

Initiative to gather financing for regional market expansion of power utility HEP thru IPO offering on stock markets raised fierce discussions on company value. Unions and local experts raised the questions on company assets value.

HEP wrote off thermal power plants worth 318 MEUR, and it seems that the unprofitable distributions and central heating systems in all cities are the next. If we take into account that HEP does not even own 80% of its hydropower plants, we should ask what is actually sold and at what price? What and why?! These are the questions from unions expert.

The media largely report in recent months on privatization of Croatian Power Industry Company through a public offer of shares, and now it turns out that also some steps have been taken in this direction and they indicate that this is exclusively a political decision. Namely, value of six thermal power plants has been written by decision of the Supervisory Board, and it seems to be done on questionable legal way.

In response to the write-down of thermal power plants, HEP Group must hastily recapitalize HEP production now, which will reduce the value of the company. Stress-test of assets shows that this is not all that electric power industry should depreciate, but are on the list of distribution in Vinkovci, Sisak, Sibenik, Gospic, Pozega, and central heating systems in Zagreb, Dubrava, Osijek, Sisak, Samobor and Velika Gorica.

If all of the assets would be written off at the recipe as it was done with the thermal power plants, what will remain of the company value whose assets were worth more than 2, 6 billion EUR until recently? And, if it is done, how to justify even one EUR invested that the citizens of Zagreb, Osijek and other cities continue to receive heat and power? Where is the economic mainstay of further investment in the "scrap" power plants and heating plants, in the non-profit distribution areas? It is far from the situation that is not the time that HEP considers in details all its positions, but what is the logic to consciously impair the company value ahead of privatization?

It's not the only problem; should also be canceled the hydropower plants, when in fact most are not owned by the company? However, 80% of all hydro power plants was deprived to HEP by the Water Act in 2011th, which have been transferred to state ownership without any compensation to the company that has become the concessionaire.

In fact, all water structures for electricity generation (dams, reservoirs, supply and drainage canals, tunnels and other structures and equipment) thus are legally transferred to state ownership, for which HEP as a company has not been compensated at all even though it invested billions in this power plant. HEP sent a request to the Constitutional Court to review the constitutionality of the law due to violation of the Constitution, which guarantees the right of ownership.

Namely, the rights acquired through capital investments cannot be reduced or subtracted without fair compensation market value, regardless that HEP is state-owned, because it is a violation of the Companies Law. To date, silence from the Constitutional Court. Thus, the

state actually does not sold energy infrastructure by the initial public offering of shares, but concessionary right, with the potential that the new owner would see huge compensation for expropriated property!

And what remains of the HEP value in the absence of hydropower plants, thermal power plants are “scrap”, and part of the distribution area for are for the write-off? Oh, yes, there is HOPS high-voltage network, a natural monopoly owned by HEP and it should not be allowed to privatize it, even as Plinacro is not privately owned. At one time it was decided that the high-voltage network remained property of HEP precisely because it provides a safe money inflow and raises the value of the company, does that mean that also it goes now to drum because the policy fits so?!

While individuals generally shy warn that HEP is not nearly ripe for privatization, and that for this process should be prepared for at least two and a half years, machinery has been launched with some inexplicable aim in order that this process be summarily done just in an election year. The policy and experts have dealt with the HAC privatization for years – and it dropped under public pressure. In the case of HEP, there is no resistance now in the public for some reason, as if (cheap) energy is not the main driving force of the economy, but it is rather a paved highway which must remain in state ownership at all costs.

Unlike HAC, where there is indeed a stronghold for thinking about privatization, in HEP case, there are no such reasons. Behind HEP is the best production year in history with the highest consolidated profit so far. HEP is therefore highly profitable company that actually solves the ballast of energy imports on which had losses by losing market share. There is no lack of cheap capital on the market, but politics trump that HEP should be recapitalized in order to buy assets at neighboring countries and to make investments.

There was not even a word about these potential “shopping-targets”, in what it will HEP will invest and why. HEP, in fact, does not even have medium-term plan for development and construction of production facilities, and not to mention a ten-year business strategy development!

In such challenging times for the energy sector in Europe, such a lack of interest in the business and the fate of the strongest energy company is just shocking, the more we all know what the consequences of INA privatization are. Such a suspected lack of strategy in Croatia is the rule rather than the exception and at all levels. A consequence of this is what we have or do not have. And with such a weak intellect we can still lose a lot .Does someone really carry about this?