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Price
EUR2.98

Target
EUR3.23

Previous
Buy

Buy

Everything we look for

Our model review post the biz plan presentation resulted in a slight increase in our RAB projections and all P&L headlines. The investment case remains safe: low-risk operations, healthy earnings growth and above-average shareholder remuneration. Everything we look for in the current equity market environment.

Italy Utilities

Terna

COMPANY UPDATE

24 February 2010

Reuters TRN.MI
Bloomberg TRN IM
Index DJ Stoxx 600

In brief

- > High visibility on asset expansion
- > Healthy earnings growth
- > Safe high-dividend prospects
- > Target price fine-tuned from EUR3.20 to EUR3.23

Year end	Sales (EURm)	EBIT (EURm)	Net profit (EURm)	EPS (EUR)	P/E	P/BV	P/CF	EV/sales	EV/EBITDA	EV/EBIT	Div. yield (%)
31 Dec											
2007	1,348	723	414	0.17	15.3	2.5	7.7	6.2	8.5	11.6	5.7
2008	1,395	714	328	0.16	16.9	2.6	8.5	6.5	9.1	12.6	5.9
2009E	1,355	690	751	0.16	15.6	2.0	4.8	6.6	9.0	13.0	7.5
2010E	1,489	748	389	0.19	15.3	2.4	8.0	7.2	9.8	14.4	6.5
2011E	1,598	805	401	0.20	14.9	2.4	7.5	7.2	9.6	14.2	6.5

Source: Kepler Capital Markets

Stock data

Market cap (EURbn)	6.0
Free float	65%
Shares outstanding (m)	2,000
Daily trade volume ('000)	8,938
YTD abs. performance	-1%
52-week high (EUR)	3
52-week low (EUR)	2.23
Enterprise value (EURm)	10,742
Net debt (EURm)	4,655



In detail

Five-year RAB CAGR of 5.2%

The 2010-14 EUR4.3bn transmission capex plan was about EUR150m above our forecast. Roughly 78% of the total budget is classified as development spending and is therefore granted premium returns. Capex execution should yield a 5.2% five-year RAB CAGR (vs. guidance of 5.3%). The blended return is set to improve 70bp in five years to 7.9%. Capex prospects are more attractive in the longer term as well. The ten-year National Development Plan points to EUR6.9bn capex in 2010-19, EUR1bn ahead of the figure planned for 2009-18.

Average EPS growth of 5.6% in 2010-14

We now project a five-year EBITDA CAGR of 6.7% versus 6.5% previously, with a 2014 margin of 77%, implying a 340bp improvement on 2009E. At the bottom line, we model a 5.6% adjusted net profit CAGR versus 5.5% previously.

Dividend yields up to 6.5% with payouts below 100%

We expect 2009 annual DPS of EUR0.19, yielding 6.4%. Annual DPS is set to gradually grow to EUR0.195 (2011E), a level yielding 6.5% and which we maintain flat over of the rest of the plan period. Our set of estimates implies a payout ratio always below 100% (declining to 92% on 2014E earnings).

Target price fine-tuned +1%, Buy reiterated

We have fine-tuned our target price from EUR3.20 to EUR3.23. The stock remains a clear Buy both in absolute terms and sector-relative. Terna is also in our European Alpha List.

Key financials

Company profile

Terna is the main Italian electricity transmission operator. It owns 39,400 Km (around 98%) of the national transmission grid.

Top shareholders	Events calendar		
CDP	30.0%	Final FY-09 results	19/03/2010
ENEL	5.1%	AGM	30/04/2010
		Q1-10 results	12/05/2010
		H1-10 results	28/07/2010
		Q3-10 results	10/11/2010

Income statement, 31 December (EURm)

	2008	2009E	2010E	2011E
Sales	1,395	1,355	1,489	1,598
EBITDA adjusted	995	997	1,102	1,196
EBITA adjusted	714	690	748	805
EBIT adjusted	714	690	748	805
Net financial	-180	-160	-139	-179
Non recurring items	0	0	0	0
Associates	0	0	0	0
PBT	534	530	609	626
Income tax	-193	-189	-219	-225
Tax rate (%)	36.1%	35.6%	36.0%	36.0%
Others	0	410	0	0
Minorities	-14	0	0	0
Reported net earnings	328	751	389	401
Adjustments	-14	-427	0	0
Adj. net earnings (group)	313	324	389	401

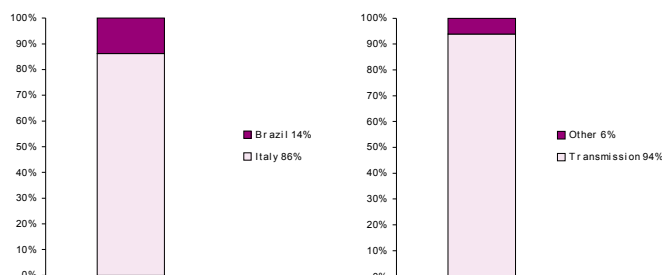
Cash-flow statement (EURm)

