



RELATÓRIO E CONTAS
ANNUAL REPORT

2011

EMPRESA DE ELECTRICIDADE DA MADEIRA

Index	
Board of Directors	3
Organigram	4
Characteristic Data	5
Transmission Network	6
Summary	9
Technical Information	11
I. Production	13
II. Transmission	21
III. Distribution	26
IV. Commercialisation	28
V. Service Quality	33
VI. Unspecified Investments	33
VII. Human Resources	35
Economic and Financial Information	37
Consolidated and Individual Financial Statements	69
Statutory Auditor's Opinion on the Consolidated Accounts	123
Extract of the Minute of the General Assembly Meeting	129

Note to reader:

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

Board of Directors



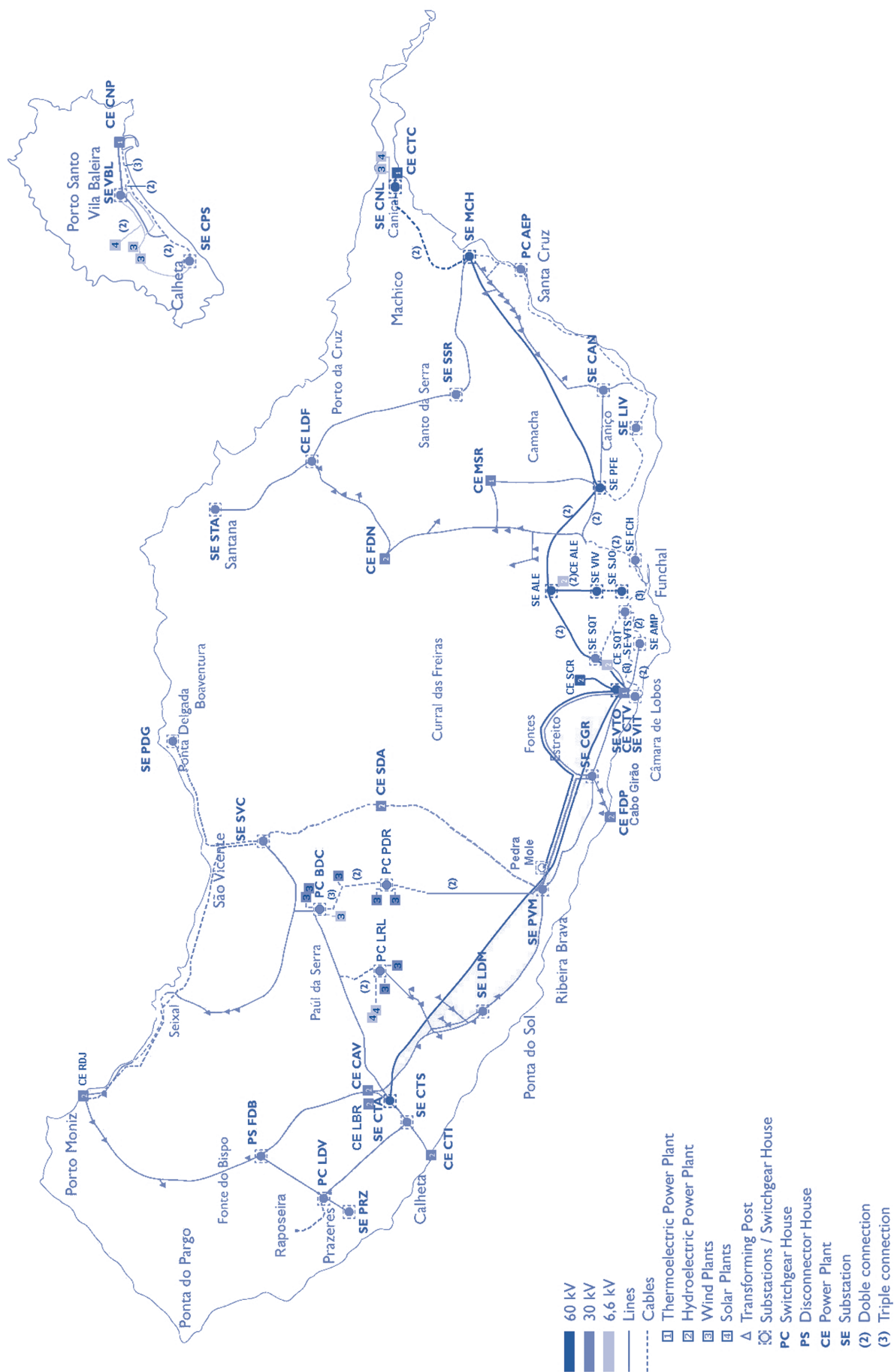
From left to right:
João Heliodoro da Silva Dantas (Vice-Chairman of the Board)
Rui Alberto Faria Rebelo (Chairman of the Board)
Mário Eugénio Jardim Fernandes (Board Member)

Organigram

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

Characteristic Data

Transmission Network




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

GWh	2007	2008	2009	2010	2011
Madeira Island	645.71	694.07	673.52	616.70	584.14
Hydroelectric	62.76	79.60	135.49	126.70	116.08
Thermoelectric (Vitória)	582.95	614.47	538.03	490.00	468.06
Porto Santo Island	37.42	39.35	37.58	32.82	29.62
Thermoelectric	36.76	38.47	36.93	32.18	29.49
Wind Plants	0.66	0.88	0.65	0.63	0.13
Total RAM	683.13	733.42	711.09	649.52	613.76

Note: RAM - Autonomous Region of Madeira

Electric energy acquisition - Other entities

GWh	2007	2008	2009	2010	2011
Madeira Island	255.21	247.21	266.96	308.24	317.88
Hydroelectric	3.55	4.10	4.65	5.00	5.11
Wind Plants	12.07	13.09	36.90	67.33	71.49
Thermoelectric (Canical)	201.49	192.81	188.60	194.85	193.34
Waste*	38.11	37.22	36.51	39.41	34.27
Photovoltaics**	-	-	0.29	1.65	13.67
Porto Santo Island	1.19	1.29	1.18	3.80	4.39
Wind Plants	1.19	1.29	1.17	1.31	0.97
Photovoltaics**	-	-	0.01	2.49	3.42
Total RAM	256.40	248.51	268.13	312.05	322.27

*Solid Waste Incineration

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

RAM's energy balance - 2011

GWh	Net Demand	Billing
Madeira Island	890.99	812.85
Porto Santo Island	31.67	30.24
Total RAM	922.66	843.09

Substations

	2007	2008	2009	2010	2011
Madeira Island					
Number	28	28	28	28	28
Installed power (MVA)	485	528	528	533	533
Porto Santo Island					
Number	3	3	3	3	3
Installed power (MVA)	16	16	18	18	20
Total RAM					
Number	31	31	31	31	31
Installed power (MVA)	501	544	546	551	553

Transforming Posts

	2007	2008	2009	2010	2011
Madeira Island					
Number	1,583	1,644	1,656	1,667	1,677
Installed power (MVA)	666	696	716	723	731
Porto Santo Island					
Number	91	93	93	92	91
Installed power (MVA)	35	35	35	34	34
Total RAM					
Number	1,674	1,737	1,749	1,759	1,768
Installed power (MVA)	701	731	751	757	765

Transmission and Distribution Network - RAM

Km	2007	2008	2009	2010	2011
Low Voltage Network	3,853	3,885	3,914	3,924	3,952
Overhead lines	3,013	3,017	3,007	2,999	3,003
Underground cables	839	868	906	925	948
6,6 kV Network	1,196	1,241	1,287	1,316	1,322
Overhead lines	546	541	539	532	523
Underground cables	650	699	748	784	798
30 kV Network	373	387	392	400	401
Overhead lines	237	243	245	250	250
Underground cables	136	144	147	150	150
60 kV Network	79	79	79	74	74
Overhead lines	69	69	69	64	64
Underground cables	10	10	10	10	10
Total RAM	5,499	5,591	5,672	5,714	5,749

Commercial Data

	2007	2008	2009	2010	2011
Madeira Island					
Number of Consumers	128,488	129,636	130,786	131,962	132,782
Consumption (GWh)	805.36	839.32	842.00	830.80	812.85
Households and Agriculture	255.54	259.76	265.25	265.64	261.69
Services and Commerce	337.49	358.50	364.32	349.46	344.61
Public Services	59.11	60.02	60.81	61.29	55.97
Industry	75.74	74.57	70.80	69.63	68.90
Public Lighting	77.48	86.47	80.82	84.78	81.68
Porto Santo Island					
Number of Consumers	4,414	4,477	4,560	4,621	4,691
Consumption (GWh)	34.39	36.67	34.92	32.71	30.24
Households and Agriculture	7.10	7.43	7.51	7.31	7.19
Services and Commerce	12.37	14.23	13.55	12.00	12.09
Public Services	3.53	3.65	3.52	3.19	2.89
Industry	9.43	8.96	7.93	7.87	5.93
Public Lighting	1.96	2.40	2.41	2.34	2.14
Total RAM					
Number of Consumers	132,902	134,113	135,347	136,584	137,473
Consumption (GWh)	839.75	876.00	876.92	863.51	843.09



Human Resources

	2007	2008	2009	2010	2011
N.º of Employees	868	865	859	851	830

Other Consolidated Financial Data

€'000	2007	2008	2009*	2010*	2011*
Turnover	145,107	171,441	153,259	174,497	193,534
Investment	39,926	66,823	57,455	46,537	24,396

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

Summary

2011 was marked by the application for financial assistance made by the Madeira Regional Government to the Government of the Republic, which culminated with the signing on January 27, 2012, the Program for Economic and Financial Adjustment of RAM, which aims to reverse the imbalance of the financial situation of RAM and ensure the sustainability of public finances. This program determined a set of additional measures, beyond those imposed in Portugal, with a significant impact on regional economy, such as the adoption of the taxation levels on corporation income tax (IRC) and income tax for individuals (IRS) equal to the Portuguese mainland, the increased standard of the value added tax (VAT) to 22%, the increase tax on petroleum products (ISP), as well as the adoption of strict measures to reduce remuneration provided for public entities. Also, since the already anticipated loss of tax benefits concerning the Madeira International Business Centre in 2012, made as early as 2011, many companies had abandoned the region, with consequent negative impact on tax revenue, the households available income and Madeira economy.

On this context, unusually adverse, EEM's activities were strongly conditioned by the economic environment that surrounds it, and it was not possible to comply with the investment plan originally outlined. Thus, the total investment volume (consolidated) amounted 24,396 thousand Euros, including the "Temporal" component ("Storm" of 20th February, 2010) and PPDA (Promotion of Environmental Performance Plans) in amounts of 418 and 232 thousand Euros, respectively, presenting the relative distribution by area of activity: 33.3% in distribution/commercialisation, 18.1% in production, 14.7% in transmission and 6.9% in non-specific investment. The remaining 27.0% was invested in EEM subsidiaries.

Production

The achieved investments in the production area amounted to 4,408 thousand Euros, mainly in:

- Interventions in several sections of the water supply channels network for the different hydroelectric power plants;
- Completion of the Fajã da Nogueira Hydroelectric Power building reconstruction;
- Great repairs in nºs 9 and 10 generating Power Groups (CTV II);
- Reinforcement of the river wall protection along the CTV II and III;
- Renewal of the CTV II coverage;
- Construction of car parking in CTV III;
- Large repair on the fuel-oil tank in Porto Santo Thermoelectric Power Plant.

Transmission

The accomplished investments in the transmission area amounted to 3,590 thousand Euros, essentially in the reinforcement of the transmission network, substations/switchgear posts remodelling and substations power capacity improvements.

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

- Initiation of the construction works for the Pedra Mole Substation;
- Initiation of the Loiral Switchgear Post remodelling, comprising the installation of 30 kV double bus cells;
- Remodelling of the 30 kV cells in the Vila Baleira Substation in Porto Santo Island.

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

- Completion of the interconnection section of the Paúl – Pedra Mole and Cabo Girão overhead lines, in Pedra Mole area;
- Completion of works for the overhead lines refurbishment, namely: Vitória – Palheiro Ferreiro, Palheiro Ferreiro – Machico, Calheta – Vitória and Vitória – Cabo Girão;
- Construction of the underground cables section in the Paúl da Serra area, integrated into the project of the future connection between the Lombo do Doutor Substation and the Loiral Switchgear Post in double circuit.

Distribution/Commercialisation

The achieved investments in the distribution/commercialisation sector reached the amount of 8,119 thousand Euros, being detailed as follows:

- Connection of 10 new transforming posts for public service;
- Connection of 6 new private transforming posts to network;
- Construction of 19.39 km medium voltage network, being 2.15 km of overhead lines and 17.24 km of underground network;
- Removal of 10.99 km medium voltage network, essentially overhead lines;
- Remodelling of medium voltage network in 12.44 km;
- Construction of 41.03 km of low voltage network, being 15.71 km overhead lines and 25.32 km of underground network;
- Removal of 13.65 km medium voltage network, essentially overhead lines;
- Remodelling of low voltage network in 108.41 km;
- Installation of 200 new public lighting luminaries;
- Replacement of 209 public lighting luminaries;
- The electric energy sales achieved 812.85 GWh in Madeira Island and 30.24 GWh in Porto Santo Island, totalising 843.09 GWh in RAM;
- The average number of clients connected to the network, in 31st of December 2011, reached 132,782 and 4,691 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 1,684 thousand Euros. In this area, it is important to highlight the general installations and information systems, with particular emphasis on the following projects:

- Conclusion of the emergency energy power group installation in the Headquarters building;
- Completion of the EEM's facilities rehabilitation, in Carmo Street, Funchal, as in the SIAM (Inspection and Measuring Equipment Service), due to the "Temporal" component ("Storm" of 20th February, 2010);
- Acquisition of new equipment for the Wave Power Quality;
- Implementation of various improvements in the SAP system;
- Changes in BI system - Business Intelligence - (Reporting tools);
- Renovation of the Data Center;
- Development of the WFM - Work Force Management project (SGE - Team Management System);
- Implementation of several improvements in the SGI system (Non-Availability Management System);
- Implementation of a new staff access control.

Technical Information

I. Production

In 2011, the investments in the production area amounted to 4,408 thousand Euros, being detachable: major interventions in some generating power groups of Vitória Thermoelectric Power Plant (CTV II), thus extending its useful life and also interventions in hydraulic infrastructures of the hydroelectric plants systems.

A. Madeira Island

Hydroelectric utilities

Among all the investments carried out during 2011, regarding the hydroelectric power plants, were highlighted the following actions:

- Conclusion of the building recuperation in Fajã da Nogueira Hydroelectric Power Plant;
- Recovery of Serra do Faial water canal, related to the hydroelectric system of the Fajã da Nogueira Hydroelectric Power Plant, involving the execution of cyclopean concrete walls;
- Recovery works in the decanting pond of the Serra de Água Hydroelectric Power Plant;
- Works on water caption systems of Ribeira Grande in São Vicente, comprising the mat foundation of the stream bed and the execution of cyclopean concrete walls;
- Works of the Vargem riverside protection, involving the mat foundation of the stream bed and the execution of cyclopean concrete walls;
- Works of the mat foundation in the stream bed of the Ameixoeira riverside, in support of the water caption systems;
- Implementation of the access to the Rabaças water canal for the purpose of intervention and exploitation;
- Continuation of preliminary works for the future Juncal mini-hydroelectric Power Plant;
- During the public tender for the Pico da Urze dam, part of the Calheta Hydroelectric Power Plant expansion, it was necessary to proceed with a changing project by imposition of the "Autoridade Nacional de Barragens", which caused a planning delay. The various tenders related to this task, should be launched during 2012.

Thermoelectric utilities

Vitória Thermoelectric Power Plant

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

- Great interventions in nºs 9 and 10 Power Groups (CTV II);
- Enforcement of the riverside wall protection along the CTV II and III;
- Renewal of the CTV II coverage;
- Construction of a car parking in CTV III.

On December 31st, 2011, 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 262.91 MW, of which 212.94 MW (81.0%) are installed in Vitória Thermoelectric Power Plant and the remaining 49.97 MW (19.0%) in hydroelectric power plants.

EEM's power system in Madeira Island - 2011

	Thermal	Hydro	Total
N.º of Power Plants	1	9	10
Installed Power (MW)	212.94	49.97	262.91
Production (GWh)	468.06	116.08	584.14

EEM's thermal power plant in Madeira Island - 2011

	Units	Installed Power		Max. C. Power*	Production (GWh)	Net Emission (GWh)	Fuel
		(MW)	(MVA)				
Vitória Thermal Power Plant	1, 2	15.00	19.50	10.40	1.06		Thick Fuel-oil
	3	7.50	9.75	5.00	1.47		Thick Fuel-oil
	4, 5, 6	23.40	29.25	18.60	22.34		Thick Fuel-oil
	7, 8, 9, 10	42.24	52.00	34.00	186.28		Thick Fuel-oil
	11, 12, 13, 14, 15	57.60	70.00	47.00	184.75		Thick Fuel-oil
	16	12.80	16.00	12.80	1.05		Dual-Fuel
	17, 18, 19, 20**	54.40	68.15	49.00	71.11		Dual-Fuel
Total - CTV		212.94	264.65	176.80	468.06	458.08	

*Maximum continuous power

**Combined Cycle - Group N.º 20

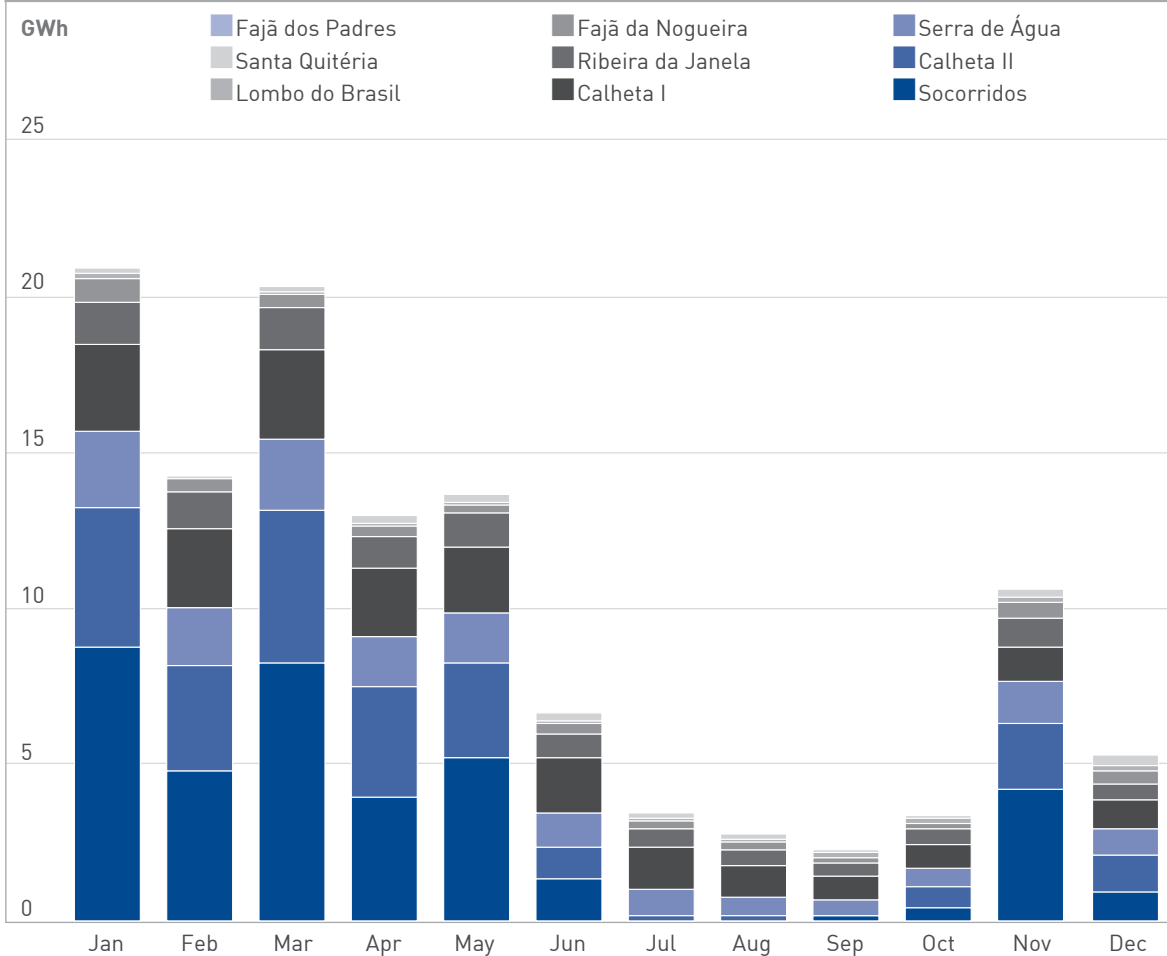
EEM's hydro power plants in Madeira Island - 2011

	Inst. Power (MW)	Production (GWh)	Net Emission (GWh)	Height Of Fall (m)	Type of Turbine
Serra de Água	5.20	15.60	15.56	430	Pelton
Calheta I	1.10	20.18	20.01	629	Pelton
	0.52			314	Pelton
	0.50			181	Pelton
	2.40			629	Pelton
Calheta II	7.00	24.69	24.66	637	Pelton
Ribeira da Janela	3.00	10.33	10.23	398	Pelton
Fajã da Nogueira	2.40	4.32	4.25	348	Pelton
Lombo do Brasil	0.45	1.32	1.32	316	Pelton
Fajã dos Padres	1.70	-	-	530	Pelton
Santa Quitéria	1.70	1.99	1.99	212	Pelton
Socorridos	24.00	37.65	37.58	457	Pelton
Hydroelectric Pumping	11.25	-	-	457	Francis
Total EEM*	49.97	116.08	115.60		

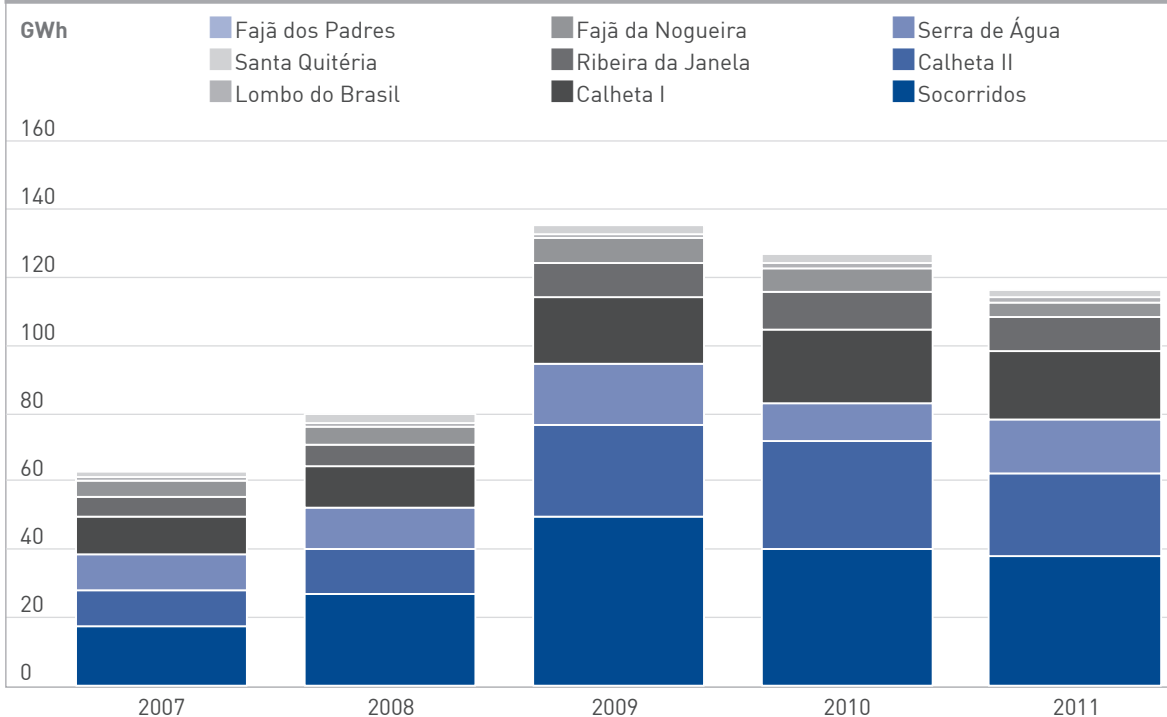
*Hydroelectric Power Pumping not included

In 2011, the total EEM energy net emission in Madeira Island, reached 573.68 GWh, 458.08 GWh (79.8%) of which generated by thermoelectric power plants and the remaining 115.60 GWh (20.2%) generated by hydroelectric power plants, this value is slightly lower than the previous year, yet, higher value than the historical average, due to a very wet hydrologic year.

EEM monthly hydro production in Madeira Island - 2011



EEM annual hydro production in Madeira Island



The installed power in the private generating power plants amounted to 105.29 MW, more than 17.1% over 2010, resulting from the entry into operation of new photovoltaic parks, a new wind plant, as also to the microgeneration increment.

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

Private owned power plants in Madeira Island - 2011						
	Thermal	Hydro	Wind	Waste*	Photovoltaics**	Total
N.º of Power Plants	1	1	9	1	481	493
Installed power (MW)	36.00	0.70	43.91	8.00	16.68	105.29
Acquisition (GWh)	193.34	5.11	71.49	34.27	13.67	317.88

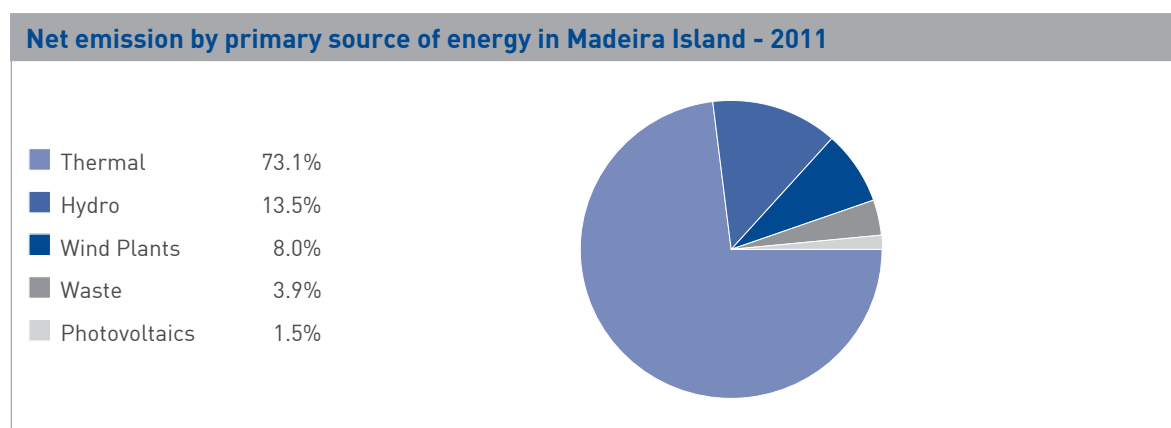
*Solid Waste Incineration

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

In 2011, the global energy issued by these generating power systems, reached to 317.88 GWh more 3.1% than the previous year. Thus, 60.8% of this energy was provided by Caniçal Thermoelectric Power Plant, 22.5% by wind plants, 10.8% by ETRSU (a solid waste incineration), 4.3% by photovoltaic producers, micro and minigeneration, and the remaining 1.6% from Terça mini-hydroelectric Power Plant.

