

GME in 2007

Excerpts from Annual Report and Financial Statements ()*

() Please note that this translation is provided for convenience only. In case of discrepancies, the Italian text will prevail.*

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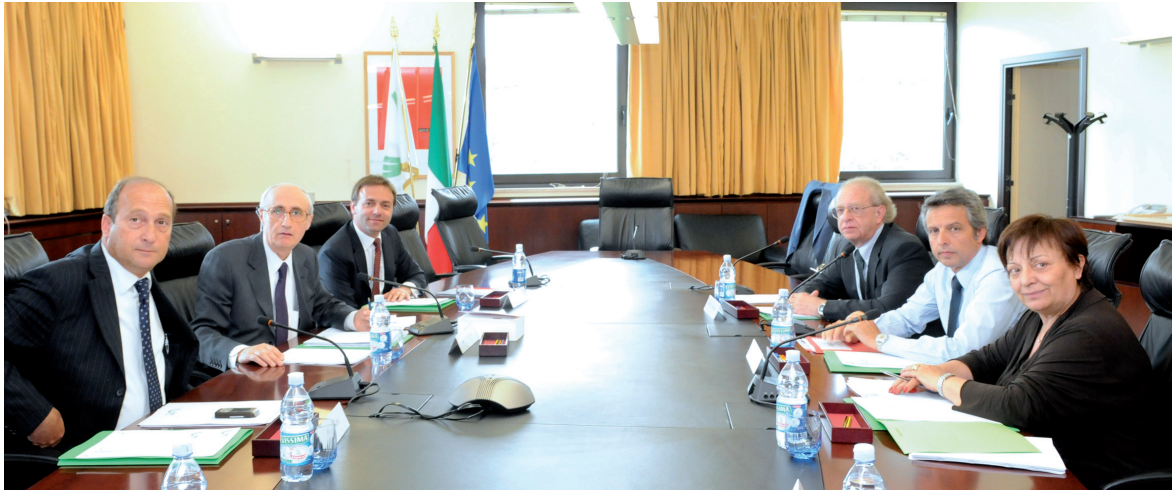
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GME's Bodies

Board of Directors

Appointed by the Shareholders' Meeting of 4 April 2006

President	Salvatore Zecchini
Vice President	Antonino Foti
Chief Executive Officer	Sergio Agosta
Board Members	Maria Giovanna Carmenini Romeo Rosin Pierluigi Scibetta Alfredo Valastro



Board of Auditors

Chairman	Francesco Massicci
Acting Auditors	Giampietro Brunello Stefano Pecchioni
Alternate Auditors	Diego Maria Berruti Gennaro Petecca

Supervisory Body

Appointed by the Board of Directors' meeting of 28 July 2006

Marco Nicolini (Chairman)
Pietro Lungaro
Silvano Montaldo

Audit Firm	Deloitte & Touche S.p.A.
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1. THE ITALIAN POWER EXCHANGE IN 2007

In its third year of full operation, the Italian Power Exchange (IPEX) succeeded in consolidating its role as a vital point of reference for the national energy system.

Indeed, to the eyes of operators, the “Mercato del Giorno Prima” (MGP - Day-Ahead Market) has become the venue where the play of market forces expresses appropriate indications on ongoing trends in the energy sector and, namely, price signals which increasingly reflect the underlying structural conditions.

This fact is testified, first of all, by participation in the market: the number of Market Participants continued to rise, reaching 135 at the end of March 2008, thanks above all to the expansion of those active on the supply side.

In spite of the still existing major technological barriers of access to the market, national and foreign new entrants are coming onto the scene.

After a short interval in 2006, the volume of trades on IPEX continued to grow, both in absolute terms (exceeding 221 TWh) and as against total trades in the country. In 2007, the average liquidity of the MGP reached an all-time peak of 67.1%. The Italian market has thus become one of the largest in Europe, ranking second only after the Scandinavian one (NordPool), which however has been in operation for more than a decade.

The market proved to be crucial to holding down electricity prices, especially in a year of extraordinary tensions in international fossil-fuel markets, which have a strong influence on electricity prices, given the national mix of power plants.

In 2007, in spite of these tensions, the “Prezzo Unico Nazionale” (PUN – National Single Price) declined for the first time since the start of the market (from 74.75 to 70.99 €/MWh on average per year). This decline, albeit with different intensity, was recorded in all the main time bands of consumption (peak-load, off-peak and holidays).

A reversal of this trend was only observed in the last two months of 2007, when oil prices and electricity exports to neighbouring countries (favoured by unusually adverse weather conditions) sharply increased.

The price of oil (Brent Dated), which had returned below 60 \$/bbl at the end of 2006, rapidly went up again in 2007 and then fluctuated in the 65-75 \$/bbl range. A definite bullish trend started in August and, at the beginning of 2008, prices first broke the psychological threshold of 100 \$/bbl and then hit 120 \$/bbl. Therefore, in terms of average prices, the year 2007 closed at 72.91 \$/bbl (+11.5% from the previous year). Only the considerable appreciation of the euro (from 1.26 to 1.37 \$) limited the upward trend of prices in the national market to 2%, minimising the increasing costs incurred by electricity operators.

In 2007, some new developments in the structure of the market and in the overall sector had a strong impact on the volume of trades on IPEX. First of all, a new platform for registering bilateral contracts, called “Piattaforma Conti Energia” (PCE – Forward Electricity Account Trading Platform) was put in operation in May 2007. In effect, the PCE provides new opportunities: operators may manage their forward electricity portfolios more efficiently than in the past, by adjusting and renegotiating their positions prior to physical delivery or, if they think that executing their physical injection and withdrawal schedules in their entirety is not cost-effective, they may use the Electricity Market to buy back or resell part of the electricity underlying their contracts. This greater flexibility had positive repercussions also on the transactions made in the market, which thus increased its liquidity.

Operators promptly caught this new opportunity, which no longer compels them to physically deliver the underlying electricity. This is demonstrated by the fact that, in certain months, the volume of bilateral contracts registered on the PCE exceeded (by as much as 40%) the actually executed physical schedules.

The second new development in the market (July 2007) was the full demand-side liberalisation of the

1. THE ITALIAN POWER EXCHANGE IN 2007

electricity sector, which allowed household customers to choose their supplier in the open market. The impact of this development is witnessed by the structure of demand on IPEX: the market share of Acquirente Unico (AU) dropped by over 19 percentage points (from 67.3 to 48.1%), whereas the market share of non-institutional operators rose from 25.3 to 45.1%, surpassing the one of AU in the last months of the year. This trend went on with increased intensity in the first quarter of 2008, when these operators attained a share of 57.4%.

The process of liberalisation of the electricity industry continues to yield its beneficial effects also on the structure and competitiveness of the supply side, since it stimulates the system to raise its efficiency standards and keep down prices. Various indicators epitomise the change in the competition structure. In particular, the weight of the top three non-institutional operators on the total contracts traded on IPEX continued to fall, down to 50% in December 2007, about 4 percentage points below the 2006 average. By contrast, the market share of the other operators climbed from 29 to 33%.

Positive signals also come from more complex indicators of market concentration, such as the HHI, which diminished by nearly 25% in the southern Italy macro-zone and by 14% in Sicily. Conversely, in northern Italy, it remained practically steady, albeit better than in the rest of Italy.

Concentration indexes and zonal price levels proved to be highly correlated. Nevertheless, other factors are involved in the price-setting process in the various zones of the country. Indeed, in spite of positive developments in terms of supply-side concentration, the average price differential between the most expensive zone (Sicily) and the one with more moderate prices (northern Italy) went back to the high levels of 2004, reaching about 11 €/MWh. Additionally, the monthly average of zonal prices in 2007 was lower than in the previous year in all zones except in Sicily.

Unquestionably, keener competition between producers translates into relatively lower generation prices in the northern Italy macro-zone. However, two other factors are at play: i) geographical location, which permits more substantial import flows from countries having structurally more competitive prices; and ii) strong impact of base-load supply, which can set the marginal price at relatively lower levels by relying on more efficient technologies. In contrast, Italian islands, especially Sicily, continue to record relatively higher prices, owing to conditions of practical duopoly and to a few structural rigidities, such as the mix of power plants and the limited capacity of interconnection with other areas.

A comparison of electricity prices in Italy with those in the main European countries reveals that the drop was more marked (prices ranged from 38 to 41€/MWh) in the latter countries, excluding the Scandinavian area, whose average prices were even lower (about 28 €/MWh) thanks to high availability of hydro power. Therefore, the average price differential between Italy and these countries went back to roughly 32 €/MWh, mostly as a result of structural differences. Indeed, Italian prices are largely reflective of the mix of power plants, which has a relatively more significant dependence on fossil fuels and thus definitely higher generation costs.

However, thanks to structural factors, the Italian market has relatively more stable prices and relatively lower susceptibility to tensions or swift increases in consumption (due, above all, to climate factors) than foreign markets. For instance, in a few months of the harsh winter of 2005, Italy recorded lower prices than those of France and Germany. A somewhat similar situation occurred in the last quarter of 2007 and in the first quarter of 2008, when the price difference decreased to about 20 €/MWh.

Although, in a matter of a few years, the Electricity Market has given a sizeable contribution to enhancing the levels of efficiency and competitiveness of the system, it has not yet fully expressed its potential. Indeed, it lacks some components that are imperative to offer a comprehensive range of services to companies and consumers. A forward market, an intraday market, integration with important foreign markets, a better organisation of ancillary services, revision of the guarantee and settlement system are all pre-requisites without which the functioning of the market and its centrality to the power system are impaired. Likewise, constraints external to the market, such as the limitations of the national grid and of interconnections with foreign countries, dwarf the capability of the market to offer equal prices throughout the country and to align them with the average levels of its main European partners.

Confronted with such an impressive but still untapped potential, Gestore del Mercato Elettrico (GME) deemed it urgent to undertake efforts with a view to slackening these constraints, both by conducting studies on improvements to be made and by putting forward proposals for development of the market. From this standpoint, GME's goals are focused on four main areas: i) introduction of forward markets; ii) new flexibility instruments for operators of the spot market; iii) integration of the national market with those of neighbouring countries so as to head towards a European single market; and iv) improvement of the ancillary services market.

To create a venue where to trade price and volume risk hedging instruments, GME not only provided co-operation for developing a market of financial derivatives on electricity, but also submitted a project for setting up a regulated physical forward market, with the obligation to deliver electricity at maturity. On this market, called MTE, operators would trade forward blocks of electricity. The market is based on the PCE, with which it would be fully integrated. In this way, transactions that are currently carried out on a bilateral basis would benefit from high standards of transparency, security, liquidity, as well as anonymity.

The take-off of the MTE would also help develop a regulated market of financial derivatives on electricity, as it would be a natural *trait-d'union* between physical spot trading and forward financial trading. This linkage between markets is necessary to prevent distortive practices in the spot market and risks to its integrity.

Also the MGP needs to be improved to make it more responsive to operators' needs. Some improvements should be made to its guarantee and settlement-of-payment system and to its operating rules, so as to align them with the ones of the most advanced European markets. But operators also expressed the desirability to trade electricity more ahead of the time of delivery. This need might be covered by extending participation in the "Mercato di Aggiustamento" (MA - Adjustment Market) to demand-side operators, as they are presently not allowed to access it.

But the need arises for going farther, for creating a real intraday market with almost real-time transactions. In this market, transactions should take place on the same day as the one of execution of the injection/withdrawal schedules. Thus, operators would have the option of adjusting their positions in response to changes in the conditions of the market, of power plants or of consumption near the time of delivery/withdrawal, without incurring high deviation charges. This would result into a reduction of the system charges, whose benefits would extend to consumers.

A key corollary of this innovation is the improvement of the dispatching system and the restructuring of the related market. The power system requires technologically advanced dispatching mechanisms, of which the Electricity Market would be among the main beneficiaries, as it might move to more sophisticated and efficient trading structures. A new ancillary services structure should involve separate trading sessions, based on the specific resources that the system operator needs to procure; in this way, the related services would be correctly priced. Separating the three categories of resources, i.e. those for congestion relief, for reserve margin creation and for real-time power grid balancing, would also enhance the transparency of the market, as each resource would be valued at its actual price.

A mandatory step in providing greater security to the national energy system and making progress towards integration of national markets into a European single market is the co-ordination between the day-ahead markets of neighbouring countries, so as to optimize the utilization of interconnection capacity. The most efficient way to achieve this result is to adopt a market coupling mechanism. In this area, GME has long been engaged on two fronts. On one hand, it is working to make arrangements with neighbouring countries and these efforts have already translated into a Memorandum of Understanding with Borzen, the Slovenian exchange. Other agreements are expected to be entered into in the near future. On the other hand, GME is giving a significant contribution of analysis to various international working groups, including market operators, system operators and regulators. By so doing, GME is pursuing the two-fold goal of developing projects of integration that are compatible with the structure of national markets and of removing hindrances to efficient market integration.

The system of electricity markets is associated with the so-called "environmental" markets, which are

1. THE ITALIAN POWER EXCHANGE IN 2007

aimed at leveraging private-sector investments in renewables, energy efficiency and mitigation of polluting emissions. In this field, GME manages and carefully monitors the evolution of its three environmental markets, so as to optimize their functionality and enable the country to minimise the costs of compliance with its environmental obligations. Even if these markets are relatively young, they have yielded overall good results, promoting electricity generation from renewables and energy savings to an extent which exceeded the set targets. In particular, the price-setting process in these markets proved to be particularly efficient, by giving timely signals of excess supply through substantial price reductions, as well as valuable indications on the corrections needed to rebalance the market. At the end of 2007, capitalising on the experience gained so far, GME made important adjustments to these market systems and some of the results from these initiatives are already perceivable. Prices have stabilised and better contribute to fostering the investments that Italy needs to meet its international obligations.

The electricity industry is evolving rapidly, in the wake of price tensions and new and important developments on both sides of worldwide markets. Against this background, providing Italy with secure and competitively-priced energy has become an increasingly tough challenge, which calls for consistent efforts by operators, regulators, authorities, system and market operators. In this concert of roles and responsibilities, GME has acted not only as a guardian of the market, but also as a promoter of its progress, as an entity open to constant dialogue with operators, as a counterpart of the relevant authorities and by firmly pursuing the public interest.

This has been the commitment that has guided the activities of GME in the past few years and that will guide them in the coming years. Indeed, GME is aware that the economic and social development of the country depends, among others, on the play of correct and competitive market mechanisms in the energy sector, where Italy has high vulnerability and structural competitive disadvantages.



2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

This Chapter describes the 2007 highlights of GME, i.e. the trend of transactions, the main indicators of its markets, its operating and financial indicators for 2007, as well as its planned operations for financial year 2008.

ELECTRICITY MARKET

GME organises and manages the Electricity Market, which consists of the Energy Markets, i.e. the “Mercato del Giorno Prima” (MGP - Day-Ahead Market) and the “Mercato di Aggiustamento (MA - Adjustment Market), and of the “Mercato per il Servizio di Dispacciamento” (MSD - Ancillary Services Market). GME also organises and manages the “Piattaforma dei Conti Energia a Termine” (PCE - Forward Electricity Account Trading Platform).

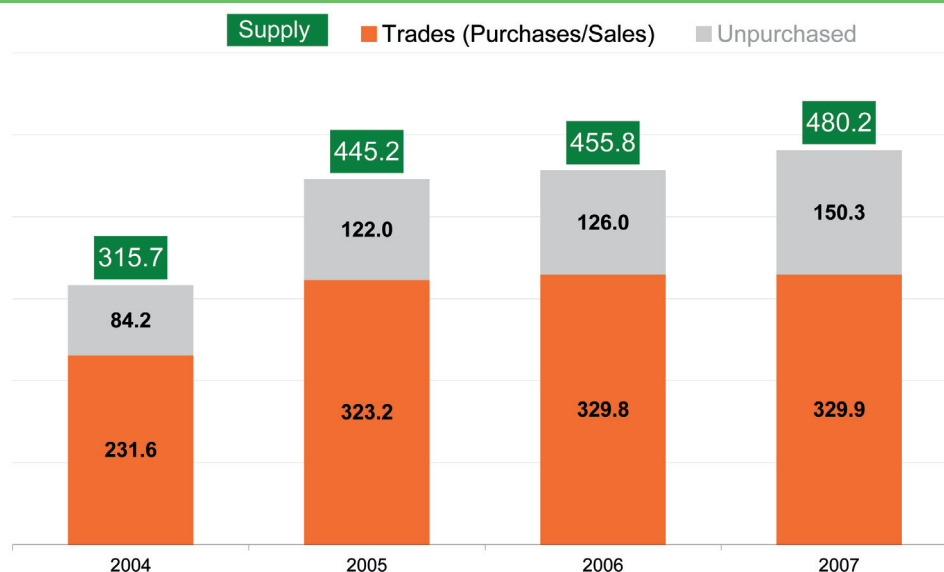
Day-Ahead Market (MGP)

In 2007, GME’s MGP recorded its most significant growth since the start of the Electricity Market (2004), in terms of both number of Market Participants and traded volumes.

The number of active Participants - thanks, above all, to those operating on the supply side - reached 89. These Market Participants traded 221 TWh of electricity volumes, recording the highest upward trend (+12.6%) since the start of trading, although demand stood at 330 TWh.

Thanks to new generating capacity, the volumes of electricity offered for sale in the MGP rose to 480.2 million MWh (54,820 MWh on average per hour), i.e. up by 2,784 MWh on average per hour (+5.4%), as against 1,211 MWh (+2.4%) in 2006. Traded volumes (purchases/sales), which amounted to 329.9 million MWh (37,665 MWh on average per hour), had the same levels as in the previous year, while they were up by 2.0% in 2006. Therefore, the volumes of electricity offered but not sold (150.3 million MWh) mounted by 19.2%; the unsold share accounted for 45.5% of the sold share (vs. 38.2% in 2006).

1 Volumes of Electricity



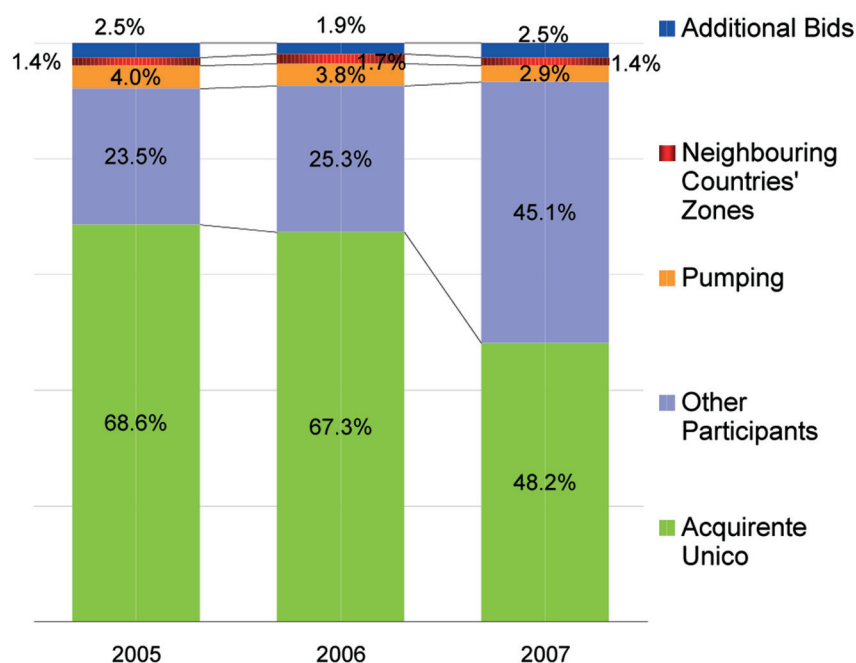
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Based on these data, the liquidity of the MGP (ratio of trades made on IPEX to overall trades) recorded an all-time peak of 67.1%, with a more than appreciable growth of 7.5 percentage points vs. 2006. This growth is particularly significant not only in terms of magnitude, but also because it was achieved during a period of stable demand and marked reduction of the role of Acquirente Unico (AU), whose purchases dropped to 107 TWh (-19%), accounting for only 48.2% of the total IPEX volumes. This means that the sharp increase in liquidity was sustained by the considerable growth of the contribution of “non-institutional” operators, who currently buy about 100 TWh on IPEX; this figure is equal to 52% of their requirements and to 45% of IPEX trades. This trend (which translated into as many as 15.2 percentage points of additional liquidity) reflects the fact that many operators chose to replace their physical bilateral contracts with spot transactions hedged by Contracts for Differences.

