Suppliers of tangible assets	6,039,838	8,886,541	6,039,838	8,654,660
	<u>53,741,026</u>	<u>51,285,596</u>	<u>55,781,018</u>	<u>51,262,140</u>

The caption Suppliers – General includes, mainly, fuel and electric energy supplies. On an individual basis, the caption Suppliers – Subsidiaries includes the amount of 1,771,307 Euros related to electric energy acquired to Enereem and the amount of 290,552 Euros (2009: 221,409 Euros) related to services rendered by Emacom to EEM.

As at 31 December 2010, the caption Suppliers of tangible assets mainly includes debts to Wartsila Italia, CME Madeira and Luzosfera, under the development of the CTV III project as well as the installation of electric energy and fiber-optic distribution networks. As at 31 December 2009, the caption Suppliers of tangible assets included, essentially, debts to Siemens and Energetus under the investments to improve and extend several substations and distribution networks, as well the development of the CTV III project.

28 Other payables

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Accrued costs:				
Tariff compensation of 2011 (see Note 11)	22,178,622	-	22,178,622	-
Municipal network tax	7,476,180	7,305,443	7,476,180	7,305,443
Holiday pay and subsidies	3,892,123	4,102,847	3,888,931	4,089,257
National Electric System (CO2)	1,888,884	1,229,013	1,888,884	1,229,013
Other creditors	3,543,951	4,209,970	3,416,877	4,139,063
	<u>38,979,760</u>	<u>16,847,273</u>	<u>38,849,494</u>	<u>16,762,776</u>

The caption Municipal network tax refers to the 2010 local tax rate owed by EEM related to the usage of the regional public domain. The tax rate was fixed in 7.5% of the annual sales amount of low tension electric energy in each Municipality, in accordance with Regional Decree-Law no. 2/2007/M, of 8 January, which produces effects starting on 1 January 2006.

The caption National Electric System (CO2) refers to the CO2 licenses freely attributed and not yet consumed, as referred in Note 42.

The caption Other creditors includes the mandatory guarantee deposits received from electricity consumers, in the amount of 2,476,200 Euros (2009: 2,505,099 Euros).

29 Other financial liabilities

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Interest rate swaps	5,186,320	4,285,378	5,186,320	4,285,378
Interest rate options	9,570	35,523	9,570	35,523
	<u>5,195,890</u>	<u>4,320,901</u>	<u>5,195,890</u>	<u>4,320,901</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 loan, obtained in 2005 by EEM under the restructuring of its financial liabilities (see Note 25). 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.

30 Sales and services rendered and Cost of sales

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Sales:				
Energy	117,493,451	116,166,461	117,512,347	116,182,571
Tariff compensation	55,866,573	35,503,914	55,866,573	35,503,914
Services rendered	977,607	966,748	611,197	803,384
Goods	159,211	621,555	159,138	621,376
	<u>174,496,842</u>	<u>153,258,678</u>	<u>174,149,255</u>	<u>153,111,245</u>
Cost of sales:				
Raw materials	47,040,685	40,018,001	47,040,685	40,018,001
Energy purchased from third parties	31,412,874	23,458,821	34,758,121	25,673,994
Goods	8,753,268	9,707,741	8,752,488	9,707,312
	<u>87,206,827</u>	<u>73,184,563</u>	<u>90,551,294</u>	<u>75,399,307</u>

The caption Tariff compensation includes the amounts of 36,857,204 Euros attributed to EEM related to the 2010 tariff convergence, 18,008,807 Euros related to the 2010 tariff compensation recoverable in 2012 and 1,177,628 Euros related to ERSE review of the 2009 tariff compensation estimate, recoverable through the electric energy tariff in 2011.

