

Exclusive: Croatian Energy company development plans 2020 and new position in liberalized market, Liquidity will endanger investments if loans and strategic partners are not obtained, HEP will lose part of the market share with new competitors in power market



Preparation of HEP investments shouldn't be significantly fastened, same as reconstruction of costs, what investment plan is not sustainable without. HEP presented directive's work plan that suggest 25 billion of Croatian kuna HRK investments in 2012-2016 period. Most experts in Croatia consider this plan like a list of nice wishes."HEP should prefer project financing during investment planning because credit debt projections and use of own assets for planned investments are not sustainable. There are capacities and limits for necessary investment cycle and these are organization's capacities and limits.

Bigger competition is expected in electricity supply in future, so 10% loss of market is expected. Competition entrance to transmission, distribution and heating is not expected but possible as measure of country development, and HEP Group will keep all thermal power plants in its property, sales of power generation capacities is also an option.

What kind of internal process management reform HEP has to complete in order to become competitive in EU power market and can it fulfill its obligations within Croatia itself?

HEP production of electricity is several times lower, and the part of expenditure on employees is three times bigger in total expenditures comparing to old and new EU member countries, consultants warned. HEP's incomes amounted 123 thousand Euros per employee in 2011, while these incomes amount 402 thousand Euros in new EU member countries.

HEP's long-term duties amount 9,6 billion HRK and that is average within new EU member countries, but liquidity and profitability are significantly lower than in EU members, but also higher than old members.

Only 13% of income was in total investments incomes in 2010, while 20% of income was in new member countries. Quotient was increased to 17% of income. Capital income (ROE) wasn't at all in HEP 2012, while it amounted 9% in new member countries at the same time. ROE even fall into debt for 0,43 and its liquidity was also decreased in the first semester of 2012. Clearly it was noted that HEP have some big problems with decreasing liquidity: it amounted 0,70 in 2011, it changed to 0,65 in the first semester of 2012. Referent value is 2, and in new member countries it amounts 1,93.

Statement concludes that bigger competition is expected in electricity supply in future, so 10% loss of market is not in reconstruction program. Competition entrance to transmission, distribution and heating is not expected, and HEP Group will keep all thermal power plants in its property. Distribution area decrease from 21 to 5 is being recommended, and HEP separating from the rest of corporation. Work force decrease of 30% is also recommended, and change of current collective contract which is valid until the end of this year because it is hardly sustainable without number of employees' decrease. Making of systematization of working places and clearer defining of variable part of international agreements, dismissal criterions and losing the rights because of own responsibility are advised. There are about 117 management contracts at the moment.

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Company should invest in property and changing of current capacities because depreciation of long-term property is 64% high, and plan realization during 2012 was around 80%. It was recommended in Analysis that HEP should resist industrial and social policymaking at the company expense in public supply segment, because estimated value of supply doesn't step up from realized values like in prices' segment.

It is underlined that total supply value amounted 8,56 billion HRK in 2011 (37% of goods, 33% of service and 29% of electricity) and supplier oligopoly is also high. Disputed contracts are SAP introduction which potential duty is 45 million HRK and HAC debt payment of 300 million HRK for taking over thermal power plants on roads. According to that, centralization of public supply is recommended where only rationally justified supply with all transparent plans and reports.

Supply in real time and international supply competition is recommended to HEP for certain goods like energy. Internal control and revision board weaknesses are noticed in segment of control. Only 10 instead of 30 persons work in internal revision service. State Revision's qualified opinion from 2010 which warns on internal control lacking was ignored and deficits haven't been removed yet. Control elements exist and informatics and informational modules for management directing of company exist only partially. External energy coverage is weak and insufficient. HEP should ensure its debt-claims on payment instruments, to edit and make real estate register, to solve status of illegally used property like apartments and garages. Debt-claim exchange with ownerships should be avoided and that is being planned for several depths deals.

*Source Serbia Energy/ Agencies*