2 Composition of Demand in the MGP

	<i>Total Volumes</i>	<i>Hourly Avg.</i>	<i>Change</i>	<i>Structure</i>
	<i>MWh</i>	<i>MWh</i>	<i>%</i>	<i>%</i>
IPEX	221,292,184	25,262	12.6%	67.1%
<i>Acquirente Unico</i>	106,570,141	12,166	-19.4%	32.3%
<i>Other Participants</i>	99,756,337	11,388	100.6%	30.2%
<i>Pumping</i>	6,340,347	724	-14.8%	1.9%
<i>Neighbouring Countries' Zones</i>	3,057,474	349	-8.6%	0.9%
<i>Balance of PCE Schedules</i>	161	0	-	0.0%
<i>Additional Bids</i>	5,567,723	636	46.6%	1.7%
Bilateral Contracts	108,657,022	12,404	-18.5%	32.9%
<i>Foreign bilaterals</i>	726,452	83	-43.5%	0.2%
<i>National bilaterals-AU</i>	16,166,432	1,845	-22.2%	4.9%
<i>National Bilaterals-Other</i>	91,764,300	10,475	-17.5%	27.8%
<i>Balance of PCE Schedules</i>	161	-		
PURCHASED VOLUMES	329,949,207	37,665	0.0%	100.0%
IPEX	5,461,117	623	-25.2%	99.7%
<i>Other Participants</i>	495,611	57	1628.2%	9.1%
<i>Pumping</i>	36,626	4	-18.4%	0.7%
<i>Neighbouring countries' zones</i>	4,928,880	563	-31.8%	90.0%
Bilateral contracts	14,768	2	-	0.3%
UNPURCHASED VOLUMES	5,475,885	625	-25.0%	100.0%
TOTAL DEMAND	335,425,092	38,291	-0.5%	

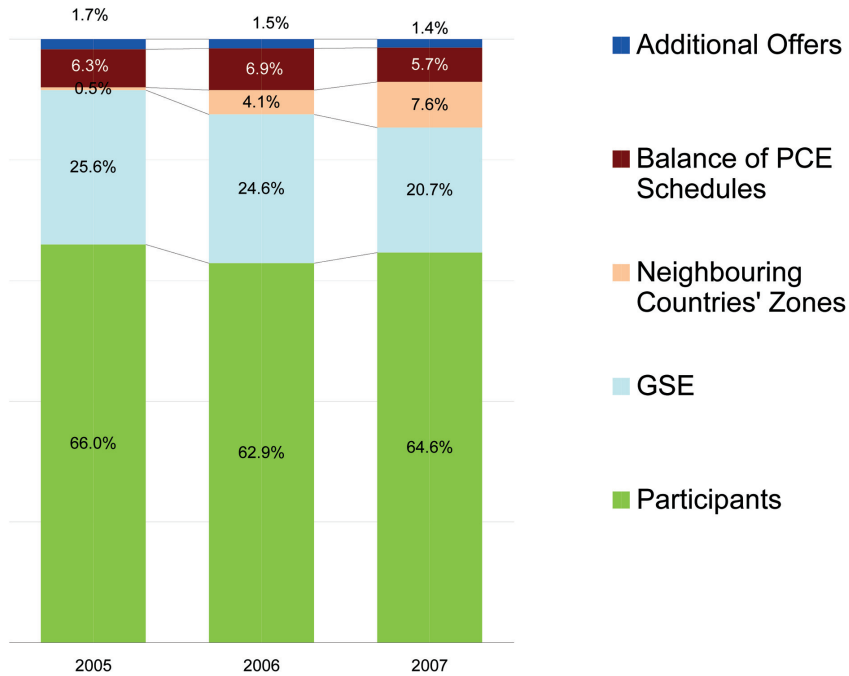
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)



3 Composition of Supply in the MGP

	Total Volumes MWh	Hourly Avg. MWh	Change %	Structure %
IPEX	221,292,184	25,262	12.6%	67.1%
Participants	142,990,379	16,323	15.7%	43.3%
GSE	45,828,980	5,232	-5.3%	13.9%
Neighbouring Countries' Zones	16,786,271	1,916	110.6%	5.1%
Balance of PCE Schedules	12,528,950	1,430	-7.7%	3.8%
Additional Offers	3,157,605	360	4.7%	1.0%
Bilateral Contracts	108,657,022	12,404	-18.5%	32.9%
Foreign bilaterals	33,782,919	3,856	-19.6%	10.2%
National bilaterals	87,403,054	9,978	-16.6%	26.5%
Balance of PCE Schedules	-12,528,950	-1,430		-3.8%
SOLD VOLUMES	329,949,207	37,665	0.0%	100.0%
IPEX	150,147,140	17,140	19.1%	99.9%
Participants	144,846,886	16,535	17.6%	96.4%
GSE	-	-	-100.0%	-
Neighbouring Countries' Zones	5,300,255	605	83.2%	3.5%
Bilateral Contracts	127,070	15	3088.1%	0.1%
Foreign	0	0	-100.0%	0.0%
National	127,070	15	167441.1%	0.1%
UNSOLD VOLUMES	150,274,210	17,155	19.2%	100.0%
TOTAL SUPPLY	480,223,417	54,820	5.4%	

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)



With regard to electricity supply, it should be pointed out that, also in 2007, the process of renewal of the national electricity generating park proceeded at sustained pace, with the entry into operation of 5,000 MVA of new capacity, mostly thermal power plants (4,200 MVA). The new capacity from renewables, with a share of less than 12%, was mostly concentrated in southern Italy and Italian islands.

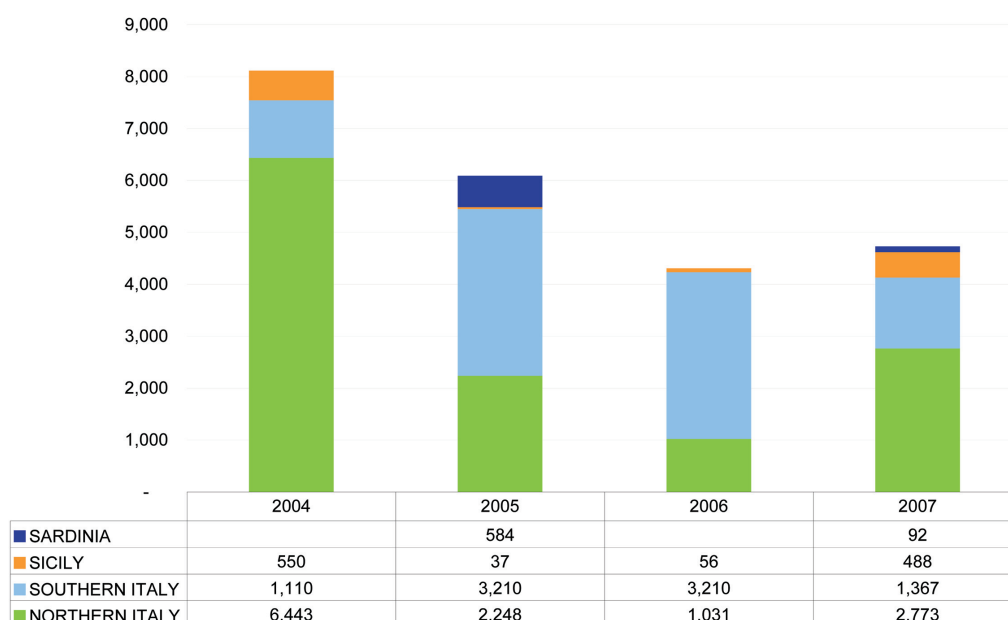
4 New Installed Capacity By Technology (MVA)



Source: Terna

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

5 New Installed Capacity by Macro-Zone (MVA)



Source: Terna

This development of the national electricity generating park had significant effects not only on the mix of sources in the volumes sold in each macro-zone and on market concentration, but also on the performance of the various technologies and, namely, of the new gas-fired combined cycles. In particular, the number of hours of utilization and the success rate (ratio of volumes sold to volumes offered in the MGP) of all the thermal modulation technologies (oil, natural gas, gas turbines) had a declining trend, whereas base-load technologies (coal and CCGT) had relatively stable values.

As a result, the national sales by generation technology in 2007 ascribable to gas-fired thermal power plants reached 16,822 MWh on average per hour, with an average growth per hour of 1,186 MWh (+7.6%). In particular, combined-cycle plants recorded an increase in their average generation per hour of 2,093 MWh (+15.0%). Also the sales by renewable-energy plants other than hydro increased by 73 MWh on average per hour (+7.0%) in one year. By contrast, the sales by the other thermal plants dropped (-838 MWh; -7.5%); the drop was particularly significant for oil- and multi-fuel plants (-915 MWh; -16.8%). Also the sales by hydro plants decreased (-487 MWh; -13.0%); among the latter, pumped-storage plants had the most significant decrease (-212 MWh, -28.0%).

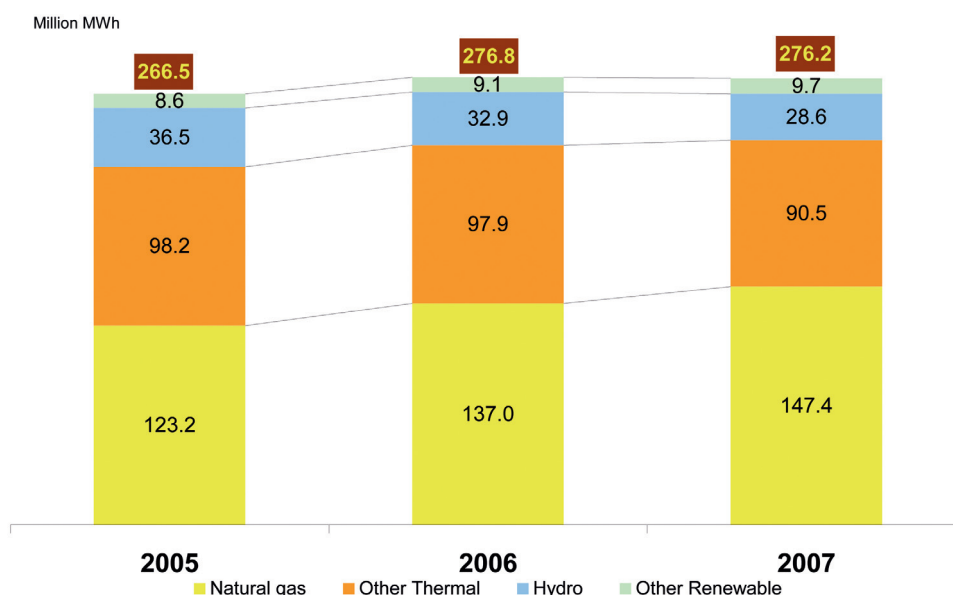
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

6 Sales by Type of Plant

MWh	2007		Volumes 2006		Tr.Change		Structure		
	Total	Average	Total	Average	Avg.	%	2007	2006	PP Delta
Natural Gas	147,362,034	16,822	136,972,993	15,636	1,186	7.6%	53.3%	49.5%	3.9
Combined-Cycle	140,332,330	16,020	121,995,693	13,926	2,093	15.0%	50.8%	44.1%	6.7
Conventional	6,321,836	722	14,318,494	1,635	-913	-55.8%	2.3%	5.2%	-2.9
Gas-Turbine	707,867	81	658,805	75	6	7.4%	0.3%	0.2%	0.0
Other Thermal	90,509,652	10,332	97,850,618	11,170	-838	-7.5%	32.8%	35.4%	-2.6
Coal	22,737,256	2,596	23,247,902	2,654	-58	-2.2%	8.2%	8.4%	-0.2
Oil and multi-fuel	39,842,168	4,548	47,859,775	5,463	-915	-16.8%	14.4%	17.3%	-2.9
Self-generation & oth	27,930,229	3,188	26,742,942	3,053	136	4.4%	10.1%	9.7%	0.5
Hydro Plants	28,639,550	3,269	32,905,828	3,756	-487	-13.0%	10.4%	11.9%	-1.5
Modulation	11,857,057	1,354	14,038,887	1,603	-249	-15.5%	4.3%	5.1%	-0.8
Run-of-River	11,995,251	1,369	12,218,475	1,395	-25	-1.8%	4.3%	4.4%	-0.1
Pumped-Storage	4,787,242	546	6,648,466	759	-212	-28.0%	1.7%	2.4%	-0.7
Other Renewable	9,711,177	1,109	9,074,334	1,036	73	7.0%	3.5%	3.3%	0.2
Total Sales by Plants	276,222,412	31,532	276,803,773	31,599	-66	-0.2%	100.0%	100.0%	
Additional Offers	3,157,605	360	3,016,550	344	16	4.7%			
Total National Sales	279,380,017	31,893	279,820,323	31,943	-50	-0.2%			

The above confirms the longer-term trends which have prevailed in the past few years. In particular, in the 2005-2007 period, the share sold by gas-fired thermal plants grew by 7.1 percentage points, reaching 53.3%, whereas the share of combined-cycle power plants passed from 41.2% in 2005 to 50.8% in 2007 (+9.6 percentage points). The weight of renewable-energy plants other than hydro (3.5% in 2007) increased, albeit more moderately (+0.3 percentage points). Conversely, the shares sold by the other conventional thermal plants and by hydro plants in 2007 fell by 4.1 percentage points and 3.3 percentage points, accounting for 32.8% and 10.4%, respectively.

7 Sales by Type of Plant



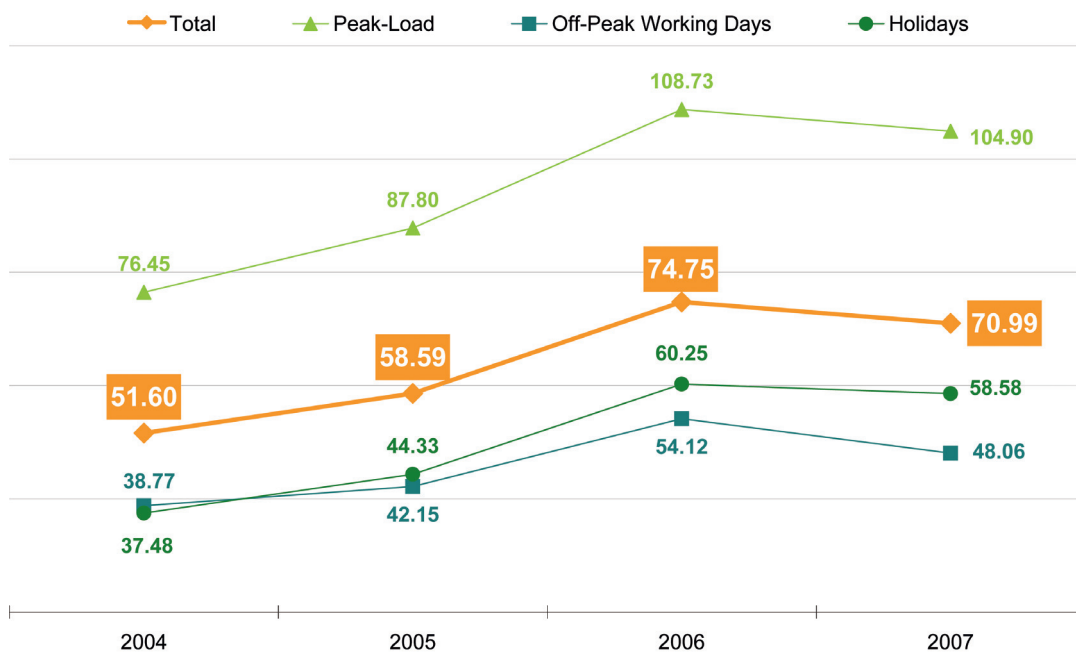
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

As to prices in the MGP, the average level was 70.99 €/MWh, down by roughly 4 €/MWh from 2006 (-5%), but still significantly up from 2005 and 2004.

Nonetheless, in 2007, after three years of growth, the “Prezzo Unico Nazionale” (PUN-National Single Price) recorded its first drop. The drop is to be attributed, above all, to the contraction of oil prices and to the appreciation of the exchange rate, taking into account the delayed correlation between the price of the Brent and the one of electricity.

The decrease of the PUN involved all the time bands, reaching a maximum in off-peak hours (-6 €/MWh) and being more moderate on holidays (-2 €/MWh). Consequently, the three-year upward trend of the difference between peak-load and off-peak prices (from 38 €/MWh in 2004 to 57 €/MWh) and between holiday and off-peak prices (from 1 to 10 €/MWh) became more marked. The first phenomenon is related to the growing surplus of base-load supply by new entrants; this surplus involves proportionally lower prices in low-demand hours (when competition for ancillary services is strong), allowing operators to recover margins and fixed costs in peak-load hours (when some operators have more market power). The second phenomenon reflects, among others, the progressively growing concentration in holiday hours (vs. off-peak ones), which has become increasingly intense since 2005.

8 Monthly Average PUN (€/MWh)



Although prices in the MGP reduced their levels, they sharply increased their volatility in both absolute and relative terms, hitting the record of 11.20 €/MWh (+23%), i.e. 16% of the PUN (+4 percentage points). In particular, as may be observed, relative volatility is fairly homogenous in the various time bands, with a structurally increasing trend in holiday hours.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

9 Yearly Volatility of the PUN

€/MWh	Absolute Volatility Index				Relative Volatility Index			
	2007	2006	2005	2004	2007	2006	2005	2004
Total	11.20	9.07	7.29	10.77	16%	12%	13%	20%
<i>Working Day</i>	11.91	9.55	7.28	11.27	15%	11%	11%	18%
<i>Peak-Load</i>	17.31	13.57	9.54	15.32	16%	12%	11%	19%
<i>Off-Peak</i>	6.52	5.52	5.02	7.22	14%	11%	12%	18%
<i>Holiday</i>	9.51	7.97	7.21	9.49	17%	13%	17%	26%

With regard to geographical zones, the price differentials between the zones practically reflect three factors: structural differences in the demand-supply equilibrium in each zone; effect of transmission capacity limits between the zones; different offering strategies of supply-side operators.

In 2007, the price differential attained the value of 11.4 €/MWh, almost twice the one of 2006 and very close to the peak of 2004. This increase is to be attributed to: i) concurrent strong contraction of the price in northern Italy (-5.15 €/MWh, -7.0%), which was the lowest for the fourth year in a row (68.47 €/MWh); and ii) countertrend increase of the price in Sicily, which became again the most expensive zone (79.51 €/MWh) owing to a small increase of 0.5 €/MWh (+0.7%).

10 Average Zonal Prices and Yearly Volatilities (Euro/MWh)

€/MWh	2007		2006		2005		2004							
	Avg.	Volatility	Avg.	Volatility	Avg.	Volatility	Avg.	Volatility						
NORTHERN ITALY	68.47	12.30	73.63	9.61	-5.15	-7.0%	57.71	7.79	15.92	27.6%	48.94	12.53	8.77	17.9%
CENTRAL-NORTHERN ITA	72.80	11.24	74.98	8.98	-2.18	-2.9%	58.62	7.41	16.36	27.9%	53.03	11.35	5.59	10.5%
CENTRAL-SOUTHERN ITA	73.05	11.17	74.99	8.97	-1.94	-2.6%	59.03	7.14	15.96	27.0%	54.18	10.89	4.84	8.9%
SOUTHERN ITALY	73.04	11.17	74.98	8.97	-1.94	-2.6%	59.03	7.14	15.95	27.0%	54.18	10.89	4.85	8.9%
CALABRIA	73.22	11.33	75.67	10.69	-2.45	-3.2%	59.83	8.05	15.84	26.5%	56.39	14.77	3.44	6.1%
SICILY	79.51	15.34	78.96	13.37	0.55	0.7%	62.77	10.50	16.18	25.8%	55.22	15.27	7.56	13.7%
SARDINIA	75.00	16.70	80.55	16.93	-5.56	-6.9%	60.38	9.07	20.18	33.4%	59.98	16.97	0.39	0.7%
Total delta	11.04	5.53	6.93	7.96			5.07	3.36			11.05	6.08		
Continental Italy delta	4.75	1.13	2.05	1.72			2.12	0.90			7.46	3.88		

The differences in price structures did not concern only average values, but also volatility. In general, the zones with the highest prices (islands) are also those which express the highest volatility both in absolute terms (over 15 €/MWh) and in relative terms (20-22%). By contrast, the continental zones display a more modest evolution, in line with the one of the PUN, as they have absolute values close to 11 €/MWh and relative values of about 15%; in particular, northern Italy has a higher relative volatility (17%). Moreover, in all the zones, volatility - which has been relatively constant in the past four years in absolute terms - grew again in relative terms after two years of declining trend.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Box 1 Electricity Market

The fees that GME applied in 2007 for admission to and participation in the Electricity Market were as follows:

- admission fee: € 7,500;
- yearly fixed fee: € 10,000.

