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Note to reader:

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

Board of Directors



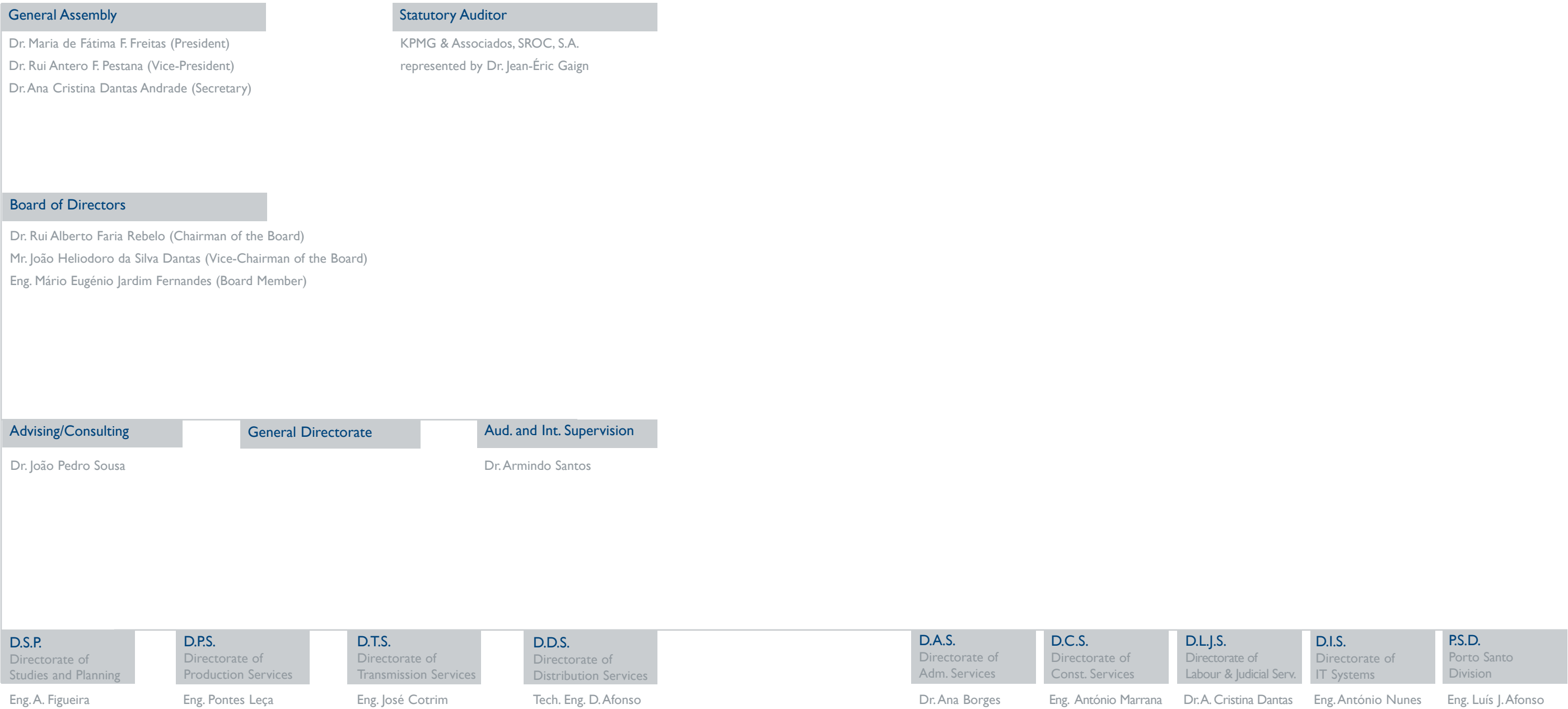
From left to right:

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

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

Eng. Mário Eugénio Jardim Fernandes (Board Member)

Organigram

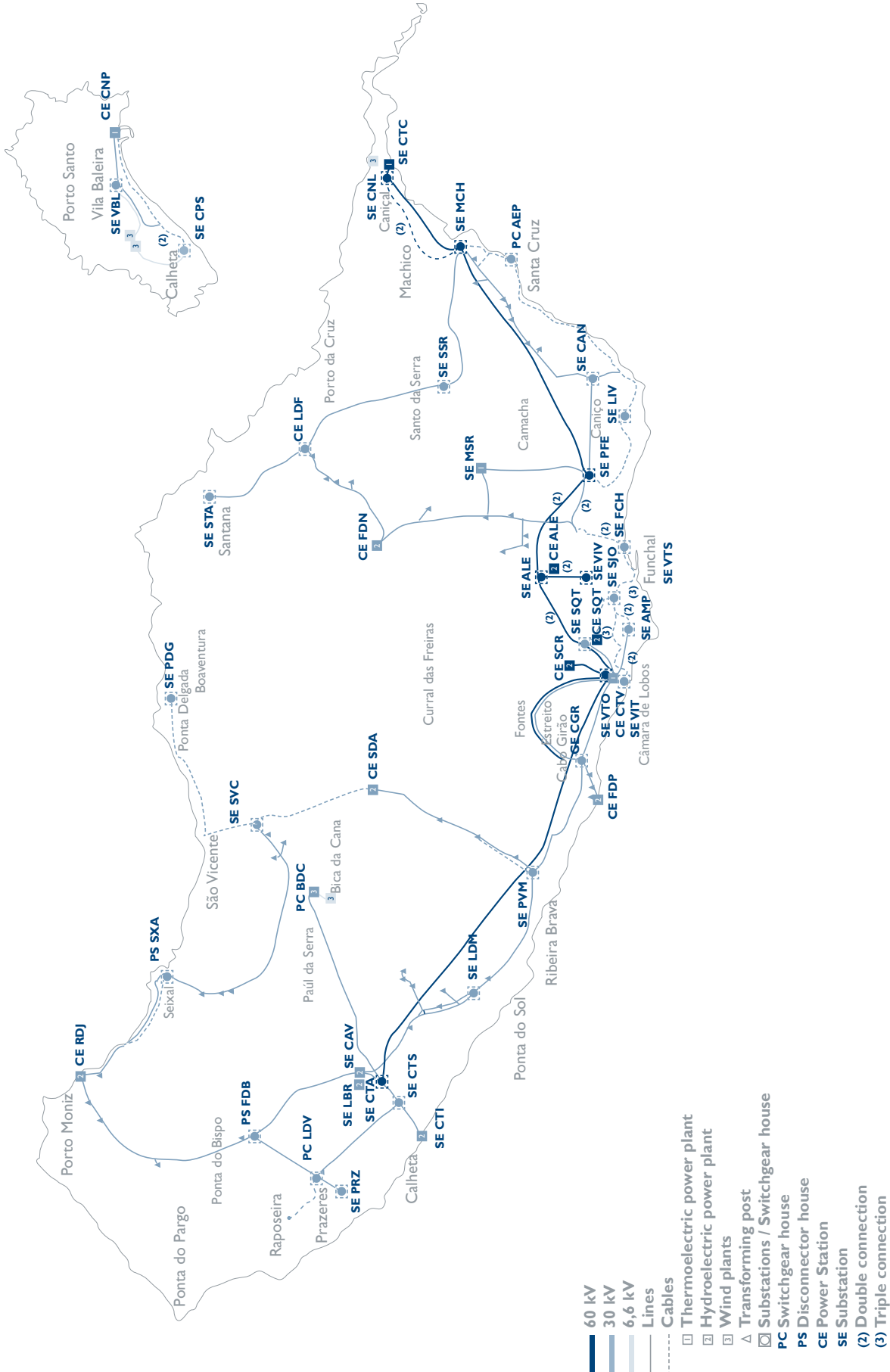




Characteristic Data



Transmission Network



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

GWh	2003	2004	2005	2006	2007
Madeira Island	516,12	569,16	617,79	642,66	645,71
Hydroelectric	126,27	60,46	82,58	108,67	62,76
Thermoelectric (Vitória)	389,85	508,70	535,21	533,99	582,95
Porto Santo Island	31,16	34,76	37,37	37,47	37,42
Thermoelectric	30,23	34,03	36,58	36,77	36,76
Wind Plants	0,93	0,74	0,79	0,70	0,66
Total RAM	547,28	603,92	655,16	680,13	683,13

Note: RAM - Autonomous Region of Madeira

Electric energy acquisition - Other entities

GWh	2003	2004	2005	2006	2007
Madeira Island	238,17	247,18	246,09	251,31	255,21
Hydroelectric	3,89	3,96	4,36	4,19	3,55
Wind Plants	15,94	16,11	15,26	15,44	12,07
Thermoelectric (Canical)	192,19	192,00	192,17	192,35	201,49
ETRSU (Meia Serra)	26,14	35,11	34,30	39,33	38,11
Porto Santo Island	1,30	1,06	1,11	1,04	1,19
Wind Plants	1,30	1,06	1,11	1,04	1,19
Total RAM	239,47	248,24	247,21	252,35	256,40

Note: ETRSU - Solid Waste Incineration

RAM energy balance - 2007

GWh	Net Demand	Billing
Madeira Island	884,12	805,36
Porto Santo Island	36,44	34,39
Total RAM	920,57	839,75

Transmission and Distribution Network (MV) - RAM

Km	2003	2004	2005	2006	2007
6,6 kV	924,71	1.020,40	1.075,58	1.131,31	1.195,56
Overhead lines	504,75	519,10	527,86	538,87	545,75
Underground cables	419,96	501,30	547,72	592,44	649,81
30 kV	317,61	335,41	345,11	356,86	372,61
Overhead lines	222,42	233,92	234,85	236,01	236,96
Underground cables	95,19	101,49	110,26	120,85	135,65
60 kV	68,10	68,10	68,10	68,10	78,70
Overhead lines	68,10	68,10	68,10	68,10	68,80
Underground cables	-	-	-	-	9,90
Total RAM	1.310,42	1.423,91	1.488,79	1.556,27	1.646,86

Note: MV - Medium Voltage



Substations					
	2003	2004	2005	2006	2007
Madeira Island					
Number	25	25	25	27	28
Installed power (MVA)	403	427	427	445	485
Porto Santo Island					
Number	3	3	3	3	3
Installed power (MVA)	16	16	16	16	16
Total RAM					
Number	28	28	28	30	31
Installed power (MVA)	419	443	443	461	501

Transforming Posts by council in RAM - 2007						
	Private		Public		Total	
	Nº	P (kVA)	Nº	P (kVA)	Nº	P (kVA)
Funchal	101	70.680	451	242.835	552	313.515
Câmara de Lobos	12	8.630	105	38.790	117	47.420
Ribeira Brava	7	3.210	104	30.575	111	33.785
Ponta do Sol	2	300	49	17.345	51	17.645
Calheta	3	880	120	31.300	123	32.180
Porto Moniz	-	-	48	11.980	48	11.980
São Vicente	2	475	55	15.485	57	15.960
Santana	10	3.755	83	16.980	93	20.735
Machico	28	15.275	116	41.875	144	57.150
Santa Cruz	38	21.640	249	94.185	287	115.825
Porto Santo	20	10.775	71	24.155	91	34.930
Total RAM	223	135.620	1.451	565.505	1.674	701.125

Commercial Data					
	2003	2004	2005	2006	2007
Madeira Island					
Number of Consumers	116.838	120.438	124.041	126.504	128.488
Consumption (GWh)	685,84	729,89	768,36	798,42	805,36
Households and Agriculture	228,66	237,59	248,30	263,51	255,54
Services and Commerce	279,12	301,05	314,85	334,65	337,49
Public Services	50,47	53,82	59,06	57,24	59,11
Industry	70,27	78,71	77,63	75,26	75,74
Public Lighting	57,32	58,73	68,52	67,76	77,48
Porto Santo Island					
Number of Consumers	3.647	3.888	4.120	4.275	4.414
Consumption (GWh)	29,64	32,66	34,54	34,98	34,39
Households and Agriculture	6,25	6,58	6,73	7,21	7,10
Services and Commerce	9,59	10,25	11,24	12,77	12,37
Public Services	3,36	3,50	3,37	3,31	3,53
Industry	8,94	10,61	11,23	9,77	9,43
Public Lighting	1,50	1,72	1,97	1,92	1,96
Total RAM					
Number of Consumers	120.485	124.326	128.161	130.779	132.902
Consumption (GWh)	715,47	762,54	802,90	833,40	839,75

Human Resources					
	2003	2004	2005	2006	2007
Nº of Employees	866	872	870	869	868

Consolidated Financial Data					
€'000	2003	2004	2005	2006	2007
Turnover	113.062	123.313	143.312	169.766	168.996
Operating income	13.386	11.160	12.859	10.579	10.866
Net income	5.301	4.295	5.670	4.510	4.558
Net assets	424.654	445.217	510.899	567.034	558.697
Net fixed assets	250.952	262.581	294.005	322.226	334.054
Shareholders' equity	136.818	138.650	146.237	153.820	153.768
Investment	11.556	30.563	51.911	40.548	39.926

Summary

The EEM’s investments, in 2007, have reached 39.926 thousand Euros, splited by different areas as follows: 26.9% in production, 27.4% in transmission, 31.6% in distribution, 1.9% in commercialization and 12.2% in unspecified investment.

Production

The achieved investments in the production area amounted to 10.722 thousand Euros, mainly in the Vitória Thermal Power Plant interventions:

- Conclusion of the discharge terminal and “Sea-line” fuel supply;
- Great repairs in n.º 2, 3, 6, 8, 9 and 10 thermal power groups.

Transmission

The accomplished investments in the transmission area amounted to 10.933 thousand Euros, essentially in the reinforcement of the transmission network, new substations, power improvements and remote metering systems.

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

- Conclusion of the construction of the 60/6,6 kV - 2x15 MVA São João Substation;
- Assemblage and connection of a 6,6 kV monoblock (Bus III) in Viveiros Substation;
- Installation works of a 60 kV exterior panel in Vitória Substation, for a 60/30 kV - 25 MVA transformer and respective connection trials;
- Power increase of 10 MVA in Livramento Substation.



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

- Launching and set in place of underground cables/overhead lines (a mixed connection) between Machico Substation and Caniçal Substation;
- Conclusion of the construction and connection of the 60 kV underground cable between São João Substation and Viveiros Substation;
- Conclusion of the 30 kV underground cables between São Vicente Substation and Ribeira da Janela Hydroelectric Power Plant, in an approximate distance of 13 km.

Distribution

The achieved investments in the distribution area, reached the amount of 12.625 thousand Euros, being detailed as follows:

- Connection/installation of 52 new transforming posts for public service;
- Connection to network of 12 new private transforming posts;
- Remote control of 10 transforming posts;
- Enlargement of the medium voltage network in 64,26 km;
- Improvement of the medium voltage network in 25,06 km;
- Enlargement of the low voltage network in 25,12 km;
- Improvement of the low voltage network in 103,37 km;
- Installation of new 833 public lighting luminaries;
- Replacement of 641 public lighting luminaries.

Commercialization

The achieved investments in the commercialization area, reached the amount of 763 thousand Euros, implemented, mainly, in energy measurement systems, being detachable the following indicators:

- The electric energy sales achieved 805,36 GWh in Madeira Island and 34,39 GWh in Porto Santo Island, totalizing 839,75 GWh in RAM;
- The number of clients connected to the network, in 31st of December 2007, were 128.488 and 4.414, in Madeira and Porto Santo Islands, respectively;
- Sales consolidated income amounted to 168.966 thousand Euros.

Other accomplishments

The investments realized in unspecified areas, in a transversal way to the Company were namely: studies, general installations, equipments, tools and information systems, reaching the amount of 4.883 thousand Euros. In this area, the information systems in technical and commercialization were the most relevant investments, namely in the following projects:

- Inventory of the electric grid, concerning the SIT - GeoEEM project;
- SIT - GeoEEM upgrade and new DPLAN;
- Software SAP IS - U (Industry Solution for Utilities);
- BI - Business Intelligence;
- SGI - (Non - Availability Management System).

Technical Information

I. Production

In 2007, the investments in the production area reached the total amount of 10.722 thousand Euros, being distinguished in the Vitória Thermal Power Plant, the conclusion of the discharge terminal and “Sea-line” for fuel supply, the NOx continuous monitoring system in the three power generating groups, the continuation of the ISO 9001:2000 Certification process, as well as great repairs in some thermal power groups, in this plant.

A. Madeira Island

Hydroelectric utilities

Among all the carried works during the exercise of 2007, regarding the hydroelectric power plants, are detachable the following actions:

- Replacing of turbines speed regulators, in Serra de Água, Ribeira da Janela and Fajã da Nogueira Hydroelectric Power Plants;
- Maintenance of the water penstock in Calheta Hydroelectric Power Plant;
- Mechanical equipment trials in Socorridos Power Pumping Plant;
- Reconstruction of the n.º 1 power group alternator, in Fajã da Nogueira Hydroelectric Power Plant.

Thermal utilities

Vitória Thermal Power Plant

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

- Conclusion of the construction of the fuel discharge terminal “Sea-line”;
- Continuation of the ISO 9001:2000 certification process;
- Great repairs of n.º 2, 3, 6, 8, 9 and 10 power groups;
- NOx continuous monitoring system from n.º 13 to 15 power groups.

On 31st December, 2007, the electric generating system in Madeira Island, consisted of a thermal power plant and nine hydroelectric power plants with a total installed power of 208,93 MW. Thus being 158,54 MW (75.9%) of the mentioned value installed in Vitória Thermal Power Plant and the remaining 50,39 MW (24.1%) in hydroelectric power plants.

EEM power system in Madeira island - 2007			
	Thermal	Hydro	Total
N° of Power Plants	1	9	10
Installed power (MW)	158,54	50,39	208,93
Production (GWh)	582,95	62,76	645,71

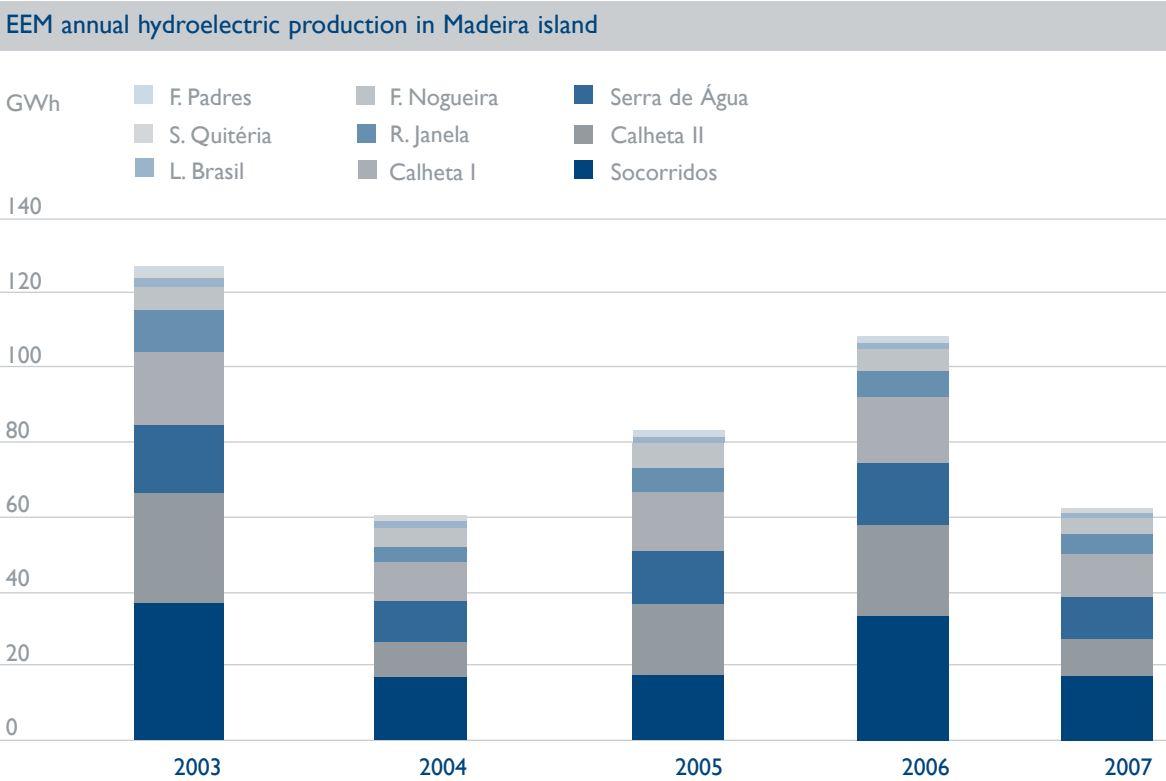
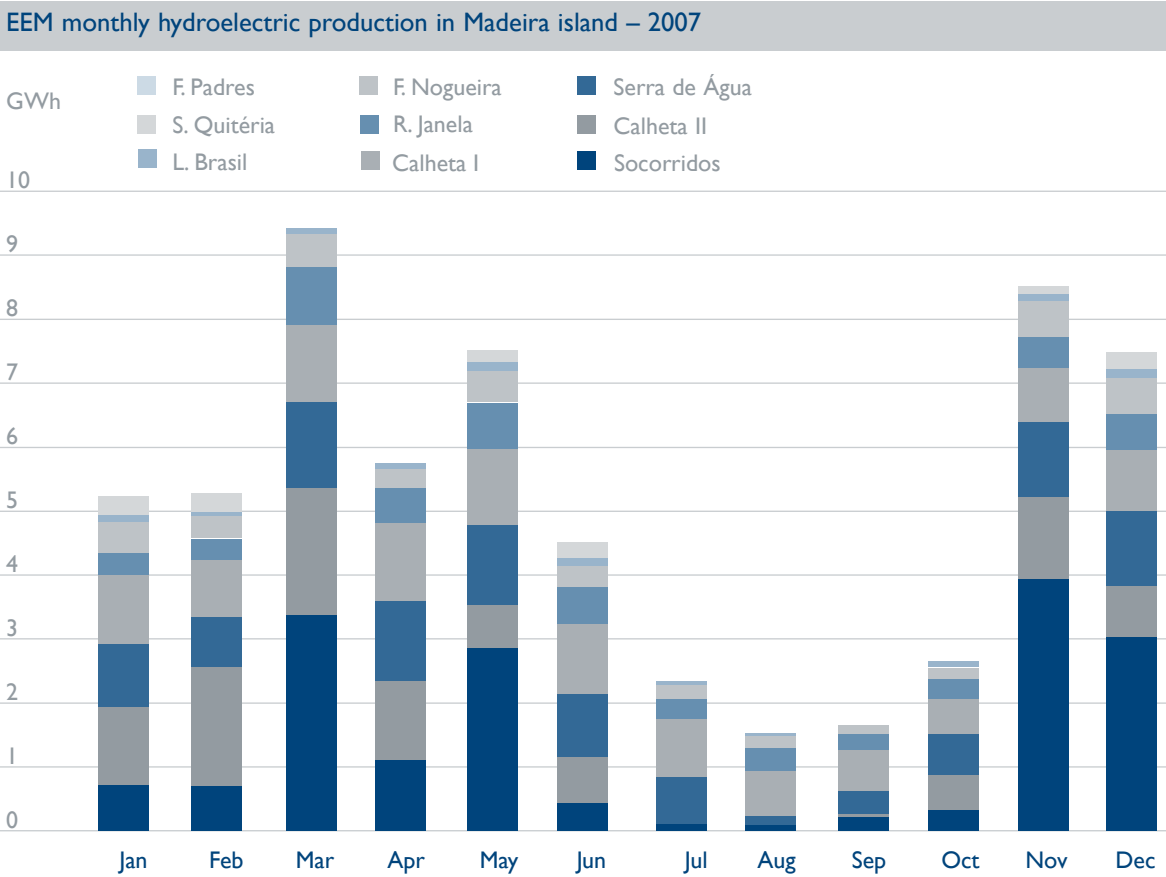
EEM thermal power plant in Madeira island - 2007						
	Units	Installed power (MW)	Max. Cont. Power* (MW)	Production (GWh)	Net Emission (GWh)	Fuel
Vitória	1, 2	15,00	19,50	10,80	46,53	Thick Fuel-oil
	3	7,50	9,75	5,00	23,50	Thick Fuel-oil
	4, 5, 6	23,40	29,25	18,60	91,38	Thick Fuel-oil
	7, 8, 9, 10	42,24	52,00	34,80	213,09	Thick Fuel-oil
	11, 12, 13, 14, 15	57,60	70,00	48,50	204,45	Thick Fuel-oil
	16	12,80	16,00	4,01		Diesel
Total - CTV		158,54	196,50	130,50	582,95	567,97