31 Operating government grants

During the period were recognised in income statement the following grants:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Operating government grants:				
European Social Fund	196,341	-	196,341	-
Other grants	4,693	-	4,693	-
	<u>201,034</u>	<u>-</u>	<u>201,034</u>	<u>-</u>

32 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 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gains:				
Subsidiaries	-	-	1,037,753	444,226
Associated companies	494,779	488,097	494,779	488,097
	<u>494,779</u>	<u>488,097</u>	<u>1,532,532</u>	<u>932,323</u>
Losses:				
Subsidiaries	-	-	-	(94,685)
Associated companies	(5,911)	-	(5,911)	-
	<u>(5,911)</u>	<u>-</u>	<u>(5,911)</u>	<u>(94,685)</u>
	<u>488,868</u>	<u>488,097</u>	<u>1,526,621</u>	<u>837,638</u>

33 Own work capitalised

The balance Own work capitalised is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Own work capitalised:				
Tangible assets	13,451,181	16,375,099	13,451,181	16,375,099
Tangible assets in progress	5,501,045	4,814,832	5,501,045	4,814,832
Intangible assets	339,638	-	339,638	-
Others	83,493	83,944	83,493	83,944
	<u>19,375,357</u>	<u>21,273,875</u>	<u>19,375,357</u>	<u>21,273,875</u>

34 Supplies and services

The balance Supplies and services is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Supplies and services:				
Subcontracts	8,197,902	8,577,240	8,197,704	8,577,240
Specialised works	3,504,211	3,958,136	2,981,004	3,499,198
Fuel and water	370,638	326,496	368,029	324,950
Transportation, travelling and representation	240,368	194,509	240,368	194,059
Other supplies and services	3,058,616	3,923,286	3,187,523	4,086,283
	<u>15,371,735</u>	<u>16,979,667</u>	<u>14,974,628</u>	<u>16,681,730</u>

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

35 Personnel costs

The balance Personnel costs is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Personnel costs:				
Board of Directors remuneration	233,639	243,113	233,639	243,113
Employee's remuneration and others	28,495,637	26,330,694	28,375,196	26,243,352
Employee benefits	200,855	1,258,005	200,855	1,258,005
Social charges on remuneration	6,193,769	5,710,765	6,170,404	5,692,784
Insurance policies	232,316	220,014	231,487	219,708
	<u>35,356,216</u>	<u>33,762,591</u>	<u>35,211,581</u>	<u>33,656,962</u>

For the Company, the average number of employees during the period amounts to 864 (2009: 867).

36 Fair value gains/losses

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

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Gains:				
Investments - Other methods	-	1,180,600	-	1,180,600
Derivative financial instruments	25,953	-	25,953	-
	<u>25,953</u>	<u>1,180,600</u>	<u>25,953</u>	<u>1,180,600</u>
Losses:				
Investments - Other methods	(2,741,282)	(57,579)	(2,741,282)	(57,579)
Derivative financial instruments	(900,942)	(1,219,904)	(900,942)	(1,219,904)
	<u>(3,642,224)</u>	<u>(1,277,483)</u>	<u>(3,642,224)</u>	<u>(1,277,483)</u>
	<u>(3,616,271)</u>	<u>(96,883)</u>	<u>(3,616,271)</u>	<u>(96,883)</u>

37 Other gains

The balance Other gains is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
CO2 licenses	6,748,415	7,918,393	6,748,415	7,918,393
Investments grants	4,441,259	4,474,828	4,418,221	4,451,790
Other income	244,327	290,521	203,084	294,212
	<u>11,434,001</u>	<u>12,683,742</u>	<u>11,369,720</u>	<u>12,664,395</u>

The caption CO2 licenses refer to reclassification from equity of the licenses freely attributed that were consumed during the period, as referred in Note 3 o).

38 Other losses

The balance Other losses is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Municipal network tax	7,476,180	7,305,443	7,476,180	7,305,443
Stamp duty	735,617	884,534	722,814	867,875
Other expenses	538,002	976,829	522,538	956,826
	<u>8,749,799</u>	<u>9,166,806</u>	<u>8,721,532</u>	<u>9,130,144</u>

The caption Municipal network tax refers to the 2010 local tax rate owed by EEM, as referred in Note 28.