	2008	2009E	2010E	2011E
Net earnings	341	751	389	401
D&A	280	307	354	391
Change in TWC	-110	112	-65	-225
Other changes & non-cash	0	0	0	0
Operating cash flow	512	1,170	679	567
Capex	-993	-2,048	-1,190	-866
Free cash-flow	-481	-878	-511	-300
Disposals	0	387	0	0
Financial investments	0	0	0	0
Investing cash flow	-993	-1,661	-1,190	-866
Change in equity	0	0	0	0
Change in debt	1,379	398	910	700
Dividends	-308	-338	-389	-391
Others	73	439	0	0
Financing cash flow	1,144	500	521	309
Change in cash & equivalents	663	9	9	9
Change in net debt	716	389	900	690

Ratios

	2008	2009E	2010E	2011E
Sales growth (%)	3.5%	-2.9%	9.9%	7.3%
EBITDA growth (%)	1.7%	0.2%	10.5%	8.6%
EBIT growth (%)	-1.2%	-3.4%	8.3%	7.7%
Net earnings growth (%)	-9.4%	3.4%	20.1%	2.9%
Gross margin (%)	0.0%	0.0%	0.0%	0.0%
EBITDA margin (%)	71.3%	73.6%	74.0%	74.8%
EBIT margin (%)	51.2%	50.9%	50.2%	50.4%
Net earnings margin (%)	22.5%	23.9%	26.2%	25.1%
Net debt/equity (%)	155.6%	150.8%	186.9%	213.8%
Net debt/EBITDA (%)	338.4%	376.6%	422.6%	447.0%
ROE (%)	14.8%	14.2%	15.6%	16.1%
ROCE (%)	12.1%	10.6%	10.2%	9.9%
Equity/total assets (%)	22.9%	24.2%	22.3%	21.4%
TWC/sales (%)	5.9%	6.1%	5.6%	5.3%
Operating CF/sales (%)	36.7%	86.4%	45.6%	35.5%
Capex/sales (%)	71.2%	151.2%	79.9%	54.2%
FCF/sales (%)	-34.5%	-64.8%	-34.4%	-18.7%
Capex/D&A (%)	354.1%	667.3%	336.2%	221.6%
Dividend pay out (%)	100.8%	117.4%	98.8%	97.2%

Sales split – Geographical and divisional



Balance sheet, 31 December (EURm)

	2008	2009E	2010E	2011E
Cash and equivalents	929	939	948	958
Account receivables	1,945	1,964	1,984	2,004
Other current assets	18	18	18	18
Current assets	2,892	2,921	2,950	2,980
Goodwill	204	204	204	204
Other intangible assets	279	279	279	279
Property, plant & equipment	6,041	6,870	7,706	8,181
Financial assets	38	38	38	38
Fixed assets	6,563	7,391	8,227	8,702
Short-term debt	273	276	279	281
Accounts payable	1,881	1,899	1,918	1,938
Other current liabilities	472	585	521	297
Current liabilities	2,626	2,760	2,718	2,516
Long-term debt	4,022	4,418	5,325	6,022
Pension provisions	154	157	160	163
Other long-term liabilities	489	486	483	480
Long-term liabilities	4,665	5,061	5,968	6,665
Shareholders' equity	2,077	2,491	2,491	2,501
Minority interest	87	0	0	0
Total shareholders' equity	2,164	2,491	2,491	2,501
Net debt	3,366	3,755	4,655	5,346
Trade working capital	82	83	84	85
Capital employed	6,134	6,851	7,751	8,452
Total assets	9,455	10,312	11,177	11,682

Per share (EUR)

	2008	2009E	2010E	2011E
EPS adjusted	0.16	0.16	0.19	0.20
EPS reported	0.16	0.38	0.19	0.20
CFPS	0.31	0.53	0.37	0.40
BVPS	1.04	1.25	1.25	1.25
DPS	0.16	0.19	0.19	0.19
Year-end nb of shares(m)	2,000.0	2,000.0	2,000.0	2,000.0
Av. diluted nb of shares(m)	2,000.0	2,000.0	2,000.0	2,000.0

Valuation

	2008	2009E	2010E	2011E
P/E	16.9	15.6	15.3	14.9
P/BV	2.6	2.0	2.4	2.4
P/CF	8.5	4.8	8.0	7.5
Dividend yield	5.9%	7.5%	6.5%	6.5%
FCF yield	-8.7%	-17.3%	-8.6%	-5.0%
EV/sales	6.5	6.6	7.2	7.2
EV/EBITDA	9.1	9.0	9.8	9.6
EV/EBITA	12.6	13.0	14.4	14.2
EV/EBIT	12.6	13.0	14.4	14.2
EV/capital employed	1.5	1.4	1.5	1.4