*Maximum continuous power

EEM hydro power plants in Madeira island - 2007					
	Inst. power (MW)	Production (GWh)	Net Emission (GWh)	Height of Fall (m)	Type of Turbine
Serra de Água	4,90	10,82	10,78	430	Pelton
Calheta I	1,10	11,14	11,00	629	Pelton
	0,52			314	Pelton
	0,50			181	Pelton
	2,60			629	Pelton
Calheta II	7,30	10,46	10,43	637	Pelton
Ribeira da Janela	3,20	5,86	5,76	398	Pelton
Fajã da Nogueira	2,40	4,40	4,33	348	Pelton
Lombo do Brasil	0,17	1,22	1,22	316	Pelton
Fajã dos Padres	1,70	-	-	530	Pelton
Santa Quitéria	1,70	1,62	1,61	212	Pelton
Socorridos	24,30	17,24	17,17	457	Pelton
Hydroelectric Pumping	11,25	-	-	457	Francis
Total EEM*		50,39	62,76	62,30	

*Hydroelectric Power Pumping not included

In 2007, the electric power system production in Madeira Island, reached 645,71 GWh, 582,95 GWh (90.3%) of which generated by thermal plants and the remaining 62,76 GWh (9.7%) generated by hydroelectric plants, much lower values than the historical average, due to an hydrologic dry year. It's important to highlight that the hydroelectric production was slightly benefited by water pumping in the Socorridos Hydroelectric Power Plant (reversible functioning), with a consumption of 1,37 GWh.



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

Private owned power plants in Madeira island - 2007					
	Thermal	Hydro	Wind	ETRSU	Total
N° of Power Plants	1	1	4	1	7
Installed power (MW)	36,00	0,70	8,64	8,00	53,34
Acquisition (GWh)	201,49	3,55	12,07	38,11	255,21

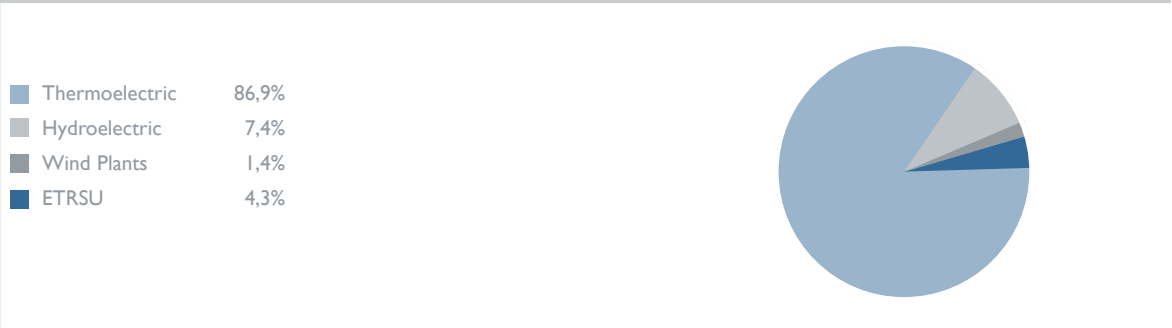
Note : ETRSU - Solid Waste Incineration

In 2007, the global energy issued by these generating power systems, reached to 255,21 GWh, more 1.6% than the previous year. Thus, 78.9% of this energy was provided by Caniçal Thermal Power Plant, 14.9% by ETRSU (a solid waste incineration), 4.7% by wind plants and the remaining 1.4% by Terça mini-hydroelectric Power Plant.

The private plants contributed with energy, representing 28.8% of 2007 total emission in Madeira Island.

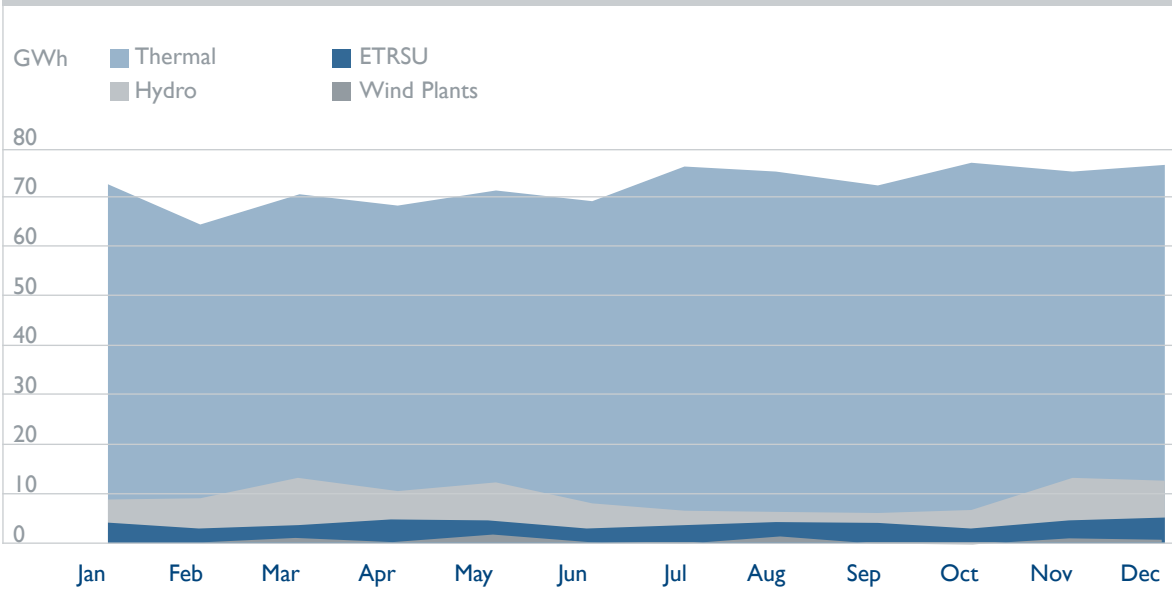
The net emission distribution through the network system (EEM system and private producers) in the Madeira Island, in 2007, is presented as follows:

Net emission by primary source of energy in Madeira island - 2007

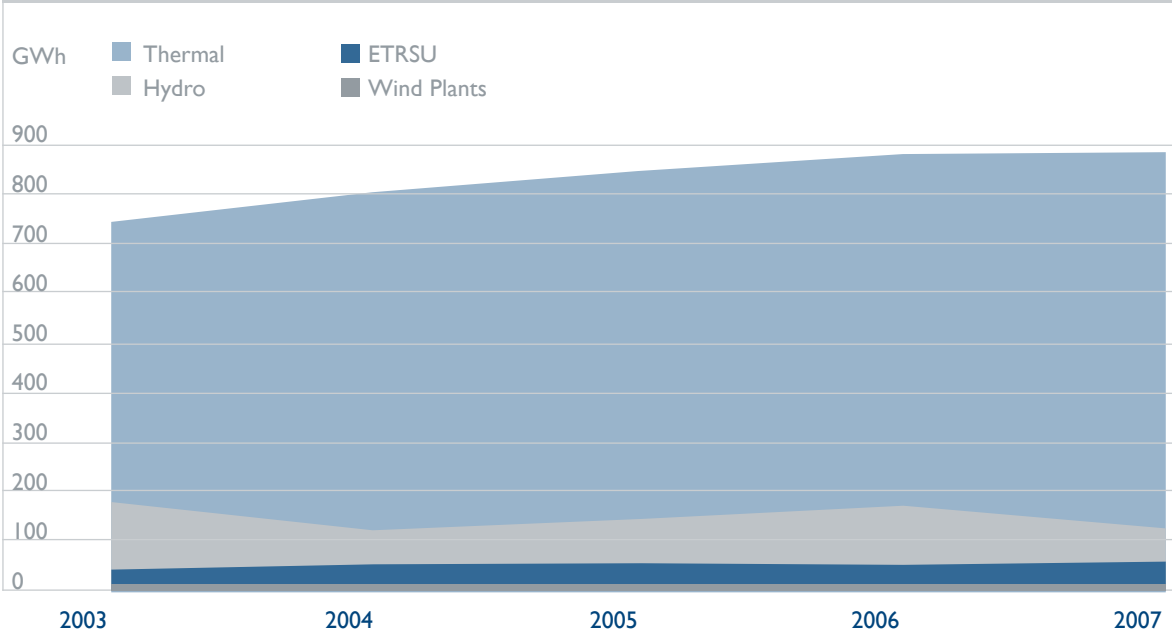


The monthly and annual net emission evolution by primary sources can be presented as follows:

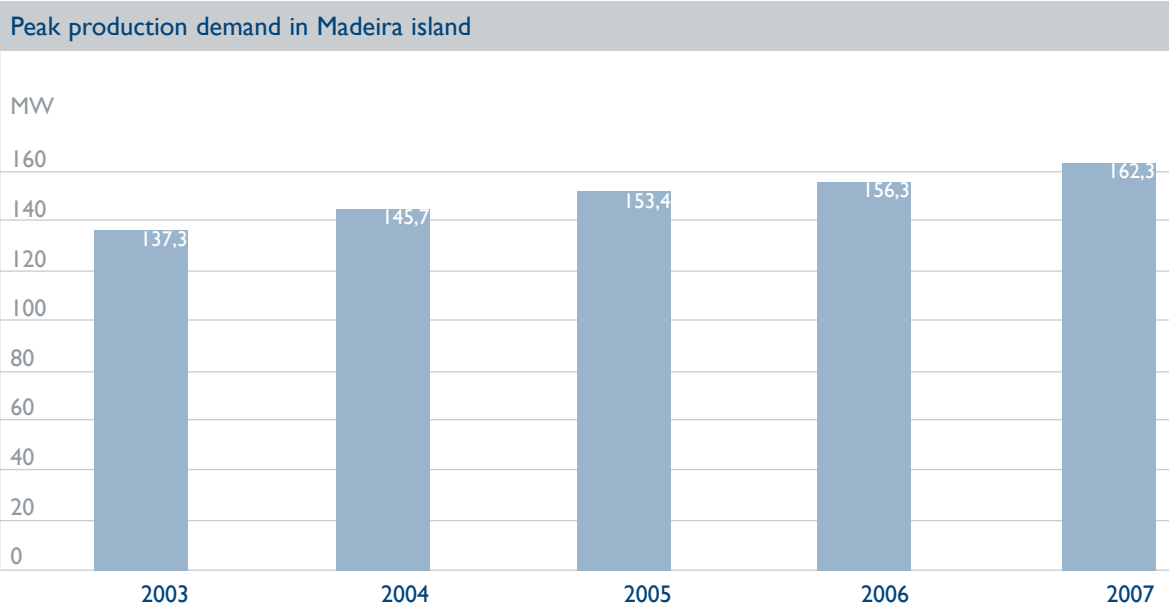
Monthly net emission in Madeira island - 2007



Annual net emission by primary source of energy in Madeira island



During 2007, the peak load in Madeira Island occurred in December, reaching the value of 162,3 MW. This value represented a 3.8% increase in comparison to 2006.



The consumption of fuel and lubricants, during 2007, in Vitória Thermal Power Plant amounted to 133.554 and 1.165 thousand liters, respectively. This consumption represents an increase of 9.0%, comparing to the previous year and it was essentially caused by the decrease of hydroelectric power production, as already mentioned.

Fuel and lubricant consumption in the EEM system in Madeira island - 2007			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Thermal Power Plant of Vitória	131.733	1.821	1.165

B. Porto Santo Island

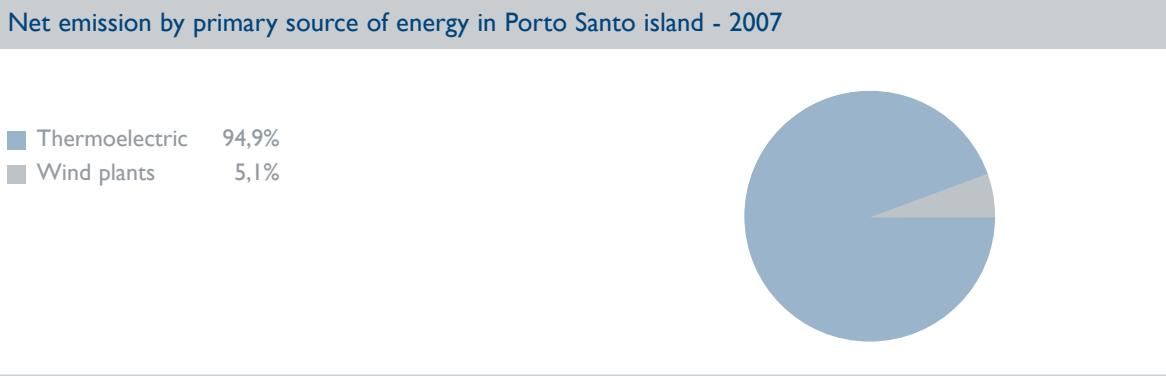
The generating power system in Porto Santo Island consisted of one thermal power plant and two wind plants. The total installed power amounted to 24,07 MW, shared by Porto Santo Thermal Power Plant, which contributed with 22,96 MW (95.4%) and by the two wind plants, which contributed with the remaining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

EEM power system in Porto Santo island - 2007				
	EEM		ENEREEM	Total
	Thermal	Wind Plants	Wind Plants	
N° of Power Plants	1	1	1	3
Installed power (MW)	22,96	0,45	0,66	24,07
Net Emission (GWh)	34,60	0,66	1,19	36,44

EEM thermal power plant in Porto Santo island - 2007						
	Units	Installed power		Max. Cont. Power*	Production	Net Emission
		(MW)	(MVA)	(MW)	(GWh)	(GWh)
Thermal Power Plant of Porto Santo	1,2	10,00	12,86	7,00	0,71	
	3,4,5	12,96	15,30	12,00	36,04	
						Diesel Thick Fuel-oil
Total - CTPS		22,96	28,16	19,00	36,76	34,60

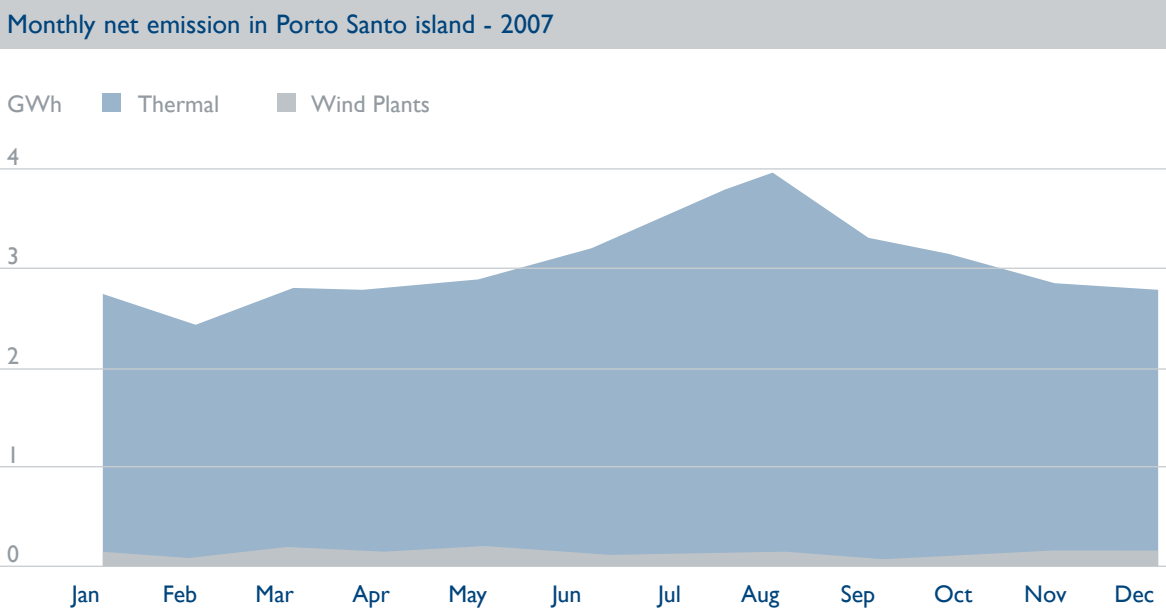
*Maximum continuous power

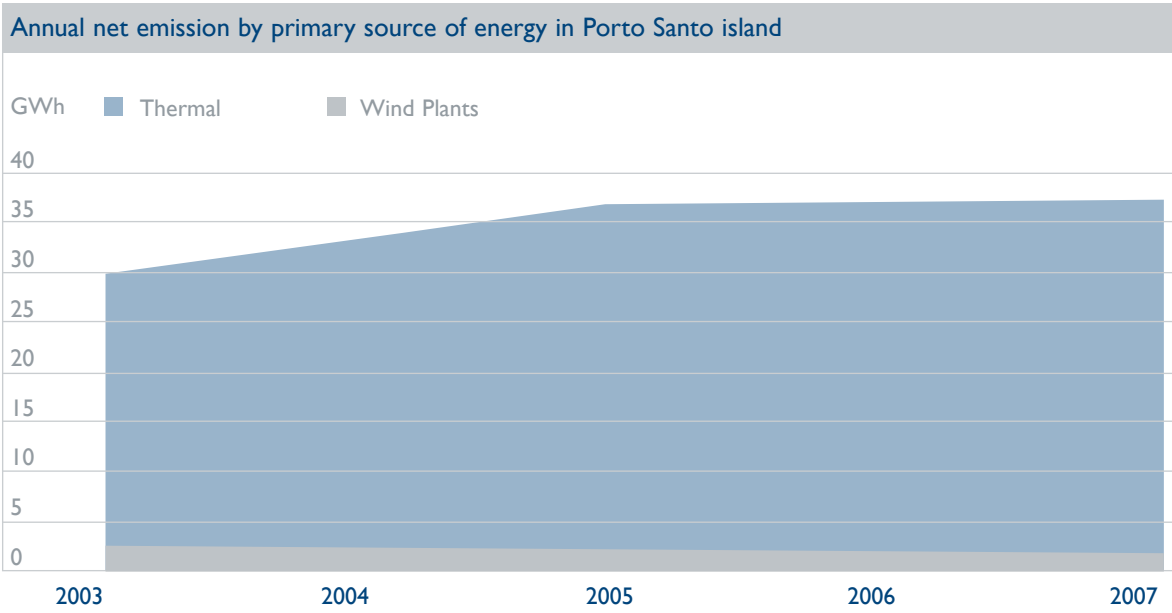
The energy issued by the generating power system in Porto Santo Island, in 2007, reached 36,44 GWh, of which 34,60 GWh (94.9%) were produced by the thermal plant and the remaining 1,85 GWh (5.1%) by the referred wind plants.



