



GME IN 2008

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*Excerpts from
Annual Report and Financial Statements*

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Appointed by the Shareholders' Meeting of 4 April 2006

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THE ITALIAN POWER EXCHANGE IN 2008

1. THE ITALIAN POWER EXCHANGE IN 2008

2008 was a year of strong tensions and instability in international energy markets. The Brent oil, which had already reached historically high prices in the late 2007, continued to race upwards, breaking the psychological threshold of 100 \$/bbl in February and hitting a record of 144 \$/bbl in early July. Starting from this month, with worsening economic crisis and consequently declining consumption, this trend rapidly reversed and, in few months, oil prices collapsed, until hitting a minimum of 33.66 \$/bbl at the end of the year. However, the appreciation of the Euro towards the dollar contributed to holding down price hikes in the national market, limiting them to about 23%/year on average.

Crude oil also drove the prices of the other fuels (namely coal and natural gas, the main resources for power generation all over Europe) up by as much as 70%.

Against this background, the Italian electricity market proved, once again, to have a mitigating effect on wide fluctuations of electricity prices. In particular, these fluctuations were more moderate and with less spikes than the ones of other energy sources and also of the other European markets. In 2008, although the average electricity purchasing price in the Italian wholesale market reached a record of 86.99 €/MWh, its increase (roughly 22% on a year-on-year basis) was definitely lower than the one of generation costs. Based on the index most commonly used in the Italian market (ITEC[®] - Ref. and Morgan Stanley), these costs were estimated to be up by 47%.

Prices on the Italian Power Exchange (Ipx) did not show the peak increases observed on the other European markets, which ranged from 60%/year in the Spanish market (OMEL) to 73%/year in the German one (EEX). This confirms the uniqueness of the Italian market, which is relatively more stable and less reactive to tensions and sudden spikes in consumption than foreign markets, thus expressing more moderate prices in spite of generalised bullish trends.

In particular, as a result of the strongest increases recorded in European markets, the spread between the "Prezzo Unico Nazionale" (PUN - National Single Price) and the "Prezzo Medio Europeo" (PME - European Average Price)¹ shrank to 20.4 €/MWh in 2008, as against 32.2 €/MWh in 2007 and 24.3 €/MWh in 2006, reaching its minimum in September (8.96 €/MWh) and October (12.09 €/MWh), when prices in most of Europe hit their all-time peaks. Then, with the price trend reversal, the spread widened again, reaching 28.3 €/MWh in December.

The alignment of Italian prices with European ones translated, among others, into a decrease of Italy's dependence on imports. Net imports fell from 14.2% to 12% of the overall electricity traded in the Day-Ahead Market (MGP). This was the result of two concurrent factors: i) the drop of imports (47.8 TWh) to 14.2% of overall volumes; and ii) the almost doubling of exports (7.3 TWh), which accounted for 2.2% of trades.

Hence, the Italian market demonstrates to be increasingly responsive to the trend of European markets, which suggests that it is becoming more and more competitive. Although much may still be done to strengthen cross-border transmission capacity and utilisation (presently based on explicit auctions), the correlation between the trend of the price spread with respect to foreign countries and the size of net imports has become more manifest than in the past. In effect, net imports hit minimum levels (about 10% of trades) in September and October, when Italian prices were less distant from European ones, a situation making the trade with foreign countries less cost-effective.

What clearly emerges is that the Italian market is increasingly integrated into the European context, with prices that more widely reflect the trends prevailing at European level, rather than those of fundamentals in the national market.

The liquidity of Ipx continued to grow also in 2008. About 233 TWh (+4.8% on a year-on-year basis), i.e. 69% of overall demand, were traded on Ipx. The remaining 31% accounted for bilateral transactions on the OTC market. These transactions generally consisted of forward contracts, since this was - until November 2008 - the only way to negotiate electricity supplies over a medium-long timescale.

Some analysts feel that the high liquidity of Ipx is poorly significant, in that a substantial share of the spot traded electricity is hedged by Contracts for Differences, which set its price independently of market prices. The latter prices are thus assumed to be poorly representative. However, this assumption disregards important aspects of the recent evolution of trades in and of the structure of the market. In the first place, the share of volumes not covered by forward contracts was estimated at about 35%, i.e. much higher than a year before (20%)². In the second place, last year, the gap between the PUN and thermal generation cost

¹ The PME is a concise index of the value of electricity at Italian borders. It is calculated as the average of the prices recorded on the German (EEX), French (Powernext) and Austrian (EXAA) markets, weighted for the respective volumes.

² Source: Nomisma Energia.

indicators narrowed, thanks to a much more competitive setting on the supply side. In particular, an appreciable reserve margin has been created to cover peaks in consumption and this margin is also an important factor for power system security. In the third place, it is the increasingly massive participation of operators in the market that indirectly substantiates its useful role in the overall power system. Indeed, the market provides a transparent price signal, which clearly reflects the actual forces at play. Finally, the role of the PUN as a benchmark of Italian electricity prices has been recognised also by other markets and by operators, who decided to use it as the underlying of their forward electricity contracts.

Considering the structure of the supply side, the trend prevailing since the start of the market in 2005 towards greater competition between producers had a sharp acceleration in 2008, as shown by various indicators.

In particular, the share of volumes traded in the system, where the price was set by the new and more efficient combined-cycle technologies, mounted from 29 to 44%, with peaks of 53% in night-time hours. The percentage of hours in which the market proved to be competitive stood steady at as much as 93% in northern Italy, whereas it jumped from 30 to 50% in southern Italy in a single year. The weight of the leading Market Participant in setting the market price diminished from 80 to 51% of the volumes traded on Ipx, falling below 35% in the last quarter of the year, and it was even lower in peak-load hours than in off-peak ones.

It is worth emphasising that the lower price-setting capability of the leading Market Participant shifted to the second Market Participant only to a minor extent and benefited the entire range of smaller competitors, whose weight grew from 5% to as much as 22%.

Nevertheless, in spite of a considerable improvement in the competitive setting, Market Participants may – under particular circumstances – herd behind the leading Market Participant, as in a typical leader-follower. But the main tendency is towards a model of oligopoly competition. Unquestionably, the need arises to stimulate more competition, aiming at attenuating the structural imbalance of negotiating power between the supply side and the demand side.

Anyway, the development of a transparent and liquid exchange, based on a system of “clearing prices”, has encouraged investments in projects to upgrade, repower or build power plants, enabling the country to overcome the hoary issue of shortage of supply.

In the first four years of operation of the market, new plants with a total generating capacity of 25,000 MVA (of which about 5,000 MVA in 2008 alone) were put into operation. Although the new capacity is much more efficient, it mostly utilises energy sources that are relatively more expensive (gas and renewables). Given poor reliance on coal and no reliance on nuclear energy, this fact contributes to the persistence of an unbalanced electricity generating park. As a consequence, Italy can only get part the benefits that it expects from lower generation costs and lower prices.

One of the limitations to development of competition and efficiency of the system, especially in the two major Italian islands, derives – among others – from the infrastructural nodes of the national transmission grid, which cause market segmentation and congestions.

In particular, within the market zones, congestions have increased, suggesting that grid development does not adequately respond to the evolution of demand at local level. These bottlenecks contribute to pushing up the overall costs of the dispatching system. Terna, the Italian TSO, reported that these costs amounted to approximately € 2.7 billion in 2008. At least half of this figure was used to relieve intra-zonal congestions, but the potential impact of these costs on electricity prices is much higher. Congestions may prevent the use of the more efficient power plants that are now available and favour less efficient and more costly ones. Additionally, they may make the market less competitive, allowing sellers to fetch higher prices than in a fully competitive environment.

From this standpoint, while prices in the two northern Italy and southern Italy macro-zones are practically aligned, prices in the two islands remain at definitely higher levels, with concentrated supply and a persistent duopoly market structure, as stressed by AEEG, the Italian electricity & gas regulator. These structural specificities, due to the low interconnection capacity between islands and the mainland, limit the new entrants' cost-effectiveness of building plants in these areas and are also responsible for a still significant gap between prices in continental zones and those in Sardinia and Sicily. Indeed, with respect to the national average, prices are 5% lower in northern Italy, a little above (0.5%) in southern Italy and about 6% and 38% higher in Sardinia and Sicily, respectively. These price spreads will be mitigated only after the implementation of the projects that have been planned to strengthen the interconnection capacity between the mainland and the two islands. Likewise, only if the overall country firmly commits itself to solving the structural bottlenecks in its power transmission grid, will it be possible to overcome the geographic segmentation of the market and achieve an actually national single price, lying below the levels recorded so far.

Also electricity demand should play a role of price moderation. In spite of a temporary standstill in 2008 (due to economic recession), it is predicted to grow at a yearly average rate of 1.3% until 2018. Given its upward trend, demand should play a more active role than in the past, considering that 0.6% only of bids/offers currently submitted by consumers in the national zones of Ipx have a price limit. Moreover, consumers, especially those in the retail sector, should be prompted to have more balanced hourly consumption patterns and to more intensely use the hourly bands in which loads on the grid are lower. A prerequisite for attaining this goal is the introduction of efficient price incentives into the structure of electricity bills and contracts concluded in the open market. In this sense, emphasis should be placed on the timely implementation of AEEG's plan to deploy new-generation meters, which can measure the electricity used at different times of the day and thus temporally differentiate the electricity price charged to consumers.

Consumers are very attentive to the operation of Ipx and to the wholesale prices that are set therein. However, the prices on the exchange affect consumers' electricity costs only in part. Indeed, the retail electricity market has been fully liberalised since July 2007 and the price of electricity for small consumers is set only in part in the wholesale market. Considering the so-called economic conditions of reference, determined by AEEG on a quarterly basis and applied to household and small businesses that have not yet switched to the free market, in 2008 the wholesale electricity price accounted for 54.6% on average of the total bill. This percentage dropped to 51% in the first quarter of 2009 thanks to the reduction of fossil fuel costs, which translated into a decrease in the price of electricity. The remaining part of the bill consisted of the following items: i) other costs of supply (dispatching fees) and marketing (9.6%); grid and metering costs (13.7%); system charges (8.3%).

The latter charges include: support schemes for renewable and other eligible sources; special tariffs for energy-intensive companies; costs for decommissioning nuclear power plants and territorial compensations; compensations for minor electricity firms; support for system research; and expenses connected with the adoption of the social bonus. Taxes had a weight of 13.8%. The impact of the cost components not deriving from the MGP is lower on industrial consumers than on small ones and inversely correlated with the consumed volumes. Indeed, in 2008, the on-exchange electricity price was estimated to account for more than 70% of the final cost for these users. Liberalisation of the electricity sector and development of the power exchange have certainly slowed down the dynamics of wholesale prices. However, these effects have not been very evident so far, owing to the strong upward trend and instability that worldwide markets of primary energy sources have experienced in the past four years. This trend was compounded by an adverse economic cycle. Given the features of the Italian power system, the change to the wholesale market design could be expected to produce a higher price moderation effect, provided that important structural factors, lying upstream and downstream of the market, are changed in parallel. In particular, simultaneously ensuring much lower costs, more intense competition, adequate system security standards and electricity service quality requires substantial changes to electricity generation, transmission, interconnection and distribution assets. At the same time, high competition is needed in the markets of energy sources used for electricity generation.

At any rate, the market model has a weight of its own, albeit not decisive, and the issue has become highly topical upon the recently-decided changes thereto. The models at stake are the current one, based on the System Marginal Price (SMP), and the Pay-As-Bid (PAB) one. Which of the two models is better in terms of price moderation cannot be determined on the basis of international experience and scientific literature. However, most experts agree that the PAB model might have beneficial effects on competition in the short run, but significantly reduce it over a longer timescale.

Granting that the PAB model leads to less transparency in the offered prices, if it were applied to a system with a dominant operator, it would narrow the room for tacit coordination between operators. This coordination would instead be possible in a system based on the SMP, if the more efficient operators submitted bids/offers in such a way as to pass the task of setting high prices (for all) to the less efficient operators. However, this argument does not take into account some factors which have an opposite effect. The Italian market tends towards a model of oligopoly competition, rather than towards a leader-follower one. It ensues that competition may grow only if there are new entrants into the market. But this becomes harder, if prices are not sufficiently transparent, as the required investments cannot be planned in an efficient way. On the other hand, as the price strategies of operators depend on how they are remunerated, a PAB system would probably induce them to offer prices higher than current ones (at least close to their average costs), as they would not benefit from the infra-marginal rent provided by the SMP. Therefore, the PAB model might produce prices very similar to those arising in the SMP model, with the risk, however, that the more efficient plants might be penalised in the market competition. In fact, if these plants had relatively higher fixed costs, they would be compelled to offer higher prices than those of less efficient plants.

As a result, the contribution that a market design based on the PAB might give to competition is doubtful. In contrast, there is no doubt that greater integration of the national market with foreign markets might yield substantial benefits in terms of prices. In particular, greater integration with neighbouring markets would help reduce average prices, since prices in neighbouring markets are lower. The adoption of market coupling mechanisms would, among others, make the use of the existing interconnection capacity more efficient, but these mechanisms suppose greater integration between the grids of the participating countries.

To this end, the country should make major investments to develop grid interconnections, accommodate dispatching and system security requirements and solve the inevitable logistic and coordination problems with the other countries. In this regard, the two neighbouring TSOs should fully agree on the following requirements: i) building new lines that are compatible with the structure of the national grid to which they will be connected; and ii) aligning the implementation schedules of their respective projects. These requirements are all the more evident in the case of merchant lines, which are controlled by private parties: failing coordination with the grid operators involved, these lines may remain underused or bring about congestions. This would increase dispatching costs and possibly impair system security.

Nonetheless, gradual integration of European electricity markets is inevitable, because it is one of the points on which the EU's energy policy is hinged. GME has taken important initiatives at both bilateral and multilateral level for many years to implement market coupling, in view of the numerous benefits that it may involve for managing cross-border capacity. First of all, GME signed a Memorandum of Understanding (MoU) with Borzen, the Slovenian power market operator, for coupling the respective markets. Then, GME and Borzen prepared a joint technical proposal for a method based on implicit auctions to allocate interconnection capacity at the Italian-Slovenian border. It is with this goal in mind that GME actively participates, together with the other power market operators and TSOs, in the activity of the Central-South Europe (CSE) region, as part of the Electricity Regional Initiatives (ERIs). At inter-regional level, GME caught the opportunity of chairing EuroPEX (the Association of European Power Exchanges) to take a more active role in the technical fora established by the European Commission and European regulators with a view to defining concrete proposals for the creation of a single energy market.

Apart from the integration with European markets, it is the development of Italian markets for trading electricity over medium-long timescales that may lower prices for consumers. In this connection, in November 2008, two regulated markets for negotiating forward electricity supplies were put in place, thus bridging the main gap between the structure of the Italian power system and the one of the most advanced European countries.

These markets are: i) the Forward Electricity Market (MTE), organised by GME and where forward contracts with physical delivery obligation are traded; and ii) IDEX, managed by the "Borsa Italiana" (Italian Stock Exchange), where futures contracts with cash settlement only are negotiated.

The fact that the two initiatives were launched simultaneously testifies their complementarity: the MTE covers a shorter timescale than the one of IDEX. Therefore, it represents a link between financial trades and physical trades in the spot market. The development of forward markets is bound to profoundly change the structure of the power system, overcoming the most blatant limitations in the current OTC bilateral trading, e.g. low transparency and liquidity dispersion. These limitations have the effect of increasing transaction costs and penalising demand owing to clear information asymmetries between producers and consumers.

Conversely, both the MTE and IDEX help create conditions for making the system more competitive and consequently more efficient as, in both cases, a central counterparty guarantees the settlement of payments, significantly facilitating the management of the counterparty risk. So far, the latter factor has discouraged the conclusion of bilateral contracts by a non-negligible number of operators, undermining their capability of managing the price risk.

With the development of forward markets, demand - although being fairly inflexible - is expected to have a more active role than the one currently played in the spot market price-setting process. In other words, the demand side would get a reliable and transparent price signal spanning a sufficiently long timescale. This signal is also crucial to guiding investments in new generating capacity and to stabilising the prices of bilateral transactions. Indeed, the forward price will have an important signalling function, as it will be the ceiling beyond which no purchaser would be willing to go in order to secure his/her future supplies.

However, the potential of these markets is still to be fully tapped, since - in their first months of operation - trades thereon were low. This is in part natural, since operators, above all small ones, need time to adjust their risk management strategies to the use of new instruments. But the development of these markets also reflected the uncertainties weighing on the future electricity market design, after the recent legislative measures, which tended to modify it substantially.

To work well, delicate markets like forward markets call for a sufficiently stable regulatory framework. The necessary improvements or changes should thus be adequately pondered and gradually and consistently introduced.

At present, both the spot market and the forward market are in full evolution. GME is working on multiple fronts to improve the operation of its power exchange: introducing a real intra-day market and extending the trading thereon closer and closer to the time of delivery of electricity; lengthening the maturities of the instruments tradable in the MTE; changing the guarantee system for the settlement of contracts in order to align it with the one of the most advanced European markets; and enhancing the transparency of negotiations.

Furthermore, GME is involved in the strengthening of its "environmental" markets. The energy sector will increasingly be affected by policies aimed at reducing pollution by promoting power generation technologies with low emissions and higher energy efficiency. Market mechanisms may do a lot to minimise the costs of policies in support of investments which may guarantee sustainable development or environmental sustainability. However, the three environmental markets that GME manages require constant monitoring and fine-tuning of their governing rules, as they are exposed to imbalances that must be promptly redressed.

Indeed, GME's environmental markets rely on cap-and-trade mechanisms. These mechanisms set quantitative targets beforehand, leaving up the task of achieving them in the least costly way to competition between operators. As a result, demand and supply are governed by an extremely delicate equilibrium that regulation has the task of guaranteeing, by taking - where necessary - appropriate corrective action. This explains the frequent measures that modified the market systems, making them progressively more efficient and enabling them to reach appreciable results. This process spurred renewable power generation and energy savings, which went beyond the set targets.

The power system continues to undergo major transformations, such as the current change and strengthening of the electricity market and of its components, in accordance with new legislation. In the new horizon that is opening, GME plays its institutional role as a success factor in the current change process, providing its unique expertise and know-how to the benefit of the country. In this perspective, GME will continue to give its contribution to creating the best conditions so that Italy may have electricity in abundant supply and at costs as close as possible to the lowest ones recorded in the rest of Europe.



2

STRUCTURE OF THE ITALIAN POWER EXCHANGE (IPEX)

2. STRUCTURE OF THE ITALIAN POWER EXCHANGE (IPEX)

This chapter describes the 2008 highlights of GME's operations, i.e. the trend of transactions in and the main indicators of its markets.

ELECTRICITY MARKET

GME organises and manages the Electricity Market, which consists of: i) the "Mercato Elettrico a Pronti" (MPE - Spot Electricity Market), i.e. the "Mercato del Giorno Prima" (MGP - Day-Ahead Market), the "Mercato di Aggiustamento" (MA - Adjustment Market) and the "Mercato per il Servizio di Dispacciamento" (MSD - Ancillary Services Market); and ii) the "Mercato Elettrico a Termine" (MTE - Forward Electricity Market). GME also organises and manages the "Piattaforma dei Conti Energia a Termine" (PCE - Forward Electricity Account Trading Platform).

Spot Electricity Market (MPE)

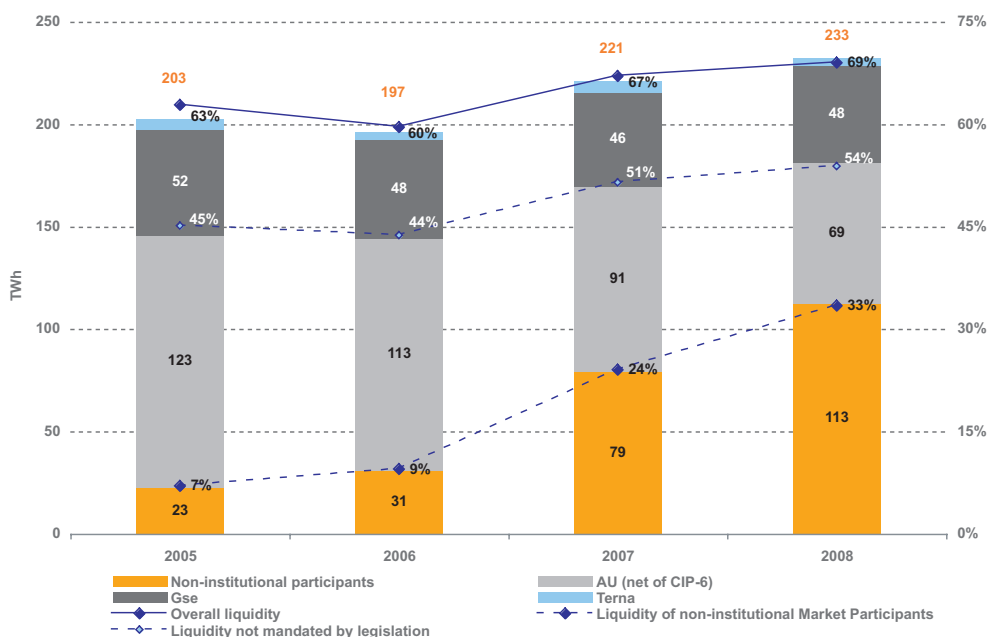
Day-Ahead Market (MGP)

The year 2008 saw the consolidation of the positive results achieved in previous years in terms of liquidity of the market and growth of its supply side, showing the first signals of a downward trend in prices which is expected to become more marked in 2009.

