

Germany's E.ON is running away from its debts – the company's new strategy

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On 30 November, the supervisory board of E.ON announced that a new strategy had been adopted. E.ON intends to base its operation on three pillars: renewable energy sources, distribution networks, and customer solutions. Wind and solar energy is the main direction E.ON will be developing in. Other areas of the company's operation, i.e. conventional energy production (nuclear, coal and gas power plants), the trade in electricity, oil and gas, and also oil and gas production will be transferred to a separate, independent company. Most of the new company's capital will be transferred to E.ON's present shareholders, and the remaining part will be sold on the stock exchange to ensure funds to E.ON. The new company will take over E.ON's operation on non-European markets (except Turkey). E.ON will retain its debts; and thus the new company will have a clear account. The split is planned to be effected in 2016. 20,000 out of the company's present 60,000 employees will work for the new company. E.ON is the largest company in the German electric energy sector (8th in the world) and has been directly engaged in the implementation of strategic projects as part of Germany's energy policy, such as the construction of Nord Stream and the *Energiewende*.

Commentary

- The decision to entrust the new company with the conventional sector is intended at ensuring E.ON a good financial perspective. Over the coming years, E.ON would have to begin the disassembly and decommissioning of German nuclear and coal power plants, which entails high costs, and to reduce the output at gas and coal power plants. According to the company's forecasts, the European conventional energy sector will yield low profits and will offer worse development prospects since most countries have declared their dedication to meet emission reduction goals. E.ON's strategy envisages a withdrawal from developing conventional energy production and is symptomatic of the entire German energy sector. In October this year, Vattenfall announced its intention to sell all German power plants which use brown coal as a fuel. The strategies adopted by RWE and EnBW also provide for investing in renewable energy sources at the expense of conventional energy production.
- Over the past few years, E.ON has had to deal with constantly worsening financial problems resulting from the slump on the European market and losses sustained by the company as a consequence of the German government's decision to shorten the time

scale for eliminating the use of nuclear energy in Germany. Only this year, the company's turnover has fallen by 9% to 81.3 billion euros, and the value of its shares has fallen back by over 50% since 2010. E.ON's debts have exceeded 32 billion euros. Restructuring plans in the preceding years provided for unprofitable conventional power plants to be closed and for their assets to be sold off. For example, the company has sold its subsidiaries in Lithuania, Estonia, the Czech Republic, Slovakia and Hungary. Furthermore, the sale of its subsidiaries in Spain and Portugal was announced in late November this year.

- The change in strategy means that E.ON will no longer be engaged in investments in Russia, where it has been present in the power and gas sectors. The new company will take over E.ON's stake in the Yuzhno-Russkoye gas field and Nord Stream, as well as five power plants which have a combined capacity of 10,345 MW. E.ON will thus no longer be interested in further lobbying and influencing the shape of Germany's eastern policy.