

Poor financial results for Germany's energy companies

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On 12 March E.ON presented its financial report for 2013. The profits made by this, the largest German energy company fell by 14% from 10,8 billion euros in 2012 to 9.3 billion euros. A week earlier the second largest German energy company RWE reported a loss 2.8 billion euros. This was the first time it has made a loss in its 60 year history. Since 2010 the value of shares of both companies has fallen by over 50%. The main reason for the worsened financial situation is poorer results from their subsidiaries responsible for production of energy from conventional sources. The companies are intensively seeking possibilities to increase revenues and reduce costs. In order to improve its financial situation, RWE has reached an initial agreement to sell one of its subsidiaries responsible for exploration of oil and gas – RWE Dea AG to a Russian investment fund LetterOne for 5.1 billion euros. The transaction will be finalised already this year.

Commentary

- The poor financial results of the energy companies have been caused by a decline in energy demand in the EU following the economic crisis and the development of renewable sources of energy which are nudging traditional sources from the market. The CEOs of the companies do not expect an improvement in the market condition and are exploring possibilities to make savings and reduce debts (E.ON is 32 billion euros in debt and RWE 31 billion euros). Both companies have substantially streamlined their workforces in recent years. E.ON has also announced the shutdown of conventional power plants with a capacity of 13 GW, which accounts for a quarter of its power plants in Europe. RWE is also planning to close down their gas and coal power plants in Germany and the Netherlands.
- RWE has decided to sell one of its subsidiaries to Russians due to financial reasons – the Russian fund offered the highest price. The transaction has sparked controversy among German politicians but the Federal Ministry of Economic Affairs and Energy initially announced that it did not intend to block it. Both RWE and E.ON are interested in the best relations possible between Moscow and Brussels. The two companies are customers of Gazprom and E.ON is the largest foreign electricity producer on the Russian energy market and co-operates with Russians in the areas of gas infrastructure construction (the Nord Stream pipeline) and extraction (the Yuzhno-Russkoye oil and gas field). In his interview for the *Der Spiegel* weekly the CEO of E.ON said that possible EU sanctions imposed on the Kremlin could threaten good economic relations between Russia and

Germany: "Our continent has become more peaceful as a result of the partnership. We shouldn't frivolously gamble it away".

- One way to improve the financial results of conventional power plants is to introduce a capacity market, which would pay producers for their readiness to generate electricity even if it was not being used at that time. The companies contend that the introduction of a capacity market will increase the security of electricity supplies in a situation of a large share of energy from volatile wind and solar sources. For now the government is rejecting such a possibility as it fears the costs of energy for consumers would grow, and these already comprise substantial payments for the development of renewable sources of energy. On the other hand, a further decrease in the market value of the companies may threaten German pension funds and municipalities which have so far invested large funds in shares of these companies.