Why the stock is a Buy

5.2% five-year RAB CAGR

Visible asset base expansion

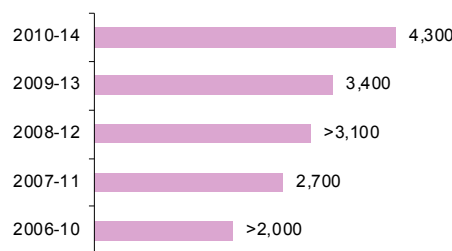
After having restructured its business portfolio in 2009 (now consisting of almost fully regulated activities in Italy), Terna has presented its new business plan confirming outstanding mid-term growth prospects for the group. The new five-year plan of EUR4.3bn capex in transmission is 26% ahead of the previous budget. Whereas a portion of the gap was already embedded in our projections following last summer's regulatory update, ending up in an acceleration of investment procedures, Terna's new capex target was about EUR150m above our figure.

The new plan includes EUR590m investments for the Italy-Montenegro line (total EUR760m needed to complete the project) set to totally add to the regulated asset base (RAB). About 70% of the 2010-14 transmission capex will be developed in central and southern Italy and the Islands, chiefly devoted to solve the network bottlenecks (an action that is expected to have a clear positive impact on the Italian power consumers' bill). More than two-thirds of the total budget is classified as development spending (precisely 78% vs. 77% of previous guidance), and is thus granted premium returns: 52% is set to enjoy a 3% premium (gaining a total allowed return of 9.9%) while a 26% portion will be granted an 8.9% return (2% premium).

The capex plan execution should drive RAB for 2015E tariffs to about EUR11.1bn, (2010: EUR8.6bn), resulting in a five-year CAGR of 5.2% (vs. 5.3% guided by Terna and 5% set by the previous plan) slightly better than our previous estimate of 5.1%. Modelling the capex breakdown by return, as specified by Terna, into our projections resulted in a 15bp improvement in our 2015E average return on RAB, now at 7.9% (implying 70bp expansion of 2010E average return, see Chart 4).

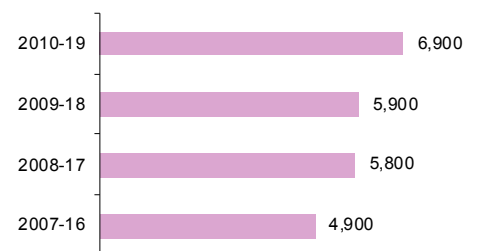
Capex opportunities are also attractive in the longer term. Terna's ten-year National Development Plan points to EUR6.9bn capex in 2010-19, EUR1bn ahead of the figure planned for 2009-18. The system capex requirements and their expected benefits for the total bill for Italian power consumers clearly bode well for next regulatory reviews (naturally calling for supportive tariff schemes to be reiterated by the regulator).

Chart 1: Terna's five-year capex plans (EURm)



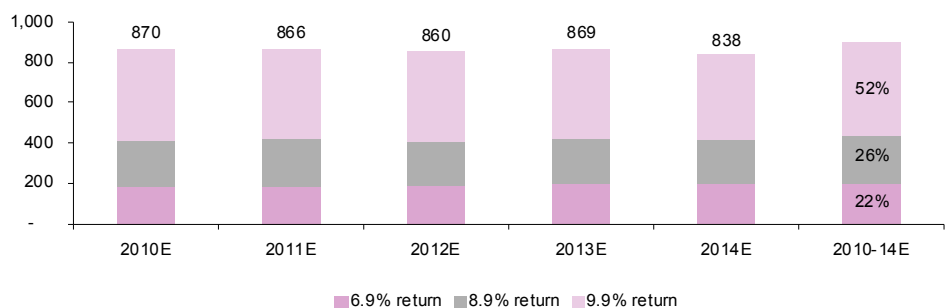
Source: Company data, Kepler Capital Markets

Chart 2: National Development Plan (EURm)



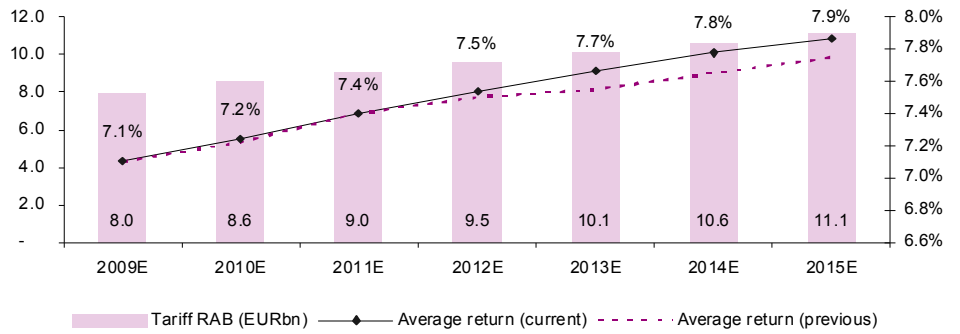
Source: Company data, Kepler Capital Markets

Chart 3: 2010-14E capex profile (EURm)