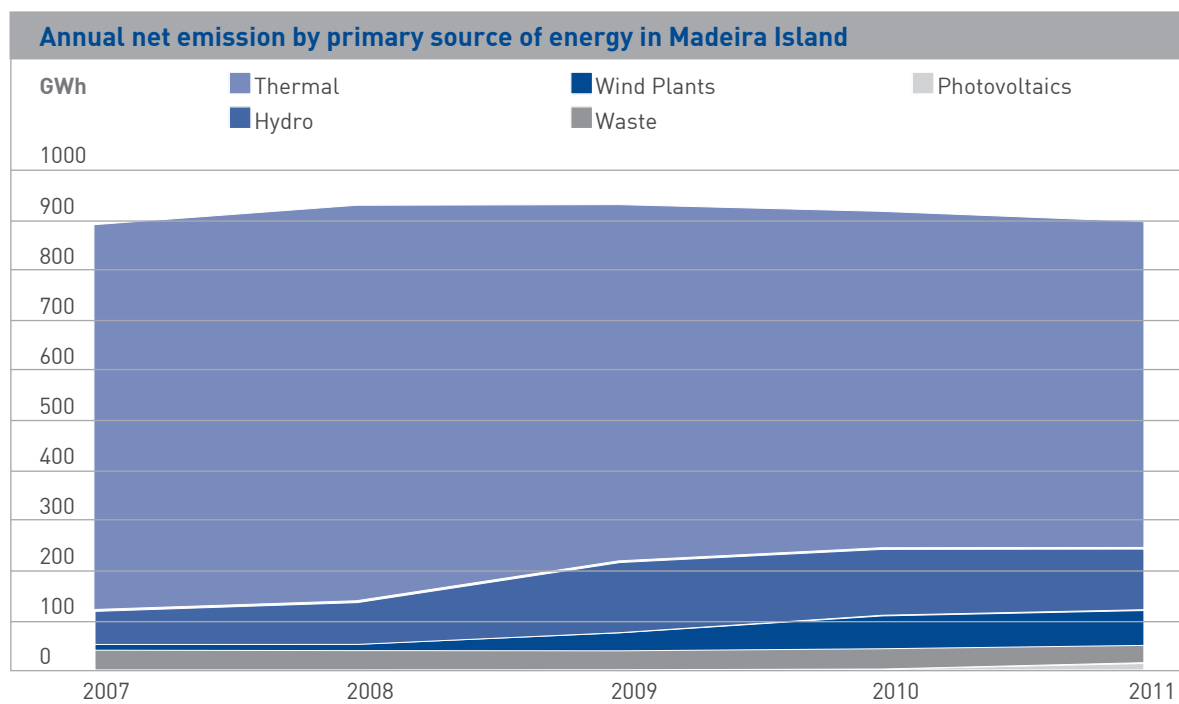
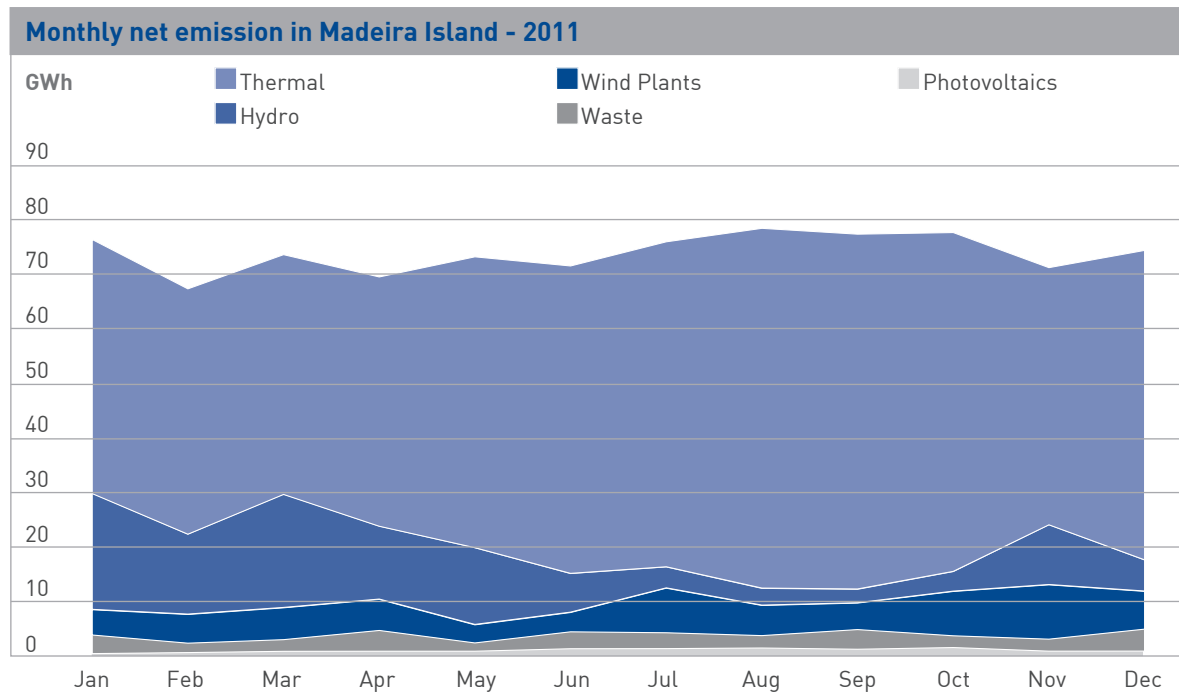
The private plants energy contribution represents 35.7% of the total emission in Madeira Island.

The net emission distribution through the network system (EEM system and private producers) in the Madeira Island, in 2011 is presented as follows:

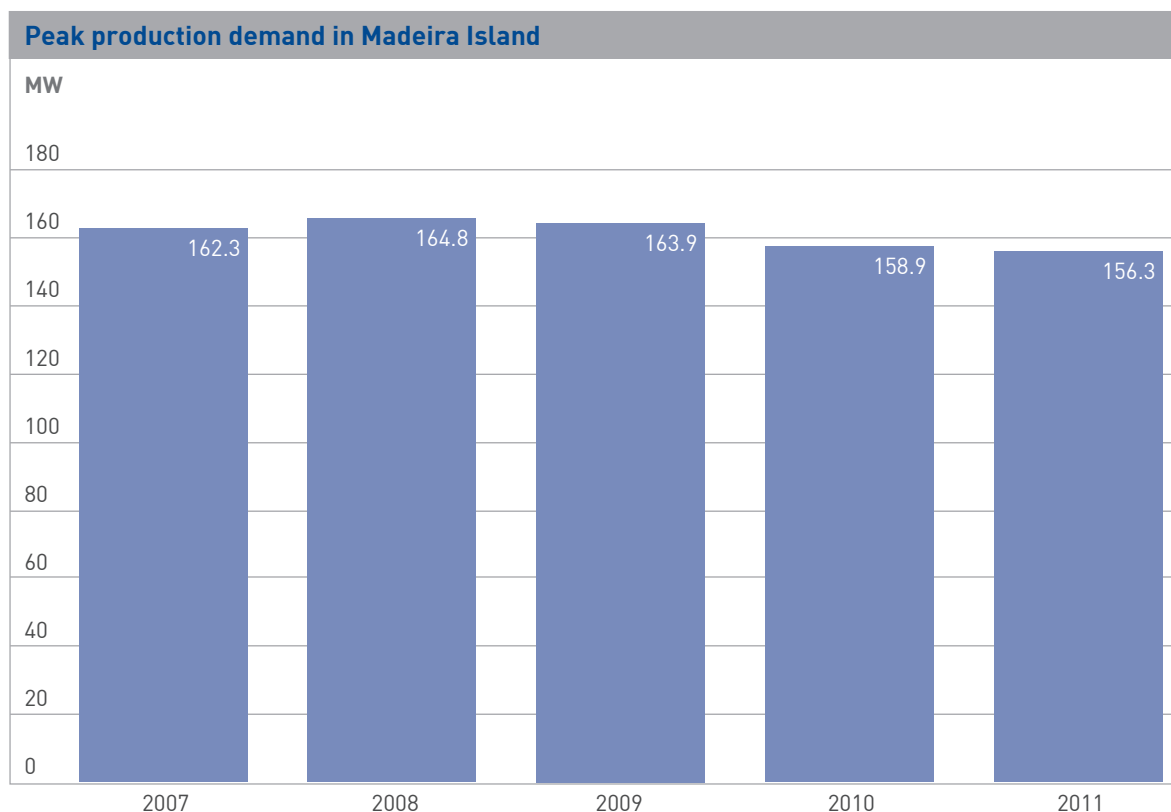


Thus, the renewable component, in 2011, amounted to 26.9% of the total energy emitted into the electric network and the remaining 73.1% came from fossil combustibles.

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



The peak load in Madeira Island occurred in January, reaching the value of 156.3 MW, representing a decrease of 1.6%, comparing to 2010.



The consumption of fuel and lubricants, in Vitória Thermoelectric Power Plant amounted to 102,660 and 720 thousand liters, respectively. This consumption represents a significant decrease of 5.5%, over the previous year, due not only to an increased renewal production (wind and solar), but also to an even more reduced energy consumption. It is important to point out the use of 528 thousand liters of ammonia, in order to reduce the NO_x in CTV III.

Fuel and lubricant consumption in the EEM system in Madeira Island - 2011				
liters '000	Thick Fuel-oil	Diesel	Lubricant	Ammonia
Vitória Thermal Power Plant	101,630	1,030	720	528

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 microproducers. The total installed power amounted to 20.44 MW, shared by Porto Santo Thermoelectric Power Plant, which contributed with 17.28 MW (84.5%), by the solar power plant and microgeneration installations with 2.05 MW (10.0%), and by the two wind plants, with the remaining contribution of 1.11 MW (5.5%).

Porto Santo Thermoelectric Power Plant

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

- Major repair of the fuel-oil tank;
- Intervention in a containment wall surrounding the plant.

EEM's power system in Porto Santo Island - 2011

	EEM		ENEREEM	Privates	Total
	Thermal	Wind Plants	Wind Plants	Photovoltaics*	
N.º of Power Plants	1	1	1	16	19
Installed power (MW)	17.28	0.45	0.66	2.05	20.44
Net Emission (GWh)	27.15	0.13	0.97	3.42	31.67

*Including PRE ("special power generation" D-Law 312/2001) and microgeneration (D-Law 363/2007)

EEM's thermal power plant in Porto Santo Island - 2011

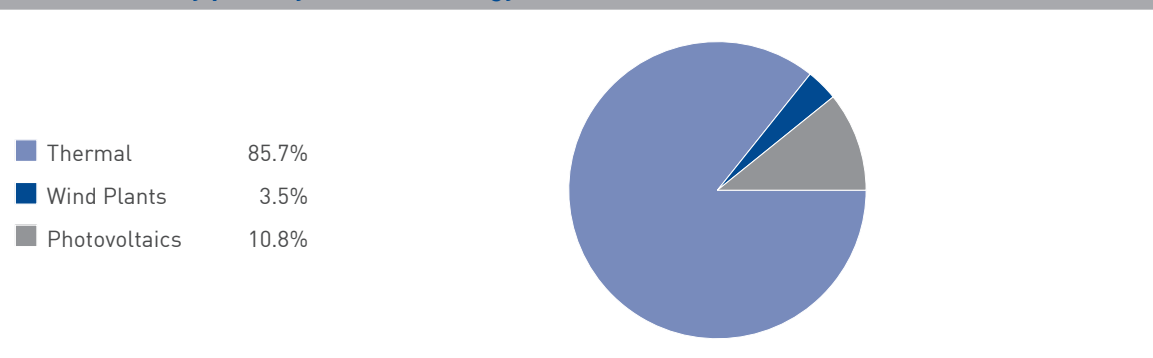
	Units	Installed Power		Max. C. Power*	Production	Net Emission	Fuel
		(MW)	(MVA)	(MW)	(GWh)	(GWh)	
Porto Santo	1,2**	10.00	12.86	-	0.02		Diesel
Thermal	3,4,5	12.96	15.30	11.40	20.52		Thick Fuel-oil
Power Plant	6	4.32	5.10	3.80	8.95		Thick Fuel-oil
Total - CTPS		17.28	20.40	15.20	29.49	27.15	

*Maximum continuous power

**Decommissioned power unit groups in 2008

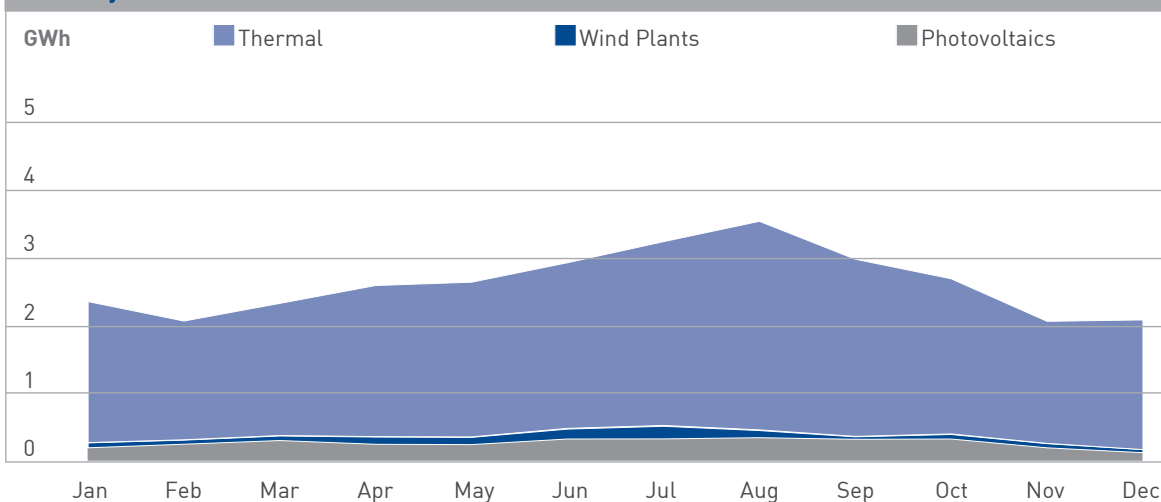
In 2011, the energy issued by the generating power system in Porto Santo Island, reached 31.67 GWh, of which 27.15 GWh (85.7%) were produced by the thermoelectric plant, 3.42 GWh (10.8%) by solar source and the remaining 1.10 GWh (3.5%) by the wind plants.

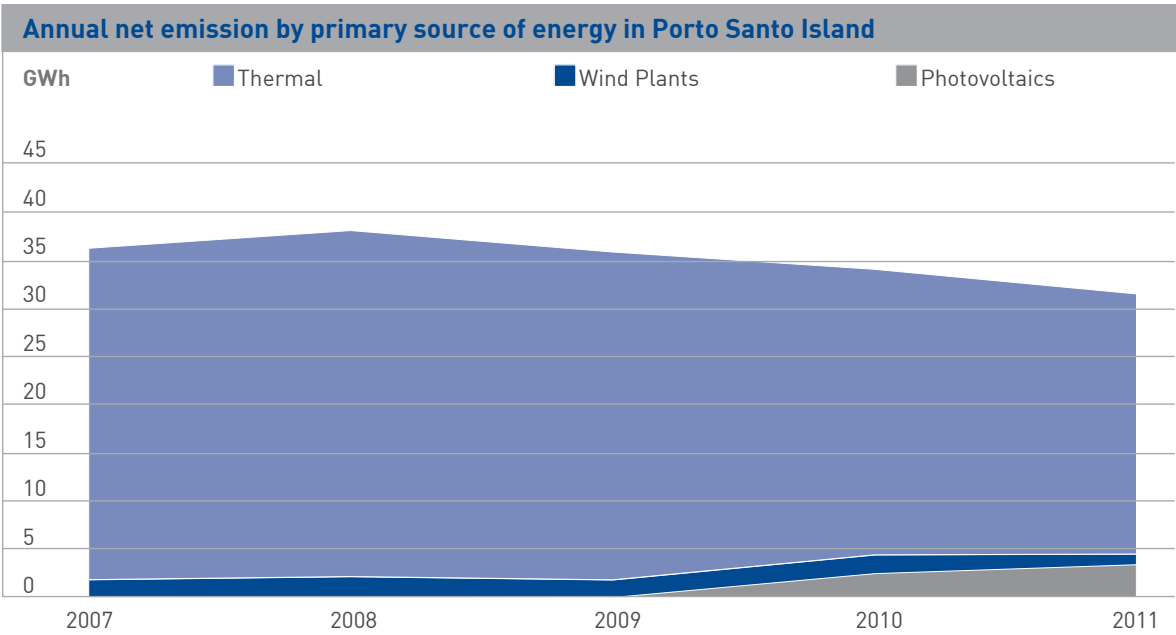
Net emission by primary source of energy in Porto Santo Island - 2011



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

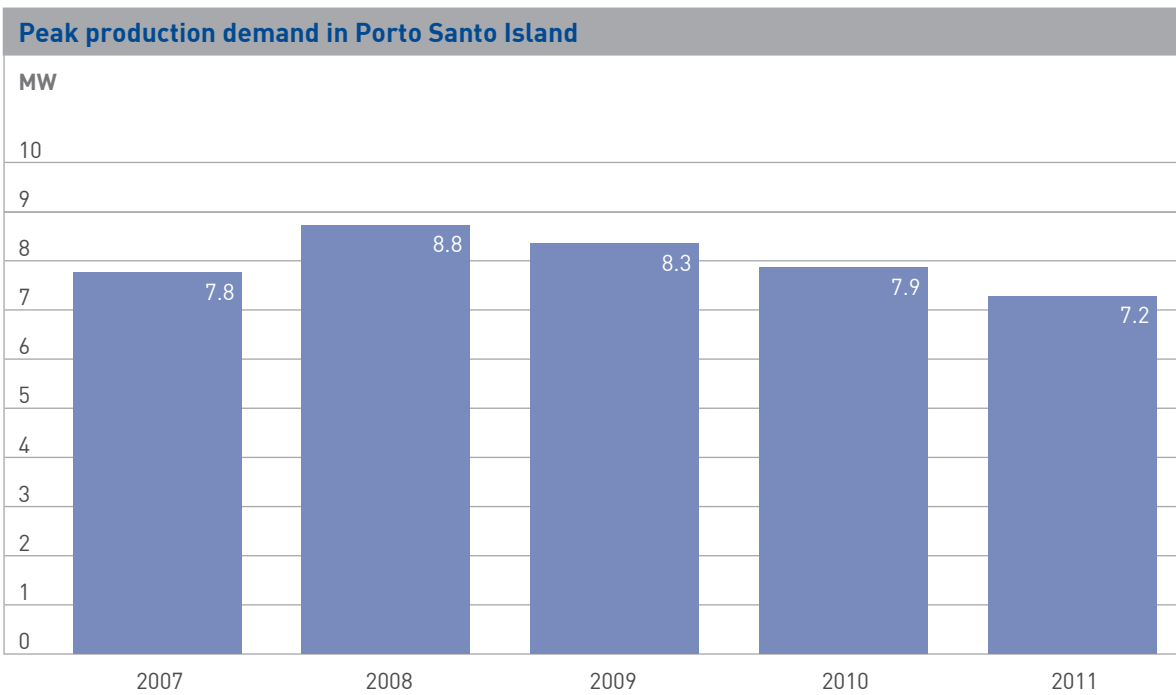
Monthly net emission in Porto Santo Island - 2011





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 fluctuations compensation.

The yearly peak load in Porto Santo Island occurred in August, registering 7.2 MW, 8.1% lower than the one recorded in 2010.



The consumption of fuel and lubricants in Porto Santo Thermoelectric Power Plant amounted to 7,707 and 32 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo Island - 2011			
liters'000	Thick Fuel-oil	Diesel	Lubricant
Porto Santo Thermal Power Plant	6,742	965	32

There was a decrease in fuel consumption of around 8.0% over the previous year, particularly motivated by the decrease in energy demand, as well as by the increases of the solar component and microgeneration.

II. Transmission

In transmission, the accomplished investments most significant were substations/switchgear houses and transmission lines, totalling 3,590 thousand Euros.

Substations and Switchgear Houses

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

- The start of construction of the Pedra Mole Substation;
- Initiation of the remodelling of the Loiral Switchgear Post, comprising the installation of 30 kV double bus cells;
- Continuation of works for the differential protections in the Palheiro Ferreiro Substation;
- Realisation of projects and tender process for construction of new substations, namely: Fontes, Prazeres, Lombo do Meio and Amparo. With the exception of the Fontes Substation, which will be new, interventions in others will be a total remodelling;
- Refurbishment of the 30 kV cells in the Vila Baleira Substation, in Porto Santo Island;
- Installation and commissioning of a 6 MVA transformer, 30/6,6 kV in the Vila Baleira Substation, in Porto Santo Island.

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

- Continuation of the program for the power transformer substations upgrading;
- Carrying out general maintenance works, particularly on the power transformers;
- Accomplishment of thermal inspection works.

Substations in RAM - 2011

	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	20.0	-	-	20.0	-
Nova Central	4.0	-	-	4.0	-
Vila Baleira	4.0 + 6.0	-	-	10.0	-
Calheta	6.0	-	-	6.0	-
Total RAM	258.0	170.0	125.0	553.0	32.0

Transmission network

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

- Completion of the works for the interconnection between the overhead lines of Paúl – Pedra Mole and Cabo Girão, in view of the new Pedra Mole Substation, which is still in a construction phase;
- Completion of the refurbishment works of overhead lines, namely:
 - 60 kV network:
 - Vitória – Palheiro Ferreiro;
 - Palheiro Ferreiro – Machico;
 - Calheta – Vitória.
 - 30 kV network:
 - Vitória – Cabo Girão.
- The construction of the underground pipes section in the Paúl da Serra area, integrated into the project of the future double circuit connection between Lombo do Doutor Substation and the Loiral Switchgear Post;
- Continued construction of the underground pipes section in the road “Caminho do Poço Barral”;

- Launching of a tender for the supply and installation of a 60 kV underground cables interconnection between the substations of Vitória – Amparo – São João – Funchal.

Other interventions took place, including the replacement of suspension isolators, terminal boxes, supports displacement required by clients, as well as the deforesting about 23 km of electric grid lines surroundings and cleaning overhead lines supports.

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

- Inspection of overhead lines in an extension of 45 km, in 30 kV network;
- Inspection of 60 kV and 30 kV underground connection chambers, along circa 47 km extension, being 10 km of 60 kV connections, and the remaining in 30 kV.

Transmission Network in RAM - 2011

	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	20.00	258.00
60 kV Network	74.05	-	74.05
Overhead lines (km)	63.84	-	63.84
Underground cables (km)	10.21	-	10.21
30 kV Network*	385.34	15.30	400.64
Overhead lines (km)	245.39	5.10	250.49
Underground cables (km)	139.95	10.20	150.15
Optic Fiber (km)	569.54	9.11	578.65

*30 kV Distribution Network included

The following table shows the evolution in the transmission area occurred in 2011:

Evolution of the Transmission Network in RAM - 2011			
Km	Madeira	Porto Santo	Total RAM
Transmission Network Expansion			
60 kV Network	-	-	-
Overhead lines	-	-	-
Underground cables	-	-	-
30 kV* Network	0.88	-	0.88
Overhead lines	0.28	-	0.28
Underground cables	0.60	-	0.60
Transmission Network Removal			
60 kV Network	-	-	-
Overhead lines	-	-	-
Underground cables	-	-	-
30 kV* Network	(0.30)	-	(0.30)
Overhead lines	(0.20)	-	(0.20)
Underground cables	(0.10)	-	(0.10)
Transmission Network Renewals			
60 kV Network	-	-	-
Overhead lines	-	-	-
Underground cables	-	-	-
30 kV* Network	4.67	0.25	4.92
Overhead lines	4.42	-	4.42
Underground cables	0.25	0.25	0.50

*30 kV Distribution Network included

Telecommunications

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

- Expansion of optical-fiber cable in its backbone, namely:
 - Installation of 165 km of optical-fiber in Madeira Island;
 - Network expansion through new facilities:
 - Praia da Madalena Transforming Post – Lombo da Velha Substation;
 - Machico Substation – Santana Substation (Transforming Post nº2 Via Expresso – Santana Substation connection);
 - Livramento Substation – Caminho do Terço II Transforming Post;
 - Ponta Delgada Substation – Boaventura location;
 - Pico Cardo Transforming Post – Curral das Freiras location;
 - Santana Substation – Igreja (São Jorge) Transforming Post;
 - Lombo da Velha Substation – Ponta do Pargo location.
 - Redundancy in the backbone:
 - Dispatch technical room – Cabo Girão Substation;
 - Assomada Substation – Machico Substation.
 - Reinforcement of the optical-fiber number between the following locations:
 - Aeroporto Substation – Machico Substation;
 - Livramento location – Zimbreiros Transforming Post;
 - Machico Substation – Serra de Água Transforming Post.

- Expansion / Renovation of telecommunications technical rooms:
 - Transition of substation equipment and services of the Machico and the Ponte Vermelha substations, into the new techniques cabins.
- Telecommunication equipments for optic fiber:
 - Expansion of the SDH network;
 - Increased capacity Hit 7060: technical rooms;
 - Remote Controller and Ethernet: Serra de Água Hydroelectric Power Plant;
 - Remote Controller and Ethernet: Ribeira da Janela Hydroelectric Power Plant;
 - Upgrade of the remote control and Ethernet: Calheta and Prazeres substations;
 - Upgrade of the remote control: Lombo do Meio, São Vicente and Machico substations and Loiral Switchgear Post;
 - Remote control of the Fajã da Nogueira Hydroelectric Power Plant through Portela location;
 - Remote of the transforming posts: Porto Moniz and São Martinho;
 - Expansion of the SDH network: Ponte Vermelha Substation;
 - Remote Controller: Calheta Hydroelectric Power Plant.
- Telephone Network:
 - Telephone network in the Vitória Thermoelectric Power Plant – CTV III;
 - Upgrade the telephone network of Porto Santo Island.

Dispatch Centre

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

- Extension of the remote control to the Loiral II Wind Plant;
- Non-available Management System operation;
- Development of an application (in SCADA) for the automatic management of setpoints in wind plants;
- Installation of a new telephone communications center, enabling segmentation and call recording;
- Introduction of new contents on the intranet site: <http://despacho>, including:
 - Improvement and historical availability in application of the Interactive Load Charge Diagram;
 - Development of an interactive application for daily information.
- Maintenance of equipment attached to the dispatch centre, SPIDER (SCADA system) and Remote Terminal Units.

III. Distribution

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

Distribution Network in RAM - 2011

Km	Madeira	Porto Santo	Total
6,6 kV Network	1,247.67	73.87	1,321.54
Overhead lines	505.99	17.17	523.16
Underground cables	741.68	56.70	798.38
Low Voltage Network	3,833.11	118.74	3,951.85
Overhead lines	2,951.07	52.43	3,003.50
Underground cables	882.04	66.31	948.35

Transforming Posts by council in RAM - 2011

	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	106	80,125	471	254,940	577	335,065
Câmara de Lobos	16	10,290	115	43,085	131	53,375
Ribeira Brava	4	2,010	112	34,275	116	36,285
Ponta do Sol	3	930	58	19,910	61	20,840
Calheta	4	1,680	126	33,525	130	35,205
Porto Moniz	-	-	49	12,630	49	12,630
São Vicente	6	2,010	56	17,025	62	19,035
Santana	9	5,335	90	21,290	99	26,625
Machico	32	19,815	124	48,690	156	68,505
Santa Cruz	35	22,950	261	100,010	296	122,960
Porto Santo	21	12,535	70	21,560	91	34,095
Total RAM	236	157,680	1,532	606,940	1,768	764,620

The councils with more installed capacity are Funchal, Santa Cruz and Machico with 335,065 kVA, 122,960 kVA and 68,505 kVA, respectively.

A. Madeira Island

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

- Installation of 10 new public transforming posts with an installed power of 4,590 kVA and 6 new private ones with an installed power of 5,210 kVA;
- Construction of 15.91 km of medium voltage network, being 2.15 km overhead lines and 13.76 km of underground network;
- Removal of 9.74 km of medium voltage network, essentially overhead lines;
- Remodelling of medium voltage network in 10.79 km;
- Construction of 37.33 km of low voltage network, being 15.57 km overhead lines and 21.76 km of underground network;
- Remodelling of low voltage network in 106.77 km;
- Installation of 152 new public lighting luminaries;
- Replacement of 197 public lighting luminaries.