The number of Market Participants increased for the 5th year in a row, reaching 106. These Market Participants traded 233 TWh of electricity volumes (+4.8% from 2007).

New generating capacity had considerable effects on the overall volumes offered in the MGP and on the value of the implicit reserve (i.e. the volume of offered and unsold electricity). In a context of moderate increase in sales (337 TWh, +1.8%), these volumes rose to 495 TWh (+2.9%), whereas the implicit reserve reached 158 TWh (+5.1%), equal to about 46.8% of overall sales.

Liquidity of the MGP (TWh)



Based on these data, the liquidity of the MGP (ratio of trades in the MGP to the total trades on the PCE and in the MGP) hit a new peak of 69%, up from the already high 67% recorded in 2007. However, the most significant development is the increase in the volumes traded by non-institutional Market Participants (other than "Acquirente Unico" - AU, "Gestore dei Servizi Elettrici" - GSE and Terna). In 2008, these Market Participants alone reached 113 TWh (+43%), accounting for a liquidity of 33%³. These figures are to be added to the on-exchange purchases (net of CIP-6 electricity) made by AU, which freely allocates its purchases on and off the exchange. Therefore, the purchases made on Ipx and not mandated by legislation amounted to roughly 181 TWh, corresponding to a liquidity of 54%.

Composition of demand in the MGP (MWh)

	2008	2007	2006	2005	2008-2007	2008 Structure
Ipx	232,643,731	221,292,184	196,535,249	202,986,064	4.8%	69.0%
<i>Acquirente Unico</i>	79,448,673	106,570,141	132,230,746	139,179,980	(25.7%)	23.6%
<i>Other participants</i>	137,922,614	99,756,337	49,717,421	47,682,936	37.9%	40.9%
<i>Pumping</i>	5,108,149	6,340,347	7,443,272	8,087,174	(19.7%)	1.5%
<i>Neighbouring countries' zones</i>	6,699,056	3,057,474	3,346,408	2,773,208	118.5%	2.0%
<i>Balance of PCE schedules</i>	91,994	161	-	-	56883.0%	0.0%
<i>Additional bids</i>	3,373,245	5,567,723	3,797,402	5,262,767	(39.6%)	1.0%
Bilaterals	104,317,566	108,657,023	133,254,781	120,198,786	(4.3%)	31.0%
<i>Foreign bilaterals</i>	559,701	726,452	1,285,567	1,143,298	(23.2%)	0.2%
<i>National bilaterals - AU</i>	19,502,059	16,166,432	20,768,233	25,153,421	20.3%	5.8%
<i>National bilaterals - other Market participants</i>	84,347,800	91,764,300	111,200,980	93,902,066	(8.3%)	25.0%
<i>Balance of PCE schedules</i>	(91,994)	(161)	-	-	56883.0%	0.0%
PURCHASED VOLUMES	336,961,297	329,949,207	329,790,030	323,184,850	1.8%	100.0%
UNPURCHASED VOLUMES	17,357,054	5,475,885	7,299,180	834,401	216.1%	
TOTAL DEMAND	354,318,351	335,425,092	337,089,209	324,019,251	5.3%	

(*) Percentage changes have been calculated on the yearly average volumes to remove the effects of the different number of hours in 2008.

Composition of supply in the MGP (TWh)

	2008	2007	2006	2005	2008-2007	2008 Structure
Ipx	232,643,732	221,292,184	196,535,249	190,203,057	4.8%	69.0%
<i>Participants</i>	147,438,784	142,990,379	123,564,850	133,900,904	2.8%	43.8%
<i>GSE</i>	47,808,312	45,828,980	48,403,285	51,922,522	4.0%	14.2%
<i>Neighbouring countries' zones</i>	21,788,559	16,786,271	7,969,332	931,017	29.4%	6.5%
<i>Balance of PCE schedules</i>	7,985,871	12,528,950	13,581,232	-	(36.4%)	2.4%
<i>Additional offers</i>	7,622,206	3,157,605	3,016,550	3,448,614	140.7%	2.3%
Bilaterals	104,317,565	108,657,023	133,254,781	132,981,793	(4.3%)	31.0%
<i>Foreign bilaterals</i>	26,013,295	33,782,919	42,000,374	51,831,818	(23.2%)	7.7%
<i>National bilaterals</i>	86,290,141	87,403,054	104,835,639	81,149,975	(1.5%)	25.6%
<i>Balance of PCE schedules</i>	(7,985,871)	(12,528,950)	(3,581,232)	-	(36.4%)	(2.4%)
SOLD VOLUMES	336,961,297	329,949,207	329,790,030	323,184,850	1.8%	100.0%
UNSOLD VOLUMES	158,390,774	150,274,210	126,041,639	122,038,970	5.1%	
TOTAL SUPPLY	495,352,071	480,223,417	455,831,669	445,223,820	2.9%	

(*) Percentage changes have been calculated on the yearly average volumes to remove the effects of the different number of hours in 2008.

³ This value was calculated by subtracting the sales of GSE (48 TWh), the purchases of Terna (3.4 TWh) and the purchases of AU, net of the amounts of CIP-6 electricity purchased from GSE (69 TWh), from the total trades on IPEX. In particular, under the Decree of the Ministry of Economic Development of 15 December 2007, the CIP-6 electricity allocated to the market on a year-on-year basis for 2008 was equal to 4,900 MW under flat-band conditions, corresponding to 42.9 TWh, of which 25% (10.7 TWh) were allocated to AU.

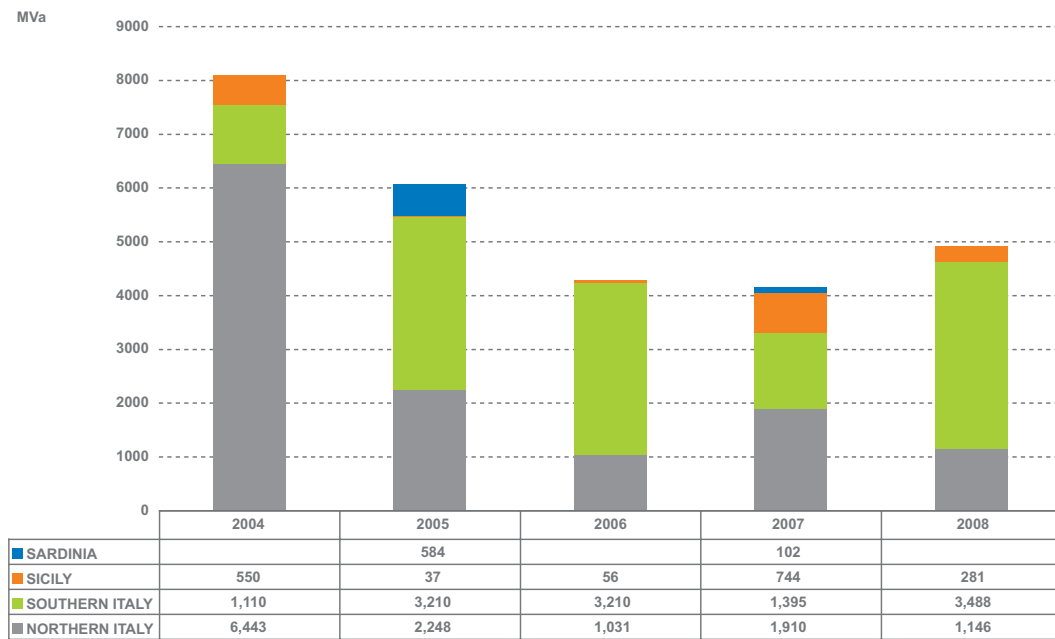
The scale of the latter figure is such to offset the inevitable contraction recorded in AU's volumes in 2008 (down to 99 TWh, i.e. 20%). The contraction was mainly concentrated on the exchange, where AU's purchases fell to 79 TWh (-26%), i.e. 80% of AU's portfolio. Thus, at present, AU's purchases account for 34% of Ipx volumes vs. 68% in 2005 and 48% in 2007. As regards GSE, its sales rose slightly (48 TWh, +4%), totalling 21% of Ipx volumes, i.e. stable vs. the previous year and down from 2005 (27%). On the electricity supply side, the intense process of renovation and enlargement of the national generating park went on also in 2008, with a moderate recovery from the declining trend observed in the past few years; new plants for about 5.000 MVA of new capacity became operational. The increase was obviously concentrated on thermal power plants and namely on combined-cycle ones, which grew by 42200 MVA in 2008. However, also renewable power plants saw their most substantial increase in the past four years, with over 700 MVA of new capacity (all wind farms). Additionally, as compared to previous years, the new capacity was concentrated mostly in the southern Italy macro-zone (3,500 MVA), whereas the northern Italy macro-zone played a minor role (1,100 MVA), and also the Sicily macro-zone experienced a major rise in relative terms (300 MVA). However, the most evident repercussions of this increase were on the structure of supply: the share of combined cycles in national sales mounted to 52%, with an increase of surplus supply in off-peak hours and a sharp drop of concentration. This enhanced the already marked downward trend of all the main indicators.

New installed capacity by technology (MVA)



Source: GME's processing of Terna's data

New installed capacity by macro-zone (MVA)



Source: GME's processing of Terna's data

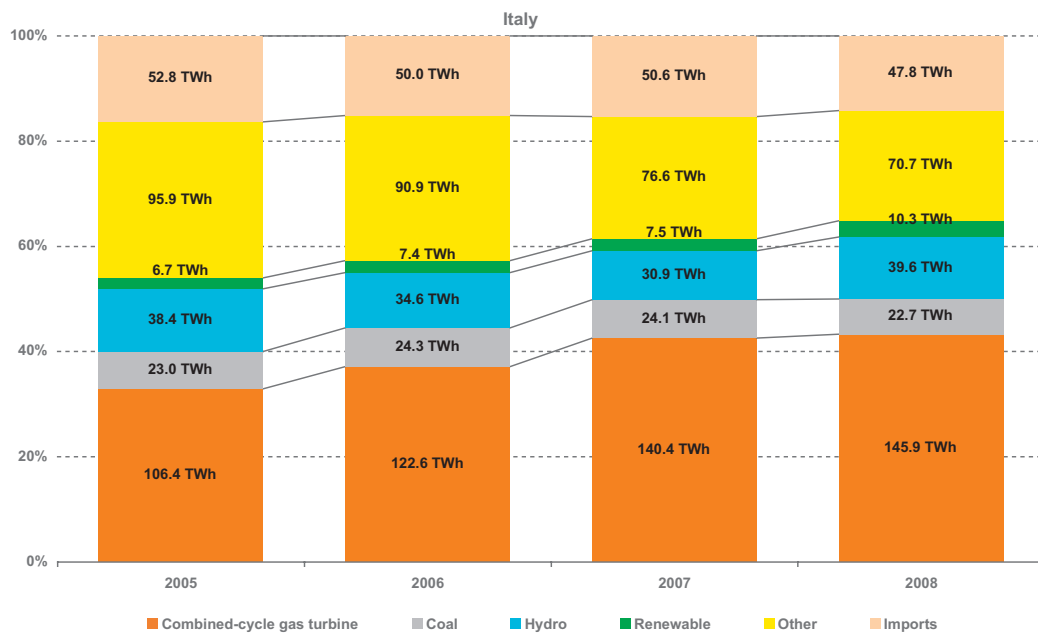
The development of the electricity generating park in 2008 deeply affected also the performance of the different technologies, i.e. their capability of selling their generation on the exchange, strengthening a trend already noted in previous years. In the first place, new wind farms and combined-cycle power plants confirmed their strong entry, with +23% (especially in the southern Italy macro-zone and in Sicily) and +9% (in continental zones), respectively, progressively displacing almost all other technologies. In the second place, the further entry of new plants not only crowded out existing plants, but also consolidated overcapacity conditions at least in some hours of the year, inducing a downward trend of both accepted bids/offers and success rate (ratio of sold to offered volumes) for all types of plant.

Performance of technologies by zone and by year

	No. of units					No. of hours with accepted bids/offers					Success rate (sold volumes/offered volumes)					Average revenue (€/MWh)					
	2008	2007	2006	2005	Delta%	2008	2007	2006	2005	Delta%	2008	2007	2006	2005	Delta%	2008	2007	2006	2005	Delta%	
Other	Northern Italy	40	43	43	44	(7%)	6053	5691	5979	6152	6%	100%	100%	100%	100%	0%	84.13	69.54	75.25	59.65	21%
	Southern Italy	25	25	25	26	0%	6320	6930	7278	6063	(9%)	99%	99%	98%	99%	0%	87.93	75.30	76.11	61.35	17%
	Sicily	4	4	4	3	0%	6927	6552	3696	4978	6%	100%	100%	100%	100%	0%	114.13	74.81	79.66	62.44	53%
	Sardinia	1	2	2	2	(50%)	8784	4390	4344	5875	100%	30%	41%	29%	59%	(26%)	130.20	108.25	134.00	83.12	20%
	Total	70	74	74	75	(5%)	6238	6121	6250	6067	2%	98%	98%	99%	99%	0%	86.47	71.84	75.75	60.29	20%
Coal	Northern Italy	13	13	13	13	0%	6711	6903	6629	7749	(3%)	89%	92%	88%	96%	(3%)	85.27	70.06	75.00	58.45	22%
	Southern Italy	4	4	4	4	0%	6542	7563	7630	5288	(14%)	100%	99%	99%	97%	1%	89.96	77.38	78.05	63.74	16%
	Sicily																				
	Sardinia	4	4	4	4	0%	6969	8124	6986	6130	(14%)	81%	90%	91%	85%	(10%)	93.33	77.85	82.01	63.69	20%
	Total	21	21	21	21	0%	6728	7261	6888	6972	(7%)	88%	92%	90%	93%	(4%)	88.07	73.54	77.34	60.16	20%
Combined-cycle gas turbine	Northern Italy	64	59	55	53	8%	5739	6303	6295	6416	(9%)	80%	81%	77%	78%	(1%)	89.38	76.14	80.00	62.26	17%
	Southern Italy	37	32	29	25	16%	6489	7096	6808	7136	(9%)	88%	91%	95%	97%	(4%)	91.28	78.80	78.80	61.10	16%
	Sicily	5	6	5	5	(17%)	7432	6563	7461	7722	13%	94%	95%	94%	88%	(1%)	120.43	79.46	77.82	63.66	52%
	Sardinia	1	1	1	1	0%	8784	8760	8760	8760	0%	100%	100%	100%	100%	0%	91.00	73.07	80.05	59.87	25%
	Total	107	98	90	84	9%	6106	6603	6552	6736	(8%)	85%	86%	84%	85%	(2%)	92.97	77.24	79.43	62.00	20%
Non-hydro renewable	Northern Italy																				
	Southern Italy	105	87	78	65	21%	6992	7463	6509	5890	(6%)	100%	100%	100%	100%	0%	85.38	73.03	75.17	58.99	17%
	Sicily	23	17	13	10	35%	6502	5301	5359	5040	23%	100%	100%	100%	48%	0%	116.74	78.66	78.96	63.79	48%
	Sardinia	10	8	8	8	25%	6094	7464	7835	6401	(18%)	100%	100%	100%	95%	0%	87.83	75.69	79.30	61.93	16%
	Total	138	112	99	83	23%	6845	7135	6465	5837	(4%)	100%	100%	100%	96%	0%	88.42	73.47	75.56	59.32	20%
Run-of-river hydro	Northern Italy	125	121	105	109	3%	6805	6347	6990	6819	7%	74%	70%	78%	74%	5%	90.32	79.89	83.60	66.00	13%
	Southern Italy	37	37	30	28	0%	6931	6207	6860	7029	12%	87%	93%	94%	93%	(6%)	90.19	78.58	78.07	60.57	15%
	Sicily	4	4			0%	4054	2231			82%	55%	60%		(9%)	159.00	92.77			71%	
	Sardinia	2	2	2	1	0%	909	1252	1095	3746	(27%)	100%	100%	100%	100%	0%	120.34	103.61	109.99	71.39	16%
	Total	168	164	137	138	2%	6697	6153	6876	6839	9%	75%	72%	79%	76%	5%	90.58	79.88	83.08	65.40	13%
Modulation hydro	Northern Italy	91	105	106	119	(13%)	4635	3965	4537	4033	17%	53%	52%	55%	51%	1%	96.34	86.90	90.22	74.65	11%
	Southern Italy	42	48	55	52	(13%)	3129	2850	4003	4093	10%	80%	88%	91%	75%	(9%)	106.13	97.80	92.79	73.87	9%
	Sicily		4	4	4	(100%)		2573	3165	5240	(100%)		71%	65%	57%	(100%)		80.67	81.69	65.25	(100%)
	Sardinia	7	7	7	7	0%	2032	2403	2735	4020	(15%)	62%	91%	91%	72%	(32%)	114.14	92.79	100.60	66.64	23%
	Total	140	164	172	182	(15%)	4053	3538	4261	4076	15%	56%	57%	63%	57%	(1%)	98.39	89.08	91.14	74.13	10%
Pumped-storage hydro	Northern Italy	14	15	15	15	(7%)	2225	1461	1834	2271	52%	17%	13%	20%	91%	34%	108.07	103.64	108.16	85.67	4%
	Southern Italy	5	6	5	5	(17%)	1553	1309	2366	2698	19%	14%	19%	34%	100%	(27%)	118.14	113.28	106.97	83.08	4%
	Sicily	2	2	2	2	0%	2745	2803	3088	3657	(2%)	90%	84%	30%	100%	7%	162.81	104.85	97.90	74.33	55%
	Sardinia	1	1	1	1	0%	2505	2217	3911	4312	13%	18%	18%	44%	100%	1%	126.18	111.41	111.82	79.24	13%
	Total	22	24	23	23	(8%)	2132	1567	2149	2573	36%	18%	16%	25%	95%	9%	115.41	106.88	107.00	83.05	8%
Natural gas	Northern Italy	1	1	1	3	0%	1739	4802	5511	3706	(64%)	92%	86%	84%	76%	7%	78.58	75.74	82.32	71.33	4%
	Southern Italy	6	7	8	8	(14%)	974	1408	3773	3104	(31%)	9%	16%	43%	29%	(42%)	106.74	86.73	82.65	66.44	23%
	Sicily																				
	Sardinia																				
	Total	7	8	9	11	(13%)	1083	1832	3966	3268	(41%)	10%	17%	44%	32%	(43%)	105.10	85.75	82.63	67.15	23%
Oil	Northern Italy	13	13	16	16	0%	1472	2481	2932	3432	(41%)	21%	29%	47%	38%	(27%)	88.47	83.56	85.86	71.53	6%
	Southern Italy	16	17	17	20	(6%)	2491	2589	3457	3850	(4%)	55%	53%	58%	60%	4%	88.10	76.54	77.45	61.72	15%
	Sicily	12	13	13	13	(8%)	3092	3104	4538	3771	0%	34%	41%	54%	48%	(16%)	143.42	95.29	88.65	70.76	51%
	Sardinia	3	2	4	4	50%	335	1666	1062	1697	(80%)	3%	9%	11%	15%	(66%)	135.92	109.28	95.25	73.49	24%
	Total	44	45	50	53	(2%)	2207	2666	3379	3542	(17%)	39%	41%	52%	49%	(5%)	95.24	81.45	81.99	65.68	17%
Gas turbine	Northern Italy	5	8	8	9	(38%)	463	1920	3105	3136	(76%)	0%	33%	38%	49%	(99%)	90.95	71.79	78.16	58.49	27%
	Southern Italy	18	19	18	18	(5%)	82	107	120	150	(23%)	0%	1%	1%	1%	(37%)	129.13	147.00	144.10	94.01	(12%)
	Sicily	4	3	3	3	33%	157	125	52	135	26%	2%	1%	1%	2%	45%	237.92	192.56	182.30	107.21	24%
	Sardinia	4	4	4	3	0%	48	64	89	75	(24%)	1%	1%	1%	0%	(18%)	208.01	157.74	141.86	102.33	32%
	Total	31	34	33	33	(9%)	149	530	834	956	(72%)	1%	9%	11%	13%	(92%)	178.42	77.87	81.48	60.45	129%

As a result, national sales in 2008 were covered by fossil sources (71%), renewables (15%) and imports (14%). In this scenario, combined-cycle and, above all, hydro plants strongly increased their contribution, with 146 TWh and 40 TWh, respectively. In particular, hydro plants were at their maximum levels in the past four years, whereas sales by non-coal-fired, conventional thermal plants (71 TWh) were displaced at an accelerated pace. Nonetheless, the data show a highly differentiated snapshot from one zone to the other, with a generating park balanced in continental zones than one on islands.