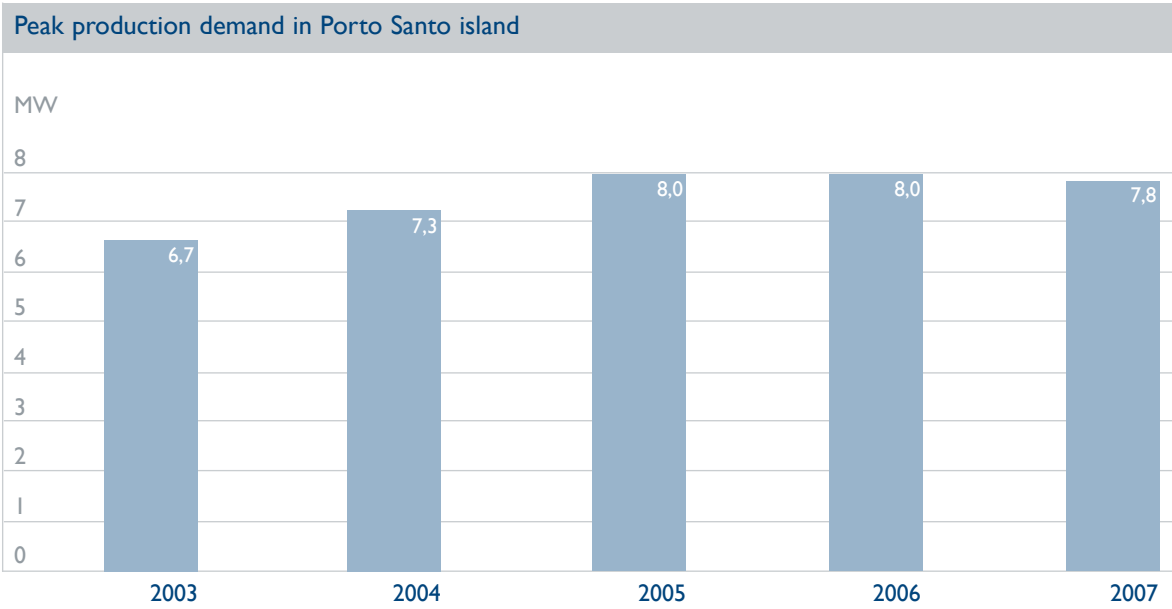
In Porto Santo Island, the wind power energy contribution was consistently the same for the last years, being the thermal plant responsible for the energy emission increases.

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





The yearly peak load in Porto Santo Island occurred in August, registering 7,8 MW, slightly lower than in 2006.



The consumption of fuel and lubricants in Porto Santo Thermal Power Plant amounted to 9.145 and 65 thousand liters, respectively.

Fuel and lubricant consumption in Porto Santo island - 2007			
liters '000	Thick Fuel-oil	Diesel	Lubricant
Thermal Power Plant of Porto Santo	8.565	580	65

There was an increase of 3.3% fuel consumption, comparing to the previous year.

II. Transmission

The investment carried in this area amounted to 10.933 thousand Euros and comprises four sub-sectors, namely: substations, transmission lines, telecommunications and dispatch centre.

Transmission investment plan was not attained, mainly due to the delay of some projects caused, essentially by the complexities of national and international public tender's procedures and also with difficulties faced by EEM in proceed to acquisitions and expropriation of land.

The investments executed in 2007, consisted essentially, in building new substations, in improvements of the existing ones and new power connections. All these initiatives were developed in order to assure the reliability, efficiency and increase the global quality of EEM Electric System, and simultaneously assure the consumer needs.

Substations

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

- Conclusion of the construction of São João Substation;
- Connection of the 60 kV Cell n.º 7, for the link between Viveiros Substation and São João Substation;
- Assembling of a 6,6 kV monoblock (Bus III) in Viveiros Substation;
- Great maintenance provided by the fabricant of two 15 MVA transformers, belonging to Virtudes Substation, separately, by rotation with a reserve one;
- Assembling of a 60 kV exterior panel for the 60/30 kV with 25 MVA transformer and respective start functioning essays, in Vitória Substation;
- Assembling of a semi-trailer and container endowed with eight 30 kV Cells and its Command/ Control System, located in the outside park of Ponte Vermelha Substation. These 30 kV Cells enable the initial works to replace the existing ones;
- Power increase in Livramento Substation, by installing a new 10 MVA transformer;
- Installation of 2 MVar bank of capacitors in Livramento Substation.

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

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

Substations in RAM - 2007					
	Installed power (MVA)			Total	Capacitors MVA _r
	30/6,6 kV	60/30 kV	60/6,6 kV		
Madeira Island	225,0	145,0	115,0	485,0	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	-	3 x 25,0	-	75,0	-
Santa Quitéria	10,0	-	-	10,0	-
Virtudes	2 x 15,0	-	-	30,0	2,0
Alegria	-	-	10,0	10,0	-
Viveiros	-	-	2 x 15	30,0	4,0
Ponte Vermelha	10,0	-	-	10,0	2,0
Lombo do Meio	4,0	-	-	4,0	-
Central da Calheta	2 x 0,5	-	-	1,0	-
Calheta	10,0	-	-	10,0	-
Lb° do Doutor (Calheta)	-	25,0	-	25,0	-
Ribeira da Janela	6,0	-	-	6,0	-
Serra de Água	4,0	-	-	4,0	-
Lombo do Faial	6,0	-	-	6,0	-
Santana	6,0	-	-	6,0	-
Machico	-	15,0	10,0 + 15,0	40,0	2,0
Assomada	2 x 10,0	-	-	20,0	2,0
Livramento	2 x 10,0	-	-	20,0	2,0
Palheiro Ferreiro	-	2 x 15,0	10,0	40,0	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	2,0	-	-	2,0	-
São João	-	-	2 x 15,0	30,0	4,0
Porto Santo Island	16,0	-	-	16,0	-
Nova Central	4,0	-	-	4,0	-
Vila Baleira	2 x 4,0	-	-	8,0	-
Calheta	4,0	-	-	4,0	-
Total RAM	241,0	145,0	115,0	501,0	32,0

Transmission network

- In the transmission network, the main undertaken investments are following presented:
- Conclusion of the construction and set in place of an underground cable between Machico Substation and Canical Substation;
 - Conclusion of the construction and connection of a 60 kV underground cable between São João Substation and Viveiros Substation;
 - Conclusion of a 30 kV underground cable between São Vicente Substation and Ribeira da Janela Hydroelectric Power Plant, in an approximate distance of 13 km;
 - Conclusion of a 30 kV double isolated overhead line between Calheta Substation and “Rotunda da Gafaria”;
 - Launching of underground cables between Lombo da Velha Switchgear Post and Raposeira location;
 - Conclusion of the improvement works in the 30 kV overhead line between Ribeira da Janela Hydroelectric Power Plant and Fonte do Bispo Switching Post;

- Conclusion of improvements in the 30 kV overhead line between Meia Serra Power Plant and Bom Sucesso location;
- Continuation of a pipelines grid construction for the 60 kV underground link among: Vitória Thermal Power Plant, Amparo Substation and São João Substation;
- Continuation of the construction of a 60 kV double isolated overhead line between Cabo Girão Substation and Ponte Vermelha Substation.

Other interventions were performed in twenty lines, including the replacement of suspension isolators, terminal boxes, supports, as well as operations of maintenance and cleaning.

The following actions were fulfilled:

- Inspection of overhead lines in an extension of 190 km, being 60 km in 60 kV High Voltage and the remaining lines in 30 kV Medium Voltage;
- Deforesting about 80 km of electric grid lines surroundings;
- Term-graphical inspections of the 60 kV and 30 kV overhead lines, in an extension of 100 km;
- Inspection and registration of underground connection chambers in the following connections: São Vicente Substation - Seixal location, Seixal location - Ribeira da Janela Hydroelectric Power Plant and Lombo da Velha Switchgear Post - Raposeira location.

Transmission and Distribution Network in RAM - 2007			
	Madeira	Porto Santo	Total
Substations 60/30/6,6 kV			
Number of units	8	-	8
Installed power (MVA)	260,00	-	260,00
Substations 30/6,6 kV			
Number of units	20	3	23
Installed power (MVA)	225,00	16,00	241,00
Transforming Posts for public service			
Number of units	1.380	71	1.451
Installed power (MVA)	541,35	24,16	565,51
Transforming Posts for private service			
Number of units	203	20	223
Installed power (MVA)	124,85	10,78	135,62
Total Transforming Posts			
Number of units	1.583	91	1.674
Installed power (MVA)	666,20	34,93	701,13
60 kV Network			
	78,70	-	78,70
Overhead lines (km)	68,80	-	68,80
Underground cables (km)	9,90	-	9,90
30 kV Network			
	357,31	15,30	372,61
Overhead lines (km)	231,86	5,10	236,96
Underground cables (km)	125,45	10,20	135,65
6,6 kV Network			
	1.128,47	67,09	1.195,56
Overhead lines (km)	524,57	21,18	545,75
Underground cables (km)	603,90	45,91	649,81
Low Voltage Network			
	3.737,92	114,64	3.852,56
Overhead lines (km)	2.942,60	70,57	3.013,17
Underground cables (km)	795,32	44,07	839,39
Optic Fibre (km)			
	116,84	9,11	125,95

Telecommunications

In the telecommunication area, it`s relevant to point out:

- Beginning of work on the implementation of “EEM - Privative Net Mobile Radio”. The main objective of this project is the constitution of a privative mobile network in Madeira Island, based on the TETRA technology, for voice and data communication;
- Conclusion of the remote access network WAN (Wide Area Network) implementation in the following EEM’s Offices: Ponta do Sol, Ribeira Brava, Nazaré, Porto Moniz and São Vicente;
- Integration in the optical-fibre network grid of the substations: Ponta Delgada, São Vicente, Santo da Serra and Lombo do Faial, for remote control;
- Remote control implementation in the following transforming posts: Serragens, Madeira Fórum and Zimbreiros;
- Expansion the optical-fibre grid along 35 km in Madeira Island, being detachable the following links: Viveiros Substation and São João Substation, Machico Substation and Caniçal Substation, Ponte Vermelha Substation and São Vicente Substation;

- Public tenders elaboration, as well as, adjudication and initial implementation works for an Hertzian waves network in the following locations: Funchal - Pico do Silva, Portela - Santo da Serra Substation, Santana - São Jorge, Achadas da Cruz and Pico do Arco da Calheta - Cabo Girão;
- Preparation of the public tenders specifications, relating to SDH optical-fibre expansion network through the West.

Dispatch Centre

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

- Remote control implementation in São João Substation, Ponta Delgada Substation and in the 30 kV container monoblock of Ponta Vermelha Substation;
- Remote control of 20 Transforming Posts, included in the DMS (Distribution Management System);
- Acquisition and installation of a frequency-metering system with synchronous time;
- Conclusion of the architecture project for the Dispatch Centre;
- ICCP protocol license acquisition;
- Video wall upgrade (video features);
- Coordination of auditing diagnosis for Health and Safety at Work.

III. Distribution

In 2007, the achieved investment in the distribution area amounted to 12.625 thousand Euros and it aimed essentially to improve the quality and reliability of the service provided.

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

- Installation/connection of 52 new public transforming posts with an installed power of 27.455 kVA and 12 new private ones with an installed power of 8.770 kVA;
- Improvements in the existent transforming posts (increase and reducing power capacity), representing a total power increase of 4.647 kVA;
- Enlargement of the medium voltage network in 64,26 km;
- Improvement of the medium voltage network in 25,06 km;
- Enlargement of the low voltage network in 25,12 km;
- Improvement of the low voltage network in 103,37 km;
- Installation of new 833 public lighting luminaries;
- Replacement of 641 public lighting luminaries;
- Remote control of 10 transforming posts.

The necessary equipment of remote control for more 10 Transforming Posts has been installed, being integrated, in this phase, in the current remote control system.

Distribution network - 2007					
	Dist. N.E.O.	Funchal	Total Madeira	Porto Santo	Total RAM
Distribution Network Expansion					
Transforming Posts for public service					
Number of units	37	9	46	6	52
Power (kVA)	14.195	10.600	24.795	2.660	27.455
Transforming Posts for private service					
Number of units	5	5	10	2	12
Power (kVA)	2.230	5.110	7.340	1.430	8.770
Medium Voltage Lines 30 kV*					
Overhead lines (km)	-	-	-	-	-
Underground cables (km)	-	-	-	-	-
Medium Voltage Lines 6,6 kV					
Overhead lines (km)	50,90	7,48	58,38	5,88	64,26
Underground cables (km)	4,14	1,47	5,61	1,27	6,88
Underground cables (km)	46,76	6,01	52,77	4,61	57,38
Low Voltage Network					
Overhead lines (km)	16,88	4,67	21,55	3,57	25,12
Underground cables (km)	2,79	0,78	3,57	(1,91)	1,66
Underground cables (km)	14,09	3,89	17,98	5,48	23,46
Renewals					
Transforming Posts for public service					
Number of units	(2)	1	(1)	-	(1)
Power (kVA)	(153)	1.720	1.567	945	2.512
Transforming Posts for private service					
Number of units	2	-	2	-	2
Power (kVA)	1.940	1.835	3.775	-	3.775
Deactivated Transforming Posts					
Number of units	2	7	9	-	9
Power (kVA)	160	1.480	1.640	-	1.640
Medium Voltage Network 30 kV*					
Overhead lines (km)	-	-	-	-	-
Underground cables (km)	-	-	-	-	-
Medium Voltage Network 6,6 kV					
Overhead lines (km)	11,85	13,21	25,06	-	25,06
Underground cables (km)	8,60	1,55	10,15	-	10,15
Underground cables (km)	3,25	11,66	14,91	-	14,91
Low Voltage Network					
Overhead lines (km)	79,25	22,56	101,81	1,56	103,37
Underground cables (km)	72,03	17,30	89,33	1,54	90,87
Underground cables (km)	7,22	5,26	12,48	0,02	12,50

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

A. Madeira Island

In Madeira Island during the year of 2007, 56 new transforming posts were installed, thus being 46 for public service and the remaining 10 for private service. The transforming posts improvements have increased the installed power in 3.702 kVA. The medium and low voltage networks were expanded respectively in 58,38 km and 21,55 km. Regarding the public lighting, the installation of 609 new luminaries and the replacement of 638, were realized.

B. Porto Santo Island

The main works executed in Porto Santo Island, during 2007 are as follows:

- Installation of 6 new public transforming posts, with a total power of 2.660 kVA and 2 owned by private consumers with a power of 1.430 kVA;
- Enlargement of the medium voltage network at 6,6 kV level in 5,88 km;
- Enlargement of the low voltage network in 3,57 km;
- Installation of new 224 public lighting luminaries;
- Replacement of 3 public lighting luminaries.

IV. Commercialization

The 2007 RAM Energy balance, is presented as follows:

RAM energy balance - 2007			
MWh	Madeira	Porto Santo	Total RAM
EEM - Power plants productions	645.708	37.418	683.125
Thermal	582.947	36.758	619.706
Fuel	578.940	36.044	614.984
Diesel	4.007	715	4.722
Hydro	62.760	-	62.760
Wind	-	659	659
Power plants consumptions and losses	15.429	2.164	17.593
Total EEM energy net emission	630.279	35.254	665.533
Other acquisitions - SEPM*	201.485	-	201.485
Thermal	201.485	-	201.485
Fuel	201.485	-	201.485
Total special status generation	53.730	1.189	54.919
Hydro	3.552	-	3.552
Wind	12.072	1.189	13.261
Others	38.106	-	38.106
Total net generation	885.493	36.443	921.936
Hydroelectric pumping	1.369	-	1.369
Total net demand SEPM	884.125	36.443	920.568
Proper consumptions	880	22	902
Total energy sales SEPM	805.355	34.394	839.749
MV (Medium Voltage)	161.861	12.489	174.349
LV (Low Voltage)	643.494	21.905	665.400
Total net delivery	806.235	34.416	840.651
Losses	77.890	2.027	79.916

*SEPM - Public Electricity Supply System of Madeira Island

The energy consumption in 2007, presented a growth rate of 0.9% in the Madeira Island and a decrease of 1.7% in Porto Santo Island. In both islands, the consumption evolution has decreased in comparison to 2006.

Energy sales to SEPM clients per tension level and tariffs regime - 2007						
GWh	HV	MV	SLV	NLV	PL	Total
Energy	-	174,35	153,59	432,38	79,44	839,75
Note: HV - Hyght Voltage NLV - Normal Low Voltage						
MV - Medium Voltage PL - Public Lighting						
SLV - Special Low Voltage SEPM - Public Electricity Supply System of Madeira Island						

The RAM consumption in medium voltage reached 174,35 GWh, while in low voltage was 665,40 GWh, which corresponds to a distribution of 20.8% and 79.2% 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 - 2007										
GWh	Households	Hotels	Services & Com.	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
Madeira Island	249,28	146,71	180,00	75,74	6,26	77,48	59,11	10,78	805,36	100,0%
	31,0%	18,2%	22,3%	9,4%	0,8%	9,6%	7,3%	1,3%	100,0%	
Funchal	108,10	100,47	124,00	18,58	0,62	18,31	34,59	5,56	410,23	50,9%
Câm. Lobos	29,76	6,74	6,58	10,64	0,35	10,04	2,37	0,62	67,09	8,3%
Rib. Brava	12,08	2,75	7,33	1,82	0,06	5,21	1,66	1,16	32,07	4,0%
Ponta Sol	8,58	2,18	1,81	2,40	0,60	3,35	1,15	0,21	20,28	2,5%
Calheta	12,39	3,92	4,09	1,17	0,64	6,43	1,33	0,40	30,38	3,8%
Porto Moniz	4,12	2,13	1,82	0,81	0,72	3,03	1,13	0,24	14,00	1,7%
S.Vicente	5,49	2,59	1,69	0,71	0,07	2,99	0,97	0,15	14,67	1,8%
Santana	7,62	2,13	3,02	0,77	0,39	4,37	1,29	0,15	19,74	2,5%
Machico	22,14	4,87	7,95	15,12	0,84	14,13	1,40	0,77	67,22	8,3%
Santa Cruz	39,00	18,93	21,69	23,72	1,96	9,61	13,22	1,53	129,66	16,1%
Porto Santo Island	6,99	5,88	5,78	9,43	0,11	1,96	3,53	0,71	34,39	
	20,3%	17,1%	16,8%	27,4%	0,3%	5,7%	10,3%	2,1%	100,0%	
Total RAM	256,27	152,60	185,77	85,17	6,37	79,44	62,64	11,49	839,75	
	30,5%	18,2%	22,1%	10,1%	0,8%	9,5%	7,5%	1,4%	100,0%	

Consumers by activity in RAM - 2007										
	Households	Hotels	Services & Com.	Industry	Agriculture	Public Lighting	Public Services	Construction	Total	%
Madeira Island	106.971	2.066	12.811	1.006	989	1.535	2.101	1.009	128.488	100,0%
	83,3%	1,6%	10,0%	0,8%	0,8%	1,2%	1,6%	0,8%	100,0%	
Funchal	45.234	1.064	7.636	303	89	437	1.092	285	56.140	43,7%
Câm. Lobos	11.607	147	1.065	86	202	132	190	117	13.546	10,5%
Rib. Brava	5.872	70	471	42	31	125	90	58	6.759	5,3%
Ponta Sol	4.170	51	302	47	56	58	70	49	4.803	3,7%
Calheta	6.260	89	391	61	61	148	101	129	7.240	5,6%
Porto Moniz	1.602	50	128	17	64	64	68	26	2.019	1,6%
S.Vicente	3.001	62	231	26	138	69	67	37	3.631	2,8%
Santana	4.163	65	316	38	114	103	100	31	4.930	3,8%
Machico	8.287	187	741	120	90	169	139	99	9.832	7,7%
Santa Cruz	16.775	281	1.530	266	144	230	184	178	19.588	15,2%
Porto Santo Island	3.641	75	383	44	20	64	90	97	4.414	
	82,5%	1,7%	8,7%	1,0%	0,5%	1,4%	2,0%	2,2%	100,0%	
Total RAM	110.612	2.141	13.194	1.050	1.009	1.599	2.191	1.106	132.902	
	83,2%	1,6%	9,9%	0,8%	0,8%	1,2%	1,6%	0,8%	100,0%	

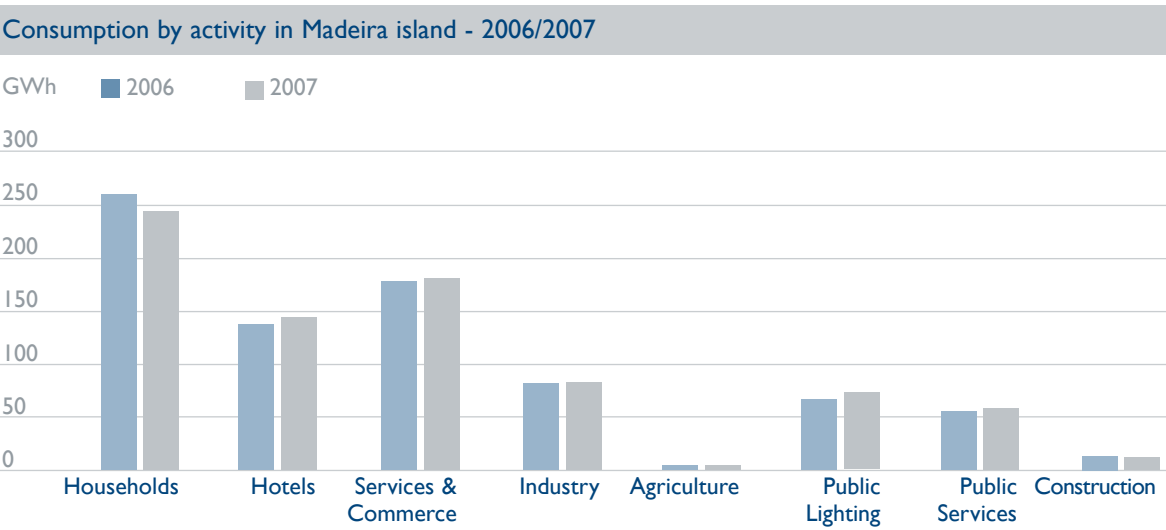
In December 2007, the number of clients connected to the electric network of RAM, reached 132.902 consumers, presenting an increase of nearly 1.6% comparing to 2006.