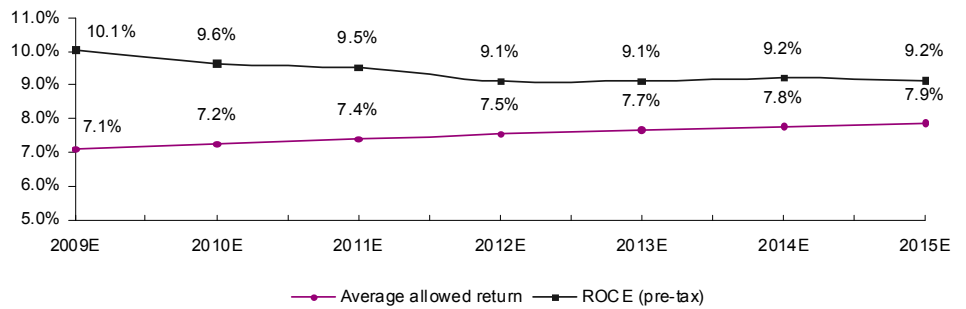
Source: Kepler Capital Markets

Chart 4: Tariff RAB and average allowed return (%)



Source: Kepler Capital Markets

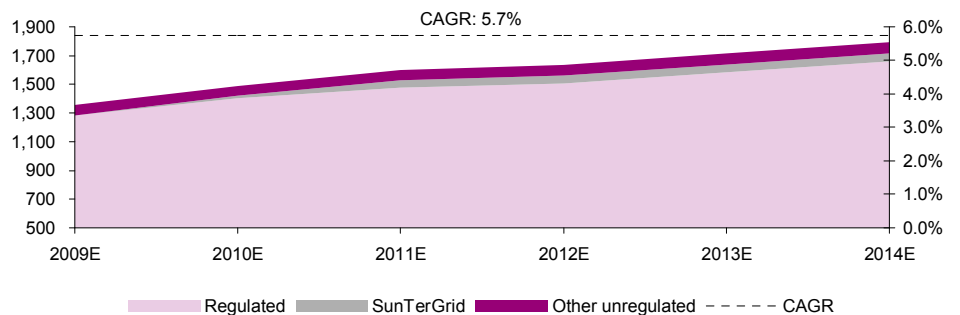
Chart 5: Average allowed return vs. pre-tax ROCE (*)



Note: (*) ROCE reduction in 2010-2012E due to re-absorption of non-recurring WC items posted in 2009
 Source: Kepler Capital Markets

The 2010-14 plan also includes more than EUR300m investments (total spending should therefore be around EUR4.6bn) to develop about 100MW photovoltaic plants, an initiative already detailed by Terna and modelled in our figures. Terna reiterated its target of completing the plant development by 2010 (thus enabling it to take advantage of the current incentive scheme set by the regulator for solar plants) and then look for a buyer for the investment vehicle (SunTergrid). We have already discussed the expected returns from the initiative in our previous reports (our calculation pointed to about 10% IRR). The modelled RAB expansion is set to drive regulated revenue yearly growth to the tune of 5.2% on average. Factoring in the solar initiative results in a consolidated top-line CAGR of 5.7% in our estimates (Terna guiding for about 6%), 30bp better than the previously projected increase.

Chart 6: Consolidated revenues (EURm) and CAGR (%)



Source: Kepler Capital Markets

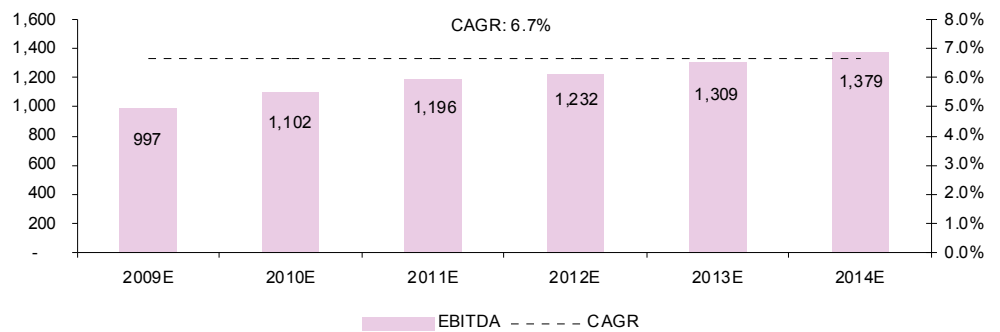
EPS CAGR of 5.6%

Healthy earnings growth

We project five-year EBITDA CAGR of 6.7% (vs. 6.5% previously) with a 2014E margin of 77% (in line with guidance), implying a 340bp improvement on the 2009E margin. The operating expenses accounted for the regulated activities are set to stay flat over the plan period, thus enabling top-line growth to fully contribute to margin enhancement. The expected increase in the unregulated activities' cost base (basically due to the ramp-up of SunTergrid operations, which, by the way, are expected to post about an 80% EBITDA margin) are due to drive consolidated opex CAGR to 2.9% (Terna: about 3%).