A Decree of the Minister of Economic Development of 23 November 2006 established a new structure of variable fees for participation in the Electricity Market, with effect from 1 January 2007:

- 0 euro for the first 20,000 MWh traded in each month;
- 0.04 €/MWh for volumes of electricity traded in each month and exceeding the threshold of 20,000 MWh up to a maximum of 1,000,000 MWh;
- 0.03 €/MWh for volumes of electricity traded in each month and exceeding the threshold of 1,000,000 MWh up to a maximum of 10,000,000 MWh;
- 0.02 €/MWh for volumes of electricity traded in each month and exceeding 10,000,000 MWh.

For participation in the “Piattaforma di Aggiustamento Bilaterali” (PAB – Demand-Side Bilaterals Adjustment Platform), GME only applies a fee per MWh traded (0.01 €/MWh).

The main indicators of the Electricity Market operations in 2007 are as follows:

Volumes: MGP and MA

	2007		2006		Change	
	Volumes in TWh	Value in million €	Volumes in TWh	Value in million €	Volumes in TWh	Value in million €
Volumes of electricity traded in the MGP (purchases = sales)	221.3	17,478.6	196.8	15,881.5	24.5	1,597.1
Volumes of electricity traded in the MA (purchases = sales)	12.7	883.4	9.9	751.1	2.8	132.3
Total	234.0	18,362.0	206.7	16,632.6	27.3	1,729.4

Volumes: MSD

in TWh	2007	2006	Change
Volumes sold and purchased in the MSD	46.6	45.5	1.1

Liquidity of the MGP

in %	2007	2006	Change
Liquidity of the MGP	67.1	59.5	7.6

Electricity Market Participants as of 31 Dec. 2007 (including GSE, AU and Terna)

	2007	2006	Change
Electricity Market Participants	127	103	24

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Volumes of electricity traded on the PAB

in TWh	2007	2006	Changes
PAB (sales = purchases)	3.3	8.4	(5.1)

Fees in the Electricity Market

in Euro	
Access fee	187,500
Yearly fixed fee	1,129,534
Fee per MWh traded	16,920,893

The volume of transactions on IPEX reached a record level since the start of the Electricity Market, i.e. 221.3 TWh, up by 12.4% from 2006. The increase is justified above all by the lower volumes of electricity traded under bilateral contracts; consequently, the average liquidity of the market mounted by 7.6 percentage points, i.e. from 59.5% to 67.1%.

The value of transactions reached € 17.5 billion, up by 10.1% from the previous year.

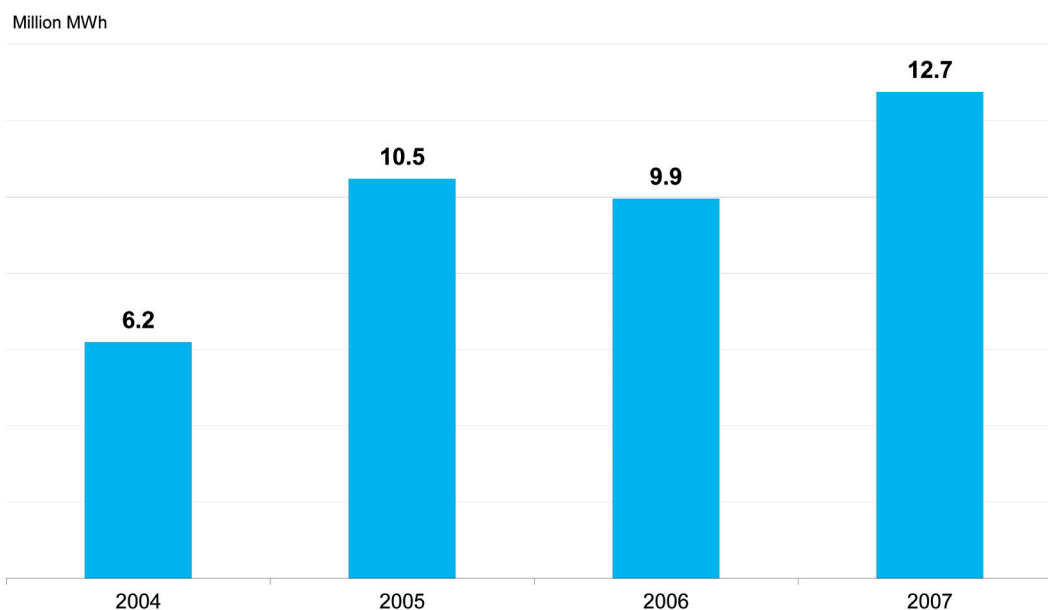
The average purchasing price (PUN) was 70.99 €/MWh, down by 3.76 €/MWh from 2006 (-5.10%).

Adjustment Market (MA)

In 2007, the number of Participants in the MA (the market where Participants modify the schedules that they have defined in the MGP), remained practically steady with respect to the previous year; however, traded volumes exhibited sharp increases (13 TWh, +28.1%), accounting for 3.9% of those traded in the MGP.

Yearly volumes display a sharp increase in 2007, after a slight drop in 2006.

11 Volumes traded in the MA



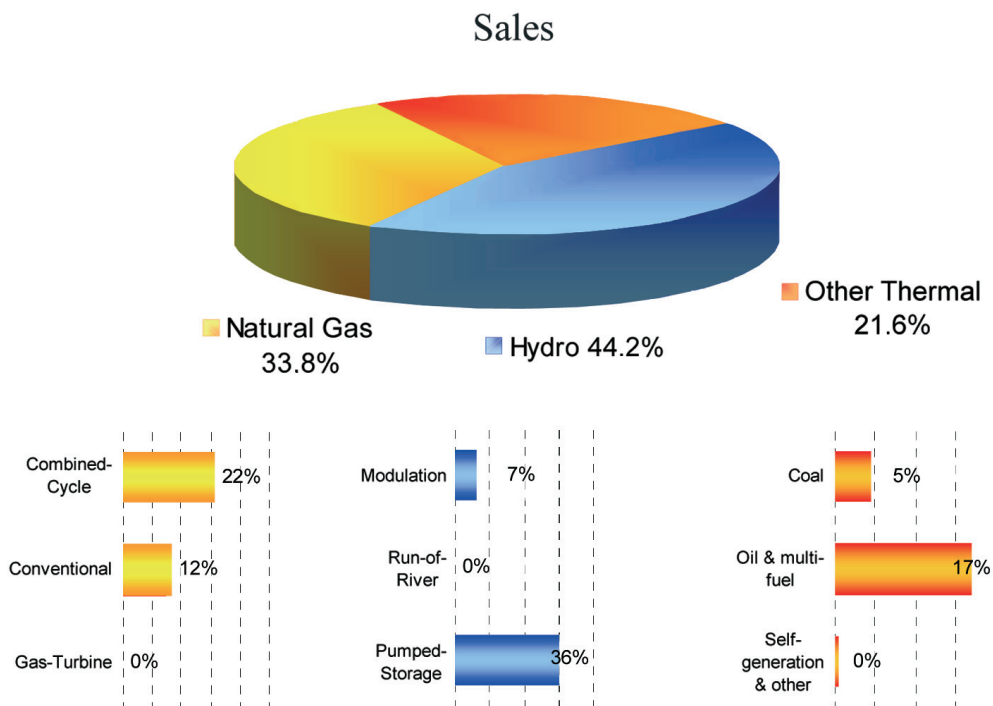
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

At macro-zonal level, the sold volumes increased in all the macro-zones, with variations of 26.9% (southern Italy macro-zone) to 43.5% (Sicily macro-zone). An exception was Sardinia, which had a contraction of 4.9%. The weight of sales in continental zones (northern and southern Italy) stood steady around 90%, whereas the ratio of sales in the MA to those in the MGP in all the zones ranged from 3.2% (Sardinia) to 4.9% (southern Italy macro-zone).

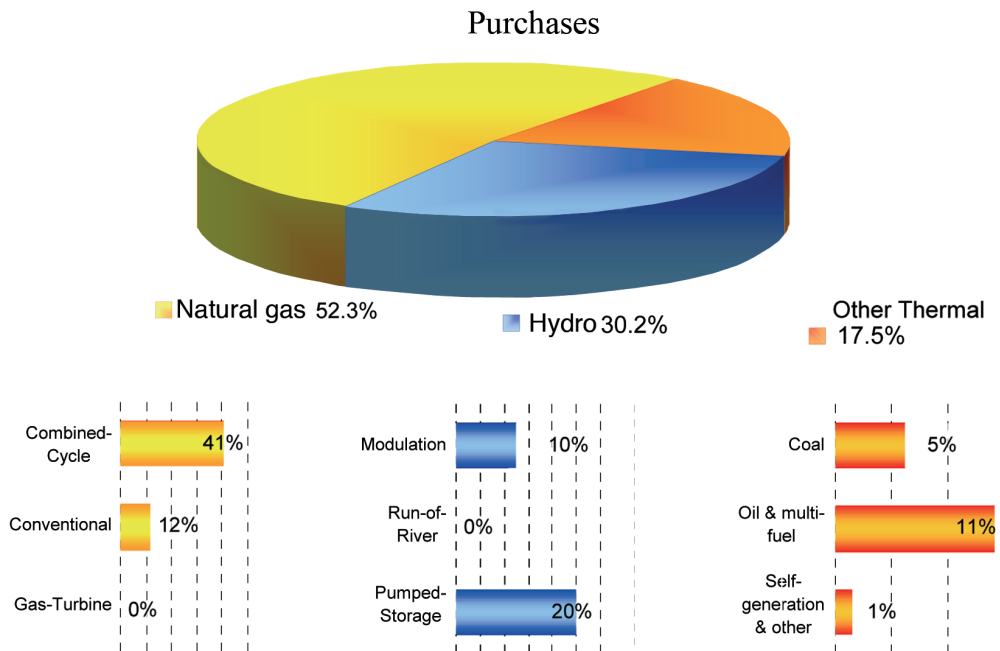
On a year-on-year basis, the purchased volumes increased in almost all the zones and, to a significant extent, in the northern Italy macro-zone (+57.6%). The only zone which showed a countertrend was the southern Italy macro-zone, whose purchases in the MA dropped by 6.9%. 63.0% and 26.4% of the overall purchased volumes were concentrated in the northern Italy and southern Italy macro-zones, respectively. As to the ratio of purchases in the MA to those in the MGP, the highest one was observed in the northern Italy macro-zone (4.5%), while the lowest one was recorded in Sardinia (2.8%).

The analysis by type of power plant shows that the trades in the MA replaced power generation by gas-fired plants (-259,000 MWh on average per hour) with power generation by hydro plants (+210,000 MWh) and other thermal plants (+67,000 MWh).

12 Purchases and Sales in the MA by Type of Plant



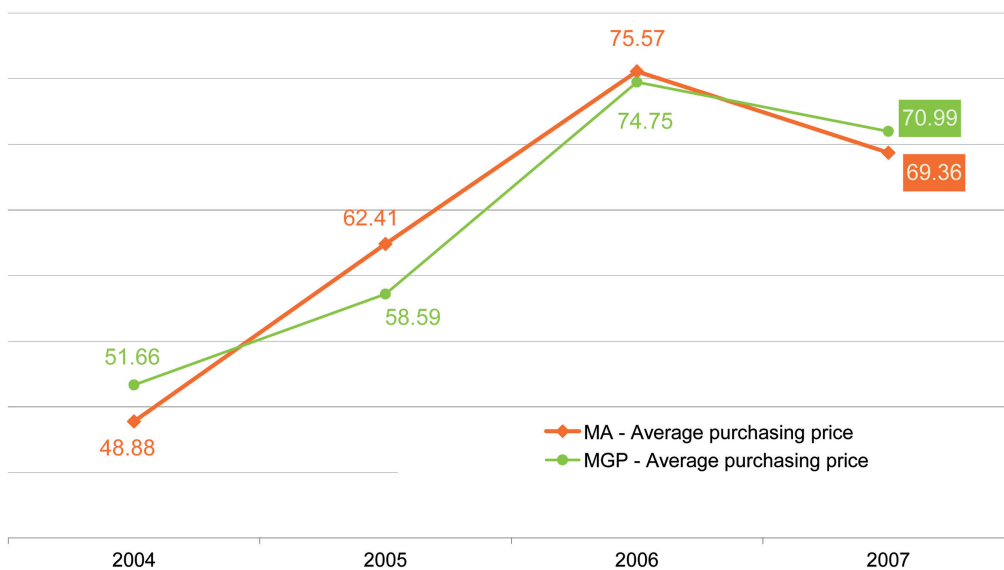
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)



Since the start of the Electricity Market, the average purchasing price in the MA has had the same trend as the (arithmetical) average purchasing price in the MGP (PUN). The lack of clear arbitrage conditions between the two markets suggests that operators use the MA mostly for technical reasons, i.e. for efficient scheduling of their generating units, and not for speculative purposes.

13 Purchasing Price in the MA

€/MWh



2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

In 2007, the weighted average purchasing price was 69.36 €/MWh, down by 6.21 €/MWh (-8.2%) from 2006, whereas the price volatility index shows that all the zones increased their volatility with respect to the previous year, except for Sicily, where this index remained unaltered.

Ancillary Services Market (MSD)

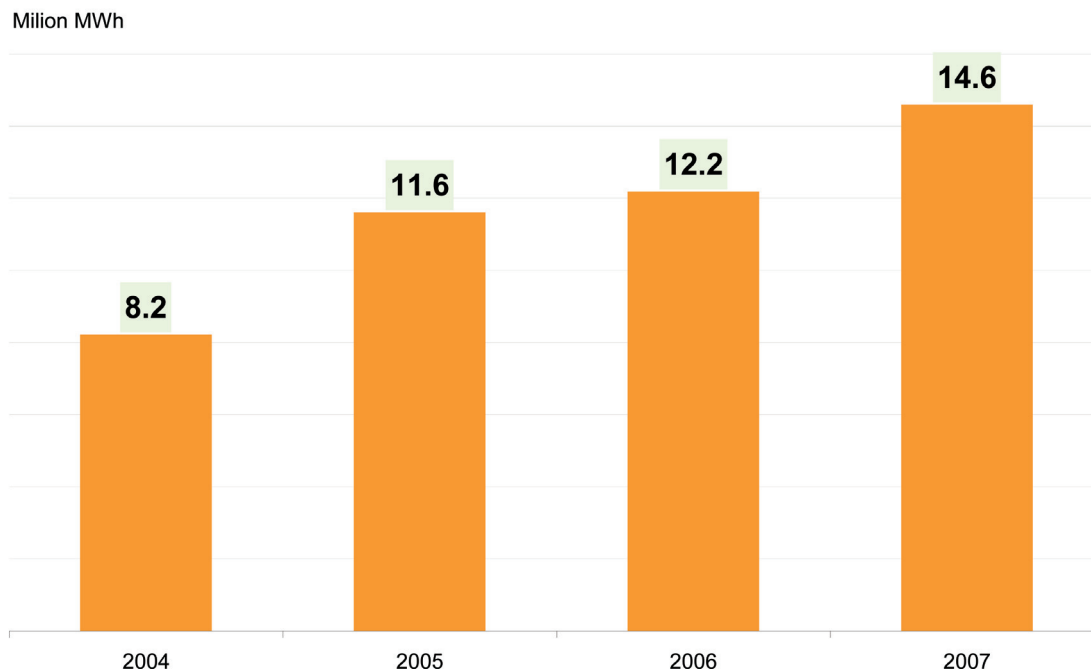
The MSD is the market where demand bids and supply offers for ancillary services are negotiated. These services are used by Terna S.p.A. for relieving intrazonal congestions, procuring reserve and real-time balancing between injections and withdrawals.

This market produces two separate results:

1. Ex-ante MSD: offers accepted by Terna on a scheduled basis with a view to relieving congestions and creating an adequate reserve margin;
2. Ex-post MSD: offers accepted by Terna in real time for balancing injections with withdrawals.

On the ex-ante MSD (up), the yearly volumes purchased by Terna showed an upward trend since 2005 and an acceleration in 2007. In particular, in 2007, Terna purchased 14.6 million MWh (1,664 MWh on average per hour), up by 19.8% from 2006 and equal to 4.4% of purchases in the MGP (as against 3.7% in the previous year).

14 Volumes Traded in the ex-ante MSD (up)



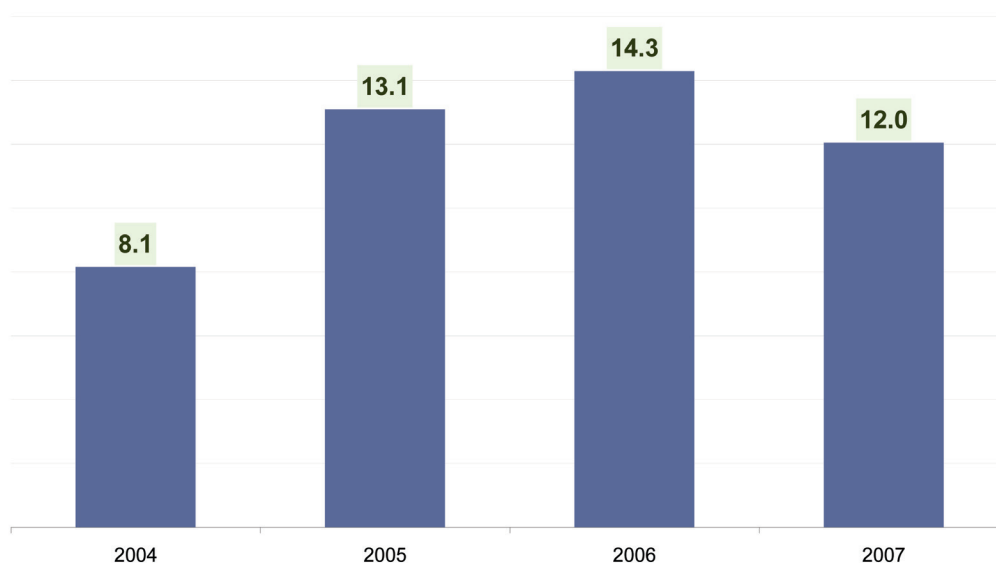
Conversely, the yearly volumes sold by Terna on ex-ante MSD (down) had a sudden shift in 2007, after two years of growth, with sales equal to 12.0 million MWh (1,373 MWh on average per hour), down by 15.8%; these volumes accounted for 3.6% of those traded in the MGP (4.3% in the previous year). In 2007, a contraction was observed also on the ex-post MSD (up), where Terna bought 9.3 million MWh,

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

down by 15.3% from the previous year and equal to 2.8% of the volumes traded in the MGP (3.3% in 2006). By contrast, in the same year, after two years of practically steady values, the sales made by the Italian TSO recorded a hike. In particular, Terna sold 10.7 million MWh, with a strong increase as against the previous year (+33.4%) and a 3.2% share of the volumes in the MGP (2.4% in 2006).

15 Volumes Traded in the ex-ante MSD (down)

Million MWh



The Forward Electricity Account Trading Platform (PCE)

Since 1 April 2007, GME has been operating the Forward Electricity Account Trading Platform (PCE). On this platform, Participants may register both commercial transactions of forward purchase/sale of electricity (executing their bilateral contracts) and the related physical injection and withdrawal schedules. As a whole, the registered transactions with delivery/withdrawal in 2007 amounted to 17,652, equal to a total of 96.7 million MWh, which determined a net position of "Conti Energia" (Forward Electricity Accounts) of 82.2 million MWh.