Consumption / Clients - Distribution by activity in RAM - 2007									
	Medium and Low Voltage			Low Voltage			Households		
	Consump. (GWh)	Clients	(MWh)/ Clients	Consump. (GWh)	Clients	(MWh)/ Clients	Consump. (GWh)	Clients	(MWh)/ Clients
Madeira Island	805,36	128.488	6,27	643,49	128.284	5,02	249,28	106.971	2,33
Funchal	410,23	56.140	7,31	307,80	56.033	5,49	108,10	45.234	2,39
Câm. Lobos	67,09	13.546	4,95	59,46	13.539	4,39	29,76	11.607	2,56
Rib. Brava	32,07	6.759	4,75	30,74	6.754	4,55	12,08	5.872	2,06
Ponta do Sol	20,28	4.803	4,22	19,66	4.798	4,10	8,58	4.170	2,06
Calheta	30,38	7.240	4,20	30,30	7.236	4,19	12,39	6.260	1,98
Porto Moniz	14,00	2.019	6,94	13,98	2.018	6,93	4,12	1.602	2,57
S.Vicente	14,67	3.631	4,04	14,45	3.630	3,98	5,49	3.001	1,83
Santana	19,74	4.930	4,00	18,70	4.926	3,80	7,62	4.163	1,83
Machico	67,22	9.832	6,84	52,46	9.801	5,35	22,14	8.287	2,67
Santa Cruz	129,66	19.588	6,62	95,94	19.549	4,91	39,00	16.775	2,32
Porto Santo Island	34,39	4.414	7,79	21,91	4.396	4,98	6,99	3.641	1,92
Total RAM	839,75	132.902	6,32	665,40	132.680	5,02	256,27	110.612	2,32

The low and medium voltage average consumption per client ascended to 6,32 MWh/client, presenting a decrease of 0.8% from previous year. The highest consumption values were registered in the councils of Porto Santo, Funchal, Porto Moniz and Machico. The average consumption in the Household sector of the RAM reached the amount of 2,32 MWh per client, representing a decrease of 4.3% comparing to the previous year. The highest values were verified in the councils of Machico, Porto Moniz, Câmara de Lobos and Funchal.

A. Madeira Island

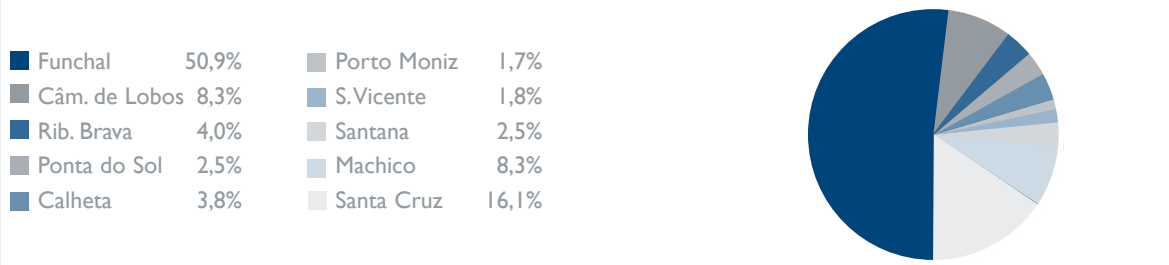
In Madeira Island, the consumption distribution by sectors is similar to 2006. The Households consumption presented the highest percentage with 31.0%, followed by the Services and Commerce sectors with 22.3% and Hotels with 18.2%.



The council of Funchal with 43.7% of the total number of clients registered 50.9% of total consumption, followed by the councils of Santa Cruz with 16.1%, Machico with 8.3%, and Câmara de Lobos with 8.3%.

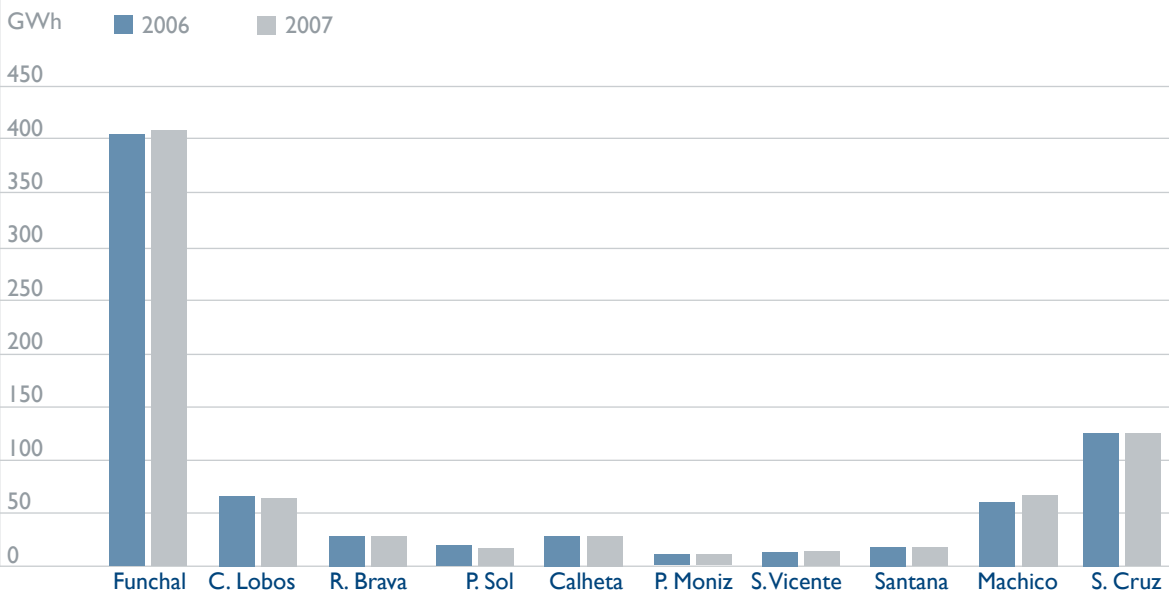
In terms of consumption evolution by sector, there was an increase of 14.3% in Public Lighting, 3.3% in Public Services and 2.9% in the Hotels. However, there was a decrease in consumption of 17.0% in Construction and 3.2% in Households, compared to previous year.

Consumption in Madeira island per council - 2007



The councils that registered a larger dynamism in the consumption rate growth, in comparison to 2006, were Machico with 7.8% and Porto Moniz with 3.7%.

Consumption in Madeira island per council - 2006/2007

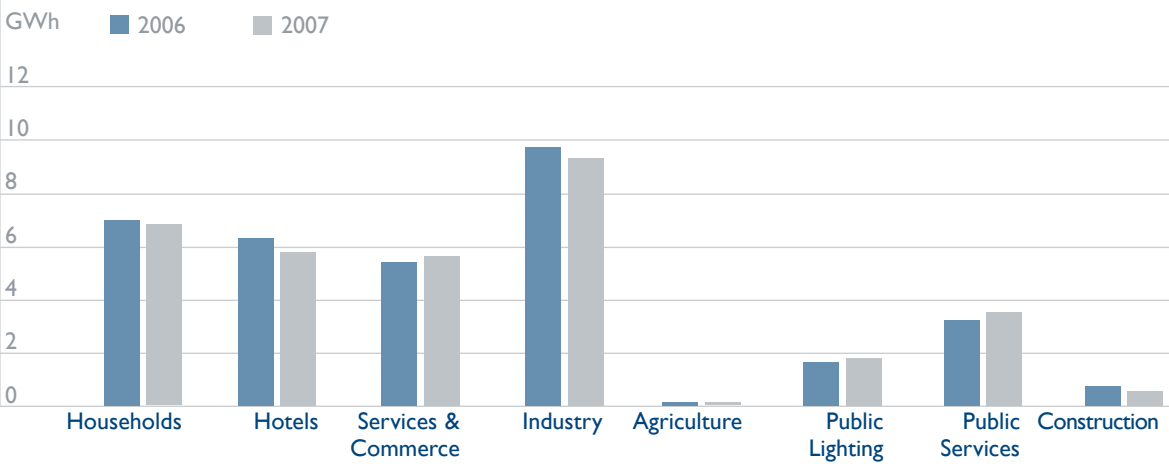


During 2007, 1.984 new consumers were connected to the Madeira electric network, totaling 128.488 clients (an increase of 1.6%), thus being 204 in the medium voltage level.

B. Porto Santo Island

The energy consumption in Porto Santo Island, during 2007, was negative in around 1.7%.

Consumption by activity in Porto Santo island - 2006/2007



The distribution of energy consumption by activities was: 27.4% in Industry, 20.3% in Households, and 17.1% in Hotels.

Concerning the new consumers, 139 were connected to the electric network, totaling 4.414 clients, from which 18 are in medium voltage. The medium and low voltage consumption reached 12,49 GWh and 21,91 GWh, with a percentage distribution of 36.3% and 63.7%, respectively.



V. Service Quality

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

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

In this context, EEM has been prepared with the appropriate resources to fulfil the regulation framework, being distinguished the following initiatives:

- Implementation of SGI (Non - availability Management System) in the Transmission and Distribution network, which will allow to determine the Service Continuity Indicators levels;
- Put in place the new monitoring equipment for the Voltage Wave Quality verification system;
- Inventory of the electricity grid from the power plants to customers, constituting the basis of SGI;
- Relatively to the Commercial Quality Indicators, the following measures were taken:
 - Implementation of controls and new functionalities in SAP module IS-U “Industry Solution for Utilities”;
 - Public tender for a new Call Centre implementation, as well as respective interconnections to the SGI system and to the SAP module IS-U;
 - Accomplishment of Customers satisfaction inquiries, to accomplish the general indicators of Customers evaluation and satisfaction;
 - Supply information to Customers through Internet;
 - Assistance to the Customers with special needs;
 - Treatment of claims.

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

The indicators of Transmission and Distribution in HV, MV, and LV networks of Madeira and Porto Santo Islands, reveals a suitable level of service continuity. Relatively to the Voltage Wave Quality measurements, the results fulfilled the determinations defined by the RQS. In the Commercial Quality, it's detachable the improvement in EEM's attendance times and reply levels, as well as the customers satisfaction measured through an specific inquiry.

VI. Unspecified Investments

The investments realized in unspecified areas by EEM in 2007, amounted to 4.883 thousand Euros and can be presented as: accomplishment of studies, infrastructures of support and other initiatives in information systems area.

VI.I - Studies

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

VI.II – Infrastructures of Support

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

- Conclusion of the construction of the Materials Warehouse in Porto Santo Island;
- Renewal of the Encumeada shelter house (installations used by hydro canal guards);
- Adjudication of the construction of the Materials Warehouse in Calheta.

Also, were developed the previous studies/projects for Materials Warehouse in Machico and São Vicente.

VI.III - Information Systems

During 2007, EEM continued to develop its IT Systems area, aiming essentially, the reorganization and modernization of commercial and technical area, to improve the customers service, as well as implementing changes in processes resulting from regulatory and legal framework. The following paragraphs summarize the main developments:

• Inventory of the grid

In 2007, massive inventory works continued, regarding EEM's electric grid and the respective loading into SIT database (SIT - Technical Information System), which will allow to carefully supervise the grid operations and its future planning, being simultaneously the SGI support.

• Upgrade of the SIT GeoEEM and new DPLAN

The upgrade of DPLAN I (planning tool for HV, MV and LV network) into DPLAN 2 and the SIT GeoEEM, is a necessary step to complete the SIT - DPLAN integration, allowing a simultaneous analysis of all present tension levels, as well as the use of the DPLAN, driving through network and use algorithms to optimize the grids operation.

• SAP

During the financial year of 2007, EEM proceeded with the implementation of new functionalities in IS-U (Industry Solution for Utilities) SAP module, tool that supports the commercial area, being to detach:

- Implementation of a new connecting process to the networks. Following the Decree Law nº 3/2007 of ERSE, it was necessary to implement several changes in some business processes, which implies the parameterization/development of the software SAP;
- Risk Management - Risk valuation and procedures control. This investment aims improvements in the existing business processes, to fulfil new demands required by the Regulation and a better service to customers.

• BI – Business Intelligence

Start of the Data Warehouse project, which provides EEM with a powerful tool for managing and legal report requirements.

• SGI – Non – Availability Management System (Sistema de Gestão de Indisponibilidades)

In 2007, EEM adjudicated the SGI project, which main goal is to implement in the company a platform for management of failures in energy supply, thus implementing the legal compensation procedures in case of unavailability energy supply. This system will allow a better costumers service, joining together several systems in the EEM.

• Other projects

It was fulfilled a continuous renovation of the EEM’s computers, as well as the subsequent adaptation of several licenses applications to the specified needs of EEM. In 2007, it was also accomplished the launching and evaluation of public tenders to implement the Remote Energy Metering System, Call Centre, and substations surveillance system.

VII. Human Resources

As at 31st December 2007, EEM’s staff was composed by 868 employees, thus being 852 as permanent staff and 16 under a short term contract.

Human Resources by functions					
	2003	2004	2005	2006	2007
Engineers	49	55	53	57	64
Others with university degree	15	17	21	24	28
Technical Engineers	5	6	10	10	9
Industrial Staff	514	516	515	514	467
Administrative Staff	249	242	242	236	273
Assistants	22	20	21	20	11
Employees under term contract	12	16	8	8	16
Total	866	872	870	869	868

From the total employees serving EEM during 2007, 821 rendered services in Madeira Island and the remaining 47 in Porto Santo Island.

Professional training actions

During 2007, several training actions were accomplished, benefiting 164 employees in a total of 2.922 training hours, subdivided by 1.021 hours of external actions and 1.901 hours of internal actions. The fulfilled activities were as follows:

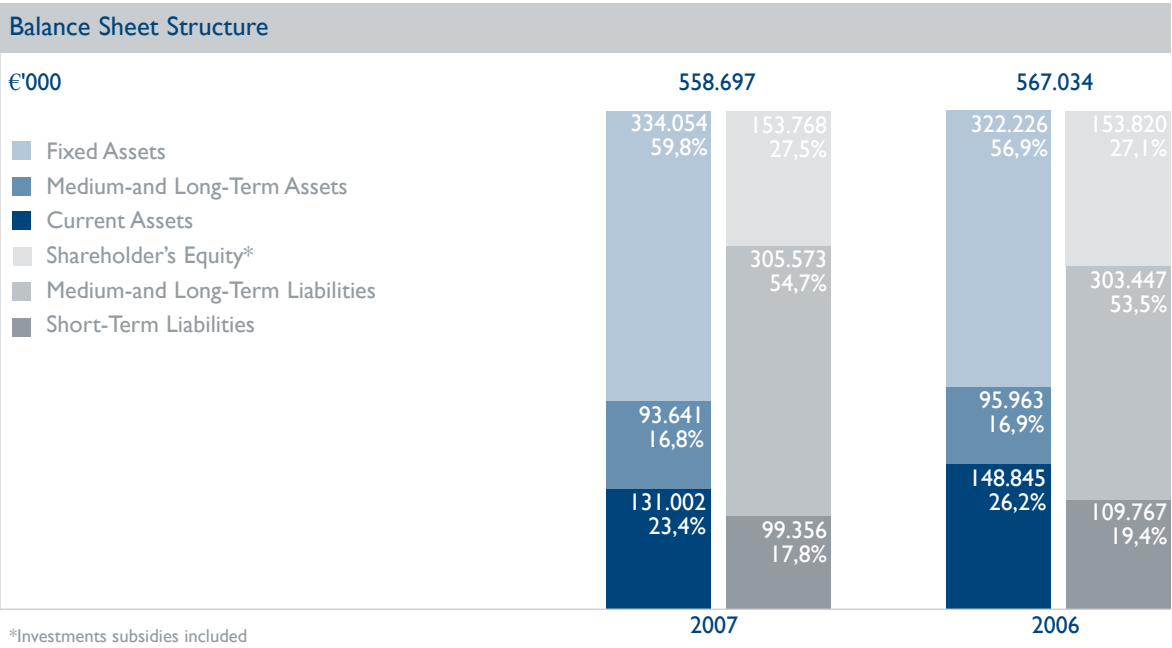
- 5th Portuguese Coasting Engineering Conference;
- Arcgis 9.2;
- Healthcare and Safety Systems;
- Internal Auditing;
- SGSST Audits;
- Autocad;
- Natural disasters;
- Communication and Business Writing;
- Conference XCLEEE;
- Congress about Lightning;
- Reports preparation;
- Marine and seaport protection works;
- National Energy Strategy;
- Etiquette and Business Protocol;
- Exchange Server;
- DMM’S Training - Energy Device for Metering and Monitoring;
- RPLE Training - CO2 Portuguese Register Emission Permits;
- 2007 Energy Forum;
- “Spring Energy” Forum - 2007;



- Large Accidents Management;
- Process Management;
- Complains Management;
- Stocks Store and Management;
- Introduction to Computing;
- Introduction to Cisco;
- ISA Server;
- Coasting Energy Conference;
- Muscle - Skeletal disorders;
- 2007 Budget State;
- EEM's Portal;
- PPDA - Environmental Training;
- Portuguese Record;
- SAP - ISU / Billing;
- SAP - Queries;
- SAP ABAP Performance Tuning;
- SAP ABAP Remote Function Calls;
- Labour Noise Seminary;
- Quality Awareness;
- Secretariat techniques;
- TOC analysis of balance sheets;
- UNIX TRU - 64.

Economic and Financial Information

I - Economic and Financial Information



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

- Production: 10.722 thousand Euros;
- Transmission: 10.933 thousand Euros;
- Distribution: 12.625 thousand Euros;
- Commercialization: 763 thousand Euros;
- Other activities: 4.883 thousand Euros.

Concerning the investment executed in the production area, it's important to highlight the beginning of the construction of Power Group VI in Porto Santo Thermal Power Plant. In 2007, this investment amounted to 2.324 thousand Euros (around 44% of the total investment), and will be concluded in 2008.

In Vitória Thermal Power Plant, huge interventions in the power groups were performed, (2.549 thousand Euros) including the replacement of important mechanical components, which allows to increase the useful life of the equipments, with inherent gains on security and reliability.

Additionally, through its participated Enereem, EEM started the construction of wind farms located in Loiral and Pedras, with an installed capacity of 15.3 MW. The conclusion of this investment is foreseen for the first trimester of 2009, in 2007, the amount invested reached 2.596 thousand Euros (about 14% of the total investment).

In the transmission area, the main investments accomplished were in the transmission network amounting to 4.235 thousand Euros and 5.726 thousand Euros in substations. Concerning the transmission network, the main investments undertaken comprises the renewal of several transmission lines and construction of new ones, as the new Machico-Caniçal line, ascending in 2007, to 618 thousand Euros.

In the substations area, the main investments essentially embraces improvements, power increases and the remodelation of Vitória Thermal Power Plant 60 kV substation in the amount of 1.528 thousand Euros, which will be concluded over the course of 2009. During 2007, was concluded the construction of the Substation of São João in Funchal, this investment amounted to 1.873 thousand Euros.

Concerning the distribution area, the investment plan undertaken by the Company essentially aims the increase of reliability of the existing and the construction of new Medium Voltage Lines, Transforming Posts and Low Voltage Network/Public Lighting, that reached the amount of 5.992 thousand Euros, 2.491 thousand Euros and 4.142 thousand Euros, respectively.

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

The investments carried out in other accomplishments includes administrative equipment, IT equipment, buildings, vehicles and others. The investment in software and hardware represented almost 70% of the total, reaching 3.417 thousand Euros, and includes the inventory of electric grid's data between power plants and clients, which will be incorporated into the system SITGEO EEM

providing an essential basis to the planning, management and quality control of the network.

In 2007, the medium and long-term Assets, essentially composed by protocols and contracts with Official Entities, reached 93.641 thousand Euros representing a decrease of 2.322 thousand Euros in comparison to 2006 due to the receivment of these amounts.

Long-Term Capital		
€'000	2007	2006
Shareholder's equity*		
Amount	153.768	153.820
%	33,5%	33,6%
Medium and long-term liabilities		
Amount	305.573	303.447
%	66,5%	66,4%
Long-term capital		
Amount	459.341	457.267
%	100,0%	100,0%

*Investments subsidies included

The amount of long-term Capital, which represents 82.2% of the total Balance, ensures an adequate coverage of Company's fixed Assets.

EEM Shareholder's Equity (including investment subsidies) registered in 2007, the amount of 153.768 thousand Euros (2006: 153.820 thousand Euros), and the Company's net Income ascended to 4.558 thousand Euros. This variation can be mostly explained by the constitution of a general provision for economic risks amounting to 6.028 thousand Euros.

The medium and long-term Liabilities presented a slight increase of 1.7% comparatively to 2006. This increase can be explained by the reinforcement of provisions for other risks and charges (+ 4.684 thousand Euros).

Working capital		
€'000	2007	2006
Current assets	131.002	148.845
Current liabilities	99.356	109.767
Working capital	31.646	39.078

The current Assets ascended to 131.002 thousand Euros (2006: 148.845 thousand Euros), registering a decrease of 17.843 thousand Euros, essentially due to the reduction of the amounts to be received referred to the Tariff Compensation, that decrease from 47.808 thousand Euros in 2006 to 26.212 thousand Euros in 2007. This decrease is justified by the execution in 2007, of a true sale securitisation transaction of the debts relating to Tariff Convergence deficit, for the years 2006 and 2007.