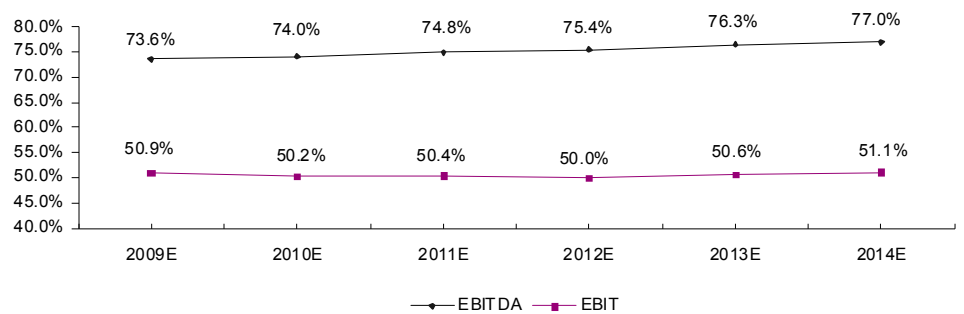
At the bottom line, we now project 5.6% adjusted net profit CAGR versus 5.5% previously. The minor adjustment of the five-year average bottom-line growth "hides" quite a relevant rise in our short-term forecasts (see details in Table 3 in *Additional insights*): 2010E and 2011E figures have been raised by 12% and 7% respectively, due to a significant reduction in financial charges. Terna guided for an average cost of debt over the plan period of about 3.5%. It should remain below 3.5% in the first years of the plan (secured by hedging during current regulatory period) but it is also expected to remain at around that figure in the last part of the business plan period too. We are now assuming 3.3% in 2010 (from 4% previously, which we understand is also the level assumed by consensus), gradually growing to 3.7% in 2014.

Chart 7: 2009-14E EBITDA (EURm) and CAGR (%)



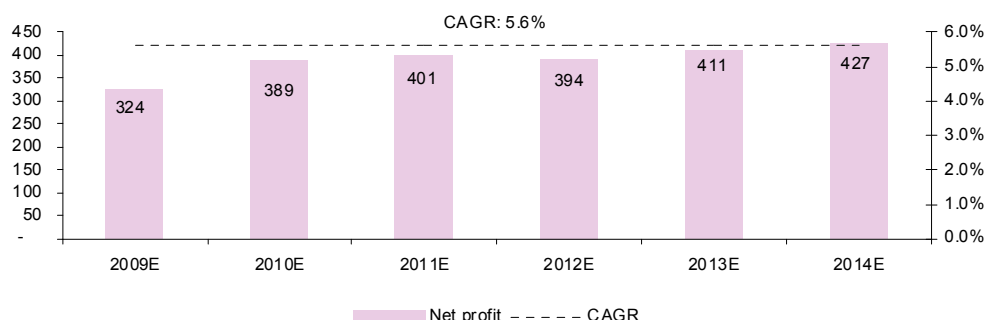
Source: Kepler Capital Markets

Chart 8: 2009-14E EBITDA and EBIT margins (%)



Source: Kepler Capital Markets

Chart 9: 2009-14E adjusted net profit (EURm) and CAGR (%)