39 Financial income/(costs)

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

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Interest and other income obtained:				
Late payment charges	472,211	515,293	472,211	515,293
Interest income - Tariff adjustment	371,702	1,377,924	371,702	1,377,924
Interest income - Tariff convergence	34,382	647,012	34,382	647,012
Unwinding of tariff convergence	487,718	612,581	487,718	612,581
Dividends	272,446	368,938	272,446	368,938
Other	83,960	201,009	83,960	99,699
	<u>1,722,419</u>	<u>3,722,757</u>	<u>1,722,419</u>	<u>3,621,447</u>
Interest and other losses supported:				
Interest expense from financial debt	14,307,894	14,335,656	13,992,005	13,619,632
Interest expense - Tariff adjustment	1,259,271	-	1,259,271	-
Commissions and banking services	1,075,810	754,265	1,071,956	741,170
Capitalised interest expense from financial debt	(1,081,055)	(347,235)	(1,081,055)	-
Other	13,652	2,818	13,652	2,369
	<u>15,575,572</u>	<u>14,745,504</u>	<u>15,255,829</u>	<u>14,363,171</u>
Financial results	<u>(13,853,153)</u>	<u>(11,022,747)</u>	<u>(13,533,410)</u>	<u>(10,741,724)</u>

Under the terms mentioned in Note 11, the tariff convergence for the 1998-2002 period will be settled in quarterly payments 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 2010 and 2009 in the amounts of 487,718 Euros and 612,581 Euros, respectively.

As referred in the accounting policy 3.2 d) and in accordance with NCRF 10, EEM began, since 1 January 2010, to capitalise, on an individual basis, the interest charges attributable to the acquisition, construction or production of assets that qualify, capitalising in 2010 the amount of 1,081,055 Euros.

40 Income taxes

This balance is analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Current tax	458,002	1,165,686	249,437	1,163,182
Deferred tax	(694,153)	(1,243,732)	(686,826)	(1,382,023)
	<u>(236,151)</u>	<u>(78,046)</u>	<u>(437,389)</u>	<u>(218,841)</u>

The caption Deferred tax corresponds to the deferred tax assets and liabilities, as referred to in Note 12.

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2010 and 2009, is analysed as follow:

	2010			2009		
	Rate	Tax Basis	Tax	Rate	Tax Basis	Tax
Income tax calculated based on the statutory tax rate	20.00%	4,659,940	931,988	20.00%	5,997,948	1,199,590
Tax benefits	(4.35%)	(1,014,630)	(202,926)	(7.61%)	(2,283,059)	(456,612)
Subsidies	(19.06%)	(4,441,260)	(888,252)	(12.55%)	(3,763,971)	(752,794)
Equity method	(2.03%)	(471,841)	(94,368)	(1.64%)	(490,797)	(98,159)
Tax-exempt dividends	(0.58%)	(136,223)	(27,245)	(0.62%)	(184,469)	(36,894)
Autonomous taxation	0.67%	156,975	31,395	0.57%	171,866	34,373
Non-deductible tax losses	0.57%	131,712	26,342	0.38%	115,160	23,032
Changes in estimates	0.10%	23,186	4,637	0.01%	2,137	427
Provisions without tax consequences	(0.45%)	(104,036)	(20,807)	0.00%	-	-
Other adjustments	0.07%	15,422	3,085	0.15%	44,953	8,991
	<u>(5.06%)</u>	<u>(1,180,755)</u>	<u>(236,151)</u>	<u>(1.31%)</u>	<u>(390,232)</u>	<u>(78,046)</u>

The Law no. 10/2009, of 10 March, extended to the period ended 31 December 2010 through Law no. 55-A/2010, of 31 December (State Budget Law of 2011), introduced a set of incentives to investment and employment, including the tax investment support regime (RFAl). In the 2010 income tax estimate, EEM benefits from a tax incentive presented in the referred law in the form of a tax deduction, in the amount of 73,346 Euros (2009: 374,693 Euros).

41 Operating leases

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

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Future payments:				
Less than one year	70,526	183,944	70,526	183,944
Between one and five years	30,669	501,760	30,669	501,760
	<u>101,195</u>	<u>685,704</u>	<u>101,195</u>	<u>685,704</u>

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

42 CO2 licenses

The CO2 licenses for consumption movements are analysed as follows:

	December 2010		December 2009	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	83,949	14.64	33,510	20.71
CO2 licenses freely attributed	577,419	12.83	577,419	14.64
CO2 licenses acquired	-	-	-	-
CO2 licenses sold	(150,000)	13.84	(124,000)	16.28
	511,368		486,929	
CO2 licenses to return regarding the year consumption	(364,144)		(402,980)	
Excess / (Insufficiency) of CO2 licenses	147,224	12.83	83,949	14.64
Assets / (Liabilities) – Euros	1,888,884		1,229,013	

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

During 2010 and as mentioned in Note 7, EEM sold 150,000 tons of EUA freely attributed, recognising a net loss of 39,178 Euros. Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to 21,636 Euros (including the effect of the Tariff compensation of 2010 in the income statement).