Sales by technology and by source (TWh e %)

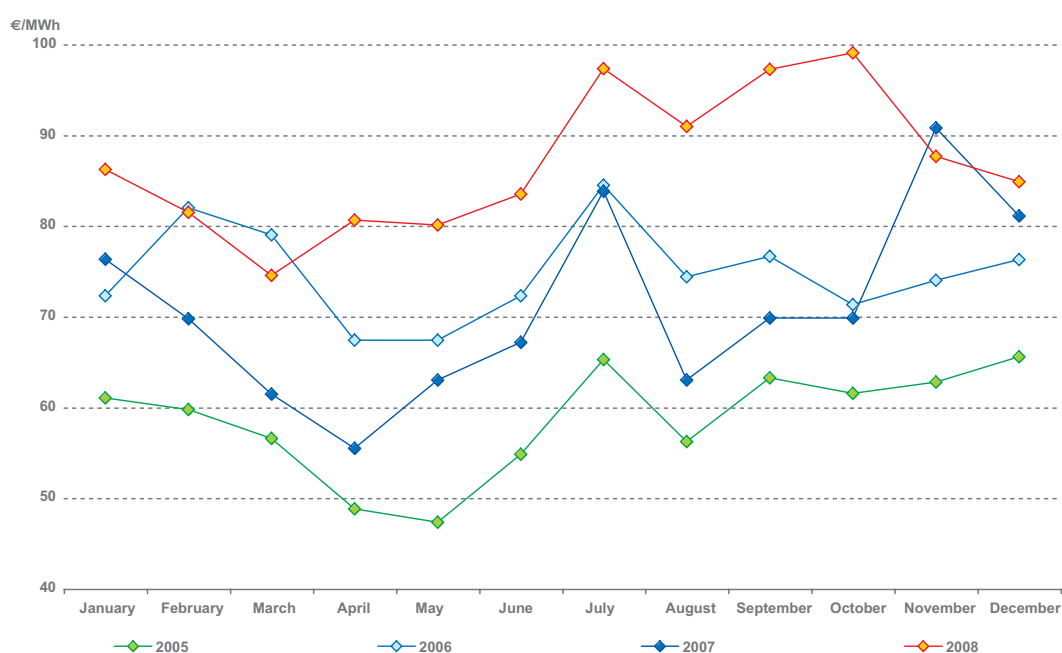


2008 was a noteworthy year in terms of MGP prices levels within the framework of the Italian electricity market. On one hand, the PUN, driven by sharply growing fuel prices in international markets, recorded its peak level since the take-off of Ipx in 2004, just as on the other continental exchanges. On the other hand, the increase of the PUN was less marked than the one of fuel prices and the one on the other exchanges, demonstrating to have a price mitigation effect and a narrower spread with respect to the rest of Europe.

The reduction of margins embedded in prices was corroborated, among others, by the sudden drop of the spark spread from approximately 22 €/MWh in the previous two-year period to nearly 16 €/MWh in 2008. All this may be ascribed to the considerable growth of the supply side in the past five years. This growth has reached such a scale as to have a dramatic impact on costs, competition and price levels and it is bound to become more vigorous in 2009 as a result of new generating capacity coming on line. It is worth noting that Ipx prices reflected the current collapse of oil prices only to a minimum extent in the two final months of the year. Consequently, the 2009 scenario is likely to be marked by sharply diminishing prices, even taking into account the regulatory uncertainties which currently weigh on the evolution of the overall market design.

In actual fact, the average purchasing price attained 86.99 €/MWh, up by about 16 €/MWh on 2007 (+22.5%) and with sequentially upward trends which subsided only in the two final months of 2008. Though covering all the hourly bands, the increase of the PUN was concentrated above all on off-peak and holiday hours, when prices were up by about 20 €/MWh, reaching 67.75 €/MWh (+41%) and 77.88 €/MWh (+33%), respectively. By contrast, the growth of prices in peak-load hours was much smaller, with average levels of 114.38 €/MWh and increases below 10 €/MWh (+9%), and even negative in the two final months of 2008 vs. 2007 and of such an intensity as to drive the PUN downwards.

Monthly average PUN (€/MWh)



As a consequence, the spread between peak-load and off-peak prices hit its minimum after four years of relentless growth, plunging to 46.63 €/MWh (peak-load/off-peak ratio = 1.69) and even collapsing in the last quarter; this suggests the progressive extension of competition to all the time bands. The price spread between holiday and off-peak hours has an exactly opposite pattern, as it further widens with respect to its already high values in previous years, confirming to be at its all-time peak (10.13 €/MWh, ratio of 1.15) and even growing at the end of the year.

Yearly average PUN by hourly bands (€/MWh)

	2008		2007		2006		2005	
	€/MWh	Delta%	€/MWh	Delta%	€/MWh	Delta%	€/MWh	Delta%
Total	86.99	22.5%	70.99	(5.0%)	74.75	27.6%	58.59	-
<i>Working Day</i>	91.06	19.1%	76.48	(6.1%)	81.43	25.3%	64.98	-
<i>Peak-Load</i>	114.38	9.0%	104.90	(3.5%)	108.73	23.8%	87.80	-
<i>Off-Peak</i>	67.75	41.0%	48.06	(11.2%)	54.12	28.4%	42.15	-
<i>Holiday</i>	77.88	33.0%	58.58	(2.8%)	60.25	35.9%	44.33	-
<i>Peak-Load/Off-Peak</i>	1.69	(22.6%)	2.18	8.6%	2.01	(3.6%)	2.08	-
<i>Holiday/Off-Peak</i>	1.15	(5.7%)	1.22	9.5%	1.11	5.8%	1.05	-

Price volatility confirmed the moderate upward trend recorded in the previous three-year period, as it was equal to 12 €/MWh in absolute terms and to 15% of the PUN in relative terms. It should be pointed out that this trend was chiefly sustained by off-peak and holiday hours, the latter having very high volatility as against the other hourly bands in absolute terms (12 €/MWh) and maximum volatility in relative terms (16%).

Yearly volatility of the PUN

€/MWh	Absolute Volatility Index				Relative Volatility Index			
	2008	2007	2006	2005	2008	2007	2006	2005
Total	12.0	11.2	9.1	7.3	15%	16%	12%	13%
<i>Working Day</i>	11.9	11.9	9.5	7.3	14%	15%	11%	11%
<i>Peak-Load</i>	15.1	17.3	13.6	9.5	13%	16%	12%	11%
<i>Off-Peak</i>	8.7	6.5	5.5	5.0	14%	14%	11%	12%
<i>Holiday</i>	12.0	9.5	8.0	7.2	16%	17%	13%	17%

The 2008 increase of the PUN in the geographic zones epitomises the sharply rising selling prices which were observed in all the zones, with all-time peaks everywhere. In spite of this, the price ranking of the zones in 2008 reflected the one prevailing in the past: northern Italy was, again, the least costly (82.92 €/MWh), followed by the other continental zones (85-88 €/MWh) and, at greater distance, by Sardinia (91.84 €/MWh) and Sicily (119.63 €/MWh). The latter zone had a remarkable yearly growth (+50%), proving to be the single zone with increases above the yearly average and tripling its difference from the previous year with respect to northern Italy.

Yearly average zonal prices (€/MWh)

TOTAL €/MWh	2008		2007		2006		2005	
	AVG	TR Change	AVG	TR Change	AVG	TR Change	AVG	TR Change
Northern Italy	82.92	21.1%	68.47	(7.0%)	73.63	27.6%	57.71	-
Central-Northern Italy	84.99	16.7%	72.8	(2.9%)	74.98	27.9%	58.62	-
Central-Southern Italy	87.63	20.0%	73.05	(2.6%)	74.99	27.0%	59.03	-
Southern Italy	87.39	19.6%	73.04	(2.6%)	74.98	27.0%	59.03	-
Calabria	87.99	20.2%	73.22	(3.2%)	75.67	26.5%	59.83	-
Sicily	119.63	50.5%	79.51	0.7%	78.96	25.8%	62.77	-
Sardinia	91.84	22.5%	75.00	(6.9%)	80.55	33.4%	60.38	-
Total delta	36.71		11.04		6.92			
Continental Italy delta	5.07		4.75		2.04			

The growth of zonal prices was associated with increasing volatility, once again above the one of the PUN which by its nature tends to counterbalance local changes. In detail, whereas volatility rose slightly in continental Italy, keeping at moderate levels (12.7 €/MWh in northern Italy, 13.0 to 15.4 €/MWh in southern Italy macro-zone), its values and increases on islands were significantly higher, hitting 20.5 €/MWh in Sardinia and even doubling in Sicily (30.6 €/MWh). This diversity is practically homogeneous across the various hourly bands, but the Sicilian volatility is particularly high in holiday hours.

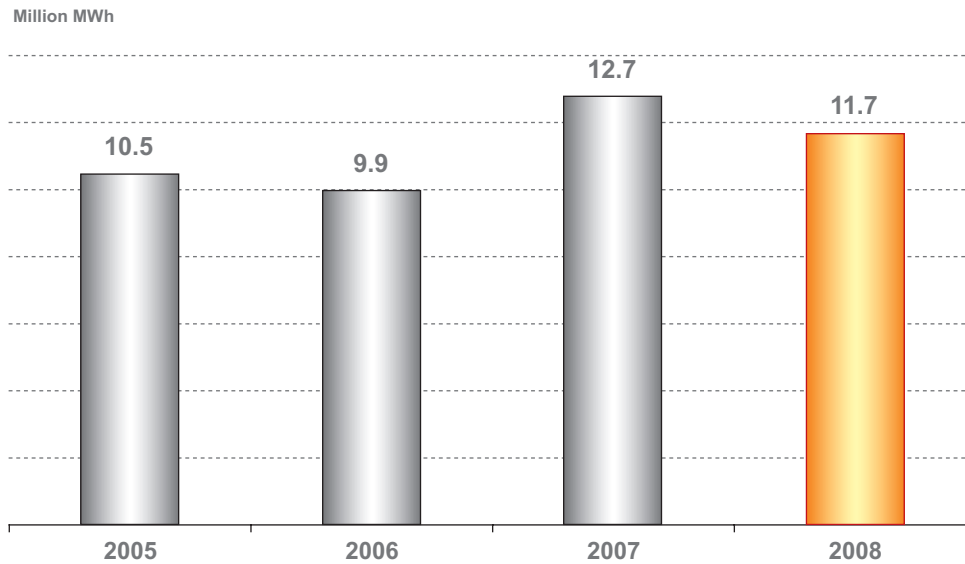
Yearly volatility of zonal prices (€/MWh)

TOTAL	Absolute Volatility Index				Relative Volatility Index			
	2008	2007	2006	2005	2008	2007	2006	2005
Northern Italy	12.7	12.3	9.6	7.8	15%	18%	13%	13%
Central-Northern Italy	13.0	11.2	9.0	7.4	15%	15%	12%	13%
Central-Southern Italy	13.9	11.2	9.0	7.1	16%	15%	12%	12%
Southern Italy	13.9	11.2	9.0	7.1	16%	15%	12%	12%
Calabria	15.4	11.3	10.7	8.0	17%	15%	14%	13%
Sicily	30.6	15.3	13.4	10.5	26%	19%	17%	17%
Sardinia	20.5	16.7	16.9	9.1	22%	22%	21%	15%

Adjustment Market (MA)

In 2008, the overall volumes traded in the MA (the market where Participants revise the schedules that they have defined in the MGP) were 11.7 million MWh, down by 8.8% from the previous year and equal to 3.5% of the volumes traded in the MGP (3.9% in 2007).

Volumes traded in the MA



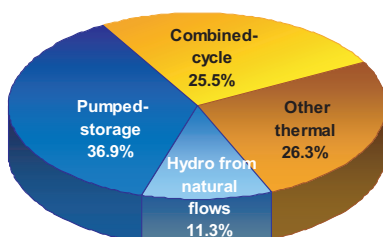
At macro-zonal level, sold volumes were down in all the macro-zones, with changes of 5.9% in the northern Italy macro-zone to 16.2% in the Sicily macro-zone and the exception of Sardinia macro-zone with +17.6%. The weight of sales in continental zones (northern and southern Italy) stood steady around 90%. In all the macro-zones, the ratio of sales in the MA to those in the MGP was around 4%, slightly down from 2007.

Purchased volumes went down on a year-on-year basis in the northern Italy (-13.9%) and Sicily macro-zones (-29.7%). Conversely, they were up in the southern Italy (+7.6%) and Sardinia macro-zones (+6.9%). 59.5% and 31.1% of the overall purchased volumes were concentrated in the northern and southern Italy macro-zones. As to the ratio of purchases in the MA to purchases in the MGP, the highest figure was recorded in the northern Italy macro-zones (3.8%) and the lowest one in Sicily (2.9%).

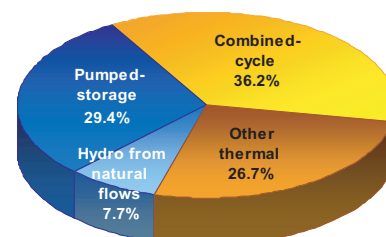
The analysis by type of plant shows that trades in the MA practically replaced power generation by combined-cycle plants (-136,000 MWh on average per hour) with power generation by hydro plants (+153,000 MWh).

Sales and purchases by type of plant

Sales

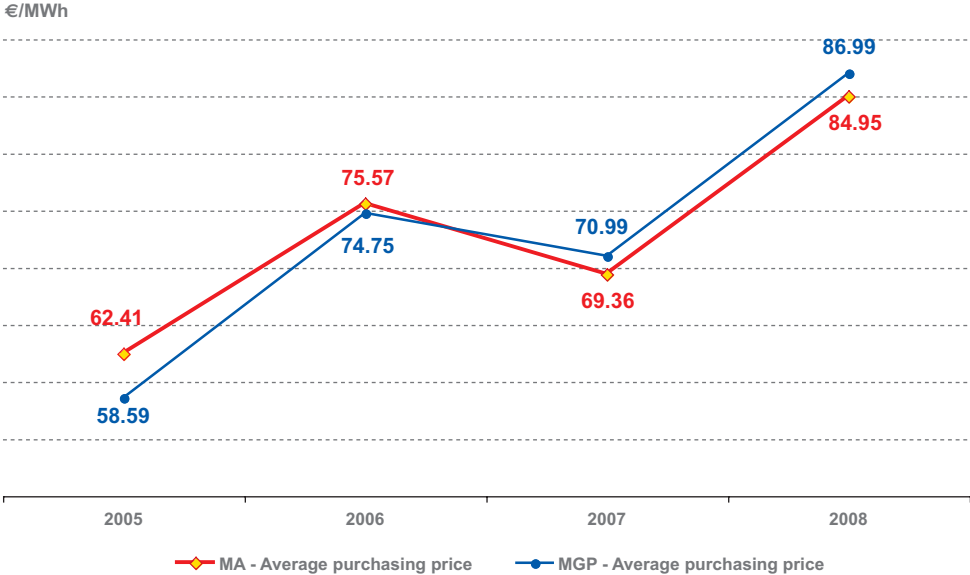


Purchases



The yearly curves of the average purchasing price in the MA displays a close correlation with the corresponding price in the MGP, reflecting the same dynamics but keeping slightly below the average level in the past two years. In 2008, the average price, weighted for purchases, was 84.95 €/MWh, up by 15.58 €/MWh (+22.5%) from the previous year, whilst the price volatility index climbed from 16.58 €/MWh in 2007 to 18.90 €/MWh in 2008.

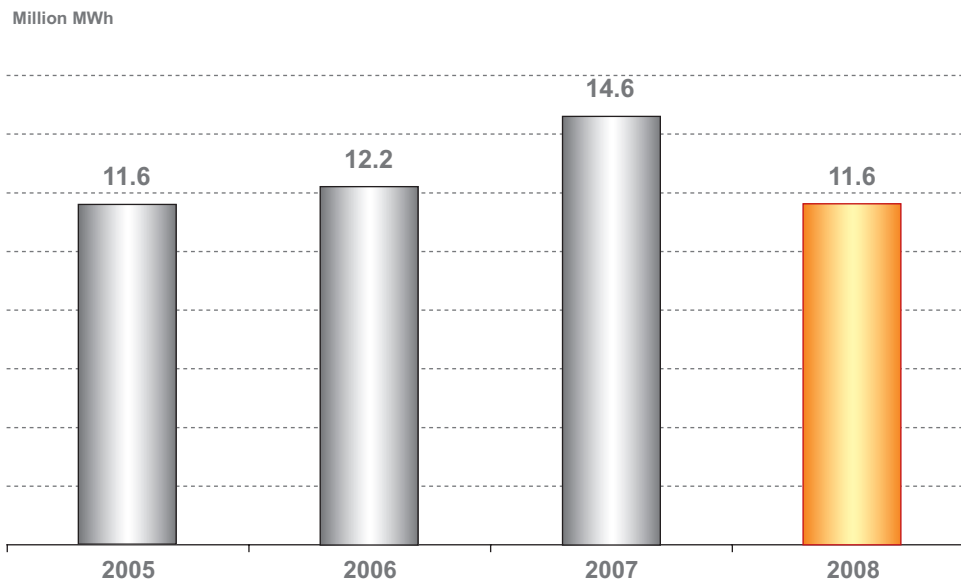
Purchasing price: yearly curves



Ancillary Services Market (MSD)

The MSD is the market where demand bids and supply offers for ancillary services are negotiated. These services are used for relieving intra-zonal congestions, procuring reserve and real-time balancing between injections and withdrawals. This market returns two separate sets of results: 1) ex-ante MSD: offers accepted by Terna in real time and on a scheduled basis to relieve congestions and create an adequate reserve margin; and 2) ex-post MSD: offers accepted by Terna in real time for balancing injections with withdrawals. In 2008, on the ex-ante MSD (up). Terna bought 11.6 million MWh (1,318 MWh on average per hour), down by 20.8% from 2007 and equal to 3.5% of purchases in the MGP (4.4% in the previous year).

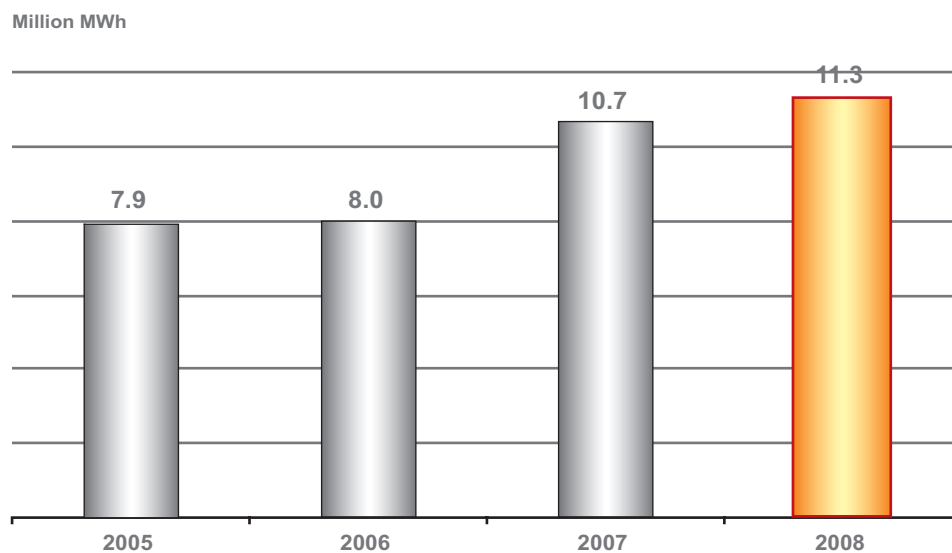
Volumes traded in the ex-ante MSD (up)



Also the yearly volumes sold by Terna in the ex-ante MSD (down) had a 6.6% downward trend, reaching 11.3 million MWh (1,282 MWh on average per hour). These volumes accounted for 3.4% of those traded in the MGP (close to 3.6% in 2007).

In contrast, in the ex-post MSD (up), an increase was observed with respect to the previous year. Terna bought 9.7 million MWh, up by 3.4% from 2007 and equal to 2.9% of the volumes traded in the MGP (in line with 2.8% in 2007). Also the sales made by the Italian TSO retained the upward trend that they had shown in the past two years, reaching 11.3 million MWh, up by 6% on 2007 and with a share of 3% of the volumes traded in the MGP (as against 3.2% in 2007).

Volumes traded in the ex-post MSD (down)



Forward Electricity Account Trading Platform (PCE)

Since 1 April 2007, GME has been operating the PCE, on which both commercial forward electricity purchase/sale transactions and the related physical injection and withdrawal schedules may be registered.

