



Embracing market practices from NW Europe will  
help encourage regional investment

Thessaloniki October 2004

# status quo / recent past

- unbundled power companies dominate
- no pricing mechanism – no monetisation
- co-efficients, seasonal barter
- many barriers to trade



# new market development

- sophisticated market under design
- in the meantime, EFT and others are pioneers
- simple, physically-based traded market



# market characteristics

- 135 Million people consuming 306 Twh
  - 24 generating companies, 13 Transmission companies, 98 distribution companies
- 66 TWh eligible customer market
  - Slovenia to Turkey, including Hungary
- large peak-load growth, overall deficit growth
- however, some price disparities seen disappearing
  - (CE & SEE, ETSO & SETSO)
- correlation growing to German market (e.g. Hungary)



# near future

- reconnection, in October 2004
- north-west highly unbundled
  - full market opening in 2007
- SEEREM linking itself to highly developed markets



# What can we expect

- volume / liquidity increasing on greater transparency
- increasing correlation of price movement/direction to the north west
- deeper liquidity will foster derivatives
  - standard / exotic options
  - location / time swaps
  - virtual cross border trades
  - correlated hedging strategies



# What can we expect (2)

- forward price, interest rate and currency curves can be extrapolated
- risk management will improve
- true cost of doing business can be better evaluated
- knowledge will be the new 'power play'

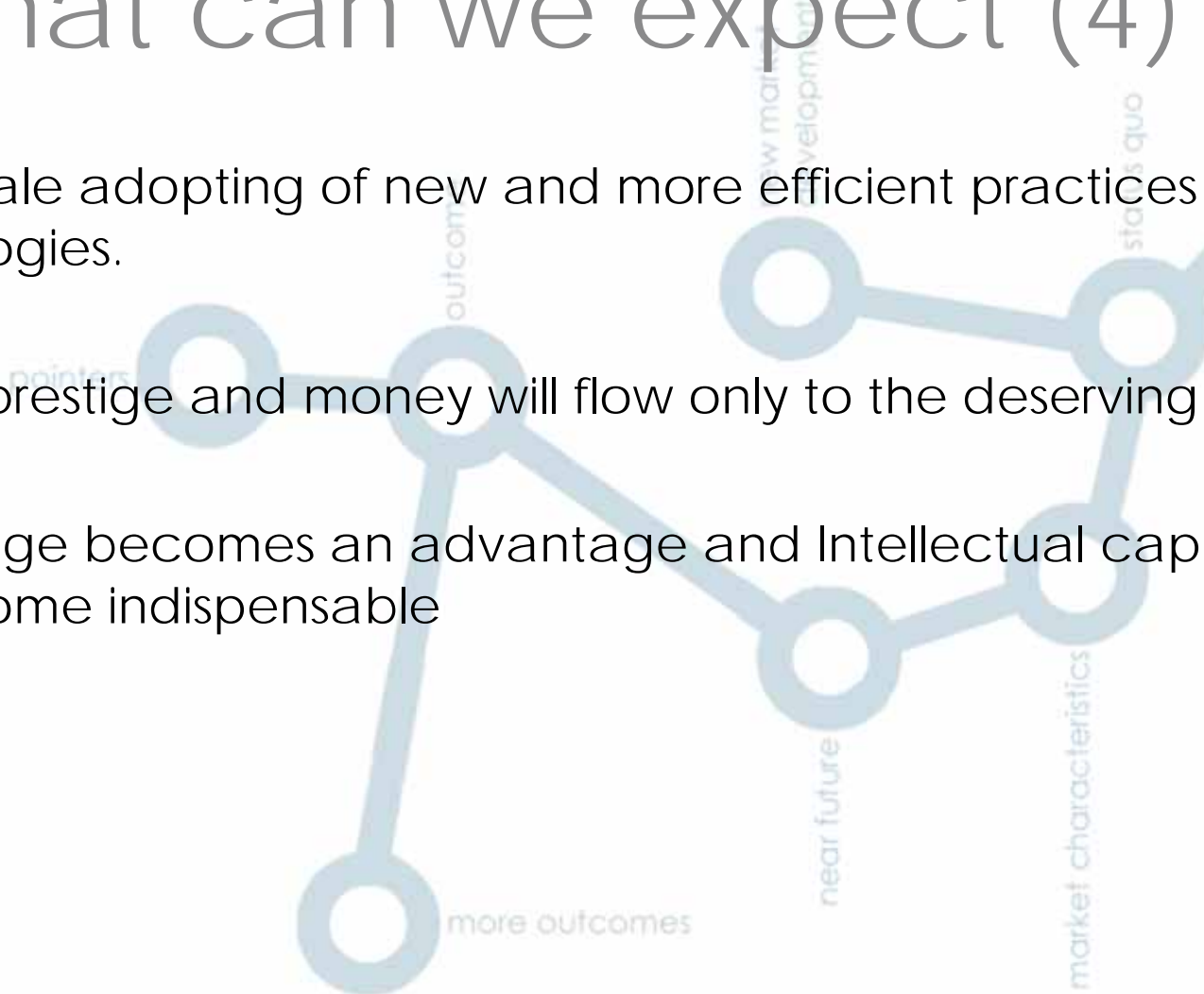


# What can we expect (3)

- many incumbents are at a crossroads
  - loss of market share ? Question is not if, but when
- static companies will lose the most market share or they will lose large amounts of money defending it
- people and knowledge will become ever more valuable
- how should an incumbent view itself as it adapts to the new world? Supplier, buyer, distributor, trader, generator or all
  - buy-in at all levels of the organisation is vital