This operation was concluded under the Decree-Law n.º 237-B/2006, legal framework, which allows the regulated companies the option to cede the tariff deficits receivable rights (related to 2006 and 2007) to financial entities. This true sale transaction, executed in the financial markets, represents a cash in-flow of 62.719 thousand Euros.

In 2007, the short-term Liabilities ascended to 99.356 thousand Euros, reflecting a decrease of 10.411 thousand Euros in comparison to 2006, of which, 8.868 thousand Euros refers to the reduction of short-term Loans used to compensate the non received Tariffs Convergence amounts for 2006 and 2007. The remaining 1.543 thousand Euros result from the reduction of the balance of Suppliers and Others Creditors.

Profit and Loss Account

Profits

Operating Revenues					
€'000	2007	%	2006	%	Change%
Power energy sales	144.826	85,7%	137.204	80,8%	5,6%
Work on own account	21.648	12,8%	24.278	14,3%	(10,8%)
Other revenues	2.522	1,5%	8.284	4,9%	(69,6%)
Total	168.996	100,0%	169.766	100,0%	(0,5%)

The balance Power energy sales, ascended to 144.826 thousand Euros, including 43.434 thousand Euros related with Tariff Compensation derived from the application of tariff regulation.

Energy Sales ascended to 101.392 thousand Euros (2006: 94.839 thousand Euros), representing an increase of 6.9% in relation to 2006. This increase results from a growth of 0.8% in the consumption and from an average tariffs increasing of 6.1%.

The investments executed by EEM through works on its own account amounted to 21.648 thousand Euros, representing a decrease of 10.8% comparatively to 2006. This reduce is a result, in one hand, of a slight decrease of the total investment made in 2007 and secondly, that specific construction works of investment have been carried out with less intervention of EEM.

The balance Other revenues presents a decrease of 70% almost exclusively due to the reduction of exploitation subsidies related with the valuation of CO2 licenses, free of charges, attributed to EEM in “Plano Nacional de Atribuição de Licenças de Emissão I” (PNALE I). Those licenses (350.845) had a market value of 22.35 Euros, in 2006, and in 2007 its unitary price fell to 5.50 Euros.

Costs

Operating Costs					
€'000	2007	%	2006	%	Change%
Cost of sales - Materials	3.056	2,2%	3.063	2,3%	(0,2%)
Cost of sales - Raw material	67.565	49,6%	63.274	46,8%	6,8%
Services rendered by third parties	5.663	4,1%	4.954	3,7%	14,3%
Staff costs	27.701	20,3%	27.036	20,0%	2,5%
Depreciations and adjustments	23.101	16,9%	21.942	16,3%	5,3%
Provisions	-	0,0%	238	0,2%	(100,0%)
Others	9.398	6,9%	14.401	10,7%	(34,7%)
Operating costs	136.484	100,0%	134.908	100,0%	1,2%
Work on own account	21.648		24.278		
Total operating costs	158.132		159.186		

The operating Costs, ascended to 136.484 thousand Euros, representing an increase of 1.2% comparatively to 2006.

The cost of raw materials, which includes fuel and electric energy acquired to third parties, ascended to 67.565 thousand Euros, representing an increase of 6.8% in comparison to 2006. The fuel costs registered a growth of 8.1%, essentially derived from an increase of around 7% of fuel oil costs. This growth is explained by a higher fuel oil consumption in 8.3% (as result of a worst hydroelectric year, 2006: 112.9 GWh, 2007: 66.3 GWh), and with a decrease of the unitary acquisition costs of fuel oil in 1.3%. Nevertheless the average price of fuel oil in 2007 represents a growth of 6.4% in comparison to 2006, during the first semester of 2007 it was below the prices verified in 2006. Thus, having EEM carried out the majority of its acquisitions in this period, led to a decrease of the unitary fuel oil acquisition cost in 2007.

In 2007, the energy purchased to third parties, registered a growth of 4.5% (more 1.017 thousand Euros) which is explained by a quantity increase of 1.6% and also by a different energy acquisition mix. The reduction of 3.4 GWh in the wind farms production and 1.2 GWh in the Solid Waste Treatment Plant of Meia Serra, were compensated with a 9.1 GWh increase of production in the Thermal Power Plant of Caniçal (AIE).

The balance other operating Costs ascended to 9.398 thousand Euros, is mainly related with the costs of CO2 licenses in the amount of 2.026 thousand Euros, which was registered in accordance with “Interpretação Técnica N.º 4”, and the Rights of Way that amounted to 6.428 thousand Euros. The Rights of Way were fixed in 7.5% of the yearly low tension levels sales amount (including Public Lighting) registered in each Municipality of Autonomous Region of Madeira.

The 35% reduction of this balance is explained by the decrease of the CO2 licences value, as previously mentioned.



EEM Contributions to the State

In 2007, the Company and its workers contributed directly with 13.795 thousand Euros to the Portuguese State, an increase of 4.1% comparatively to the previous year, presented as follows:

EEM Contributions for the State					
€'000	2007	%	2006	%	Change%
Company:					
Corporate income tax	1.230		1.419		(13,3%)
Other tax	862		696		23,9%
Social security costs	5.314		5.185		2,5%
	7.406	53,7%	7.300	55,1%	1,4%
Staff:					
Personal income tax	3.928		3.554		10,5%
Social security costs	2.461		2.401		2,5%
	6.389	46,3%	5.955	44,9%	7,3%
Total	13.795		13.255		4,1%

Gross Value Added

Gross value added reached 77.058 thousand Euros, an increase of 6.2% in relation to 2006.

Financial / Extraordinary Income				
€'000	2007	2006	Change	Change%
Financial income	(12.683)	(9.957)	(2.726)	(27,4%)
Extraordinary income	7.318	5.156	2.162	41,9%

Despite the fact of the decrease on financial debt about 3.7% at year end,the securitisation transaction related with tariff deficits receivable rights only took place in December of 2007, leading to higher debt levels during the year of 2007, than those verified at the year end.

This fact together with the interest rate increase registered during 2007 (as reference, Euribor 6M started the year at 3.857% and reached the year end at 4.707%, with an annual average of 4.35%, represents an increase of 34% in relation to 2006), led to a 27% reduction of EEM's financial income.

The balance extraordinary Income presented a growth of 41.9%. This growth is, essentially due to the amounts to be received from the Central Government concerning the Tariff Convergence for the period 1998 - 2002 (more 1.862 thousand Euros), originated by regulator's review.

Net Cash Flow

In 2007, the balance of net Income, Depreciations and Adjustments presented an increase of 3.6%, from previous year, as a result of a slight improvement of EEM's operating performance (in 2007 the Operating Income raised 2.7% in comparison to 2006).

Net Cash Flow					
€'000	2007	%	2006	%	Change%
Net income	4.558	16,5%	4.510	16,9%	1,1%
Depreciations and adjustments	23.101	83,5%	21.942	82,2%	5,3%
Provisions	-	0,0%	238	0,9%	(100,0%)
Total	27.659	100,0%	26.690	100,0%	3,6%



Economic and Financial Indicators

Economic Structure		
€'000	2007	2006
Net income	4.558	4.510
Power energy sales and services provided	145.107	137.436
Net cash flow	27.659	26.690
Depreciations and adjustments	23.101	21.942
Financial expenses	16.316	12.699
Staff costs	32.152	32.144
Gross value added	77.058	72.540
Nº of employees	869	870
Staff productivity	89	83
Average costs per employee	37	37
Financial expenses in gross value added	0,21	0,18
Staff costs in gross value added	0,42	0,44
Depreciations and adjustments in cash flow	0,84	0,82
Return on Equity	3,0%	2,9%
Net income / Power energy sales and services provided	3,1%	3,3%

Financial Structure		
€'000	2007	2006
Current assets	131.002	148.845
Medium-and long-term assets	93.641	95.963
Fixed assets	334.054	322.227
Total assets	558.697	567.034
Short-term liabilities	99.356	109.767
Medium-and long-term liabilities	305.573	303.447
Total liabilities	404.929	413.214
Bank debts	299.711	311.138
Shareholder's equity*	153.768	153.820
Long-term capital	459.341	457.267
Working capital	31.646	39.078
Shareholder's equity / Fixed assets	0,46	0,48
Long-term capital / Fixed assets	1,38	1,42
Indebtedness - (Total liabilities / Total assets)	0,72	0,73
Shareholder's equity / Total assets	0,28	0,27
Medium-and long-term liabilities / Long-term capital	0,67	0,66
Solvency - (Total assets / Total liabilities)	1,38	1,37
Liquidity - (Current assets / Short-term liabilities)	1,32	1,36

*Investments subsidies included

2 - Proposed Appropriation of Net Income

In accordance with the article 19 of EEM's Statutes, the Board of Directors proposes the following application of 2007 Company's net Income, amounting to 4.557.752,68 Euros:

Statutory Reserve	455.775,27 Euros
Retained Earnings	4.101.977,41 Euros

3 - Environment

Introduction

Environment and energy are at the moment basis concerns of most countries, and constituted the key subject of the Commission's Green Paper of the 8th of March 2006. In general, the European energetic strategy is based on three main issues: sustainability, competitiveness, and security of supply.

Being aware of these concerns the Autonomous Region of Madeira – RAM, has carried out, through EEM, a fundamental company used to implement energetic guidelines, accomplished and is still implementing several investments in order to maximize local renewable resources, as well as, diversify energetic sources, as measures for environment preservation, in accordance with the sector policies defined by the Vice-Presidency of the Regional Government, entity which superintends EEM, as well embracing the appropriate technologies and sustainable environmental behaviors.

We consider the energy business in a scope of sustainable development, in line with our environmental strategy, where environment is a fundamental value that never is, or will never be, dissociated from our activity.

During 2007, EEM continued the projects that had began in the previous year and launched new environmental challenges, in order to prevent, reduce and repair possible environmental damages, with estimated costs around 2.258 thousand Euros, distributed by the following areas, as follows:

Environment		
€'000	Investment	Operating Costs
Protection of the Quality of Air and Climate	151	234
Residuum management	101	124
Protection of Ground, Underground and Superficial Waters	-	35
Protection of Biodiversity and Landscape	202	24
Other Activities of Protection of the Environment	1.304	80
Noise	3	-
Total	1.761	497

The operation costs related to environmental issues increased 41% comparatively to 2006. Investment reached 1.761 thousand Euros, clearly showing a significant increase (more 99%), relatively to previous year.

This increase is mainly due to a larger budget concerning projects in course and the launching of new ones, being the most significant the acoustic studies for Vitória Thermoelectric Power Plant and improvements in Calheta hydroelectric power system, as well as a new phase of studies to integrate the renewable energies in the electric grid.



Accomplished activities

Production

• European Union Emission Trading Scheme

EEM is the owner of 2 Plants under the European Union Emission Trading Scheme: Vitória Thermoelectric Power Plant (CTV) and Porto Santo Thermoelectric Power Plant (CTPS). The carbon dioxide (CO₂) emissions reached 412.707 and 27.702 tons respectively, presenting an increase of 9.3% and 0.8% relatively to the previous year.

It's important to mention, that those 2 power plants, CTV and CTPS, are the basis of the electric generating power system for each island. Thus meaning that they assume almost the totality of consumption increases, derived from electric demand and as back up system for other plants that are insufficient or lack power to fulfill all electrical energy needs.

The emission growth is consequence of the production increase occurred in these power plants, resulting from a slight energy demand raised (about 0.8%) and an energy deficit compensation in others generating power systems, namely the hydroelectric. In fact, the hydroelectric production in 2007, reached 62 GWh, lower than the medium average, which is nearly 100 GWh, a difference that was entirely supported by CTV, with inherent consequences on emissions.

Regarding financial perspective, 440.409 licenses were accounted, which correspond to the same amount of CO₂ tons emitted into atmosphere, that caused a deficit of 89.564 emission licenses of CO₂, taking in account that 350.845 licenses/year were attributed to EEM, throughout the PNALE I, for the 2005-2007 period.

EEM's accounting reports include 2.026 thousand Euros, under additional costs balance, regarding the emission values occurred in 2007. These licenses were already owned by EEM either through a free attribution or market acquisition.

In profits, the exploration subsidies balance, 1.930 thousand Euros are included, regarding 350.845 free licenses attributed by the Environmental Institute for the year 2007, valued at the price obtained on the 2nd of January 2007 (5.50 Euros/licenses).

In 2007, the real cost (excluding free licenses) with CO₂ emissions was approximately 97 thousand Euros.

In the Balance sheet, under Intangible assets in debt, and in the Other debtors on credit, 2.026 thousand Euros are registered, concerning the 2007 emission licenses, to be returned to the Portuguese Environmental Institute in 2008. As already mentioned in the accounting policies, the emission licenses registration was based in accordance with "Interpretação Técnica N.º 4".

• Prevention and Integrated Control of the Environmental Pollution-Licenses of the power plants

The process application for CTV and CTPS industrial activities was accomplished, being enclosed in the Decree-Law n° 194/2000, of 21st of August, that approved the legal framework for Integrated Pollution Prevention and Control (IPPC Directive) in order to obtain the environmental certification for CTV and CTPS.

In the scope of the Environmental Certification process, the most important activities developed are:

- Acoustic Restrain Studies for the thermoelectric power plants, with a characterization of the present acoustic conditions (noise fields evaluation, of the propagation conditions, exterior and surrounding acoustic conditions), as well as an analysis of acoustic restraining solutions that are liable both technical and economically, in order to implement an improvement plan;
- Studies regarding atmospheric emissions of CTV and CTPS power plants were accomplished, in order to evaluate the impact of the emissions of those plants, based on local dispersion models and the achievement of solutions to minimize the emissions and improve dispersion, considering legal requirements and the technical-economic viability.

Energetic Efficiency Promotion Plan

The Consumption Efficiency Promotion Plan (PPEC) has as main goal the reduction of client's energy consumption, namely in the sectors of Households, Services and Commerce, as well as simultaneously promote energetic efficiency.

The 2007 PPEC implementation, aims not only the fuel oil consumption reduction, with inherent CO₂ emissions reduction, but also the decrease of power demand in peak load, whenever it occurs, day or night hours.

During 2007, the necessary procedures were accomplished to implement the PPEC 2007 plan, namely with:

- Installation of 50.000 efficient electric lamps for the Household sector;
- Installation of 50.000 efficient electric lamps for the Services and Commerce sector.

The mentioned plan was approved by the Energy Regulatory Entity (ERSE), with a total amount of 491.778,00 Euros.

Taking into account the approved budget and the electric lamps unit costs, an extension of this measure was undertaken, doubling-up the number of the electric lamps from 100.000 to 200.000.

Therefore, the new forecasted goals for this plan, considering the procedures established by the Energy Regulatory Entity, comprises a decrease of 19.136 MWh/year in the electric energy consumption, which corresponds to around 13.438 tons of CO₂ and the reduction of nearly 6 and 5 MW, concerning respectively the peak load, whether it occurs in day or night hours.

We estimate that the joint achievement of those policies will represent an average annual saving of 1.466 thousand Euros, being 1.324 thousand Euros with fuel oil acquisition and 141 thousand Euros in CO₂ emission licenses.

To implement the PPEC program, several actions were undertaken in order to distribute the electric lamps, taking in account clients needs and analyze the different compact fluorescent lamps available in the market. Besides that, EEM prepared and distributed the proper information to clients through more than one kind of frame. Simultaneously, EEM fulfilled several training actions and actualized its digital assets. This exchanging campaign of electric lamps will be still realized during the present year (2008), and it aims to substitute incandescent lamps by compact fluorescent lamps with lower consumption, whose undertaking the following benefits: a 5 times lower consumption, a 5 times lower CO₂ emission and a 8 times higher durability.

Referring the number of electric lamps to be attributed to each sector, 10 electric lamps per installation were approved to the Household sector, and in the Services and Commerce area this attribution depends on the incandescent lamps quantity with a daily use of more than 2 hours.

New energetic efficiency procedures is already planned by EEM, which will be presented in the PPEC 2008 candidature.

Distribution Network

• Seeking of PCB's on Transformers

In 2007, EEM concluded the sampling of isolating oils of distribution net transformers in public transforming houses, in order to detect, treat and eliminate oils that contained a level of concentration of PCB's (Bifenilos Policlorados) above 50 ppm (50 mg/kg). Physic chemistry analysis and dielectrics, where also accomplished, in order to obtain indicative values of Interfacial Tension (>15 mN/m), Disruptive Tension (>30 kV), Acid value (<0,25 mg KOH/g of oil) and Water Concentration (<30 ppm).

The (PCB's) and (PCT's) generally designated as PCB are chemical products that had a vast application, till the middle of the seventies, namely on transformers, bank capacitors and other electric equipments. Regarding its pollution potential, these products are under environmental supervision, actually being recognized as highly dangerous products for public health and environment. The European Union, established the elimination of such substances to be assured till 2010, taking in consideration the equipments manufacture date.

During 2007, 53 PCB detection tests were accomplished in EEM's transformers, and only one single sample registered higher values than legal admissible value, being immediately removed for proper elimination. In 2007, 13.670 liters of oils free from PCB were used in EEM's transformers treatment and cleaning.

As a conclusion, in a total of 498 tests accomplished during the 2005-2007 period, just 7 transformers had a concentration of PCB's over 50 ppm, being submitted to a cleansing procedure of the equipment and elimination by a licensed entity of the isolating oil.

In 2007, this Environmental Action Plan was finalized, pointing out that EEM owns a credible and up-to-date registration of its equipments and realized the appropriate tests in all of those that could possibly contain PCB.

• Environmental Performance Plan – voluntary procedures

In 2007, the Environmental Performance Plan was continued, integrated in the 2006-2008 period plan. The activities accomplished during 2007 consisted on a landscape integration of the LV and MV overhead lines network and also a study about the MV/HV electric lines impact, concerning the Madeira bird-fauna.

• Landscape integration of LV and MV overhead lines network

The interventions consisted fundamentally on converting overhead network lines into underground cables. The environmental benefits were mostly obtained at a visual level. In this sense, as far as possible, EEM contributes for the habitats preservation and maintenance, minimizing possible impacts caused by this kind of infrastructures in the field, following the main recommendations of the "Habitats" Directive.

Indirectly, a better service quality has been achieved through an electric network with lower exposure to natural elements.

• Study of the MV/HV electric lines network impact, concerning the Madeira bird-fauna

During 2007, EEM realized a workshop that counted with the participation of the national coordinator for electric lines network from mainland, being presented the provisory results of the study of the MV/HV electric lines network impact, concerning the Madeira bird-fauna. These studies involved the principal regional entities for this area, namely the Local Bird Protection Association "SPEA – Sociedade Protectora para o Estudo das Aves", Madeira Natural Park "Parque Natural da Madeira", and the Ecological Park of Funchal "Parque Ecológico do Funchal".

It's important to refer, that these studies allowed the identification of sections of electric lines in areas containing specimens catalogued as endangered species, according to the Bird Directive. Thus made possible, the settling of several action plans to be undertaken, for the protection of species in risk.

Investments with environmental benefits

With a large energetic dependence from the exterior, the members of the European Community have committed to reach, until 2020, the following main objectives: reduce the greenhouse gas emissions of between 20% to 30%, to improve the energetic efficiency in 20%, and simultaneously to assure, at that date, that 20% of the total energy will be provided by renewable sources, namely hydroelectric, wind, biomass and solar resources (nowadays, in the EU, only 7% of production comes from renewable sources).

In this framing, the Autonomous Region of Madeira – RAM according to the Regional Energetic Policies Plan defined several main actions to respond the challenges set by the European Union, as follows:

- Maximization the development of regional renewable resources;
- Promotion of alternative energies;
- Promotion the rational use of energy.

In order to materialize the strategic goals, above referred, EEM developed and has in course some important projects, as following presented:

• Studies for integration of renewable energies into the electric network

Regarding that the consolidation of the environmental policy embracing the energetic sector complies with an evaluation and integration of renewable sources into the electric network, it was adjudicated a second phase of the “Determination Studies for Renewable Sources Integration Capacity in Network”.

• Hydroelectric Energy (Socorridos, Calheta and Serra de Água power generating systems)

It is consensual that hydroelectric resource availability has been decreasing over the last years, either by an increase of water consumption or by climate changing effects. The increase of hydroelectric energy contribution, resides on transforming the existent power plants that operates mostly in winter, into a continuous operation, through creating storage reservoirs and water pumping.

This new philosophy was implemented with great success in the Socorridos Hydroelectric Multipurpose Exploitation project, inaugurated in 2007, which enables the transformation of the winter generating system into a reversible function, exploring the hydroelectric power plant during whole year, in spite of water affluence, as well as contributing through the pumping effect with a greater wind energy penetration.

At this moment, further advanced studies are occurring, in order to replicate this investment philosophy in the Calheta hydroelectric power system, which will allow an increase of about 20% towards the actual hydroelectric energy production, as well as provide a very positive effect,

concerning more wind energy power. This system improvement will take place during 2008-2011. Also planned, for 2013-2015, the remodeling of Serra de Água hydroelectric power system and the installation of a new generating power group with an installed power capacity up to 15 MW, estimating an additional production of 25 GWh/year.

• Wind energy

At this moment only 25.5 MW power is allocated for wind power, not being possible to install additional capacity power before 2011. Of the total 25.5 MW, only 15 MW are owned by EEM, that are already contracted, and to be concluded during the first trimester of 2009. The accomplishment of these investments (25.5 MW) will quadruplicate the existent wind power capacity, representing a growth in contribution of renewable resources from the actual 1.5% to 7% of the annual production in Madeira Island.

The future enlargement and pumping system of the Calheta hydroelectric will create conditions for a higher penetration of wind energy, in 25 MW. After the improvement of Serra de Água system the wind component can be reinforced with another 10 MW.