The licenses corresponding to each year's consumptions are returned to the regulatory entity of each country until the end of the fourth month of the subsequent year (see Note 7).

43 Related parties

Shareholders

As at 31 December 2010, EEM's share capital is entirely held by Madeira's Regional Government, as referred in Note 17.

Remuneration of company officers

During the periods ended 31 December 2010 and 2009, the remuneration cost of the Board of Directors is presented as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Short term employee benefits	279,946	292,159	279,946	292,159
	279,946	292,159	279,946	292,159

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

The balances and transactions between EEM and its subsidiaries, associated companies and other investments, for the year ended 31 December 2010, are analysed as follows:

	Asset		Liability	
	Clients	Accrued income	Suppliers	Other creditors
Enereem	2,875	-	38,863	(1,771,307)
Museu - Casa da Luz	2,875	1,297	1,943,051	-
Emacom	3,205	108	-	(290,552)
EEM & BFS	-	-	59,984	-
Teleféricos da Madeira	11,267	-	-	-
Companhia Logística de Combustíveis da Madeira	23,690	-	-	-
	43,912	1,405	2,041,898	(2,061,859)
				(400,000)

	Transactions			
	Sales	Other income	Financial income	Cost of sales
Enereem	-	-	-	3,345,247
Museu - Casa da Luz	(17,062)	-	-	-
Emacom	(1,834)	(4,658)	-	-
Teleféricos da Madeira	(64,284)	-	-	-
Companhia Logística de Combustíveis da Madeira	(147,153)	-	(44,124)	-
	(230,333)	(4,658)	(44,124)	3,345,247
				315,390

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 2009, are analysed as follows:

	Asset		Liability	
	Clients	Accrued income	Suppliers	Other creditors
Enereem	-	-	155,264	-
Museu - Casa da Luz	-	1,210	1,992,739	-
Emacom	253	4,016	-	(221,409)
Teleféricos da Madeira	44,867	4,944	-	-
Companhia Logística de Combustíveis da Madeira	23,690	14,894	1,009,497	-
	68,810	25,064	3,157,500	(221,409)
				(7,228)

	Transactions			
	Sales	Other income	Financial income	Cost of sales
Enereem	-	-	-	2,215,173
Museu - Casa da Luz	(14,490)	-	-	-
Emacom	(1,619)	(3,737)	-	-
Teleféricos da Madeira	(64,284)	-	29,474	-
Companhia Logística de Combustíveis da Madeira	(147,153)	-	(49,531)	-
	(227,546)	(3,737)	(20,057)	2,215,173
				277,787

44 Commitments

As at 31 December 2010 and 2009, the commitments not included in the balance sheet, referring to bank guarantees, are analysed as follows:

	Group		Individual	
	Dec 2010 Euros	Dec 2009 Euros	Dec 2010 Euros	Dec 2009 Euros
Bank guarantees provided by others on behalf of EEM	90,000,000	68,133,371	90,000,000	65,000,000
Bank guarantees provided by EEM	142,780	129,147	142,780	129,147
	<u>90,142,780</u>	<u>68,262,518</u>	<u>90,142,780</u>	<u>65,129,147</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 90,000,000 Euros.

The amount of 142,780 Euros related to bank guarantees provided by EEM refers, essentially, to the bank guarantee provided to Câmara Municipal do Funchal – “Concurso Público Comboio do Monte”, in the amount of 129,147 Euros.

45 Subsequent events

On 23 March 2011, as result of the downgrade of the Portuguese Republic and the Autonomous Region of Madeira ratings, the rating agency Moody's has made a downgrade of EEM's rating from Baa1 to Ba1. According to this agency, this reduction is justified by the effect that those rating reductions of the Portuguese Republic and the Autonomous Region of Madeira may have on regional governmental entities, customers of EEM, which have significant amounts due to EEM with a high maturity date, and by the existing possibility of EEM appeal to extraordinary support from its shareholder (the Government of the Autonomous Region of Madeira).