16 Contracts Registered on the PCE by Profile and Net Position

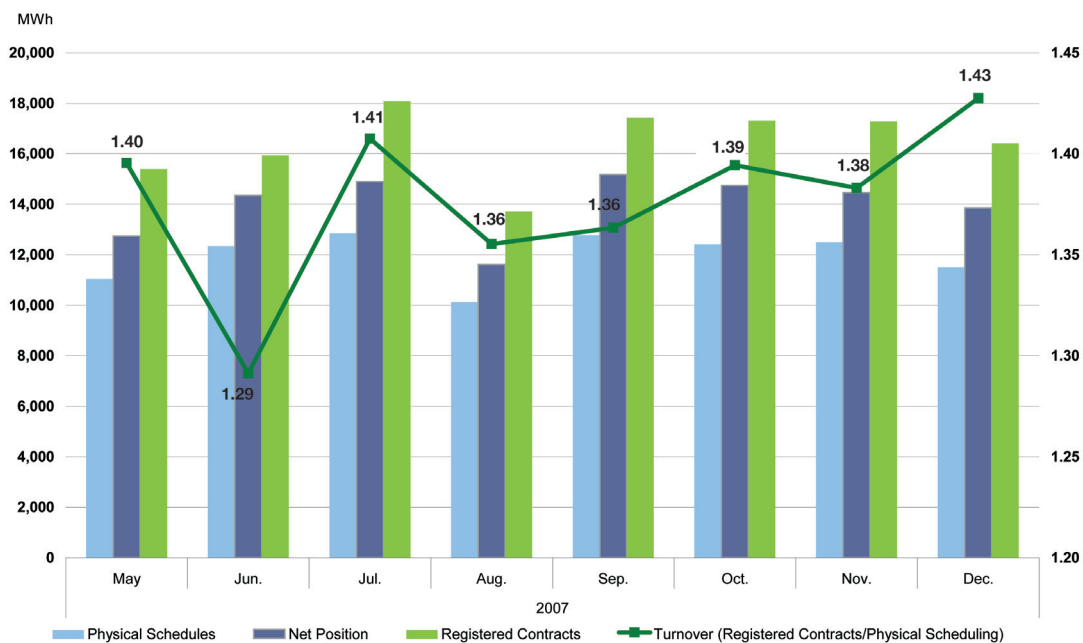
2007

Profile	Number	MWh	Structure	Index N°
Base-Load	2,967	16,918,893	17.5%	
Off-Peak	674	5,858,379	6.1%	
Peak	1,298	5,297,652	5.5%	
Week-end	1	1,200	0.0%	
Total Standard	4,940	28,076,124	29.0%	
Non Standard	12,712	68,619,843	71.0%	
Total	17,652	96,695,967	100.0%	118
Net position		82,187,562		100

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

To measure the flexibility of the PCE, the overall weight of transactions made by Participants with the sole purpose of managing their electricity portfolios (and not for directly procuring and selling electricity) was estimated through the ratio of the registered contracts to the actually executed physical schedules. On a monthly basis, this ratio was never below 1.29 (June 2007) and reached its peak (1.43) at year-end. This implies that for every 143 MWh underlying the transactions registered on the PCE, only 100 MWh of electricity were actually delivered (withdrawn) in the MGP.

17 Contracts Registered on the PCE, Net Position and Physical Schedules: Hourly Average



The non-standard contract profile was the most commonly used one, with volumes equal to 68.6 million MWh (71.0% of the total). Among standard contracts (28.1 million MWh, i.e. 29% of the total), the most commonly used one was the base-load contract with 16.9 million MWh (17.5%).

Regardless of their types, most the contracts had short delivery periods (73.6% did not exceed one week) and were registered shortly ahead of their delivery (67.2% in the last three useful days). In particular, contracts with a daily delivery period (25.9% of the total) were almost all (about 95%) registered on the last useful date (i.e. two days ahead).

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Box 2 Forward Electricity Account Trading Platform (PCE)

The fees that GME applied in 2007 for admission to and participation in the PCE were as follows:

- yearly fixed fee: € 0;
- access fee: € 1,000;
- fee on the MWh underlying the registered transactions: € 0.02 €/MWh.

The main indicators of the PCE operations in 2007 are as follows:

PCE

Profile	MWh	%
<i>Baseload</i>	16,918,893	17.50%
<i>Off Peak</i>	5,858,379	6.06%
<i>Peak</i>	5,297,652	5.48%
<i>Week-end</i>	1,200	0.00%
Total Standard	28,076,124	29.04%
Total Non Standard	68,619,843	70.96%
Total registered transactions with delivery in 2007	96,695,967	100.00%

PCE Participants (including GSE, AU and Terna)

	2007
PCE Participants as of 31 Dec. 2007	111

PCE Fees

	in Euro
Access fees	24,000
Fees per MWh registered	4,050,565

ENVIRONMENTAL MARKETS

Gestore del Mercato Elettrico S.p.A. (GME) is directly committed to favouring the implementation of environmental protection policies, by organising and managing various trading platforms: the “Mercato dei Certificati Verdi” (Green Certificates Market), the “Mercato dei Titoli di Efficienza Energetica” (Energy Efficiency Certificates Market) and the “Mercato delle Unità di Emissione” (Emissions Trading Market), better known as Environmental Markets.

Green Certificates Market

Since March 2003, GME has been operating a market for the trading of Green Certificates, which represent a form of support to electricity generation from renewables.

In terms of results, 48 Green Certificates Market sessions were held in the course of 2007. During these sessions, operators traded Green Certificates with reference years 2004, 2005, 2006 and 2007. Parties subject to the renewable quota obligation and required to fulfil their 2007 obligation (deadline: 31 March

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

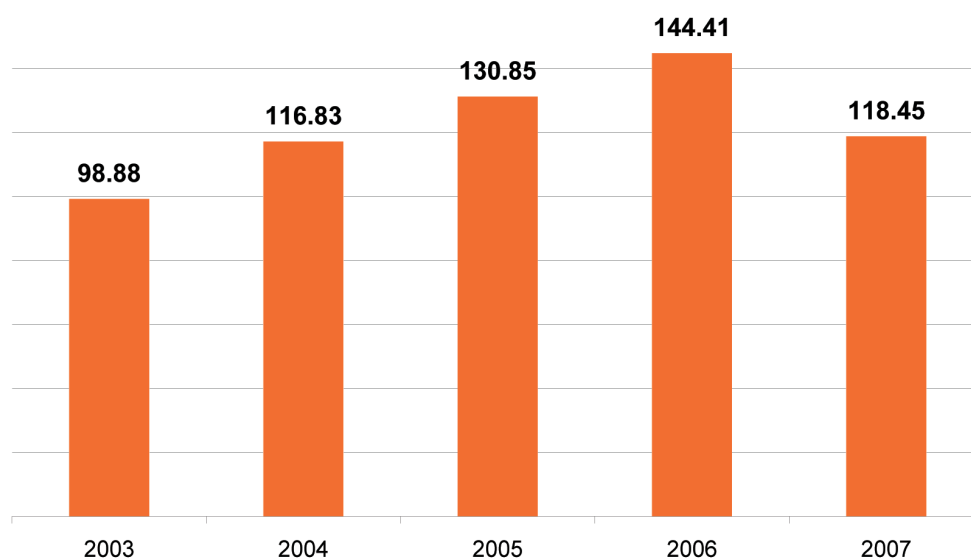
2008) may surrender to GSE the Green Certificates pertaining to 2007 and to the two previous years 2005 and 2006. The number of certificates traded was equal to 8,202; among them, those with reference year 2006 were definitely dominant.

18 Total Number of Green Certificates Traded in the Market in 2007

	2004	2005	2006	2007
Traded	9	168	7,539	486
Total value	€ 58,281.00	€ 1,189,110.00	€ 55,021,420.00	€ 2,878,320.00
Min price	€ 118.73	€ 103.00	€ 117.50	€ 113.00
Max price	€ 138.69	€ 147.00	€ 147.00	€ 123.50
Average price	€ 129.51	€ 141.56	€ 145.96	€ 118.45

The prices of Green Certificates sharply dropped owing, among others, to the fact that, for the first time since the start of the scheme, supply by “private-sector” producers exceeded demand by parties subject to the obligation.

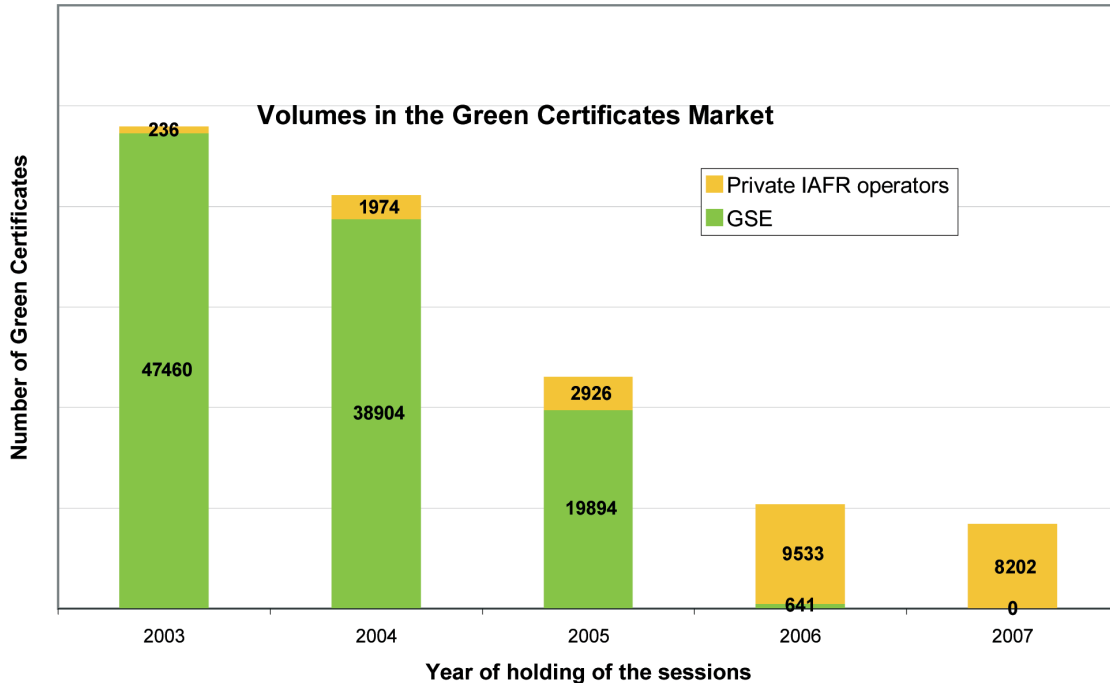
19 Weighted Average Prices (in €/MWh) of Green Certificates by Reference year (data updated as of 31 Dec. 2007)



The volumes of Green Certificates traded in GME’s regulated market showed a prolonged downward trend, which is largely due to the gradual decrease of Green Certificates issued by GSE and offered in the market to cover residual demand (equal to zero in 2007, as previously pointed out). Therefore, GSE did not sell any Green Certificate and, for the first time since the start of the market, also the number of certificates sold by non-institutional parties declined.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

20 Volumes Traded in the Green Certificates Market (by Year of Holding of the Sessions)



The recent evolution of transactions demonstrates that the market is working efficiently, since its prices appear to promptly respond to the trend of fundamentals. However, the weight of transactions made off the regulated market remains high. With regard to the latter transactions, in order to meet the requirements expressed by operators, GME put in place a “Piattaforma per la Registrazione delle Transazioni Bilaterali dei Certificati Verdi” (PBCV – Green Certificates Bilaterals Registration Platform) in 2007. On this new platform, operators may register and settle their Green Certificates bilaterals. Trading on this platform is easier and more secure, as both the settlement of payments and the transfer of ownership of the certificates traded are guaranteed.

To help rebalance the system and minimise the factors of uncertainty which might discourage new investments by producers, Law no. 244 of 24 December 2007 introduced some new provisions. Among them, it is worth mentioning: i) the reduction of the size of each Green Certificate from 50 to 1 MWh; ii) the increase in the growth rate of the renewable energy quota (that parties subject to the obligation are held to inject into the power grid) from 0.35% to 0.75% in the 2007-2012 period. In case i), the goal is to meet the requirements of small-scale producers, by facilitating their access to the market; in case ii), the goal is to sustain demand and absorb the surplus of supply which occurred in 2007.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Box 3 Green Certificates Market

The fee that GME charged in 2007 to each Market Participant for the trading of Green Certificates was € 3.00 for each 50-MWh certificate.

The main indicators of the Green Certificates Market operations in 2007 are as follows;

- Number of sessions: 48

Volumes of Certificates Traded (Year 2007)

	Reference Year (*)			
	2004	2005	2006	2007
Volumes of certificates traded	9	168	7,539	486

(*) "Reference Year" means the year when the electricity underlying the certificate was generated. The certificates issued in a given reference year may be traded and used for fulfilling the renewable quota obligation for the reference year and the subsequent 2 years.

Average Price of Certificates Traded (Year 2007)

	Reference Year			
	2004	2005	2006	2007
	€/MWh	€/MWh	€/MWh	€/MWh
Average price of certificates traded	129.51	141.56	145.96	118.45

Volume of Electricity Underlying the Certificates Traded

	2007		2006		Changes	
	Volume in MWh	Value in €	Volume in MWh	Value in €	Volume in MWh	Value in €
Volume of electricity underlying the certificates	410,100	59,147,131	508,700	67,450,000	(98,600)	(8,302,869)

Green Certificates Market Participants as of 31 Dec. 2007

	2007	2006	Changes
Green Certificates Market Participants	254	178	76

Fees in the Green Certificates Market

	in Euro
Fees in the Green Certificates Market	49,212

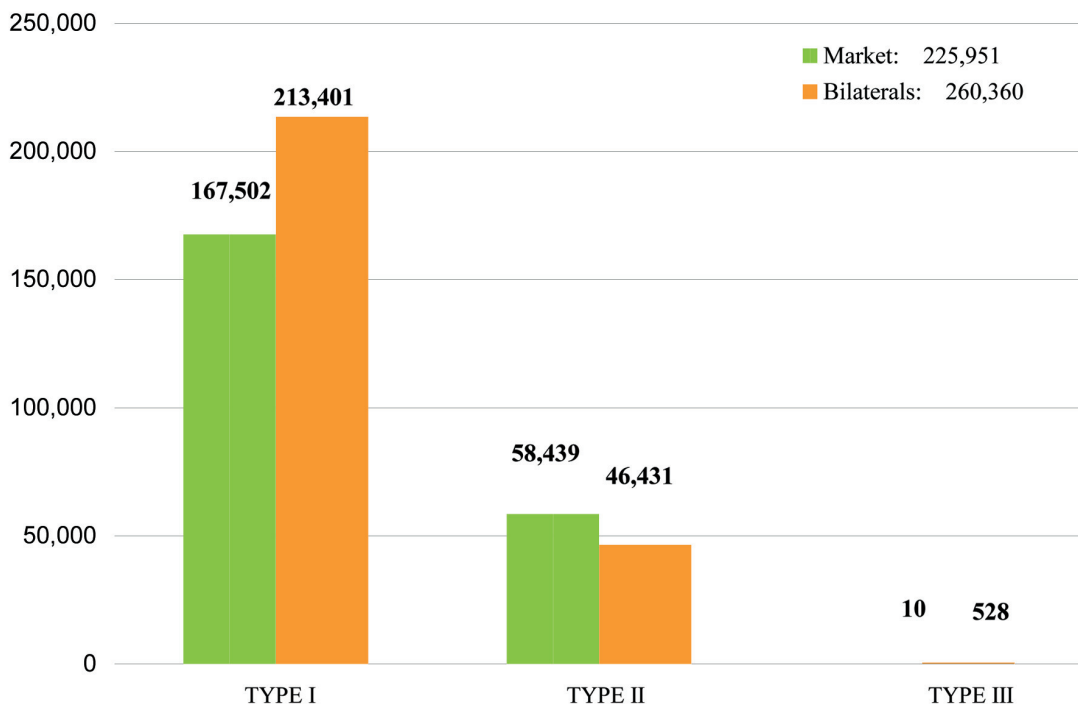
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Energy Efficiency Certificates Market

The Energy Efficiency Certificates (TEE - White Certificates) scheme was established by two Decrees of the Ministry of Productive Activities, which were issued jointly with the Ministry of the Environment and Land Protection on 20 July 2004. Under the scheme, electricity and gas distributors having at least 100,000 customers are required to adopt measures for holding down energy consumption.

During the 48 market sessions organised in 2007, 225,951 Energy Efficiency Certificates were traded, while the certificates traded under bilateral contracts and reported to GME through the Energy Efficiency Certificates Registry amounted to 260,360.

21 Energy Efficiency Certificates Traded in GME's Market and Bilaterally (2007)



The liquidity of the regulated market grew significantly, passing in one year from 15.8 to 46.5% of overall transactions. If intra-Group trades are disregarded, the percentage rises to over 70%. The volume of trades had a sharply increasing trend owing to: first of all, i) the increase of the yearly energy-saving target (which passed from 0.1 to 0.2 Mtoe between 2005 and 2006 for electricity distributors and gas distributors); and, secondly, ii) the fact that, in many cases, the parties subject to the obligation deemed it more cost-effective to purchase the certificates that they needed to meet their yearly target, rather than to gain them by directly implementing energy-saving projects.

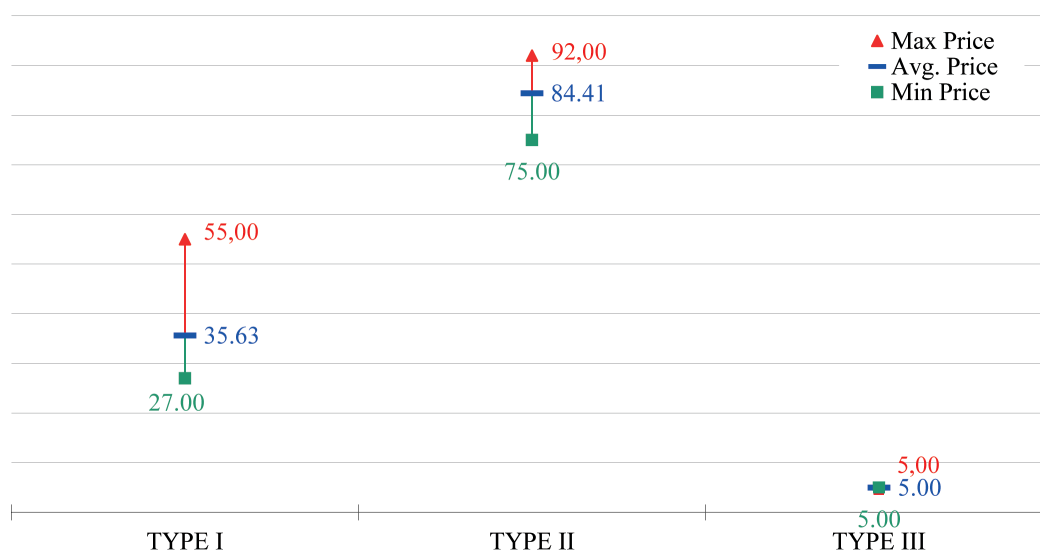
2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

22 Energy Efficiency Certificates Traded (Year 2007)

	Type I	Type II	Type III
Volume of certificates traded (no.)	167,502	58,439	10
Value (€)	€ 5,968,764.15	€ 4,933,025.05	€ 50.00
Min price (€/certificate)	€ 27.00	€ 75.00	€ 5.00
Max price (€/certificate)	€ 55.00	€ 92.00	€ 5.00
Weighted average price (€/certificate)	€ 35.63	€ 84.41	€ 5.00

The certificates of type I (electricity savings) had definitely lower prices than those of type II owing to a higher supply surplus (with respect to energy-saving targets). Out of 702,626 new certificates issued in 2007, as many as 562,110 were of type I, 120,665 of type II and only 19,851 of type III. Therefore, the certified savings in electricity uses proved to be far higher (by about 45%) than the assigned yearly target and accounted for almost the triple of the minimum amount of certificates of type I required for 2007 (50% of the target assigned to electricity distributors).

23 Prices of Energy Efficiency Certificates (in €/toe) in GME's Market (2007)



Although the market is operating successfully (giving rise to energy savings in excess of the set targets), the Ministerial Decree of 21 December 2007 introduced some provisions having the purpose of: i) redressing the factors of imbalance between demand and supply which have emerged in the first two years of operation; and ii) removing some factors of uncertainty having a potential negative impact on operators' investment decisions.

Among the new provisions, it is worth stressing:

1. increase of the energy-saving targets for 2008 and 2009 and definition of the targets for the 2010-2012 period;
2. bankability of the Energy Efficiency Certificates issued until 2009, which may thus be used in the subsequent three-year period;
3. increase in the number of operators subject to the energy-saving obligation, by decreasing the threshold number of customers served by distributors; this number passed from 100,000 to 50,000.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Box 4 Energy Efficiency Certificates Market

The structure of the fees that GME applied in 2007 in its Energy Efficiency Certificates Market is as follows:

- yearly fee: € 300;
- variable fee: € 0.2 per certificate traded.