B. Porto Santo Island

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

- Enlargement of the medium voltage network in 3.48 km;
- Removal of 2.38 km overhead lines and 1.3 km of underground cables in medium voltage network;
- Improvement of the medium voltage network in 1.65 km;
- Enlargement of the low voltage network in 3.7 km;
- Improvement of the low voltage network in 1.64 km;
- Installation of 48 new public lighting luminaries;
- Replacement of 12 public lighting luminaries.

Evolution of the Distribution Network in RAM - 2011

	Madeira	Porto Santo	Total RAM
Distribution Network Expansion			
Transforming Posts for public service			
Number of units	10	-	10
Power (kVA)	4,590	-	4,590
Transforming Posts for private service			
Number of units	6	-	6
Power (kVA)	5,210	-	5,210
6,6 kV Network	15.91	3.48	19.39
Overhead lines (km)	2.15	-	2.15
Underground cables (km)	13.76	3.48	17.24
Low Voltage Network	37.33	3.70	41.03
Overhead lines (km)	15.57	0.14	15.71
Underground cables (km)	21.76	3.56	25.32
Distribution Network Removal			
Transforming Posts			
Number of units	(6)	(1)	(7)
Power (kVA)	(2,045)	(160)	(2,205)
6,6 kV Network	(9.74)	(3.68)	(13.42)
Overhead lines (km)	(8.61)	(2.38)	(10.99)
Underground cables (km)	(1.13)	(1.30)	(2.43)
Low Voltage Network	(8.50)	(5.15)	(13.65)
Overhead lines (km)	(8.40)	(2.89)	(11.29)
Underground cables (km)	(0.10)	(2.26)	(2.36)
Distribution Network Renewals			
Transforming Posts for public service			
Number of units	5	1	6
Power (kVA)	130	(90)	40
Transforming Posts for private service			
Number of units	1	-	1
Power (kVA)	115	-	115
6,6 kV Network	10.79	1.65	12.44
Overhead lines (km)	6.93	1.40	8.33
Underground cables (km)	3.86	0.25	4.11
Low Voltage Network	106.77	1.64	108.41
Overhead lines (km)	91.79	1.64	93.43
Underground cables (km)	14.98	-	14.98

IV. Commercialisation

The RAM's energy balance, in 2011, is presented as follows:

RAM's energy balance - 2011			
MWh	Madeira	Porto Santo	Total RAM
EEM - Power plants productions	584,136	29,625	613,762
Thermal	468,059	29,490	497,549
Fuel	467,006	29,470	496,477
Diesel	1,052	20	1,072
Hydro	116,077	-	116,077
Wind	-	135	135
Power plants consumptions and losses	10,462	2,340	12,802
Total EEM energy net emission	573,674	27,286	600,960
Other acquisitions - SEPM*	193,340	-	193,340
Thermal	193,340	-	193,340
Fuel	193,340	-	193,340
Total special status generation	124,537	4,389	128,926
Hydro	5,112	-	5,112
Wind	71,486	967	72,452
Waste**	34,270	-	34,270
Photovoltaics	11,750	3,346	15,097
Microgeneration	1,919	76	1,995
Total net generation	891,552	31,674	923,226
Hydroelectric pumping	563	-	563
Total net demand SEPM*	890,989	31,674	922,663
Proper consumptions	887	47	934
Total energy sales SEPM*	812,849	30,237	843,085
MV	167,400	10,709	178,109
LV	645,448	19,528	664,976
Total net delivery	813,736	30,283	844,019
Losses	77,253	1,391	78,644

*SEPM - Public Electricity Supply System of Madeira Island

**Solid Waste Incineration

The energy consumption in 2011, presented the decreased rates of 2.2% and 7.6% in Madeira and Porto Santo islands, respectively.

Energy sales to SEPM clients per tension level and tariffs regime - 2011						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	178.11	149.94	431.21	83.82	843.09

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

The RAM consumption in medium voltage reached 178.11 GWh, while in low voltage was 664.98 GWh, which corresponds to a respective 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 - 2011

	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
Madeira Island	255.64	145.49	193.80	68.90	6.05	81.68	55.97	5.31	812.85	100.0%
	31.4%	17.9%	23.8%	8.6%	0.7%	10.0%	6.9%	0.7%	100.0%	
Funchal	109.44	103.31	131.00	15.17	0.49	20.00	31.66	2.51	413.57	50.9%
Câm. Lobos	29.77	5.15	10.04	10.43	0.88	9.46	2.82	0.56	69.10	8.4%
Rib. Brava	12.38	2.58	7.19	1.25	0.09	6.81	1.43	0.48	32.20	4.0%
Ponta do Sol	8.97	2.34	2.31	1.90	0.62	3.46	1.12	0.16	20.89	2.6%
Calheta	13.33	4.11	4.08	1.14	0.64	6.28	1.65	0.19	31.42	3.9%
Porto Moniz	4.56	1.44	1.16	0.26	0.36	4.26	0.82	0.02	12.89	1.5%
S. Vicente	5.83	2.15	1.76	0.82	0.14	4.18	0.92	0.32	16.13	2.0%
Santana	7.77	2.12	3.81	0.72	0.33	4.66	1.38	0.19	20.99	2.6%
Machico	21.95	5.45	11.86	15.02	1.32	10.27	3.02	0.22	69.12	8.5%
Santa Cruz	41.63	16.84	20.59	22.19	1.18	12.29	11.15	0.66	126.55	15.6%
Porto Santo Island	7.13	6.87	5.02	5.93	0.06	2.14	2.89	0.20	30.24	
	23.6%	22.7%	16.6%	19.6%	0.2%	7.0%	9.6%	0.7%	100.0%	
Total RAM	262.77	152.37	198.82	74.83	6.11	83.82	58.86	5.51	843.09	
	31.2%	18.1%	23.6%	8.9%	0.7%	9.9%	7.0%	0.6%	100.0%	

Consumers by activity in RAM - 2011

	Households	Hotels	Services & Commerce	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
Madeira Island	110,769	2,099	13,401	943	1,326	1,685	1,984	575	132,782	100.0%
	83.4%	1.6%	10.1%	0.7%	1.0%	1.3%	1.5%	0.4%	100.0%	
Funchal	46,223	1,061	7,744	252	104	453	970	191	56,998	42.9%
Câm. Lobos	12,022	142	1,167	93	216	149	179	69	14,037	10.6%
Rib. Brava	5,998	75	493	44	61	141	90	37	6,939	5.2%
Ponta do Sol	4,309	57	321	47	105	72	66	24	5,001	3.8%
Calheta	6,539	93	436	54	88	154	114	68	7,546	5.7%
Porto Moniz	1,649	50	143	16	88	77	80	8	2,111	1.6%
S. Vicente	3,076	62	239	25	208	75	65	23	3,773	2.8%
Santana	4,267	72	357	35	144	108	104	18	5,105	3.8%
Machico	8,641	203	832	123	133	189	148	54	10,323	7.8%
Santa Cruz	18,045	284	1,669	254	179	267	168	83	20,949	15.8%
Porto Santo Island	3,949	88	395	45	18	67	88	41	4,691	
	84.2%	1.9%	8.4%	1.0%	0.4%	1.4%	1.8%	0.9%	100.0%	
Total RAM	114,718	2,187	13,796	988	1,344	1,752	2,072	616	137,473	
	83.4%	1.6%	10.0%	0.7%	1.0%	1.3%	1.5%	0.5%	100.0%	

In December 2011, the average number of clients connected to the electric network of RAM, reached 137,473, presenting an increase of nearly 0.7% comparing to 2010.

Consumption / Clients - Distribution by activity in RAM - 2011

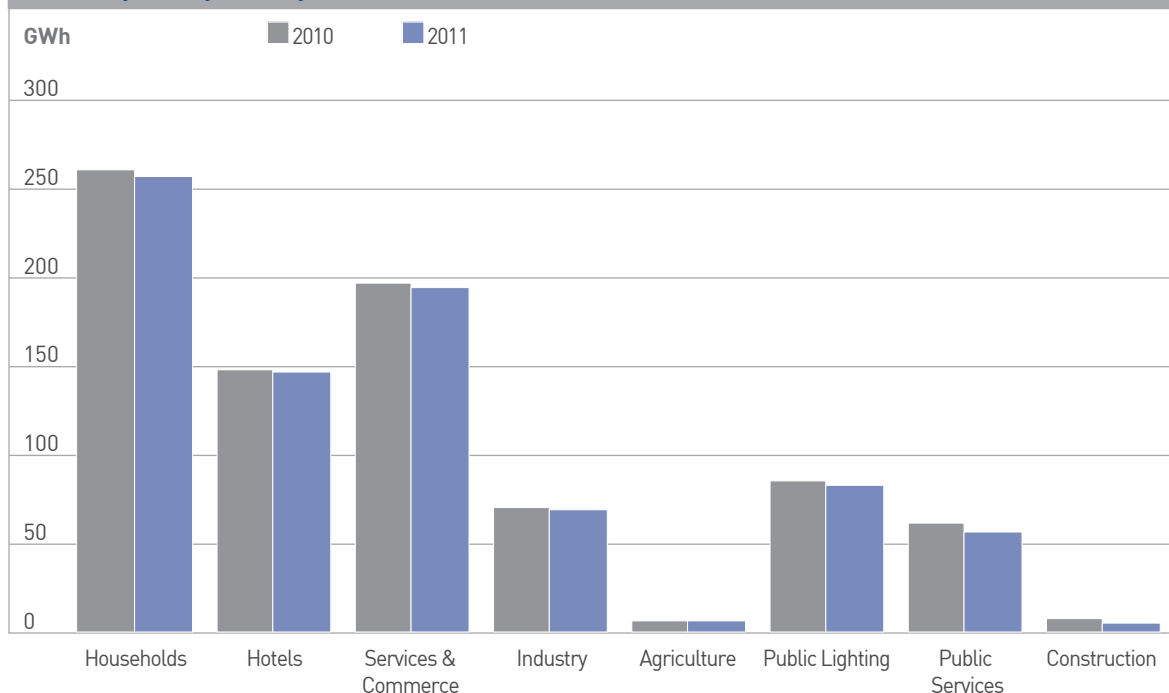
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client	Consump. (GWh)	Clients	(MWh)/ Client
Madeira Island	812.85	132,782	6.12	645.45	132,560	4.87	255.64	110,769	2.31
Funchal	413.57	56,998	7.26	307.09	56,886	5.40	109.44	46,223	2.37
Câm. Lobos	69.10	14,037	4.92	57.74	14,020	4.12	29.77	12,022	2.48
Rib. Brava	32.20	6,939	4.64	31.57	6,936	4.55	12.38	5,998	2.06
Ponta do Sol	20.89	5,001	4.18	19.52	4,996	3.91	8.97	4,309	2.08
Calheta	31.42	7,546	4.16	31.16	7,542	4.13	13.33	6,539	2.04
Porto Moniz	12.89	2,111	6.10	12.85	2,109	6.09	4.56	1,649	2.76
S. Vicente	16.13	3,773	4.28	15.66	3,770	4.15	5.83	3,076	1.90
Santana	20.99	5,105	4.11	18.98	5,099	3.72	7.77	4,267	1.82
Machico	69.12	10,323	6.70	51.80	10,290	5.03	21.95	8,641	2.54
Santa Cruz	126.55	20,949	6.04	99.08	20,912	4.74	41.63	18,045	2.31
Porto Santo Island	30.24	4,691	6.45	19.53	4,670	4.18	7.13	3,949	1.81
Total RAM	843.09	137,473	6.13	664.98	137,230	4.85	262.77	114,718	2.29

The average consumption per client ascended to 6.13 MWh/client. The highest consumption values were registered in the councils of Funchal, Machico and Porto Santo. The average consumption in the Households sector of the RAM reached the amount of 2.29 MWh per client, slightly inferior to the previous year, being the highest values verified in the councils of Porto Moniz, Machico and Câmara de Lobos.

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 31.4%, followed by the Services and Commerce sector with 23.8% and Hotels with 17.9%.

Consumption by activity in Madeira Island - 2010/2011

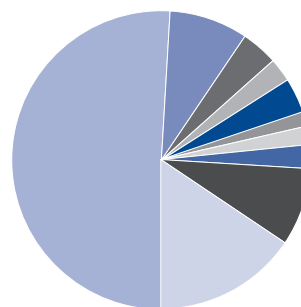


The council of Funchal with 42.9% of the total number of clients registered 50.9% of the total consumption in Madeira Island, followed by the councils of Santa Cruz with 15.6%, Câmara de Lobos with 8.5% and Machico with 8.4%.

In terms of consumption evolution by sector, there was an increase of 5.9% in Agriculture. On the other hand, there was a decrease in consumption of 24.1% in Construction, 8.7% in Public Services and 3.8% in Public Lighting, compared to the previous year.

Consumption in Madeira Island per council - 2011

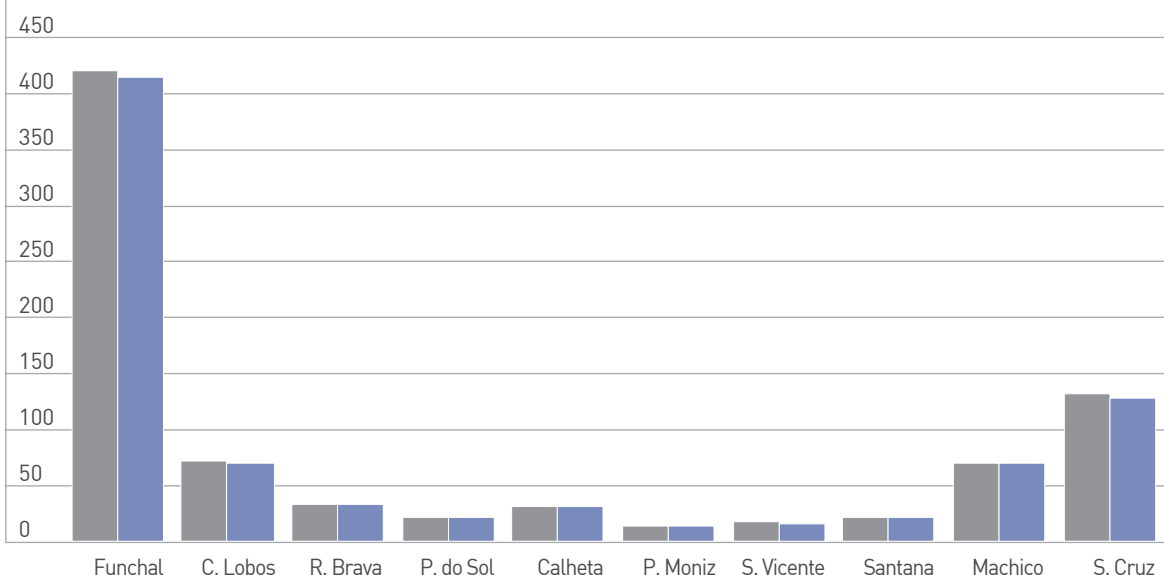
Funchal	50.9%	Porto Moniz	1.6%
Câm. de Lobos	8.5%	S. Vicente	2.0%
Rib. Brava	4.0%	Santana	2.6%
Ponta do Sol	2.6%	Machico	8.4%
Calheta	3.8%	Santa Cruz	15.6%



Regarding the consumption decrease, the council that registered the best consumption rate growth, in comparison to 2010, was Machico council, with an increase of 0.3%.

Consumption in Madeira Island per council - 2010/2011

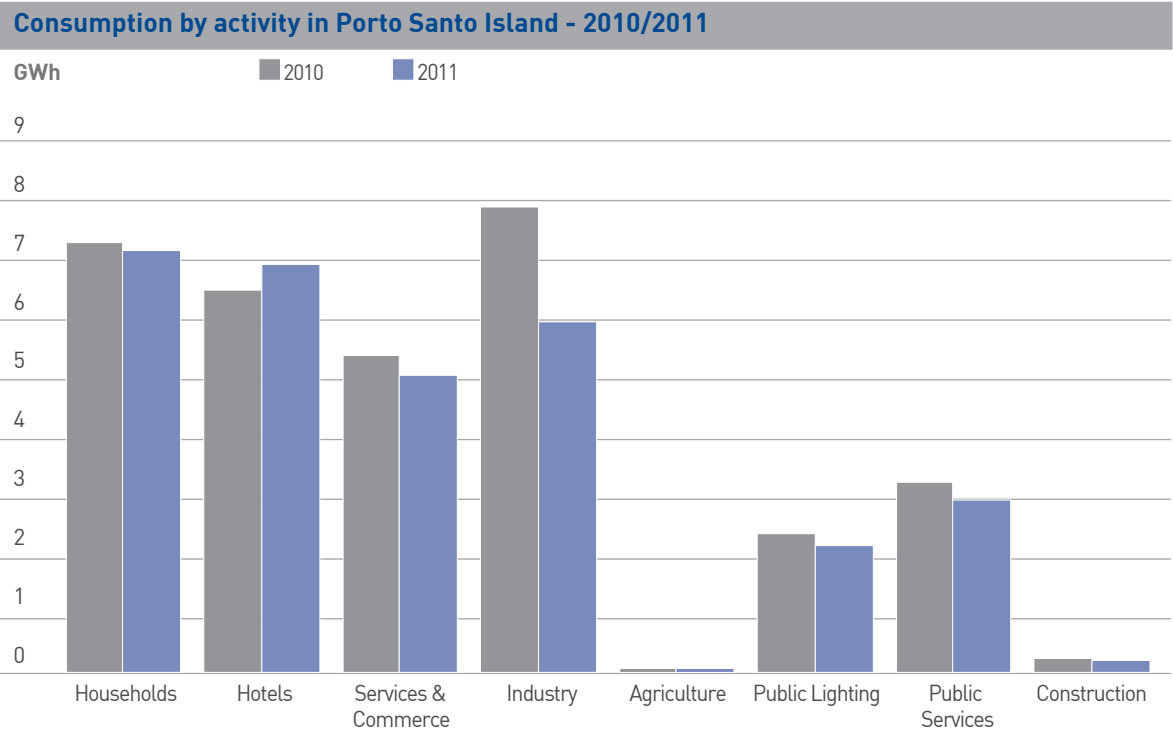
GWh 2010 2011



In 2011, 820 new consumers were connected to the Madeira electric network, totalising 132,782 clients (an increase of 0.6%), thus being 222 in the medium voltage level.

B. Porto Santo Island

The evolution rate, concerning electricity consumption in the Porto Santo Island, compared to 2010, suffered a decrease of 7.6%, as a result of the economic activity slowdown.



The distribution of the main energy consumption by activities was: 23.6% in Households, 22.7% in Hotels and 19.6% in Industry.

The Hotels sector consumption increased 6.8% compared to 2010. On the other hand, it was registered a decrease of 24.7% in Industry, 9.6% in Public Services and 8.3% in Public Lighting, compared to the previous year.

Concerning the new consumers, 70 were connected to the electric network, totalising 4,691 clients (an increase of 1.5%), from which 21 are in medium voltage. The medium and low voltage consumption amounted to 10.71 GWh and 19.53 GWh, with a distribution of 35.4% and 64.6% respectively.

V. Service Quality

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

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

In this context, the EEM has armed itself of the necessary resources to fulfill the regulation framework, being distinguished, the following initiatives, in 2011:

- Investments in the improvement of the existing systems for Voltage Wave Quality System, having for primary objective, the improvement of communications and registration, thereby increasing its usefulness;
- Award of a new system for communications management and information recording for the calculation of the Voltage Wave Quality Indicators, more efficiently;
- Acquisition of two new equipment for Voltage Wave Quality, one to be installed in the new Pedra Mole Substation and another in Vitória Substation on 30 kV voltage level;
- Accomplishment of Customers satisfaction inquiries, aiming the general indicators of Customers evaluation and satisfaction.

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

The Service Continuity Indicators of Transmission and Distribution in HV, MV, and LV networks of Madeira and Porto Santo islands, in 2011, are within the usual limits, presenting 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, the EEM remains committed to a continuous improvement in terms of processes, human resources and technologies, aiming to establish itself as a benchmark in this area.

VI. Unspecified Investments

The investments realised in unspecified areas by EEM in 2011, amounted to 1,684 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 "Temporal" ("Storm" of 20th February, 2010).

VI.I - Infrastructures of Support

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

- Conclusion of the installation for an emergency generating power group in EEM headquarters;
- Completion of the EEM's facilities rehabilitation, in Carmo Street and Ribeirinho Street in Funchal, following the damage caused by the "Temporal" ("Storm" of 20th February, 2010).

VI.II - Information Systems

EEM continued to develop several initiatives to restructure and modernize the commercial and technical systems area, to improve the service to Customers as well as implementing changes in processes resulting from regulatory and legal charges.

The main developments were as follows:

- SAP Developments

Implementation of several improvements on the SAP system, namely:

- ASEC – Special Social Support for the consumption of energy;
- Amendment of the extraordinary levels of VAT;
- IEC – Special Tax on Consumption of Energy;
- Enhancement Package 4 – Upgrade of SAP.

- Changes in BI - Business Intelligence – (Reporting tools)

During 2011, EEM has implemented a wide range of business reports, which had as main objective the creation of mechanisms intending the control of billing and collection processes.

- Renovation of Data Center

During 2011, EEM noticed the need to renew the server component of its Data Center, which showed clearly a loss of performance. We opted for a technology based on the Blade infrastructure with a virtualisation of the installed hardware, thus ensuring a renovation within the highest standards of security, integrity and availability of various technological platforms already existent in EEM, with a lower cost.

- WFM – Work Force Management

In 2011, the implementation works for this system were completed, 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.

- Implementation of various improvements in the SGI system (Non-Availability Management System)

It was accomplished various improvements on this platform, in order to guarantee optimum and a higher efficiency.

- Implementing a new staff access control

Due to an administrative necessity of EEM, it was necessary to implement a new recording attendance system. This need relates the provision of "physical digital" proof registration performed by the employee.

VII. Human Resources

As at 31st December 2011, EEM's staff was composed by 830 employees, thus being 811 as permanent staff and 19 under a short term contract.

Human Resources by functions					
	2007	2008	2009	2010	2011
Engineers	64	74	68	73	73
Others with university degree	28	29	36	36	36
Technical Engineers	9	11	9	8	8
Industrial Staff	467	450	459	459	446
Administrative Staff	273	262	256	255	249
Assistants	11	12	8	9	7
Employees under term contract	16	27	23	11	11
Total	868	865	859	851	830

From the 830 total employees, 786 rendered services in Madeira Island and the remaining 44 in Porto Santo Island.

Professional training actions

During 2011, several training actions were accomplished, benefiting 539 employees in a total of 11,115 training hours, subdivided by 10,708 hours of external actions and 407 hours of internal actions.

Economic and Financial Information

1 - Economic and Financial Information

Context

With the bankruptcy of the "Lehman Brothers" bank in 2008, the European economy and U.S. entered in a recession without parallel in our recent history. The succession of facts and events after the fall of the "Lehman Brothers", due to the adoption of strongly expansionary fiscal policies, going against the economic cycle, caused excessive budgetary deficits that forced the implementation of severe austerity measures, making the economic and financial environment further depressed, especially in Europe. Thus, it was without surprise that we witnessed the requests for bailout of Greece, Ireland, Iceland and Portugal, as well as the application of strong contingency measures in states with different economic order of magnitude in southern Europe, including Spain and Italy.

The speed and brutality of the adopted control budget measures led to a brutal halt in economic activity, causing a sudden deterioration of the living conditions in our society, whose social impact is beginning to be felt, with high levels of unemployment, bankruptcies and new immigrants move.

In this extremely adverse economic environment, the year 2011, came to assert itself as a particularly difficult year regarding the limited financing capacity of Portuguese companies. In fact, by virtue of decrease of the rating notation of Portuguese Republic to the level of non-investment grade, and the effect that this classification provoked in public and private business sector, the access to credit in international markets was completely closed. Simultaneously, the domestic credit institutions, had also been constrained by severe limitations of obtaining liquidity and the need to achieve more robust solvency ratios ("Core Tier I" 10% at the end of 2012), deleverage their activity, exercising a strong pressure on companies in order to reduce its credit exposure and significantly increase on its margins (spreads).

In the specific case of the Autonomous Region of Madeira, the year 2011 is also marked by the request for financial assistance from the Regional Government to the Central Government, which culminated in the signing in early 2012, a specific adjustment program to the Region. Thus the already anticipated loss of tax benefits of the International Business Centre of Madeira in 2012, provoked that in 2011, many companies had abandoned the Region, consequently having a negative impact on tax revenue, lowering the available domestic income of households and Madeira economy.

On this extraordinarily adverse context, the EEM activities were strongly conditioned by the recessive and restrictive economic and financial environment. Also, in 2011, energy demand suffered a contraction of 2.4%, and was registered an increase of receivables average time and in the level of customers default, having the investment declined significantly compared to previous years due to difficulties in obtaining financing.

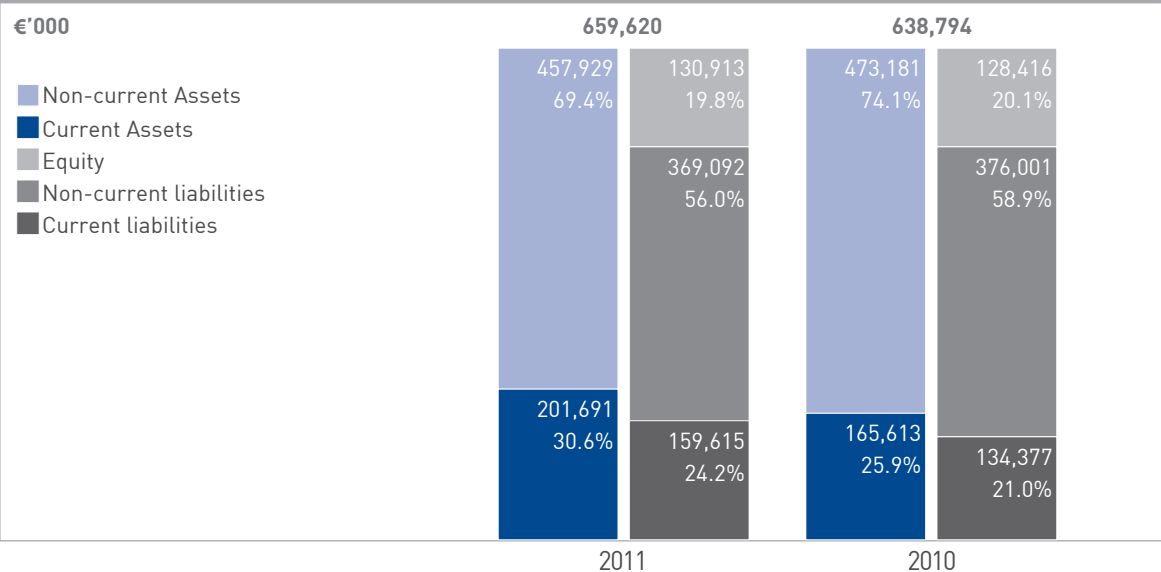
Due to a strong liquidity constraints that EEM faced in 2011, added with the non-accomplishment of the Ministerial Order of 3 October 2008, issued by the Minister of Economy and Innovation. The energy tariffs set in 2008 to take effect in 2009, did not seem sufficient to cover all the cost estimates for the electrical system, as a result the Central Government decided that the compensation for the tariff rates set in 2009 for EEM and EDA contemplated that year and in exceptional circumstances, the allocation of 50 million Euros (EEM: 24,173,186 Euros and EDA: 25,826,814 Euros), in accordance with the Ministerial Order of the Minister of Economy and Innovation, further provided that the payment of that amount should occur until January 31, 2009 which, however, did not come up to date. At the end of fiscal year 2009, that is, in 2010, it was settled that the EEM and EDA, by mismatch assumptions, it would return to the electrical system substantially the same amount, about 50 million Euros. In this framework, it seemed logical and justifiable to consider that not having received the aforementioned 50 million Euros, the companies wouldn't have to return the same amount on the surplus discharged. However, ERSE, in setting rates for 2011 has forced EEM and EDA to return the surplus electricity tariff system established in 2009, plus finance charges, despite the fact that the aforementioned dispatch does not make any mention of the compensatory interest in the failure to

meet obligations by the State.