According to Moody's, the potential extraordinary appeal to the shareholder results from the remuneration form of the 220 million Euros syndicated loan, which is indexed to EEM's rating, and which requires an unconditional and irrevocable guarantee from the Government of Autonomous Region of Madeira, in the case of being below Baa2.

Therefore, the development of EEM's operations can be affected by changes in the contractual conditions of existing loans, namely through the increase in spreads associated to these operations and the consequent increase in the related financial charges.

46 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.



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STATUTORY AUDITORS' OPINION ON THE CONSOLIDATED ACCOUNTS

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

Introduction

- 1 We have audited the consolidated financial statements of **EEM – Empresa de Electricidade da Madeira, S.A.**, which comprise the Consolidated balance sheet as at 31 December 2010 (which shows total assets of Euro 667,191,082 and a total equity of Euro 130,297,152, including a net profit of Euro 4,823,412), the Consolidated income statement by nature, the Consolidated statement of changes in equity and the Consolidated statement of cash flows for the period then ended, and the corresponding Notes.

Responsibilities

- 2 The Board of Directors 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 changes in consolidated 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 those consolidated financial statements based on our audit.

Scope

- 4 Except for the matter referred to in paragraph 7.2 below, we conducted our audit in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. For this purpose our audit included:
 - Verification if the financial statements of the companies included in the consolidation were properly audited and, for the significant cases that they were not, 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 the Board of Directors, used in their preparation;
 - verification of the consolidation procedures and the application of the equity method;
 - the assessment of the adequacy of the accounting principles used and their disclosure, considering the circumstances;
 - the appropriateness of the going concern basis of accounting; and
 - the assessment of the adequacy of the overall presentation of the consolidated financial statements.
- 5 Our audit also included the verification that the financial information included in the Management Report is consistent with the consolidated financial statements.
- 6 We believe that our audit provides a reasonable basis for our opinion.

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

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O.R.O.C. N.º 189 - Inscrição na C.M.V.M. N.º
9093

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PT 502 161 078



Qualifications

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

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

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December 2010 and in prior periods, costs related to the municipal network tax in the total amount of Euro 34,205,108. 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.

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

As at 31 December 2010, the assets and liabilities of EEM are overstated in the amount of Euro 6,027,640, considering that the referred provision should be presented as a reduction to the corresponding asset.

- 7.2 For the years from 2007 to 2010, and as mentioned in the documents regarding the determination of tariffs, ERSE considers that the amount of the municipal network tax paid is owed to EEM, and should be charged to Autonomous Region of Madeira consumers and not supported on an equitable basis by the Continental and Autonomous Region of Madeira consumers. Considering the EEM's different interpretation, which considers that this tax should be charged to all national consumers, ERSE has accepted EEM's proposal and has not included the municipal network tax exclusively in the tariffs of the Autonomous Region of Madeira consumers.

At the date of this Statutory Auditor's Opinion, the measures and mechanisms that will ensure the recovery of the assets arising from the municipal network tax for the years from 2007 to 2010, in the amount of Euro 28,177,468, 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 2010.



- 8 Under the regulation parameters for the distribution and commercialisation of electric energy activities defined by ERSE and applicable to the actual regulatory period (2009-2011), and considering the assumptions adopted in the 2010 tariffs, EEM charged as at 31 December 2009 a provision of Euro 3,058,000 based on the expected losses for 2010 in the referred regulated activities. At the date of the Statutory Auditor's Opinion for the period ended 31 December 2009, it was our understanding that this provision corresponded to an early recognition of future operating losses and, therefore, it didn't accomplish the requirements to be classified as a liability or as a provision.

During the period ended as at 31 December 2010, and considering that this loss is already reflected in the results of the regulated activities for this period, EEM reversed the referred provision. Therefore, as at 31 December 2010, we consider that the net profit for the period of EEM is overstated in the amount of Euro 3,058,000 and the retained earnings understated in the same amount.