The main indicators of the Energy Efficiency Certificates Market operations are as follows:

- number of sessions held: 48

Volumes of Certificates Traded in the Energy Efficiency Certificates Market

	Type I (*)	Type II (**)	Type III (***)
Volumes of certificates traded	167,502	58,439	10

Legend:

(*) Type I: certifying the achievement of primary energy savings through measures or projects reducing end-use electricity consumption;

(**) Type II: certifying the achievement of primary energy savings through measures or projects reducing natural gas consumption;

(***) Type III: certifying the achievement of primary energy savings through measures or projects reducing consumption other than the previous ones (Type I, Type II).

Average Price of Certificates Traded in the Energy Efficiency Certificates Market

	Type I €/tep	Type II €/tep	Type III €/tep
Average price of certificates traded in the Energy Efficiency Certificates Market	35.63	84.41	5.00

Economic Value of Transactions in the Energy Efficiency Certificates Market

	in Euro
Economic value of transactions in the Energy Efficiency Certificates Market	10,901,839

Volumes of Certificates Traded Bilaterally through the Energy Efficiency Certificates Registry

	Type I	Type II	Type III
Volumes of certificates traded bilaterally through the Energy Efficiency Certificates Registry	213,401	46,431	528

Energy Efficiency Certificates Market Participants as of 31 Dec. 2007

	2007
Distributors	32
ESCOs	114
Wholesalers	7
Total	153

Energy Efficiency Certificates Registry Participants as of 31 Dec. 2007

	2007
Distributors	39
ESCOs	141
Wholesalers	7
Total	187

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Fees in the Energy Efficiency Certificates Market

	in Euro
Fees in the Energy Efficiency Certificates Market	194,525
Yearly fixed fee - Energy Efficiency Certificates	34,199
Total	228.724

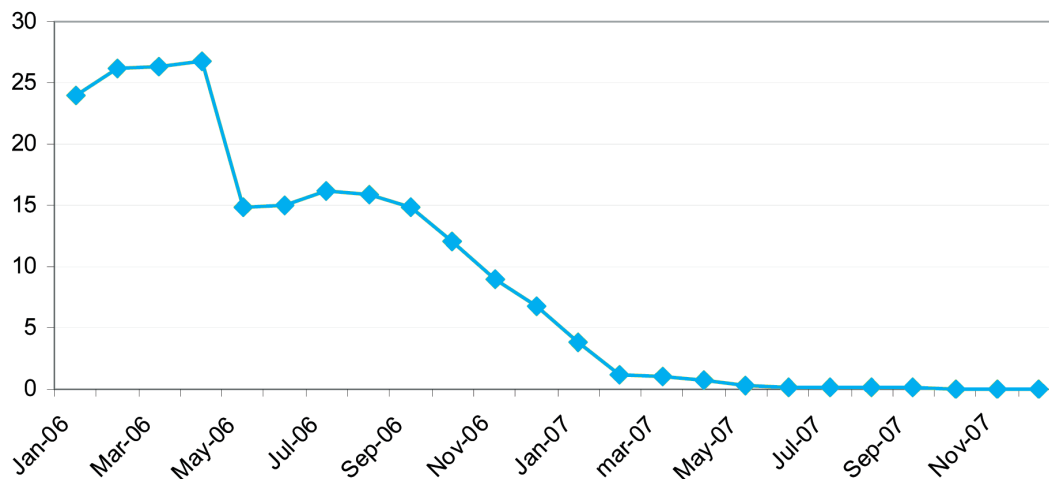
The Emissions Trading Market

On 2 April 2007, within the framework of the European Union's Emissions Trading Scheme (EU-ETS), GME inaugurated its Emissions Trading Market. This market offers a highly competitive system of fees, as no fixed fees are charged and the trading fee for each emission unit is equal to € 0.0025.

In December 2007, Market Participants were 35, while the volume of trades since the start of the market was equal to 74,000 units (2005-2007 EUAs). This low performance is largely due to the fact that the Italian market has taken off much later than the ones of the main European countries, owing to problems of operation of the national registry of emission units and to difficulties in obtaining the approval of the National Allocation Plan.

This was compounded by the fact that, after reaching a peak of over 30€/t, the value of emission units sharply dropped and then collapsed to less than 1€/t at the beginning of 2007.

24 Monthly Average Prices (in €/t CO₂) of the 2005-2007 EUAs in 2006 and 2007



Source: Powernext

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Box 5 Emissions Trading Market

The variable fee that GME applied in 2007 in its Emissions Trading Market was € 0.0025 for each emission unit traded (equal 1 t/CO₂).

The main indicators of the Emissions Trading Market operations are as follows:

- number of sessions held: 184.

Emissions Trading Market Participants as of 31 Dec. 2007

	2007	2006	Change
Emissions Trading Market Participants	31	0	31

Fees in the Emissions Trading Market

	in Euro
Fees in the Emissions Trading Market	370

Volumes of Emission Units Traded

	Volumes (t CO ₂) 2007	Volumes (t CO ₂) 2006	Change
Volumes of emission units traded	74.000	0	74.000

MAIN ACTIVITIES IN 2008

The main activities that GME plans to carry out in 2008 are as follows.

Electricity Market

In the course of 2008, GME will be responsible for:

- 1) operating the energy markets; in particular, it will be responsible for around-the-clock management of market sessions, billing and invoicing of payables and receivables arising in the energy markets (MGP and MA) and related settlement of payments, as well as for the management of the guarantee system of the same markets and of the process of admission of new operators;
- 2) operating the Ancillary Services Market;
- 3) operating the PCE, i.e. managing the registration of forward purchases and sales and of the related injection and withdrawal schedules, the guarantee system, the process of billing, invoicing and settlement of payments for the transmission capacity fees (CCT), as well as the process of admission of operators to the PCE.

The main activities that GME intends to carry out in 2008 concern:

- the start of trading of forward contracts with obligation of delivery/withdrawal of the traded electricity;
- the development of an intraday energy market and the implementation of the so-called market coupling.

2. MAIN COMPONENTS OF THE ITALIAN POWER EXCHANGE (IPEX)

Environmental Markets

Green Certificates Market

GME will continue to carry out all the activities pertaining to its Green Certificates Market. Therefore, GME will admit new applicants, as well as organise and manage the trading sessions in the regulated market.

As a result of its process of consultation with operators (November-December 2007), GME submitted to the Ministry of Economic development a proposal amending the Green Certificates part of the Integrated Text of the Electricity Market Rules. The proposed amendments identify GME as the central counterparty of all the transactions. Consequently, after approval of the amendments by the Ministry, all the trading sessions will be organised on the basis of the new market model.

Energy Efficiency Certificates Market

GME will continue to carry out all the activities connected with its Energy Efficiency Certificates Market. Therefore, it will admit new applicants, as well as organise and manage the trading sessions of the regulated market.

GME will also monitor the transactions concluded in the market and submit a half-year report to the Ministries of Economic Development, of the Environment and Land and Sea Protection, to the Regions and to AEEG.

With effect from 1 April 2008 (under AEEG's Decision 345/07), the Energy Efficiency Certificates Registry shall specify the price at which the certificates negotiated bilaterally and entered into the Registry have been traded.

Emissions Trading Market

GME will continue to carry out all the activities connected with its Emissions Trading Market. Therefore, it will admit new operators, as well as organise and manage the trading sessions of the regulated market.

Amendments are planned to be made to the Emissions Trading Market Rules with a view to identifying GME as the central counterparty of all the transactions.



3. OPERATING AND FINANCIAL RESULTS

Letter to the Shareholders

Dear Shareholders,

in financial year 2007, three years after the start of the Italian Power Exchange (IPEX), the performance of Gestore del Mercato Elettrico S.p.A. (GME) was even better than in previous years.

In particular, overall revenues were up by 11.74% and EBIT accounted for 43.93% of revenues from core operations.

In 2007, the electricity traded in the “Mercato del Giorno Prima” (MGP-Day-Ahead Market) amounted to 221.3 TWh, corresponding to a value of € 17.5 billion. The liquidity of the market further grew by 7.6 percentage points, reaching an average of 67.1%.

2007 was also a year full of initiatives. By putting in place new platforms, GME extended the structure of its markets for the trading of both electricity and environmental certificates.

On 1 April 2007, GME launched its “Piattaforma Conti Energia” (PCE - Forward Electricity Account Trading Platform), as per Decision 111/06 of “Autorità per l’energia elettrica e il gas” (AEEG – the Italian electricity & gas regulator).

With the new registration system introduced by the PCE, operators may redefine their forward obligations within a given time period, so as to optimise the management of their electricity portfolios.

Operators welcomed the initiative: from the start of the platform in April 2007, they registered 96.7 TWh of electricity with delivery/withdrawal within 2007.

In April 2007, GME also inaugurated its “Mercato delle Unità di Emissione” (Emissions Trading Market). This is a voluntary market for the trading of greenhouse gas emission rights which falls within the framework of the European Union’s Emissions Trading Scheme (EU-ETS - Directive 2003/87/EC).

This market is intended to provide both Italian and foreign operators with the opportunity to flexibly manage their CO₂ emission reduction strategies, by relying on a user-friendly electronic trading system.

Always in 2007, with a view to responding to the requirements expressed by Participants in its Green Certificates Market, GME set up a “Piattaforma di Registrazione delle Transazioni Bilaterali dei Certificati Verdi (PBCV – Green Certificates Bilaterals Registration Platform). This is an electronic trading venue, where bilateral transactions on Green Certificates may be registered and settled.

The PBCV has streamlined the bilateral trading of these certificates, making it more secure, as it guarantees the settlement of payments and the transfer of ownership of the certificates.

In 2008, GME will go on with its efforts aimed at completing its system of electricity markets, consolidating its environmental markets and continuing to be a point of reference for the national and European electricity sector. To attain this goal, GME will intensify efforts to develop the structure of electricity markets, facilitating their integration within the European context and supporting the achievement of EU’s objectives in terms of enhanced energy efficiency, greater reliance on renewables and reduction of CO₂ emissions.

The President
Salvatore Zecchini



The Chief Executive Officer
Sergio Agosta

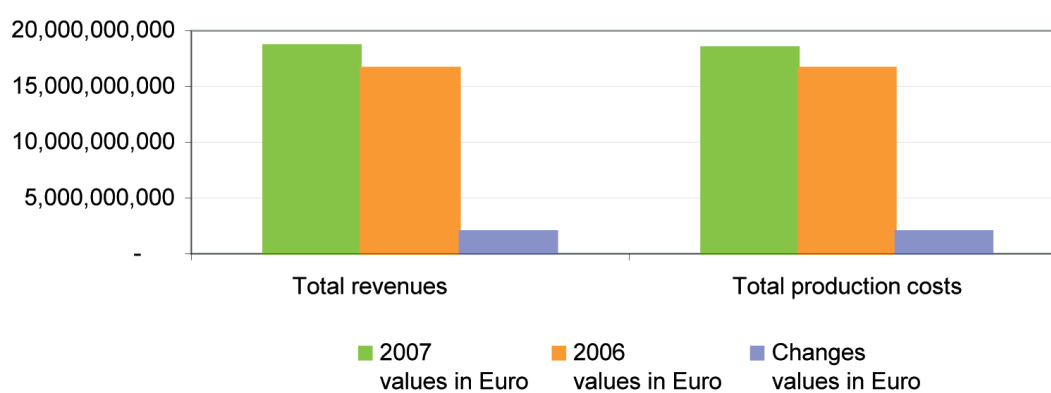


3. OPERATING AND FINANCIAL RESULTS

Box 6 Performance indicators

The key performance indicators that characterised GME's operations in 2007 are shown below and compared with those of 2006.

In Euro	2007	2006	Changes	Changes %
Total revenues	18,617,143,145	16,660,388,847	1,956,754,298	11.74
Total production costs	18,604,520,090	16,647,819,447	1,956,700,643	11.75



In Euro	2007	2006	Changes	Changes %
Earnings before tax	15,141,265	13,644,136	1,497,129	10.97
Net income	9,211,389	7,944,136	1,267,253	15.95



RECLASSIFIED BALANCE SHEET

Thousands of Euro	As at 31 December 2007	As at 31 December 2006	Changes
NET NON-CURRENT ASSETS			
- non-current intangible assets	2,033	2,497	(465)
- non-current tangible assets	1,573	1,779	(206)
- non-current financial assets	273	242	31
Total	3,879	4,518	(640)
NET CURRENT ASSETS			
- trade receivables	4,008,236	2,892,446	1,115,790
- due from parent company	1,027	845	182
- advance tax receivables	51	-	51
- current financial assets	22,034	-	22,034
- other assets	683	1,072	(389)
- trade payables	(3,335,166)	(2,281,228)	(1,053,938)
- due to parent company	(687,908)	(626,990)	(60,918)
- tax payables	(306)	(4,379)	4,073
- due to welfare institutions	(363)	(237)	(126)
- other liabilities	(41,003)	(5,078)	(35,925)
- unavailable deposits from Market Participants	39,296	1,537	37,759
Total	6,582	(22,013)	28,595
GROSS CAPITAL INVESTED	10,460	(17,495)	27,955
SEVERANCE INDEMNITY FUND AND PROVISIONS FOR LIABILITIES AND CHARGES	(1,113)	(1,090)	(23)
NET CAPITAL INVESTED	9,347	(18,584)	27,932
REPRESENTED BY			
SHAREHOLDERS' EQUITY	30,385	26,834	3,551
- Share capital	7,500	7,500	-
- Legal reserve	1,277	879	398
- Other reserves	12,397	10,511	1,886
- Net income (loss) for the year	9,211	7,944	1,267
CASH AND CASH EQUIVALENTS			
- bank deposits	(60,334)	(46,954)	(13,380)
- of which unavailable deposits from Market Participants	39,296	1,537	37,759
- cash and cash equivalents	(1)	(1)	0
Total cash and cash equivalents	(21,038)	(45,418)	24,380
Total	9,347	(18,584)	27,931

It can be observed, from the **Reclassified Balance Sheet** for the 2007 financial year compared with the 2006 financial year, that:

1. the total of the net non-current assets (Euro/thousand 3,879 at 31 December 2007) shows a decrease of Euro/thousand 640, due to the combined effect of the increase in new investments made in the year and continuation of the amortisation and depreciation process;
2. the positive change in net current assets, compared to the prior year, is Euro/thousand 28,595 and is due to a significant investment in financial assets and the decrease in tax payables, net of the advances paid;
3. the net capital invested is Euro/thousand 9,347;
4. with regard to the coverage means, at the financial year-end the shareholders' equity increased as an effect of the net income for the year and was Euro/thousand 30,385, while the net cash and cash equivalents at the financial year-end totalled Euro/thousand 21,038.

3. OPERATING AND FINANCIAL RESULTS

RECLASSIFIED INCOME STATEMENT

Thousands of Euro	As at 31 December 2007	As at 31 December 2006	Changes
Revenues:			
- Revenues from sales of electricity in the Electricity Market and on the PCE	18,588,260	16,632,617	1,955,644
- Revenues from market fees	28,737	27,181	1,556
- Other revenues and income	145	591	(446)
Total Revenues	18,617,143	16,660,389	1,956,754
Costs:			
- Costs for electricity purchases in the Electricity Market and on the PCE	18,588,260	16,632,617	1,955,643
- Labour costs	6,769	5,991	778
- Provision of services:	5,904	5,791	113
* services from the parent company	1,553	1,684	(132)
* services from Terna S.p.A.	253	246	7
* fees payable to directors and auditors	731	793	(62)
* professional services, technical consultancy, legal and notarial, audit and supervisory board fees	487	245	242
* image and communication services	246	239	7
* IT and related maintenance services	2,071	1,886	185
* others	565	698	(133)
- Leases and rentals	897	894	3
- Other external resources	481	542	(61)
Total Costs	18,602,311	16,645,835	1,956,476
Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)	14,833	14,554	279
- Amortisation of non-current intangible assets	(1,525)	(1,386)	139
- Depreciation of non-current tangible assets	(685)	(599)	86
Earnings Before Interest and Tax (EBIT)	12,623	12,569	54
- Net financial income (charges)	2,698	1,517	1,181
Result before non-recurring components and taxes	15,321	14,087	1,234
- Non-recurring income (charges)	(180)	(443)	263
Earnings Before Tax (EBT)	15,141	13,644	1,498
- Income taxes for the year	(5,930)	(5,700)	(230)
NET INCOME FOR THE YEAR	9,211	7,944	1,268

It can be observed, from the **Reclassified Income Statement** for the 2007 financial year compared with the 2006 financial year, that:

1. revenues for sales of electricity in the Electricity Market and on the Forward Electricity Account Trading Platform (PCE), set-off by the corresponding overall purchase costs, totalled Euro/thousand 18,588,260 and registered an increase of Euro/thousand 1,955,644 compared to the 2006 financial year. This increase is mainly due to the start of the PCE, which took place during the course of 2007;
2. fees pertaining to the markets operated by GME (Electricity Market, PCE and Environmental Markets) amounted to Euro/thousand 28,737 giving an increase, compared to 2006, of Euro/thousand 1,556;

3. OPERATING AND FINANCIAL RESULTS

3. the labour cost of Euro/thousand 6,769, shows an increase of Euro/thousand 778 with respect to the prior financial year due to the remuneration policy adopted by the Company in 2007;
4. the other costs for the year (provision of services, rentals and leases, etc.) generally confirm the same values as in the previous financial year;
5. EBITDA of Euro/thousand 14,833 and EBIT of Euro/thousand 12,623 practically reflect the trends in 2006;
6. the balance of Euro/thousand 2,698 from financial management registered an increase, compared to the 2006 financial year, of Euro/thousand 1,181 as an effect of the increase both in stocks consequent to the higher volumes brokered and higher remuneration rates;
7. the net income for the year was Euro/thousand 9,211, with an increase of about 16% compared to corresponding result of 2006.

3. OPERATING AND FINANCIAL RESULTS

CASH FLOW STATEMENT

Thousands of Euro	As at 31 December 2007	As at 31 December 2006
A Initial net cash and cash equivalents	45,418	21,753
B Cash flows from (for) the activities of the financial year		
Net income (loss) for the year	9,211	7,944
Amortisation and depreciation	2,210	1,985
Change in provisions:		
- Provision for severance indemnity fund and other provisions	23	229
Self-financing	11,444	10,158
Change in net current assets		
- (Increase)/decrease in receivables and other financial and non-financial assets	(1,137,876)	(267,518)
- Net receivable/payable from/to parent company	60,736	41,419
- (Increase)/decrease in trade and other payables	1,049,991	247,031
- (Increase)/decrease in other items	(1,445)	736
Total	(28,595)	21,669
Total B - Operating cash flow	(17,150)	31,827
C Cash flows from (for) investments		
- Non-current tangible assets	(478)	(560)
- Non-current intangible, financial assets, etc.	(1,092)	(1,403)
Total (C)	(1,570)	(1,963)
Total B + C	(18,720)	29,864
D Cash flow from financial management		
2006 dividend paid to Sole Shareholder	(5,660)	(6,199)
Total (D)	(5,660)	(6,199)
E Cash flow for the financial year	(24,380)	23,665
Final net cash and cash equivalents	21,038	45,418

The **Cash Flow Statement** for 2007 represents movements in the sources and investment of liquidity. It shows that, starting with a self-financing of Euro/thousand 11,444, cash inflows were dominantly absorbed by the change in net current assets (Euro/thousand 28,595), investments (Euro/thousand 1,570), as well as payment to the Sole Shareholder of the 2006 dividend of Euro/thousand 5,660. The actual cash and cash equivalents at 31 December 2007 totalled Euro/thousand 21,038 and represent the net balance between bank deposits and the unavailable sums deposited by Market Participants.

