Exclusive: Croatian energy company HEP does not have the money for TPP Plomin and HPP Ombla S&P confirms and adds that there is no money for HEP's investments

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Government analysis, included in Project Clean Start report, revealed the fact that HEP has big troubles with liquidity and that financial plan will not be sustainable without big reconstruction costs. That refers to collective contract breaking up, 30% payment decrease, strengthening of controlling and breaking up cartels in goods and services' supply, consultants advises. Easy realization of investments is very questionable, considering the fact that current Directorate didn't show determined intention to do required changes in the company, neither from organization nor finance aspect, but it pushed company in greater dubiousness.

HEP Direction's President Zlatko Koracevic presented a work schedule of Direction until 2016 where 25million HRK worth investments were mentioned. Many people say that it has to do with list of nice wishes, like that ex Directions made, according to which Croatia should be energetically independent by 2015. According to that plan, HEP should separate 12million HRK for its investments, and there is no possibility for energy independence because state will continue to be dependent on imported coal and gas.

Kovacevic stressed that HEP will become electricity exporter in 2017, so energy price won't grow. His words don't seem convincing. Despite 22% electricity price increase, company liquidity is endangered, and that was proofed with credit rate decrease that Standards & Poors (S&P) made in October. The agency decreased long-term credit from BB to BB-. S&P's

statement says that HEP’s liquidity is inadequate.

“Negative finance way has already brought to a long-term credit borrowing and investments’ slowdown”, it is said in S&P’s statement that predicts company to generate negative finance stream in three to five years constantly because of extensive investment cycle. Long-term obligations of HEP were estimated to 9,6billion HRK by Clean Start. Company will have to save 1,3billion of HRK for debts’ repayment, without new debts and risk from annual postponing of existing credit lines worth billion HRK. It is interesting that S&P made its decisions with 19billion investments’ number. What would they say for Christmas fairytale of 25billion HRK investments?

HEP’s liquidity is in a big part endangered with spending money on non-priority activities, while production investments are far behind. It was spend on investments about 3billion HRK last year, and miserable 50million HRK were saved on estimated value. That shows that oligopoly is not past thing but standard practice. Accomplishing of HEP’s investments from its own resources and additional long-term borrowing is possible on condition that rate of net debt is 3 times lower than operative profit. That rate is necessary because of current debts and credit rate insurance. If company can’t increase operative profit, like last year, projection financing will be necessary.

Clean Start also advises HEP to project financing because credit debts projections and use of own resources for planned investments are not sustainable. The basic feature of project financing is that project development is mostly financed by debts which payment is expected from projects that suppose to be done, while project property is used as payment insurance. Project financing is usually used in capital intensive master activities where investors aren’t usually capable of traditional forms of financing or not ready to take risks. Projects must have quality and be viable and profitable i.e. electricity price is competitive in surroundings so banks would agree to invest in it.

Can we say this for HEP projects for their current forms? Can TPP Plomin C bring so attractive electricity price from expensive and untypical 500MW that HEP won’t have bigger losses than these at the moment? How big competitiveness of HPP Ombla, the most expensive experimental MW from water in Europe, can be? Significant part of HEP’s projects presented day before Christmas are on ideological studies’ level, unfinished schemes miles away from required permissions. It became clear that there is no money for this fairytale. HEP is state-owned company, banks will know that and they will offer some appropriate credits, so there is no doubt that consumers will cover losses of its bad business. Electricity price for citizens is already near EU average. HEP showed that it can efficiently melt around 60million HRK of extra incomes from electricity price increase, and barely stay positive, even with 500million dollars debt. Is this the positive trend expected with government change?

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