# What can we expect (4)

- large scale adopting of new and more efficient practices and technologies.
- power, prestige and money will flow only to the deserving
- knowledge becomes an advantage and Intellectual capital will become indispensable



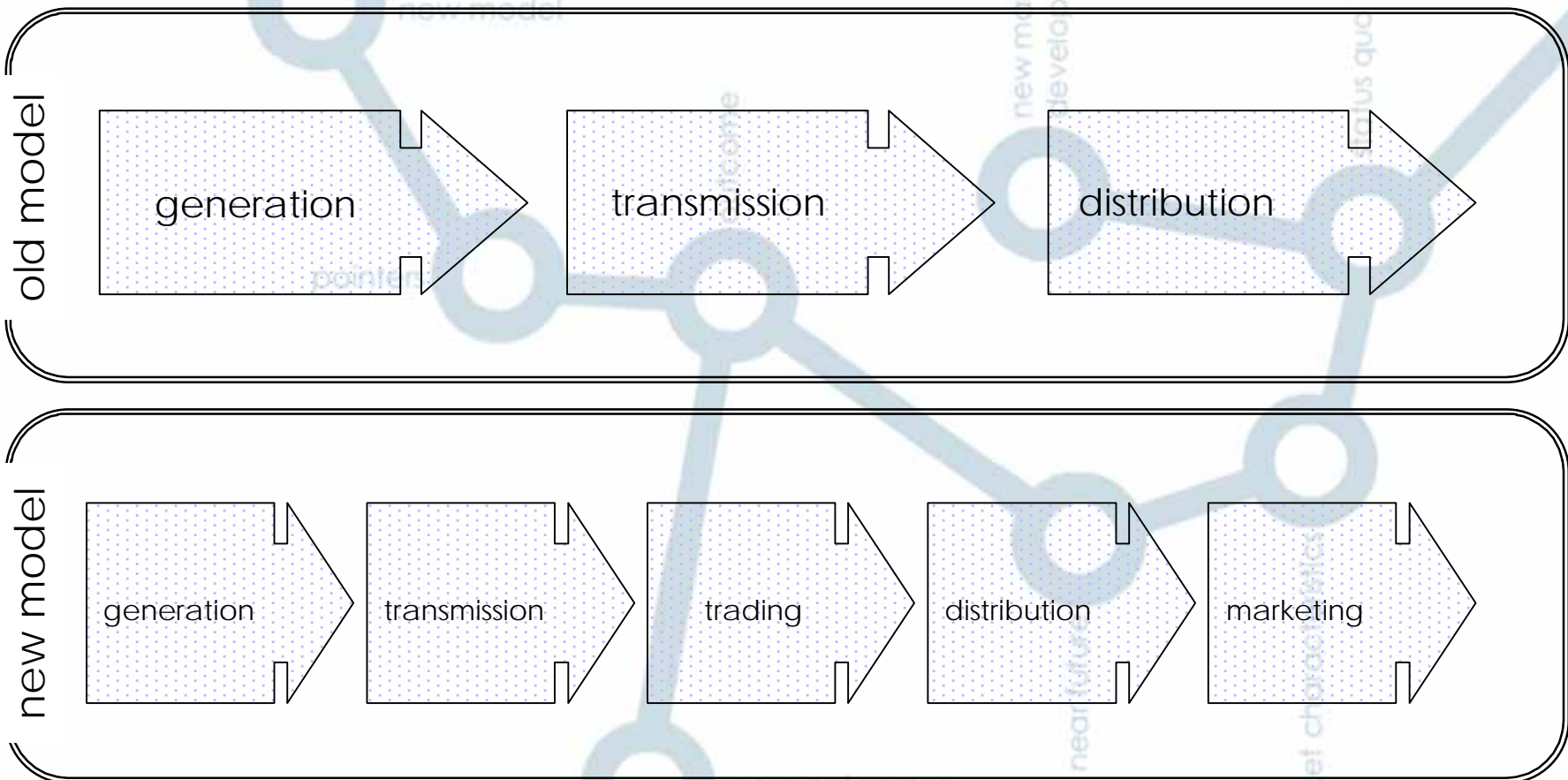
# Strategic consideration

- recruitment & retaining talent (organic and outside talent)
  - Market competitive compensation scheme must be used
  - The free flow of people is also a product of our time and there will be many competitors seeking intellectual talent.
- transition to Knowledge-based culture must be managed
- partnerships between historic business segments and new segments must be encouraged and fostered
- communicate, communicate communicate

# Conclusion

- pitfalls do exist
  - Market development
  - Limited new transmission lines
  - Limited new power units
- 21<sup>st</sup> century practices from North west Europe
- static companies will lose market share
  - staying ahead of the pack will only get harder and harder
- people and knowledge are becoming ever more valuable
- amazing technical expertise in traditional power sector management .....BUT THIS IS NOT ENOUGH

# old model → new model



- new practices and new technology will help the investor who needs to hedge