In short, the Socorridos, Calheta and Serra de Água hydroelectric power systems, associated to wind investments will permit to reach the following goals:

- 2.5 times more energy originated by renewable sources;
- Exceed the 20% European goal for energy issued by renewable sources;
- Accomplish 27% of renewable energies penetration;
- Avoid 205.000 tons of CO₂ in annual emissions.

• EDEN

During 2007, we continued with the EDEN – New Energies Endogenous Development, which aims to create a technologic platform, contributing for the maximization of opportunities to the development through a hydrogen emergent economy.

The general purposes of this project are, as presented:

- To obtain “know- how”, concerning the use of fuel cells to produce energy, through several experimental tests;
- To reinforce the national scientific and technological base related to hydrogen technologies, supporting the creation of excellent nucleus in certain specific segments;
- To propose a national “RoadMap”, to form a new opportunity of competitive specialization in the portuguese economy.

In a restricted level, EEM’s participation in this pilot project is justified by the possibility of integration of renewable energies in Porto Santo Island. The storage of energy under a hydrogen form is obtained from renewable sources.

In 2007, EEM promoted a consultation among several national and international enterprises for the acquisition, assemblage and setting on service the components of this project.

We think that the production provided by the fuel cells (H2) will be in operation before the end of the first semester of 2008, the expected date for the EDEN project conclusion, contributing for a decrease in polluted emissions, associated to the energy production and reaching the goals and objectives settled by the European Community, concerning the Environmental issues.

• **Sea bio-fuel oil**

EEM, in partnership with BFS (connected with Alicante and Valencia universities) pretends to settle an industrial unit for sea bio-fuel oil production, with the purpose of:

- Replace the fuel oil, actually in use, for sea bio-fuel oil;
- Making the island self sufficient, concerning electric power energy, in a medium term, based on an unlimited, clean and ecological energetic resource.

The bio-fuel oil will be used by the existent generating power groups in the thermoelectric plant, only implies a light adaptation.

The choice of Porto Santo Island to implement this project is essentially related with a weak contribution in renewable energetic resources, (currently around 5% of the production), also by the unfeasible installation of the hydroelectric plants, the major restrictions in wind penetration, due to the electric network dimension and load diagram, as well as the island total dependence on fuel oil, and finally to turn the island in a Green Island. Those were the determinant factors to implement a renewable/emergent technology.

This project will make possible that until 2016, Porto Santo Island, will be auto sufficient in energy, accomplishing the following goals:

- To increase the renewable energy production from 5% to 97.5%;
- To avoid the import of 17.000 tons/year of fuel oil;
- To reduce the annual emission of 50.000 tons of (CO2).

• **Study of new thermoelectric generating power plants**

- GNL Project (liquefied natural gas)

Through a strategic orientation, referring environmental concerns, EEM is still developing a large and pioneer project, regarding the European Union, natural gas introduction in an insular region.

The update of this project is presented as follows:

At the present date, we have on course the following actions, which will also permit, during the 2008 second/third trimester, to launch an International Pre-qualification Public Tender for the EPC (Engineering, Procurement and Construction):

- Conclusion of the Terminal layout definition;
- Conclusion of the risk analysis, to include within the environmental impact study (already done);
- Preparation of the preliminary geological and geotechnical study;
- Conclusion of the basic project;
- Preparation of the EPC International Pre-qualification Public Tender;
- Negotiation with several GNL suppliers, intending to define and assure, from now, the suitable supply solutions to the Terminal dimension and characteristics.

The estimated cost of the Project, basing on the accomplished studies, is about 85 millions Euros. We have to point out, that on this Project phase, before the EPC International Pre-qualification Public Tender, the proposed value for the Terminal cost, is based on international indicative prices.

The first phase of the project is to provide gas for electric energy production, and a second phase, more expansive and open to others sectors, namely Industry, Hotels, Transports and also Households.

The main economic and environmental advantages of this kind of fuel are, decreasing of fuel oil contents dependency, diversification, and a growing security in the energetic provisions, reducing strongly the polluted gases from emissions, with very significant environmental quality advantages, for example, 52% less of CO2, 85% of NOx, absence of SO2 and metallic particles.



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 2007, the Board of Directors wishes to express a word of gratitude for the support received from all the different entities with whom we have cooperated over the year, particularly our shareholder, the Regional Government of Madeira, represented by its Vice-President, responsible for the leadership of the energy sector in Madeira.

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

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

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

The Board of Directors

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

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

Eng. Mário Eugénio Jardim Fernandes (Board Member)

Consolidated and Individual Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Balance Sheet as at 31 December, 2007 and 2006

		(Amounts expressed in Euros)	
	Notes	2007	2006
Assets			
Tangible assets	2	320,832,303	303,176,174
Intangible assets	3	6,974,719	12,898,322
Investments	4	6,246,826	6,152,038
Clients and other debtors	5	124,560,278	125,916,769
Inventories	6	16,325,502	12,938,649
Prepayments and accrued income	7	82,920,453	105,017,123
Trading securities	8	-	10,136
Cash and deposits at banks		837,138	925,203
Total Assets		<u>558,697,219</u>	<u>567,034,414</u>
Shareholders' Equity			
Share capital	9	20,000,000	20,000,000
Reserves and retained earnings	10	85,241,454	86,756,370
Profit for the year		4,557,753	4,509,724
Total Shareholders' Equity		<u>109,799,207</u>	<u>111,266,094</u>
Minority interests	11	89,111	78,330
Liabilities			
Amounts owed to credit institutions	12	299,710,893	311,137,578
Provision for liabilities and charges	13	36,598,307	31,914,179
Deferred tax	14	1,214,835	1,512,831
Suppliers and other liabilities	15	53,621,942	56,453,366
Accruals	16	13,782,858	12,196,490
Deferred income	17	43,880,066	42,475,546
Total Liabilities		<u>448,808,901</u>	<u>455,689,990</u>
Total Shareholders' Equity and Liabilities		<u>558,697,219</u>	<u>567,034,414</u>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Statement of Income
for the years ended 31 December, 2007 and 2006

		(Amounts expressed in Euros)	
	Notes	2007	2006
Operating income			
Sales	18	144,826,399	137,204,307
Other operating income	19	24,169,573	32,561,471
		<u>168,995,972</u>	<u>169,765,778</u>
Operating costs			
Cost of sales	18	79,502,619	75,590,019
Personnel costs		32,151,746	32,144,265
Supplies and services		13,924,696	14,691,195
Depreciation and adjustments	2, 3 and 5	23,100,823	21,942,090
Provision for liabilities and charges	13	-	75,666
Other operating costs	20	9,450,775	14,580,914
		<u>158,130,659</u>	<u>159,024,149</u>
Operating income		<u>10,865,313</u>	<u>10,741,629</u>
Other income/(costs)			
Financial income/(costs)	21	(13,177,466)	(10,359,667)
Income arising on the application of the equity method of consolidation		494,789	402,131
Other income	22	7,355,785	5,196,387
Other costs		(38,118)	(202,549)
		<u>(5,365,010)</u>	<u>(4,963,698)</u>
Income before income taxes		5,500,303	5,777,931
Income taxes	23	931,769	1,245,427
Profit for the year		<u>4,568,534</u>	<u>4,532,504</u>
Minority interests	11	10,781	22,780
		<u>4,557,753</u>	<u>4,509,724</u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Consolidated Statement of Cash Flows for the years ended 31 December, 2007 and 2006

	(Amounts expressed in Euros)	
	2007	2006
Cash flows from operating activities		
Client payments	104,743,827	102,896,185
Securitization of the tariff convergence for 2007 and 2006	63,528,969	-
Payments to suppliers	(88,599,598)	(73,953,754)
Payments to employees and pensioniers	(31,833,823)	(26,301,652)
Income tax payments	(474,441)	(2,861,648)
Short-term applications	10,238	11,489,861
Other receipts and payments	9,068,244	6,129,029
	<u>56,443,416</u>	<u>17,398,021</u>
Cash flows from investing activities		
Sales of fixed assets	504,644	136,998
Payments to fixed assets suppliers	(31,796,331)	(33,974,264)
Investments	-	(1,651,430)
Loans to other companies	(52,602)	(16,903)
Dividends	886,511	724,341
Interest received	776,782	1,226,945
	<u>(29,680,996)</u>	<u>(33,554,313)</u>
Cash flows from financing activities		
Loans obtained / (Repayment of loans)	(11,426,685)	29,055,437
Interest paid	(15,017,913)	(13,202,981)
Other receipts and payments	(405,887)	291,356
	<u>(26,850,485)</u>	<u>16,143,812</u>
Net changes in cash and cash equivalents	(88,065)	(12,480)
Cash and cash equivalents balance at the beginning of the year	925,203	937,683
Cash and cash equivalents balance at the year end	<u>837,138</u>	<u>925,203</u>

See accompanying notes to the Financial Statements

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

Balance Sheet as at 31 December, 2007 and 2006

		(Amounts expressed in Euros)	
	Notes	2007	2006
Assets			
Tangible assets	2	312,198,858	296,687,945
Intangible assets	3	6,970,548	12,884,232
Investments	4	7,447,509	7,396,443
Clients and other debtors	5	129,530,784	128,458,076
Inventories	6	16,285,343	12,897,758
Prepayments and accrued income	7	82,922,741	105,019,118
Cash and deposits at banks		810,917	914,115
Total Assets		<u>556,166,700</u>	<u>564,257,687</u>
Shareholders' Equity			
Share capital	9	20,000,000	20,000,000
Reserves and retained earnings	10	85,241,454	86,756,370
Profit for the year		4,557,753	4,509,724
Total Shareholders' Equity		<u>109,799,207</u>	<u>111,266,094</u>
Liabilities			
Amounts owed to credit institutions	12	298,078,463	309,142,386
Provision for liabilities and charges	13	36,141,398	31,457,270
Deferred tax	14	1,214,835	1,512,831
Suppliers and other liabilities	15	53,493,302	56,460,240
Accruals	16	13,773,148	12,180,077
Deferred income	17	43,666,347	42,238,789
Total Liabilities		<u>446,367,493</u>	<u>452,991,593</u>
Total Shareholders' Equity and Liabilities		<u>556,166,700</u>	<u>564,257,687</u>

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Financial Statements

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

Statement of Income for the years ended 31 December, 2007 and 2006

	Notes	(Amounts expressed in Euros)	
		2007	2006
Operating income			
Sales	18	144,842,693	137,220,580
Other operating income	19	24,081,546	32,467,860
		<u>168,924,239</u>	<u>169,688,440</u>
Operating costs			
Cost of sales	18	80,316,612	76,392,803
Personnel costs		32,127,569	32,122,700
Supplies and services		13,652,730	14,611,403
Depreciation and adjustments	2, 3 and 5	22,632,256	21,474,569
Provision for liabilities and charges	13	-	88,268
Other operating costs	20	9,436,752	14,552,450
		<u>158,165,919</u>	<u>159,242,193</u>
Operating income		<u>10,758,320</u>	<u>10,446,247</u>
Other income/(costs)			
Financial income/(costs)	21	(13,079,721)	(10,272,477)
Income arising on the application of the equity method of consolidation		448,066	520,686
Other income	22	7,329,119	5,173,271
Other costs		<u>(36,698)</u>	<u>(201,644)</u>
		<u>(5,339,234)</u>	<u>(4,780,164)</u>
Income before income taxes		5,419,086	5,666,083
Income taxes	23	861,333	1,156,359
Profit for the year		<u>4,557,753</u>	<u>4,509,724</u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Statement of Cash Flows for the years ended 31 December, 2007 and 2006

	(Amounts expressed in Euros)	
	2007	2006
Cash flows arising from operating activities		
Client payments	104,656,190	102,690,238
Securitization of the tariff convergence for 2007 and 2006	63,528,969	-
Payments to suppliers	(89,237,804)	(74,644,437)
Payments to employees and pensioniers	(31,809,916)	(26,280,190)
Income tax payments	(358,937)	(2,771,937)
Short-term applications	-	11,499,997
Other receipts and payments	9,164,155	6,247,124
	<u>55,942,657</u>	<u>16,740,795</u>
Cash flows arising from investing activities		
Sales of fixed assets	504,644	136,998
Payments to fixed assets suppliers	(29,200,270)	(33,956,239)
Investments	-	(1,651,430)
Loans to subsidiaries and other companies	(2,654,325)	312,541
Dividends	886,511	724,341
Interest received	775,526	1,226,328
	<u>(29,687,914)</u>	<u>(33,207,461)</u>
Cash flows arising from financing activities		
Loans obtained / (Repayment of loans)	(11,063,923)	29,317,129
Interest paid	(14,888,127)	(13,153,745)
Other receipts and payments	(405,891)	294,128
	<u>(26,357,941)</u>	<u>16,457,512</u>
Net changes in cash and cash equivalents	(103,198)	(9,154)
Cash and cash equivalents balance at the beginning of the year	914,115	923,269
Cash and cash equivalents balance at the year end	<u>810,917</u>	<u>914,115</u>

See accompanying notes to the Financial Statements

EEM - Empresa de Electricidade da Madeira

Notes to the Financial Statements 31 December, 2007 and 2006

I Accounting policies

I.1 Activity and basis of presentation

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

In accordance with the Regional Legislative Decree No. 14/94/M, published in “Diário da República” as at 3 June, 1994, the legal status of EEM was changed to a private company (S.A.), entirely held by a public shareholder. Its name was also changed to EEM - Empresa de Electricidade da Madeira, S.A. EEM is ruled by the above mentioned regulation, by its internal by-laws, by the regulations applied to private companies and by special rules applied to similar companies operating in the same business.

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

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

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

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

Basis of presentation

The consolidated financial statements for the years ended 31 December, 2007 and 2006, comprise the assets, liabilities and results of EEM and its subsidiaries, Museu - Casa da Luz, Emacom and Enereem, and the results attributable to EEM from its associated companies. These accounting policies have been consistently applied by all Group companies.

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

These financial statements were approved in the Board of Directors meeting held on 31 March, 2008.

Investments in subsidiaries

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

Investments in associated companies

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

Balances and transactions eliminated in consolidation

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

Other investments

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

Accounting, on unconsolidated basis, of investments in subsidiaries

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

1.2 Recognition of income and expenses

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

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

1.3 Subsidies to operational activity

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

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

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

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

1.4 Clients

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

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

1.5 Foreign exchange transactions

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

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

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

1.6 Inventories

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

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

1.7 Intangible assets

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

	No. of years
• Technical studies	3
• Industrial property	33
• Other intangible assets	22

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



I.8 Tangible assets

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

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

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

	No. of years
• Buildings	10 to 50
• Basic equipment	6 to 25
• Motor vehicles	4 to 5
• Machinery	4 to 10
• Office equipment and other equipment	6 to 10

I.9 Leases

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

Operating leases

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

Finance leases

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

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

I.10 Interest capitalised

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

I.11 Investments subsidies

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

I.12 Pensions fund

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

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

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

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

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

1.13 Income tax

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

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

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

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

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

1.14 Own work capitalised

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

1.15 Regulatory assets (tariffs compensation)

When an activity is subject to regulation, the criteria for allocation of income and expense to each accounting period may differ from the criteria applied to non-regulated activities.

The regulatory assets and liabilities are accounted through the income statement and refer to deferred costs and deferred income defined and regulated by the Regulator, which should be recovered through the increase or decrease of electricity tariffs in subsequent periods.

The Board of Directors makes certain assumptions as to the recovery of the tariffs compensation, based on regulations issued, current legislation and past experience. If the probability of recovery is less then likely, than the regulatory asset is written off against the income statement.

1.16 Provisions

Provisions are recognised when: (i) the Group has a present, legal or constructive obligation; (ii) it is probable that settlement will be required in the future; and (iii) a reliable estimate of the obligation can be made.

1.17 CO2 Licenses

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

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

The licenses usage is valued at historical cost considering the emissions occurred during the period, in accordance with “Interpretação Técnica No. 4 – Direitos de emissão de gases com efeito de estufa”, of 26 April, 2006.

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

1.18 Cash and cash equivalents

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

2 Tangible assets

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Gross amount				
Land	5,771,961	5,637,898	5,771,961	5,637,898
Buildings	179,462,680	178,701,269	176,323,291	175,561,880
Basic equipment	402,033,500	366,593,383	396,226,579	360,786,463
Motor vehicles	203,751	1,859,554	182,261	1,838,064
Machinery	1,981,504	1,905,443	1,981,504	1,905,443
Office equipment	14,130,698	10,845,804	14,021,324	10,736,429
Other equipment	11,248,239	10,516,663	11,248,239	10,516,663
Art	58,965	55,965	-	-
Work in progress	18,574,262	19,454,356	15,974,698	19,454,356
	<u>633,465,560</u>	<u>595,570,335</u>	<u>621,729,857</u>	<u>586,437,196</u>
Accumulated depreciation:				
Related to the year	(21,947,064)	(20,804,247)	(21,489,714)	(20,346,636)
Related to previous years	(290,686,193)	(271,589,914)	(288,041,285)	(269,402,615)
	<u>(312,633,257)</u>	<u>(292,394,161)</u>	<u>(309,530,999)</u>	<u>(289,749,251)</u>
	<u>320,832,303</u>	<u>303,176,174</u>	<u>312,198,858</u>	<u>296,687,945</u>

The Tangible assets movements for the Group, during 2007, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ Charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
Gross amount:					
Land	5,637,898	21,865	-	112,198	5,771,961
Buildings	178,701,269	468,321	-	293,090	179,462,680
Basic equipment	366,593,383	16,388,245	-	19,051,872	402,033,500
Motor vehicles	1,859,554	59,964	(1,715,767)	-	203,751
Machinery	1,905,443	76,061	-	-	1,981,504
Office equipment	10,845,804	3,284,894	-	-	14,130,698
Other equipment	10,516,663	731,576	-	-	11,248,239
Art	55,965	3,000	-	-	58,965
Work in progress	19,454,356	18,807,323	-	(19,687,417)	18,574,262
	<u>595,570,335</u>	<u>39,841,249</u>	<u>(1,715,767)</u>	<u>(230,257)</u>	<u>633,465,560</u>
Accumulated depreciation:					
Buildings	53,668,968	4,919,513	-	-	58,588,481
Basic equipment	220,112,653	14,881,888	-	-	234,994,541
Motor vehicles	1,835,337	23,037	(1,707,968)	-	150,406
Machinery	1,655,684	84,873	-	-	1,740,557
Office equipment	7,091,969	1,523,090	-	-	8,615,059
Other equipment	8,029,550	514,663	-	-	8,544,213
	<u>292,394,161</u>	<u>21,947,064</u>	<u>(1,707,968)</u>	<u>-</u>	<u>312,633,257</u>

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

During 2007, there were several works concluded in the substations and infrastructures belonging to the electric energy transport and distribution networks of the Autonomous Region of Madeira. Therefore, an amount of Euros 19,687,417 was transferred from the balance Work in progress to fixed assets.

The reduction of the Balance Motor vehicles refers to the EEM cars’ pool substitution, which is actually constituted by vehicles in a operating lease regime.

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

As at 31 December 2007, the balance Work in progress mainly refers to the construction of a new group in “Central Térmica de Porto Santo” and network improvements related to the energy transport and distribution networks.

3 Intangible assets

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Gross amount:				
Technical studies	3,465,718	3,195,770	3,356,853	3,086,904
CO2 licenses	2,026,138	7,511,682	2,026,138	7,511,682
Industrial property	1,916,862	1,871,357	1,916,862	1,871,357
Other intangible assets	11,440,096	11,440,096	11,440,096	11,440,096
	<u>18,848,814</u>	<u>24,018,905</u>	<u>18,739,949</u>	<u>23,910,039</u>
Accumulated depreciation				
Related to the year	(753,512)	(662,142)	(743,594)	(652,232)
Related to previous years	<u>(11,120,583)</u>	<u>(10,458,441)</u>	<u>(11,025,807)</u>	<u>(10,373,575)</u>
	<u>(11,874,095)</u>	<u>(11,120,583)</u>	<u>(11,769,401)</u>	<u>(11,025,807)</u>
	<u>6,974,719</u>	<u>12,898,322</u>	<u>6,970,548</u>	<u>12,884,232</u>

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

The balance CO2 licenses corresponds to the licenses freely attributed under the scope of "Plano Nacional de Atribuição de Licenças de Emissão" (PNALE) for the three years period 2005-2007, in the amount of Euros 1,929,648, and to licenses acquired in the market to face the consumption of the year, in the amount of Euros 98,736 (see note 25). As at 31 December, 2007, EEM recognised an impairment loss in the amount of Euros 2,246 related to the licenses held at that date (22,464 tons), as these licenses will be canceled when PNALE I finishes.

The balance Industrial property, in the amount of Euros 1,916,862, is mainly related with the amount paid by EEM in order to run an energy generation facility, for a period of 33 years, until 2026.

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

The Intangible assets movements for the Group, during 2007, are analysed as follows:

	Balance on 1 January Euros	Acquisition/ Charge Euros	Disposals Euros	Transfers Euros	Balance on 31 December Euros
Gross amount:					
Technical studies	3,195,770	39,691	-	230,257	3,465,718
CO2 licenses	7,511,682	2,189,990	(7,675,534)	-	2,026,138
Industrial property	1,871,357	45,505	-	-	1,916,862
Other intangible assets	11,440,096	-	-	-	11,440,096
	<u>24,018,905</u>	<u>2,275,186</u>	<u>(7,675,534)</u>	<u>230,257</u>	<u>18,848,814</u>
Accumulated depreciation:					
Technical studies	3,048,401	175,421	-	-	3,223,822
Industrial property	743,896	58,087	-	-	801,983
Other intangible assets	7,328,286	520,004	-	-	7,848,290
	<u>11,120,583</u>	<u>753,512</u>	<u>-</u>	<u>-</u>	<u>11,874,095</u>

The reduction on the balance CO2 licenses includes Euros 7,673,288 related to the licenses delivered concerning the 2006 consumptions (405,075 tons), as referred in note 25, and Euros 2,246 related to the recognition of an impairment loss regarding the licenses held as at 31 December, 2007.