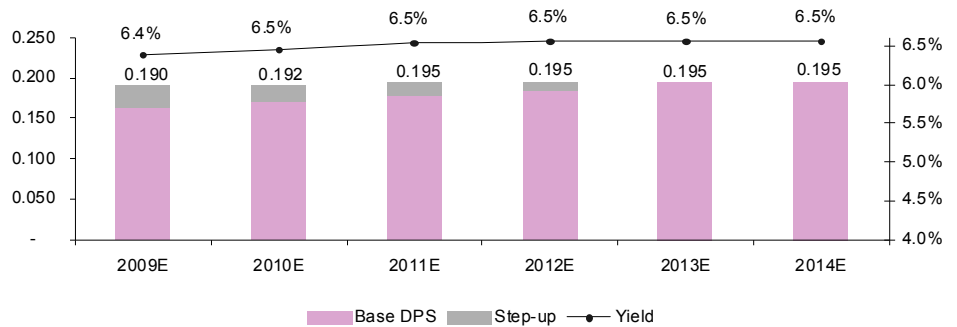
Source: Kepler Capital Markets

6.5% dividend yields

Safe high-dividend yields

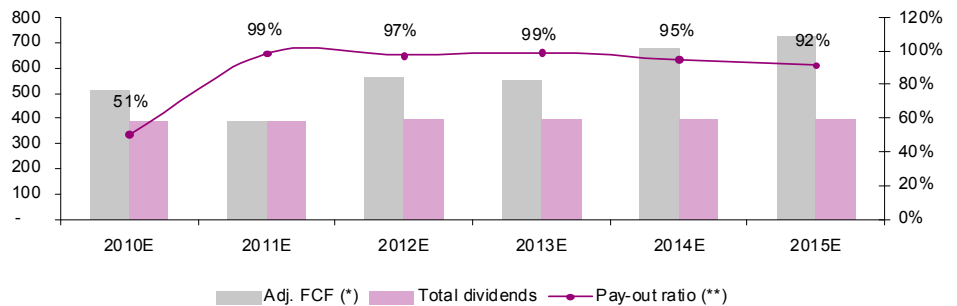
Terna's dividend prospects remain among the most attractive in our utilities space. The new dividend policy was already announced at the time of the closing of the sale of 66% of Brazil's Terna Participações. It calls for 4% DPS growth a year using DPS 2008 as a calculation basis. To these "base" dividends, Terna will spread an additional EUR150m portion of the capital gain from the sale of Terna Part over the next four years. Accordingly, we expect 2009E DPS of EUR0.19 (o/w EUR0.07 already paid on an interim basis), yielding 6.4%. Annual DPS is set to gradually grow to EUR0.195 (2011E), a level yielding 6.5% and which we maintain flat over the rest of the plan period, which we view as a conservative approach (in fact, we see a "risk" of upside of DPS up to EUR0.20). Our dividend projections imply Terna paying out below 100% of reported net earnings over all the years of the plan period (down to 92% expected on 2014E earnings). The yearly dividend commitments should average about 70% of FCF before development capex. On the debt front, our projections are fully consistent with guidance of maintaining net debt within 60% of RAB, a level compatible with preserving Terna's single A credit ratings.

Chart 10: DPS (EUR) and yields (%)



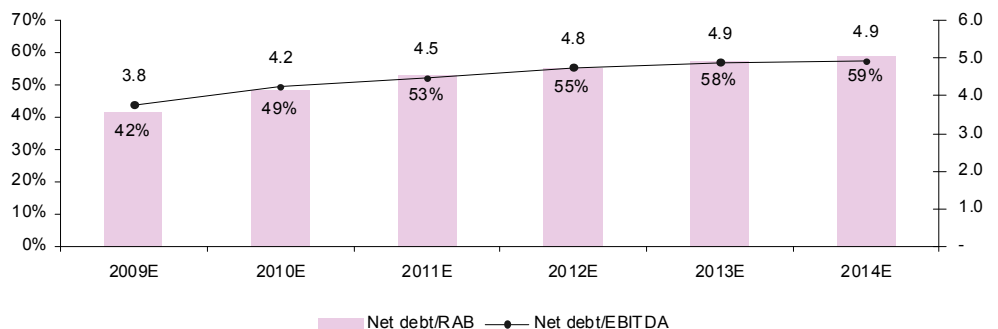
Source: Kepler Capital Markets

Chart 11: Adjusted FCF (*, EURm), total dividends (EURm) and payout ratio (%)



Note: (*) FCF after maintenance capex (= excluding development capex); (**) pay-out calculated on "year-1" reported net profit
Source: Kepler Capital Markets

Chart 12: Net debt/RAB (%) and net debt/EBITDA (x)



Source: Kepler Capital Markets

Valuation

Deserving of 10.6% premium to RAB

RAB-DCF target price fine-tuned from EUR3.20 to EUR3.23

Our model review following the disclosure of the new mid-term targets also resulted in a fine-tuning of our target price, from EUR3.20 to EUR3.23 (main driver: slightly higher development capex and higher-than-expected incentives for dispatching volume reduction and improvements in the prediction of demand and wind production). We maintain our methodology for the valuation of the regulated activities based on: 1) discounting the projected cash flow up to 2015; 2) assuming the 2015E calendar RAB as our terminal value; 3) adding the NPV of the development capex incentives to be yielded after 2015 (due to their twelve-year total duration). Conservatively, our WACC assumptions remained unchanged (in spite of the mentioned downwards revision of the next few years' cost of debt projections). The valuation of unregulated businesses is obtained through a DCF model delivering about EUR200m fair value. SunTergrid contributes about EUR80m to that amount (implying Terna getting more than 25% return on its EUR320m investment in less than one year). Table 1 also shows an SOP model where our target price is broken down by RAB, unregulated businesses, total NPV of capex incentives, gearing and efficiency outperformance.

The stock is currently trading at a 5% premium to its RAB, while our EUR3.23 target price implies a 10.6% premium. We confirm our Buy rating on the stock which is also a strong Buy in sector-relative terms for its superior dividend flow prospects and for being immune to our bearish scenario for European utilities exposed to the power generation business. Terna is also in our European Alpha List.