Qualified opinion

- 9 In our opinion, except for the effect of the adjustments, if any, that might result from the matters described in paragraph 7.2 above, and except for the effect of the matters described in paragraphs 7.1 and 8 above, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of **EEM - Empresa de Electricidade da Madeira, S.A.** as at 31 December 2010, the consolidated results of its operations, the consolidated changes in equity and its consolidated cash flows for the period then ended in accordance with generally accepted accounting principles in Portugal.

Emphasis of matter

- 10 Without qualifying our opinion expressed in the paragraph above, we draw attention to the following situations:
- 10.1 The Statutory Auditor's Opinion for the period ended 31 December 2009, issued in 31 March 2010, includes a qualification regarding the debts arising from the public lightning and other services rendered to regional official entities, for which EEM signed a set of protocols in the years 2000, 2001, 2003 and 2006 in order to receive the amounts owed during a period between 10 and 30 years, without interest and in a monthly based installments. Additionally, this qualification refers the existence of amounts owed by the Central Government under the Contract for the Tariff Convergence for Electric Energy signed between EEM, the Regional Government and the Central Government, which establishes that the compensation payments due to EEM as a result of the tariffs reduction for the period from 1998 to 2002 will be made in quarterly installments without interest. The terms of the above mentioned debts, for which was established an agreement for their payment without interest, implicate that the present value of the outstanding debt is substantially lower than its nominal value. At the date of issue of our Statutory Auditor's Opinion for the period ended 31 December 2009, EEM had not determined the present value of these debts and the resulting effect in the shareholders' equity and profit for the period.

As at 31 December 2010 this issue is resolved, considering that during the period then ended EEM has determined and recorded in the financial statements the present value of these debts.



- 10.2 The Statutory Auditor's Opinion for the period ended 31 December 2009, issued in 31 March 2010, includes a qualification regarding the existence of a significant amount of debts with a high maturity date owed by regional official entities and with no payment plan established, for which it was not possible to estimate when they would be realised.

As at 31 December 2010 this issue is resolved, considering that during the period then ended EEM has determined and recorded in the financial statements the effect of those losses.

- 10.3 As disclosed in the notes to financial statements, on 23 March 2011, as result of the downgrade of the Portuguese Republic and the Autonomous Region of Madeira ratings, the rating agency Moody's has made a downgrade of EEM's rating from Baa1 to Ba1. According to this agency, this reduction is justified by the effect that those rating reductions of the Portuguese Republic and the Autonomous Region of Madeira may have on regional governmental entities, as customers of EEM, which have significant amounts of debt, and by the existing possibility of EEM appeal to extraordinary support from its shareholder (the Government of the Autonomous Region of Madeira).

The need of a potential extraordinary appeal to the shareholder results from the remuneration form of a syndicated loan, which is indexed to EEM's rating, and which requires an unconditional and irrevocable guarantee of the Government of Autonomous Region of Madeira considering the referred rating downgrade.

Therefore, the development of EEM's operations can be affected by changes in the contractual conditions of existing funding, particularly through the increase in spreads associated to these operations and the consequent increase of the related financial costs.

Report on other legal requirements

- 11 It is also our opinion that the financial information included in the Management Report is consistent with the consolidated financial statements for the period.

Lisbon, 31 May 2011


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

MINUTE NUMBER TWENTY-SECOND

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

- POINT ONE: Deliberate on the Annual Report of 2010;
- POINT TWO: Deliberate on application of results;
- POINT THREE: Elaborate a general appreciation of the administration and fiscal supervision of the corporation.

- Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2010 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 860 171,09 €:

Retained earnings –	4 374 153,98 €
Statutory reserve –	486 017,11 €

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



MINUTE NUMBER TWENTY-THIRD

- « On the twenty and third day of May of two thousand and eleven at approximately thirty minutes past fifteen in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A., collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and Eng.º Mário Eugénio Jardim Fernandes, as well as the single shareholder of the partnership, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total value of the Share capital, valued at twenty million euros, for which the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:
- SINGLE POINT: Deliberate on the Annual Report and Consolidated Accounts of 2010 and on the application of results.
- Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2010 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 896 089,65 €
- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.
- As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»