4 Investments

This balance is analysed as follows:

	Group		Individual	
	2007	2006	2007	2006
	Euros	Euros	Euros	Euros
Subsidiaries:				
Museu - Casa da Luz	-	-	121,909	261,605
Emacom	-	-	68,848	95,070
Enereem	-	-	1,009,926	887,730
	-	-	1,200,683	1,244,405
Associated companies:				
Teleféricos da Madeira, S.A.	651,732	556,944	651,732	556,944
Other investments:				
Banif - SGPS, S.A.	4,314,077	4,314,077	4,314,077	4,314,077
Horários do Funchal, S.A.	611,027	611,027	611,027	611,027
Luso Carbon Fund	600,000	600,000	600,000	600,000
Companhia Logística de Combustíveis da Madeira, S.A.	50,000	50,000	50,000	50,000
Madibel Indústrias de Alimentos e Bebidas, S.A.	20,141	20,141	20,141	20,141
Comboio do Monte, S.A.	16,000	16,000	16,000	16,000
Centro de Empresas e Inovação da Madeira, Lda.	3,990	3,990	3,990	3,990
	5,615,235	5,615,235	5,615,235	5,615,235
Impairment of other investments	(20,141)	(20,141)	(20,141)	(20,141)
	6,246,826	6,152,038	7,447,509	7,396,443

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

	Group		Individual	
	2007	2006	2007	2006
	%	%	%	%
Subsidiaries:				
Museu - Casa da Luz	100.00	100.00	100.00	100.00
Emacom	100.00	100.00	100.00	100.00
Enereem	92.50	92.50	85.00	85.00
Associated companies:				
Teleféricos da Madeira, S.A.	20.00	20.00	20.00	20.00
Other investments:				
Banif - SGPS, S.A.	1.62	1.62	1.62	1.62
Horários do Funchal, S.A.	5.00	5.00	5.00	5.00
Luso Carbon Fund	0.60	0.60	0.60	0.60
Companhia Logística de Combustíveis da Madeira, S.A.	10.00	10.00	10.00	10.00
Madibel Indústrias de Alimentos e Bebidas, S.A.	2.52	2.52	2.52	2.52
Comboio do Monte, S.A.	16.67	16.67	16.67	16.67
Centro de Empresas e Inovação da Madeira, Lda	1.63	1.63	1.63	1.63

Investments consolidated under the full consolidation method

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

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

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

Emacom's main objective is rendering telecommunication services to third parties. As such, Anacom, the regulating agency for the sector, granted Emacom a licence to operate in the public telecommunications sector.

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



Enereem was established in September 1998 at the Autonomous Region of Madeira, with a share capital of Euros 49,880. EEM holds a direct stake of 85% and 7.5% indirectly through Museu - Casa da Luz.

Enereem started its activity during 2000. However, only operates in its wind energy facilities located in Porto Santo and Madeira islands since 2001 and 2003, respectively.

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

Investments consolidated under the equity method

The investments accounted under the equity method, as at 31 December, 2007, are analysed as follows:

	% of share Capital	Acquisition cost Euros	Book value Euros
Teleféricos da Madeira, S.A.	20,00	92,395	651,732
		92,395	651,732

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

Other investments (recorded at cost)

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

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

As at 31 December, 2007, the investment held in Banif – SGPS, S.A. is represented by 4,054,260 shares with a nominal value of Euro 1 each. The average acquisition cost of the shares held by EEM is Euros 1.06 each. As at 31 December 2007, the market value of the investment arises to Euros 16,217,040 (2006: Euros 21,082,152).

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

During 2006, EEM has acquired 12 participation units of Luso Carbon Fund, which have a unitary subscription amount of Euros 50,000. The main activity of this fund is to search, evaluate and select projects which could generate emission credits and the investment of the capital in these projects in order to allow the acquisition of CO2 licenses. As at 31 December 2007, the investment held arises to Euros 600,000.

Companhia Logística de Combustíveis da Madeira, S.A. was established in 1999, with a share capital of Euros 250,000. During 2004, the share capital was increased to the amount of Euros 500,000, under which EEM acquired 2,500 new shares with a nominal value of Euros 10, amounting to Euros 25,000. As at 31 December 2007, the investment held arises to Euros 50,000.

As at 5 August, 1988, EEM acquired 2.52% of Madibel Indústrias de Alimentos e Bebidas, S.A. ("Madibel"), with a share capital of Euros 798,400, by the amount of Euros 20,141. Considering the financial difficulties faced by Madibel, EEM has recorded impairment losses during 2005 in the amount of the investment held.

5 Clients and other debtors

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Clients:				
Official entities				
With protocol	46,345,392	49,046,711	46,345,392	49,046,711
Without protocol	55,969,657	52,505,947	55,969,657	52,505,174
Rede Eléctrica Nacional	500,999	849,470	500,999	849,470
Other clients	12,871,599	12,255,844	12,838,271	12,211,153
	<u>115,687,647</u>	<u>114,657,972</u>	<u>115,654,319</u>	<u>114,612,508</u>
Other debtors:				
Public sector	4,459,984	6,837,753	4,166,144	6,728,805
Coopereme	2,650,832	2,639,832	2,650,832	2,639,832
Other debtors	1,586,216	1,522,567	6,898,990	4,233,385
Advances to suppliers	15,099	15,099	-	-
	<u>8,712,131</u>	<u>11,015,251</u>	<u>13,715,966</u>	<u>13,602,022</u>
Doubtful debts	8,647,846	8,330,645	8,646,546	8,330,645
	<u>133,047,624</u>	<u>134,003,868</u>	<u>138,016,831</u>	<u>136,545,175</u>
Impairment for doubtful debts	(8,487,346)	(8,087,099)	(8,486,047)	(8,087,099)
	<u>124,560,278</u>	<u>125,916,769</u>	<u>129,530,784</u>	<u>128,458,076</u>

The balance Official entities with protocol, in the amount of Euros 46,345,392 (2006: Euros 49,046,711) 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 2007 the amount of Euros 2,701,318 (2006: Euros 2,259,186). The terms of the protocols mentioned above implicate that the present value of these debts is substantially lower than its nominal value.

The balance Official entities without protocol, in the amount of Euros 55,969,657 (2006: Euros 52,505,947), relates to amounts invoiced to regional official entities until 31 December, 2007, regarding electric energy supply and other services rendered due as at the balance sheet date and with no payment plan established. This amount includes Euros 27,718,976 (2006: Euros 26,726,474) related to public lightning.

The balance Public sector includes the amount of 4,455,862 Euros (2006: Euros 6,036,946) referring to VAT receivable and also the amount of Euros 4,122 (2006: Euros 800,807) referring to income tax receivable.

The balance Coopereme refers to loans granted to a cooperative, Coopereme - Cooperativa de Habitação, C.R.L., in order to construct an apartment building whose cooperants are employees of EEM.

The balance Other debtors includes the amount of Euros 887,328 (2006: Euros 834,726) referring to loans granted to Companhia Logística de Combustíveis da Madeira, S.A., in accordance with the shareholders agreement.

As at 31 December 2007, the movement in Impairment for doubtful debts is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Balance on 1 January	8,087,099	7,611,398	8,087,099	7,611,398
Charge for the year	400,247	475,701	398,948	475,701
Balance on 31 December	<u>8,487,346</u>	<u>8,087,099</u>	<u>8,486,047</u>	<u>8,087,099</u>

6 Inventories

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Goods	10,337,124	9,372,711	10,229,715	9,264,570
Raw materials	6,310,801	3,888,361	6,310,801	3,888,361
	<u>16,647,925</u>	<u>13,261,072</u>	<u>16,540,516</u>	<u>13,152,931</u>
Valuation adjustments	(322,423)	(322,423)	(255,173)	(255,173)
	<u>16,325,502</u>	<u>12,938,649</u>	<u>16,285,343</u>	<u>12,897,758</u>

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

7 Prepayments and accrued income

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Prepayments:				
Pensions	5,512,013	6,890,017	5,512,013	6,890,017
Financial costs	2,522,432	2,736,904	2,522,432	2,736,904
Other	272,990	178,837	271,715	177,590
	8,307,435	9,805,758	8,306,160	9,804,511
Accrued income:				
Subsidies to operational activity	41,697,348	39,766,841	41,697,348	39,766,841
Tariff compensation	26,211,712	47,807,582	26,211,712	47,807,582
Energy to invoice	6,567,812	7,375,861	6,569,246	7,377,333
Other	136,146	261,081	138,275	262,851
	74,613,018	95,211,365	74,616,581	95,214,607
	82,920,453	105,017,123	82,922,741	105,019,118

The balance Pensions represents the liability with past service costs related to employees on duty, determined as at the date of enforcement of Accounting Rule No. 19. This amount is amortised, since 1 January, 2004, by the average remaining years to retirement of those employees, estimated in eight years, as referred in notes 1.12 and 24.

The balance Financial costs includes an amount of Euros 2,448,932 (2006: Euros 2,638,904) of fees charged to EEM related with the restructuring process of the Group’s financial liabilities, as referred in note 12.

The balance Subsidies to operational activity, in the amount of Euros 41,697,348 (2006: Euros 39,766,841), results from the difference between the amounts accounted in the income statement from 1998 until 2002 and the amounts received regarding the same period, under the contract signed between EEM, the Central Government and the Regional Government, that establishes the payment of the debt in 40 quarterly instalments, as referred in note 1.3. Under this contract EEM received from the Central Government, during 2006, the amount of Euros 1,012,070 (including capital and interest), plus VAT at a rate of 4%. During 2007, ERSE received the calculation model used by EEM to determine the initial compensation amount, under this review ERSE determined, as at 31 December, 2007, a net compensation amount for the tariff convergence in that period in the amount of Euros 41,697,348, plus VAT at a rate of 4%. This review has originated a gain for EEM in the amount of Euros 1,861,917, as referred in note 22.

The balance Tariff compensation, in the amount of Euros 26,211,712 (2006: Euros 47,807,582), corresponds to the non-controllable costs variation of 2006 and 2007 that will be received from Rede Eléctrica Nacional (REN) through the UGS tariff, as referred in notes 1.15 and 18. As at 31 December, 2006, this balance included the compensation for the tariffs convergence for 2006 in the amount of Euros 14,280,999.

During 2007, EEM agreed a financial operation under the Decree-Law No. 237-B/2006, which allowed the early reimbursement of the tariff convergence of 2006 and 2007, in the overall amount of Euros 62,719,008 (including capital and interest). This operation constituted a credit transfer, in which EEM received a fixed price of Euros 63,528,969 for the transmission of the right to receive the referred amount and the related interest. This operation has originated a gain for EEM in the amount of Euros 809,961, as mentioned in note 21.

8 Trading securities

As at 31 December 2006, the balance Trading securities included the amount of Euros 10,136 related to a short term financial investment in the Banifundo Euro Tesouraria fund (1,500 participation units), which was sold during 2007.

9 Share capital

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

10 Reserves and retained earnings

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Legal and statutory reserves	17,329,769	16,878,796	17,329,769	16,878,796
Other reserves	15,397,936	16,728,468	16,032,494	17,104,858
Retained earnings	52,513,749	53,149,106	51,879,191	52,772,716
	85,241,454	86,756,370	85,241,454	86,756,370

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

The balance Other reserves is related to revaluation reserves originated by the tangible assets legal revaluations performed by EEM, as referred in note 1.8, amounting to Euros 15,064,458 (2006: Euros 16,390,268).

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

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

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December, 2006 and 2007, costs related to the network rights, of Euros 6,027,640 and Euros 6,428,282, respectively. In the same periods, and considering the assumption that the costs incurred with network rights are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.

At the end of 2007, based on the analysis of the tariffs and prices proposal for 2008 by the Tariff Council, ERSE considered that the tax (network rights) for 2006 should not be considered for the purpose of determining the 2008 tariffs, and therefore supported on an equitable basis by the Continental and Autonomous Region of Madeira consumers. As at 31 December, 2007, the mechanisms and measures to ensure the recovery of the referred assets had not yet been established nor implemented, therefore, EEM has recorded a provision through retained earnings in the amount of Euros 6,027,640, as mentioned in note 13.

11 Minority interests

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

The 92.5% investment held by EEM was consolidated under the full consolidation method, originating minority interests related to the remaining 7.5% investment on Enereem, in the amount of Euros 89,111 (2006: Euros 78,330).

12 Amounts owed to credit institutions

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

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Short term loans	26,858,000	36,854,500	26,858,000	36,854,500
Foreign loans	260,000,000	260,000,000	260,000,000	260,000,000
Other loans	12,852,893	14,283,078	11,220,463	12,287,886
	<u>299,710,893</u>	<u>311,137,578</u>	<u>298,078,463</u>	<u>309,142,386</u>

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

As at 31 December, 2007, the balance Other loans includes a loan in the amount of Euros 9,900,752 (2006: Euros 11,934,000) with a ten year maturity, whose instalments are guaranteed by the future payments from the Regional Treasury Department, under the protocol with EEM for the debts regularization. In order to hedge the interest rate risk of this loan, EEM settled in 2001 an option (cap) with a 10 years maturity, indexed to Euribor 6 month index. The premium is paid in half-yearly instalments of 0.29% in each interest payment date.

13 Provision for liabilities and charges

The Provision for liabilities and charges is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Balance on 1 January	31,914,179	33,135,641	31,457,270	32,666,130
Charge for the year:				
For pension benefits	1,545,030	2,523,642	1,545,030	2,523,642
CO2 licences	-	161,601	-	161,601
General economic risks	6,027,640	-	6,027,640	-
Other	-	76,667	-	76,667
Amounts charged-off:				
For pension benefits	(2,726,941)	(2,759,782)	(2,726,941)	(2,759,782)
CO2 licenses	(161,601)	(1,060,988)	(161,601)	(1,060,988)
Others	-	(162,602)	-	(150,000)
Balance on 31 December	<u>36,598,307</u>	<u>31,914,179</u>	<u>36,141,398</u>	<u>31,457,270</u>

This balance includes the provision for pension benefits as defined in the Company Agreement, in the amount of Euros 30,037,091 (2006: Euros 31,219,002), as referred in note 24.

In accordance with the Decree-Law No. 243-A/2004, of 31 December, in 2006 EEM has charged a provision in the amount of Euros 161,601 regarding the difference between the CO2 consumptions for the year and the CO2 licenses held as at 31 December, 2006, as referred in note 25. As at 31 December, 2007, it was not charged any provision to face the CO2 consumptions, considering that the CO2 licenses held are sufficient to face the year consumptions.

During 2007, it was charged a provision against retained earnings in the amount of Euros 6,027,640, considering the risk of non-recovery of the amount paid by EEM for the 2006 usage of the regional public domain, as mentioned in note 10.

14 Deferred tax

The balance Deferred tax includes the amount of deferred tax liabilities related to legal revaluations performed by EEM, considering that 40% of the depreciations accounted in the future are not accepted as fiscal cost. The deferred tax liabilities reverted during 2007 amounts to Euros 297,996 (2006: Euros 173,882).

15 Suppliers and other liabilities

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Suppliers	36,130,066	31,146,443	36,007,706	31,206,310
Suppliers of tangible assets	8,660,899	10,728,785	8,645,214	10,716,604
Instituto do Ambiente	2,026,138	7,511,682	2,026,138	7,511,682
Public sector	2,891,361	2,733,986	2,901,357	2,693,707
Other	3,913,478	4,332,470	3,912,887	4,331,937
	<u>53,621,942</u>	<u>56,453,366</u>	<u>53,493,302</u>	<u>56,460,240</u>

The balance Suppliers includes mainly fuel and electric energy suppliers.

At 31 December, 2007, the balance Suppliers of tangible assets mainly includes debts to Siemens and Energetus related to the investments performed by EEM to improve and extend several substations and to construct a new group in “Central Térmica de Porto Santo”.

The balance Instituto do Ambiente refers to the CO2 consumption liability realised by EEM under the development of its operational activity, as referred in note 1.17.

The balance Public sector is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Consumption fee	2,023,321	1,849,956	2,023,321	1,849,956
Social security	569,564	555,314	569,072	554,928
Income tax payable	-	37,584	16,343	-
Other	298,476	291,132	292,621	288,823
	<u>2,891,361</u>	<u>2,733,986</u>	<u>2,901,357</u>	<u>2,693,707</u>

The balance Consumption fee refers to the amounts invoiced to clients resulting from the electric infrastructures usage and exploration, in accordance with the Decree-Law No. 4/93, of 8 January. After the collection, the referred amounts are delivered to the Regional Government.

The balance Other includes the mandatory guarantee deposits received from electricity consumers, in the amount of Euros 3,713,780 (2006: Euros 3,948,035).

16 Accruals

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Network rights	6,428,282	6,027,640	6,428,282	6,027,640
Holiday pay and subsidies	3,719,100	3,597,270	3,716,250	3,594,689
Interest payable	2,488,745	1,404,458	2,464,251	1,349,282
Other liabilities	1,146,731	1,167,122	1,164,365	1,208,466
	<u>13,782,858</u>	<u>12,196,490</u>	<u>13,773,148</u>	<u>12,180,077</u>

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

The balance Other liabilities includes the amount of Euro 377,179 (2006: Euros 400,078) related to energy supply from external entities to EEM.

17 Deferred income

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Investments subsidies:				
Plano Operacional Plurifundos ("POP-RAM")	18,912,191	21,786,199	18,912,191	21,786,199
Socorridos Project	14,342,723	9,989,771	14,342,723	9,989,771
Fundo Europeu de Desenvolvimento Regional ("FEDER")	908,278	1,588,508	908,278	1,588,508
Network reinforcement projects	1,750,321	1,411,247	1,750,321	1,411,247
SIURE Project	337,547	371,096	123,828	134,340
	<u>36,251,060</u>	<u>35,146,821</u>	<u>36,037,341</u>	<u>34,910,065</u>
Other deferred income	7,629,006	7,328,725	7,629,006	7,328,724
	<u>43,880,066</u>	<u>42,475,546</u>	<u>43,666,347</u>	<u>42,238,789</u>

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

The balance Other deferred income includes the amount of Euros 6,455,086 (2006: Euros 6,378,060) referring to construction works invoiced to clients, which are accounted as fixed assets. The accounting treatment of these amounts is identical to investment subsidies.

18 Sales and cost of sales

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Sales:				
Energy	101,391,774	94,839,432	101,408,686	94,855,931
Tariff compensation	40,334,914	32,783,778	40,334,914	32,783,778
Low tension tariff deficit	3,099,093	9,580,871	3,099,093	9,580,871
Other	618	226	-	-
	<u>144,826,399</u>	<u>137,204,307</u>	<u>144,842,693</u>	<u>137,220,580</u>
Cost of sales				
Raw material	67,564,639	63,273,772	68,379,364	64,079,022
Goods	11,937,980	12,316,247	11,937,248	12,313,781
	<u>79,502,619</u>	<u>75,590,019</u>	<u>80,316,612</u>	<u>76,392,803</u>

The balance Tariff compensation refers to the amounts attributed to EEM related to the 2007 tariff convergence and to the tariff compensation resulting from the 2006 and 2007 non-controllable costs variations, in the amount of Euros 41,201,179 (positive impact) and Euros 866,265 (negative impact), as mentioned in note 7.

The balance Low tension tariff deficit corresponds to the amounts received from REN during 2007, due to the existence of a restriction mechanism for the low tension electric energy tariff increase to the expected variation of the price index, implicit in the 2007 private consumption, as stipulated in Article No. 121 of the Tariff Regulation.

19 Other operating income

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Own work capitalised	21,648,209	24,277,743	21,648,209	24,277,743
CO2 licenses	1,929,648	7,841,386	1,929,648	7,841,386
Services rendered	280,413	231,334	193,863	142,260
Supplementary profits	311,303	211,008	309,826	206,471
	<u>24,169,573</u>	<u>32,561,471</u>	<u>24,081,546</u>	<u>32,467,860</u>

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

20 Other operating costs

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
CO2 licenses	2,026,138	7,608,092	2,026,138	7,608,092
Network rights	6,428,282	6,027,640	6,428,282	6,027,640
Other operating costs	996,355	945,182	982,332	916,718
	<u>9,450,775</u>	<u>14,580,914</u>	<u>9,436,752</u>	<u>14,552,450</u>

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

The balance Network rights refers to the 2007 local tax rate owed by EEM, as referred in note 16.

21 Financial income/(costs)

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Financial income:				
Interest	2,647,345	1,419,391	2,647,345	1,419,391
Other	491,302	919,904	489,944	919,286
	<u>3,138,647</u>	<u>2,339,295</u>	<u>3,137,289</u>	<u>2,338,677</u>
Financial costs:				
Interest	(15,582,865)	(11,681,322)	(15,496,824)	(11,607,527)
Commissions and other financial costs	(733,248)	(1,017,640)	(720,186)	(1,003,627)
	<u>(16,316,113)</u>	<u>(12,698,962)</u>	<u>(16,217,010)</u>	<u>(12,611,154)</u>
	<u>(13,177,466)</u>	<u>(10,359,667)</u>	<u>(13,079,721)</u>	<u>(10,272,477)</u>

The balance Interest income includes the gain arising from the financial operation for the transmission of the right to receive the 2006 and 2007 tariff convergence, in the amount of Euros 809,961, as mentioned in note 7.