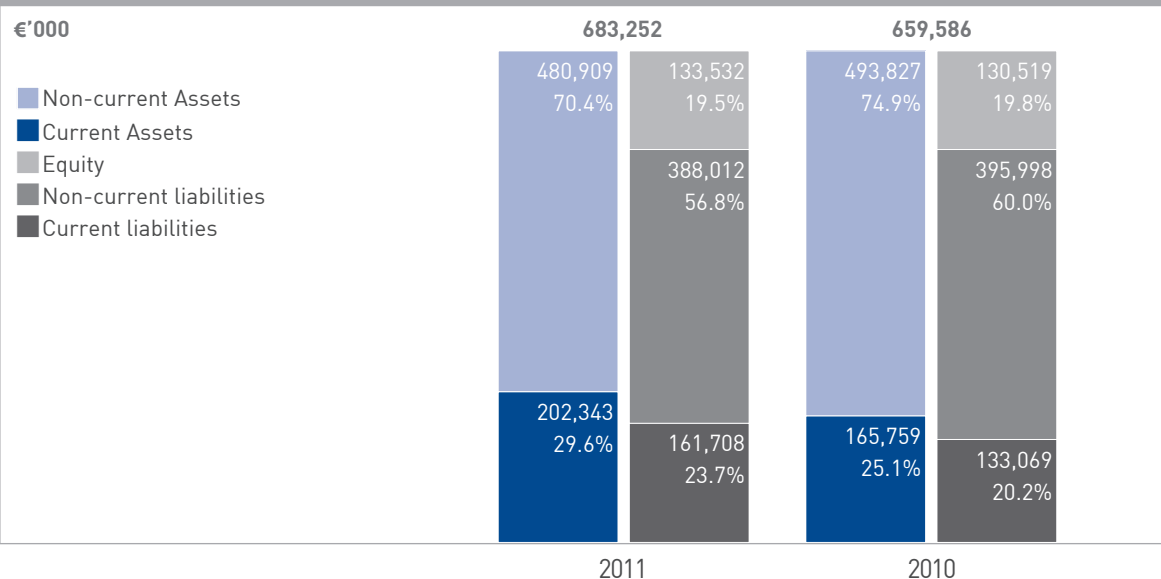
It's noteworthy that the contract for Convergence of Electricity Tariff for the period 1998-2002, made by the Central Government through the Ministry of Economy, has not been fully fulfilled since September 2009, already lying pending settlement 9 quarterly installments (one in 2009, four in 2010 and four in 2011) and the interest thereon, amounting to 9,718 thousand Euros. This new default penalizes the treasury of the EEM and consequently causing further concern.

Finally, it should be noted, that it is expected that in 2012 it is possible to receive contractual receipt plans for Official Regional Entities debts by protocols, whom on 31st December of the year now ended amounted to 72,240 thousand Euros.

Individual Balance Sheet Structure



Consolidated Balance Sheet Structure



Balance

In 2011, the EEM's Balance Sheet amounted to 659,620 thousand Euros (Consolidated: 683,252 thousand Euros), up to 3.3% compared to 2010 (Consolidated: 3.6%).

Assets				
€'000	Individual		Group	
	2011	2010	2011	2010
Gross Assets	811,204	792,872	848,429	823,503
Accumulated depreciation and adjustments	427,779	400,129	435,776	406,419
Net assets	383,425	392,743	412,653	417,084

The net value of Fixed assets, which represents 58.1% of the Company's total Balance Sheet (Consolidated: 60.4%) reached 383,425 thousand Euros (Consolidated: 412,653 thousand Euros), showing a decrease of 2.4% compared to 2010 (Consolidated: 1.1%).

Due to the economic and financial framework of 2011, EEM had to take on a very selective investment plan but simultaneously limited and restrictive, due to a recessive macroeconomic scenario, which caused a contraction in energy demand by 2.4%, compared with 2010.

The investment plan of EEM in 2011 amounted to 17,802 thousand Euros, including 208 thousand Euros of capitalised interest (Consolidated: 24,396 thousand Euros), representing a decrease of 61.7% (Consolidated: 47.6%) compared to the amount realised in 2010 (46,462 thousand Euros).

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

• Production:	4,408 thousand Euros;
• Transmission:	3,590 thousand Euros;
• Distribution/Commercialisation:	8,119 thousand Euros;
• Other activities:	1,684 thousand Euros;
• Subsidiary companies:	6,594 thousand Euros.

The investment accomplished by EEM in 2011 (individual basis), compared to the investment plan, excluding capitalised interest, is presented in the following table:

Investment			
€'000	Forecasted 2011	Accomplished 2011	Change %
Basis Plan	27,323	16,944	(38.0%)
February 2010's intemperie	1,274	418	(67.2%)
PPDA	355	232	(34.6%)
Total	28,952	17,594	(39.2%)

The investment achieved in 2011 reached 17,594 thousand Euros, including the "Temporal" ("Storm" of 20th February, 2010) and the PPDA (Promotion of Environmental Performance Plans), in the amount of 418 and 232 thousand Euros, respectively, well below the values of the investment plan (39.2%), which corresponds to a decrease of 11,358 thousand Euros.

The following table reflects the investment achieved compared with the investment plan, excluding the accounting of CO2 emission allowances allocated to the EEM, by activity:

Investment <i>(detailed)</i>			
€'000	Forecasted 2011	Accomplished 2011	Change %
Basis Plan:			
P-Production	6,473	4,251	(34.3%)
T-Transmission	9,905	3,479	(64.9%)
D-Distribution	8,855	7,625	(13.9%)
Not specific	2,090	1,589	(24.0%)
Subtotal: P+T+D+NSI	27,323	16,944	(38.0%)
Frebruary 2010's intemperie:			
P-Production	499	25	(95.0%)
T-Transmission	16	36	125.0%
D-Distribution	554	262	(52.7%)
Not specific	205	95	(53.7%)
Subtotal: P+T+D+NSI	1,274	418	(67.2%)
PPDA - EI	355	232	(34.6%)
Total	28,952	17,594	(39.2%)

The investment realised in 2011, in the production area amounted to 4,251 thousand Euros, and the overall implementation rate has been below 34.3%, corresponding to -2,222 thousand Euros compared to the predicted value. Much of the deflection in the rate of completion in this area is due to the delay in implementing the planned extension of the Calheta's hydroelectric system, resulting from the need to reassess the dam projects, following the recommendation of the main authorities. This project will be initiated only when assured the bank financing, as well as the reimbursement of UE funds. Contributing for 96.0% of the deflection of investment in this area, given the investment plan, with -2,140 thousand Euros.

The investments planned for the areas of transmission and distribution were very conditioned by the degradation of economic and financial conjecture, resulting in lower realisation of investments by 40.8%, corresponding to -7,656 thousand Euros, compared to the plan.

In the transmission area, comprising the dispatch/control monitoring centers, substations/switching stations and transmission network, the financial execution, amounting to 3,479 thousand Euros, was 64.9% lower than expected. The low rate of implementation was due mainly to the postponement of some projects in the context mentioned above, the contraction in energy demand, the restrictions of financial nature, and the reprogramming of some interventions related to the design of the Calheta's hydroelectric system including changes of lines and the Lombo do Doutor Substation refurbishment. Also the deceleration and/or suspension of construction of some roads in RAM, led to the postponement of the launch of important underground lines.

Regarding the distribution area the financial execution of the investment plan, amounted to 7,625 thousand Euros, presents a deflection lower than that of the production and transmission areas, standing at 13.9% lower than projected. However, investment in distribution network of low voltage (LV) was practically in line as planned, and the differences occurred mainly on the part of the distribution networks of medium voltage (MV) and transforming post (TP).

Regarding the investments carried out in other activities, the rate of completion was 76.0% of the investment plan, resulting thus in a deflection of -501 thousand Euros.

Investments related to the recovery of the damages caused by February 2010's intemperie, amounted to 418 thousand Euros, being 67.2% lower than planned for 2011, nevertheless is important to highlight that the works co-financed by the FSUE (European Union Solidarity Fund), were all completed during the current year. The interventions co-financed by the EIB (European Investment Bank), in the production area were rescheduled, due to delays in issuing the respective processes of the public procurement.

Regarding the investments under the PPDA (Promotion of Environmental Performance Plans), the financial execution in the amount of 232 thousand Euros was 34.6% lower than planned. This reduction did not affect the completion of the projects, due to the savings made in synergies from other interventions in places coincident and also it was possible to obtain more competitive proposals to perform certain tasks.

As mentioned previously many of the changes/differences occurring over the budget are based on the following main reasons:

- Strong restrictions/constraints of a financial nature;
- Deferral of intervention, given the delay of intertwined projects;
- Delays/complexity of some projects;
- Deceleration and/or suspension of some roads constructions, with consequent delays in the launching of EEM underground lines.

Regarding the Subsidiaries companies, it should be highlighted Enereem's completion and entry into operation of the wind farm Loiral II, consisting of two wind turbines of 3 MW each, whose total investment amounted to 6,431 thousand Euros, of which 6,399 thousand Euros made in 2011.

The balance Other investments, presented a decreased of 1,000 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, as well as, deferred taxes, amounted to 54,760 thousand Euros (Consolidated: 54,615 thousand Euros), suffering a decrease of 8.3% over the previous year. This evolution derived essentially from the fact that the 2011 Tariff Compensation, receiving two years later (in this case 2013) is lower than that calculated in 2010 (17,356 thousand Euros in 2011 and 18,381 thousand Euros in 2010) 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 amortised cost), which was transferred to current Assets (4,039 thousand Euros in 2011 and 7,961 thousand Euros in 2010).

Long-Term Capital

€'000	Individual		Group	
	2011	2010	2011	2010
Shareholders' equity				
Amount	130,913	128,416	133,532	130,519
%	26.0%	25.0%	26.0%	25.0%
Medium and long-term liabilities				
Amount	369,092	376,001	388,012	395,998
%	74.0%	75.0%	74.0%	75.0%
Long-term capital				
Amount	500,005	504,417	521,544	526,517
%	100.0%	100.0%	100.0%	100.0%

The amount of long-term Capital, which represents 75.8% (Consolidated: 76.3%) of the total Balance, ensures an adequate coverage of Company's fixed Assets.

EEM's Shareholders' Equity amounting to 130,913 thousand Euros (Consolidated: 133,532 thousand Euros), grew by 1.9% (Consolidated: 2.3%), with net income reached 5,219 thousand Euros (profit attributable to Group: 5,650 thousand Euros).

The non-current Liabilities decreased by 1.8% over the previous year mainly due to the reduction in financial institutions in the medium and long term, valued at 4,404 thousand Euros, to the transfer of short term bank liabilities of 19,404 thousand Euros, and for having been disbursed the second installment, amounting to 15,000 thousand Euros, a loan from the EIB, whose total value amounts to 75,000 thousand Euros, with a maturity of 16 years.

Regarding the non-current Liabilities, there was a reduction of liabilities for post-employment benefits in the amount of 2,748 thousand Euros, due to the updating of certain assumptions in order to match the rules for granting benefits to the universe of workers in the EEM, to the current rules applied for the majority of public employees.

Working Capital

€'000	Individual		Group	
	2011	2010	2011	2010
Current assets	201,691	165,613	202,343	165,759
Current liabilities	159,615	134,377	161,708	133,069
Working capital	42,076	31,236	40,635	32,690

The current Assets amounting to 201,691 thousand Euros (165,613 thousand Euros in 2010) presents an growth of 36,078 thousand Euros, which results from the increase in the balance of Tariff Convergence to receive circa 27,249 thousand Euros, in loans to affiliated companies amounting to 8,703 thousand Euros, as well as the increase in the net balance of approximately 4,680 thousand Euros in Customers. Also, there was an overall reduction in the balances Inventory, the State debts, Other debtors, and Cash, ascended to 5,334 thousand Euros.

The current Liabilities amounted to 159,615 thousand Euros, an increase of 25,238 thousand Euros compared to 2010.

This grow is mainly explained by the net effect of increases in short-term debts to credit institutions, amounting to 40,493 thousand Euros in Debts to suppliers (+3,840 thousand Euros), the State (+1,377 thousand Euros) and in other financial liabilities (+1,987 thousand Euros), by reducing the Mark to

Market an interest rate swap held by the company, and on the other hand, the decline seen in the increase of Creditors, amounting to 22,609 thousand Euros. Importantly, the reduction of the balance Creditors due mainly to the adjustment made in 2009 in the amount of -22,179 thousand Euros, which is reflected in tariff convergence of 2011, which resulted in a debt of 24,173 thousand Euros and also the, tariff convergence for 2009, related to the Tariff Convergence assigned 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 regularised and transferred to EEM.

The total bank liabilities increased by 36,332 thousand Euros (Consolidated: 35,919 thousand Euros), the weight of loans to medium and long term amounted to 82.0% in 2011 (2010: 91.2%) of the total liabilities. This increase, as well as the change in composition stems from the various reasons previously mentioned. However, about 24 million Euros come from the returning in 2011, of the electrical system tariff excess of 2009, which EEM hasn't yet received the same amount of State Budget by the Ministerial Order of 3 October 2008, issued by the Minister of Economy and Innovation, and the 4,256 thousand Euros result of not receiving the State Budget, from the four installments of 2011, relating to the Tariff Contract of electricity convergence between years 1998 to 2002 made by the Central Government through the Ministry of Economy.

Income Statement

Operating Income

Operating Revenues										
€'000	Individual					Group				
	2011	%	2010	%	△ %	2011	%	2010	%	△ %
Sales	192,527	87.9%	173,538	84.0%	10.9%	192,509	88.0%	173,519	84.2%	10.9%
Services rendered by third parties	488	0.2%	611	0.3%	(20.1%)	1,025	0.5%	978	0.5%	4.8%
Exploitation subsidies	59	0.0%	201	0.1%	(70.6%)	59	0.0%	201	0.1%	(70.6%)
Imputed gains of associates	1,804	0.8%	1,527	0.7%	18.1%	567	0.3%	489	0.2%	16.0%
Own work capitalised	12,568	5.7%	19,375	9.4%	(35.1%)	12,568	5.8%	19,375	9.4%	(35.1%)
Other revenues	11,771	5.4%	11,370	5.5%	3.5%	11,806	5.4%	11,434	5.6%	3.3%
Total	219,217	100.0%	206,622	100.0%	6.1%	218,534	100.0%	205,996	100.0%	6.1%

In 2011, on an individual basis, the balance Sales amounted to 192,527 thousand Euros (173,538 thousand Euros in 2010), including:

- 120,461 thousand Euros on energy Sales;
- 55,610 thousand Euros Tariff Convergence of 2011;
- 16,607 thousand Euros for the Tariff Compensation for 2011 to receive in 2013;
- -4 thousand Euros referring to the Tariff Compensation in 2010 receivable in 2012;
- -221 thousand Euros for the for the Promotion of Environmental Performance Plans (PPDA);
- 74 thousand Euros in sales of goods under the Consumption Efficiency Promotion Plan (PPEC).

The energy Sales in the Autonomous Region of Madeira ascended to 120,461 thousand Euros (2010: 117,512 thousand Euros), representing an increase of about 2.5% over the previous year. This increase results due to the raise of average tariffs by 5.0%, since the consumption decreased on 2.4%.

The investments executed by EEM through own work account amounted to 12,568 thousand Euros, which represents a decrease of 35.1% over the previous year (19,375 thousand Euros), following the reduction of the investment activity of the Company.

The balance other Gains reached 11,771 thousand Euros, showing a slight increase of 401 thousand Euros compared to 2010, in the value of the subsidy to exploitation on the value of CO2 allowances, consumed and sold in 2011 that had been allocated for free to the EEM in PNALE II, amounting to 7,005 thousand Euros (2010: 6,748 thousand Euros), also includes 4,269 thousand Euros (2010: 4,418 thousand Euros), relating to the allocation of investment subsidies.

Expenses

Operating Expenses										
€'000	Individual					Group				
	2011	%	2010	%	△ %	2011	%	2010	%	△ %
Cost of sales - Materials	6,645	3.3%	8,752	4.6%	(24.1%)	6,647	3.4%	8,753	4.7%	(24.1%)
Cost of sales - Raw materials	56,217	28.2%	47,041	25.0%	19.5%	56,217	28.5%	47,041	25.0%	19.5%
Cost of sales - Elec. energy acquis.	44,006	22.0%	34,758	18.4%	26.6%	40,079	20.2%	31,413	16.8%	27.6%
Services rendered by third parties	12,931	6.5%	14,975	7.9%	(13.6%)	13,412	6.8%	15,372	8.2%	(12.8%)
Staff expenses	29,457	14.8%	35,212	18.8%	(16.3%)	29,602	14.9%	35,356	18.9%	(16.3%)
Impairment	8,330	4.2%	1,587	0.8%	424.9%	8,330	4.2%	1,587	0.8%	424.9%
Provisions	(5,655)	(2.8%)	1,542	0.8%	(466.7%)	(5,655)	(2.9%)	1,542	0.8%	(466.7%)
Impair.of invest. (gains/reductions)	(39)	0.0%	(46)	0.0%	(15.2%)	-	-	-	-	-
Gains/Reductions of fair value	6,235	3.1%	3,616	1.9%	72.4%	6,235	3.1%	3,616	1.9%	72.4%
Others	8,656	4.3%	8,722	4.6%	(0.8%)	8,708	4.4%	8,750	4.7%	(0.5%)
Depreciations and adjustments	32,801	16.4%	32,507	17.2%	0.9%	34,509	17.4%	34,053	18.2%	1.3%
Total	199,584	100.0%	188,666	100.0%	5.8%	198,084	100.0%	187,483	100.0%	5.7%

The Operating expense ascended to 199,584 thousand Euros (Consolidated: 198,084 thousand Euros), representing an increase of 5.8% over 2010. The increase of 10,918 thousand Euros (Consolidated: 10,601 thousand Euros), is mainly explained by the reasons mentioned in the following paragraphs:

The consumption of materials shows a reduction of 2,107 thousand Euros.

The cost of raw materials, which includes fuel, amounted to 56,217 thousand Euros, presented an increase of 9,176 thousand Euros (20.0%) in the previous year.

Despite the slight appreciation of the Euro against the US dollar in 2011, strong growth in average oil price in international primary market led to a significant increase in fuel costs compared to 2010.

The increase in fuel costs (+20.0%) in 2011 was not as accented as global growth per unit of fuel (+27.0%) due to increased efficiency of power plants and the reduction (-5.0%) of production in EEM thermal power plants.

While the increased efficiency in fuel consumption is due essentially to reduced production of thermal energy in CTV I and II and their production being gradually replaced by the CTV III (+46 GWh, 2011), reducing the production of thermal energy depends, fundamentally, in the drop in consumption (-2.4%) and increased purchasing power to third parties (+3.3%), especially from renewable sources.

EEM Production

GWh	Individual				Group			
	2011	%	2010	%	2011	%	2010	%
Hydro	116.08	18.9%	126.69	19.5%	116.08	17.5%	126.69	18.3%
Wind plants*	0.14	0.0%	0.63	0.1%	48.43	7.3%	42.87	6.2%
Thermal	497.55	81.1%	522.18	80.4%	497.55	75.2%	522.18	75.5%
Total	613.77	100.0%	649.50	100.0%	662.06	100.0%	691.74	100.0%

*The production of Enereem was 48.29 GWh in 2011 and 42.24 GWh in 2010.

The cost in energy purchase to third parties increased 26.6%, or +9,248 thousand Euros (Consolidated: 27.6%, +8,666 thousand Euros), reaching 44,006 thousand Euros (Consolidated: 40,079 thousand Euros). Individual accounts include 3,927 thousand Euros of energy acquired at the subsidiary Enereem, corresponding to 48 GWh.

The increase in energy purchase to third parties, recorded in 2011, due from the growth of energy production from renewable sources, including photovoltaic energy (+13 GWh, resulting from the fact that 2011 was the first full year of operation of new photovoltaic parks) and wind farms (+4 GWh), which more than offset the lower purchasing of burning waste power (-5 GWh) and the slight reduction of the acquisition of thermal energy (-2 GWh).

The increase in the cost of purchasing energy from third parties, derived from the net increase of the quantity purchased (+10 GWh; Consolidated: +4 GWh), as well as the growth in unit price, especially the energy of thermal origin, due to the increased price of raw materials mentioned above, the most significant in the mix of acquisitions of EEM (60.0%; Consolidated: 70.6%).

The weight of the production of thermal origin in the total mix of purchases from third parties, declined by about 2.0%, as can be seen in the following tables, which are detailed the acquisitions of EEM and the Group:

Electric energy acquisition

GWh	Individual				Group			
	2011	%	2010	%	2011	%	2010	%
Hydro	5.11	1.6%	5.00	1.6%	5.11	1.9%	5.00	1.9%
Wind plants	72.45	22.5%	68.64	22.1%	24.16	8.8%	26.40	9.8%
Thermal	193.34	60.0%	194.86	62.4%	193.34	70.6%	194.86	72.2%
Waste incineration	34.27	10.6%	39.41	12.6%	34.27	12.5%	39.41	14.6%
Photovoltaics	17.09	5.3%	4.15	1.3%	17.09	6.2%	4.15	1.5%
Total	322.26	100.0%	312.06	100.0%	273.97	100.0%	269.82	100.0%

The balance Services rendered by third parties presents a decrease of 13.6% (consolidated: 12.8%).

The staff expenses, showed a reduction of 16.3% over 2010. This variation reflects mainly due the following reasons:

- Full compliance with the salary reduction measures contained in the State Budget 2011, targeting at an overall average reduction of 5.0% in salaries of state bodies and public administration, including public institutes, regulatory authorities and public companies.
Being EEM a private company (S.A.), entirely held by a public shareholder In accordance with the Regional Legislative Decree no. 14/94/M of June 94, and once the Madeira Regional Government held a strict application of measures to reduce staff costs (included in Article 19. of the Decree that approves the State Budget for 2011), which covers public managers and employees of Public Enterprises of sole or majority public capital and public regional business entities (Regional Legislative Decree no. 2/2011/M of January 10), the EEM carried out the implementation of the progressive system of rates of reduction, covering the monthly salaries in excess of 1,500 Euros, due to budget reduction measure under State Budget 2011;
- The strict application of the measures included in the State Budget of 2012, highlighting the full suspension of holiday bonuses of public sector workers, with wages above 1,100 Euros, and partial wages above 600 Euros. It should be noted that, although this is a measure whose impact on cash flow from EEM can only be reflected in 2012, its reflection in the accounts of the company is already the case in 2011, to the extent that companies have to register holiday bonuses charges to be paid the following year, as expense in the financial year in which workers become entitled to the same. Thus, in 2011, EEM has not entered into the applicant and its personnel expenses increase, related to holiday bonuses to pay their workers in 2012, once the State Budget for 2012 provides for the suspension;
- The fact that staff expenses in 2010 include compensation of remuneration paid in that year by the imposition of the (Tribunal de Trabalho), for situations that occurred in the 90s, of which amounted to 2,580 thousand Euros;
- Despite the human resource needs generated by the recent entry into operation of CTV III, the EEM has been implementing a strict and rigorous admissions policy of workers. This fact, coupled with the continuous demand for ever greater efficiency of resources in general, and human resources in particular, as well as setting limits for the reduction of the workers resulting from the adjustment program of the Portuguese Republic, which allowed in 2011, a reduction of 21 active employees, corresponding to -2.5% compared to 2010 (830 active in 2011, compared with 851 active in 2010), reaching well above the target reduction -2.0%, set in the Adjustment Program;
- The verified reduction in spending on pensions recognised in the year. It should be noted that the actuarial study conducted by BANIF Açor Pensions was adjusted according to the measures of the State Budget for 2011 and 2012, which determine the aforementioned salary reduction and the freezing of pensions and wages, leading to a null pension expense in 2011. This adjustment resulted in a reversal of the provision for post-employment benefits, amounting to 5,655 thousand Euros.

The amount of impairment of receivables, in 2011, amounted to 8,330 thousand Euros, which represents a growth of 424.9% over the previous year (1,587 thousand Euros in 2010). This atypical growth results from the adoption of more conservative criteria regarding the evaluation of the likelihood of collection/breach, and ultimately, the purpose of registration of the current value of debts in cases where it is anticipated that the receipt thereof may occur in the longer term.

The amount recorded under Provisions corresponds to reversal of provision for post-employment benefits, amounting to 5,655 thousand Euros, resulting from actuarial study, as discussed above.

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

The amount of other expenses and losses amounted to 8,656 thousand Euros, keeping in line with the value of the previous year.

Also, was recorded 7,665 thousand Euros (7,476 thousand Euros in 2010) 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 (Direitos de Superfície) and compensation paid to customers for damage caused by network variances. These costs decreased of about 20.0% over the previous year (255 thousand Euros).

In 2011, the value of Depreciation and amortisation of EEM amounted to 32,801 thousand Euros (Consolidated: 34,509 thousand Euros), 0.9% more than in 2010 (Consolidated: +1.3%).

This balance includes amortisation expense relating to the consumption of CO2 allowances in the year, which amounted to 4,660 thousand Euros (4,672 thousand Euros in 2010). Thus, the amount related to depreciation and amortisation expenses relating to the remaining tangible and intangible assets amounted to 28,141 thousand Euros (Consolidated: 29,849 thousand Euros), representing an increase of 1.1% (consolidated: 1.6%) compared to 2010.

The balance Interest and other income, ascended to 2,353 thousand Euros, has increased by 36.6% over the previous year. This development was due mainly to the increase in interest of tariff adjustment.

The balance Interest and other losses, amounted to 19,783 thousand Euros (Consolidated: 20,195 thousand Euros), representing an increase of 29.7% over the previous year. These costs are net of capitalised financing charges, whose value in 2011 was 208 thousand Euros (1,081 thousand Euros in 2010) these expenses increased 22.4%.

This increase is justified by a number of factors including the increase in the total amount of bank financing (for the reasons mentioned above), the average increase in indexing by 50.0% over the previous year, increase in spreads and commissions due to the rating reduction of the Portuguese Republic, the Autonomous Region of Madeira and the EEM, and the consequent inability to have alternative to international financial markets, as well as the difficulties facing the domestic banking sector to finance it self and to comply with new commitments of capital ratios and deleveraging. In addition to this the costs related to obtaining an approval from the Regional Government of Madeira, as collateral for the syndicated loan of 220 million Euros (contractual requirement - rating trigger clause), as well as the increase in guarantee fees of borrowings from the European Investment Bank.

Net Cash Flow

The Net cash flow before tax and financial charges in 2011, show an increase of 3.9% (Consolidated: 4.6%) over 2010. This positive development is reflected in EBITDA, which in 2011 reached the value of 52,433 thousand Euros (50,463 thousand Euros in 2010). The EBITDA consolidated amounted to 54,958 thousand Euros (2010: 52,566 thousand Euros).

EEM's Contributions to the State

In 2011, EEM Group and its employees contributed directly with 15,562 thousand Euros to the Portuguese State, representing an decreased comparatively to 2010 presented as follows:

EEM's contributions for the State										
€'000	Individual					Group				
	2011	%	2010	%	Change %	2011	%	2010	%	Change %
Company:										
Corporate income tax	52		249		(79.1%)	382		458		(16.6%)
Other tax	1,467		2,666		(45.0%)	1,854		2,971		(37.6%)
Social security costs	5,723		6,250		(8.4%)	5,748		6,273		(8.4%)
	7,242	49.0%	9,165	53.7%	(21.0%)	7,984	51.3%	9,702	55.0%	(17.7%)
Staff:										
Personal income tax	4,876		5,002		(2.5%)	4,916		5,041		(2.5%)
Social security costs	2,651		2,895		(8.4%)	2,662		2,905		(8.4%)
	7,527	51.0%	7,897	46.3%	(4.7%)	7,578	48.7%	7,946	45.0%	(4.6%)
Total	14,769		17,062		(13.4%)	15,562		17,648		(11.8%)

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 decrease 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 value added, reached the amount of 88,898 thousand Euros (Consolidated: 92,846 thousand Euros), representing a decrease of 1.9% (Consolidated: -1.2%) compared to 2010.