Table 1: SOP model

	EURm	EUR per share
RAB (*)	9,047	4.52
Other Italian activities	203	0.10
End-2009 net debt	(3,755)	(1.88)
Capex incentives	1,094	0.55
Cost cutting	186	0.09
Gearing	203	0.10
Other	(518)	(0.26)
Fair value	6,461	3.23

Note: (*) End-2009E calendar RAB
Source: Kepler Capital Markets

Table 2: Peer comparison

	Payout (%)			Dividend yield (%)		
	2009E	2010E	2011E	2009E	2010E	2011E
A2A	93%	95%	101%	7.6%	8.0%	8.3%
Centrica	61%	59%	58%	4.5%	4.8%	5.0%
E.ON	56%	53%	58%	5.7%	6.1%	6.1%
EDF	54%	54%	54%	3.1%	3.2%	3.7%
Edison	99%	99%	102%	4.4%	4.6%	4.8%
Enagas	60%	60%	60%	4.8%	5.5%	5.8%
ENEL	60%	60%	60%	6.5%	6.8%	6.6%
Fortum	68%	67%	63%	5.3%	5.3%	5.3%
GDF Suez	86%	82%	69%	5.6%	6.2%	6.2%
HERA	80%	65%	70%	4.9%	5.4%	6.2%
MVV Energie	50%	49%	49%	2.9%	2.9%	2.9%
Red Electrica	60%	60%	60%	4.0%	4.5%	5.0%
RWE	55%	51%	49%	5.7%	6.0%	6.0%
Sechilienne-Sidec	82%	66%	73%	5.3%	5.3%	5.9%
SNAM Rete Gas	98%	76%	77%	5.8%	6.0%	6.1%
Suez Environnement	80%	73%	64%	4.1%	4.1%	4.1%
Séché Environnement	41%	36%	35%	2.5%	2.7%	3.1%
Veolia Environnement	114%	88%	75%	5.0%	5.0%	5.0%
Verbund	46%	48%	46%	3.5%	3.5%	3.5%
Average	71%	65%	64%	4.8%	5.0%	5.2%
Terna	117% (*)	99%	97%	6.4%	6.5%	6.5%

Note: (*) on adjusted earnings (51% on reported basis)
Source: Kepler Capital Markets

Catalysts and news flow

Earnings release

Terna already preliminary announced its 2009 revenues (above EUR1.35bn) and EBITDA (around EUR1bn). The full set of final figures is due out on 19 March, when the company will also announce the BOD's proposal for the allocation of 2009 earnings (we assume EUR0.190 total annual dividend).

International interconnections

With the signing of the intergovernmental agreement between Italy and Montenegro, Terna will also be involved (in addition to the development of the 405km connection line) in a strategic partnership with Prensos, the local TSO. Terna, with a minor equity investment (we expect Terna to acquire a minority stake with an investment of less than EUR20m), will secure the possibility of evaluating future investment opportunities in case other Balkan TSO/utilities require access to the capacity of Terna's Italy-Montenegro submarine cable.

It is also worth recalling that other long-term projects for the development of new interconnections (merchant lines) with other Mediterranean countries are being studied by Terna (ie, Tunisia).

SunTergrid ramp-up

As mentioned, the fast development of the 100MW photovoltaic capacity targeted for SunTergrid in 2010 is key if the company is to take advantage of the rather attractive incentive scheme. Terna has already launched a 1MW pilot plant and has awarded several contracts for plant commissioning for 85MW capacity. As Terna nears the completion of its solar capex plan, we should also expect newsflow related to the contacts with possible buyers of SunTergrid.

Risks to our rating

Capex plan execution

Given that an important portion of the premium to RAB embedded in our target price is justified by the expected incentives to be yielded by the development of the company's capex plan, significant delays in the plan's execution (essentially due to permitting impediments) would clearly have a negative impact on our valuation and, in turn, eventually put our positive rating on the stock at risk.

Additional insights

Table 3: Estimate revision

(EURm)	2009E	2010E	2011E	2012E	2013E	2014E
Revenues (new)	1,355	1,489	1,598	1,635	1,714	1,792
Revenues (previous)	1,343	1,456	1,554	1,609	1,694	1,748
% change	0.9%	2.2%	2.9%	1.6%	1.2%	2.5%
EBITDA (new)	997	1,102	1,196	1,232	1,309	1,379
EBITDA (previous)	995	1,083	1,176	1,232	1,314	1,366
% change	0.2%	1.7%	1.7%	0.1%	-0.4%	1.0%
Adjusted net profit (new)	324	389	401	394	411	427
Adjusted net profit (previous)	319	347	375	384	409	418
% change	1.6%	12.3%	6.8%	2.5%	0.6%	2.2%

