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Germany: energy companies are in a complicated financial situation

On 9 and 10 August, Germany's two largest energy companies, RWE and E.ON, announced their results for the first half of this year. Their revenues grew while their net profits fell in the case of both companies. The decrease in their profits results from growing gas prices (linked to growing oil prices) under contracts with Gazprom and the need to decommission nuclear reactors due to the German government's decision to phase out nuclear power by 2022. The falling profits make the already complicated situation of the German companies even more difficult, while growing debt and the need to change the energy strategy and invest in renewable energy and new technologies are a big problem for them.

Despite RWE's revenues increasing by 0.04% to reach 27 billion euros in the first half of 2011, its net profit fell from 1.9 billion euros to 1.59 billion euros, as compared to the first half of 2010. In the same period, E.ON's revenues grew 20% to a level of 53 billion euros and net profit fell from 1.5 billion euros to 900 million euros. The lower profits resulted from the unstable political situation in North Africa and the Middle East, which gave rise to a significant increase in oil prices and had an influence on the 20% rise in Russian gas prices in Germany in the first half of this year. This happened because the price is linked to the price of oil as part of long-term contracts with Gazprom. The decrease in the profits was also an effect of the German government's decision to immediately close eight nuclear reactors (including three controlled by E.ON and two by RWE). It is estimated that both of these companies will lose several billion euros more in the next few years as a result of this decision. Since the companies have high debts, the lower profits make their situation more complicated. RWE owes 27 billion euros and E.ON 16 billion euros. Due to the financial problems and the need to change the energy strategy, the companies are selling their assets to gain capital which they must earmark for the development of new technologies and renewable energy. Germany's third largest energy company, EnBW, is also in a situation similar to that of RWE and E.ON. The financial problems the German energy companies currently face may make it more difficult for them to keep up with their largest competitors in Europe, the French companies EDF and GDF Suez, which have a large share in the nuclear energy market, and thus are using less Russian gas and do not have to incur the costs of a rapid switch to renewable energy production. <koma>