Economic and Financial Indicators

Economic Structure				
€'000	Individual		Group	
	2011	2010	2011	2010
Net income	5,219	4,860	5,650	4,823
Sales and services provided	193,014	174,149	193,534	174,497
EBITDA	52,433	50,463	54,958	52,566
Depreciations and adjustments	32,801	32,507	34,509	34,053
Financial expenses	19,783	15,256	20,195	15,576
Staff expenses	29,457	35,212	29,602	35,356
Gross value added	88,898	90,647	92,846	93,978
N.º of employees	830	851	840	860
Staff productivity	107	107	111	109
Average costs per employee	35	41	35	41
Financial expenses in gross value added	0.22	0.17	0.22	0.17
Staff costs in gross value added	0.33	0.39	0.32	0.38
Depreciations and adjustments in cash flow EBITDA	0.63	0.64	0.63	0.65
Return on equity	3.99%	3.78%	4.23%	3.70%
Net income/Power energy sales and services provided	2.70%	2.79%	2.92%	2.76%

Financial Structure				
€'000	Individual		Group	
	2011	2010	2011	2010
Current assets	201,691	165,613	202,343	165,759
Non-current assets	457,929	473,181	480,909	493,827
Total assets	659,620	638,794	683,252	659,586
Current liabilities	159,615	134,377	161,708	133,069
Non-current liabilities	369,092	376,001	388,012	395,998
Total liabilities	528,707	510,378	549,720	529,067
Bank debts	408,768	372,436	428,793	392,874
Equity	130,913	128,416	133,532	130,519
Fixed capital	500,005	504,417	521,544	526,517
Working capital	42,076	31,236	40,635	32,690
Coverage of non-current assets by equity	0.29	0.27	0.28	0.26
Coverage of non-current assets by fixed capital	1.09	1.07	1.08	1.07
Indebtedness - (Total liabilities/Total assets)	0.80	0.80	0.80	0.80
Shareholders' equity/Total assets	0.20	0.20	0.20	0.20
Non-current liabilities/Fixed capital	0.74	0.75	0.74	0.75
Solvency - (Total assets/Total liabilities)	1.25	1.25	1.24	1.25
Liquidity - (Current assets/Short-term liabilities)	1.26	1.23	1.25	1.25

Other disclosures

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

Under Article 397º of the CSC, did not exist during the year 2011, authorizations for business between the Company and its directors.

Under Article 447º of the CSC, members of the governing bodies do not hold ownership of any shares and / or obligations of the Company, because is totally owned by the Government of the Autonomous Region of Madeira.

The accounts have been prepared taking into account that, following contacts with the single shareholder, the determination of dividend payment made on 28 June 2011 will be revoked for not met the financial and economic conditions so that they carry out such distribution.

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 2011 Company's net Income, amounting to 5,219,037.13 Euros:

Statutory Reserve:	521,903.71 Euros
Retained Earnings:	4,697,133.42 Euros

3 - Environment

Introduction

Environmental quality constitutes a fundamental criteria towards the concept of sustainable evolution of regions, mainly in Autonomous Region of Madeira it assumes a greater importance as a quality touristic destination, increasing EEM's environmental responsibility as operator of Regional Public Electric System.

The year 2011 was marked by an additional commitment, the subscription of ISLE-PACT - The Pact of Islands, by the Regional Government, of Madeira and Porto Santo Islands, with the political purpose of reducing, by 2020, 20.0% of CO2 emissions in the islands group, supported by the Commitment Statements of each island or island region's authorities, assuming specific and measurable goals for CO2 reduction, to be achieved through the enhancement of renewable energy, energy efficiency and cleaner transportation technologies.

In this context, EEM's Group has been implementing a development model that contributes to ensure the sustainability of the regional electrical system, based on an prospective valuation of its own evolution, with priority aims regarding environmental issues established by the maximization of renewable resources benefits, the use of less polluted fuel consumption and energy efficiency promotion, on the offering and demand perspective, and simultaneously to accomplish and exceed the best available practices, and also taking in consideration the recommendations and goals of the European Union regarding the environmental protection.

As a result of the commitment to maximize the development of renewable energies, EEM's Group contributed to enable in 2011, 27.0% of the total production was originated by renewable sources, and aims to achieve, conjointly with other producers in the sector, already in 2015 the target of 38.0% and, probably, around 50.0%, in 2020. Beyond the impact that renewable energies have on the environment, it's important to highlight the large range that these investments have on the macroeconomics of the region, as well as, our heavily dependence on imports of petroleum products.

Concerning the EEM Group's activities, it should be pointed out, the Environmental Management System (EMS), in its final phase of implementation, whose Certification is expected for the 1st semester of 2012, which constitutes a management instrument to promote continuous improvement of EEM's environmental performance.

On 2011, was also characterised by the continuation of projects initiated in the previous year and the launching of new environmental challenges, reaching the total cost of 2,278 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	-	297	297
Other environmental protection activities	404	236	640
Noise and vibration protection	-	10	10
Biodiversity and landscape protection	225	88	313
Air and climate protection	-	237	237
Soils, underground and superficial waters protection	689	84	773
Total	1,318	960	2,278

The Other activities balance of the Environmental Protection congregates the following main actions: environmental management procedures, accountancy and reports, professional training actions in this specific area and others issues not included in the others areas 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, deeply connected to the best available environmental practices, which are important to refer. In this framework, we present the main activities, directly and indirectly related to the environment, accomplished by EEM's Group, in 2011.

Production

• 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 2011, EEM released into the atmosphere 335.271 tons of CO₂, resulting in an excess of 242.148 tons of CO₂ emission licenses, compared with the already settled amount (577.419 licenses/year during 2008/2012, according to PNALE II).

In the Depreciation costs balance of EEM's accounting reports, 4,660 thousand Euros are registered, regarding the gas emissions valuation during 2011, whose licenses were already owned by the Company, corresponding to the total licenses amount attributed by the Portuguese Environmental Institute, in 2011.

In Other incomes balance, 7,005 thousand Euros are included, referring the valuation of consumed and sold licenses, attributed by the Environmental Institute.

The attributed licenses for 2011, according to the Bluenext rate, were valued at the price obtained on the 3th of January 2011 (13.90 Euros/licenses), being 147.224 retained licenses from 2010, at the price of 12.83 Euros/licenses. During 2011, EEM sold 180.000 emission licenses reaching the amount of 2.344 thousand Euros (147.224 licenses were retained from 2010 and 32.776 licenses were attributed for the year 2011).

In Other costs and losses balance, the amount of 21 thousand Euros is registered, referring the accounting capital loss, obtained by the sale of CO₂ free emission licenses during the year. This accounting capital loss, relates the difference between the total amount of the free sold licenses and its accounting value (Intangible assets). The total 180.000 emission licenses were sold by a global amount of 2,323 thousand Euros, reaching its accounting value 2,344 thousand Euros.

EEM also registered costs with the emission licenses management and commissions through the accomplished transactions in a global value of 50 thousand Euros, accounted in Services rendered by third parties balance.

Regarding the accounting balance of the year, included in Intangible assets (net debtor balance) as in Other incomes (Liability balance), 2,910 thousand Euros of emission licenses were transferred to 2012.

Concerning the number of emission licenses transferred to 2012 (209.372 licenses), fulfills the obligation settled by the Energy Services Regulatory Authority (ERSE), as the balance coming from

the current year (62.148 licenses) is lower to 30.0% of the yearly excess (difference between the amount of attributed and consumed licenses, in 2011). Once accomplished this request, the total effect in results respects, exclusively, the ICO2 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 days anterior and posterior to the transaction date, achieving 6 thousand Euros, in 2011.

The total net selling value was deduced to the permitted incomes, as the emission licenses were freely attributed, being the management and transaction costs completely accepted.

The CO2 emissions balance effect (transactions and emissions) in 2011, is as follows:

CO2 impact in EEM 's incomes	
€'000	2011
Direct effect:	
Direct sales	2,323
Commissions	(50)
	2,274
Permitted incomes effect:	
Direct sales	(2,323)
Direct sales (ICO2)	6
Commissions	50
	(2,268)
Total	6

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

• Action Plans to minimize the environmental damages, concerning Prevention and Integrated Control of the Environmental Pollution-Licenses

In 2011, the Environmental License for Vitória Thermoelectric Power Plant, which includes the new Nave III, (CTV III), was issued, in accordance to Decree-Law nº 173/2008, of 21st August, which settles the legal framework for Integrated Pollution Prevention and Control, amending and replacing the Environmental License nº 02/2009, of 28 December, by the Regional Environmental Authority.

Consumption Efficiency Promotion Plan in electric energy consumption

The Consumption Efficiency Promotion Plan (PPEC) has as main goals to promote the energetic efficiency in the electric sector, in order to improve rational utilisation of electric energy and linked resources. This model, aims to implement actions by commercialists, network operators, associations and organisations for promotion and protection of consumer interests, whose merit is assessed under the rules of the PPEC, approved by the Decree-Law 15 546/2008, of 4 June.

The measure **“EEM TR1 – Installation of efficient lighting equipment’s”**, presented by EEM, within the PPEC 2009-2010, was approved by Energy Services Regulatory Authority (ERSE), with an expected implementation period of 24 months, ended in December 2010. According to the prorogation time granted by ERSE, the completion date was extended to 30th September, 2011.

Since the beginning of the campaign (September 2009) till June 2010, 87,262 compact fluorescent lamps were distributed. During the period, from 1 July 2010 till 30 September 2011 (closure of the measure), 25,923 compact fluorescent lamps were distributed through 2,718 EEM’s customers in Households sector, corresponding to an average of 10 lamps per customer. The total acquired lamps power capacity during this period was 359 kW and the distributed amount corresponds to 1.5 MW.

The measure **“EEM TC1 – Substitution of ferromagnetic ballasts by electronic ones”**, presented by EEM, within the PPEC 2009-2010, was approved by the Energy Services Regulatory Authority (ERSE), with an expected implementation period of 24 months, ended in December 2010. According to the prorogation time granted by ERSE, the completion date was extended to 30th September, 2011.

This measure has as major target the substitution of 50,000 ferromagnetic ballasts by electronic ones, allied to T8 compact fluorescent lamps, in Commerce and Services Sector, including Hotels, being available four types of ballasts.

In general, through this policy, EEM pretends to reduce electric consumption and power in peak hours, as well as to promote the energetic efficiency through fluorescent lighting, with an additional advantage of improving the lighting quality.

Since the beginning of the campaign (September 2009) till June 2010, 1,847 ballasts were distributed. In the period of 1 July 2010 to 30 September 2011 (measure closure) were distributed 11,954 ballasts through 112 adherent customers, corresponding to an average of 107 ballasts per customer. The total distributed ballasts capacity power refers to systems with 1.02 MW.

Promotion of Environmental Performance Plans (PPDA) – voluntary procedures

In 2009, the 2nd Promotion of Environmental Performance Plans (PPDA) began, taking in account the period 2009-2011, according to ERSE.

Concerning this subject, the main accomplished activities in 2011, were as follows:

• Implementation of an EEM's environmental management system

The Environmental Management System (EMS), answers the identified needs, endowing EEM with a management tool to promote continuous improvement concerning environmental performance, through updated data, allowing the adoption of systematic methodologies with a more effective approach to identify problems and prioritize actions. Thus, the available resources can be optimized, developing programs to minimize negative environmental impacts and making the correspondent valuation of the obtained results.

Application area

EEM's main mission is, the production, transmission, distribution and commercialisation of electric energy in Madeira and Porto Santo islands.

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

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

Accomplishments in 2011

In 2011, due to implementation delays and difficulties in scheduling the EMS certification audits, it was necessary to proceed with a rescheduling and programming the certification for the first semester of 2012, instead of December 2011, as originally planned.

Revised Execution Schedule for 2011 - EMS

Year	2011											
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 planned and achieved actions are presented, as the following scheme:

Accomplished activities in 2011	
Prevision	Accomplishment
Step 3: Implementation	
	- Implementation of procedures for prevention and response to environmental emergencies;
	- Specific professional training actions for key-employees;
	- Audit Plan.
Step 4: Verification	
	- Internal Audit Plan;
	- Management Revision.
Step 5: Correction	
	- Opening of occurrences registration for Internal Audit.
Step 6: Certification	
	- Delivery of the Environmental Certification Process Requirement to the Certification Entity, in July 2011;
	- 1st phase of the Certification Plan, in December 2011;
	- 2nd phase of the Certification Plan, in March 2012.
Step 7: Execution and attendance	
	- Accomplishment of improvement actions of environmental performance;
	- Environmental Management System improvement.

• 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 80s. 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 measure, EEM pretends to estimate the MV/HV overhead network lines impact, in Paúl da Serra and Caniçal, on bird-fauna, namely about the Woodcock “*Scolopax rusticola*”, Roque-de-Castro “*Oceanodroma castro*” and the Alma-negra “*Bulweria bulwerii*”, as well as to present corrective measures, aiming to reduce the number of incidents with these specimens.

Accomplishment in 2011

During 2011, the fulfilled actions took place as follows in the presented schedule:

Execution Schedule of the Measure for 2011 - Electric network lines and vulnerable bird-fauna												
Year	2011											
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 "Scolopax rusticola" census												
Monthly prospecting of the Caniçal electric line												
Nightly tapping of the Roque-de-castro "Oceonodroma Castro"												
Experimental interchange with other projects												
Corrective measures implementation												
Deliverable Reports												

The planned and achieved actions are as follows:

Accomplished activities in 2011 - Electric network lines and vulnerable bird-fauna	
Prevision	Accomplishment
- 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, 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, 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, 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.	- Prospecting in an extension of 1,820 m of the Caniçal electric line, once a month, between January and December.
- Public events participation.	- Participation in 4 public events.

• Diagnosis and minimisation of public lighting impact on seabirds

The lighting pollution is widely recognised as a great threat to seabirds, disturbing its behavioural and population ecology. Taking in account the importance of a diagnosis and minimisation, concerning the lighting pollution effects in Madeira Archipelago coast areas, the Project "Diagnosis and minimisation 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 distinct statutes of conservation are the targets of this study, have nested in Madeira Island. Of these, we highlight the Cagarra “*Colonyectris diomedea*” and the Patagarro “*Puffinus puffinus*”, which have registered a higher number of incidents. Although lower in quantity, the Alma-negra “*Bulweria bulwerii*”, the Pintainho “*Puffinus assimilis*” and the Roque-de-castro “*Oceanodroma castro*”, also have been targeted as having the same problem.

Accomplishment in 2011

During 2011, the developed actions were according the following schedule:

Execution Schedule for 2011 – Bird-fauna and Public Lighting Project												
Year	2011											
Month	J	F	M	A	M	J	J	A	S	O	N	D
Database file with seabird incidents												
Visit of each location to identify vulnerable points and nightly tapping												
Visit of locations with an changed lighting												
Lectures of sensitisation among local authorities and population												
Launching and distribution of the kit “Save a seabird”												
Experimental interaction with others projects												
Reports delivery												

The planned and accomplished activities were as follows:

Accomplished activities in 2011	
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.
- Realisation of night Census to seabirds in 20 locations.	- Realisation of night Census to seabirds in 22 locations.
- Awareness campaign over all regional councils.	- Conducting of 42 sensibilisation lectures with a total of 1,432 participants in Schools, Community Centers and Parish Councils.
- Implementation of corrective actions.	- Implementation of 158 corrective actions.

• Landscape integration of LV and MV overhead electric lines network

The quality of the landscape and the environment is a fundamental criterion towards the approach to the concept of sustainable development of the regions, often taking part of its brand image, especially Madeira, as a quality tourist destination which is worth preserving and enhancing.

In this framework there are several overhead electric lines which, despite being in reasonable/good technical condition, need intervention because of environmental issues, particularly in terms of landscape integration, therefore the following measures were undertaken:

- **Landscape integration of Low Voltage (LV) electric lines network**

Application area

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

Accomplishment in 2011

In 2011, the planned and fulfilled actions are presented as follows:

Accomplished activities in 2011		
LV electric network lines requalification works	Prevision	Accomplishment
Ponte dos Frades J.G.Zarco Road	<ul style="list-style-type: none"> - New underground section - 0.400 km - New underground section - 0.300 km - New underground infrastructures - 0.060 km - Public lighting luminaries - 4 units 	<ul style="list-style-type: none"> - New underground section - 0.370 km - New underground section - 0.300 km - New underground infrastructures - 0.055 km - Public lighting luminaries - 4 units
Padre Pita Ferreira Road	<ul style="list-style-type: none"> - New underground section - 0.810 km - Disconnection of overhead electric network - 0.650 km - New underground infrastructures - 0.200 km - Public lighting luminaries - 23 units 	<ul style="list-style-type: none"> - New underground section - 0.910 km - Disconnection of overhead electric network - 0.650 km - New underground infrastructures - 0.240 km - Public lighting luminaries - 23 units
Tenda do Oleiro Road - Machico	<ul style="list-style-type: none"> - New underground section - 0.350 km - Overhead electric network to be disconnected - 0.550 km - New underground infrastructures - 0.090 km - Public lighting luminaries - 2 units 	<ul style="list-style-type: none"> - New underground section - 0.345 km - Disconnection of overhead electric network - 0.550 km - New underground infrastructures - 0.085 km - Public lighting luminaries - 1 unit

- **Landscape integration of Medium Voltage (MV) overhead electric lines network**

The achieved interventions in 2011, consisted essentially, in the replacement of Medium Voltage (MV) overhead lines network into underground cables (using existent cable ducts or in construction), the dismantlement of overhead electric lines replaced and in the recovery of locations affected by deployment/dismantling of network equipments, in order to maintain the characteristics of the surroundings area. All planned interventions were completely accomplished.

Application area

This measure was applied through 6 intervention areas, in several regional municipalities and comprises the MV electric network requalification.

Accomplishment in 2011

The planned and executed activities, in 2011, are presented as following:

Accomplished activities in 2011		
MV electric network lines requalification works	Prevision	Accomplishment
MV electric network remodelation in - Neves	<ul style="list-style-type: none"> - Overhead electric network to be disconnected - 0.580 km - New underground infrastructures - 0.570 km - New underground section - 0.740 km 	<ul style="list-style-type: none"> - Disconnection of overhead electric network - 0.830 km - New underground infrastructures - 0.570 km - New underground section - 1.040 km
Section III (PT Santa Rita II/PT Radioterapia)	<ul style="list-style-type: none"> - New underground extension - 0.580 km 	<ul style="list-style-type: none"> - New underground extension - 0.601 km
Section IV (PT Santa Rita/PT P. Verde II)	<ul style="list-style-type: none"> - New underground extension - 0.780 km 	<ul style="list-style-type: none"> - New underground extension - 0.500 km
Section V (PT Santa Rita / PT Cova do Til)	<ul style="list-style-type: none"> - New underground extension - 0.690 km 	<ul style="list-style-type: none"> - New underground extension - 0.900 km
Disconnection of different MV sections - Santa Rita	<ul style="list-style-type: none"> - Overhead electric network to be disconnected - 1.500 km 	<ul style="list-style-type: none"> - Disconnection of overhead electric network - 1.500 km

Sharing costs by activity for the year 2011

The shared costs, by PPDA activity, for 2011, as well as the financial rate implementation are presented as follows:

Accomplished activities of the PPDA in 2011					
€'000	Forecasted	Accomplished	Change	Change %	Rate Realisation %
Implementation of an Environmental Management System in EEM	51	51	0	(0.1%)	99.9%
Medium voltage electric lines network impact towards some endangered of bird-fauna	25	25	0	0.0%	100.0%
Diagnosis and minimisation of public lighting impact in seabirds	22	18	(3)	(14.9%)	85.1%
Interactive simulation of electromagnetic fields for transmission and distribution electric lines	0	0	0	0.0%	0.0%
Landscape integration of LV overhead electric lines network	88	70	(18)	(20.4%)	79.6%
Landscape integration of MV overhead electric lines network	267	155	(112)	(41.8%)	58.2%
Total	453	320	(132)	(29.4%)	70.6%

The financial implementation rate reached 70.6% in comparison with the planned value. The achieved amount was lower than the predicted value of 132 thousand Euros, resulting from the lowest effective cost verified in 30, 32 and 33 measures.

That deviation, about 84.1%, is due to the landscape integration of MV overhead electric lines network, and justified by the costs sharing with others entities, associated to the execution and installation of underground cables network, in 13.5% related to the landscape integration of MV overhead electric lines network through lower market prices for external services acquisition, and as well circa 2.4% in even more economic solutions for the lighting diagnosed spots correction, under the procedure nº 30.

Investments with environmental benefits

As a result of the fulfilled infrastructures concerning renewable energies, mostly undertaken by EEM Group, in 2011, 224.6 GWh of green energy emission was achieved, permitting to avoid the CO₂ annual emission of 167.3 thousand tons and the importation of 53.4 thousand tons of fuel oil.

In the particular context of integrated energy policy and climate, which contributes to a low carbon economy supported competitive, sustainable and secure energy, while supporting of the population with well-being, prosperity of businesses and economy, and the European 2020 Strategy, which promotes the development of the EU in the next decade, based on smart, sustainable and inclusive projects listed below, contribute to regional commitments on gross final consumption of electricity produced from renewable energy under Directive 2009/28/CE, and reduction of CO₂ emissions as an result of the compliance of Madeira and Porto Santo islands to the Islands Covenant, "Pacto das Ilhas".

• Hydroelectric energy – Enlargement of Calheta Hydroelectric Exploitation System

The Project was subjected trough a candidature to the "Programa Operacional Intervir+", and consists in the enlargement of the actual Calheta Hydroelectric Exploitation System and in its transformation into a reversible functioning, through a storage reservoir, and water pumping system, integrating the following main interventions:

- Construction of the Pico da Urze storage reservoir, in Paúl;
- Construction of the restoring reservoir in Calheta;
- Construction of the Calheta III Hydroelectric Power Plant and the Calheta Power Pumping System;
- Construction of the water penstock and/or pumping system through the DN1500 piping, from the Pico da Urze storage reservoir to the new Calheta III Hydroelectric Power Plant;
- Construction of Paúl Power Pumping System;
- Renovation/expansion of the 60/30 kV Lombo do Doutor Substation;
- Enlargement of the hydro conducting capacity of the Levada do Paúl II;
- Enlargement of the conducting capacity of the Levada Velha do Paúl;
- Remodelling of the Levada do Lombo do Salão.

The project integrates the association hydro/wind through the creation of a strategic water reserve in Madeira Island, with a reservoir capacity of 1,073,500 m³, the installation of 17.7 MW of pumping power capacity, the construction of a new 30 MW hydroelectric power plant and the integration of 25 MW wind power capacity, allowing an increase in hydropower production of 26 GWh in Calheta Hydroelectric Exploitation System (15 GWh due to direct inflows and 11 GWh through a pumping system), as well as an annual wind energy power production estimated at 61 GWh.

With concrete and measurable objectives, the project falls within the regulatory concept of the Large Infrastructure Projects, with all the technical components of the proposed project co-financing essential to the achievement of the Calheta Hydroelectric Exploitation System Enlargement, with a total estimated cost of 76.6 million Euros (including VAT), including aspects of planning and design, land acquisition, construction, plant and machinery, including the supply and installation of electrical, mechanical and electromechanical; technical assistance; advertising and supervision during execution of work construction.

This project contributes to the regional policies of energy, water and environment, embodying the responsibility of Autonomous Region of Madeira under the indispensable participation of European regions in implementing the policies of the European Union (EU) and is part of the Development Plan economic and Social RAM 2007-2013, whose implementation is co-financed by FEDER, through the "Programa Operacional Intervir+".

During 2010, projects were carried out for implementing the various components mentioned above, as well as the Environmental Impact Study (EIS). However, it was necessary to proceed with an adjustment for the Pico da Urze Storage Reservoir project, under the imposition of the "Autoridade Nacional de Barragens", which caused a delay of the planning schedule and require the amendment of the EIS accordingly. Thus the various tendering procedures concerning this matter should be launched during 2012.

• Wind energy

In 2011, ENEREEM finished the installation of the new Loiral II Wind Power Plant, an investment cost of 6.4 million Euros. With this park, the total installed wind power in Madeira Island reaches about 44 MW (24.6 MW of which from ENEREEM's), which, on an average year, will allow an energy contribution of about 90 GWh, about 10.0% of the total electricity consumption, ensuring the consumption needs of 35.0% of the Madeira Island Residential sector.

The new Loiral II Wind Power Plant is composed of 2 "new generation" wind turbines, with a unit power of 3.000 kW, towers 80 meters high, rotor diameter 90 meters, with a total weight of 260 tons.

It's important to point out that this wind plant, despite only composed of 2 turbines, has a superior power capacity than the first Loiral Wind Power Plant with 6 generator. This increase of unit power capacity, with equipment, similar to the largest ones, used in Portuguese mainland, shows a remarkable technology "upgrade". This important work, aims not only to provide RAM with the latest equipment as also to improve the visual impact, reducing the number of installed equipment.

With this wind power plant investment, the cycle of wind energy associated to the transformation into a reversible operation, of Socorridos Hydroelectric Power Plant, inaugurated in 2007, is closed.

Exploitation Data

In 2011, the ENEREEM's 5 wind power plants in exploitation registered the following production values:

Madeira

The energy production of the 4 wind power plants, in Paúl da Serra, reached 47.714.815 kWh, presenting an increase of 14.1% comparatively to the previous year, assuring 66.2% of the total emission by this energy source in Madeira Island network grid.

In environmental terms, the avoided emissions accounted through the exploitation of these 4 wind power plants reached to: 32,528 tons of CO₂; 145 tons of SO₂; 650 tons of NO_x and 11 tons of particles, avoiding the consumption of 10,557 tons of fuel oil.

Porto Santo

The production of the wind power plant, in Porto Santo Island, amounted to 968,756 kWh, showing

a decrease of 26.1% over the previous year, due to the accommodation of other renewable energy sources in the network.

The emitted energy of wind power in Porto Santo Island, assured in combination with the EEM's wind plant, reached 1,103,914 kWh, representing 3.5% of the total power emitted into the network.

Concerning environmental issues, the accounting of emissions avoided by exploiting the wind power plant of Porto Santo Island, amounted to: 869 ton of CO₂, 2.7 ton of SO₂, 12.2 tons of NO_x and 0.3 tons of particles, also avoiding consumption of 260 tons of fuel oil.

• Sea bio-fuel oil - CO₂ capture

The Sea bio-fuel oil project has as main purpose the capture and biological utilisation of CO₂, in order to obtain bio-fuel oil with physico-chemical characteristics similar to conventional fuel oil used in thermoelectric power plants in Autonomous Region of Madeira. With this project, it's intended to turn Porto Santo into a self-sustaining island, in electric energy terms, reversing a situation of dependence on fossil fuels in electricity generation, contributing for the Porto Santo Island's touristic brand mark, the "Green Island".

This industrial unit, pioneer worldwide, comprises 2 execution phases (Phase I and II). For operational reasons and close proximity with Porto Santo Thermoelectric Power Plant, priority was given to Phase I, whose implementation works began in June 2011.

The equipment's are in an advanced stage of assembly, having already installed 29 of the 67 planned photo bioreactors. Until October 2011, the "fresh water" storage reservoirs were concluded and also the others two storage reservoirs for filtrate product; also installed are CO₂ storage reservoir and, and partially the HVAC system.

Throughout 2011, all the necessary construction works for the equipments implementation were executed. The Nave I was installed, and is where the laboratory operates, for quite a while now, that houses the sea water filtering equipment, the compressed air unit and the hydraulic monitoring system, among others.

