FINANCIAL TIMES

July 3, 2012 12:55 pm

Eon agrees gas price cut with Gazprom

By Gerrit Wiesmann in Berlin

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Eon substantially raised its profit forecast for the year after Gazprom, the Russian energy group, agreed to cut the price of long-term gas supply contracts with Germany's largest utility, a major concession after years of tense negotiations.

The boost to its bottom line should help Eon to heal the scars of a heavily lossmaking 2011, when the German government's decision to close eight of 17 nuclear power stations compounded the drag of gas prices and economic slump in Europe.

The Düsseldorf-based company nearly doubled its outlook for 2012 underlying net profit – bottom-line profit adjusted for one-off effects – to €4.1bn-€4.5bn, from a prior corridor of €2.3bn-€2.7bn. Earnings before interest and taxes were forecast to hit €10.4bn-€11.0bn compared with the company's old range of €4.1bn-€4.5bn.

While not giving any details of the deal, Johannes Teyssen, Eon chief executive, said it represented "a good result for both sides" and would strengthen Eon's "longstanding successful partnership with Gazprom", based on gas extraction in Russia.

After years of stand-off over indexing gas contracts to the oil price instead of the – much lower – price of gas on spot markets, Gazprom last week signalled it was close to reaching agreement with big customers in the European Union about discounts, which at least in Eon's case will be backdated to the fourth quarter of 2010.

Eon, German rival RWE and Poland's PGNiG had spent the past four years trying to get Gazprom to agree to price cuts. The Russians at the start of 2012 agreed a roughly 10 per cent price cut with another group of clients, including Italy's Eni.

Shares in Eon were trading 2.7 per cent higher, at €17.50, at lunchtime, an increase only topped by RWE stock, which was up almost 3 per cent at €33.48. RWE in past weeks said it expected to reach a deal with Gazprom in late 2012.

Both companies this spring reported first successes at renegotiating long-term gas supply contracts with Norwegian and Dutch suppliers, moves that gave them hope similar agreements with Gazprom, their biggest supplier, could soon follow.

Eon and RWE have been wracked by the German government's surprise decision to speed up the phase-out of nuclear power to 2022 from 2034 following the disaster at the Fukushima nuclear power plant in Japan a year and a quarter ago.

While RWE has said it will focus on core European markets, Eon has started to search for growth opportunities further afield.

Earlier this year it committed to a joint venture in Brazil to build gas- and coal-fired power plants. It is also looking for opportunities in Turkey and India, also with an eye on renewable sources.