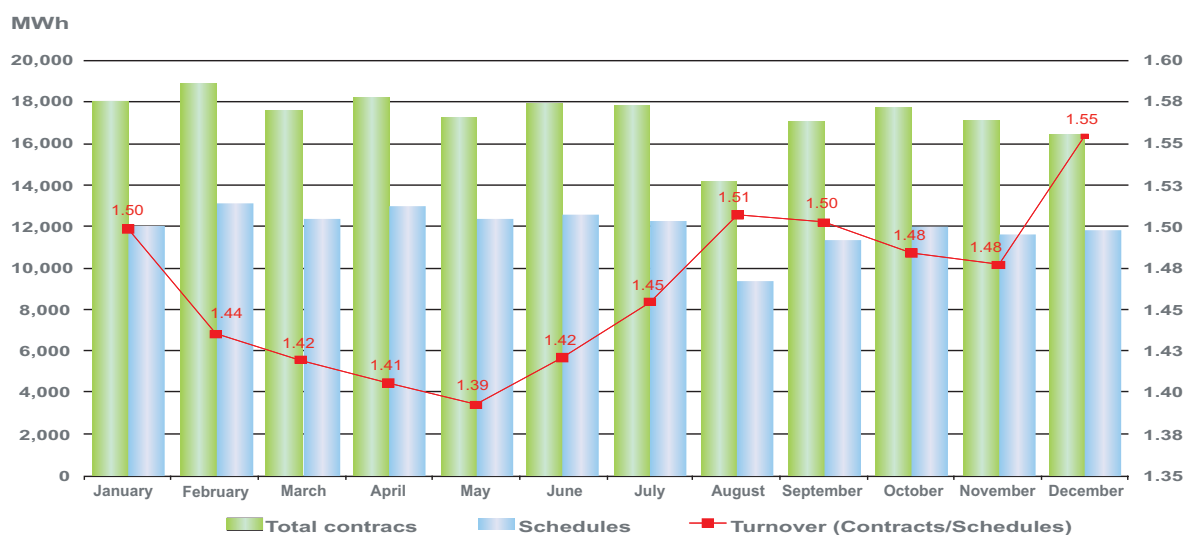
The overall transactions with delivery-making/delivery-taking in 2008 were 27,169, totalling 152.4 million MWh, up by 3.0% on the previous year. It is worth stressing that, for the comparison with 2007, reference has been made to the May–December period.

Registered transactions and net position

2008	No.	MWh	Change	Structure
PCE (net MTE)				
<i>Base-Load</i>	5,083	30,680,745	20.8%	20.1%
<i>Off-Peak</i>	558	8,946,983	(10.0%)	5.9%
<i>Peak-Load</i>	1,495	11,187,852	38.2%	7.3%
<i>Week-End</i>	4	13,200	-	0.0%
Total Standard	7,140	50,828,780	17.7%	33.3%
Non-Standard	20,029	101,533,152	(3.0%)	66.6%
Total	27,169	152,361,932	3.0%	100.0%
MTE				
<i>Base-Load</i>	3	24,000	-	0.0%
<i>Peak-Load</i>	6	33,600	-	0.0%
Total	9	57,600	-	0.0%
Total PCE	27,178	152,419,532	3.0%	100.0%
NET POSITION		122,842,343	(3.1%)	

With a view to measuring the flexibility of the PCE, its turnover (ratio of registered contracts to actually implemented physical schedules) was estimated. This ratio permits to assess the overall weight of the transactions that Market Participants conclude for managing their electricity portfolios only and not for actually procuring and selling electricity. In 2008, this ratio fluctuated from a minimum of 1.39 in May to a maximum of 1.55 in December. Except in May, the turnover was always above the one of the corresponding month of 2007.

Registered contracts, net position and physical schedules: hourly average



In terms of volumes, the non-standard contract profile was the most common one (66.6%), although it showed a slight decline from last year (-3.0%). Conversely, among standard contracts, the base-load profile (20.1%) was the most frequent one, even if the peak-load one had the most substantial growth (+38.2%).

In 2008, the two types of contracts proved to be differentiated in terms of both delivery periods and time ahead of delivery of the related registrations. Non-standard contracts were mostly used with delivery periods of one week (45.9%) or shorter (39.4%), whereas standard contracts spanned longer delivery periods. Indeed, monthly contracts accounted for 57.1% of base-load ones, 72.0% of off-peak ones and 63.5% of peak-load ones. With regard to the second difference, it should be emphasised that 90% of non-standard contracts were registered shortly ahead of delivery time (2-5 days); by contrast, 61.4% of standard contracts were registered earlier ahead of delivery (more than 5 days).

As compared to 2007, the percentage of both short-term contracts (less than one week) and contracts registered on the last useful day ahead of delivery dropped from 36.9% to 29.3% and from 34.9% to 24.0%, respectively.

Forward Electricity Market (MTE) and Italian Derivatives Energy Exchange (IDEX)

On 3 November 2008, two regulated forward/futures electricity markets were launched in Italy. Although their nature and structure are very different, they are complementary.

The first market, organised by GME, is called "Mercato a Termine Elettrico" (MTE - Forward Electricity Market). In this venue, physical contracts with maximum one-month maturity and delivery obligation upon maturity are traded. The second market, of a financial nature, is operated by "Borsa Italiana" (the Italian Stock Exchange) and is called "Italian Derivatives Energy Exchange" (IDEX). In this market, futures with monthly, quarterly and yearly maturities are traded and they can only be cash settled.

These two key instruments enable operators to manage their energy portfolios in a much more flexible way and represent a further step in the process of liberalisation of the sector and completion of the electricity market design.

Although drawing conclusions on these markets is premature, it can be stated that trades thereon have difficulties in taking off. To a certain extent, this is natural, as many operators (especially small ones) need to deeply change the management of their energy portfolios in order to trade in regulated markets.

Forward Electricity Market (MTE)

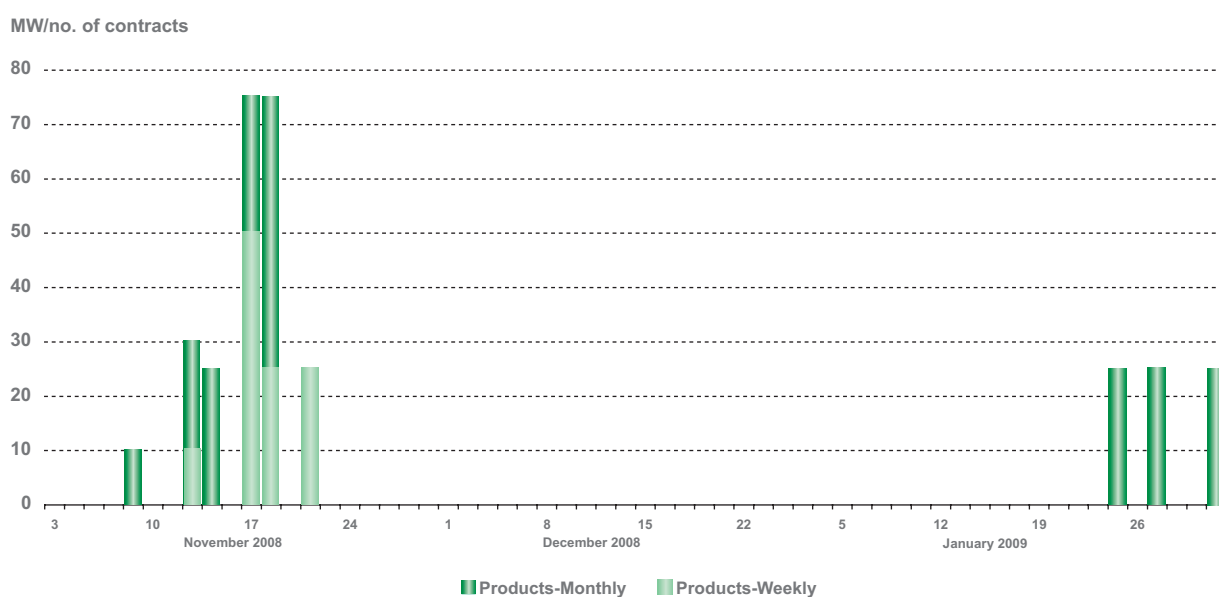
In the MTE, both base-load and peak-load contracts are tradable, whereas the delivery periods are weekly and monthly. On 16 February 2009, also daily contracts were introduced with the goal of responding to portfolio adjustment requirements that operators may have near the time of delivery.

The physical delivery obligation suggested to fully integrate the MTE with the PCE in order to safeguard the security and stability of the power system.

The trend of trades in the MTE shows that, in its first quarter of operation, active Participants were 8:5 on the supply side and 8 on the demand side.

About 110,000 MWh were traded in total, of which more than 76,000 MWh with base-load profile and the remaining ones with peak-load profile. From the standpoint of the delivery periods, instead, the near totality of the volumes concerned monthly contracts, as weekly ones amounted to as little as 7,680 MWh.

Volumes traded in the MTE by date



From a temporal viewpoint, a certain concentration of trades is observed. Most of the trades were concluded in the first three weeks of November 2008⁴, whereas the remaining ones took place in the last week of January 2009.

IDEX

The contracts tradable on IDEX are futures with base-load profile and monthly, quarterly and yearly delivery periods. The underlying is the PUN of electricity. The number of contracts listed at the same time is constant and equal to: 3 monthly contracts, 4 quarterly contracts and 1 yearly contract.

Only the shortest-maturity contract, the monthly one, is cash settled. For the other contracts, the cascading mechanism is applied near the start of delivery period (the previous fourth-to-the-last working day); under this mechanism, the contracts are split into an equivalent number of contracts with a shorter delivery period.

The pattern of trades on IDEX was similar to the one observed in the MTE. After over 1.2 TWh in November 2008, trades sharply dropped in December (0.33 TWh) and then moderately recovered in January (0.73 TWh).

The yearly contracts were the most negotiated ones, thanks to 0.83 TWh traded in the first month of activity of the market, in the heat of the process of renewal of bilateral contracts for 2009 supplies. Overall volumes of 0.7 TWh – over half of which traded in January 2009 – were traded under quarterly contracts, whilst monthly ones registered trades amounting to a little less than 0.4 TWh.

Volumes of trades on IDEX (data in MWh)

Contracts	Period			Total
	November 2008	December 2008	January 2009	
Monthly	152,568	91,972	142,295	386,835
Quarterly	275,100	138,027	459,241	872,368
Yearly	832,200	96,360	131,400	1,059,960
TOTAL	1,259,868	326,359	732,936	2,319,163

Source: GME's processing of Borsa Italiana's data

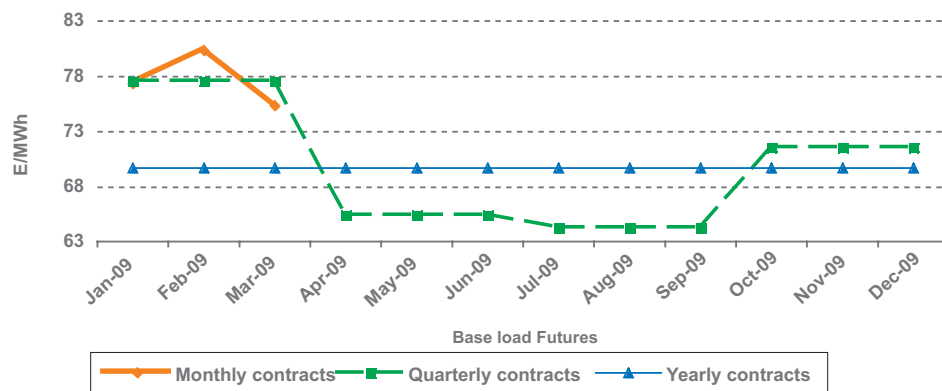
⁴ It is worth recalling that the meeting of the Italian Council of Ministers of 29 November 2008 approved Law-Decree 185/2008 ("anti-crisis decree"), laying down the guiding principles for the reform of the electricity market design.

At the end of December, the forward curve expressed by IDEX was in line both with prevailing prices in the bilaterals market and with the similar forward curves of the main energy fuels, especially oil.

As of 22 December 2008, the situation was as follows⁵:

- the prices of the three monthly contracts (January, February and March) ranged from 75.25 to 80.25 €/MWh;
- the contracts for the 1st quarter and 4th quarter of 2009 had prices of 77.5 and 71.5 €/MWh, respectively, whereas the two other contracts had prices around 65 €/MWh;
- the yearly contract closed at 69.63 €/MWh, a little less than the value (72 €/MWh) estimated for fixed-price bilaterals concluded in the OTC market.

Forward curve on IDEX (prices of 22 December 2008)



Source: GME's processing of Borsa Italiana's data.

⁵ The selected day was the last day on which the yearly contract with delivery in 2009 was negotiated on IDEX.

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 market 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

Support for electricity generation from renewables is based on the Green Certificates scheme. Green Certificates give evidence of renewable power generation.

In terms of results, 48 Green Certificates Market sessions were held in 2008. During these sessions, Participants traded 753,163 certificates, of which 828 worth 50 MWh in January, and 752,335 certificates worth 1 MWh in the rest of the year. The total electricity underlying the certificates traded in GME's regulated market in 2008 amounted to 793,735 MWh. The number of Participants in GME's regulated Green Certificates Market was 375 at the end of 2008.

Green Certificates traded in the market in 2008

	Reference Year			
	2006	Type CV_TRL (2006)	2007	2008
Traded	24,905	996	514,258	253,576
Total value	€ 2,487,201.00	€ 90,263.85	€ 49,169,718.89	€ 23,103,599.95
Min price	€ 77.00	€ 71.29	€ 65.00	€ 72.00
Max price	€ 115.00	€ 71.29	€ 115.00	€ 108.00
Average price	€ 99.87	€ 90.63	€ 95.61	€ 91.11

In the course of 2008, the market saw for the first time the trading of 996 Green Certificates issued by GSE in respect of electricity generation by combined heat & power (CHP) plants, associated with district heating (limited to the share of thermal energy actually used for electricity generation). These certificates are identified as "CV_TRL" .

As regards demand in 2008, the top 3 Participants accounted for 54.3% of overall demand, whereas the top 10 Participants had a share of 92.9%. Even if the market share held by the top 3 Participants dropped with respect to 2007 (when it was equal to 76.4%), the demand passing through GME's regulated market is still fairly concentrated on a limited number of Participants.

Supply of Green Certificates on the regulated market presents a slightly different situation, with lower concentration with respect to demand. In particular, the top 3 supply-side Participants had a share of 19.7% of overall supply in 2008 (down from 27.2% in 2007), whilst the top 10 Participants covered 50.7% of the total, as against 54.1% in the previous year.

Concentration of demand-side and supply-side Participants (2007 and 2008)

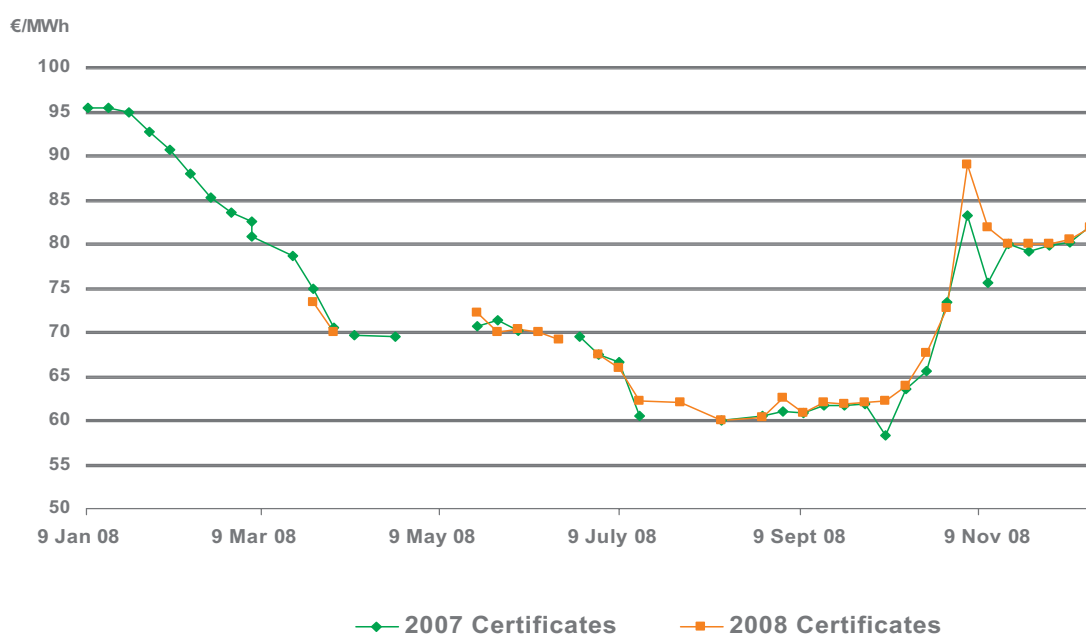
	2007		2008	
	Demand (%)	Supply (%)	Demand (%)	Supply (%)
Top 3 Participants	76.4	27.2	54.3	19.7
Top 10 Participants	99.1	54.1	92.9	50.7
Other Participants	0.9	45.9	7.1	49.3

Prices had fairly marked movements within a range of about 40 €/MWh. Indeed, in the first half of the year, prices in GME's regulated market sharply dropped from about 100 to about 60 €/MWh. This fact was chiefly due to the surplus of Green Certificates offered by renewable power producers (net of GSE's own certificates deriving from electricity generated by CIP-6 plants) vs. the number of certificates needed by operators to fulfil their yearly renewable quota obligation.

In the attempt of increasing the price level of Green Certificates, which might have adverse effects on the good performance of the support scheme in the long term, the Ministry of Economic Development approved a Decree on 18 December 2008. Under the Ministerial Decree, operators holding Green Certificates may ask GSE to buy them back at a predetermined price on a year by year basis and until June 2011.

Though the above Decree was approved in December, operators have begun betting on a change to the reference legislation as early as in October 2008, expecting the approval of measures bringing the prices of the certificates to much higher levels than in the previous quarter. By so doing, they contributed to bringing the price level to slightly above 80 €/MWh.

Weighted average price of Green Certificates, net of VAT (2008)



As to transactions off the regulated market, a "Piattaforma Bilaterali dei Certificati Verdi" (PBCV - Green Certificates Bilateral Registration Platform) has been launched since February 2007. The PBCV enabled operators if they wished to do so to register their bilateral transactions concluded off the market sessions onto GME's electronic platform.

Since the beginning of 2009, as a result of the approval of the Ministerial Decree of 18 December 2008, operators are instead required to register their bilateral transactions onto the PBCV and to notify the volumes of and the prices at which the Green Certificates have been traded.

Operators may ask GME to carry out an adequacy verification. In this case, before the conclusion of the registration. GME checks the seller's availability of the certificates to be traded and the buyer's availability of the amount needed to pay the certificates. As an alternative, operators may register their transaction without requiring GME to carry out any adequacy verification. In this case, the transaction is automatically registered, after GME has verified only the seller's availability of the certificates.

In actual fact, participation of operators in the PBCV was quite limited in 2008. During last year's sessions, 1,200 Green Certificates worth 50 MWh were traded in January and 121,718 Green Certificates worth 1 MWh were traded in the rest of the year. As a result, the electricity underlying the Green Certificates traded bilaterally and registered onto the PBCV totalled 181,718 MWh.

Energy Efficiency Certificates Market

The Ministerial Decrees of 20 July 2004⁶ introduced a market-based energy efficiency support scheme in Italy. Under the scheme, electricity and gas distributors with at least 100,000 customers connected to their distribution grid⁷ are assigned with an energy-saving target (expressed in tonnes of oil equivalent – toe). This target is to be achieved by implementing projects and measures that increase energy efficiency.

In 2008, during the 48 market sessions organised and managed by GME, the total number of Energy Efficiency Certificates (“TEE”) traded was 514,951, of which:

- 377,059 of type I (certifying electricity savings);
- 108,232 of type II (certifying gas savings);
- 29,660 of type III (certifying primary energy savings).

Statistical data on the Energy Efficiency Certificates Market (2008)

	Type I	Type II	Type III
Volume of Energy Efficiency Certificates traded (no. of certificates)	377,059	108,232	29,660
Value (€)	26,176,694	7,700,831	1,711,751
Min price (€/certificate)	35.00	35.00	10.00
Max price (€/certificate)	90.00	90.50	88.00
Weighted average price (€/certificate)	69.42	71.15	57.71

In the initial sessions of 2008, the price levels of certificates of type I and II converged, thanks to the approval of the Ministerial Decree of 21 December 2007⁸; indeed, this Decree provides for the equivalence of the two types of certificates for fulfilling the obligation referred to in the above-mentioned Ministerial Decrees of 2004.

Moreover, article 7, para. 3 of Legislative Decree 115/08⁹ stipulates that “[...] the saving of forms of energy other than electricity and natural gas, which are not used for transport, shall be equated with the saving of natural gas”, thus introducing the equivalence between certificates of type III (giving evidence of primary energy savings) to certificates of type II (giving evidence of natural gas savings).