22 Other income

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Investments subsidies	4,754,814	4,763,369	4,731,776	4,740,331
Tariff convergence revaluation (note 7)	1,861,917	-	1,861,917	-
Gains from the sale of fixed assets	496,844	136,998	496,844	136,998
Other income	242,210	296,020	238,582	295,942
	<u>7,355,785</u>	<u>5,196,387</u>	<u>7,329,119</u>	<u>5,173,271</u>

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

23 Income taxes

This balance is analysed as follows:

	Group		Individual	
	2007 Euros	2006 Euros	2007 Euros	2006 Euros
Current tax	1,229,765	1,419,309	1,159,329	1,330,241
Deferred tax	(297,996)	(173,882)	(297,996)	(173,882)
	<u>931,769</u>	<u>1,245,427</u>	<u>861,333</u>	<u>1,156,359</u>

The balance Deferred tax corresponds to the deferred tax liability reversed under the legal revaluations performed by EEM, as referred in note 14.

The reconciliation between the statutory income tax rate and the effective income tax rate for the Group, in 2007 and 2006, is analysed as follow:

	2007			2006		
	Rate	Tax Basis	Tax	Rate	Tax Basis	Tax
Income tax calculated based on the statutory tax rate	22.5%	5,500,303	1,237,568	22.50%	5,777,931	1,300,034
Non-deductible provisions for tax purposes	0.85%	206,874	46,547	0.88%	226,177	50,890
Tax benefits	(1.22%)	(299,366)	(67,357)	(0.98%)	(251,372)	(56,559)
Non-deductible tax losses	0.66%	161,417	36,319	0.60%	154,449	34,751
Equity on associates	(2.07%)	(505,570)	(133,753)	(1.53%)	(392,378)	(88,285)
Tax-exempt dividends	(1.00%)	(243,256)	(54,733)	(0.63%)	(162,171)	(36,488)
Difference between the tax and accounting gains and losses	(1.02%)	(248,508)	(55,914)	(0.27%)	(69,787)	(15,702)
Autonomous taxation (*)	0.43%	105,007	23,627	0.42%	470,015	24,431
Changes in estimates	0.39%	96,365	21,682	0.00%	502	113
Depreciation without tax consequences	(2.76%)	(674,904)	(151,853)	0.00%	-	-
Other adjustments	0.18%	42,828	9,636	0.56%	143,299	32,242
	<u>16.94%</u>	<u>4,141,190</u>	<u>931,769</u>	<u>21.55%</u>	<u>5,896,665</u>	<u>1,245,427</u>

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

24 Pensions

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

As at 31 December, 2007 and 2006, the number of participants covered by this pension plan is analysed as follows:

	2007	2006
Number of participants:		
Employees	84	88
Pre-pensioners	38	56
Pensioners	209	185
	<u>331</u>	<u>329</u>

As at 31 December, 2007 and 2006, the liabilities for past services associated to the pension plan were the following:

	2007 Euros	2006 Euros
Evolution of liabilities:		
Liabilities at the beginning of the year	35,662,317	35,683,615
Current service cost	304,710	306,501
Interest cost	1,693,960	1,694,971
Benefits paid	(2,726,941)	(2,759,782)
Actuarial gains and losses	(308,035)	737,012
Liabilities at the end of the year	<u>34,626,011</u>	<u>35,662,317</u>

During 2007, the evolution of liabilities results, essentially, from the reduction of the number of pre-pensioners covered by this pension plan. This change results in a reduction of liabilities since EEM will only support the difference between the retirement pension for limit of age or disability attributed by the Social Security and the last salary received by the employee.

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

	2007 Euros	2006 Euros
Liabilities as at 31 December:		
Employees	11,012,103	10,825,633
Pre-pensioners	8,726,786	11,860,092
Pensioners	14,887,122	12,976,592
Liabilities to be covered:		
Insurance coverage	34,626,011	35,662,317
Provisions charged	(4,588,920)	(4,443,315)
	<u>(30,037,091)</u>	<u>(31,219,002)</u>
Liabilities not covered	<u>-</u>	<u>-</u>

During 2007, EEM has accounted as pension costs an amount of Euros 2,923,034 (2006: Euros 3,901,646), which are analysed as follows:

	2007 Euros	2006 Euros
Cost for the year:		
Current service cost	304,710	306,501
Interest costs	1,693,960	1,694,971
Actuarial gains and losses	(308,035)	737,012
Return on plan assets	(145,605)	(214,842)
Amortisation of deferred past services liabilities	1,378,004	1,378,004
Net cost for the year	<u>2,923,034</u>	<u>3,901,646</u>

During 2007, based on the actuarial valuation and in accordance with the accounting principles defined in the Accounting Rule No. 19, EEM charged the provision for pensions in the amount of Euros 1,545,030 (2006: Euros 2,523,642).

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

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

	2007	2006
Assumptions:		
Salaries increase rate	2.75%	2.75%
Pre-pensioners pensions increase rate	1.75%	1.75%
Pensioners pensions increase rate	1.75%	1.75%
Expected return of plan assets	4.75%	4.75%
Discount rate	4.75%	4.75%
Mortality table		
Women	TV88/90	TV88/90
Men	TV73/77	TV73/77
	+ 1 year	+ 1 year
Disability rate	EVK 80	EVK 80

25 CO2 licenses

The CO2 licenses for consumption movements are analysed as follows:

	Dec 2007		Dec 2006	
	CO2 (Ton)	Price (Ton) Euros	CO2 (Ton)	Price (Ton) Euros
CO2 licenses as at 1 January	(34,972)	4.62	(50,742)	22.35
Licenses freely attributed	350,845	5.50	350,845	22.35
Licenses acquired	147,000	1.77	70,000	11.82
	462,873		370,103	
Licenses to return regarding the year consumption	(440,409)		(405,075)	
Excess / (Insufficiency) of licenses	22,464	0.10	(34,972)	4.62
Assets / (Liabilities) – Euros	-		(161,601)	

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

As at 31 December, 2007, EEM recognised an impairment loss in the amount of Euros 2,246 related to the licenses held on that date (22,464 tons), as these licenses will be cancelled in the end of PNALE I.

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

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

26 Related parties

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

During 2007, the balances and transactions between EEM and its subsidiaries, associated companies and other investments are analysed as follows:

	Asset			Liability	
	Clients	Other debtors	Accrued income	Suppliers	Accruals
Enereem	-	-	-	-	(54,417)
Museu Casa da Luz	-	379,355	1,404	-	-
Emacom	73	-	2,158	(80,333)	-
Teleféricos da Madeira, S.A.	38,382	-	-	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	11,289	-	-	(1,725)	-
	49,744	379,355	3,562	(82,058)	(54,417)

	Transactions				
	Turnover	Other operating income	Financial income	Cost of sales	Supplies and services
Enereem	-	-	-	814,724	-
Museu Casa da Luz	16,495	-	-	-	27,493
Emacom	417	2,129	-	-	69,855
Teleféricos da Madeira, S.A.	61,133	29,474	-	-	-
Companhia Logística de Combustíveis da Madeira, S.A.	128,930	-	62,443	-	4,500
	206,975	31,603	62,443	814,724	101,848

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

Shareholders

EEM's share capital is entirely held by Madeira's Regional Government, as referred in note 9.

27 Subsidiaries financial statements (consolidated by the full method)

i) Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda. Balance Sheet as at 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Assets		
Tangible assets	2,460,245	2,577,469
Investments	89,111	78,329
Clients and other debtors	20,633	22,899
Inventories	40,159	40,890
Deferred costs	202	205
Cash and deposits at banks	4,001	5,456
Total Assets	<u>2,614,351</u>	<u>2,725,248</u>
Quotaholders' Equity		
Quota capital	99,760	99,760
Supplementary capital contributions	2,096,394	2,096,394
Reserves and retained earnings	(1,931,548)	(1,808,353)
Net loss for the year	(142,697)	(126,196)
Total Quotaholders' Equity	<u>121,909</u>	<u>261,605</u>
Liabilities		
Quotaholders	2,101,731	2,072,511
Suppliers and other liabilities	383,947	384,572
Other liabilities	6,764	6,560
Total Liabilities	<u>2,492,442</u>	<u>2,463,643</u>
	<u>2,614,351</u>	<u>2,725,248</u>

ii) Casa da Luz – Empreendimentos Turísticos Similares, Unipessoal, Lda. Income Statement for the years ended 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Operating income		
Sales	618	226
Other operating income	<u>36,703</u>	<u>38,674</u>
	<u>37,321</u>	<u>38,900</u>
Operating costs		
Cost of sales	732	2,465
Personnel costs	24,177	21,564
Supplies and services	38,584	38,990
Depreciation and adjustments	124,610	123,570
Other operating costs	<u>894</u>	<u>511</u>
	<u>188,997</u>	<u>187,100</u>
Operating loss	(151,676)	(148,200)
Other income/(costs)		
Financial income/(costs)	10,690	22,664
Income arising on the application of the equity method of consolidation	-	-
Other income	96	4
Other costs	<u>(1,419)</u>	<u>(403)</u>
	<u>9,367</u>	<u>22,265</u>
Income before income taxes	(142,309)	(125,935)
Income taxes	<u>388</u>	<u>261</u>
Net loss for the year	<u>(142,697)</u>	<u>(126,196)</u>

iii) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.
Balance Sheet as at 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Assets		
Tangible assets	105,101	118,563
Loans to subsidiaries	456,909	456,909
Clients and other debtors	152,172	162,512
Deferred costs	1,074	1,042
Trading securities	-	10,136
Cash and deposits at banks	5,246	1,222
Total Assets	<u>720,502</u>	<u>750,384</u>
Quotaholders' Equity		
Quota capital	49,880	49,880
Supplementary capital contributions	1,000,000	1,000,000
Reserves and retained earnings	(954,810)	(941,393)
Net loss for the year	(26,222)	(13,417)
Total Quotaholders' Equity	<u>68,848</u>	<u>95,070</u>
Liabilities		
Provision for liabilities and charges	456,909	456,909
Quotaholders	175,000	176,000
Suppliers and other liabilities	16,982	15,007
Other liabilities	2,763	7,398
Total Liabilities	<u>651,654</u>	<u>655,314</u>
	<u>720,502</u>	<u>750,384</u>

iv) Emacom - Telecomunicações da Madeira, Unipessoal, Lda.
Income Statement for the years ended 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Operating income		
Services rendered	<u>147,205</u>	<u>181,219</u>
	<u>147,205</u>	<u>181,219</u>
Operating costs		
Supplies and services	155,954	184,925
Depreciation and adjustments	13,462	13,462
Other operating costs	<u>7,659</u>	<u>7,664</u>
	<u>177,075</u>	<u>206,051</u>
Operating loss	(29,870)	(24,832)
Other income/(costs)		
Financial income/(costs)	733	(130)
Other income	3,532	12,676
Other costs	<u>-</u>	<u>(502)</u>
	<u>4,265</u>	<u>12,044</u>
Income before income taxes	(25,605)	(12,788)
Income taxes	<u>617</u>	<u>629</u>
Net loss for the year	<u>(26,222)</u>	<u>(13,417)</u>

v) Enereem - Energias Renováveis, Lda.
Balance Sheet as at 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Assets		
Tangible assets	6,068,099	3,792,198
Intangible assets	4,171	14,090
Clients and other debtors	333,657	132,979
Accrued income	54,517	51,887
Cash and deposits at banks	16,974	4,410
Total Assets	6,477,418	3,995,564
Quotaholders' Equity		
Quota capital	49,880	49,880
Supplementary capital contributions	800,000	800,000
Reserves and retained earnings	194,508	(109,219)
Net profit for the year	143,761	303,727
Total Quotaholders' Equity	1,188,149	1,044,388
Liabilities		
Amounts owed to credit institutions	1,632,430	1,995,192
Quotaholders	3,173,596	600,093
Suppliers and other liabilities	211,189	61,458
Other liabilities	58,335	57,676
Deferred income	213,719	236,757
Total Liabilities	5,289,269	2,951,176
	6,477,418	3,995,564

vi) Enereem - Energias Renováveis, Lda.
Income Statement for the years ended 31 December, 2007 and 2006

	2007 Euros	2006 Euros
Operating income		
Sales	814,725	805,250
Other operating income	3,596	6,169
	818,321	811,419
Operating costs		
Supplies and services	193,816	4,828
Depreciation and re-integration of the period	330,495	330,495
Other operating costs	5,470	20,282
	529,781	355,605
Operating income	288,540	455,814
Other income/(costs)		
Financial income/(costs)	(98,387)	(86,946)
Other income	23,039	23,037
Other costs	-	-
	(75,348)	(63,909)
Income before income taxes	213,192	391,905
Income taxes	69,431	88,178
Net profit for the year	143,761	303,727



Statutory Auditor's Opinion on the Consolidated Accounts





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

STATUTORY AUDITOR’S OPINION ON THE CONSOLIDATED ACCOUNTS

Introduction

1. We have examined the consolidated financial statements of **EEM – Empresa de Electricidade da Madeira, S.A.**, which comprise the Consolidated balance sheet as at 31 December, 2007 (showing total assets of 558,697,219 euros and shareholders’ equity attributable to the equity holders of the group of 109,799,207 euros, including a net profit for the year of 4,557,753 euros), the Consolidated statements of income by nature and by function, the Consolidated statement of cash flows and the Consolidated statement of changes in shareholders’ equity for the year then ended, and the corresponding Notes.

Responsibilities

2. The Board of Directors is responsible for preparing consolidated financial statements in accordance with the accounting principles generally accepted in Portugal, that present fairly the financial position of the group of companies included in the consolidation, the consolidated results of their operations and the consolidated cash flows, the adoption of adequate accounting policies and criteria and maintaining an appropriate internal control system.
3. Our responsibility is to issue a professional and independent report based on our audit of those consolidated financial statements.

Scope

4. Except for the matters referred to in paragraphs 7 and 8 below, our audit was performed in accordance with the Technical Standards and Guidelines issued by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”), which require that we plan and perform the exam to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. Accordingly our exam included:
- verification, on a test basis, of the information underlying the figures and its disclosures contained therein and an assessment of the estimates, based on the judgments and criteria defined by the Board of Directors, used in the preparation of the referred consolidated financial statements;
 - verification of the consolidation procedures and the application of the equity method;

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- assessment of the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
 - verification of the application of the going concern principle;
 - assessment of the appropriateness of the overall presentation of the consolidated financial statements.
5. Our audit also included the verification of the consistency of the financial information included in the Board of Directors report with the consolidated financial statements.
6. We believe that our audit provides a reasonable basis for the expression of our opinion.

Qualifications

7. During April 2003, the contract related with the Tariffs Convergence for Electric Energy was signed between EEM, the Regional Government and the Central Government. This contract establishes the criteria for the compensation payments due to EEM, as a result of the tariffs reduction for the period from 1998 to 2002, revoking the previous protocol. In accordance with this contract, the initial estimated compensation amounted to 40,778,911 euros, plus VAT at a rate of 4%, payable in 40 quarterly instalments, beginning in 2004. Under this contract EEM received, in 2006, 1,012,070 euros (including capital and interest), plus VAT at a rate of 4%.

During 2007, the Regulatory Agency for Energy Services (ERSE) reviewed the calculation model used by EEM to determine the initial compensation amount. Under this review, as at 31 December, 2007 ERSE determined a net compensation amount attributable to EEM of 41,697,348 euros, plus VAT at a rate of 4%.

At the date of this Statutory Auditor’s Opinion, it is not possible to estimate when these payments will occur and the impact, if any, in EEM shareholders’ equity and profit for the year as at 31 December, 2007.

8. EEM booked under Clients and other debtors the amount of 102,315,049 euros (2006: 101,552,658 euros), related to public lightning and other services rendered to regional official entities.

This amount includes 46,345,392 euros (2006: 49,046,711 euros) for which EEM, in the years 2000, 2001, 2003 and 2006, signed a set of protocols with some of these entities, in order to receive the amounts owed during a period between 10 and 30 years, without interest and in a monthly based instalments. Under these protocols EEM received, during 2007, 2,701,318 euros and, in previous years, 12,863,997 euros. Due to the terms of the protocols mentioned above, the present value of these debts is substantially lower than its nominal value. At the date of this Statutory Auditor’s Opinion, EEM had not yet determined the present value of these debts and the resulting effect in the shareholders’ equity and the profit for the year.

The remaining debt from regional official entities, in the amount of 55,969,657 euros (2006: 52,505,947), does not have an established payment plan. Due to the materiality and the overdue period of these amounts, despite being owed by official entities, it is not possible to estimate when these will be received.



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

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

Considering the above mentioned legislation, which legally supports the collection of the referred tax, EEM booked, as at 31 December, 2006 and 2007, costs related to the network rights, of 6,027,640 euros and 6,428,282 euros, respectively. In the same periods, and considering the assumption that the costs incurred with network rights are eligible for determining tariffs of future periods, regulatory assets in the same amount were recorded against profits, in the income statement.

At the end of 2007, based on the analysis of the tariffs and prices proposal for 2008 by the Tariff Council, ERSE considered that the tax (network rights) for 2006 should not be considered for the purpose of determining the 2008 tariffs, and therefore supported on an equitable basis by the Continental and Autonomous Region of Madeira consumers. At the date of this Statutory Auditor's Opinion, the mechanisms and measures to ensure the recovery of the referred assets relating to 2006 and 2007, had not yet been established nor implemented.

As at 31 December, 2007, and in accordance with ERSE's decision, EEM, booked a provision for liabilities and charges against retained earnings in the amount of 6,027,640 euros, corresponding to the amount of the network rights recorded in the year ended as at 31 December, 2006.

Based on the above mentioned situations, and considering the changes in the assumptions used for the year ended 31 December, 2006 for the recognition of these assets and as mentioned in the previous paragraphs of this qualification, at the date of this Statutory Auditor's Opinion the requirements to book the network rights as a recoverable asset are not met. Therefore, we consider that, as at 31 December, 2007:

- retained earnings are understated by 6,027,640 euros;
- the profit for the year and total assets are overstated by 12,455,922 euros;
- total liabilities are overstated by 6,027,640 euros;



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 and 8 above, and except for the effect of the matter described in paragraph 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, 2007, the consolidated results of its operations and cash flows for the year then ended, in accordance with the generally accepted accounting principles in Portugal.

Emphasis of matter

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

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

As at 31 December, 2007, resulting from the tariffs reduction process, the receivables from the Central Government, as referred in paragraph 7 of the Qualifications, are still outstanding. There are also additional receivables from regional official entities regarding public lightning and other services, as referred in paragraph 8 of the Qualifications. Therefore, the continuity of EEM depends on the collection of debts receivable from these entities and on the conditions upon which its operations will be developed in the future, namely in relation to the implementation of instruments that seek the regularization of the amounts owed by regional official entities.

Lisbon, 31 March, 2008

KPMG & Associados, S.R.O.C., S.A. (SROC No. 189)
Represented by


Jean-eric Gaign (Statutory Auditor No. 1013)



Extract of the Minutes of the General Assembly Meeting





MINUTE NUMBER FIFTEEN

- «On the twenty day of May of two thousand and eight at approximately fifteen o'clock in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A, collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and Engineer Mário Eugénio Jardim Fernandes, as well as the single shareholder of the partnership, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total value of the Share capital, valued at twenty million euros, for which the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:
 - POINT ONE: Deliberate on the Annual Report of 2007;
 - POINT TWO: Deliberate on application of results;
 - POINT THREE: Elaborate a general appreciation of the administration and fiscal supervision of the corporation;
(...)
 - Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2007 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 557 752,68 €:
- Retained earnings – 4 101 977,41 €

Statutory reserve – 455 775,27 €
- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.
 - Regarding point three, the Autonomous Region of Madeira, single shareholding entity, represented by Dr. Paulo Jorge Figueiroa de França Gomes reaffirmed its confidence in the board of the company and in its fiscal supervisors.
(...)
 - As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»

MINUTE NUMBER SIXTEEN

- «On the twenty day of May of two thousand and eight at approximately thirty minutes past fifteen in the afternoon, in accordance with paragraph one of the 376th article of the Companies' Code, the General Assembly of the EEM – Empresa de Electricidade da Madeira, S.A, collective entity and registered in the Commercial Registry of Funchal number 511010435, headquartered at Avenida do Mar e das Comunidades Madeirenses, number thirty-two, in Funchal, was gathered. There were present at the meeting the President of the General Assembly, Dr. Maria de Fátima Castro Fernandes e Freitas, the Vice-President of the General Assembly, Dr. Rui Antero Fernandes Pestana, the Secretary of the General Assembly, Dr. Ana Cristina Dantas Andrade, the members of the Executive Board, Dr. Rui Alberto Faria Rebelo, Mr. João Heliodoro da Silva Dantas and Engineer Mário Eugénio Jardim Fernandes, as well as the single shareholder of the partnership, the Autonomous Region of Madeira, represented by Dr. Paulo Jorge Figueiroa de França Gomes, representing the total value of the Share capital, valued at twenty million euros, for which the General Assembly has gathered the necessary quorum to operate and deliberate according to legal terms and concerning the following order of tasks:
 - SINGLE POINT: Deliberate on the Annual Report and Consolidated Accounts of 2007 and on the application of results.
 - Once opened the session, the members of the Executive Board of EEM – Empresa de Electricidade da Madeira S.A., presented the Annual Report of 2007 as well as the proposal for the application of results, regarding which was proposed the following application of net income for the year amounting to 4 557 752,68 €:
- Retained earnings – 4 101 977,41 €

Statutory reserve – 455 775,27 €
- After the mentioned report was discussed and the referred proposal presented, it was determined to approve them unanimously.
 - As no other issues were there to be discussed, the meeting was adjourned and the present minute written, which, after having been read and approved, was properly signed.»