Although on an experimental basis, two photo bioreactors are being tested, with laboratory control monitoring, at all times, of the micro seaweed growth, water quality in the circulation system, CO₂ concentration, etc.

The planning for this Phase I expects works completion, by the end of 2012, as well as the entry under the full exploitation of the equipments.

• GNL Project (liquefied natural gas)

Following the International Public Tender to construct Madeira Island's GNL Terminal, launched in April 2010, as an first phase, in order to pre-qualify competitors, was completed, at the end of that year, EEM proceeded to the preparation of the candidature fund process, to the European Union, under the QREN program.

Meanwhile, facing the high investment predicted value, about 120 million Euros and systematic worsening of the national and international economic and financial conjuncture, EEM considered appropriate and absolutely justifiable to postpone the start of the project, until an adequate structuring and financing model, outcomes, Situation that the Company expects to surpass during 2012, in order to re-launch the investment. The EEM is currently studying the possibility of developing the project with some changes in order to reduce significantly the cost of investment.

This project constitutes a structural measure with a very significant impact on development of the entire Regional economy, contributing extraordinarily to protect the environment, responding positively to the international agreed targets. It also allows the diversification of sources of supply, which, given the international environment, is an undeniable safety factor.

The gradual replacement of petroleum energy source, for cleaner and environmentally friendlier alternatives, such as natural gas, the cleanest fossil fuel, is one of the strategic objectives of the Regional Energy Policy. In this framework, the electricity sector presents itself as a key factor for the viability of this raw material, creating simultaneously conditions to provide natural gas to other sectors, particularly industry, transport, hospitality, residential, fostering the creation of a new cluster in an area of recognised economic interest, making an important contribution to achieving and even exceeding the stringent environmental targets of the three twenties defined by the European Union for 2020.

• **Geothermic potential**

In August 2010, a contract was signed between EEM and the "Laboratório Nacional de Energia e Geologia", to evaluate the geothermal potential of the Madeira Island, which shall last until the end of 2012.

Madeira Island has geothermal potential of recent volcanism, with 6 to 7 thousand years, which in geological terms implies not be regarded as extinct and the occurrence of abnormal water temperatures, rich in CO₂, suggest the existence of rocks and/or waters with significant temperatures at depths amenable to economic exploitation for electricity generation.

Accordingly, in 2011, campaigns were held to gather critical information on the Geology, Hydrogeology, Magnetometry, Thermometry, and Seismic Tomography, which allows evaluating the sites with the greatest potential for geothermal utilisation.

Thus, in the end of the 1st evaluation year, the following was accomplished:

- The preliminary definition of the main volcanic and tectonic structures of Madeira Islands volcanic soil, which will be known in a deeper level, through the conclusion of the magnetometry study;
- The location of the discharge zones with a profound contribution and first indication of the temperature variation in depth, are still being evaluated, since the gradients determined, require confirmation with thermometric assessment to be carried out in future campaigns.

In 2012, works will be undertaken to refine promising geological structures, distribution and characterisation of volcanic and tectonic structures at depth.

• **Electric Mobility in RAM**

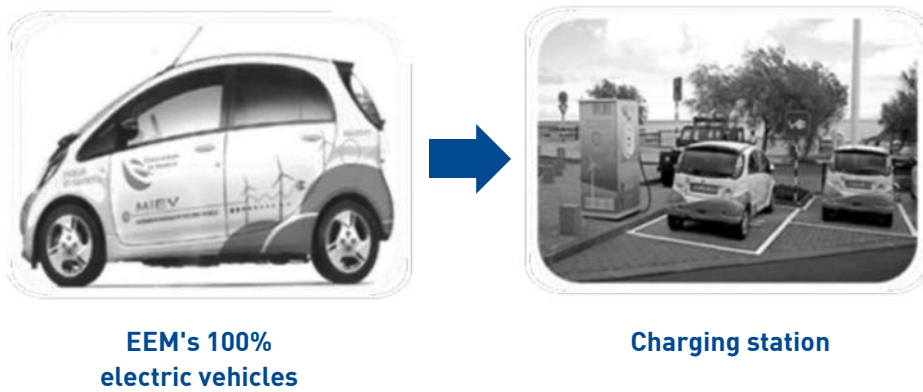
The Electric Mobility Program (EMP) in the RAM has as main objectives: to contribute to lower energy dependence, based on sustainable mobility; encourage the use of renewable energy sources in transports; increase efficiency in energy use, contribute to the regional economy increase; integrate since the first moment, the national electricity network mobility (MOBI.E); greatly reduce greenhouse gas emissions (GGE); reduce noise pollution from transport; reduce the current imbalance of the load diagram (valley hours consumption), increasing the renewable resources integration in electric energy production, as well as to improve the efficiency, cause the losses in transformation process are substantially smaller when compared with processing losses of petroleum-based fuels.

The RAM's main goal is to reach, by 2020, a share of 5.0% to 10.0% vehicles powered by electricity, having the Madeira Regional Government established a working group in order to accelerate and coordinate the implementation of this new form of mobility in the archipelago.

In this context, in 2011, EEM as leader of the work group for the Madeira Electric Mobility Program (MEMP) took the initiative to implement the first effective procedures of this Program, through the acquisition of two 100% electric vehicles for it´s car fleet and simultaneously to install public charging stations in the following places:

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

EEM accomplished a total of 10 normal charging stations and 2 fast ones, accessible to the public, in RAM.



In parallel, EEM triggered the development of the Strategic Plan for Electric Mobility in RAM.

Thus, EEM intends to contribute, in a decisive way, to promote this kind of technology, through the creation of conditions for the public access to electric charging stations and through setting the example, while a user of the electric mobility.

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 2011, the Board of Directors wishes to express a word of gratitude for the support received from all the different entities with whom we have cooperated over the year, particularly our shareholder, the Regional Government of Madeira, represented by its Vice-President, responsible for the leadership of the energy sector in Madeira.

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

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

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

The Board of Directors:

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

Consolidated and Individual Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Balance Sheet as at 31 December 2011 and 2010

	Notes	2011 Euros	2010 Euros
Non-Current Assets			
Tangible fixed assets	6	404,619,186	408,426,234
Intangible assets	7	8,033,411	8,657,563
Investments - Equity method	8	10,159,863	9,993,240
Investments - Other methods	9	3,481,188	7,729,188
Clients	10	27,464,512	27,840,999
Other receivables	11	21,394,371	26,341,979
Deferrals	16	91,667	-
Deferred tax assets	12	5,664,696	4,837,617
Total Non-Current Assets		480,908,894	493,826,820
Current Assets			
Inventories	14	14,392,650	16,448,837
Clients	10	80,244,234	75,476,747
Tax receivable	13	278,441	1,409,546
Shareholders	15	9,815,881	1,113,374
Other receivables	11	94,837,107	69,976,028
Deferrals	16	504,371	274,696
Other financial assets	17	2,010,000	-
Cash and deposits at banks	4	260,326	1,059,953
Total Current Assets		202,343,010	165,759,181
Total Assets		683,251,904	659,586,001
Equity			
Share capital	18	20,000,000	20,000,000
Legal reserves	19	4,020,148	4,020,148
Other reserves		15,027,582	14,541,565
Retained earnings	20	52,716,654	48,453,977
Financial assets adjustments	21	718,341	623,562
Revaluation reserves	22	10,722,252	11,812,572
Other changes in equity	23	24,370,293	26,021,916
Consolidated net profit for the period attributable to equity holders of EEM		5,649,990	4,823,412
Total Equity attributable to equity holders of EEM		133,225,260	130,297,152
Minority interests	24	306,673	222,058
Total Equity		133,531,933	130,519,210
Non-Current Liabilities			
Provisions	25	10,704,307	10,704,307
Financial debt	26	353,487,959	359,466,636
Employee benefits	27	23,079,307	25,827,208
Deferrals	16	740,000	-
Total Non-Current Liabilities		388,011,573	395,998,151
Current Liabilities			
Suppliers	28	60,116,090	53,741,026
Tax payable	13	2,793,125	1,194,747
Financial debt	26	75,304,650	33,407,217
Other payables	29	16,071,320	38,979,760
Deferrals	16	240,000	550,000
Other financial liabilities	30	7,183,213	5,195,890
Total Current Liabilities		161,708,398	133,068,640
Total Liabilities		549,719,971	529,066,791
Total Equity and Liabilities		683,251,904	659,586,001

Chief Accountant

See accompanying notes to the Financial Statements

The Board of Directors

EEM - Empresa de Electricidade da Madeira

Consolidated Income Statement

for the periods ended 31 December 2011 and 2010

	<u>Notes</u>	<u>2011</u> <u>Euros</u>	<u>2010</u> <u>Euros</u>
Sales and services rendered	31	193,533,577	174,496,842
Operating government grants	32	58,523	201,034
Gains/(losses) on subsidiaries, associated companies and joint ventures	33	566,624	488,868
Own work capitalised	34	12,568,493	19,375,357
Cost of sales	31	(102,942,647)	(87,206,827)
Supplies and services	35	(13,412,077)	(15,371,735)
Personnel costs	36	(29,602,484)	(35,356,216)
Impairment of trade receivables (losses/reversals)	10 and 11	(8,330,014)	(1,587,489)
Provisions (charges/reversals)	25 and 27	5,654,606	(1,542,000)
Fair value gains/losses	37	(6,235,322)	(3,616,271)
Other gains	38	11,806,163	11,434,001
Other losses	39	(8,707,888)	(8,749,799)
Profit before depreciation, interest and income taxes		54,957,554	52,565,765
Losses/reversals of depreciation and amortisation	6 and 7	(34,508,850)	(34,052,674)
Operating profit (before interest and income taxes)		20,448,704	18,513,091
Interest and other income obtained	40	2,353,229	1,722,419
Interest and other losses supported	40	(20,194,854)	(15,575,572)
Profit before income taxes		2,607,079	4,659,938
Income taxes	41	3,129,709	236,151
Consolidated net profit for the period		5,736,788	4,896,089
Consolidated net profit for the period attributable to:			
Equity holders of EEM		5,649,990	4,823,412
Minority interests		86,798	72,677
		5,736,788	4,896,089
Earnings per share (Basic)		1,41	1,21
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 2011 and 2010

(Amounts expressed in Euros)

	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other changes in equity	Net profit for the period	Total	Minority interests	Total Equity
Balance on 1 January 2010	1	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)
	2	-	-	-	(284,125)	297,475	(890,497)	(3,236,134)	-	(4,113,281)	(1,729)	(4,115,010)
Net profit for the period	3								4,823,412	4,823,412	72,677	4,896,089
Comprehensive income	4 = 2 + 3								4,823,412	710,131	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)	-	-	-
	5	-	-	400,166	5,650,041	-	-	-	(6,050,207)	-	-	-
Balance on 31 December 2010	6 = 1 + 2 + 3 + 5	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
Changes in the period:												
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	876,356	-	(1,090,320)	-	-	(213,964)	-	(213,964)
Investments in associated companies adjustments		-	-	-	(94,779)	94,779	-	-	-	-	-	-
Government grants (net of taxes)		-	-	-	(856,295)	-	-	(1,651,623)	-	(2,507,918)	(2,183)	(2,510,101)
	7	-	-	-	(74,718)	94,779	(1,090,320)	(1,651,623)	-	(2,721,882)	(2,183)	(2,724,065)
Net profit for the period	8								5,649,990	5,649,990	86,798	5,736,788
Comprehensive income	9 = 7 + 8								5,649,990	2,928,108	84,615	3,012,723
Operations with equity holders during the period:												
Transfer of the net profit for the period		-	-	486,017	4,337,395	-	-	-	(4,823,412)	-	-	-
	10	-	-	486,017	4,337,395	-	-	-	(4,823,412)	-	-	-
Balance on 31 December 2011	11 = 6 + 7 + 8 + 10	20,000,000	4,020,148	15,027,582	52,716,654	718,341	10,722,252	24,370,293	5,649,990	133,225,260	306,673	133,531,933

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira
Consolidated Cash Flow
for the periods ended 31 December 2011 and 2010

	2011	2010
	Euros	Euros
Cash flows arising from operating activities		
Cash receipts from clients	137,911,883	173,814,979
Cash paid to suppliers	(107,521,267)	(92,376,542)
Payments to employees and pensioniers	(30,890,089)	(32,338,346)
Other receipts	5,161,911	-
Net cash from operations	<u>4,662,438</u>	<u>49,100,091</u>
Income tax received/(paid)	450,919	(2,084,405)
Other receipts/(payments)	<u>6,533,086</u>	<u>1,270,865</u>
Net cash from operating activities (1)	<u>11,646,443</u>	<u>48,286,551</u>
Cash flows arising from investing activities		
Cash payments relating to:		
Tangible fixed assets	(24,311,958)	(46,060,835)
Intangible assets	(720,090)	(2,152,791)
Investments	-	(973,022)
Other assets	(9,089,641)	(78,449)
Cash receipts relating to:		
Tangible fixed assets	1,000	1,000
Intangible assets	2,291,164	2,077,170
Other assets	387,134	-
Government grants	4,032,139	225,396
Interest and other income	736,203	600,636
Dividends	400,000	722,447
Net cash from investing activities (2)	<u>(26,274,049)</u>	<u>(45,638,448)</u>
Cash flows arising from financing activities		
Cash receipts relating to:		
Loans obtained	45,593,077	61,040,919
Cash payments relating to:		
Repayment of loans	(12,687,038)	(47,907,221)
Interest and similar costs	(19,078,060)	(15,356,232)
Other financing activities	-	(152,044)
Net cash from financing activities (3)	<u>13,827,979</u>	<u>(2,374,578)</u>
Net changes in cash and cash equivalents (1 + 2 + 3)	<u>(799,627)</u>	<u>273,525</u>
Cash and cash equivalents balance at the beginning of the period	<u>1,059,953</u>	<u>786,428</u>
Cash and cash equivalents balance at the end of the period	<u>260,326</u>	<u>1,059,953</u>

See accompanying notes to the Financial Statements

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

Balance Sheet as at for 31 December 2011 and 2010

	<u>Notes</u>	<u>2011</u> <u>Euros</u>	<u>2010</u> <u>Euros</u>
Non-Current Assets			
Tangible fixed assets	6	375,395,450	384,097,418
Intangible assets	7	8,029,998	8,646,055
Investments - Equity method	8	16,262,036	13,014,259
Investments - Other methods	9	3,481,188	7,729,188
Clients	10	27,464,512	27,840,999
Other receivables	11	21,394,371	26,341,979
Deferred tax assets	12	5,901,030	5,511,199
Total Non-Current Assets		457,928,585	473,181,097
Current Assets			
Inventories	14	14,355,133	16,410,217
Clients	10	80,071,206	75,391,424
Tax receivable	13	264,951	1,653,923
Shareholders	15	9,815,881	1,113,374
Other receivables	11	94,841,147	69,976,212
Deferrals	16	226,712	121,169
Other financial assets	17	2,010,000	-
Cash and deposits at banks	4	106,400	946,601
Total Current Assets		201,691,430	165,612,920
Total Assets		659,620,015	638,794,017
Equity			
Share capital	18	20,000,000	20,000,000
Legal reserves	19	4,020,148	4,020,148
Other reserves		15,027,582	14,541,565
Retained earnings	20	48,685,597	45,207,412
Financial assets adjustments	21	3,022,262	2,130,740
Revaluation reserves	22	10,722,252	11,812,572
Other changes in equity	23	24,215,824	25,842,938
Net profit for the period		5,219,037	4,860,171
Total Equity		130,912,702	128,415,546
Non-Current Liabilities			
Provisions	25	10,704,307	10,704,307
Financial debt	26	335,309,094	339,469,885
Employee benefits	27	23,079,307	25,827,208
Total Non-Current Liabilities		369,092,708	376,001,400
Current Liabilities			
Suppliers	28	59,620,805	55,781,018
Tax payable	13	2,560,815	1,184,190
Shareholders	15	550,000	400,000
Financial debt	26	73,459,085	32,966,479
Other payables	29	16,240,687	38,849,494
Other financial liabilities	30	7,183,213	5,195,890
Total Current Liabilities		159,614,605	134,377,071
Total Liabilities		528,707,313	510,378,471
Total Equity and Liabilities		659,620,015	638,794,017

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 2011 and 2010

	<u>Notes</u>	<u>2011</u> <u>Euros</u>	<u>2010</u> <u>Euros</u>
Sales and services rendered	31	193,014,242	174,149,255
Operating government grants	32	58,523	201,034
Gains/(losses) on subsidiaries, associated companies and joint ventures	33	1,804,315	1,526,621
Own work capitalised	34	12,568,493	19,375,357
Cost of sales	31	(106,868,278)	(90,551,294)
Supplies and services	35	(12,931,084)	(14,974,628)
Personnel costs	36	(29,457,065)	(35,211,581)
Impairment of trade receivables (losses/reversals)	10 and 11	(8,330,014)	(1,587,489)
Provisions (charges/reversals)	25 and 27	5,654,606	(1,542,000)
Impairment of non-depreciable/amortisable investments (losses/reversals)	8	39,448	45,948
Fair value gains/losses	37	(6,235,322)	(3,616,271)
Other gains	38	11,770,923	11,369,720
Other losses	39	(8,655,822)	(8,721,532)
Profit before depreciation, interest and income taxes		52,432,965	50,463,140
Losses/reversals of depreciation and amortisation	6 and 7	(32,801,253)	(32,506,948)
Operating profit (before interest and income taxes)		19,631,712	17,956,192
Interest and other income obtained	40	2,353,229	1,722,419
Interest and other losses supported	40	(19,782,840)	(15,255,829)
Profit before income taxes		2,202,101	4,422,782
Income taxes	41	3,016,936	437,389
Net profit for the period		5,219,037	4,860,171

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 2011 and 2010

(Amounts expressed in Euros)

	Notes	Share capital	Legal reserves	Other reserves	Retained earnings	Financial assets adjustments	Revaluation reserves	Other changes in equity	Net profit for the period	Total
Balance on 1 January 2010	1	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)
	2	-	-	-	(569,583)	559,408	(890,497)	(3,212,609)	-	(4,113,281)
Net profit for the period	3								4,860,171	4,860,171
Comprehensive income	4 = 2 + 3								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)	-
	5	-	-	400,166	5,417,732	-	-	-	(5,817,898)	-
Balance on 31 December 2010	6 = 1 + 2 + 3 + 5	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
Changes in the period:										
Revaluation reserves from tangible and intangible assets realised (net of taxes)		-	-	-	876,356	-	(1,090,320)	-	-	(213,964)
Investments in associated companies adjustments		-	-	-	(918,454)	891,522	-	-	-	(26,932)
Government grants (net of taxes)		-	-	-	(853,871)	-	-	(1,627,114)	-	(2,480,985)
	7	-	-	-	(895,969)	891,522	(1,090,320)	(1,627,114)	-	(2,721,881)
Net profit for the period	8								5,219,037	5,219,037
Comprehensive income	9 = 7 + 8								5,219,037	2,497,156
Operations with equity holders during the period:										
Transfer of the net profit for the period		-	-	486,017	4,374,154	-	-	-	(4,860,171)	-
	10	-	-	486,017	4,374,154	-	-	-	(4,860,171)	-
Balance on 31 December 2011	11 = 6 + 7 + 8 + 10	20,000,000	4,020,148	15,027,582	48,685,597	3,022,262	10,722,252	24,215,824	5,219,037	130,912,702

See accompanying notes to the Financial Statements

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

Cash Flow Statement for the periods ended 31 December 2011 and 2010

	2011	2010
	Euros	Euros
Cash flows arising from operating activities		
Cash receipts from clients	137,075,784	172,875,270
Cash paid to suppliers	(112,457,747)	(93,924,192)
Payments to employees and pensioniers	(30,746,725)	(32,192,931)
Other receipts	5,161,911	-
Net cash from operations	(966,777)	46,758,147
Income tax received/(paid)	881,723	(2,103,244)
Other receipts/(payments)	6,627,317	1,755,109
Net cash from operating activities (1)	6,542,263	46,410,012
Cash flows arising from investing activities		
Cash payments relating to:		
Tangible fixed assets	(18,375,076)	(45,773,993)
Intangible assets	(720,090)	(2,152,791)
Investments	-	(973,022)
Other assets	(10,958,536)	-
Cash receipts relating to:		
Tangible fixed assets	1,000	1,000
Intangible assets	2,273,764	2,037,270
Other assets	425,082	87,640
Government grants	4,032,139	225,396
Interest and other income	736,203	600,636
Dividends	400,000	722,447
Net cash from investing activities (2)	(22,185,514)	(45,225,417)
Cash flows arising from financing activities		
Cash receipts relating to:		
Loans obtained	45,743,077	61,458,234
Cash payments relating to:		
Repayment of loans	(12,272,539)	(47,249,114)
Interest and similar costs	(18,667,488)	(15,054,655)
Other financing activities	-	(152,046)
Net cash from financing activities (3)	14,803,050	(997,581)
Net changes in cash and cash equivalents (1 + 2 + 3)	(840,201)	187,014
Cash and cash equivalents balance at the beginning of the period	946,601	759,587
Cash and cash equivalents balance at the end of the period	106,400	946,601

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Notes to the Financial Statements 31 December 2011 and 2010

Annex to the Financial Statements

1. Entity identification

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

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

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

As at 25 March 2002, was published the Decree-Law no. 69/2002, which extended to the Autonomous Regions of Azores and Madeira the regulation, by the Regulatory Agency for Energy Services (ERSE), for the activities of generation, transport, distribution and commercialisation of electric energy. During 2002, ERSE adjusted the regulatory framework for the electric sector, namely the Tariff Regulation, in order to extend its application to the Autonomous Regions, seeking a progressive standardisation of tariffs in Portugal starting 1 January 2003, under the principles of tariff convergence and electric companies financial stability. Therefore, the tariffs applied by EEM since 1 January 2003 are established by ERSE, being its responsibility the calculation of the compensation amount to be paid to EEM from that date resulting from tariffs reduction (see Note 3.2 k)).

The subsidiaries owned by EEM are presented in Note 5 to the financial statements.

2. Accounting standards applied in the financial statements

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

The financial statements which include the balance sheet, the income statement by nature, the statement of changes in shareholder's equity, the cash flow statement and the notes to the financial statements, were approved by the Board of Directors as at 28 March 2012. 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.

The accounting policies, presented in Note 3, were used in the preparation of the financial statements for the period ended 31 December 2011 and for the comparative financial information presented in these financial statements for the period ended 31 December 2010.

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

Nevertheless, and for comparative purposes only, the netting of the 2010 deferred tax assets and liabilities was made, resulting in a decrease of 7,605,081 Euros in consolidated assets and liabilities of EEM (individual: 7,401,901 Euros).

- 2.3** There are no balance sheet and income statement accounts whose contents are not comparable with the previous period.

3. Accounting policies

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

3.1 Measurement basis used in the preparation of the financial statements

The consolidated financial statements as at 31 December 2011 and 2010 reflect the assets, liabilities and results of EEM and its subsidiaries, namely, 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 companies are eliminated to the extent of the Group's interest in those entities.

Other investments

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

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

b) Tangible fixed assets

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

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

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

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

Land is not depreciated. Depreciation of the other 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 5
Office equipment	4 to 16
Other	4 to 20

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

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

c) Intangible assets

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

Intangible assets with defined useful life

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

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

Internally generated intangible assets

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

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

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

Acquisition and development of software

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

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

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

Industrial property and other rights

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

The estimated useful lives are as follows:

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

d) Borrowing costs capitalised

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

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

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

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

e) Leases

Leases are classified as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. A lease is classified as an operating lease if it does not transfers substantially all the risks and rewards incidental to ownership to the lessee.

Operating leases

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

Finance leases

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

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

f) Inventories

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

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

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

g) Accounts receivable

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

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

h) Cash and cash equivalents

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

i) Income tax

EEM and its subsidiaries are subject to the tax legislation considered in "Código do IRC – Imposto sobre o Rendimento das Pessoas Colectivas". In accordance with Portuguese tax legislation, tax returns can be reviewed and adjusted by the tax authorities for a period of four years 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; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

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

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

Transfers of assets from customers

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

Promotion plan for efficient consumption of energy

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

l) Provisions

Provisions are recognised when:

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

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

m) Employee benefits

Pensions

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

The above mentioned pension plan consists in a defined benefit retirement plan, whose liabilities are assessed by an independent actuarial valuation following the projected unit credit method, with the purpose of determining the present value of projected benefits and the corresponding current services costs. The discount rate used is determined based on market rates associated with corporate bonds with high rating, denominated in the currency in which benefits will be paid and with a similar maturity to the maturity date of the liability.

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

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

n) Recognition of income and expenses

Income and expenses are recorded in the period to which they refer regardless of when paid or received, in accordance with the accrual concept. Differences between amounts received and paid and the corresponding revenues and charges are recorded under other assets or liabilities depending on whether they are receivable or payable amounts.

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

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

o) CO2 Licenses

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

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

The licenses usage is valued at historical cost considering the emissions occurred during the period (FIFO). These emissions are registered as depreciation expenses in the period they take place. When the emissions for the period exceeds the licenses held, is charged a provision for the amount necessary to acquire the licenses in the market, as at the balance sheet date.

The subsidies initially recorded against equity are subsequently amortised over the period in which they are attributed, on the same proportion as the consumptions, against the income statement. In accordance with the regulation disposals defined by ERSE, the amount recognised in equity arising from the licenses freely attributed and not consumed is reclassified to the balance Other payables, considering the existence of a liability with the Electric System, which will be settled during the “Plano Nacional de Atribuição de Licenças de Emissão II (2008-2012)” period.

p) Tariff adjustments

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

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

q) Financial instruments

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

EEM measures the financial instruments at their amortised cost, net of impairment losses, when they 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; and
- do not contain any contractual clause that may result in the loss of the nominal value and accumulated interest (excluding the typical credit risks cases).

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

Clients and other receivables

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

Financial liabilities

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

Derivative financial instruments

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

Derivative financial instruments are recognised on the trade date at fair value. Subsequently, the fair value of derivative financial instruments is 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 28 March 2012, date in which the Board of Directors approved them, as mentioned in Note 46. Events occurring after the balance sheet date about conditions that existed at the balance date are considered in the preparation of financial statements.

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

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

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

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

Considering that in many cases there are alternatives to the accounting treatment adopted by EEM,

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

Impairments of clients and other debtors

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

Tariff adjustments

Tariff adjustments represent the difference between costs and income of the National Electricity System (SEN), estimated at the beginning of each period for purposes of calculating the tariff, and the actual costs and income of the Electricity System established at the end of each period. The tariff adjustments assets or liabilities are recovered or returned through electricity tariffs for customers in subsequent periods. Considering the current legislation which establishes an unconditional right of the regulated operators to recover or return the tariff adjustments, EEM 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 2011 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 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Current bank deposits	232,822	1,059,427	79,163	946,127
Cash and cash equivalents	27,504	526	27,237	474
	260,326	1,059,953	106,400	946,601

5. Consolidation perimeter

The subsidiaries consolidated under the full consolidation method as at 31 December 2011 are as follows:

(amounts expressed in Euros)

Designation	Head office	Share capital	Total assets	Total liabilities	Total equity	Sales and services rendered	Net profit for the period	% Group
Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda.	Funchal	99,760	2,391,919	1,984,463	407,456	93,207	684	100.00%
Enereem – Energias Renováveis, Lda.	Funchal	49,880	27,623,715	23,534,748	4,088,967	3,926,734	1,157,304	92.50%
Emacom – Telecomunicações da Madeira, Unipessoal, Lda.	Funchal	49,880	1,857,090	1,138,297	718,793	724,297	253,299	100.00%

The associated companies consolidated under the equity method as at 31 December 2011 are as follows:

(amounts expressed in Euros)

Designation	Head Office	Share Capital	Total assets	Total liabilities	Total equity	Sales and services rendered	Net profit for the period	% Group
Teleféricos da Madeira, S.A.	Funchal	250,000	8,785,211	2,687,497	6,097,714	5,721,940	3,011,548	20,00%
EEM & BFS – Energy, S.A.	Funchal	6,000,000	21,618,865	9,172,065	12,446,800	-	(89,216)	40,00%

During the period ended 31 December 2011 there were no transactions related to the acquisition and/or disposal of shareholdings in the companies listed above.