Thanks to this new legislative measure, distributors may discharge their obligation also by surrendering certificates of type III for redemption and get the specified tariff reimbursement (€). Therefore, since November 2008, the prices and volumes of certificates of type III have had a sharp increase, becoming practically aligned with the prices of the two other types of certificates.

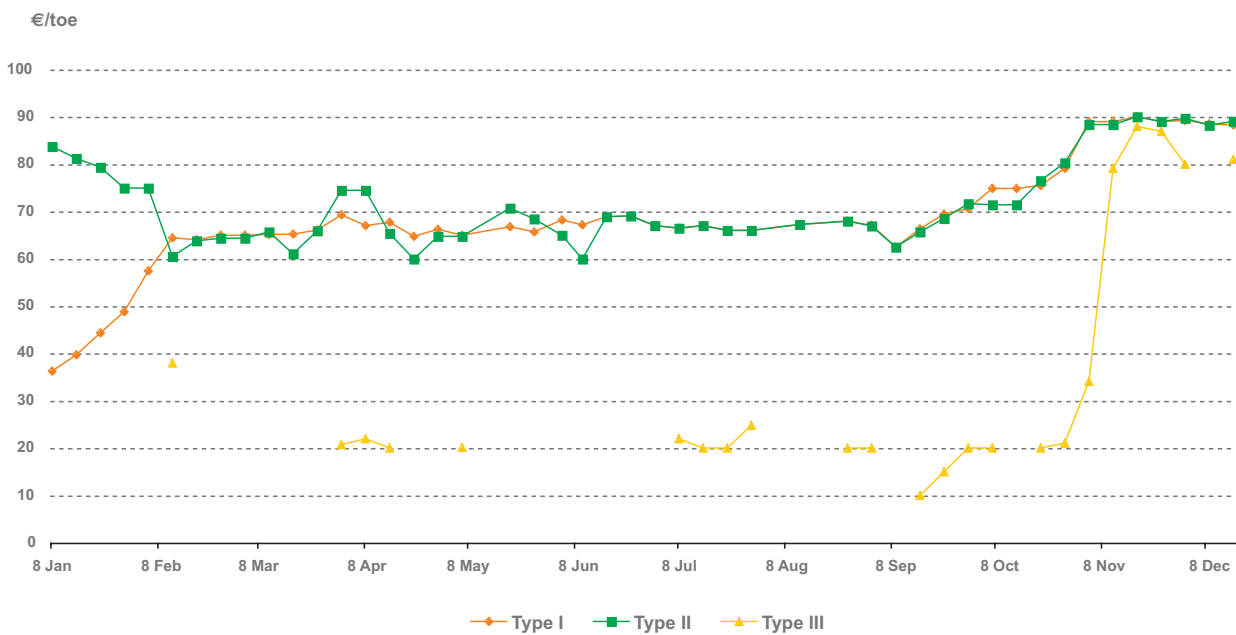
6 Decrees adopted on 20 July 2004 by the Minister of Productive Activities in consultation with the Minister of the Environment and Land Protection (new identification of quantitative targets of energy end-use efficiency, under art. 9, para. 1, Legislative Decree no. 79 of 16 March 1999) and (new identification of national quantitative targets of energy saving and development of renewables referred to in art. 16, para. 4, Legislative Decree no. 164 of 23 May 2000) published in “Gazzetta Ufficiale” no. 205 of 1 September 2004.

7 Since 2008, the threshold has been lowered to 50,000 customers.

8 Decree adopted on 21 December 2007 by the Minister of Economic Development in consultation with the Minister of the Environment of Land and Sea Protection (revision and updating of the Decrees of 20 July 2004 on increased energy end-use efficiency, energy saving and development of renewables) published in “Gazzetta Ufficiale” no. 300 of 28 December 2007.

9 Legislative Decree no. 115 of 30 May 2008 (implementing Directive 2006/32/EC on energy end-use efficiency and energy services repealing Directive 93/76/EEC), published in “Gazzetta Ufficiale” no. 300 of 28 December 2007.

Prices of Energy Efficiency Certificates in the regulated market (2008)



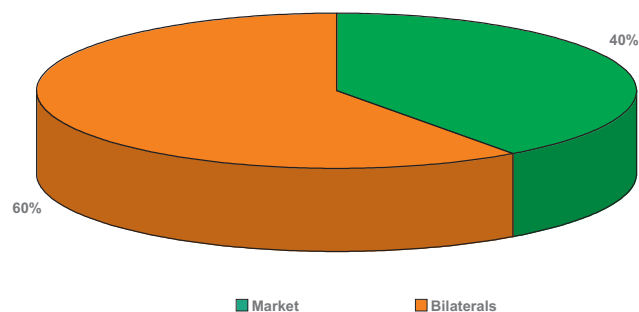
It is worthwhile recalling that GME's market is organised into separate order books, one for each type of certificates. Indeed, purchase and sale orders should refer to a specific type and the trading platform system automatically groups orders of the same type into a single book, dividing them into purchase and sale orders and ranking each group of orders by price and time priority. This may explain the persistence of small differences in the price of certificates belonging to the different types.

As to bilateral transactions, the total number of certificates traded in 2008 was 800,484. of which:

- 645,722 of type I;
- 149,187 of type II;
- 5,575 of type II.

Thus, the percentage of trades in the regulated market in 2008 was 40% vs. 60% of bilateral transactions.

Trades of Energy Efficiency Certificates in the regulated market and bilaterally (2008)



However, it should be taken into account that as many as 366,549 of the overall certificates traded bilaterally are to be attributed to transactions between companies belonging to the same group. Consequently, the percentage of trades in the regulated market, net of intra-group transactions, rises to 55.8% vs. 44.2% of bilateral transactions.

Emissions Trading Market

2008 was the year of transition from Phase I to Phase II of EU's Emissions Trading Scheme (EU-ETS). The scheme got the green light in 2005, after the approval of Directive 2003/87/EC¹⁰. In Phase II (2008–2012). Member States will be engaged in achieving the Kyoto Protocol targets and the European Union will have to collectively slash its greenhouse gas emissions by 8% from their 1990 levels. With regard to the European market of European Unit Allowances (EUAs), the official passage to Phase II took place on 30 April 2008, the last useful date for trading Phase I EUAs. In 2007, these EUAs had gradually lost their value until reaching a few eurocents per tonne of CO₂, owing to a clear surplus of allowances allocated in the 2005–2007 period. The spot market of the 2008–2012 EUAs had a rather slow start owing to the protracted process of approval of the National Allocation Plans (NAPs) by the governments of Member States and by the EU. This caused delays in releasing the permits into the operators' accounts in the various inter-linked registries.

The main differences between the Italian 2008–2012 NAP¹¹ and the 2005–2007 one lie in the thermal generation and refining sectors. In particular, the new allocation proposal for the thermal generation sector passed from an average of 131.06 MtCO₂/year to 100.66 MtCO₂/year, whereas for the refining sector it passed from an average of 23.76 MtCO₂/year to 20.06 MtCO₂/year. The data in the following table show the differences in the allocation by sector existing in the two plans.

Yearly average allocation by activity

Energy Activities	2005–2007 Allocation	2008–2012 Allocation
	<i>in MtCO₂</i>	
Thermoelectric (non-CHP and CHP)	131.6	100.66
Other combustion activities	14.9	14.52
District heating	0.23	0.23
Refineries	23.76	20.06
Gas pipeline compressors	0.88	0.88
Other	13.78	13.41

Source: PNA nazionale 2008–2102

It is worth recalling that GME amended the market rules by introducing the central counterparty. The new market resumed its activities on 15 January 2009, after being suspended since May 2008 pending the allocation of Phase II allowances. Currently, Market Participants are almost exclusively Italian.

GME's status of central counterparty completely eliminates the counterparty risk and simplifies operators' administrative-accounting tasks connected with participation in a regulated market.

To participate in the market, buyers will have to make a single payment to GME as a guarantee deposit totally covering their purchases. The trading system will accept purchase orders only if they are entirely covered by the available deposit. Then after the end of the market session:

- a) sellers will issue a single invoice to GME;
- b) buyers will receive a single invoice from GME.

¹⁰ Directive 2003/87/EC of the European Parliament and the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

¹¹ The 2008–2012 National Allocation Plan was sent to Brussels in February 2008 and approved in November 2008.



OPERATING AND FINANCIAL RESULTS

3. OPERATING AND FINANCIAL RESULTS

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Once again in 2008, Gestore del Mercato Elettrico S.p.A. confirmed the positive trend in performance that it has demonstrated since it launched operations, marking a significant improvement in its main indicators.

Thanks to the positive trend in volumes traded on the markets managed by GME, total revenues reached Euro 24 billion, up by 29.4% compared to the previous financial year, while EBIT hit Euro 14.5 million, up by 15.0%. The net income for the year amounted to Euro 11.2 million, up by 21.8%. Electricity volumes traded in the Day-Ahead Market (MGP) in 2008 were equal to 243.1 TWh, up by 18.1 TWh (+8.0%) from the previous year. In particular, 2008 saw the consolidation of the trend of non-institutional operators to choose GME's platform to trade electricity both at national level (generation/consumption) and in neighbouring countries' zones (import/export). The value of the electricity traded in the MGP exceeded Euro 22 billion, up by approximately Euro 5 billion from 2007 (+28.5%). The growing volumes attracted by GME's platform brought market liquidity to 69.0%, 1.9 percentage points higher than the already considerable figure for 2007 (67.1%).

The results attained in financial year 2008 testify GME's continuing commitment to responding to the requirements of operators. First of all, as part of its energy markets, GME launched a Forward Electricity Market (MTE) on 3 November 2008. Thanks to this initiative, blocks of electricity for forward physical delivery can be traded for the first time on a regulated market in Italy. Therefore, electricity operators have a new instrument to hedge against electricity price fluctuations.

GME also made improvements to the trading mechanisms of its Environmental Markets. In particular, GME became the central counterparty in both the Green Certificates Market (MCV) and Emissions Trading Market (MUE), thereby guaranteeing the settlement of transactions and eliminating the counterparty risk falling on operators.

With regard to the trading of Green Certificates, the company timely implemented the provisions of the Ministerial Decree dated 18 December 2008, which introduced the obligation to register bilateral transactions onto the Green Certificates Bilaterals Registration Platform (PBCV) and to declare the prices and volumes traded.

As a result, the transparency of prices, of results of transactions and of market performance in general has increased significantly.

New technical procedures were introduced into the Emissions Trading Market to make it more flexible, while maintaining ease of trading.

The company's commitment to strengthening the market will be intensified in 2009, in view of the implementation of new rules that will redesign the mechanisms and broaden the structure of the market. More far-reaching initiatives will be taken by GME in its role of president of EuroPEX (Association of European Power Exchanges) with the objective of furthering the integration of European electricity markets.

The President
Salvatore Zecchini



The Chief Executive Officer
Sergio Agosta



MAIN OPERATING RESULTS

2008 confirmed the positive trend of the operating results achieved by the company commencing from 2004.

Linked revenues and costs went up by almost 30%, reaching over Euro 24 billion.

EBITDA totalled Euro 16.7 million, up by 12.3% from the previous financial year (Euro 14.8 million). This significant increase is mainly attributable to the positive change in the volumes traded on GME's markets, with a consequent increase in margin revenues.

After amortisation and depreciation of approximately Euro 2.1 million, EBIT reached Euro 14.5 million, with a positive change of 15.0% compared to 2007 (Euro 12.6 million).

Earnings from interest totalled Euro 3.9 million, up by 43.6% from the previous financial year (Euro 2.7 million). This increase is attributable both to larger traded volumes - with a consequent increase in average deposits - and to higher interest rates.

The earnings after taxes (net income for the year) were Euro 11.2 million, an increase of 21.8% compared to the figure for 2007 (Euro 9.2 million).

The table below summarises the key performance, equity and financial data, as well as financial ratios and operational indicators for 2008, shown alongside the data of the previous year.

Key performance data

Thousands of Euro	2008	2007	Change	Change (%)
Operating data				
Linked revenues and costs	24,053,924	18,588,260	5,465,664	29.4
Revenues from core operations and other margin revenues	31,765	28,883	2,882	10.0
Operating costs	15,102	14,051	1,051	7.5
EBITDA	16,663	14,833	1,830	12.3
Amortisation and depreciation	(1,767)	(2,210)	443	(20.0)
Provisions for liabilities	(380)	-	(380)	
EBIT	14,517	12,623	1,894	15.0
Earnings from interest	3,875	2,698	1,177	43.6
Earnings from extraordinary operations	4	(180)	184	(102.2)
Earnings before taxes	18,396	15,141	3,255	21.5
Taxes	(7,175)	(5,930)	(1,245)	21.0
Net income	11,221	9,211	2,010	21.8

As an effect of the rounding of figures, the sums of individual items may be slightly different from the totals.

Key equity and financial data

Thousands of Euro	2008	2007	Change	Change (%)
Net non-current assets	24,907	3,879	21,028	542.1
Net capital invested	606	9,347	(8,741)	(93.5)
Net debt/(Net cash available)	(32,013)	(21,038)	(10,975)	52.2
Shareholders' equity	32,618	30,385	2,233	7.3

Key ratios

Figures shown as percentages	2008	2007
<i>Financial ratios</i>		
ROE - Return on equity	34.4%	30.3%
EBITDA/Revenues*	52.5%	51.4%
ROS - Return on sales*	45.7%	43.7%

* ROS and EBITDA/Revenues were calculated considering only the revenues from core operations and other margin revenues.

Operational data

Other indicators	2008	2007
MGP liquidity	69.0%	67.1%
Average personnel	87.6	78.7
Year-end personnel	89	83

SUMMARY OF OPERATING AND FINANCIAL RESULTS

Reclassified balance sheet

The following table summarises the figures of the company's equity structure compared to that of the previous year.

Reclassified balance sheet

Thousands of Euro	2008	2007	Change
- non-current intangible assets	1,660	2,033	(373)
- non-current tangible assets	1,033	1,573	(540)
- non-current financial assets	22,214	273	21,941
NET NON-CURRENT ASSETS (A)	24,907	3,879	21,028
- trade receivables	2,518,934	2,490,045	28,889
- due from Parent Company	74,603	1,027	73,576
- due from related company	1,380,015	1,518,191	(138,176)
- prepaid taxes	611	51	560
- other receivables	82	465	(383)
- current financial assets	-	22,034	(22,034)
- prepaid expenses and deferred income	300	218	82
- trade payables due to suppliers	(3,323,606)	(3,335,152)	11,546
- due to parent company	(668,523)	(687,908)	19,385
- due to related company	(136)	(14)	(122)
- tax payables	(1,664)	(306)	(1,358)
- due to welfare institutions	(421)	(363)	(58)
- other payables	(45,836)	(40,239)	(5,597)
- deferred income and accrued expenses	(2,154)	(764)	(1,390)
- unavailable deposits made by Market Participants	44,927	39,296	5,631
NET CURRENT ASSETS (B)	(22,868)	6,582	(29,450)
GROSS CAPITAL INVESTED (A+B)	2,039	10,460	(8,422)
- Provisions for liabilities and other charges	(449)	(141)	(308)
- Provisions for deferred taxes	(58)		(58)
- Severance indemnity fund	(926)	(972)	46
PROVISIONS (C)	(1,433)	(1,113)	(320)
NET CAPITAL EMPLOYED (A+B-C)	606	9,347	(8,741)
- cash and cash equivalents	(76,940)	(60,335)	(16,606)
- of which unavailable deposits made by Market Participants	44,927	39,296	5,631
NET FINANCIAL POSITION (D)	(32,013)	(21,038)	(10,975)
- Share capital	7,500	7,500	-
- Legal reserve	1,500	1,277	223
- Other reserves	12,397	12,397	-
- Profit (Loss) for the year	11,221	9,211	2,010
SHAREHOLDERS' EQUITY (E)	32,618	30,385	2,233
COVERAGES (D+E)	606	9,347	(8,741)

As an effect of the rounding of figures, the sums of individual items may be slightly different from the totals.

Total net non-current assets (Euro 24,907 thousand at 31 December 2008) are up by Euro 21,028 thousand; this is mainly due to the reclassification of a bond in 2008 from current assets to non-current assets. This change is the result of a resolution adopted by the Board of Directors, expressing the strategy of holding this investment in portfolio in the medium-long term and possibly until maturity.

In parallel, net current assets drop to Euro 29,450 thousand at 31 December 2008 owing to - among others - the above-mentioned reclassification.

Net capital invested is Euro 606 thousand.

With regard to coverage means, the year-end shareholders' equity (Euro 32,618 thousand) increases as an effect of the earnings for 2008, net of the dividend on the earnings for 2007 which has been paid to the Sole Shareholder in 2008.

Net cash and cash equivalents at the end of the financial year are Euro 32,013 thousand.

Reclassified income statement

In order to provide a clear and comprehensive picture of the income components, the following tables show the reclassified income statement according to two different analytical approaches: the first approach is based on the traditional layout; the second approach is based on a layout that separately shows the items that are linked to those which form the net income (loss) for the year. With regard to the latter approach, it is worth clarifying that linked items identify the positive revenue items that exactly correspond to the negative revenue items to which they refer; conversely, margin revenues are allocated to cover operating costs and return on capital invested.

Reclassified income statement – traditional layout

Thousands of Euro	As at 31 December 2008	As at 31 December 2007	Changes
Revenues			
- Sales and services	24,085,630	18,616,998	5,468,632
- Other revenues and income	58	145	(87)
Total revenues	24,085,688	18,617,143	5,468,545
Operating costs			
- Purchases	23,597,425	18,362,105	5,235,320
- Services	462,710	232,082	230,628
- Labour costs	7,690	6,769	921
- Other operating costs	1,200	1,354	(154)
Total costs	24,069,025	18,602,311	5,466,714
EBITDA	16,663	14,833	1,830
- Amortisation of non-current intangible assets	(1,083)	(1,525)	(442)
- Depreciation of non-current tangible assets	(684)	(685)	(1)
- Provisions for liabilities	(380)	-	(380)
EBIT	14,517	12,623	1,894
- Net financial income/charges	3,875	2,698	1,177
Earnings before non-recurring components and taxes	18,392	15,321	3,071
- Net non-recurring income/charges	4	(180)	184
EBT	18,396	15,141	3,255
- Income taxes for the year – current, deferred and pre-paid	(7,175)	(5,930)	(1,245)
PROFIT (LOSS) FOR THE YEAR	11,221	9,211	2,010

As an effect of the rounding of figures, the sums of individual items may be slightly different from the totals.

Reclassified income statement showing linked items

Thousands of Euro	2008	2007	Change
LINKED ITEMS			
Revenues			
Revenues from GSE	319,110	2,608	316,502
Revenues from related companies	7,635,477	8,548,257	(912,780)
Revenues from third parties	16,099,337	10,037,395	6,061,942
Total revenues	24,053,924	18,588,260	5,465,664
Costs			
Costs to GSE	4,290,887	3,389,598	901,289
Costs to related companies	1,129	38	1,091
Costs to third parties	19,761,908	15,198,624	4,563,284
Total costs	24,053,924	18,588,260	5,465,664
Balance of linked items			
MARGIN REVENUES			
Revenues from fees			
Revenues for fees from GSE	1,648	1,489	159
Revenues for fees from related companies	3,031	3,643	(612)
Revenues for fees from third parties	27,028	23,606	3,422
Total Revenues from fees	31,707	28,737	2,970
Other revenues and income			
Various income and revenues from GSE	38	73	(35)
Various income and revenues from third parties	20	72	(52)
Total other revenues and income	58	145	(87)
Total Operating Revenues	31,765	28,883	2,882
MARGIN COSTS			
Costs for personnel seconded to GSE	2,132	2,127	5
Costs for personnel seconded to third parties	5,280	5,155	125
Labour costs	7,690	6,769	921
Total Margin Costs	15,102	14,051	1,051
EBITDA	16,663	14,833	1,830
Amortisation of non-current intangible assets	(1083)	(1,525)	442
Depreciation of non-current tangible assets	(684)	(685)	1
Amortisation and depreciation of non-current assets	(1,767)	(2,210)	443
Provisions for liabilities	(380)	-	(380)
Total amortisation, depreciation and allocations	(2,147)	(2,210)	63
EBIT	14,517	12,623	1,894
Net financial income/(charges)	3,875	2,698	1,177
Earnings before non-recurrent components and taxes	18,392	15,321	3,071
Net non-recurring income/(charges)	4	(180)	184
EBT	18,396	15,141	3,255
Current IRAP	1,030	966	64
Current IRES	6,647	5,015	1,632
Deferred tax assets (receivables)	(559)	(51)	(508)
Deferred tax payables	57		57
Income taxes	7,175	5,930	1,245
Net income for the year	11,221	9,211	2,010
Investments in intangible and tangible assets (*)	854	1,539	(685)

(*) Investments for financial year 2008 are shown net of a disinvestment of approximately Euro 1,000.
As an effect of the rounding of figures, the sums of individual items may be slightly different from the totals.

