

Croatian state-owned power utility HEP announced that the rating agency Moody's has changed the company's outlook to stable from negative, affirming its long-term Ba2 corporate family rating (CFR) at the same time.

According to the statement from Moody's, the change of outlook on HEP's rating to stable from negative reflects that the rating is positioned at the same level as Croatia's sovereign rating. Moody's does not currently envisage that the rating could be higher than that of the sovereign due to HEP's strong domestic focus, its 100 % ownership by the Croatian Government and the one notch uplift incorporated into its rating to reflect the high likelihood of extraordinary support from the Government in case of the financial distress of the company.

The stabilization of the outlook on the sovereign rating removes the potential downward pressure on HEP's rating. Given its full ownership by the Government of Croatia, HEP's Ba2 rating incorporates a one -notch uplift from the group's standalone credit quality, expressed by Moody's as the baseline credit assessment (BCA) of ba3. The aforementioned uplift reflects HEP's beneficial relationship with the government, which has bolstered its ability to access the debt market. In addition, the government has provided guarantees to support the company's debt in the past.

HEP's Ba2 CFR continues to reflect its vertically integrated position in the Croatian electricity market, where the group enjoys around 85% market share, its electricity generation mix, with a high share of low cost and low CO2 hydro and nuclear output and the group's sound financial profile with low leverage levels and strong credit metrics.

In December 2016, Credit rating agency Standard & Poor's (S&P) announced that it has revised the outlook of Croatian state-owned power utility HEP from negative to stable. S&P affirmed BB longterm and B short-term foreign and local currency sovereign credit ratings on Croatia, while revising its outlook to stable, which resulted in upgrading HEP's outlook to stable as well. At the same time, the rating company affirmed BB long-term corporate credit rating on HEP and its BB issue rating on its senior unsecured debt.