6. Tangible fixed assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gross amount:				
Land	6,422,029	6,422,029	6,422,029	6,422,029
Buildings	200,002,640	195,828,245	196,791,646	192,617,251
Basic equipment	589,388,034	571,484,066	555,809,810	544,363,912
Transport equipment	409,728	209,215	197,055	165,102
Office equipment	7,605,341	7,434,039	7,456,473	7,292,116
Other	3,017,947	2,853,122	3,017,947	2,853,122
Art	63,295	63,295	-	-
Work in progress	16,126,390	15,538,207	16,126,390	15,505,442
	823,035,404	799,832,218	785,821,350	769,218,974
Accumulated depreciation and impairment losses:				
Depreciation of the period	(27,489,344)	(26,879,442)	(25,783,453)	(25,335,422)
Depreciation of write-offs/disposals	479,110	556,969	479,109	556,969
Depreciation of previous periods	(391,405,984)	(365,083,511)	(385,121,556)	(360,343,103)
	(418,416,218)	(391,405,984)	(410,425,900)	(385,121,556)
Net amount	404,619,186	408,426,234	375,395,450	384,097,418

The movements in Tangible fixed assets for the Group, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairments Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
Gross amount:						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	195,828,245	1,302,877	-	-	2,871,518	200,002,640
Basic equipment	571,484,066	8,107,969	-	(441,463)	10,237,462	589,388,034
Transport equipment	209,215	238,160	-	(37,647)	-	409,728
Office equipment	7,434,039	153,822	-	-	17,480	7,605,341
Other	2,853,122	164,825	-	-	-	3,017,947
Art	63,295	-	-	-	-	63,295
Work in progress	15,538,207	13,799,276	-	-	(13,211,093)	16,126,390
	799,832,218	23,766,929	-	(479,110)	(84,633)	823,035,404
Accumulated depreciation and impairment losses:						
Buildings	(79,028,411)	(5,327,571)	-	-	-	(84,355,982)
Basic equipment	(303,416,209)	(21,627,159)	-	441,463	-	(324,601,905)
Transport equipment	(182,943)	(82,561)	-	37,647	-	(227,857)
Office equipment	(6,671,011)	(319,060)	-	-	-	(6,990,071)
Other	(2,107,410)	(132,993)	-	-	-	(2,240,403)
	(391,405,984)	(27,489,344)	-	479,110	-	(418,416,218)
Net amount	408,426,234					404,619,186

The acquisitions for the period reflect the final works in “Central Térmica da Vitória” (CTV III), in the amount of 939,358 Euros, works for the reconstruction of the water supply network “levadas”, in the amount of 1,485,140 Euros, works on the energy transport network (1,230,150 Euros), medium voltage (3,023,100 Euros) and low voltage (3,313,480 Euros) distribution networks. In addition, some interventions were made in Groups 9 and 10 of “Central Térmica da Vitória” in order to maintain its productive capability, in the amount of 626,621 Euros, and also major repairs in the fuel tanks in “Central Térmica do Porto Santo”, in the amount of 530,131 Euros.

Additionally, in the subsidiary Enereem, the wind farm “Loiral II” was completed and started its operation, consisting of 2 wind turbines of 3 MW each, whose investment amounted, in 2011, to 6,398,627 Euros (2010: 32,765 Euros).

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

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairments Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 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 movements in Tangible fixed assets for the Company, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairments Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
Gross amount:						
Land	6,422,029	-	-	-	-	6,422,029
Buildings	192,617,251	1,302,877	-	-	2,871,518	196,791,646
Basic equipment	544,363,912	8,081,290	-	(441,462)	3,806,070	555,809,810
Transport equipment	165,102	69,600	-	(37,647)	-	197,055
Office equipment	7,292,116	153,267	-	-	11,090	7,456,473
Other	2,853,122	164,825	-	-	-	3,017,947
Work in progress	15,505,442	7,400,648	-	-	(6,779,700)	16,126,390
	<u>769,218,974</u>	<u>17,172,507</u>	<u>-</u>	<u>(479,109)</u>	<u>(91,022)</u>	<u>785,821,350</u>
Accumulated depreciation and impairment losses:						
Buildings	(77,794,651)	(5,218,182)	-	-	-	(83,012,833)
Basic equipment	(298,506,967)	(20,095,907)	-	441,462	-	(318,161,412)
Transport equipment	(153,109)	(29,393)	-	37,647	-	(144,855)
Office equipment	(6,559,386)	(306,979)	-	-	-	(6,866,365)
Other	(2,107,443)	(132,992)	-	-	-	(2,240,435)
	<u>(385,121,556)</u>	<u>(25,783,453)</u>	<u>-</u>	<u>479,109</u>	<u>-</u>	<u>(410,425,900)</u>
Net amount	<u>384,097,418</u>					<u>375,395,450</u>

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

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairments Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 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>

During the years ended 31 December 2011 and 2010, the following amounts were capitalised under the caption Tangible fixed assets:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Own work capitalised:				
Tangible fixed assets:				
Materials	2.624.040	4.546.327	2.624.040	4.546.327
Supplies and services	3.292.998	5.619.579	3.292.998	5.619.579
Personnel	2.252.448	3.240.135	2.252.448	3.240.135
Other	66.709	45.140	66.709	45.140
	<u>8.236.195</u>	<u>13.451.181</u>	<u>8.236.195</u>	<u>13.451.181</u>
Work in progress:				
Materials	775.158	1.003.753	775.158	1.003.753
Supplies and services	2.743.515	2.689.076	2.743.515	2.689.076
Personnel	628.468	1.771.979	628.468	1.771.979
Other	20.158	36.237	20.158	36.237
	<u>4.167.299</u>	<u>5.501.045</u>	<u>4.167.299</u>	<u>5.501.045</u>
	<u>12.403.494</u>	<u>18.952.226</u>	<u>12.403.494</u>	<u>18.952.226</u>

During 2011, the expenses incurred with these assets amounted to 12,403,494 Euros (2010: 18,952,226 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 1,317,837 Euros and 959,734 Euros, respectively.

During the period were capitalised in this caption borrowing costs in the amount of 207,880 Euros (2010: 1,081,055 Euros), considering a capitalisation rate of 5.05% to determine those costs (see Note 40).

7. Intangible assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gross amount:				
Software	17,676,398	16,962,699	17,666,161	16,946,073
CO2 licenses	7,570,538	6,560,851	7,570,538	6,560,851
Industrial property and other rights	146,538	146,538	146,538	146,538
	<u>25,393,474</u>	<u>23,670,088</u>	<u>25,383,237</u>	<u>23,653,462</u>
Accumulated amortisation and impairment losses:				
Amortisation of the period	(7,019,506)	(7,173,232)	(7,017,800)	(7,171,526)
Amortisation of previous periods	(10,340,557)	(7,839,293)	(10,335,439)	(7,835,881)
	<u>(17,360,063)</u>	<u>(15,012,525)</u>	<u>(17,353,239)</u>	<u>(15,007,407)</u>
Net amount	<u>8,033,411</u>	<u>8,657,563</u>	<u>8,029,998</u>	<u>8,646,055</u>

The movements in this balance for the Group, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
Gross amount:						
Software	16,962,699	629,066	-	-	84,633	17,676,398
CO2 licenses	6,560,851	8,026,124	-	(7,016,437)	-	7,570,538
Industrial property and other rights	146,538	-	-	-	-	146,538
	<u>23,670,088</u>	<u>8,655,190</u>	<u>-</u>	<u>(7,016,437)</u>	<u>84,633</u>	<u>25,393,474</u>
Accumulated amortisation and impairment losses:						
Software	(10,327,374)	(2,352,768)	-	-	-	(12,680,142)
CO2 licenses	(4,671,968)	(4,660,267)	-	4,671,968	-	(4,660,267)
Industrial property and other rights	(13,183)	(6,471)	-	-	-	(19,654)
	<u>(15,012,525)</u>	<u>(7,019,506)</u>	<u>-</u>	<u>4,671,968</u>	<u>-</u>	<u>(17,360,063)</u>
Net amount	<u>8,657,563</u>					<u>8,033,411</u>

The acquisitions of Software refer, mainly, to the up-date and development of the EEM computer systems as well as to the register and characterisation of the electric network in the integrated management system of the electric network of the Autonomous Region of Madeira (SIT).

EEM recorded in the caption CO2 licenses, as at 1 January 2011, 8,026,124 Euros related to the CO2 licenses freely attributed in 2011 by Instituto do Ambiente (577,419 tons of Emission Unit Allowance: EUA).

The reduction in the caption CO2 licenses includes 4,671,968 Euros related to the licenses delivered concerning the 2010 consumptions (364,144 tons of EUA), as referred in Note 43.

Additionally, during this period, EEM performed several operations under which sold 180,000 tons of EUA by 2,305,400 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 (39,070 Euros including 18,000 Euros of commissions: see Note 43) and of the subsidy associated to the EUA freely attributed that were sold (2,344,469 Euros: see Note 38). Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to 5,842 Euros (including the effect of the Tariff compensation of 2011 in the income statement).

The depreciation recorded in the caption CO2 licenses, in the amount of 4,660,267 Euros (2010: 4,671,968 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 2010, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
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 amortisation 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 movements in this balance for the Company, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
Gross amount:						
Software	16,946,073	629,066	-	-	91,022	17,666,161
CO2 licenses	6,560,851	8,026,124	-	(7,016,437)	-	7,570,538
Industrial property and other rights	146,538	-	-	-	-	146,538
	<u>23,653,462</u>	<u>8,655,190</u>	<u>-</u>	<u>(7,016,437)</u>	<u>91,022</u>	<u>25,383,237</u>
Accumulated amortisation and impairment losses:						
Software	(10,322,256)	(2,351,062)	-	-	-	(12,673,318)
CO2 licenses	(4,671,968)	(4,660,267)	-	4,671,968	-	(4,660,267)
Industrial property and other rights	(13,183)	(6,471)	-	-	-	(19,654)
	<u>(15,007,407)</u>	<u>(7,017,800)</u>	<u>-</u>	<u>4,671,968</u>	<u>-</u>	<u>(17,353,239)</u>
Net amount	<u>8,646,055</u>					<u>8,029,998</u>

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

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Revaluations/ Impairment Euros	Disposals/ Write-offs Euros	Transfers/ Regularisations Euros	Balance at 31 December Euros
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 amortisation 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>

During 2011, the expenses incurred with Intangible assets amounted to 87,663 Euros (2010: 463,511 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 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Subsidiaries	-	-	6,102,173	3,021,019
Associated companies	10,159,863	9,993,240	10,159,863	9,993,240
	<u>10,159,863</u>	<u>9,993,240</u>	<u>16,262,036</u>	<u>13,014,259</u>

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

	Dec 2011			Dec 2010		
	Gross amount Euros	Impairment Euros	Net amount Euros	Gross amount Euros	Impairment Euros	Net amount Euros
Subsidiaries:						
Museu - Casa da Luz	2,312,559	(2,312,559)	-	2,352,007	(2,352,007)	-
Enereem	5,383,379	-	5,383,379	2,555,525	-	2,555,525
Emacom	718,794	-	718,794	465,494	-	465,494
	<u>8,414,732</u>	<u>(2,312,559)</u>	<u>6,102,173</u>	<u>5,373,026</u>	<u>(2,352,007)</u>	<u>3,021,019</u>
Associated companies:						
Teleféricos da Madeira	1,219,543	-	1,219,543	1,017,233	-	1,017,233
EEM & BFS	8,940,320	-	8,940,320	8,976,007	-	8,976,007
	<u>10,159,863</u>	<u>-</u>	<u>10,159,863</u>	<u>9,993,240</u>	<u>-</u>	<u>9,993,240</u>
	<u>18,574,595</u>	<u>(2,312,559)</u>	<u>16,262,036</u>	<u>15,366,266</u>	<u>(2,352,007)</u>	<u>13,014,259</u>

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

The movements in this balance for the Company, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Disposals/ Reductions Euros	Equity method Euros	Other variations Euros	Balance at 31 December Euros
Gross amount:						
Casa da Luz	2,352,007	-	-	(1,499)	(37,949)	2,312,559
Enereem	2,555,525	-	-	958,959	1,868,895	5,383,379
Emacom	465,494	-	-	253,300	-	718,794
Teleféricos da Madeira	1,017,233	-	-	202,310	-	1,219,543
EEM & BFS	8,976,007	-	-	(35,687)	-	8,940,320
	15,366,266	-	-	1,377,383	1,830,946	18,574,595
Impairment:						
Casa da Luz	(2,352,007)	-	39,448	-	-	(2,312,559)
	(2,352,007)	-	39,448	-	-	(2,312,559)
	13,014,259					16,262,036

In the column Equity method is presented the effects of the application of this consolidation method, being this variation a result of the appropriation of the net profit of the period of the subsidiaries and associated companies, in the amount of 1,804,315 Euros, and of negative variations in the equity of the subsidiaries and associated companies, in the amount of 426,932 Euros.

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

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

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

	Balance at 1 January Euros	Acquisitions/ Charges Euros	Disposals/ Reductions Euros	Equity method Euros	Other variations Euros	Balance at 31 December Euros
Gross amount:						
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
	14,472,762	-	-	1,059,591	(166,087)	15,366,266
Impairment:						
Casa da Luz	(2,397,955)	-	45,948	-	-	(2,352,007)
	(2,397,955)	-	45,948	-	-	(2,352,007)
	12,074,807					13,014,259

In the column Equity method is presented the effects of the application of this consolidation method, being this variation a result of the appropriation of the net profit of the period of the subsidiaries and associated companies, in the amount of 1,526,621 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 as equity instruments under NCRF.

9. Investments – Other methods

The detail of this balance is analysed as follows:

	Method	Dec 2011			Dec 2010		
		Gross amount Euros	Impairment Euros	Net amount Euros	Gross amount Euros	Impairment Euros	Net amount Euros
Banif - SGPS, S.A.	Fair value	2,646,621	-	2,646,621	6,694,393	-	6,694,393
Luso Carbon Fund	Fair value	764,577	-	764,577	964,805	-	964,805
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
		4,112,356	(631,168)	3,481,188	8,360,356	(631,168)	7,729,188

The movements in this balance, during 2011, are analysed as follows:

	Balance at 1 January Euros	Acquisitions Euros	Disposals Euros	Changes in fair value Euros	Impairment Euros	Balance at 31 December Euros
Banif – SGPS, S.A.	6,694,394	-	-	(4,047,773)	-	2,646,621
Luso Carbon Fund	964,804	-	-	(200,227)	-	764,577
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
	7,729,188	-	-	(4,248,000)	-	3,481,188

As at 31 December 2011, the investments held in Banif – SGPS, S.A. and in Luso Carbon Fund decreased by 4,047,773 Euros and 200,227 Euros respectively, being this decrease booked against Fair value losses (see Note 37).

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

	Balance at 1 January Euros	Acquisitions Euros	Disposals Euros	Changes in fair value Euros	Impairment Euros	Balance at 31 December 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, 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 37).

10. Clients

The Clients are analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gross amount:				
Non-current assets:				
Official entities with protocol	34,848,485	35,874,045	34,848,485	35,874,045
	34,848,485	35,874,045	34,848,485	35,874,045
Current assets:				
Official entities with protocol	3,500,663	3,840,090	3,500,663	3,840,090
Official entities without protocol	72,240,232	66,566,233	72,239,890	66,564,569
Private clients	35,957,709	31,444,383	35,782,357	31,358,058
	111,698,604	101,850,706	111,522,910	101,762,717
	146,547,089	137,724,751	146,371,395	137,636,762
Impairment:				
Non-current assets	(7,383,973)	(8,033,046)	(7,383,973)	(8,033,046)
Current assets	(31,454,370)	(26,373,959)	(31,451,704)	(26,371,293)
	(38,838,343)	(34,407,005)	(38,835,677)	(34,404,339)
Net amount:	107,708,746	103,317,746	107,535,718	103,232,423

The balance Official entities with protocol, in the amount of 38,349,148 Euros (2010: 39,714,135 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 instalments. Under these protocols, EEM has received during 2011 the amount of 2,431,648 Euros (2010: 2,171,985 Euros).

The balance Official entities without protocol, in the amount of 72,240,232 Euros (2010: 66,566,233 Euros), relates to amounts invoiced to regional official entities until 31 December 2011 regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes 29,846,102 Euros (2010: 29,427,735 Euros) related to public lighting.

In 2011, the movements in Impairment losses, for the Group, are analysed as follows:

	Balance at 1 January Euros	Acquisitions Euros	Disposals Euros	Changes in fair value Euros	Impairment Euros
Impairment losses:					
Non-current assets:					
Official entities with protocol	(8,033,046)	-	-	649,073	(7,383,973)
	(8,033,046)	-	-	649,073	(7,383,973)
Current assets:					
Official entities with protocol	(73,922)	-	(694)	-	(74,616)
Official entities without protocol	(15,569,632)	-	(4,698,378)	-	(20,268,010)
Private clients	(10,730,405)	2,898,676	(3,280,015)	-	(11,111,744)
	(26,373,959)	2,898,676	(7,979,087)	-	(31,454,370)
	(34,407,005)	2,898,676	(7,979,087)	649,073	(38,838,343)

The impairment for private clients charge-off, amounting to 2,898,676 Euros, refers to the write-off of amounts owed with significant seniority (uncollectible), which were already fully impaired.

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

	Balance at 1 January Euros	Charge-off Euros	Charges Euros	Reversals Euros	Balance at 31 December Euros
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)

11. Other receivables

The detail of this balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gross amount:				
Non-current assets:				
Tariff compensation	17,355,563	18,380,509	17,355,563	18,380,509
Tariff convergence	4,255,723	8,545,828	4,255,723	8,545,828
	21,611,286	26,926,337	21,611,286	26,926,337
Current assets:				
Tariff compensation	69,667,849	43,596,671	69,667,849	43,596,671
Tariff convergence	13,973,845	9,575,377	13,973,845	9,575,377
REN	2,618,242	5,843,259	2,618,242	5,843,259
Energy to invoice	6,826,668	7,984,494	6,828,206	7,985,899
Other	2,835,173	3,064,283	2,837,675	3,063,062
	95,921,777	70,064,084	95,925,817	70,064,268
	117,533,063	96,990,421	117,537,103	96,990,605
Impairment:				
Non-current assets	(216,915)	(584,358)	(216,915)	(584,358)
Current assets	(1,084,670)	(88,056)	(1,084,670)	(88,056)
	(1,301,585)	(672,414)	(1,301,585)	(672,414)
Net amount:	116,231,478	96,318,007	116,235,518	96,318,191

The balance Tariff compensation, in the amount of 87,023,412 Euros (2010: 61,977,180 Euros), corresponds to the difference between the amounts invoiced by EEM (based on the tariffs published by ERSE in December of the previous year) and the income calculated based on actual conditions.

The Tariff compensation is detailed, per year of receiving, as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Asset:				
Tariff compensation of 2008	6,027,640	6,027,640	6,027,640	6,027,640
Tariff compensation of 2009	30,601,468	30,601,468	30,601,468	30,601,468
Tariff compensation of 2010	6,967,563	6,967,563	6,967,563	6,967,563
Tariff compensation of 2011	7,305,443	-	7,305,443	-
Tariff compensation of 2012	18,765,735	18,380,509	18,765,735	18,380,509
Tariff compensation of 2013	17,355,563	-	17,355,563	-
	87,023,412	61,977,180	87,023,412	61,977,180
Liability (see Note 29):				
Tariff compensation of 2011	-	(22,178,622)	-	(22,178,622)
	-	(22,178,622)	-	(22,178,622)
	87,023,412	39,798,558	87,023,412	39,798,558

The balance Tariff convergence, in the amount of 18,229,568 Euros (2010: 18,121,205 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 instalments plus interest, which, as at 31 December 2011, amounts to 142,746 Euros. 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 balance REN, in the amount of 2,618,242 Euros (2010: 5,843,259 Euros), refers to the tariff convergence for December 2011, monthly transferred to EEM.

In 2011, 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	(584.358)	-	367.443	(216.915)
	(584.358)	-	367.443	(216.915)
Current asset:				
Tariff convergence	(88.056)	-	3.386	(84.670)
Other receivables	-	(1.000.000)	-	(1.000.000)
	(88.056)	(1.000.000)	3.386	(1.084.670)
	(672.414)	(1.000.000)	370.829	(1.301.585)

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

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)
	(1,072,076)	-	487,718	(584,358)
Current asset:				
Tariff convergence	(88,056)	-	-	(88,056)
	(88,056)	-	-	(88,056)
	(1,160,132)	-	487,718	(672,414)

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		Deferred tax (net)	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Transition adjustment	548,034	584,570	-	-	548,034	584,570
Non-deductible provisions	14,507,600	11,858,128	-	-	14,507,600	11,858,128
Depreciations without tax consequences	-	-	218,784	183,364	[218,784]	[183,364]
Accounting revaluations	-	-	1,069,822	932,063	[1,069,822]	[932,063]
Non-refundable grants	-	-	8,102,332	6,489,654	[8,102,332]	[6,489,654]
	15,055,634	12,442,698	9,390,938	7,605,081	5,664,696	4,837,617

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

	Deferred tax assets		Deferred tax liabilities		Deferred tax (net)	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Transition adjustment	548,034	584,570	-	-	548,034	584,570
Non-deductible provisions	14,507,600	11,858,128	-	-	14,507,600	11,858,128
Depreciations without tax consequences	-	-	12,841	9,105	[12,841]	[9,105]
Accounting revaluations	-	-	1,069,822	932,063	[1,069,822]	[932,063]
Non-refundable grants	-	-	8,071,941	6,460,733	[8,071,941]	[6,460,733]
Others	-	470,402	-	-	-	470,402
	15,055,634	12,913,100	9,154,604	7,401,901	5,901,030	5,511,199

The movements in deferred taxes for the Group and in an individual basis, for 2011 and 2010, are analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Balance at 1 January	4,837,617	4,223,956	5,511,199	4,904,865
Charges to the income statement	3,512,198	694,153	3,068,872	686,826
Charges against reserves	[2,685,119]	[80,492]	[2,679,041]	[80,492]
Balance at 31 December	5,664,696	4,837,617	5,901,030	5,511,199

The Regional Legislative Decree No. 20/2011/M, of 26 December, changed the applicable IRC (income tax) rate in the Autonomous Region of Madeira in 2012, from 20% to 25%. In accordance with NCRF 25.44, deferred tax assets and liabilities should be measured using the tax rates that are expected to be applied in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that are approved at the balance sheet date, therefore the deferred taxes were calculated using the 25% tax rate.

13. State and other public entities

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Tax receivable:				
Income tax	278,441	1,032,335	264,951	1,199,218
Value added tax (VAT)	-	377,206	-	454,705
Other taxes	-	5	-	-
	<u>278,441</u>	<u>1,409,546</u>	<u>264,951</u>	<u>1,653,923</u>
Tax payable:				
Income tax	86,952	-	-	-
Withholding tax	307,043	433,543	300,876	425,450
Value added tax (VAT)	1,748,862	-	1,612,058	-
Other taxes	58,375	44,484	58,395	44,499
Social Security contributions	573,657	698,603	571,250	696,124
Local municipality tax	18,236	18,117	18,236	18,117
	<u>2,793,125</u>	<u>1,194,747</u>	<u>2,560,815</u>	<u>1,184,190</u>

14. Inventories

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gross amount:				
Goods	9,490,159	10,167,545	9,450,589	10,126,873
Raw materials	5,159,717	6,538,518	5,159,717	6,538,517
	<u>14,649,876</u>	<u>16,706,063</u>	<u>14,610,306</u>	<u>16,665,390</u>
Impairment:				
Impairment for inventories depreciation	(257,226)	(257,226)	(255,173)	(255,173)
	<u>(257,226)</u>	<u>(257,226)</u>	<u>(255,173)</u>	<u>(255,173)</u>
	<u>14,392,650</u>	<u>16,448,837</u>	<u>14,355,133</u>	<u>16,410,217</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 2011, 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	(183,324)	-	-	(183,324)
Raw materials	(73,902)	-	-	(73,902)
	<u>(257,226)</u>	<u>-</u>	<u>-</u>	<u>(257,226)</u>

15. Shareholders

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Current assets:				
Companhia Logística de Combustíveis da Madeira	666,256	1,053,390	666,256	1,053,390
EEM & BFS	9,149,625	59,984	9,149,625	59,984
	<u>9,815,881</u>	<u>1,113,374</u>	<u>9,815,881</u>	<u>1,113,374</u>
Current liabilities:				
Emacom	-	-	(550,000)	(400,000)
	<u>-</u>	<u>-</u>	<u>(550,000)</u>	<u>(400,000)</u>
	<u>9,815,881</u>	<u>1,113,374</u>	<u>9,265,881</u>	<u>713,374</u>

16. Deferrals

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Assets:				
Deferred expenses:				
Insurance premiums	287,271	166,966	226,712	120,539
Other deferred expenses	308,767	107,730	-	630
	<u>596,038</u>	<u>274,696</u>	<u>226,712</u>	<u>121,169</u>
Liabilities:				
Deferred income:				
Services rendered	980,000	550,000	-	-
	<u>980,000</u>	<u>550,000</u>	<u>-</u>	<u>-</u>

As at 31 December 2011 and 2010, for the Group, the Deferred expenses refer, mainly, to amounts paid related with the multi-risk insurance policy for the electricity generating plants and to the agreements celebrated with Vestas Portugal for the warranty and maintenance of Enereem wind farms.

In 2011, for the Group, the Deferred income results from the amount received (600,000 Euros in 2010 and 600,000 Euros in 2011) by Emacom under an agreement for the rental of telecommunication circuits for a 5 years period, with maturity in 2015 and 2016, respectively.

17. Other financial assets

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Colateral Swap Barclays	2,010,000	-	2,010,000	-
	2,010,000	-	2,010,000	-

Under the terms of the contract signed with Barclays for the interest rate swap (see Note 30), EEM is required to make a deposit whenever the fair value of the derivative is negative by an amount that exceeds 4 million Euros (threshold until 17 May 2012) or exceeds 3 million Euros (threshold after 17 May 2012). On this basis, EEM made a deposit in the amount of 2,010,000 Euros to accomplish with this contractual requirement.

18. Share capital

The share capital, in the amount of 20,000,000 Euros, is represented by 4,000,000 shares with a nominal value of 5 Euros each, and is fully paid as at 31 December 2011, being entirely held by Madeira's Regional Government.

19. 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 2010.

20. Retained earnings

In 2011, this caption variation, for the Group, includes the application of the profit for the period ended 31 December 2010 in the amount of 4,337,395 Euros. Additionally, this variation includes the realisation of the tangible and intangible assets revaluation reserves, in the amount of 876,356 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 94,779 Euros, and the reclassification to the Other changes in equity caption of the deferred tax associated to the Government grants recognised in equity that were reclassified to income during the period ended 31 December 2011.

21. Financial assets adjustments

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Equity method:				
Non-distributed profits	708,963	614,184	2,878,039	1,959,584
Other variations	9,378	9,378	144,223	171,156
	<u>718,341</u>	<u>623,562</u>	<u>3,022,262</u>	<u>2,130,740</u>

22. Revaluation reserves

This balance is related to revaluation reserves originated by the tangible and intangible assets legal revaluations performed by EEM, amounting to 10,722,252 Euros (2010: 11,812,572 Euros).