**Financial statements
AS AT 31 DECEMBER 2007**

3. OPERATING AND FINANCIAL RESULTS

BALANCE SHEET (ASSETS)

ASSETS	31.12.2007		31.12.2006		CHANGES
	PARTIAL	TOTALS	PARTIAL	TOTALS	
	Euro		Euro		Euro
A) RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS STILL DUE					
B) NON-CURRENT ASSETS					
I. Intangible assets					
1) Start-up and expansion costs			3,144		(3,144)
3) Industrial patent rights and rights of utilisation of intellectual property	1,766,389		2,183,897		(417,507)
4) Concessions, licenses, brands and similar rights	18,681		37,377		(18,695)
6) Non-current assets in progress and advances			240,000		(240,000)
7) Others	247,602		32,590		215,012
		2,032,673		2,497,007	(464,334)
II. Tangible assets					
2) Plant and machinery	198		305		(108)
4) Other assets	1,472,369		1,778,942		(306,572)
5) Non-current assets in progress and advances	100,000				100,000
		1,572,567		1,779,247	(206,680)
III. Financial assets					
2) Receivables					
d) Other receivables	23,134	272,743	20,900	241,647	31,096
		272,743		241,647	31,096
Total non-current assets		3,877,983		4,517,901	(639,918)
C) CURRENT ASSETS					
II. Receivables					
1) Trade receivables	4,008,236,330		2,892,445,959		1,115,790,371
4) Due from parent company	1,027,104		844,862		182,242
4-ter) Advance taxes	34,658	51,307			51,307
5) Other receivables	464,951		678,207		(213,256)
		4,009,779,692		2,893,969,028	1,115,810,664
III. Current financial assets					
6) Other securities	22,034,252				22,034,252
		22,034,252			22,034,252
IV. Cash and cash equivalents					
1) Bank and postal deposits	60,333,791		46,953,811		13,379,979
3) Cash and notes on hand	972		1,258		(286)
		60,334,763		46,955,070	13,379,693
Total current assets		4,092,148,706		2,940,924,098	1,151,224,609
D) PREPAID EXPENSES AND DEFERRED INCOME					
Pre-paid expenses	21,389				21,389
Deferred income	197,047		394,910		(197,863)
Total prepaid expenses and deferred income		218,436		394,910	(176,474)
TOTAL ASSETS		4,096,245,125		2,945,836,909	1,150,408,216

BALANCE SHEET (SHAREHOLDERS' EQUITY AND LIABILITIES)

	PARTIAL	TOTALS	PARTIAL	TOTALS	CHANGES
	31.12.2007		31.12.2006		
	Euro		Euro		Euro
A) SHAREHOLDERS' EQUITY					
I. Share capital	7,500,000		7,500,000		
IV. Legal reserve	1,276,689		879,483		397,207
VII. Other reserves					
- Available reserve	12,397,494		10,510,761		1,886,733
IX. Net income (loss) for the year	9,211,389		7,944,136		1,267,252
Total Shareholders' Equity		30,385,572		26,834,380	3,551,192
B) PROVISIONS FOR LIABILITIES AND CHARGES		140,657		137,106	3,551
1) For retirement benefits and similar obligations	140,657		137,106		3,551
C) SEVERANCE INDEMNITY FUND		972,519		952,872	19,647
D) PAYABLES					
7) Trade payables	3,335,166,058		2,281,228,102		1,053,937,956
11) Due to parent company	687,908,351		626,990,144		60,918,207
12) Tax payables	306,058		4,379,203		(4,073,145)
13) Due to pension and social security institutions	362,973		237,289		125,685
14) Other payables	40,238,700		4,433,646		35,805,054
Total payables		4,063,982,139		2,917,268,383	1,146,713,756
E) ACCRUED INCOME AND DEFERRED EXPENSES					
Accrued income	3,611		2,907		703
Deferred expenses	760,627		641,260		119,367
Total accrued income and deferred expenses		764,238		644,168	120,070
Total shareholders' equity and liabilities		4,065,859,553		2,919,002,529	1,146,857,025
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,096,245,125		2,945,836,909	1,150,408,216
MEMORANDUM ACCOUNTS					
Guarantees received	1,404,003,393		1,053,360,576		350,642,816
Total memorandum accounts		1,404,003,393		1,053,360,576	350,642,816

3. OPERATING AND FINANCIAL RESULTS

INCOME STATEMENT

	PARTIAL	TOTALS	PARTIAL	TOTALS	CHANGES
	31.12.2007 Euro		31.12.2006 Euro		Euro
A) REVENUES					
1) Revenues from sales and services	18,616,997,963		16,659,797,832		1,957,200,131
5) Other revenues and income	145,182		591,015		(445,833)
Total Revenues		18,617,143,145		16,660,388,847	1,956,754,298
B) PRODUCTION COSTS					
6) Raw materials, ancillaries, consumables and goods		18,588,283,097		16,632,641,607	1,955,641,490
7) For services		5,904,020		5,791,871	112,149
8) Leases and rentals		896,916		894,476	2,440
9) Personnel costs					
a) Salaries and wages	4,885,751		4,337,135		548,616
b) Social security charges	1,376,847		1,183,529		193,318
c) Severance indemnity fund	351,728		320,894		30,834
d) Pensions and similar costs	4,607				4,607
e) Other costs	150,526		149,635		891
		6,769,459		5,991,194	778,265
10) Amortisation, depreciation and write-downs					
a) Amortisation of non-current intangible assets	1,524,907		1,385,597		139,310
b) Depreciation of non-current tangible assets	684,690		599,149		85,541
		2,209,597		1,984,746	224,851
14) Other operating charges		456,999		515,553	(58,554)
Total production costs		18,604,520,090		16,647,819,447	1,956,700,643
Difference between revenues and production costs (A-B)		12,623,055		12,569,399	53,656
C) FINANCIAL INCOME AND CHARGES					
16) Other financial income:					
a) from non-current receivables:					
- others	6,422		5,203		1,219
		6,422		5,203	1,219
c) from current securities excluding equity investments					
- others	21,389				21,389
		21,389			21,389
d) income other than the above					
- others	2,677,684		1,512,288		1,165,396
		2,677,684		1,512,288	1,165,396
17) Interest and other financial charges					
- others	(7,419)		(50)		(7,369)
		(7,419)		(50)	(7,369)
Total financial income and charges		2,698,076		1,517,441	1,180,635
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS					
Total value adjustments to financial assets					
E) NON-RECURRING INCOME AND CHARGES					
20) Income					
- various	61,704		82,292		(20,588)
		61,704		82,292	(20,588)
21) Charges:					
- various	(241,571)		(524,996)		283,425
		(241,571)		(524,996)	283,425
Total non-recurring items		(179,866)		(442,704)	262,838
Earnings Before Tax (A-B+-C+-D+-E)		15,141,265		13,644,136	1,497,129
22) Current, deferred and advance income taxes for the year		(5,929,876)		(5,700,000)	(229,876)
23) Net income (loss) for the year		9,211,389		7,944,136	1,267,253

Notes
TO THE 2007 FINANCIAL STATEMENTS

3. OPERATING AND FINANCIAL RESULTS

BALANCE SHEET

ASSETS

Non-current assets – Euro 3,877,983

Non-current intangible assets – Euro 2,032,673

The details of the item with the changes in the period are shown in the following table:

Thousands of Euro	Start-up and expansion costs	Industrial patent rights and rights of utilisation of intellectual property	Concessions, licences, brands and similar rights	Non-current assets in progress and advances	Others	Total
Situation at 31 Dec. 2006						
Original cost	15.7	11,746.9	66.5	240.0	36.1	12,105.2
Amortisation	(12.5)	(9,563.0)	(29.1)		(3.5)	(9,608.2)
Situation at 31 Dec. 2006	3.2	2,183.9	37.4	240.0	32.6	2,497.0
Movements in the year 2007:						
Increases		873.3	1.2		186.0	1,060.6
Transfers in the financial year		190.0		(240.0)	50.0	0.0
Amortisation	(3.1)	(1,480.8)	(19.9)		(21.0)	(1,524.9)
Balance of movements in the year 2007	(3.1)	(417.5)	(18.7)	(240.0)	215.0	(464.3)
Situation at 31 Dec. 2007						
Original cost	15.7	12,810.3	67.7	0.0	272.1	13,165.8
Amortisation	(15.7)	(11,043.8)	(49.1)		(24.5)	(11,133.1)
Situation at 31 Dec. 2007	0.0	1,766.4	18.7	0.0	247.6	2,032.7

The start-up and expansion costs, regarding the capitalisation of the costs incurred for the Company's start-up and for share capital increases, show a nil balance as they were completely amortised in the 2007 financial year.

Industrial patent rights and rights of utilisation of intellectual property rights total Euro 1,766,389. These record:

- the increases in the year of Euro 1,063,305, relating to:
 - upgrades of the application software dedicated to the management of the Electricity Market, including updating of the "Me Settlement" accounting system (Euro 381,099);
 - expansion of the functionality of the software for managing the "CeMarket" bilateral contracts (Euro 275,000);
 - expansion of the SAP corporate accounting system (Euro 25,920);
 - application software dedicated to the management of the PCE (Euro 232,150);
 - other management software licences (Euro 149,136);
- the decreases in investments made during the year and in the previous years as an effect of the accumulated amortisation (Euro 11,043,832).

3. OPERATING AND FINANCIAL RESULTS

The concessions, licences, brands and similar rights total Euro 18,681 and record:

- the “brands” of Euro 6,039, which relate to the net expenses incurred by the Company for the creation of the corporate logo. The “PUN Index GME” Community Trademark was registered in this financial year.
The expenses classified in this item are amortised over a period of ten years;
- the “similar rights” totalling Euro 12,642, which relate to fixed-term software “usage licences”, amortised based on their period of utility.

The “others” total Euro 247.602. These record:

- the net expenses incurred for “improvements to third party assets”, which relate to improvements made in 2005 with a view to allocating some areas of the parent company’s headquarters (situated in Viale Pilsudski) for the Disaster Recovery system. These areas are leased to GME under a specific contract. The value is Euro 29,582;
- the net expenses incurred for “improvements to third party assets”, which relate to improvements made in 2007 to some areas of a property (situated in Via Palmiano, 101) used by GME for its Trading Room. These areas are leased to GME by Terna S.p.A. under a specific contract. The value is Euro 218,020;

Amortisation was calculated, pursuant to OIC (the Italian Accounting Standards Setter) no. 24, as the shortest period between that in which the improvements are utilised and that of the residual lease (including the period of tacit renewal).

Non-current tangible assets – Euro 1,572,567

Movements in the item during the financial year are shown below:

Thousands of Euro	Plant and machinery	Other assets	Non-current assets in progress and advances	Total
Situation at 31 Dec. 2006				
Original cost	0.5	3,253.9		3,254.4
Provision for depreciation	(0.2)	(1,475.0)		(1,475.2)
Balance at 31 Dec. 2006	0.3	1,778.9		1,779.3
Movements in the year 2007				
Purchases		378.0	100.0	478.0
Transfers in the financial year				
Depreciation	(0.1)	(684.6)		(684.7)
Balance of movements in the year 2007	(0.1)	(306.6)	100.0	(206.7)
Situation at 31 Dec. 2007				
Original cost	0.5	3,631.9	100.0	3,732.4
Provision for depreciation	(0.3)	(2,159.5)		(2,159.9)
Balance at 31 Dec. 2007	0.2	1,472.4	100.0	1,572.6

3. OPERATING AND FINANCIAL RESULTS

The item *Other assets* totals Euro 1,472,369. It records:

- the increases in the year of Euro 378,009, relating to purchases of:
 - hardware for the PCE (Euro 70,650);
 - hardware for upgrading the Electricity Market information system (Euro 187,037);
 - hardware for upgrading GME's Server Farms (Euro 56,800);
 - furniture and fittings for GME's Trading Room (Euro 52,431);
 - and other hardware (Euro 11,091);
- the decreases, relating to depreciation of the investments made in the year and those accumulated in the previous financial years (Euro 2,159,549).

The item *Non-current assets in progress and advances* totalling Euro 100,000 includes a supply advance for the purchase of hardware for upgrading the Electricity Market information system. As at the 2007 year-end, the full ownership of this right had not yet been acquired.

Non-current financial assets – Euro 272,743

The item constitutes:

- “loans to employees” of Euro 239,821 (recorded at the residual debt value) granted for the purchase of a first home or for serious family necessity, as provided in the applicable industry-wide agreements;
- receivable from INPS (Italian Social Security Institute) for amounts paid to the INPS Treasury Fund totalling Euro 32,922. The INPS Treasury Fund arose following the coming into force of art. 1, paragraph 755, of Law no. 296 of 27 December 2006, which instituted the “Fund for disbursement to private-sector employees of the severance indemnity mentioned in art. 2120 of the Italian Civil Code”.

Current Assets – Euro 4,092,148,706

Receivables – Euro 4,009,779,692

The indication of the amounts due within and after five years is shown in the appropriate detailed schedule to complete comment on the asset.

Trade receivables – Euro 4,008,236,330

The item constitutes the trade receivables shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Receivables for sales of electricity in the Electricity Market	3,952,348.7	2,888,925.1	1,063,423.6
Receivables for fees for assignment of rights of use of transmission capacity (CCT), as per art. 43, Annex A, AEEG's Decision 111/06	51,339.7	-	51,339.7
Receivables for fees per MWh traded in the Electricity Market	2,820.8	2,913.2	(92.4)
Receivables for fees per MWh traded on the PCE	1,030.7	-	1,030.7
Receivables for access fees in the Electricity Market	48.0	46.8	1.2
Receivables for yearly fixed fees in the Electricity Market	563.6	516.0	47.6
Receivables for fees in the Green Certificates Market	2.7	16.2	(13.5)
Receivables for fees in the Energy Efficiency Certificates Market	81.8	28.6	53.2
Receivables for fees in the Emissions Trading Market	0.4	-	0.4
Total	4,008,236.3	2,892,445.9	1,115,790.4

Specifically, the receivables:

- for sales of electricity in the Electricity Market were Euro 3,952,348,702.

This item mainly relates to the receivables from Electricity Market Participants for sales of electricity in the Energy Markets, i.e. the Day-Ahead Market (MGP) and the Adjustment Market (MA), during the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 65 of the Integrated Text of the Electricity Market Rules and related Technical Rules;

- for fees for assignment of rights of use of transmission capacity (CCT), pursuant to art. 43, Annex A, AEEG's Decision 111/06, totalled Euro 51,339,675.

This item mainly relates to the receivables from PCE Participants for trading of the CCT in the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 52 of the Rules Governing the Forward Electricity Account Trading Platform (PCE) and related Technical Rules;

- for fees per MWh traded in the Electricity Market totalled Euro 2,820,794.

This item prevalently includes the receivable from Electricity Market Participants (excluding GSE) for the fee per MWh traded in the Electricity Market in the months of November and December 2007 and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 7.1 of the Integrated Text of the Electricity Market Rules and related Technical Rules;

- for fees per MWh underlying the transactions registered on the PCE, totalled Euro 1,030,658.

This item relates to receivables from PCE Participants for the fee per MWh underlying the transactions registered in the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 54 of the Rules Governing the Forward Electricity Account Trading Platform (PCE) and related Technical Rules;

- for access fees in the Electricity Market were Euro 48,000.

This item includes the receivable from Electricity Market Participants for the fee of access to the Electricity Market, pursuant to art. 7.1 of the Integrated Text of the Electricity Market Rules. This fee is due for the services supplied by GME and is regulated by the Technical Rules;

- for yearly fixed fees in the Electricity Market were Euro 563,635.

This item includes the receivable from Electricity Market Participants for the services supplied to them. The fee is provided in art. 7.1 of the Integrated Text of the Electricity Market Rules and is regulated by the Technical Rules;

- for fees in the Green Certificates Market were Euro 2,664.

This item includes the receivable from Green Certificates Market Participants for the services supplied to them in the market. The fee is provided in art. 7.2 of the Integrated Text of the Electricity Market Rules and is regulated by the Technical Rules;

- for fees in the Energy Efficiency Certificates Market were Euro 81,821.

This item includes the receivable from Energy Efficiency Certificates Market Participants for the services supplied to them in the market. This fee is provided in art. 6.2 of the Rules of Operation of the Energy Efficiency Certificates Market and is regulated by the Technical Rules;

- for fees in the Emissions Trading Market were Euro 381.

This item includes the receivable from Emissions Trading Market Participants for the services supplied to them in the market. This fee is provided in art. 34 of the Emissions Trading Market Rules and is regulated by the Technical Rules.

It was not considered appropriate to proceed with the formation of a bad debts provision, as the receivables recorded in the financial statements are considered collectable in full, based on the "financial guarantees" (bank guarantees and security deposits) posted by Electricity Market Participants in GME's favour, in compliance with the provisions of the Integrated Text of the Electricity Market Rules and of the Rules governing the other markets managed by GME.

3. OPERATING AND FINANCIAL RESULTS

Due from parent company - Euro 1,027,104

The item constitutes the receivables from the parent company as shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Receivables for sales of electricity in the Electricity Market	670.8	-	670.8
Receivables for services provided in the Electricity Market	244.6	706.9	(462.3)
Receivables for various supplies and services	111.7	138.0	(26.3)
Total	1,027.1	844.9	182.2

Specifically, the receivables from the parent company:

- for sales of electricity in the Electricity Market were Euro 670,814.

This item relates to the receivables for sales of electricity in the Energy Markets during the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 65 of the Integrated Text of the Electricity Market Rules and related Technical Rules;

- for services provided in the Electricity Market were Euro 244,542.

This item includes the receivable from the parent company for the fee per MWh traded in the Electricity Market in the months of November and December 2007 and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 7.1 of the Integrated Text of the Electricity Market Rules;

- for other services (Euro 111,748).

Advance taxes – Euro 51,307

The item, totalling Euro 51,307, includes the allocation for the 2007 financial year for IRES (corporate tax - Euro 47,442) and IRAP (regional tax - Euro 3,865) timing differences deriving from the deductibility profiles of the representation expenses and directors' fees. These amounts were recorded, in compliance with the prudence principle, considering that it is reasonably certain that there will be sufficient taxable income in the financial years in which such differences will reverse.

Other receivables – Euro 464,951

The item other receivables is shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Receivables for services other than electricity (personnel, other services)	-	3.2	(3.2)
Receivables for services other than electricity provided to Terna S.p.A.	445.8	681.0	(235.1)
Sundry advances	2.1	2.5	(0.4)
Receivables from welfare and insurance entities	4.1	4.1	-
Other receivables - others	13.0	(12.6)	25.5
Total	465.0	678.2	(213.3)

This item prevalently constitutes due and accrued receivables from Terna S.p.A. for services provided in the Electricity Market.

Current financial assets – Euro 22,034,252

The item refers to a financial investment made on 27 December 2007 by subscribing a bond with principal protected at maturity, issued by a leading international bank.

This financial asset, the principal of which is guaranteed for a 10-year term, also permits GME to require early repayment of the principal at market conditions six months after the issue date.

The amount recorded in the financial statements, equal to the subscription value including ancillary charges, does not differ from the valuation of the bond at 31 December 2007; moreover, on 25 March 2008, the market trend did not show major deviations from the value recorded in the financial statements.

Cash and cash equivalents – Euro 60,334,763

Details of the item are shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Bank deposits	60,333.8	46,953.8	13,380.0
Cash and notes on hand	1.0	1.3	(0.3)
Total	60,334.8	46,955.1	13,379.7

The cash and cash equivalents are represented by:

- liquidity with banks of Euro 60,333,791, of which:
 - Euro 36,783,731 for non-interest bearing and unavailable security deposits paid by Electricity Market and PCE Participants;
 - Euro 2,512,283 for the principal portion of the unavailable cash deposits paid by Environmental Market Participants;
- availability of cash in the Company's petty cash to meet small expenses of Euro 972.

The item, with respect to 2006, shows an increase of Euro 13,379,693, mainly as an effect of the increase in payments made, by way of security deposits, by Electricity Market and PCE Participants.

3. OPERATING AND FINANCIAL RESULTS

Accrued income and prepaid expenses – Euro 218,436

The item relates to:

- accrued income of Euro 21,389 for interest due at 31 December 2007 on the bond subscribed on 27 December 2007;
- prepaid expense of Euro 197,047 for costs of services relating to the 2008 financial year.

Further information on the receivables

The break-down of the receivables in relation to their due date of collection is shown in the following table.

Thousands of Euro	Within 1 Year	From 2 to 5 Year	After 5 Year	Total
Non-current financial receivables				
Other receivables	23.1	117.4	132.3	272.7
Total	23.1	117.4	132.3	272.7
Current receivables				
Trade receivables	4,008,236.3			4,008,236.3
Due from parent company	1,027.1			1,027.1
Advance taxes	34.7	16.6		51.3
Other receivables	465.0			465.0
Total	4,009,763.0	16.6	-	4,009,779.7
Total	4,009,786.2	134.0	132.3	4,010,052.4

Noted below is the break-down of the Company's receivables by geographical area.