Source: Kepler Capital Markets

Table 4: Profit and loss

(EURm)	2007	Third regulatory period				Fourth regulatory period			
		2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Revenues	1,348	1,395	1,355	1,489	1,598	1,635	1,714	1,792	1,840
Grid fee - Italy	1,061	1,060	1,197	1,314	1,398	1,438	1,521	1,590	1,630
Other energy items	43	48	88	88	79	68	63	69	76
Regulated activities - Brazil	150	180	-	-	-	-	-	-	-
Other activities - Italy	78	90	70	70	72	74	75	77	78
Other activities - Brazil	16	17	-	-	-	-	-	-	-
SunTergid	-	-	-	16	49	55	55	55	55
Operating costs	(370)	(401)	(358)	(387)	(402)	(403)	(406)	(413)	(416)
EBITDA	978	995	997	1,102	1,196	1,232	1,309	1,379	1,425
Italy	848	851	997	1,090	1,156	1,187	1,263	1,333	1,379
Brazil	130	144	-	-	-	-	-	-	-
SunTergid	-	-	-	11	40	45	45	45	45
D&A & provisions	(254)	(280)	(307)	(354)	(391)	(415)	(441)	(464)	(488)
Italy	(234)	(253)	(307)	(346)	(375)	(399)	(425)	(448)	(472)
Brazil	(20)	(27)	-	-	-	-	-	-	-
SunTergid	-	-	-	(8)	(16)	(16)	(16)	(16)	(16)
EBIT	724	714	690	748	805	818	868	915	937
Italy	614	597	690	744	781	788	838	885	908
Brazil	110	117	-	-	-	-	-	-	-
SunTergid	-	-	-	3	24	29	29	29	29
Net financial charges	(117)	(180)	(160)	(139)	(179)	(202)	(225)	(248)	(268)
Pre-tax profit	607	534	530	609	626	616	643	667	669
Tax	(173)	(193)	(189)	(219)	(225)	(222)	(231)	(240)	(241)
Discontinued operations	-	-	410	-	-	-	-	-	-
Minorities	(19)	(14)	-	-	-	-	-	-	-
Net profit	415	328	751	389	401	394	411	427	428
Adjustments	(70)	(14)	(427)	-	-	-	-	-	-
Net profit adjusted	346	313	324	389	401	394	411	427	428
% change YOY	-	-9.4%	3.4%	20.1%	2.9%	-1.7%	4.4%	3.8%	0.3%

Source: Kepler Capital Markets

Table 5: Cash flow statement

(EURm)	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Operating cash flow	776	512	1,170	679	567	745	733	864	916
Capex	(714)	(993)	(2,048)	(1,190)	(866)	(860)	(869)	(838)	(810)
Free cash flow	62	(481)	(878)	(511)	(300)	(115)	(136)	26	106
Dividends	(311)	(308)	(338)	(389)	(391)	(396)	(397)	(397)	(398)
Other	(118)	73	826	-	-	-	-	-	-
Net debt decrease (increase)	(367)	(716)	(389)	(900)	(690)	(511)	(533)	(371)	(292)
Net debt	2,650	3,366	3,755	4,655	5,346	5,856	6,389	6,760	7,052
D/E (%)	123%	162%	151%	187%	214%	234%	254%	266%	274%
Net debt/EBITDA	2.7	3.4	3.8	4.2	4.5	4.8	4.9	4.9	5.0

Source: Kepler Capital Markets

Company background

First independent TSO in Europe

Terna is the most important transmission system operator in Europe in terms of length of managed lines. It owns 62,503km of circuit lines, 383 substations, 620 transformers, one national control centre, three remote operation centres and eight operational centres. The grid fee is regulated by AEEG (electricity and gas sector authority), setting four-year tariff schemes based on the RAB methodology. The current regulatory period started on 1 January 2009 and will expire on 31 December 2011.

Research ratings and important disclosures

Disclosure checklist - Potential conflict of interests

Stock	ISIN	Disclosure (See Below)	Currency	Price
A2A	IT0001233417	nothing to disclose	EUR	1.2t
Centrica	GB00B033F229	nothing to disclose	GBP	271.9t
E.ON	DE0007614406	nothing to disclose	EUR	26.3t
EDF	FR0010242511	nothing to disclose	EUR	37.4t
Edison	IT0003152417	nothing to disclose	EUR	1.0t
Enagas	ES0130960018	nothing to disclose	EUR	15.3t
ENEL	IT0003128367	nothing to disclose	EUR	3.9t
Fortum	FI0009007132	nothing to disclose	EUR	18.9t
GDF Suez	FR0010208488	11	EUR	27.4t
HERA	IT0001250932	nothing to disclose	EUR	1.6t
MVV Energie	DE0007255903	nothing to disclose	EUR	31.2t
Red Electrica	ES0173093115	nothing to disclose	EUR	36.4t
RWE	DE0007037129	nothing to disclose	EUR	63.5t
Sechilienne-Sidéc	FR000060402	nothing to disclose	EUR	22.7t
SNAM Rete Gas	IT0003153415	nothing to disclose	EUR	3.4t
Suez Environnement	FR0010613471	nothing to disclose	EUR	16.0t
Séché Environnement	FR0000039109	nothing to disclose	EUR	52.9t
Terna	IT0003242622	nothing to disclose	EUR	2.9t
Terna Participacoes	BRTRNACDAM14	nothing to disclose	BRL	37.8t
Veolia Environnement	FR0000124141	nothing to disclose	EUR	24.0t
Verbund	AT0000746409	nothing to disclose	EUR	29.8t

Source: Factset closing prices of 23/02/2010

Stock prices: Prices are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

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Source: Kepler Capital Markets

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