23. Other changes in equity

The balance Other changes in equity is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Government grants	32,409,330	32,448,275	32,287,765	32,303,671
Deferred tax - Government grants	(8,102,332)	(6,489,654)	(8,071,941)	(6,460,733)
Donations	63,295	63,295	-	-
	<u>24,370,293</u>	<u>26,021,916</u>	<u>24,215,824</u>	<u>25,842,938</u>

The movements in Other changes in equity for the Group and in an individual basis, for 2011 and 2010, are analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Balance at 1 January	26,021,916	29,258,050	25,842,938	29,055,547
Government grants recognised in the period	4,253,443	402,461	4,253,443	402,461
Deferred tax - Government grants recognised in the period	(850,689)	(80,492)	(850,689)	(80,492)
Government grants reclassified to profit or loss	(4,292,389)	(4,441,260)	(4,269,350)	(4,418,222)
Deferred tax - Government grants reclassified to profit or loss	858,479	888,252	853,871	883,644
Deferred tax - Change in tax rate	(1,620,467)	-	(1,614,389)	-
Other variations	-	(5,095)	-	-
Balance at 31 December	<u>24,370,293</u>	<u>26,021,916</u>	<u>24,215,824</u>	<u>25,842,938</u>

24. 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 the subsidiary Enereem.

The 92.5% investment held by EEM was consolidated under the full consolidation method, originating minority interests related to the remaining 7.5% investment on Enereem, in the amount of 306,673 Euros (2010: 222,058 Euros).

25. Provisions

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 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	4,676,667	4,676,667	4,676,667
	10,704,307	10,704,307	10,704,307	10,704,307

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 29.

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.

In 2011, the movements in Provisions, for the Group, are analysed as follows:

	1 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	4,676,667	-	-	-	-	4,676,667
	10,704,307	-	-	-	-	10,704,307

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

	1 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

26. Financial debt

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Non-current liabilities:				
Foreign loans	307,793,002	308,286,327	307,793,002	308,286,327
Other loans	45,694,957	51,180,309	27,516,092	31,183,558
	353,487,959	359,466,636	335,309,094	339,469,885
Current liabilities:				
Short term loans	51,858,232	21,593,337	51,858,232	21,593,337
Foreign loans	17,836,191	4,835,215	17,836,191	4,835,215
Other loans	5,610,227	6,978,665	3,764,662	6,537,927
	75,304,650	33,407,217	73,459,085	32,966,479
	428,792,609	392,873,853	408,768,179	372,436,364

As at 28 May 2010, EEM agreed a credit facility with European Investment Bank (EIB) in the total amount of 75,000,000 Euros with the purpose of improving the electricity production, transmission and distribution infrastructures in the Autonomous Region of Madeira. During 2011, EEM increased the amount used from this credit facility by 15,000,000 Euros (2010: 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 2011, 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	-	27,519,421	280,273,581	307,793,002
Other loans	-	34,787,638	10,907,319	45,694,957
	-	62,307,059	291,180,900	353,487,959
Current liabilities:				
Short term loans	51,858,232	-	-	51,858,232
Foreign loans	17,836,191	-	-	17,836,191
Other loans	5,610,227	-	-	5,610,227
	75,304,650	-	-	75,304,650
	75,304,650	62,307,059	291,180,900	428,792,609

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

As at 31 December 2011, the scheduled repayments of the Group's debt including interest accrual are as follows:

	2012 Euros	2013 Euros	2014 Euros	2015 Euros	2016 Euros	Following years Euros	Total Euros
Non-current liabilities	-	30,777,177	10,801,774	10,373,795	10,354,313	291,180,900	353,487,959
Current liabilities	75,304,650	-	-	-	-	-	75,304,650
	75,304,650	30,777,177	10,801,774	10,373,795	10,354,313	291,180,900	428,792,609

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

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 demanded, in 2011, obtaining an unconditional and irrevocable guarantee from the Autonomous Region of Madeira Government, leading to an increase of the related financial costs.

27. 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 adopts an accounting policy that results in the recognition of actuarial gains and losses against the income statement. The actuarial gains recognised in the income statement for the periods ended 31 December 2011 and 2010 amount to 1,851,710 Euros and 1,405,763 Euros, respectively.

As at 31 December 2011 and 2010, the liabilities for past services associated to the pension plan were the following:

	Dec 2011 Euros	Dec 2010 Euros
Evaluation of liabilities:		
Liabilities at the beginning of the year	30,989,119	32,878,110
Current service cost	67,645	243,442
Interest cost	1,471,983	1,561,710
Benefits paid	(2,255,206)	(2,288,380)
Actuarial gains and losses	(1,851,710)	(1,405,763)
Curtailment	(5,342,524)	-
Liabilities at the end of the year	23,079,307	30,989,119

The liabilities decrease during 2011 results, essentially, from some assumptions update, in order to match the benefits attribution rules applicable to the employees of EEM, to the existing rules for the majority of public employees. The pension plan was also adjusted in accordance with the measures of the State Budget for 2011 and 2012.

As at 31 December 2011 and 2010, the number of participants covered by this pension plan is analysed as follows:

	Dec 2011	Dec 2010
Employees	59	68
Pre-pensioners	19	19
Pensioners	244	236
	322	323

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

	Dec 2011	Dec 2010
Salaries increase rate	2.75% (a)	2.75% (a)
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 + 1 year	TV73/77 + 1 year
Disability rate	EVK 80	EVK 80

(a) For the years 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 2011 Euros	Dec 2010 Euros
Liabilities as at 31 December:		
Employees	2,741,813	9,542,349
Pre-pensioners	3,122,350	3,745,537
Pensioners	17,215,144	17,701,233
	23,079,307	30,989,119
Liabilities to be covered:		
Insurance coverage	-	5,161,911
Provisions charged	23,079,307	25,827,208
Liabilities not covered	-	-

During 2011, EEM settled the insurance policy held to cover part of the pension liabilities.

In 2011, EEM recorded a reversal of the provision for employee benefits in the amount of 5,654,606 Euros (2010: 200,854 Euros), which is analysed as followed:

	Dec 2011 Euros	Dec 2010 Euros
Cost of the year:		
Current service cost	67,645	243,442
Interest costs	1,471,983	1,561,710
Actuarial gains and losses	(1,851,710)	(1,405,763)
Curtailment	(5,342,524)	-
Return on plan assets	-	(198,535)
Net cost for the year	(5,654,606)	200,854

28. Suppliers

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Suppliers:				
General	54,712,304	47,701,188	54,283,672	47,679,321
Subsidiaries	-	-	590,885	2,061,859
Suppliers of tangible assets	5,403,786	6,039,838	4,746,248	6,039,838
	60,116,090	53,741,026	59,620,805	55,781,018

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 590,885 Euros (2010: 290,552 Euros) related to services rendered by Emacom to EEM.

As at 31 December 2011, the caption Suppliers of tangible assets mainly includes debts to Edimade, Siemens and Luzosfera, related to several works in the transport and distribution networks and also to Vestaspor as a result of the Loiral II wind farm construction.

29. Other payables

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Accrued costs:				
Tariff compensation of 2011 (see Note 11)	-	22,178,622	-	22,178,622
Municipal network tax (see Note 39)	7,665,104	7,476,180	7,665,104	7,476,180
Holiday pay and subsidies	1,926,685	3,892,123	1,911,815	3,888,931
National Electric System (CO2)	2,910,271	1,888,884	2,910,271	1,888,884
Other creditors	3,569,260	3,543,951	3,753,497	3,416,877
	16,071,320	38,979,760	16,240,687	38,849,494

The caption Municipal network tax refers to the 2011 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 43.

The caption Other creditors includes the mandatory guarantee deposits received from electricity consumers, in the amount of 2,467,829 Euros (2010: 2,476,200 Euros).

30. Other financial liabilities

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Interest rate swaps	7,183,213	5,186,320	7,183,213	5,186,320
Interest rate options	-	9,570	-	9,570
	7,183,213	5,195,890	7,183,213	5,195,890

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. Under this swap, which matures in 15 November 2017, EEM receives a variable interest rate (Euribor 6 months) and pays a fixed interest rate of 3.55% over the notional amount referred above. Under this agreement, a deposit was made in the amount of 2,010,000 Euros as collateral of this swap (see Note 17).

31. Sales and services rendered and Cost of sales

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Sales:				
Energy	120,443,765	117,493,451	120,461,566	117,512,347
Tariff compensation	71,991,505	55,866,573	71,991,505	55,866,573
Services rendered	1,024,605	977,607	487,552	611,197
Goods	73,702	159,211	73,619	159,138
	193,533,577	174,496,842	193,014,242	174,149,255
Cost of sales:				
Raw materials	56,217,282	47,040,685	56,217,282	47,040,685
Energy purchased from third parties	40,079,346	31,412,874	44,006,079	34,758,121
Goods	6,646,019	8,753,268	6,644,917	8,752,488
	102,942,647	87,206,827	106,868,278	90,551,294

The caption Tariff compensation includes the amounts of 55,609,853 Euros attributed to EEM related to the 2011 tariff convergence, 16,606,923 Euros related to the 2011 tariff compensation recoverable in 2013 and 3,968 Euros related to the ERSE review of the 2010 tariff compensation estimate, returnable through the electric energy tariff in 2012 and 221,303 Euros corresponding to the deferral of PPDA.

32. Operating government grants

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

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Operating government grants:				
European Social Fund	58,523	196,341	58,523	196,341
Other grants	-	4,693	-	4,693
	58,523	201,034	58,523	201,034

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

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

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gains:				
Subsidiaries	-	-	1,237,691	1,037,753
Associated companies	602,310	494,779	602,310	494,779
	602,310	494,779	1,840,001	1,532,532
Losses:				
Associated companies	(35,686)	(5,911)	(35,686)	(5,911)
	(35,686)	(5,911)	(35,686)	(5,911)
	566,624	488,868	1,804,315	1,526,621

34. Own work capitalised

The balance Own work capitalised is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Own work capitalised:				
Tangible and intangible assets	12,491,157	19,291,864	12,491,157	19,291,864
Other	77,336	83,493	77,336	83,493
	12,568,493	19,375,357	12,568,493	19,375,357

35. Supplies and services

The balance Supplies and services is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Supplies and services:				
Subcontracts	5,859,836	8,197,902	5,858,786	8,197,704
Specialised works	3,926,765	3,510,818	3,356,345	2,981,003
Goods	5,986	5,257	5,451	4,308
Fuel and water	386,797	370,638	384,783	368,029
Transportation, travelling and representation	172,950	240,853	172,950	240,853
Other supplies and services	3,059,743	3,046,267	3,152,769	3,182,731
	<u>13,412,077</u>	<u>15,371,735</u>	<u>12,931,084</u>	<u>14,974,628</u>

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

36. Personnel costs

The balance Personnel costs is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Personnel costs:				
Board of Directors remuneration	199,549	233,639	199,549	233,639
Employee's remuneration and other	24,015,268	28,495,637	23,896,364	28,375,196
Employee benefits	-	200,855	-	200,855
Social charges on remuneration	5,195,592	6,193,769	5,170,556	6,170,404
Insurance policies	192,075	232,316	190,596	231,487
	<u>29,602,484</u>	<u>35,356,216</u>	<u>29,457,065</u>	<u>35,211,581</u>

For the Group, the average number of employees during the period amounts to 850 (2010: 864).

37. Fair value gains/losses

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

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Gains:				
Derivative financial instruments	9,571	25,953	9,571	25,953
	<u>9,571</u>	<u>25,953</u>	<u>9,571</u>	<u>25,953</u>
Losses:				
Investments - Other methods	(4,248,000)	(2,741,282)	(4,248,000)	(2,741,282)
Derivative financial instruments	(1,996,893)	(900,942)	(1,996,893)	(900,942)
	<u>(6,244,893)</u>	<u>(3,642,224)</u>	<u>(6,244,893)</u>	<u>(3,642,224)</u>
	<u>(6,235,322)</u>	<u>(3,616,271)</u>	<u>(6,235,322)</u>	<u>(3,616,271)</u>

38. Other gains

The balance Other gains is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
CO2 licenses	7,004,737	6,748,415	7,004,737	6,748,415
Investment grants	4,292,389	4,441,259	4,269,350	4,418,221
Other income	509,037	244,327	496,836	203,084
	11,806,163	11,434,001	11,770,923	11,369,720

The caption CO2 licenses corresponds to amortisation of the amount recognised against equity arising from the licenses freely attributed, as referred in Note 3 o).

39. Other losses

The balance Other losses is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Municipal network tax	7,665,104	7,476,180	7,665,104	7,476,180
Stamp duty	629,045	735,617	612,580	722,814
Other expenses	413,739	538,002	378,138	522,538
	8,707,888	8,749,799	8,655,822	8,721,532

The caption Municipal network tax refers to the 2011 local tax rate owed by EEM, as referred in Note 29.

40. Financial income/(costs)

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

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Interest and other income obtained:				
Late payment charges	469,229	472,211	469,229	472,211
Interest income - Tariff adjustment	1,137,835	371,702	1,137,835	371,702
Interest income - Tariff convergence	108,363	34,382	108,363	34,382
Unwinding of tariff convergence	370,829	487,718	370,829	487,718
Dividends	-	272,446	-	272,446
Other	266,973	83,960	266,973	83,960
	2,353,229	1,722,419	2,353,229	1,722,419
Interest and other losses supported:				
Interest expense from financial debt	17,341,385	14,307,894	16,930,292	13,992,005
Interest expense - Tariff adjustment	-	1,259,271	-	1,259,271
Commissions and banking services	2,541,841	1,075,810	2,540,978	1,071,956
Capitalised interest expense from financial debt	(207,880)	(1,081,055)	(207,880)	(1,081,055)
Other	519,508	13,652	519,450	13,652
	20,194,854	15,575,572	19,782,840	15,255,829
Financial results	(17,841,625)	(13,853,153)	(17,429,611)	(13,533,410)

Under the terms mentioned in Note 11, the tariff convergence for the 1998-2002 period will be settled in quarterly instalments without interest and therefore EEM recorded the net present value of this receivable against equity, at the transition date to NCRF. Therefore, EEM recorded the respective unwinding in the years ended 31 December 2011 and 2010 in the amounts of 370,829 Euros and 487,718 Euros, respectively.

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

The caption Interest and other losses supported includes 519,444 Euros concerning costs with the unconditional and irrevocable guarantee (aval) obtained from the Government of the Autonomous Region of Madeira in order to meet the requirements of the 220 million Euros syndicated loan as a result of the reduction in EEM's rating to a note below the Baa2, resulting from the rating reduction of Portugal and consequently of the Autonomous Region of Madeira.

41. Income taxes

This balance is analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Current tax	382,489	458,002	51,936	249,437
Deferred tax	(3,512,198)	(694,153)	(3,068,872)	(686,826)
	(3,129,709)	(236,151)	(3,016,936)	(437,389)

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 2011 and 2010, is analysed as follow:

	2011			2010		
	Rate	Tax Basis	Tax	Rate	Tax Basis	Tax
Income tax calculated based on the statutory tax rate	20.00%	2,607,079	521,416	20.00%	4,659,940	931,988
Tax benefits	(13.14%)	(1,713,217)	(342,643)	(4.35%)	(1,014,630)	(202,926)
Subsidies	(24.09%)	(3,139,604)	(627,921)	(19.06%)	(4,441,260)	(888,252)
Equity method	(4.35%)	(566,624)	(113,325)	(2.03%)	(471,841)	(94,368)
Tax-exempt dividends	-	-	-	(0.58%)	(136,223)	(27,245)
Autonomous taxation	1.29%	167,795	33,559	0.67%	156,975	31,395
Non-deductible tax losses	0.66%	86,102	17,220	0.57%	131,712	26,342
Changes in estimates	-	-	-	0.10%	23,186	4,637
Provisions without tax consequences	14.56%	1,897,481	379,496	(0.45%)	(104,036)	(20,807)
Other adjustments	(0.02%)	(2,586)	(516)	0.07%	15,422	3,085
Tax rate change	(114.96%)	(14,984,976)	(2,996,995)	-	-	-
	(120.05%)	(15,648,550)	(3,129,709)	(5.06%)	(1,180,755)	(236,151)

The Regional Legislative Decree No. 20/2011/M, of 26 December, changed the applicable IRC rate in the Autonomous Region of Madeira in 2012, from 20% to 25%. In accordance with the provisions of the NCRF 25.44, deferred tax assets and liabilities should be measured at the tax rates that are expected to be applied in the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that are approved at the balance sheet date.

The effects of these changes in the tax rate were considered in the determination of deferred taxes recorded in the financial statements for the period ended 31 December 2011. The impacts are disclosed in the caption Tax rate change (deferred tax effect), as referred in note 23.

The Law no. 10/2009, of 10 March, extended to the period ended 31 December 2011 (State Budget Law of 2011), introduced a set of incentives to investment and employment, including the tax investment support regime (RFAI). In the 2011 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 4,742 Euros (2010: 73,346 Euros). However, in 2011, and due to the application of the limits to the use of tax benefits imposed by Article 92º of the CIRC, 4,164 Euros were added to tax payable.

42. Operating leases

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

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Future payments:				
Less than one year	545,747	70,526	614,789	70,526
Between one and five years	1,225,974	30,669	1,371,313	30,669
	<u>1,771,721</u>	<u>101,195</u>	<u>1,986,102</u>	<u>101,195</u>

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

43. CO2 licenses

The CO2 licenses movements are analysed as follows:

	December 2011		December 2010	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	147,224	12.83	83,949	14.64
CO2 licenses freely attributed	577,419	13.90	577,419	12.83
CO2 licenses acquired	-	-	-	-
CO2 licenses sold	(180,000)	13.02	(150,000)	13.84
	<u>544,643</u>		<u>511,368</u>	
CO2 licenses to return regarding the year consumption	(335,271)		(364,144)	
	<u>209,372</u>	13.90	<u>147,224</u>	12.83
Excess / (Insufficiency) of CO2 licenses				
Assets / (Liabilities) – Euros	<u>2,910,271</u>		<u>1,888,884</u>	

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

During 2011 and as mentioned in Note 7, EEM sold 180,000 tons of EUA freely attributed, recognising a net loss of 39,070 Euros. Through the regulation mechanism, the total impact of the CO2 licenses transactions amounts to 5,842 Euros (including the effect of the Tariff compensation of 2011 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).

44. Related parties

Shareholders

As at 31 December 2011, EEM's share capital is entirely held by Madeira's Regional Government, as referred in Note 18.

Remuneration of company officers

During the periods ended 31 December 2011 and 2010, the remuneration cost of the Board of Directors is presented as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Short term employee benefits	241,358	279,946	241,358	279,946
	241,358	279,946	241,358	279,946

As at 31 December 2011, the expenses with the Statutory Auditor amounted to 59,250 Euros (2010: 59,250 Euros).

Balances and transactions with subsidiaries, associated companies and other investments

The balances and transactions between EEM and its subsidiaries, associated companies and other investments, for the year ended 31 December 2011, are analysed as follows:

	Asset			Liability	
	Clients	Accrued income	Loans granted	Suppliers	Others creditors
Enereem	-	-	1,907,758	-	(325,072)
Casa da Luz	-	1,330	1,905,103	-	-
Emacom	420	208	-	(590,885)	(550,000)
EEM & BFS	11,903	470	9,149,625	-	-
Teleféricos da Madeira	45,914	-	-	-	-
Companhia Logística de Combustíveis da Madeira	61,444	-	666,256	-	-
	119,681	2,008	13,628,742	(590,885)	(875,072)

Transactions				
Sales	Other income	Financial income	Cost of sales	Suppliers and services
Enereem	-	-	3,926,734	-
Casa da Luz	(15,505)	-	-	39,525
Emacom	(2,296)	(6,830)	-	258,908
EEM & BFS – Energy, S.A.	(834)	-	-	-
Teleféricos da Madeira	(72,210)	-	(29,474)	-
Companhia Logística de Combustíveis da Madeira	(128,115)	-	(37,773)	-
	(218,960)	(6,830)	(67,247)	298,433

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 2010, are analysed as follows:

	Asset			Liability	
	Clients	Accrued income	Loans granted	Suppliers	Others 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)	(400,000)
EEM & BFS - Energy, S.A.	-	-	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	Suppliers and services
Enereem	-	-	3,345,247	-
Museu - Casa da Luz	(17,062)	-	-	38,750
Emacom	(1,834)	(4,658)	-	276,640
Teleféricos da Madeira	(64,284)	-	-	-
Companhia Logística de Combustíveis da Madeira	(147,153)	-	(44,124)	-
	(230,333)	(4,658)	(44,124)	315,390

45. Commitments

As at 31 December 2011 and 2010, the commitments not included in the balance sheet, referring to bank guarantees, are analysed as follows:

	Group		Individual	
	Dec 2011 Euros	Dec 2010 Euros	Dec 2011 Euros	Dec 2010 Euros
Bank guarantees provided by others on behalf of EEM	95,000,000	90,000,000	95,000,000	90,000,000
Bank guarantees provided by EEM	142,780	142,780	142,780	142,780
	95,142,780	90,142,780	95,142,780	90,142,780

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 95,000,000 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.

46. Subsequent events

There are no significant events after the balance sheet date.

47. Explanation added for translation

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

Statutory Auditor's Opinion on the Consolidated Accounts



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

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

STATUTORY AUDITOR'S 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 2011 (which shows total assets of Euro 683,251,904 and a total equity attributable to equity holders of EEM of Euro 133,225,260, including a net profit of Euro 5,649,990), 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 matters referred to in paragraphs 7.2 and 8 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.

KPMG & Associados - S.R.O.C., S.A.
Capital Social: 2.840.000 Euros - Pessoa
Colectiva N.º PT 502 161 078 - Inscrito na
O.R.O.C. N.º 189 - Inscrito na C.M.V.M. N.º
8093

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



Qualifications

- 7 Under the responsibilities defined by Decree-Law n.º 159/99, of 14 September, which establishes the legal framework for the transfer of competences to the local Municipalities and defines the competences of the Municipalities concerning the rural and urban public lightning, and in accordance with the "Lei das Finanças Locais", the Municipalities of the Autonomous Region of Madeira approved, through Municipalities' Assemblies, as at 1 January 2006, the 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 n.º 2/2007/M was published to regulate the transfer of the responsibility related to the rural and urban public lightning from the Regional Government to the Municipalities of the Autonomous Region of Madeira as well as to limit the municipal network tax rate.

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December 2011 and in prior periods, costs related to the municipal network tax in the total amount of Euro 41,870,212. 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 2011, the assets and liabilities of EEM are overstated in the amount of Euro 6,027,640 (2010: Euro 6,027,640), considering that the referred provision should be presented as a reduction to the corresponding asset.

- 7.2 For the periods from 2007 to 2011, 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 periods from 2007 to 2011, in the amount of Euro 35,842,572, 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 2011.



- 8 As at 27 January 2012, following the financial assistance request by the Regional Government to the Central Government the Financial and Economic Adjustment Programme for the Autonomous Region of Madeira (Programme) was published, in order to reverse the unbalanced financial situation of the Autonomous Region of Madeira and ensure the sustainability of the public finances. The Programme sets out, among others measures, the renegotiation of the regional official entities debts, through the establishment of payment plans. As EEM booked under the caption Clients a net amount of Euro 82,862,781 regarding debts from regional official entities with a significant seniority, as disclosed in Note 10 to the financial statements, the referred measures can affect the date on which the debts will be received. Therefore, it is not possible to estimate these receipts dates and the impact, if any, in EEM shareholders' equity and profit for the period as at 31 December 2011.

Additionally, EEM booked, under the caption Other receivables, amounts to be recovered regarding the 2009 tariff convergence in the amount of Euro 24,173,186 as well as amounts owed by the Central Government regarding tariff convergence from 1998 to 2002 in the amount of Euro 17,927,983, determined in accordance with the Contract for the Tariff Convergence for Electric Energy. Considering that the Portuguese Republic is subject to the terms of the Memorandum of Understanding on Specific Economic Policy Conditionality, signed with Troika, at the date of this Statutory Auditor's Opinion there are still significant old amounts outstanding, for which it is not possible to estimate the receipts date and the impact, if any, in shareholders' equity and profit for the period arising from the application of that Memorandum of Understanding.

- 9 On February 2010, a natural disaster occurred in Autonomous Region of Madeira, which caused significant damages on the hydroelectric production equipment and on the electric transport and distribution networks of EEM. In November 2011, EEM received a compensation from an insurance company for those losses in the amount of Euro 3,103,673, recorded against shareholders equity. This amount is being amortised against profit and loss in accordance with the useful life of the related assets. Therefore, as at 31 December 2011 the amount recorded in shareholders equity, net of tax, amounts to Euro 2,289,911. As at 31 December 2011, we consider that this compensation should be included in the net profit for the period. Therefore, the net profit for the period is understated in the amount of Euro 2,442,572 and the caption Other changes in equity is overstated in the amount of Euro 2,289,911.

Qualified opinion

- 10 In our opinion, except for the effect of the adjustments, if any, that might result from the matters described in paragraphs 7.2 and 8 above, and except for the effect of the matters described in paragraphs 7.1 and 9 above, the referred consolidated financial statements, present fairly, in all material respects, the consolidated financial position of **EEM - Empresa de Electricidade da Madeira, S.A.** as at 31 December 2011, 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

- 11 Without qualifying our opinion expressed in the paragraph above, we draw attention to the fact that the Statutory Auditor's Opinion for the period ended 31 December 2010, issued as at 31 March 2011, included a qualification regarding the reversal of a provision recorded in period ended 31 December 2009, in the amount of Euro 3,058,000, based on the Board of Directors expectation of future losses for 2010 in EEM's regulated activities.

During the period ended 31 December 2010, and considering that those losses were already reflected in the results of the regulated activities for that period, EEM reversed the referred provision. Therefore, as at 31 December 2010, we have consider that the net profit for the period of EEM was overstated in the amount of Euro 3,058,000 and the retained earnings understated in the same amount. As at 31 December 2011, this situation is solved.

Report on other legal requirements

- 12 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, 25 May 2012

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

Extract of the Minute of the General Assembly Meeting

MINUTE NUMBER TWENTY-FIFTH

- «On the twenty fifth of May of two thousand and twelve at three o'clock PM, in accordance with paragraph one of the 373th 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, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total Share capital, valued at twenty million euros, for which reasons the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:

POINT ONE: Review of extraordinary dividend distribution deliberation taken in the General Assembly of 28th June, 2011;

POINT TWO: The Annual Report of 2011;

POINT THREE: Deliberate on application of net profits;

POINT FOUR: Management Report and Consolidated Accounts of 2011;

POINT FIVE: Appreciation of the administration and fiscal supervision.

- Once opened the session was requested the presence of the Chairman of the Board, Dr. Rui Rebelo which referred that despite what has been decided on the last Annual General Meeting of 28th June, 2011, to make a distribution of extraordinary dividends of three million five hundred thousand euros through retained earnings from previous financial years, the truth is that given the recognised economic and financial difficulties of the country and the region, which resulted in a lack of liquidity of all economic and, particularly, in the business sector, were not found gathered during the year 2011, the necessary conditions for EEM to proceed with such distribution to the Autonomous Region of Madeira, single shareholder of the company.
- After analysing this point, and given the reasons justifying current difficulties in EEM treasury during 2011, it was resolved unanimously not to approve the distribution of dividends pursuant deliberated at the meeting of 28th June, 2011, being such deliberation without any current effect.

- Regarding the points two and three, and with the presence of the remaining members of the Executive Board of EEM, the Annual Report of 2011 was presented and discussed as well as the proposed appropriation of results, assuming the non-distribution of dividends previous referred. The Board of Directors proposed the following application of the net profit for the year amounting to 5 219 037.13€:

Retained Earnings: 4 697 133.42€

Statutory Reserve: 521 903.71€

- After the discussion of EEM annual report and the referred proposal for the net profit of the, it was determined to approve them unanimously.
- Regarding point four, the Executive Board of EEM presented the Annual Report and Consolidated Accounts of 2011, with the net income of the year, amounting to 5 736 788.12€, which was analysed and deliberated to approve them unanimously.
- Regarding point five, the Autonomous Region of Madeira, single shareholder of EEM, 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 closed and the present minute written, which, after having been read and approved, was properly signed.»