Thousands of Euro	Italy	Other EU countries	Non-EU	Total
Non-current financial receivables				
Other receivables	272.7			272.7
Total	272.7	-	-	272.7
Current receivables				
Trade receivables	3,867,749.3	92,303.9	48,183.2	4,008,236.3
Due from parent company	1,027.1			1,027.1
Advance taxes	51.3			51.3
Other receivables	465.0			465.0
Total	3,869,292.6	92,303.9	48,183.2	4,009,779.7
Total	3,869,565.4	92,303.9	48,183.2	4,010,052.4

BALANCE SHEET

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity – Euro 30,385,572

The composition of the shareholders' equity and changes that took place during the financial year are given in the following schedule.

Thousands of Euro	Share capital	Legal reserve	Other reserves	Dividend paid to Sole Shareholder	Net income (loss) for the period	Total
Balance at 31 Dec. 2005	7,500.0	259.5	4,931.3		12,398.8	25,089.6
<i>Movements in the period</i>						
- Legal reserve		620.0			(620.0)	-
- Available reserve			5,579.4		(5,579.4)	-
- 2006 dividend distributed				6,199.0	(6,199.0)	-
- 2006 dividend paid				(6,199.0)		
<i>Result for the year 2006</i>						
- Net income (loss) for the year					7,944.1	7,944.1
Balance at 31 Dec. 2006	7,500.0	879.5	10,510.7	-	7,944.1	26,834.4
<i>Movements in the period</i>						
- Legal reserve		397.2			(397.2)	-
- Available reserve			1,886.7		(1,886.7)	-
- 2007 dividend distributed				5,660.2	(5,660.2)	-
- 2007 dividend paid				(5,660.2)		
<i>Result for the year 2007</i>						
- Net income (loss) for the year					9,211.4	9,211.4
Balance at 31 Dec. 2007	7,500.0	1,276.7	12,397.5	-	9,211.4	30,385.6

As regulated by art. 2427, paragraph 1.7-bis of the Italian Civil Code, the origin, possibility of utilisation and distribution are shown analytically below.

	Amount	Possibility of utilisation (*)	Amount available
Share capital	7,500.0		-
Legal reserve	1,276.7	B)	-
Other reserves			
Available reserve	12,397.5	A) B) C)	12,397.5
Total	21,174.2		
Amount not distributable	8,776.7		
Residual distributable amount	12,397.5		
Total	21,174.2		

*Legend:

A) For capital increase, B) For covering losses, C) For distribution to the shareholders

3. OPERATING AND FINANCIAL RESULTS

Share Capital - Euro 7,500,000

The share capital is Euro 7,500,000 and is represented by 7,500,000 ordinary shares having a nominal value of 1 Euro each.

Legal reserve

The item represents an overall allocation of Euro 1,276,689. The first allocation of Euro 259,542 was approved by an Ordinary Shareholders' Meeting on 3 May 2005.

The minutes of the aforesaid Shareholders' Meeting recorded the approval of the total allocation of the net profit for the 2004 financial year, amounting to Euro 5,191,836, with the consequent allocation of 5% to the legal reserve pursuant to art. 2430 of the Italian Civil Code.

The second allocation of Euro 619,941 was approved by an Ordinary Shareholders' Meeting held on 23 March 2006.

The minutes of the aforesaid Shareholders' Meeting recorded the approval of the total allocation of the net profit for the 2005 financial year, amounting to Euro 12,398,815, and expressed the wish to allocate the amount of Euro 619,941 to the legal reserve.

The third allocation of Euro 397,207 was approved by an Ordinary Shareholders' Meeting held on 30 April 2007.

The minutes of the aforesaid Shareholders' Meeting recorded the approval of the total allocation of the net profit for the 2006 financial year, amounting to Euro 7,944,136, and expressed the wish to allocate the amount of Euro 397,207 to the legal reserve. At 31 December 2007 the legal reserve represents about 1/6 (corresponding to 17%) of the share capital.

Other reserves

The item represents an overall allocation of Euro 12,397,494 to the extraordinary reserve.

The first allocation of Euro 4,931,294 was approved by an Ordinary Shareholders' Meeting held on 3 May 2005.

The second allocation of Euro 5,579,467 was approved by an Ordinary Shareholders' Meeting held on 23 March 2006.

The third allocation of Euro 1,886,732 was approved by an Ordinary Shareholders' Meeting held on 30 April 2007 and corresponds to 25% of the net income achieved in the prior financial year net of the amount allocated to the legal reserve.

Sole Shareholder's dividend

It is noted that the Shareholders' Meeting held on 30 April 2007 approved the allocation of part of the net income for the 2006 financial year, an amount of Euro 5,660,197, to the Sole Shareholder (Gestore dei Servizi Elettrici - GSE S.p.A.) by way of dividend.

Payment of this amount was arranged during the course of 2007.

Net income for the year – Euro 9,211,389

The earnings before tax of 2007 were Euro 15,141,265; the taxes for the year (IRAP and IRES) were Euro 5,929,876 and consequently the net income for the financial year amounted to Euro 9,211,389.

Provisions for liabilities and charges – Euro 140,657

The amount of Euro 140,657 refers to the allocation made during 2007 for additional monthly pay relative to the personnel in service who have gained the right pursuant to the National Collective Labour Agreement and to the trade union agreements in force, and allocation for emoluments to be paid to GME's bodies. The changes that took place in the substance are shown below:

Euro	31 Dec. 2006	Allocations	Utilisations/Other changes	31 Dec. 2007
For retirement benefits and similar obligations	137,106	106,977	(103,426)	140,657
Total	137,106	106,977	(103,426)	140,657

Severance Indemnity Fund – Euro 972,519

Movements in the balance during the 2007 financial year are shown below:

Thousands of Euro	
Balance at 31 Dec. 2006	952.9
Allocations	
Allocations	312.2
Allocations to INPS Treasury Fund	39.5
Utilisations	
Utilisations for payments	(72.4)
Utilisations for payments to INPS Treasury Fund	(1.9)
Complementary Welfare Provisions	
Portion allocated to FONDENEL	(114.8)
Portion allocated to FOPEN	(125.0)
Other movements	
Substitute tax (11%) on yearly revaluation of severance indemnities	(3.5)
Additional contribution (0.50%) pursuant to art. 3, Law. 297/82	(14.5)
Total	972.5

This item includes the payable due to employees for severance indemnities (TFR) pursuant to the law, net of the advances granted, amounts paid out, amounts destined to the additional pension funds and INPS Treasury Fund.

With reference to the INPS Treasury Fund, it is worth noting that, with the coming into force of art. 1, paragraph 755, of Law no. 296 of 27 December 2006, the "Fund for disbursement of severance indemnities to private-sector employees mentioned in art. 296 of the Italian Civil Code" was instituted.

This reform determined new treatment to be applied to both severance indemnities due at 31 December 2006 and those becoming due after 1 January 2007.

Based on the new regulations, the severance indemnities due at 31 December 2006 remain "deposited" within the Company and will be paid totally or partially to the employees when they meet the relevant

3. OPERATING AND FINANCIAL RESULTS

requirements. Accordingly, the criteria for both valuation and exposure in the financial statements remain unchanged.

With reference, instead, to the severance indemnities becoming due after 1 January 2007 and left within the Company by the express wish or not of the employees, and therefore not destined for the complementary welfare, the amount is allocated by way of a "contribution" to the INPS Treasury Fund.

Payables – Euro 4,063,959,179

The indication of the amounts due within and after five years is shown in the appropriate detailed schedule to complete comment on the liabilities.

Trade payables – Euro 3,335,166,058

The item trade payables is shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Change
Payables for purchases of electricity in the Electricity Market	3,282,445.7	2,279,352.5	1,003,093.2
Payables for CCT assignment charges, pursuant to art. 43, Annex A, AEEG's Decision no. 111/06	51,303.9	-	51,303.9
Payables for services other than electricity	1,416.4	1,875.6	(459.2)
Total	3,335,166.1	2,281,228.1	1,053,938.0

The trade payables exposure refers to:

- payables to Electricity Market Participants for the purchase of electricity amounting to Euro 3,282,445,737 in the Energy Markets (MGP and MA) in the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 65 of the Integrated Text of the Electricity Market Rules and related Technical Rules;
- payables to PCE Participants amounting to Euro 51,303,932 for the transactions registered in the months of November and December 2007; these amounts were ascertained by accrual and invoiced in the months of January 2008 and February 2008, respectively, pursuant to art. 52 of the PCE Rules and related Technical Rules;
- invoices received and to be received for services and material purchases of Euro 1,416,389.

Due to parent company – Euro 687,908,351

Payables to the parent company, compared with the previous financial year, are shown in the following table:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Change
Payables for purchases of electricity in the Electricity Market	670,856.6	609,955.9	60,900.7
Payables for invoices and debit notes received	15,064.9	106.0	14,958.9
Payables for invoices and debit notes to be received	114.4	14,903.4	(14,789.0)
Debit notes to be issued	1,872.4	2,024.8	(152.4)
Total	687,908.3	626,990.1	60,918.3

3. OPERATING AND FINANCIAL RESULTS

The item mainly refers to payables to the parent company for:

- purchases of electricity in the Electricity Market in the months of November and December 2007 of Euro 670,856,606 (due and accrued and invoiced in the months of January and February 2008, respectively);
- payables deriving from the service contract entered into with the parent company for the supply of various services and 2007 advance VAT (Euro 15,064,928);
- payables for invoices to be received of Euro 114,409, mainly relating to the balance of the service contract entered into with the parent company;
- debit notes for the transfer of the VAT balance for December 2007 (Euro 1,872,408), as an effect of the GSE S.p.A. Group's VAT option.

Tax payables – Euro 306,058

The item “tax payables” records the payable of Euro 306,058 to the State Treasury for estimated taxes for the 2007 financial year (Euro 5,929,876), net of advances and withholdings (Regional Production Tax – IRAP – and Corporate Tax – IRES –) and for withholdings retained as substitute tax to be paid in the 2008 financial year.

Specifically:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Payables to the State Treasury for income taxes - IRES	38.0	4,147.0	(4,108.9)
Payables to the State Treasury for regional production tax - IRAP	33.1	38.2	(5.1)
Payables for tax withholdings	234.9	194.0	40.9
Total	306.1	4,379.2	(4,073.1)

Due to pension and social security institutions – Euro 362,973

Details of the item are shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Due to INPS (Italian Social Security Institute)	189.0	170.8	18.2
Various payables	174.0	66.5	107.4
Total	363.0	237.3	125.6

The item regards the payables to pension and social security institutions relating to the Company's and employees' contributions, due on both remuneration paid and charges accrued and not paid to the employees for annual and scrapped public holidays due and not yet taken, overtime and other indemnities for the month of December 2007, settled in January 2008.

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Other payables – Euro 40,238,700

Details of the item are shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Change
Payables to the personnel	819.0	348.1	470.9
Security deposits from Electricity Market and PCE Participants	36,783.7	1,537.0	35,246.7
Cash deposits from Environmental Market Participants	2,512.3	2,477.9	34.4
Other various payables	123.7	70.6	53.1
Total	40,238.7	4,433.6	35,805.1

This item mainly refers to:

- payables to the employees for annual and scrapped public holidays due and not yet taken, overtime and other items (Euro 819,024);
- security deposits (Euro 36,783,731). This item relates to the security deposits posted by Electricity Market and PCE Participants;
- cash deposits relating to the Environmental Markets (Euro 2,512,283), specifically:
 - Euro 1,597,174 for the Green Certificates Market;
 - Euro 664,834 for the Energy Efficiency Certificates Market;
 - Euro 250,275 for the Emissions Trading Market;
- various payables accrued in this and other financial years (Euro 123,662).

Accrued expenses and deferred income – Euro 764,238

The item refers to accrued expenses (Euro 3,611) relating to negative income components paid in arrears and deferrals (Euro 760,627). The latter refer to:

- deferral of the portion relating to the 2008 financial year of the yearly fixed fee for the Electricity Market of Euro 741,726;
- deferral of the portion relating to the 2008 financial year of the yearly fee for the Energy Efficiency Certificates Market of Euro 18,900;

Further information on the payables

The break-down of the payables in relation to their due date of extinction is shown in the following table.

Thousands of Euro	Within 1 year	From 2 to 5 year	After 5 year	Total
Trade payables	3,335,166.1			3,335,166.1
Due to parent company	687,908.3			687,908.3
Tax payables	306.1			306.1
Due to pension and social security institutions	363.0			363.0
Other payables	40,238.7			40,238.7
TOTAL	4,063,982.1			4,063,982.1

Noted below is the break-down of the Company's payables by geographical area.

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Thousands of Euro	Italy	Other EU countries	Non-EU	Total
Trade payables	3,155,781.3	109,467.9	69,916.8	3,335,166.1
Due to parent company	687,908.3			687,908.3
Tax payables	306.1			306.1
Due to pension and social security institutions	363.0			363.0
Other payables	40,238.7			40,238.7
Total	3,884,597.4	109,467.9	69,916.8	4,063,982.1

Memorandum accounts – Euro 1,404,003,393

Memorandum accounts include the amounts of the bank guarantees, commitments and risks and other memorandum items as shown below:

- guarantees received from the employees for loans granted to them by GME of Euro 485,208;
- guarantees received from third parties of Euro 1,077,337 relating to the services awarded to third parties;
- guarantees for participation in the Electricity Market, posted by Electricity Market Participants pursuant to art. 70 “Financial Guarantees of Market Participants”, Integrated Text of the Electricity Market Rules, of Euro 1,213,347,092;
- guarantees for participation in the PCE, posted by PCE Participants pursuant to art. 56 “Financial Guarantees of Participants” of the Rules Governing the Forward Electricity Account Trading Platform (PCE), in accordance with art.17 of Annex A of AEEG’s Decision 111/06, as amended, of Euro 189,093,756.

3. OPERATING AND FINANCIAL RESULTS

INCOME STATEMENT

Total revenues – Euro 18,617,143,145

Revenues from sales and services - Euro 18,616,997,963

Details of this item are shown in the table below:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Revenues from electricity sales - MGP	17,396,884.4	15,818,448.9	1,578,435.5
Revenues from electricity sales - MA	883,439.4	751,137.7	132,301.7
Revenues from CCT assignment, pursuant to art. 43, Annex A, AEEG's Decision 111/06	225,445.0	-	225,445.0
Revenues from fees per MWh traded in the Electricity Market and on the PCE	20,971.5	18,345.4	2,626.1
Revenues from access fees in the Electricity Market	187.5	127.5	60.0
Revenues from yearly fixed fees in the Electricity Market	1,129.5	378.7	750.8
Revenues deriving from zoning in the energy market (MGP) and on the PCE	82,491.7	63,030.0	19,461.7
Revenues from services provided to Terna S.p.A. in the Electricity Market	6,146.7	8,134.0	(1,987.3)
Revenues from fees in the Green Certificates Market	49.2	61.0	(11.8)
Revenues from fees in the Energy Efficiency Certificates Market	194.5	87.0	107.5
Revenues from yearly fixed fees in the Energy Efficiency Certificates Market	34.2	47.4	(13.2)
Revenues from access fees on the PCE	24.0	-	24.0
Revenues from fees in the Emissions Trading Market	0.4	-	0.4
Total	18,616,998.0	16,659,797.6	1,957,200.4

As shown in the table, the revenues mainly refer to:

- revenues from electricity sales in the MGP.

This item, totalling Euro 17,396,884,416, refers to the revenues for electricity sales by GME in the Day-Ahead Market (MGP), as per Section IV, Energy Markets, Subsection I, Integrated Text of the Electricity Market Rules.

- revenues from electricity sales in the MA.

This item, totalling Euro 883,439,394, refers to the revenues for electricity sales by GME in the Adjustment Market (MA), as per Section IV, Energy Markets, Subsection II, Integrated Text of the Electricity Market Rules.

Revenues from electricity sales in the MGP and MA and revenues deriving from zoning in the energy markets represent linked items as they are set-off against the corresponding cost items, achieving an economic balance between the same items represented below:

3. OPERATING AND FINANCIAL RESULTS

Thousands of Euro	Linked revenues	Linked costs	Change
MGP	17,396,884.4	17,437,642.4	(40,758.0)
MA	883,439.4	880,891.1	2,548.3
Total Electricity Market	18,280,323.8	18,318,533.4	(38,209.6)
Zoning in the energy market - MGP	81,758.7	43,549.0	38,209.6
Electricity Market Balance	18,362,082.5	18,362,082.5	-
CCT pursuant to art. 43, Annex A, AEEG's Decision 111/06	225,445.0	65,641.9	159,803.1
Total PCE	225,445.0	65,641.9	159,803.1
Zoning on the PCE	733.0	160,536.2	(159,803.1)
PCE Balance	226,178.0		226,178.0 -

- fees for assignment of the right of use of transmission capacity (CCT).

This item, totalling Euro 225,445,006, refers to the revenues for the CCT on the PCE;

- fees per MWh traded in the Electricity Market and on the Forward Electricity Account Trading Platform (PCE).

This item, totalling Euro 20,971,458, refers to:

- Euro 16,920,893 for each MWh traded in the Electricity Market and on the Bilateral Adjustment Platform (PAB);
- Euro 4,050,565 for the MWh underlying the transactions registered on the PCE;

- access fee in the Electricity Market.

This item, totalling Euro 187,500, refers to revenues from access fees paid by Electricity Market Participants pursuant to art. 7.1 of the Integrated Text of the Electricity Market Rules and related Technical Rules for participation in the Electricity Market.

With reference to art. 67.1 of the above-mentioned Integrated Text of the Electricity Market Rules, the access fees are invoiced upon admission of applicants to the Electricity Market.

- yearly fixed fee in the Electricity Market.

This item, totalling Euro 1,129,534, refers to the portion of the revenues from the yearly fixed fee relating to 2007, paid by Electricity Market Participants pursuant to art. 7.1 of the Integrated Text of the Electricity Market Rules and related Technical Rules;

- revenues deriving from zoning in the energy market (MGP) and on the PCE.

This item, totalling Euro 82,491,682, refers to the fee for assignment of rights of use of transmission capacity pursuant to AEEG's Decision 111/06;

- services provided to Terna S.p.A. in the Electricity Market.

This item, totalling Euro 6,146,667, includes the revenues from Terna S.p.A. for the services provided thereto by GME in the Electricity Market; these services are covered by art. 22 of the agreement made between GME and GSE (under AEEG's Decision 168/03) and transferred to Terna S.p.A. as a result of the transfer of part of GSE's assets to Terna S.p.A. It must be noted that as of 1 May 2007, pursuant to AEEG's Decision 111/06, a new agreement was entered into between GME and Terna S.p.A., which, in art. 10.2, reduced the amount of the fees with respect to those established by the previous agreement;

- revenues from fees in the Green Certificates Market.

This item, totalling Euro 49,212, refers to the revenues from the services supplied by GME for the Green Certificates Market.

3. OPERATING AND FINANCIAL RESULTS

Such fees, pursuant to art. 88 of the Integrated Text of the Electricity Market Rules, are invoiced monthly to each Participant on the basis of the certificates traded, pursuant to art. 7.2 of the above-mentioned Rules;

- revenues from fees in the Energy Efficiency Certificates Market.

This item, totalling Euro 228,724, refers to the revenues from the services supplied by GME for the Energy Efficiency Certificates Market. Specifically: the overall fee for the certificates traded in the market was Euro 194,525, while the overall yearly fixed fee was Euro 34,199;

- access fee on the Forward Electricity Account Trading Platform (PCE).

This item, totalling Euro 24,000, refers to revenues from access fees paid by PCE Participants pursuant to art. 7.1 of the Rules Governing the Forward Electricity Account Trading Platform (PCE).

In accordance with art. 54 of the aforesaid Rules, the access fees are invoiced upon the applicant's admission to the PCE;

- revenues from fees in the Emissions Trading Market.

This item, totalling Euro 370, refers to the revenues from the services supplied by GME for the Emissions Trading Market, pursuant to Section VI of the Emissions Trading Market Rules.

Other revenues and income - Euro 145,182

The item comprises the following revenues and income relating to:

- assessment of the invoices issued and to be issued for seconded staff (Euro 73,630);
- contribution debited to the high- and middle-level managers for expenses for both private and business use of cars (Euro 12,734);
- ordinary non-operating income (Euro 40,295);
- sundry revenues (Euro 18,523).