The reclassified income statement for financial year 2008 compared to financial year 2007, according to the two above-mentioned approaches, indicates that:

1. total revenues for 2008 increase by approximately 29.4% compared to 2007. This increase can mostly be attributed to a general growth in traded volumes. Consequently, the margin revenues (Euro 31,765 thousand) are up by 10.0% from the previous financial year (Euro 28,883 thousand) thanks - among others and to a relatively lesser extent - to the positive trend of access fees and yearly fixed fees;
2. operating costs, net of "linked costs", at 31 December 2008 are equal to Euro 15,102 thousand; they refer to:
 - costs for personnel seconded to the Parent Company of Euro 2,132 thousand, in line with the previous financial year;
 - costs for personnel seconded to third parties of Euro 5,280 thousand, up by 2.4% from the previous financial year (Euro 5,155 thousand);
 - labour costs of Euro 7,690 thousand, up by 13.6% compared to the previous financial year (Euro 6,769 thousand); these costs reflect: i) increase in the average number of employees, which went from 78.7 at 31 December 2007 to 87.59 at 31 December 2008; ii) non-recurring cost components incurred during the year; and iii) salary increases resulting from renewal of the electricity sector's national collective labour agreement signed on 27 December 2007 and effective as of 1 July 2007;
3. EBITDA of Euro 16,663 thousand and EBIT of Euro 14,517 thousand confirm the company's positive performance;
4. the amount of earnings from interest (Euro 3,875 thousand) is up by Euro 1,177 thousand from financial year 2007; this result may be ascribed both to higher traded volumes and higher rates of return on liquid funds;
5. the earnings after taxes (net income for the year) are 11,221 thousand, up by 21.8% from 2007.

Cash flow statement

Cash flow statement

Thousands of Euro	As at 31 December 2008	As at 31 December 2007
A Initial net cash and cash equivalents	21,038	45,418
B Cash flows from (for) activities of the financial year		
Net income for the year	11,221	9,211
Amortisation and depreciation	1,767	2,210
Increases/decreases in provisions	320	23
Self-financing	13,308	11,444
Change in trade receivables and receivables from related company	109,287	(1,115,790)
Change in receivables from parent company	(73,576)	(182)
Change in current financial assets	22,034	(22,034)
Change in trade payables and payables from related company	(11,424)	1,053,938
Change in payables to parent company	(19,385)	60,918
Change in other asset items	(259)	338
Change in other liability items	2,773	(5,781)
Change in net current assets	29,450	(28,595)
Total B - Operating cash flow	42,758	(17,150)
C Cash flows from (for) investments		
- Investments in non-current intangible assets	(710)	(1,092)
- Investments in non-current financial assets	(21,941)	
- Investments in non-current tangible assets	(144)	(478)
- Disinvestments		
Total C	(22,795)	(1,570)
Total B + C	19,963	(18,720)
D Cash flows from (for) financial activities		
Dividend paid to Sole Shareholder	(8,988)	(5,660)
Total D	(8,988)	(5,660)
E Cash flow for the financial year	10,975	(24,380)
Final net cash and cash equivalents	32,013	21,038

The 2008 cash flow statement represents movements in sources and investments of liquidity. It may be observed that the cash generated in financial year 2008, totalling Euro 10.975 thousand, is mainly attributable to the following factors:

- self-financing of Euro 13,308 thousand;
- inflows deriving from the change in net current assets of Euro 29,450 thousand, mainly due to: i) reclassification of the "Momentum" bond (Euro 22,034 thousand) from current assets to non-current assets; ii) positive net change in trade receivables and payables, including those from/to GSE and Acquirente Unico, (Euro 4,902 thousand); and iii) net change in other asset and liability items (Euro 2,514 thousand);
- outflows of Euro 22,795 thousand as an effect of: i) investments; ii) the above-mentioned reclassification; and iii) Euro 8,988 thousand for the payment of the dividend on the earnings for 2007 to the Sole Shareholder.



**BALANCE SHEET AND INCOME
STATEMENT AT 31 DECEMBER 2008**

Balance sheet (assets)

ASSETS	Partial		Total		Change
	31 Dec. 2008		31 Dec. 2007		
	Euro		Euro		Euro
A) RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS STILL DUE	-		-		-
B) NON-CURRENT ASSETS					
I. Intangible assets:					
3) industrial patent rights and rights of utilisation of intellectual property	1,173,713		1,766,389		(592,676)
4) concessions, licences, brands and similar rights	4,952		18,681		(13,729)
6) non-current assets in progress and advances	259,733		-		259,733
7) others	221,815		247,602		(25,787)
		1,660,213		2,032,673	(372,460)
II. Tangible assets:					
2) plant and machinery	90		198		(108)
4) other assets	1,033,054		1,472,369		(439,315)
5) non-current assets in progress and advances	-		100,000		(100,000)
		1,033,144		1,572,567	(539,423)
III. Financial:					
	<i>Receivable within 12 months</i>		<i>Receivable within 12 months</i>		
2) Receivables:					
d) other receivables	20,733	179,541	23,134	272,743	(93,202)
3) other securities		22,034,252		-	22,034,252
		22,213,793		272,743	21,941,050
Total non-current assets		24,907,150		3,877,983	21,029,167
C) CURRENT ASSETS					
II. Receivables:					
	<i>Receivable within 12 months</i>		<i>Receivable within 12 months</i>		
1) trade Receivables		3,898,948,688		4,008,236,330	(109,287,642)
4) due from Parent Company		74,603,107		1,027,104	73,576,003
4-ter) prepaid taxes	52,406	610,724	34,658	51,307	559,417
5) other receivables		82,001		464,951	(382,950)
		3,974,244,520		4,009,779,692	(35,535,172)
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		76,939,638		60,333,791	16,605,847
3) cash and notes on hand		278		972	(694)
		76,939,916		60,334,763	16,605,153
Total current assets		4,051,184,436		4,092,148,706	(40,964,270)
D) PREPAID EXPENSES AND ACCRUED INCOME					
Prepaid expenses		21,096		21,389	(293)
Accrued income		278,543		197,047	81,496
Total prepaid expenses and accrued income		299,639		218,436	81,203
TOTAL ASSETS		4,076,391,225		4,096,245,125	(19,853,900)

Balance sheet (shareholders' equity and liabilities)

SHAREHOLDERS' EQUITY AND LIABILITIES	Partial	Total	Partial	Total	Change
	31 Dec. 2008		31 Dec. 2007		
	Euro		Euro		Euro
A) SHAREHOLDERS' EQUITY					
I. Share capital	7,500,000		7,500,000		-
IV. Legal reserve	1,500,000		1,276,689		223,311
VII. Other reserves:					
- Available reserves	12,397,494		12,397,494		-
IX. Net income (loss) for the year	11,220,963		9,211,389		2,009,574
Total shareholders' equity		32,618,457		30,385,572	2,232,885
B) PROVISIONS FOR LIABILITIES AND CHARGES		506,857		140,657	366,200
1) for retirement benefits and similar obligations	69,407		140,657		(71,250)
2) for taxation, including deferred taxes	57,450		-		57,450
3) others	380,000		-		380,000
C) SEVERANCE INDEMNITY FUND		926,262		972,519	(46,257)
D) PAYABLES					
7) trade payables	3,323,741,629		3,335,166,058		(11,424,429)
11) due to Parent Company	668,523,312		687,908,351		(19,385,039)
12) tax payables	1,663,905		306,058		1,357,847
13) due to pension and social security institutions	420,635		362,973		57,662
14) other payables	45,835,890		40,238,700		5,597,190
Total payables		4,040,185,371		4,063,982,139	(23,796,768)
E) ACCRUED EXPENSES AND DEFERRED INCOME					
Accrued expenses	3,553		3,611		(58)
Deferred income	2,150,725		760,627		1,390,098
Total accrued expenses and deferred income		2,154,278		764,238	1,390,040
Total liabilities		4,043,772,768		4,065,859,553	(22,086,785)
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		4,076,391,225		4,096,245,125	(19,853,900)
MEMORANDUM ACCOUNTS					
Guarantees received	1,762,587,753		1,404,003,393		358,584,360
Total memorandum accounts		1,762,587,753		1,404,003,393	358,584,360

Income statement

	Partial	Total	Partial	Total	Change
	31 Dec. 2008		31 Dec. 2007		
	Euro		Euro		Euro
A) REVENUES					
1) revenues from sales and services	24,085,630,472		18,616,997,963		5,468,632,509
5) other revenues and income	57,800		145,182		(87,382)
Total revenues		24,085,688,272		18,617,143,145	5,468,545,127
B) PRODUCTION COSTS					
6) raw materials, ancillaries, consumables and goods		23,597,425,188		18,362,105,078	5,235,320,110
7) services		462,709,860		232,082,039	230,627,821
8) leases and rentals		872,890		896,916	(24,026)
9) personnel costs:					
a) salaries and wages	5,369,521		4,885,751		483,770
b) social security charges	1,456,928		1,376,847		80,081
c) severance indemnity fund	382,490		351,728		30,762
d) pensions and similar costs	98,759		4,607		94,152
e) other costs	382,287		150,526		231,761
		7,689,985		6,769,459	920,526
10) amortisation, depreciation and write-downs:					
a) amortisation of non-current intangible assets	1,082,806		1,524,907		(442,101)
b) depreciation of non-current tangible assets	683,849		684,690		(841)
		1,766,655		2,209,597	(442,942)
12) allocations to provisions for liabilities		380,000		-	380,000
14) other operating charges		326,875		456,999	(130,124)
Total production costs		24,071,171,453		18,604,520,090	5,466,651,363
Difference between revenues and production costs (A-B)		14,516,819		12,623,055	1,893,764
C) FINANCIAL INCOME AND CHARGES					
16) Other financial income:					
a) from non-current receivables					
- others	4,771		6,422		(1,651)
		4,771		6,422	(1,651)
b) from non-current securities excluding equity investments					
- others	305,890		-		305,890
		305,890		-	305,890
c) from current securities excluding equity investments					
- others	-		21,389		(21,389)
				(21,389)	(21,389)
d) income other than the above					
- others	3,630,719		2,677,684		953,035
		3,630,719		2,677,684	953,035
17) interest and other financial charges					
- others	(66,287)		(7,419)		(58,868)
		(66,287)		(7,419)	(58,868)
17- bis) profits and losses on exchange rates		(118)		-	(118)
Total financial income and charges		3,874,975		2,698,076	1,176,899
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS					
Total value adjustments to financial assets		-		-	-
E) NON-RECURRING INCOME AND CHARGES					
20) Income					
- sundry	32,636		61,704		(29,068)
		32,636		61,704	(29,068)
21) Charges					
- sundry	(28,133)		(241,571)		213,438
		(28,133)		(241,571)	213,438
Total non-recurring items		4,503		(179,866)	184,370
Earnings before taxes (A-B+C+D+E)		18,396,297		15,141,265	3,255,032
22) Current, deferred and advance income taxes for the year		(7,175,334)		(5,929,876)	(1,245,458)
23) Net income (loss) for the year		11,220,963		9,211,389	2,009,574



**EXCERPTS FROM THE NOTES TO
THE 2008 FINANCIAL STATEMENTS**

BALANCE SHEET

ASSETS

Non-current assets – Euro 24,907,150

Non-current intangible assets – Euro 1,660,213

The details of this item, including the changes occurring 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. 2007						
Original cost	15.7	12,810.3	67.7	-	272.1	13,165.8
Amortisation	(15.7)	(11,043.8)	(49.1)	-	(24.5)	(11,133.1)
Situation at 31 Dec. 2007	-	1,766.4	18.7	-	247.6	2,032.7
Movements in financial year 2008						
Increases	-	449.4	-	259.7	1.2	710.3
Amortisation	-	(1,042.1)	(13.7)	-	(27.0)	(1,082.8)
Balance of movements in financial year 2008	-	(592.7)	(13.7)	259.7	(25.8)	(372.5)
Situation at 31 Dec. 2008						
Original cost	15.7	13,259.7	67.7	259.7	273.3	13,876.1
Amortisation	(15.7)	(12,085.9)	(62.8)	-	(51.5)	(12,215.9)
Situation at 31 Dec. 2008	-	1,173.7	4.9	259.7	221.8	1,660.2

Industrial patent rights and rights of utilisation of intellectual property total Euro 1,173,713. Compared to 31 December 2007, this item involves:

- increases during the year, totalling Euro 449,379, relating to: i) upgrading of the information system to support the operation of the Electricity Market; and ii) purchase of new licences for the various software applications being used;
- decreases, totalling Euro 1,042,055, relating to: i) amortisation and depreciation in 2008 of investments made in previous years and in the reference year.

Concessions, licenses, brands and similar rights, totalling Euro 4,952, relate to: i) net value of brands and some fixed-term software usage licences purchased in previous financial years.

Non-current assets in progress and advances, totalling Euro 259,733, refer to projects in progress and to advances to suppliers for software development projects for the company's core business; at 31 December 2008, these projects were in the testing phase.

The other items total Euro 221,815. These non-current assets include the net value of expenses incurred for "improvements to third-party assets", i.e. improvements to some areas of the company's headquarters (Viale Pilsudski) and of the power exchange operating offices (Via Palmiano). In accordance with OIC (Italian Accounting Board) standard no. 24, depreciation was calculated over the shorter of two periods: the period in which improvements are utilised and the residual period of the lease (including the possible period of tacit renewal).

Non-current tangible assets – Euro 1,033,144

Movements in this 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. 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
Movements in financial year 2008				
Increases	-	144.8	-	144.8
Decreases	-	(1.4)	-	(1.4)
Transfers in the financial year	-	100.0	(100.0)	-
Movements in provisions	-	0.9	-	0.9
Amortisation	(0.1)	(683.7)	-	(683.8)
Balance of movements in financial year 2008	(0.1)	(439.4)	(100.0)	(539.5)
Situation at 31 Dec. 2008				
Original cost	0.5	3,875.3	-	3,875.8
Provision for depreciation	(0.4)	(2,842.3)	-	(2,842.7)
Balance at 31 Dec. 2008	0.1	1,033.0	-	1.033.1

This item, totalling Euro 1,033,144 compared to 31 December 2007, mainly involves:

- increases during the year, totalling Euro 144,762, relating to purchase of *hardware* for improving the Electricity Market IT infrastructure and renovating IT workstations;
- transfers during the financial year of *hardware* purchased at the end of 2007, equal to Euro 100,000;
- decreases, totalling Euro 683,849, relating to the depreciation for the year of capital expenditure made in previous years and in the reference year.

As already mentioned in the accounting criteria section, a review of the useful life of some categories of GME's assets, namely fixed and portable data processing systems, was carried out. Based on this review, the useful life of these assets was changed from 5 to 3 years, with a consequent increase in the depreciation rates from 20% to 33.3%.

This change caused an increase in depreciation totalling approximately Euro 77,500.

Non-current financial assets – Euro 22,213,793

The item comprises:

- "loans to employees" of Euro 179,541 (recorded at residual book value); these loans were granted to the company's employees for the purchase of a first home or for serious family necessity, as provided in collective sector-wide agreements; the loans are repaid by employees under predetermined payment plans;
- a "bond", recorded at purchase cost including direct expenses, totalling Euro 22,034,252.

The bond, subscribed for on 27 December 2007 with a major international bank (having a current Moody's rating of AA3 and a Standard & Poor's rating of A), has a ten-year maturity and guaranteed repayment of principal at maturity, GME has the option of requesting the issuer to repay the principal in advance at the market conditions prevailing at the time of the request. During 2008, GME's Board of Directors adopted a resolution expressing the strategy of holding the investment in portfolio in the medium-long term and possibly until maturity, in view of the specific characteristics of the bond and of the deterioration of the situation in international financial markets.

Consequently, the bond was reclassified in the 2008 financial statements to non-current financial assets. In accordance with the indications given by article 2426 of the Italian Civil Code, the criterion of the purchase cost - including directly related ancillary expenses - was adopted for the valuation of the investment. Moreover, it is worth pointing out that, under the reference accounting standards:

- 1) the issuer's *rating* to date does not suggest any long-lasting impairment of the value of the bond;
- 2) the value of the bond is monitored monthly; at 31 December 2008 its fair value was 78.41%. A possible valuation of the investment based on its fair value would have reduced the net income and shareholders' equity for the year by Euro 3,182,366.

Current Assets – Euro 4,051,184,436

Receivables – Euro 3,974,244,520

An indication of the amounts due within and beyond five years is shown in the appropriate detailed table to complete comment on the assets.

Trade receivables – Euro 3,898,948,688

This item consists of the trade receivables shown in the table below:

Thousands of Euro	31 Dec 2008	31 Dec 2007	Change
for sales of electricity in the MGP and MA	3,842,776.7	3,952,348.7	(109,572.0)
fees for assignment of rights of use of transmission capacity (CCT) as per art. 43, Annex A to AEEG's Decision 111/06	45,556.2	51,339.7	(5,783.5)
for sales of electricity in the MTE	5,420.3	-	5,420.3
fees per MWh traded in the MGP, MA, PAB and MSD	2,750.4	2,820.8	(70.4)
fees per MWh registered onto the PCE	1,086.8	1,030.7	56.1
for access fees in the ME	81.0	48.0	33.0
for access fees on the PCE	1.2	-	1.2
for yearly fixed fees in the ME	636.0	563.6	72.4
for fees in the MCV	16.5	2.7	13.8
for fees in the MTEE	171.9	81.8	90.1
for yearly fixed fees in the MTEE	5.8	-	5.8
for fees in the MUE	-	0.4	(0.4)
for non-electricity services provided to Terna S.p.A.	445.8	-	445.8
TOTAL	3,898,948.7	4,008,236.3	(109,287.6)

Specifically, this item mainly refers to receivables:

- from sales of electricity in the MGP and MA, which totalled Euro 3,842,776,699.
This item relates to receivables from Electricity Market Participants for sales of electricity in the Day-Ahead Market (MGP) and Adjustment Market (MA) during the months of November and December 2008: these receivables were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 75 of the Integrated Text of the Electricity Market Rules (hereafter "Electricity Market Rules") and related Technical Rules;
- from fees for assignment of rights of use of transmission capacity (CCT) pursuant to art. 43, Annex A to AEEG Decision no. 111/06, totalling Euro 45,556,176.
This item relates to receivables from Forward Electricity Account Trading Platform (PCE) Participants for trading of the CCT during the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 52 of the Rules Governing the PCE (hereafter "PCE Rules") Technical Rules;

- from sales of electricity in the MTE, totalling Euro 5,420,265.
This item relates to receivables from Forward Electricity Market (MTE) Participants for trades made during the month of November and delivery in December 2008; these amounts were ascertained by accrual and invoiced in the month of January 2009 pursuant to art. 80 of the Electricity Market Rules and related Technical Rules;
- from fees for MWh traded in the MGP, MA, PAB and MSD, which totalled Euro 2,750,430.
This item mainly includes receivables from Spot Electricity Market (MPE) Participants (excluding GSE) for fees for the MWh traded in the market in the months of November and December 2008 and invoiced in the months of January and February 2009, respectively, pursuant to art. 7.1 of the Electricity Market Rules and related Technical Rules;
- from fees for MWh registered onto the PCE, totalling Euro 1,086,827.
This item mainly relates to receivables from Forward Electricity Account Trading Platform (PCE) Participants for fees for the MWh underlying the transactions registered in the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 54.1 of the PCE Rules and related Technical Rules;
- from access fees in the ME, totalling Euro 81,000.
This item includes the receivables from Electricity Market (ME) Participants for fees of access to the Electricity Market, to art. 7.1 of the Electricity Market Rules;
- access fees on the PCE, totalling Euro 1,200.
This item includes receivables from Forward Electricity Account Trading Platform (PCE) Participants for fees of access to the platform, pursuant to art. 7.1 of the PCE Rules;
- from yearly fixed fees in the ME, totalling Euro 636,000.
This item includes receivables from Electricity Market (ME) Participants for services provided to them. These fees are referred to in art. 7.1 of the Electricity Market Rules and related Technical Rules;
- from fees in the MCV, totalling Euro 16,525.
This item includes receivables from Green Certificates Market (MCV) Participants for services provided to them in the market. These fees are referred to in art. 7.2 of the Electricity Market Rules;
- from fees in the MTEE, totalling Euro 177,728.
This item includes receivables from Energy Efficiency Certificates Market (MTEE) Participants for services provided to them in the market, Euro 171,968 of this amount involve variable fees and Euro 5,760 involve yearly fixed fees, both for the part related to 2008. These fees are referred to in art. 6 of the Rules governing the Operation of the Energy Efficiency Certificates Market;
- from non-electricity services supplied to Terna S.p.A., totalling Euro 445,833.
This item refers to receivables from Terna S.p.A. in respect of activities (covered by a specific contract between the parties) for assignment of rights of use of transmission capacity and management of bids/offers submitted into the MSD during the month of December. To enable the reader to clearly understand and compare these items, it is worth pointing out that these receivables were booked at the same amount as "other receivables" in 2007.

