



Challenges in the Eastern European Markets

Miroslav Zadák, 7 – 8 June 2017



About me

- On the market since 2011:
 - ČEZ, a.s. – gas trader
 - EP Commodities, a.s. – gas trader
 - Amper Market, a.s., et al.



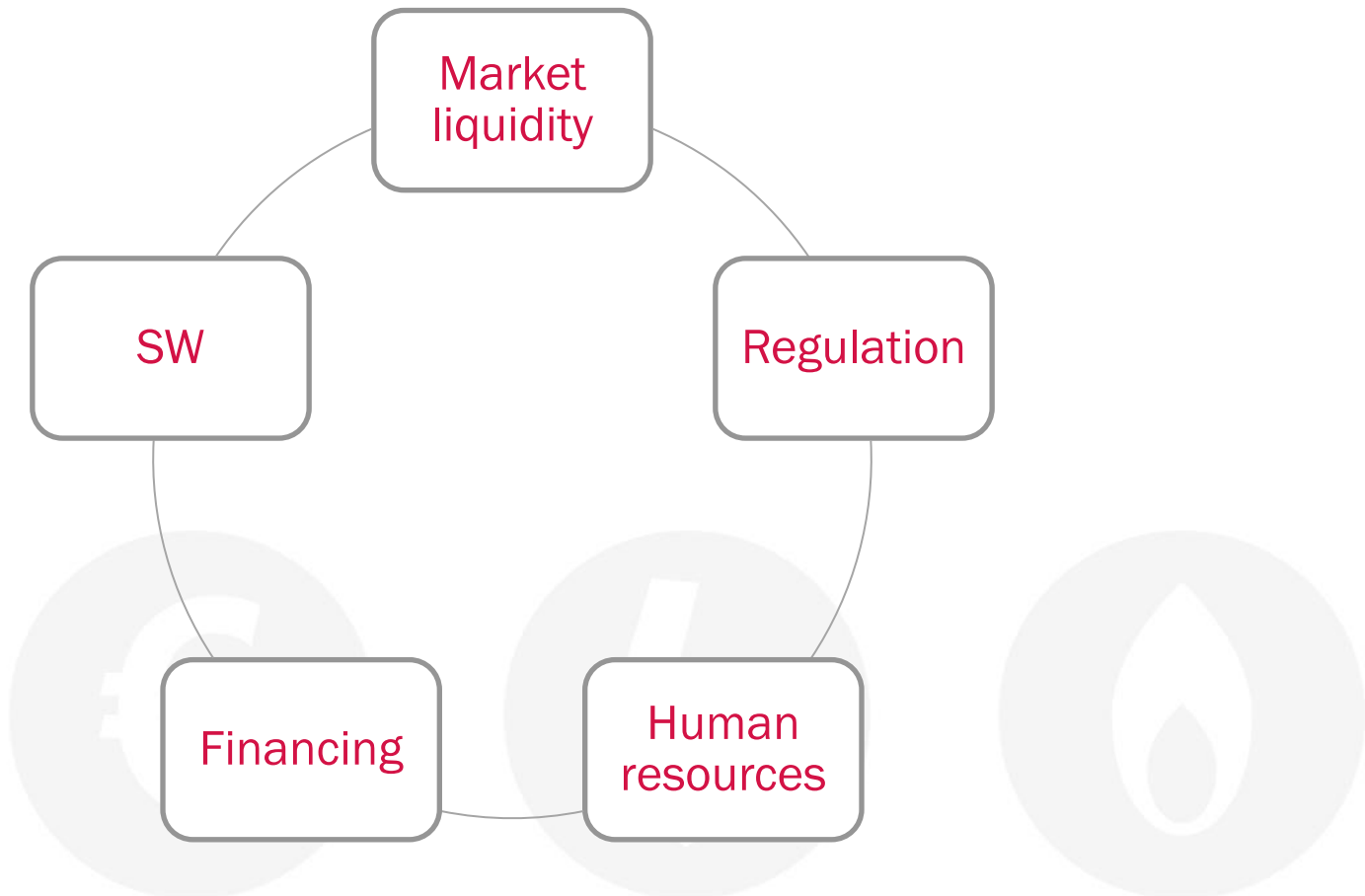


Presentation's scope:

- Eastern European markets:
 - The Czech Republic
 - Hungary
 - Poland
 - Slovakia
- General patterns



The main obstacles we face





Market liquidity

- Bid-Ask spreads are generally wider
- End-consumer companies:
 - Contrary to general perception Eastern European markets are highly competitive
 - Margins are very low
 - Hedging issues
- Pure trading companies:
 - Rather Western markets or spread trading
 - Eastern markets as pure spec markets are not interesting



Regulation

- Common denominator in the region = abundant regulation
- On top of the regulation itself comes uncertain interpretation of the laws by market participants and market regulators
- Out-of-hat implementation of the EU regulation in each country

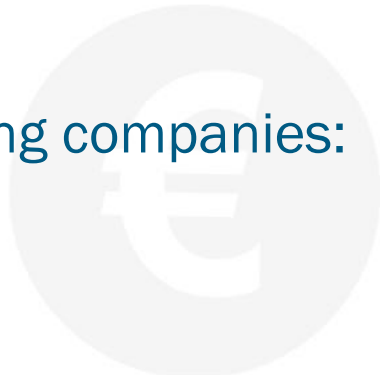
- End-consumer companies:
 - Most of the regulation

- Pure trading companies:
 - Low regulation but more is coming



Usage of low quality SW

- There are many SW companies. → Does the companies want to enter the energy market or increase their market share? Yes, but someone needs to pay for it. → Energy companies uses SW which is second best. → Direct implications to their performance.
- End-consumer companies:
 - CRM, ETRM
- Pure trading companies:
 - ETRM



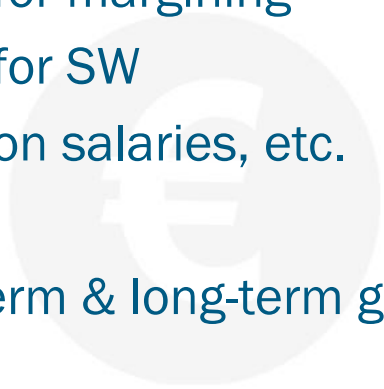
Human resources

- Shortage of potential candidates → companies cannot find right candidates.
 - Several factors:
 - Low unemployment rate
 - Low salaries don't generate labor supply
 - Salary competition from other EU member states
 - CZE labor cost: EUR 10,2/h vs GER EUR 33/h
- Difficult to recruit talent → it hinders companies' long-term growth



Financial resources

- Companies underestimate initial cost and overestimate future margins
 - Companies are undercapitalized on par with their Western competitors:
 - Money for guarantees
 - Money for margining
 - Money for SW
 - Money on salaries, etc.
- short-term & long-term growth degradation





Conclusions

- Two main obstacles hinder short-term and long-term efficiency
 - Human resources
 - Financial resources
- Other obstacles can be overcome, provided company solves the two preconditions



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