INCOME STATEMENT

Production costs – Euro 18,604,520,090

The item includes the following costs:

Raw materials, ancillaries, consumables and goods – Euro 18,588,283,097

This item comprises costs pertaining to electricity purchases and is represented by:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Costs for electricity purchases in the MGP	17,437,642.4	15,856,279.2	1,581,363.2
Costs for electricity purchases in the MA	880,891.1	749,399.5	131,491.6
Costs for CCT assignment, as per art. 43, Ann. A, AEEG's Decision 111/06	65,641.9	-	65,641.9
Costs deriving from zoning in the energy market (MGP - MA) and on the PCE	204,085.2	26,938.0	177,147.2
Total	18,588,260.5	16,632,616.7	1,955,643.8

As represented in the table, the costs are related to:

- purchase of electricity in the MGP.

This item, totalling Euro 17,437,642,458, refers to the electricity demand bids processed by GME in the Day-Ahead Market (MGP) as provided in Section IV, Energy Markets, Subsection I, of the Integrated Text of the Electricity Market Rules.

- purchase of electricity in the MA.

This item, totalling Euro 880,891,071, refers to the electricity demand bids processed by GME in the Adjustment Market (MA), as provided in Section IV, Energy Markets, Subsection II, of the Integrated Text of the Electricity Market Rules.

- for assignment of right of use of transmission capacity (CCT).

This item totalling Euro 65,641,860 refers to the costs for the CCT pertaining to the PCE.

- zoning in the energy market (MGP) and on the PCE.

This item, totalling Euro 204,085,186, refers to the costs for assignment of rights of use of transmission capacity pursuant to AEEG's Decision 111/06.

It is worth pointing out that GME has also made small purchases of consumable materials amounting to Euro 22,522.

For services – Euro 5,904,020

The composition of the services costs is the following:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Services contracts with the parent company	1,552.5	1,685.0	(132.5)
Services contracts with Terna S.p.A.	252.6	246.4	6.2
Fees payable to directors and auditors	730.6	793.2	(62.5)
Professional services	486.5	244.6	241.9
Image and communication services	245.8	239.2	6.6
IT and related maintenance services	2,071.1	1,885.4	185.7
Other services	564.8	698.0	(133.2)
Total	5,904.0	5,791.8	112.3

3. OPERATING AND FINANCIAL RESULTS

As indicated above, the item refers to:

- services supplied by the parent company under contracts for services and lease of the headquarters of Viale Pilsudski and other (Euro 1,552,472);
- services supplied by Terna S.p.A. under the contract for services and lease of the office of Via Palmiano (Euro 252,642);
- Board of Directors' fees and expenses (Euro 675,692);
- Board of Auditors' fees and expenses (Euro 54,946);
- professional services and consultancy (Euro 486,536). The principal services relate to:
 - legal and notarial consultancy Euro 306,752;
 - tax consultancy Euro 52,000;
 - external auditors' fees and reimbursements Euro 38,321;
 - fees for members of the Supervisory Body Euro 37,860;
 - "project-work contract" services Euro 26,670;
 - other consultancy Euro 24,933;
- image and communication services Euro 245,794;
- IT and related maintenance services (Euro 2,071,093), mainly including technical support and maintenance for the Electricity Market information system;
- other services, totalling Euro 564,845, mainly relate to personnel services (Euro 175,737), insurance services (Euro 108,496), bank treasury services (Euro 115,910) and others.

Leases and rentals - Euro 896,916

This item mainly includes the lease instalments paid to the parent company (Euro 523,486) and Terna S.p.A. (Euro 153,622) for rent of the fitted areas in the various offices.
Other leases and hires (Euro 219,808).

Personnel costs – Euro 6,769,459

The details of the components of the personnel costs are given in the following table:

Euro	31 Dec. 2007	31 Dec. 2006	Changes
Salaries, wages and other remuneration	4,885,751	4,337,135	548,616
Obligatory social security charges	1,376,847	1,183,529	193,318
Severance indemnities	351,728	320,894	30,834
Retirement benefits and similar obligations	4,607		4,607
Other personnel costs	150,526	149,635	891
Total	6,769,459	5,991,194	778,265

The following schedule shows the average number of the employees subdivided by category during the year ended 31 December 2007 and at 31 December of the same year, compared with the previous year:

Number	2007 average	At 31 Dec. 2007	2006 average	At 31 Dec. 2006
High- and middle-level managers	13.0	13	14.3	13
Low-level managers	18.7	20	17.6	19
Office staff	47.0	50	45.6	45
Total	78.7	83	77.5	77

3. OPERATING AND FINANCIAL RESULTS

The average cost by category for 2007 and a comparison with the same for 2006 is given in the table below.

Euro	31 Dec. 2007	31 Dec. 2006	Changes
High- and middle-level managers	207,112	163,523	43,589
Low-level managers	84,989	79,681	5,308
Office staff	52,930	49,279	3,651

A variance of Euro 43,589 in the average cost of the high- and middle-level managers' category emerges from the 2007/2006 comparison.

As the number of the high- and middle-level managers in the years 2007-2006 (13) remained unaltered, this higher value is due, among others, to the fact that the costs of the high- and middle-level managers in 2007 include:

- the amounts relating to "one-off" payments related to the 2006 performance, for which the relevant decisions were adopted after the approval of the 2006 financial statements;
- the amounts relating to the MBO system for 2007, but which will be paid on a cash basis during the course of 2008.

It is worth noting that the MBO system for GME's high- and middle-level managers was instituted in 2007, following a Board of Directors' resolution on 21 November 2007.

Amortisation, depreciation and write-downs - Euro 2,209,597

This item relates to the depreciation of the non-current tangible assets and amortisation of the non-current intangible assets.

The non-current assets relate mainly to the information system for the Electricity Market and other investments linked thereto.

Other operating charges - Euro 456,999

The details of the operating charges are given in the following table:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Duties and taxes	1.9	0.9	1.1
Newspapers, books and magazines	60.6	22.3	38.2
Promotion and representation expenses	169.4	76.3	93.0
Internship program expenses and provision of contractual daily allowances	-	12.0	(12.0)
Membership fees and contributions	160.7	84.4	76.3
Sundry expenses for employees on the occasion of meetings	0.1	1.7	(1.7)
Other charges	49.7	117.7	(68.0)
Ordinary non-operating losses	14.6	200.1	(185.5)
Total	457.0	515.6	(58.6)

3. OPERATING AND FINANCIAL RESULTS

Financial income and charges – Euro 2,698,076

Other financial income – Euro 2,705,495

This constitutes interest receivable earned on the bank deposits of Euro 2,677,684, on loans to the employees of Euro 6,422, as well as income earned in 2007 on the investment recorded in current assets of Euro 21,389.

Non-recurring income and charges – Euro (179,866)

The non-recurring items are shown in the following table:

Thousands of Euro	31 Dec. 2007	31 Dec. 2006	Changes
Non-recurring income	61.7	82.2	(20.5)
Non-recurring charges	(241.6)	(524.9)	283.3
Total	(179.9)	(442.7)	262.8

The balance of the non-recurring items (179,866) results from the difference between the non-recurring charges (Euro 241,571), relating to the non-recurring INPS contribution for the year 2002 and amounts paid to the personnel by way of a trade union settlement, and non-recurring income (Euro 61,704) relating to excess taxes paid in the previous financial year.

Taxes for the year – Euro 5,929,876

The item records the estimate for the taxes due of Euro 5,929,876, of which:

- IRES Euro 5,015,361;
- IRAP Euro 965,822;
- Advance taxes of Euro 51,307 overall, relating to IRES (Euro 47,442) and IRAP (Euro 3,865) timing differences.

3. OPERATING AND FINANCIAL RESULTS

A recapitulation of the determination of the taxes follows:

IRES RECONCILIATION

Thousands of Euro	Taxable income	Rate	IRES
Earnings before tax	15,141		
Tax rate		33%	
Theoretical IRES			4,997
Timing differences taxable in subsequent financial years	-		
Timing differences deductible in subsequent financial years	137		
Reversal of timing differences from previous financial years	(101)		
Permanent differences	21		
Taxable income	15,198		
Estimate of current IRES for the year			5,015

IRAP RECONCILIATION

Thousands of Euro	Taxable income	Rate	IRAP
Difference between value and costs of production*	19,392		
Tax rate		5,25%	
Theoretical IRAP			1,018
Timing differences taxable in subsequent financial years			
Timing differences deductible in subsequent financial years	44		
Reversal of timing differences from previous financial years	(18)		
Permanent differences	(1,023)		
Taxable income	18,395		
Estimate of current IRAP for the year			966

* net of the labour costs and provisions

AUDIT REPORT

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AUDIT REPORT PURSUANT TO ART. 2409-TER OF THE ITALIAN CIVIL CODE

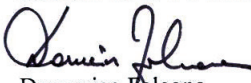
To the Shareholders of GESTORE DEL MERCATO ELETTRICO S.p.A.

1. We have carried out our audit of the financial statements of Gestore del Mercato Elettrico S.p.A. for the year ended as at 31 December 2007. The Company's Directors are responsible for preparing the financial statements. It is our responsibility to give a professional opinion on the financial statements based on our audit
2. Our examination was conducted in accordance with prescribed audit standards. In compliance with such standards, the audit was planned and carried out for the purpose of obtaining every element necessary to ascertain whether the financial statements are impaired by significant errors and if they are reliable overall. The audit procedure includes the examination, based on sample checks, of the supporting documentation for the balances and information contained in the financial statements, as well as an evaluation of the adequacy and correctness of the accounting criteria used and reasonableness of the Directors' estimates. We consider that the work carried out provides us with a reasonable basis to give our professional opinion.

Please refer to our report issued on 11 April 2007 for our opinion on the financial statements for the previous financial year, the figures of which are presented for comparative purposes as required by law.

3. In our opinion, the financial statements of Gestore del Mercato Elettrico S.p.A. as at 31 December 2007 conform to the rules regulating the preparation criteria; they are accordingly prepared with clarity and represent a true and correct view of the Company's equity, financial position and performance.

DELOITTE & TOUCHE S.p.A.


Domenico Falcone
Partner

Rome, 10 April 2008

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Perugia
Roma Torino Treviso Verona

Member of
Deloitte Touche Tohmatsu

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Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239



4. GLOSSARY

Acquirente Unico (AU)

Company (“Società per Azioni”) created by Gestore della Rete di Trasmissione Nazionale (now Gestore dei Servizi Elettrici - GSE) with the mission of procuring electricity to cover the demand of all non-household final customers that have not opted for the open market. AU purchases capacity and resells it to distributors on non-discriminatory terms and making it possible the application of a single national tariff to customers.

Adjustment Market (MA)

Venue where electricity supply offers and demand bids are submitted in order to modify the injection and withdrawal schedules defined in the Day-Ahead Market (MGP). At present, offers/bids submitted into the MA may only refer to injection and mixed offer points. Offers/bids are accepted by merit order, taking into account the transmission capacity limits remaining after the MGP. Accepted offers/bids are remunerated at the zonal clearing price. Accepted offers/bids modify the preliminary schedules and determine the updated injection and withdrawal schedules of each offer point for the next day. Participation in the MA is optional.

Ancillary Services Market (MSD)

Venue where supply offers and demand bids for ancillary services are negotiated. Terna S.p.A uses this market to relieve intrazonal congestions, procure reserve capacity and balance injections and withdrawals in real time. Participation in the MSD is restricted to units that are authorised to supply ancillary services and offers/bids may be submitted only by their dispatching users. Participation in the MSD is mandatory. The MSD produces two separate results: 1) the first result (ex-ante MSD) concerns that Terna S.p.A has accepted on a scheduled basis for relieving congestions and creating an adequate reserve margin; 2) the second result (ex-post MSD) concerns offers/bids that Terna S.p.A has accepted in real time for balancing injections and withdrawals (by sending balancing commands). Offers/bids accepted in the MSD determine the final injection and withdrawal schedules of each offer point. In the MSD, offers/bids are accepted by economic merit order, taking into account the need for ensuring the correct operation of the system. Offers/bids accepted in the MSD are valued at the offered price (Pay as Bid).

Arbitrage

Purchase of goods or securities by exploiting market inefficiencies in order to secure a profit. The role of arbitrageurs is essential to ensure a correct price-setting mechanism, as their transactions help redress price discrepancies, if any, as soon as they appear.

Autorità per l’Energia Elettrica e il Gas (AEEG)

Independent Regulator established by Law no. 481 of 14 November 1995 with the mission of guaranteeing the promotion of competition and efficiency in the electricity & gas sectors. With regard to GME’s activity, AEEG is responsible, among others, for defining rules for merit-order dispatch and market power control mechanisms.

Bilateral Contract (or Over-the-Counter or OTC Contract)

Contract of supply of electricity made off IPEX between a producer/wholesaler and an eligible customer. The price for the supply, as well as the injection and withdrawal profiles are freely agreed by the parties. However, hourly injections and withdrawals are to be reported to Terna S.p.A, which will check their consistency with transmission capacity constraints.

4. GLOSSARY

Bilaterals Platform (PB)

Platform used for recording bilateral contracts prior to the introduction of the Forward Electricity Account Trading Platform (PCE).

Clearing Price

It generally identifies the electricity price that is set in the Day-Ahead Market (MGP) and in the Adjustment Market (MA) in each hour, at the intersection of demand and supply curves, so as to balance them. In case of market splitting into 2 or multiple zones, both in the MGP and in the MA, the clearing price may be different in each market zone (see zonal price). In the MGP, the zonal clearing price may be applied to all supply offers, to demand bids pertaining to mixed units and to demands bids pertaining to consuming units belonging to virtual zones. Demand bids pertaining to consuming units that belong to geographical zones are always valued at the National Single Price (PUN). In the MA, in case of market splitting into 2 or multiple zones, the zonal clearing price is applied to all supply offers and demand bids.

Contract-for-Differences (CFD)

Contract under which two parties exchange financial flows on the basis of the difference between a price specified in the same contract (strike price) and the price arising in the underlying market at given maturities and for predetermined volumes. For hedging purposes, the portfolio of AU includes two-way CFDs. GSE holds similar CFDs for the electricity volumes that it purchases from CIP-6 power plants. In this case, the purchasing counterparties are – *pro quota* – AU and a group of operators. In each applicable period, GSE will pay the difference (multiplied by the quantity of the underlying electricity), if positive, and receive the difference, if negative. One-way CFDs are actually call options. In this case, the purchaser pays an upfront premium and, if the market price of the underlying exceeds the strike price established in the CFD, the purchaser receives the difference from the counterparty; otherwise, no financial flows will arise.

Day-Ahead Market (MGP)

Venue where electricity supply offers and demand bids are negotiated for each hour of the next day. All electricity operators may participate in the MGP. In this market, supply offers may only refer to injection and/or mixed points and demand bids may only refer to withdrawal and/or mixed points. Offers/bids are accepted by merit order, taking into account the transmission capacity limits notified by Terna S.p.A. Accepted supply offers are remunerated at the zonal clearing price. Accepted demand bids are remunerated at the National Single Price (PUN). Accepted offers/bids determine the preliminary injection and withdrawal schedules of each offer point for the next day. Participation in this market is optional.

Demand-Side Bilateral Adjustment Platform (PAB)

Electronic platform that has been operational since 31 December 2004. On the PAB, Participants that manage withdrawal offer points belonging to the same geographical zone may register their balanced hourly trades of electricity. The trades that are notified to GME via this platform, together with the commitments arising from bilateral contracts or purchases in the Electricity Market, determine the binding schedule of each withdrawal offer point.

Emissions Trading Scheme (EU-ETS)

A greenhouse gas allowance trading scheme between European Union's Member States. The scheme is part of the Kyoto Protocol mechanisms.

Emission Unit

Certificate which represents 1 tonne of CO₂ emissions and which may be negotiated and used to

demonstrate fulfilment of the obligation to reduce greenhouse gas emissions, as defined in the EU's Emissions Trading Scheme.

Energy Efficiency Certificates (or White Certificates – TEE)

Energy Efficiency Certificates were established by the Decrees issued by the Ministry of Productive Activities jointly with the Ministry of the Environment and Land Protection on 20 July 2004 (Ministerial Decrees of 20 Jul. 04). They give evidence of the energy savings that electricity and gas distributors with over 50,000 customers are required to achieve. Energy Efficiency Certificates, which are issued by GME, are valid for five years from the year of reference.

Forward Electricity Account Trading Platform (PCE)

New platform for registering bilateral contracts, introducing significant elements of flexibility with respect to the previous Bilaterals Platform.

Gestore del Mercato Elettrico (GME)

Company (“Società per Azioni”) established by Gestore dei Servizi Elettrici - GSE with the mission of managing transactions in the Electricity Market under transparency and objectivity criteria, promoting competition between producers and ensuring the availability of an adequate level of reserve capacity. In particular, GME manages the Day-Ahead Market (MGP), the Adjustment Market (MA) and the Ancillary Services Market (MSD). GME also manages some environmental markets.

Gestore dei Servizi Elettrici (GSE)

Publicly-owned company (“Società per azioni”) playing a central role in promoting, supporting and developing renewable sources in Italy. GSE's sole shareholder is the Ministry of Economy and Finance, which exercises its rights jointly with the Ministry of Economic Development. GSE controls two subsidiaries: Acquirente Unico (AU) and Gestore del Mercato Elettrico (GME).

Green Certificates (CV)

Certificates giving evidence of generation of electricity from renewables, in compliance with art. 5 of the Decree of the Minister of Industry of 11 Nov. 1999. Producers and importers of electricity from non-renewable sources exceeding 100 GWh/year are held to inject a given proportion of electricity from renewables into the power grid or to purchase equivalent Green Certificates (renewable quota obligation). Green Certificates are issued by GSE. Each of them is worth 1 MWh (before February 2008, their size was equal to 50 MWh). They may be purchased or sold in the Green Certificates Market by parties having deficits or surpluses of generation from renewables.

Herfindahl-Hirschman Index (HHI)

Aggregate market index measuring the degree of concentration and dispersion of volumes offered and/or sold by Market Participants. The value of the HHI may range from 0 (perfect competition) to 10,000 points (monopoly). If the value is below 1,200, the market is competitive; if it is above 1,800, it is poorly competitive. The HHI is computed on an hourly basis by aggregating the volumes offered and/or sold (including those covered by bilateral contracts) by the individual Market Participants (on the basis of their belonging group): the volumes pertaining to CIP-6 contracts are included in the computation and assigned to Market Participant GSE.

Italian Power Exchange (IPEX)

Name under which the “Borsa Elettrica Italiana” is known abroad.

Liquidity

Ratio of volumes traded on IPEX (in the Day-Ahead Market – MGP) to the total volumes (including bilateral contracts) traded in the “Sistema Italia”.

4. GLOSSARY

Macro-Zone

Aggregation of geographical and/or virtual zones conventionally defined for producing statistical market indexes. A macro-zone has a low frequency of market splitting and a homogeneous trend of selling prices.

From 1 January 2006, the macro-zones are as follows: MzNord (northern Italy including northern zones, Monfalcone, Turbigo), MzSicilia (including the zones of Sicily and Priolo), MzSardegna (including the zone of Sardinia) and MzSud (including the remaining zones).

National Single Price (PUN)

Average of zonal prices in the Day-Ahead Market (MGP), weighted for total purchases and net of purchases for pumped-storage units and of purchases by neighbouring countries' zones.

OTC (or Over-the-Counter) Markets

Non-regulated markets, i.e. all the markets where financial transactions take place off the official stock exchanges. Usually, in these markets, trades are not standardised and "atypical" contracts may be made. The contracts negotiated on these markets generally have levels of liquidity lower than the ones on regulated markets.

Renewable Energy Sources (or Renewables)

These sources include: sun, wind, hydro, geothermal, tidal, wave and the conversion of vegetal products or organic and inorganic waste into electricity.

Terna - Rete Elettrica Nazionale S.p.A.

Company in charge of electricity transmission and dispatching over the high-voltage (HV) and extra-high voltage (EHV) grid throughout Italy. Terna is a listed company. Its shares were first traded on the Stock Exchange on June 2004. Currently, its relative majority shareholder is "Cassa Depositi e Prestiti", having a stake of 29.99%.

Zonal Price (Pz)

Clearing price which characterises each geographical and virtual zone in the Day-Ahead Market (MGP).

Zone

Portion of the power grid where, for system security purposes, there are physical limits to the transfers of electricity to/from other geographical zones. The Italian market has three types of zones: geographical zone (representing a portion of the national grid); virtual zone (constrained zone); and neighbouring country's virtual zone (representing a point of interconnection with neighbouring countries).

White Certificates

See Energy Efficiency Certificates