It was not deemed appropriate to create a provision for bad debts, as the receivables recorded in the financial statements are considered to be collectable in full, based on the "financial guarantees" (bank guarantees, security deposits and cash deposits) posted by Electricity Market Participants in favour of GME, in compliance with the Electricity Market Rules and the Rules governing the other markets managed by GME.

Receivables due from Parent Company – Euro 74,603,107

The “receivables due from the Parent Company” item is shown in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Receivables for electricity sales in the Electricity Market	74,321.5	670.8	73,650.7
Receivables for services rendered in the Electricity Market	265.3	244.6	20.7
Receivables for various supplies and services	16.3	111.7	(95.4)
Total	74,603.1	1,027.1	73,576.0

Specifically, receivables due from the Parent Company refer to:

- sales of electricity in the Electricity Market, totalling Euro 74,321,469.
This item relates to receivables for sales of electricity in the Day-Ahead Market (MGP) and Adjustment Market (MA) during the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 75 of the Electricity Market Rules and related Technical Rules;
- services rendered in the Electricity Market, totalling Euro 265,351.
This item includes receivables from the Parent Company in respect of fees for MWh traded in the Electricity Market (ME) in the months of November and December 2008 and invoiced in the months of January and February 2009, respectively, pursuant to art. 7.1 of the Electricity Market Rules;
- various supplies and services, totalling Euro 16,287.
This item includes receivables for revenues relating to personnel seconded to the Parent Company.

Prepaid taxes – Euro 610,724

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 be reversed. Moreover, these amounts were calculated on the basis of the expected IRES (corporate income tax) and IRAP (regional income tax) rates applicable at the reversal date (33% IRES and 4.82% IRAP).

The following table shows movements in the “prepaid taxes” item:

Thousands of Euro	Opening balance	Effect on the Income Statement		Closing balance
	31 Dec. 2007	Allocations	Utilisations	31 Dec. 2008
Prepaid taxes	51.3	594.1	(34.7)	610.7

The main timing differences that generated the recognition of prepaid taxes in 2008 totalling Euro 594,076 are ascribable - besides deductions for promotion and representation expenses and directors' fees - to the following:

- Euro 125,400 for the provision for liabilities and charges to cover potential charges deriving from a legal labour dispute;
- Euro 407,256 for the timing distribution of fixed interest provided for contractually on the entire ten-year period of the “Momentum” bond investment;
- Euro 25,549 for the allocation of a higher rate of economic-technical depreciation with respect to fiscal depreciation of non-current tangible assets.

Utilisations for financial year 2008, totalling Euro 34,659, refer i) for Euro 31,825 to the reversal of timing differences from the previous financial year, relating to deductibility profiles of promotion and representation expenses and directors' fees, and ii) for Euro 2,834 to an adjustment in the IRES rate.

Other receivables – Euro 82,001

The “other receivables” item is detailed in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Receivables for non-electricity services (personnel. other services)	1.4	-	1.4
Receivables for non-electricity services provided to Terna S.p.A.	-	445.8	(445.8)
Sundry advances	57.9	2.1	55.8
Receivables from social welfare and insurance entities	5.0	4.1	0.9
Other receivables – others	17.7	13.0	4.7
Total	82.0	465.0	(383.0)

Compared to the previous year, this item decreases mainly as an effect of the reclassification made during the year of the receivables accrued from Terna S.p.A. of Euro 445,883 in the previously described “trade receivables” item.

Cash and cash equivalents – Euro 76,939,916

Details of this item are shown in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Bank deposits	76,939.6	60,333.8	16,605.8
Cash and notes on hand	0.3	1.0	(0.7)
Total	76,939.9	60,334.8	16,605.1

Cash and cash equivalents are represented by:

- cash balances held in bank accounts of Euro 76,939,638, of which:
 - Euro 17,974,002 are unavailable and non-interest bearing security deposits made by Electricity Market and Forward Electricity Account Trading Platform Participants;
 - Euro 26,952,880 are unavailable cash deposits made by Environmental Market Participants;
- available cash in the company's petty cash accounts for minor expenses of Euro 278.

Compared to 2007, this item increases by Euro 16,605,153, mainly as an effect of the increase in payments made by Environmental Market Participants, by way of cash deposits.

Accrued income and prepaid expenses – Euro 299,639

This item relates to:

- accrued income of Euro 21,096 for interest due and not received at 31 December 2008 on the “Momentum” bond subscribed for on 27 December 2007;
- prepaid expenses of Euro 278,543 for costs of services relating to financial year 2009.

Further information on receivables

The following tables show receivables, accrued income and prepaid expenses according to their due date of extinction.

Thousands of Euro	Within 1 year	Within 2 to 5 years	Within more than 5 years	Total
Non-current financial receivables				
Other receivables	20.7	64.7	94.1	179.5
Total	20.7	64.7	94.1	179.5
Current receivables				
Trade receivables	3,898,948.7			3,898,948.7
Due from Parent Company	74,603.1			74,603.1
Prepaid taxes	52.4	354.6	203.8	610.7
Other receivables	82.0			82.0
Total	3,973,686.2	354.6	203.8	3,974,244.5
TOTAL	3,973,706.9	419.3	297.9	3,974,424.0

Thousands of Euro	Within 1 year	Within 2 to 5 years	Within more than 5 years	Total
Accrued income	21.1			21.1
Prepaid expenses	218.8	59.7		278.5
TOTAL	239.9	59.7	-	299.6

The table below breaks down the company's receivables by geographic area:

Thousands of Euro	Italy	Other EU countries	Non-EU-countries	Total
Non-current financial receivables				
Other receivables	179.5			179.5
Total	179.5			179.5
Current receivables				
Trade receivables	3,827,319.4	38,466.7	33,162.6	3,898,948.7
Due from Parent Company	74,603.1			74,603.1
Prepaid taxes	610.7			610.7
Other receivables	65.7	16.3		82.0
Total	3,902,598.9	38,483.0	33,162.6	3,974,244.5
TOTAL	3,902,778.4	38,483.0	33,162.6	3,974,424.0

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity – Euro 32,618,457

The composition of shareholders' equity and the changes that took place during the financial year are shown in the following table:

Thousands of Euro	Share capital	Legal reserve	Other Reserves	Dividend to Sole Shareholder	Net income (loss) for the period	Total
Balance at 31 Dec. 2006	7,500.0	879.5	10,510.7	-	7,944.1	26,834.4
Movements in the period:						
- 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)		(5,660.2)
<i>Earnings for financial year 2007</i>						
- Net income 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
Movements in the period:						
- Legal reserve		223.3			(223.3)	-
- Available reserve						
- Dividend paid				8,988.1	(8,988.1)	-
- Dividend distributed				(8,988.1)		(8,988.1)
<i>Earnings for financial year 2008</i>						
- Net income for the year					11,221.0	11,221.0
Balance at 31 Dec. 2008	7,500.0	1,500.0	12,397.5	-	11,221.0	32,618.5

As regulated by art. 2427.1.7-bis of the Italian Civil Code, the origin, possibilities of utilisation and distribution of the items in shareholders' equity are shown analytically below.

Thousands of Euro	Amount	Possibility of utilisation *	Amount available
Share capital	7,500.0		-
Legal reserve	1,500.0	B)	-
Other reserves			
Available reserve	12,397.5	A) B) C)	12,397.5
Total	21,397.5		12,397.5
Amount not distributable	9,000.0		
Residual distributable amount	12,397.5		
TOTAL	21,397.5		

*Legend:

A) for capital increase

B) for loss coverage

C) for distribution to shareholders

Share Capital – Euro 7,500,000

Share capital is Euro 7,500,000 and is represented by 7,500,000 ordinary shares with a par value of Euro 1.00 each.

Legal reserve – Euro 1,500,000

At 31 December 2008, the legal reserve is Euro 1,500,000.

As an effect of the allocation to the legal reserve of Euro 223,311 from the net income for 2007 (approved by the shareholders in Ordinary Meeting on 15 May 2008), the legal reserve reached the threshold specified by article 2430 of the Italian Civil Code.

Other reserves – Euro 12,397,494

The "other reserves" item at 31 December 2008 totalled Euro 12,397,494.

It is worth noting that there are no limitations to the distribution of these reserves pursuant to art. 2426.1. 5 of the Italian Civil Code.

Sole Shareholder's dividend – Euro 8,988,078

The Shareholders' Meeting held on 15 May 2008 approved the allocation of part of the net income for financial year 2007, an amount of Euro 8,988,078, to the Sole Shareholder (Gestore dei Servizi Elettrici - GSE S.p.A.) by way of dividend.

Payment of this amount was arranged during June 2008.

Net income for the year – Euro 11,220,963

The earnings before taxes for 2008 are Euro 18,396,297; the taxes for the year (IRAP and IRES) are Euro 7,175,334 and consequently, the net income for the year amounts to Euro 11,220,963.

Provisions for liabilities and charges – Euro 506,857

The following table shows the changes in the amounts of these items:

Thousands of Euro	31 Dec. 2007	Allocations	Utilisations	31 Dec. 2008
For retirement benefits and similar obligations	140.7	13.7	(85.0)	69.4
Provisions for deferred taxes	-	57.5	-	57.5
Other provisions	-	380.0	-	380.0
Total	140.7	451.2	(85.0)	506.9

Provision for retirement benefits and similar obligations – Euro 69,407

This item includes the provision made in previous financial years for additional monthly payments to the personnel in service who have accrued the right to receive them, in accordance with the applicable national collective labour agreement and trade union agreements. It also includes a provision made in previous years, increased by the amount for financial year 2008, for emoluments to be paid to GME's bodies, minus the emoluments for financial year 2007 paid in the current year.

Provision for taxation, including deferred taxes – Euro 57,450

This provision refers to the recognition of deferred taxes attributable to accelerated fiscal depreciation and amortisation of tangible and intangible assets with respect to the economic-technical depreciation amounts booked to the income statement in 2008.

Other provisions for liabilities and charges – Euro 380,000

This item refers to the provision made in 2008 to cover potential expenses for the company arising from a legal labour dispute, valued on the basis of indications given by external legal counsels.

Severance indemnity fund – Euro 926,262

Movements in the balance during financial year 2008 are shown below:

Thousands of Euro	
Balance at 31 Dec. 2007	972.5
Allocations	382.5
Utilisations	(34.8)
Other movements	(361.1)
Reclassifications	(32.9)
Total	926.2

This item includes payables to employees for severance indemnities pursuant to the law, net of the advances granted, amounts paid out and amounts destined to the complementary pension funds and the INPS Treasury Fund.

The "reclassifications" item, totalling Euro 32,922, includes amounts transferred to the INPS Treasury Fund, which were recorded at 31 December 2007 in non-current financial assets. Commencing from financial year 2008, it was decided to record the severance indemnity fund in the financial statements net of the amounts transferred to INPS, in order to give an accounting representation in line with the best practices developed during the period.

Payables – Euro 4,040,185,371

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

Trade payables – Euro 3,323,741,629

The "trade payables" item is detailed in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
for electricity purchases in the MGP and MA	3,271,094.7	3,282,445.7	(11,351.0)
for fees for assignment of rights of use of transmission capacity (CCT) as per art. 43. Annex A to AEEG's Decision 111/06	45,556.2	51,303.9	(5,747.7)
for electricity purchases in the MTE	5,420.3	-	5,420.3
for non-electricity services	1,670.4	1,416.4	254.0
Total	3,323,741.6	3,335,166.1	(11,424.5)

The trade payables exposure refers to:

- payables to Electricity Market (ME) Participants (Euro 3,271,094,736) for purchases of electricity in the MGP and MA during the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to article 75 of the Electricity Market Rules and related Technical Rules;
- payables to Forward Electricity Account Trading Platform (PCE) Participants (Euro 45,556,176) for transactions registered during the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 52 of the PCE Rules and related Technical Rules;
- payables to Forward Electricity Market (MTE) Participants (Euro 5,420,265) for purchases of electricity made during the month of November and with delivery in December 2008; these amounts were ascertained by accrual and invoiced in the month of January 2009, pursuant to art. 80 of the Electricity Market Rules and related Technical Rules;
- invoices received and to be received (Euro 1,670,452) for supplies, services and purchases of materials, net of related credit notes.

Due to Parent Company – Euro 668,523,312

Payables due to the Parent Company, as compared with the previous financial year, are shown in the following table:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
for electricity purchases in the Electricity Market	646,003.4	670,856.6	(24,853.2)
for invoices and debit notes received	19,730.0	15,064.9	4,665.1
for invoices and debit notes to be received	142.9	114.4	28.5
Debit notes to be issued	2,647.0	1,872.4	774.6
Total	668,523.3	687,908.3	(19,385.0)

This item mainly refers to payables due to the Parent Company for:

- purchases of electricity (Euro 646,003,444) in the Electricity Market (ME) during the months of November and December 2008; these amounts were ascertained by accrual and invoiced in the months of January and February 2009, respectively, pursuant to art. 75 of the Electricity Market Rules and related Technical Rules;
- payables for the transfer of the 2008 VAT advances of Euro 19,730,000;
- payables for invoices to be received of Euro 142,862; these payables are mainly connected with adjustments pertaining to the service contract entered with the Parent Company;
- debit notes to be issued for the transfer of the VAT balance for December 2008 (Euro 2,647,006) as an effect of GME's choice of the group VAT option.

Tax payables – Euro 1,663,905

This item records the tax payables to the State Treasury relating to:

- net IRES tax debit at 31 December 2008 of Euro 1,374,786; this amount was calculated by subtracting advance payments and withholdings on interest receivable on bank accounts from current taxes for the year the (Euro 6,647,464);
- net IRAP tax payables at 31 December 2008: this amount was determined by subtracting advance payments from current taxes for the year (Euro 1,029,837);
- withholdings retained as substitute tax to be paid during financial year 2009 (Euro 225,104).

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Due to the State Treasury for income taxes - IRES	1,374.8	38.0	1,336.8
Due to the State Treasury for regional production tax - IRAP	64.0	33.1	30.9
Due for tax withholdings	225.1	234.9	(9.8)
Total	1,663.9	306.1	1,357.8

Due to pension and social security institutions – Euro 420,635

Details of this item are shown in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Due to INPS	216.2	189.0	27.2
Various payables	204.5	174.0	30.5
Total	420.6	363.0	57.6

This item includes:

- payables to INPS of Euro 216,155 for contributions borne by the company and withheld on the remuneration of both employees and external consultants, as well as the portion of the severance indemnity accrued during the month of December and allocated to the INPS Treasury Fund;
- various payables of Euro 204,480 relating to the following contribution and insurance categories:
 - INAIL (Italian workers' compensation authority) and non-professionally related insurance contributions;
 - Fopen (complementary pension fund) contributions;
 - contributions for holidays and abolished public holidays accrued at 31 December 2008 and not taken by employees;
 - expenses on overtime paid in January 2009 and accrued in December 2008.

Other payables – Euro 45,835,890

Details of this item are shown in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Due to personnel	720.6	819.0	(98.4)
Security deposits made by Electricity Market and PCE Participants	17,974.0	36,783.7	(18,809.7)
Cash deposits made by Environmental Market Participants	26,952.9	2,512.3	24,440.6
Various payables	188.4	123.7	64.7
Total	45,835.9	40,238.7	5,597.2

This item refers to:

- payables to employees for holidays and abolished public holidays, due and not yet taken, overtime and other items (Euro 720,645);
- security deposits (Euro 17,974,002) made by Electricity Market and Forward Electricity Account Trading Platform (PCE) Participants;
- cash deposits in respect of the Environmental Markets (Euro 26,952,880), namely:
 - Euro 4,019,204 for the Green Certificates Market (MCV);
 - Euro 22,712,863 for the Energy Efficiency Certificates Market (MTEE);
 - Euro 220,813 for the Emissions Trading Market (MUE);
- various payables accrued in 2008 (Euro 188,363).

Accrued expenses and deferred income – Euro 2,154,278

The item refers to accrued expenses (Euro 3,553) relating to negative income components paid in arrears and deferrals (Euro 2,150,725). The latter refer to:

- deferral of part of the interest collected on the bond held in portfolio, amounting to Euro 1,234,110;
- deferral of the portion pertaining to financial year 2009 of the yearly fixed fees in the Electricity Market, equal to Euro 877,827;
- deferral of the portion pertaining to financial year 2009 of the yearly fixed fees in the Energy Efficiency Certificates Market (MTEE), equal to Euro 38,788.

Further information on payables

The following tables show the allocation of payables, accrued expenses and deferred income, respectively, according to their due date of extinction.

Thousands of Euro	Within 1 year	Within 2 to 5 years	Within than 5 years	Total
Trade payables to suppliers	3,323,741.6			3,323,741.6
Payables to Parent Company	668,523.3			668,523.3
Tax payables	1,663.9			1,663.9
Payables due to pension and social security institutions	420.6			420.6
Other payables	45,835.9			45,835.9
Total	4,040,185.4			4,040,185.4

Thousands of Euro	Within 1 year	Within 2 to 5 years	Within than 5 years	Total
Accrued expenses	3.6			3.6
Deferred expenses	916.6	617.1	617.1	2,150.7
Total	920.2	617.1	617.1	2,154.3

Given below is the breakdown of the company's payables by geographic area:

Thousands of Euro	Italy	Other EU countries	Non-EU countries	Total
Trade payables due to suppliers	3,027,407.8	162,217.6	134,116.2	3,323,741.6
Payables due to parent companies	668,523.3			668,523.3
Tax payables	1,663.9			1,663.9
Payables due to pension and social security institutions	420.6			420.6
Other payables	34,440.9	5,995.0	5,400.0	45,835.9
Total	3,732,456.5	168,212.6	139,516.2	4,040,185.4

Memorandum accounts – Euro 1,762,587,753

The company does not have any items which require recording at the foot of the balance sheet, pursuant to art. 2424 of the Italian Civil Code.

However, considering the uniqueness of the company's business and with a view to providing a clear and accurate picture, it was deemed appropriate to record the guarantees posted by Participants in GME's markets at 31 December 2008 in the memorandum accounts, even though this is not specifically required by the applicable legislation. These guarantees, totalling Euro 1,762,587,753, are divided as follows:

- guarantees for participating in the Electricity Market (ME), pursuant to article 83 - "Financial Guarantees of Market Participants" - of the Electricity Market Rules, amounting to Euro 1,455,918,789;
- guarantees for participating in the Forward Electricity Account Trading Platform (PCE), pursuant to article 56 - "Financial Guarantees of Participants" - of the PCE Rules, mentioned in article 17 of Annex A to Decision 111/06 of "Autorità per l'Energia Elettrica e il Gas" (AEEG - the Italian electricity & gas regulator), as amended, amounting to Euro 240,165,631;
- guarantees for participating in the Forward Electricity Market (MTE), pursuant to article 83 - "Financial Guarantees of Market Participants" - of the Electricity Market Rules, amounting to Euro 66,503,333.

INCOME STATEMENT

Total revenues – Euro 24,085,688,272

Revenues from sales and services – Euro 24,085,630,472

Details of this item are shown in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Revenues from sales of electricity in the MGP	22,353,451.9	17,396,884.4	4,956,567.5
Revenues from sales of electricity in the MA	989,718.2	883,439.4	106,278.8
Payables for fees for assignment of rights of use of transmission capacity (CCT) as per art. 43, Annex A to AEEG's Decision 111/06	444,885.9	225,445.0	219,440.9
Revenues from zoning in the MGP and on the PCE	236,601.9	82,491.7	154,110.2
Revenues from sales of electricity in the MTE	6,302.0	-	6,302.0
Revenues from sales of Green Certificates	22,963.7	-	22,963.7
Revenues from fees for MWh traded in the ME and on the PCE	24,139.4	20,971.5	3,167.9
Revenues from access fees in the ME	202.5	187.5	15.0
Revenues from yearly fixed fees in the ME	1,333.9	1,129.5	204.4
Revenues from services provided to Terna S.p.A. in the ME	5,350.0	6,146.7	(796.7)
Revenues from fees in the MCV	69.1	49.2	19.9
Revenues from fees in the MTEE	526.2	194.5	331.7
Revenues from yearly fixed fees in the MTEE	68.9	34.2	34.7
Revenues from access fees on the PCE	17.0	24.0	(7.0)
Revenues from fees in the MUE	-	0.4	(0.4)
Total	24,085,630.5	18,616,998.0	5,468,632.5

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

- sales of electricity in the MGP
This item, amounting to Euro 22,353,451,857, refers to revenues from GME's sales of electricity in the Day-Ahead Market (MGP). Invoicing for this item is regulated by the Electricity Market Rules. Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*. Section I, "Billing and invoicing of payables and receivables in the Spot Electricity Market (MPE)" and related Technical Rules;
- sales of electricity in the MA
This item, amounting to Euro 989,718,160, pertains to revenues from GME's sales of electricity in the Adjustment Market (MA). Invoicing for this item is regulated by the Electricity Market Rules. Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*. Section I, "Billing and invoicing of payables and receivables in the Spot Electricity Market (MPE)" and related Technical Rules;
- fees for assignment of rights of use of transmission capacity (CCT)
This item, totalling Euro 444,885,883, refers to the revenues from the CCT on the Forward Electricity Account Trading Platform (PCE); the invoicing of these amounts is regulated by the PCE Rules and related Technical Rules;
- zoning in the MGP and on the PCE
This item, amounting to Euro 236,601,876, refers to the valuing of grid and market art. 73.1 of the Electricity Market Rules (Title IV, Section 1) and art. 49.2 of the PCE Rules;
- sales of electricity in the MTE
This item, amounting to Euro 6,301,965, refers to revenues from GME's sale of electricity in the Forward Electricity Market (MTE), launched in 2008. Invoicing for these items is regulated by the Electricity Market Rules, Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*, Section II. "Billing and invoicing of payables and receivables in the Forward Electricity Market (MTE)" and related Technical Rules;
- sales in the MCV
This item, totalling Euro 22,963,748, refers to revenues from GME's sale of Green Certificates as per the Electricity Market Rules, Title VI, *Green Certificates Market (MCV)*, Section IV "Invoicing and settlement of payments in the Green Certificates Market (MCV)" and related Technical Rules.

The revenues described up to this point represent linked entries, since they are offset by the corresponding cost items.

The table below shows the balance reached between the "linked revenues and costs" of the markets:

Thousands of Euro	Linked revenues	Linked costs
MGP	22,353,451.9	22,545,508.4
MA	989,718.2	986,447.7
Total MGP and MA	23,343,170.1	23,531,956.1
Zoning in the MGP and MA	224,968.2	36,182.2
MGP and MA Balance	23,568,138.3	23,568,138.3
CCT pursuant to art. 43 Annex A to AEEG's Decision 111/06	444,885.9	96,896.3
Total PCE	444,885.9	96,896.3
Zoning on the PCE	11,633.7	359,623.3
PCE Balance	456,519.6	456,519.6
MTE	6,302.0	6,302.0
MTE balance	6,302.0	6,302.0
MCV	22,963.7	22,963.7
MCV balance	22,963.7	22,963.7
Total linked revenues and costs	24,053,923.6	24,053,923.6

- fees for MWh traded in the ME, MTE and on the PCE
This item, totalling Euro 24,139,429, refers to:
 - MWh traded in the Day-Ahead Market (MGP). Adjustment Market (MA), on the PAB (Bilaterals Adjustment Platform) and in Ancillary Services Market (MSD) of Euro 17,969,515;
 - MWh traded in the Forward Electricity Market (MTE) of Euro 1,152;
 - MWh underlying the transactions registered onto the PCE, totalling Euro 6,168,762;
- access fees in the ME
This item, totalling Euro 202,500, refers to revenues from access fees paid by Electricity Market (ME) Participants pursuant to art. 7.1 of the Electricity Market Rules;
- yearly fixed fees in the ME
This item, totalling Euro 1,333,898, refers to the portion of revenues from yearly fixed fees for 2008, paid by Electricity Market (ME) Participants pursuant to art. 7.1 of the Electricity Market Rules;
- services provided to Terna S.p.A. in the ME
This item, totalling Euro 5,350,000, includes revenues from Terna S.p.A. for activities - covered by an appropriate contract between the parties - of assignment of rights of use of transmission capacity and management of the related bids/offers submitted into the Ancillary Services Market (MSD);
- revenues from fees in the MCV
This item, totalling Euro 69,071, refers to revenues from services supplied by GME in the Green Certificates Market (MCV). These fees are invoiced according to the provisions of art. 106 of the Electricity Market Rules;
- revenues from fees in the MTEE
This item, totalling Euro 595,040, refers to revenues from services supplied by GME in the Energy Efficiency Certificates Market (MTEE). Specifically, total fees for certificates traded in this market amount to Euro 526,174, while yearly fixed fees for 2008 amount to Euro 68,866;
- access fees on the PCE
This item, totalling Euro 17,000, pertains to revenues from access fees paid by Forward Electricity Account Trading Platform (PCE) Participants pursuant to art. 7.1 of the PCE Rules.

The following is a breakdown of "revenues from sales and services"; totalling Euro 24,085,630,472, by geographic area:

- Italy: Euro 23,618,976,483;
- European Union countries: Euro 257,563,886;
- Non-European Union countries: Euro 209,090,103.

Other revenues and income – Euro 57,800

This item comprises the following revenues and income relating to:

- ascertainment of invoices issued and to be issued for seconded personnel (Euro 38,003);
- contribution debited to high- and middle-level managers for expenses for both private and business use of cars (Euro 14,734);
- fee for granting the right of use of the PUN licence to Borsa Italiana S.p.A. (Euro 2,875);
- ordinary non-recurring income (Euro 1,881);
- sundry revenues (Euro 307).

Production costs – Euro 24,071,171,453

The item includes the following costs:

Raw materials, ancillaries, consumables and goods – Euro 23,597,425,188

The composition of the costs for raw materials, ancillaries, consumables and goods is shown below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Costs for purchases of electricity			
Costs for purchases of electricity in the MGP	22,545,508.4	17,437,642.4	5,107,866.0
Costs for purchases of electricity in the MA	986,447.7	880,891.1	105,556.6
Costs for purchases of electricity in the MTE	6,302.0	-	6,302.0
Costs for purchases of Green Certificates	22,963.7	-	22,963.7
Costs for zoning in the MGP and MA	36,182.1	43,549.0	(7,366.9)
Total costs for purchases of electricity	23,597,403.9	18,362,082.5	5,235,321.4
Costs for raw materials, ancillaries, consumables and goods – Others	21.3	22.5	(1.2)
Total	23,597,425.2	18,362,105.1	5,235,320.2

As shown in the table above, these costs are mainly related to:

- purchases of electricity in the MGP

This item, totalling Euro 22,545,508,368, concerns costs accrued in respect of electricity demand bids submitted into the Day-Ahead Market (MGP). The invoicing of these costs is regulated by the Electricity Market Rules, under Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*, Section I, "Billing and invoicing of payables and receivables in the Spot Electricity Market (MPE)" and related Technical Rules;

- purchases of electricity in the MA

This item, totalling Euro 986,447,678, relates to costs accrued in respect of electricity demand bids submitted by GME into the Adjustment Market (MA). The invoicing of these costs is regulated by the Electricity Market Rules, under Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*, Section I, "Billing and invoicing of payables and receivables in the Spot Electricity Market (MPE)" and related Technical Rules;

- purchases of electricity in the MTE

This item, totalling Euro 6,301,965, relates to costs accrued in respect of electricity demand bids submitted by GME into the Forward Electricity Market (MTE). The invoicing of these costs is regulated by the Electricity Market Rules, under Title IV, *Billing and invoicing of payables and receivables arising in the Electricity Market (ME)*, Section II, "Billing and invoicing of payables and receivables in the Forward Electricity Market (MTE)" and related Technical Rules;

- purchases of Green Certificates

This item, totalling Euro 22,963,748, relates to purchases of Green Certificates by GME starting from the month of November of the current year (date from which GME acquired the status of central counterparty in the Green Certificates Market - MCV). The invoicing of these costs is regulated by the Electricity Market Rules, under Title VI, *Green Certificates Market (MCV)*, Section IV, "Invoicing and settlement of payments in the Green Certificates Market (MCV)" and related Technical Rules;

- zoning in the MGP and MA

This item, totalling Euro 36,182,128, refers to the valuing of grid and market constraints under art. 73.1 of the Electricity Market Rules (Title IV, Section I).

For services – Euro 462,709,860

The composition of service costs is as follows:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Costs for electricity-related services			
Costs for fees for assignment of rights of use of transmission capacity (CCT) pursuant to art. 43, Annex A to AEEG's Decision 111/06	96,896.3	65,641.9	31,254.4
Costs for CCT rent	359,623.3	160,536.1	199,087.2
Total costs for electricity-related services	456,519.6	226,178.0	230,341.6
Services costs – others			
Costs for services provided by Parent Company	1,593.5	1,552.5	41.0
Costs for services provided by Terna S.p.A.	261.7	252.6	9.1
Directors' fees and expenses	693.8	675.7	18.1
Auditors' fees and expenses	55.2	54.9	0.3
Professional services	1,041.4	486.5	554.9
Image and communication services	377.8	245.8	132.0
IT systems and maintenance services	1,545.9	2,071.1	(525.2)
Other services	620.9	564.8	56.1
Total services costs – others	6,190.2	5,904.0	286.2
Total	462,709.9	232,082.0	230,627.8

As indicated above, this item refers to costs for:

- electricity-related services ("linked items"), which amount to a total of Euro 456,519,606.
This item comprises: i) the cost for fees for assignment of rights of use of transmission capacity (CCT) on the OTC market, totalling Euro 96,896,315; and ii) the cost of the rent paid to Terna S.p.A., totalling Euro 359,623,291, pursuant to art. 49.2 of the PCE Rules. In 2008, it was deemed appropriate to reclassify these entries from the "costs for raw materials, ancillaries, consumables and goods" item to the "service costs" item. Indeed, the fee for assignment of rights of use of transmission capacity on the OTC market, unlike the one applied on Ipx (right incorporated in the price of electricity), represents a specific service; this service is paid by GME on behalf of Terna S.p.A. separately from the main "electricity" asset. To ensure comparability of the figures of the current year with those of the previous year, a similar classification was adopted for the entries relating to 2007;
- services supplied by the Parent Company under contracts for services and lease of the headquarters of Viale Pilsudski and other offices (Euro 1,593,531);
- services supplied by Terna S.p.A. under the contract for services and lease of the office of Via Palmiano (Euro 261,675);
- Board of Directors' fees and expenses (Euro 693,842);
- Board of Auditors' fees and expenses (Euro 55,219);
- professional services and consultancy (Euro 1,041,370);
- image and communication services (Euro 377,825);
- IT and related maintenance services (Euro 1,545,890), mainly including specialist support and maintenance of the Electricity Market information system;
- other services, totalling Euro 620,902, mainly relating to personnel services (Euro 210,209), insurance services (Euro 100,352) and sundry services (Euro 310,341).

Leases and rentals – Euro 872,890

This item includes the lease instalments paid to the Parent Company (Euro 535,702) and to Terna S.p.A. (Euro 156,684) for rental of fitted areas in the various offices, as well as other leasing fees (Euro 180,504) relating mainly to the leasing of vehicles for both private and business purposes utilised by GME's high- and middle-level managers.

Personnel costs – Euro 7,689,985

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

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Salaries, wages and other remuneration	5,369.5	4,885.8	483.7
Compulsory social security charges	1,456.9	1,376.8	80.1
Severance indemnities	382.5	351.7	30.8
Retirement benefits and similar costs	98.8	4.6	94.2
Other personnel costs	382.3	150.5	231.8
Total	7,690.0	6,769.4	920.6

The following table shows the average number of employees divided by category at 31 December 2008 and the exact number at 31 December of the same year compared with the previous year:

Number	Average workforce 2008	Workforce at 31 Dec. 2008	Average workforce 2007	Workforce at 31 Dec. 2007
High- and middle-level managers	11.17	11	13.0	13
Low-level managers	25.96	27	18.7	20
Office personnel	50.46	51	47	50
Total	87.59	89	78.7	83

The average cost by category for 2008 and a comparison with 2007 are given in the table below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
High- and middle-level managers	252,358	207,112	45,246
Low-level managers	83,107	84,989	(1,882)
Office personnel	53,779	52,930	849

Amortisation, depreciation and write-downs – Euro 1,766,655

This item relates to depreciation of non-current tangible assets and amortisation of non-current intangible assets. Non-current assets refer mainly to hardware and to the information system supporting the markets managed by GME.

Provisions for liabilities – Euro 380,000

This item relates to the provision made during the year to cover potential charges deriving from a legal labour dispute; the amount was calculated as a prudent estimate based on information available at year-end.

Other operating charges – Euro 326,875

Other operating charges include sundry expenses as represented below:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Taxes and levies	2.0	1.9	0.1
Newspapers, books and magazines	34.8	60.6	(25.8)
Promotion and representation expenses	76.8	169.4	(92.6)
Membership fees for participation in trade and sector unions, institutions and organisations, and various contributions	120.8	160.7	(39.9)
Bad debts	12.0	-	12.0
Other charges	67.5	49.8	17.7
Ordinary non-operating losses	12.9	14.6	(1.7)
Total	326.9	457.0	(130.1)

Financial income and charges – Euro 3,874,975

Earnings from interest in 2008 show a balance of Euro 3,874,975; this amount was determined as reported below.

Financial income – Euro 3,941,380

Financial income in 2008 comprises:

- interest income accrued on loans granted to employees, totalling Euro 4,771;
- interest income accrued on bank deposits, totalling Euro 3,630,719; this figure is up from 2007 as an effect of both higher average balances (from Euro 67.7 million to Euro 85.5 million) and higher interest rates (from 3.96% to 4.23%);
- income booked during 2008 relating to the investment in the “Momentum” bond of Euro 305,890; this amount was calculated by attributing the contractual fixed return to the entire ten-year life of the investment.

Financial charges – Euro 66,405

Financial charges mostly relate to the interest paid to Emissions Trading Market (MUE) and Green Certificates Market (MCV) Participants on the interest-bearing amounts paid to GME as cash deposits for submitting bids/offers during the various market sessions. These interest amounts are settled pursuant to art. 27.7 of the Emissions Trading Market Rules (Title IV) and art. 112.8 of the Electricity Market Rules (Title VI, Section III), respectively.

Non-recurring income and charges – Euro 4,503

Non-recurring items are displayed in the following table:

Thousands of Euro	31 Dec. 2008	31 Dec. 2007	Change
Non-recurring income	32.6	61.7	(29.1)
Non-recurring charges	(28.1)	(241.6)	213.5
Total	4.5	(179.9)	184.4

As indicated above, the balance of non-recurring items, totalling Euro 4,503, relates to:

- financial income of Euro 32,636. The most substantial item is the non-recurring income from higher taxes paid during the previous financial year, for Euro 25,461;
- non-recurring charges of Euro 28,133.

Taxes for the year – Euro 7,175,334

IRES and IRAP taxes for financial year 2008 total Euro 7,175,334; the weight of these taxes on the earnings before taxes is 39%, slightly down from financial year 2007 (39.16%).

The tax structure is as follows:

- current IRES tax of Euro 6,647,464;
- current IRAP tax of Euro 1,029,837;
- advance taxes of Euro 559,417 relating to IRES (Euro 560,778) and IRAP (Euro -1,361) timing differences, net of reversals;
- deferred IRES taxes of Euro 57,450; these amounts are ascribable to the higher rate of fiscal amortisation and depreciation with respect to the economic-technical depreciation and amortisation of intangible and tangible assets recorded during financial year 2008, pursuant to art. 103.1 of the Consolidated Income Tax Act (TUIR) and to art. 1.34 of Law 244/2007 (2008 Budget Law), respectively.

A summary of estimated current taxes is shown in the table below:

CURRENT IRES

Thousands of Euro	2008	2007	Change
Earnings before taxes	18,396.3	15,141.3	3,255.0
Upwards changes	2,068.1	334.1	1,734.0
Downwards changes	(320.5)	(277.3)	(43.2)
IRES taxable income	20,143.9	15,198.1	4,945.8
Total current IRES	6,647.5	5,015.4	1,632.1

CURRENT IRAP

Thousands of Euro	2008	2007	Change
Difference between revenues and production*	22,586.8	19,392.5	3,194.3
Upwards changes	1,266.8	830.7	436.1
Downwards changes	(2,487.7)	(1,826.6)	(661.1)
IRAP taxable income	21,365.9	18,396.6	2,969.3
Total current IRAP	1,029.8	965.8	64.0

* net of labour costs and provisions

Conversely, the following tables give an estimate of the tax burden for the financial year, starting from current taxes and taking into account timing differences.

IRES RECONCILIATION

Thousands of Euro	Taxable income	Rate	IRES
Theoretical IRAP			
Earnings before taxes	18,396.3	33%	6,070.8
Current IRES			
Current IRES	20,143.9	33%	6,647.5
Timing differences taxable in subsequent financial years	174.1	33%	57.5
Timing differences deductible in subsequent financial years	(1,791.6)	33%	(591.2)
Reversal of timing differences from previous financial years	121.0	27.5%	33.3
IRES rate adjustment effect	(*)	(*)	(2.8)
Estimate of current IRES for the financial year	18,647.3		6,144.2

(*) Effect due to the change in IRES rate from 27.5% to 33% as per Law Decree 112/08 converted to Law no. 133 on 6 August 2008.

IRAP RECONCILIATION

Thousands of Euro	Taxable income	Rate	IRAP
Theoretical IRAP			
Difference between revenues and production costs*	22,586.8	4.82%	1,088.7
Current IRAP			
Current IRAP	21,365.9	4.82%	1,029.8
Timing differences taxable in subsequent financial years	-	4.82%	-
Timing differences deductible in subsequent financial years	(0.5)	4.82%	-
Reversal of timing differences from previous financial years	28.7	4.82%	1.4
Estimate of current IRAP for the financial year	21,394.1	4.82%	1,031.2

* net of labour costs and provisions

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RELAZIONE DELLA SOCIETÀ DI REVISIONE AI SENSI DELL'ART. 2409-TER DEL CODICE CIVILE

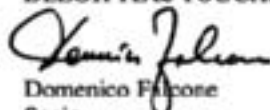
All'Azionista del GESTORE DEL MERCATO ELETTRICO S.p.A.

1. Abbiamo svolto la revisione contabile del bilancio d'esercizio del Gestore del Mercato Elettrico S.p.A. ("Società") chiuso al 31 dicembre 2008. La responsabilità della redazione del bilancio in conformità alle norme che ne disciplinano i criteri di redazione compete agli Amministratori della Società. E' nostra la responsabilità del giudizio professionale espresso sul bilancio e basato sulla revisione contabile.
2. Il nostro esame è stato condotto secondo gli statuti principi di revisione. In conformità ai predetti principi, la revisione è stata pianificata e svolta al fine di acquisire ogni elemento necessario per accertare se il bilancio d'esercizio sia viziato da errori significativi e se risulti, nel suo complesso, attendibile. Il procedimento di revisione comprende l'esame, sulla base di verifiche a campione, degli elementi probativi a supporto dei saldi e delle informazioni contenute nel bilancio, nonché la valutazione dell'adeguatezza e della correttezza dei criteri contabili utilizzati e della ragionevolezza delle stime effettuate dagli Amministratori. Riteniamo che il lavoro svolto fornisca una ragionevole base per l'espressione del nostro giudizio professionale.

Per il giudizio relativo al bilancio dell'esercizio precedente, i cui dati sono presentati ai fini comparativi secondo quanto richiesto dalla legge, si fa riferimento alla relazione da noi emessa in data 10 aprile 2008.

3. A nostro giudizio, il bilancio d'esercizio del Gestore del Mercato Elettrico S.p.A. al 31 dicembre 2008 è conforme alle norme che ne disciplinano i criteri di redazione; esso pertanto è redatto con chiarezza e rappresenta in modo veritiero e corretto la situazione patrimoniale e finanziaria e il risultato economico della Società.
4. La responsabilità della redazione della relazione sulla gestione in conformità a quanto previsto dalle norme di legge compete agli Amministratori della Società. E' di nostra competenza l'espressione del giudizio sulla coerenza della relazione sulla gestione con il bilancio, come richiesto dall'art. 2409-ter, comma 2, lettera e), del Codice Civile. A tal fine, abbiamo svolto le procedure indicate dal principio di revisione n. 001 emanato dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili. A nostro giudizio, la relazione sulla gestione è coerente con il bilancio d'esercizio del Gestore del Mercato Elettrico S.p.A. al 31 dicembre 2008.

DELOITTE & TOUCHE S.p.A.


Domenico Falcone
Socio

Roma, 14 aprile 2009

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

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Partita IVA/Codice fiscale/Registro delle Imprese Milano n. 03049560154 - R.E.A. Milano n. 1726239

Member of
Deloitte Touche Tohmatsu

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 2008. The Company's Directors are responsible for preparing the financial statements in accordance with the rules governing their preparation criteria. 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 were impaired by significant errors and whether they were reliable overall. The audit procedure includes the examination, based on sample checks, of the supporting documentation for the balances and data reported 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 10 April 2008 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 2008 conform to the rules regulating their preparation criteria; they are accordingly prepared with clarity and represent a true and correct view of the Company's equity, financial position and performance.
4. The Company's Directors are responsible for preparing the report on operations in compliance with the applicable legislation. Our responsibility is to express an opinion on the consistency between the report on operations and the financial statements, as required by art. 249-ter, para, 2 e) of the Italian Civil Code. To this end, we carried out the procedure referred to in auditing principle no. 001, issued by "Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili". In our opinion, the report on operations is consistent with the financial statements of Gestore del Mercato Elettrico S.p.A. for the year ended as at 31 December 2008.



4 GLOSSARY

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 offers/bids 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.

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 Allowance

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".

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.

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.

Note: _____

GME IN 2008

