



**CEEPP**  
Central Europe Energy Partners

# REPORT

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October 2012

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**Pál Kovács**  
*Minister of State for Climate Change and Energy in the Ministry of National Development, Hungary*

## Hungarian energy policy

The energy policy of the future should be developed on the basis of the answers to the most important domestic and global challenges and the energy policy efforts of the EU, also taking into consideration our specific geopolitical features. It should focus on achieving both a rationalised energy demand and an energy supply (infrastructure and service) encouraging the growth of the Hungarian economy, ensuring the accessibility of the services and prices affordable to a large group of consumers.

Compiling the Strategy, our purpose was to create a framework that would result in the co-ordination of energy and climate change policy with a view to economic development and towards a sustainable environment. It includes a shift towards guaranteeing the security of supply, increasing competitiveness and sustainability.

Summarising the key message of the Energy Strategy in a single sentence, our purpose is to seek ways out of our dependency on imported fossil energy. The five means to achieve our goal >>>

## Zbigniew Brzezinski in Grupa LOTOS

On 26th of September, Professor Zbigniew Brzezinski, well-known lecturer at many universities, former National Security Advisor for President Jimmy Carter's administration, paid a visit to one of the CEEP founders, Grupa LOTOS, as personal guest of the Chairman of the Board of Directors of CEEP, as well as President and CEO of Grupa LOTOS, Mr. Paweł Olechnowicz. The visit was an occasion to exchange views on the global situation, including energy issues with key players. Professor Brzezinski was informed about CEEP's current activities and targets.



Standing from left to right: Ian Brzeziński, Günther Verheugen, Zbigniew Brzezinski, Paweł Olechnowicz

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## Hungarian energy policy

include energy savings, increasing the share of local renewable energy sources to the greatest possible level, safe nuclear energy and the electrification of transport on the basis of the former, integration to the European energy infrastructures, as well as sustainable and environmentally friendly use of our domestic fossil fuel reserves. For the time being, we cannot afford to give up fossil fuels.

It can be said that the aggravating environmental effects, dependence on fossil energy sources and the increasing uncertainty surrounding their availability suggests a paradigm and structural change in the energy sector. As, however, the creation of secure and sustainable energy systems relying on local features may take several years, or even decades, we can no longer postpone taking genuine decisions.

**Pál Kovács**

Minister of State for Climate Change and Energy in the Ministry of National Development, Hungary

## PUBLIC OPINION FOR ATOMIC ENERGY IS FAVOURABLE

Deputy Prime Minister and Minister for the Economy, Waldemar Pawlak, is pushing for Polish entry into the field of nuclear energy.

**FTD: While Germany and other countries leave nuclear energy behind, Poland wants to introduce the technology at home. What lies behind this strategy?**

Waldemar Pawlak: The German decision to abandon atomic energy came as a big surprise to other European states. It is clear that each country is responsible for the structure of its energy-mix, so Poland and Germany do have different rationales for this decision. We consider it important to strive for a policy that guarantees access to cheap energy and thereby secures a competitive economy.

**After Fukushima, the security requirements for nuclear power plants increased. Has your government adapted to this?**

We already have a regulation that allows the construction of nuclear power plants. We try to co-ordinate this with our German counterparts, as far as environmental or similar issues are concerned. However, the Polish plants planned for construction are relatively far away from the border.

**There is, however, some resistance within the Polish population. How does your government cope with that?**

After Fukushima, the acceptance within the population declined at first: many people

were under the impression that the accident had happened nearby. This feeling, however, calmed down as time passed. Public opinion in Poland is now pretty favourable towards this technology.

**How is the search for possible investors being conducted?**

The investment process is progressing. There is a lot of attention from outside the country: we receive visitors from Europe, America, Korea, and Japan. So, the interest level in investing in this sector is fairly high.

**Germany, your large neighbour, is pursuing a completely different energy policy. To what extent can this become a problem for Poland?**

The example of wind energy, which is being diverted into Polish grids at peak times, shows that some things have to be improved. The most useful issue would be to find an agreement relating to the costs of this, as these energy flows are caused by technical issues, and not by existing contracts. Additionally, we have to co-ordinate the extension of existing cross-border infrastructure projects. In general, it is important that we focus on our common goals of energy efficiency, energy security and transparency.



Waldemar Pawlak

**In general terms, is European energy policy going in the wrong direction in your opinion?**

Some policy approaches do surprise us, at times. Sometimes, energy prices are increased artificially. In Europe, strategies of pre-crisis origin are being continued, even though the context is now entirely different. This complicates the situation for energy intensive companies and undermines their competitiveness. We also have supporters for this view among German companies.

This article was first published by the FTG on 17th of September, 2012 and its translation appears here by courtesy of the FTG.

# 30 ENERGIEGESPRÄCHE AM REICHSTAG

Germany&Poland - better understanding on energy

CEEP, together with the Financial Times Deutschland, AMCham Germany and Energlobe.de, organised a seminar in the German Bundestag, titled 'EU-15 v. EU-11: The interests of the Central and Eastern European Countries and the EU-Roadmap 2050'. The keynote speakers were the Polish Deputy Prime Minister, Minister of the



Peter Altmaier

Economy, Wal-demar Pawlak, and the German Minister of the Environment, Nature Conservation and the Nuclear Safety, Peter Altmaier.

It was chaired by Prof. Friedbert Pflueger from EUCERS, and Janusz Reiter, Director of the Center for International Studies in Warsaw, former ambassador to Germany. The event was attended by more than

100 politicians, academics and business people, including Members of the German Parliament, as well as representatives from Wintershall, Grupa LOTOS, Węglukoks and Shell.

Deputy Prime Minister, Pawlak, focused on 7 issues: EU energy policy - quo vadis?; climate policy; energy efficiency; the energy-mix; the role of coal and CCS; the energy market in Central Europe; and the internal market in the EU. In his opinion, Poland stands with the EU new climate targets, but before agreeing on them, two pre-conditions should be fulfilled - global agreement on CO<sub>2</sub> emissions reductions and a much bigger emphasis on energy efficiency. For Poland, coal is crucial and will play an important role in the coming years, as it stabilises the energy system and increases energy security. He pointed out, that when climate policy was born, nobody thought that the price of oil in 2012 would be above 100 USD. The actual macro-economic situation should be taken into account when new, costly goals for climate policy are determined. He also stressed that each country has the right to develop their own energy-mix, whilst pointing out that decisions of the EU institutions do not allow for this to hap-

pen. Poland is against any interventions in the CO<sub>2</sub> market, and believes it should be developed only by market forces, as was originally agreed – Mr. Pawlak said.

Minister Peter Altmaier, focused on the on-going transformation of the German system. He is in favour of decisive steps on the German and EU level which are crucial for the energy sector and its planned investments. He understands the role of coal in Poland, but is also aware of environmental constraints in other EU countries. He believes that Germany and Poland should co-operate very closely and agree on a common approach and suggested regular meetings, including the Ministers for the Environment and the Economy. Better co-operation between the two countries, along with the proposed meetings, should be based on three assumptions: a better exchange of information, better connected interconnectors, and development of all types of energy, including renewables, shale gas and storage. This will enable both countries to learn from each other and push for a better understanding of the Polish position and promotion of Polish solutions in the energy market.

## UPCOMING EVENTS:



### Tallinn Conference

We are pleased to announce that CEEP will be a media partner at the 4th Annual Baltic Energy Summit: 'Stronger Together' which will take place in Tallinn, from the 14th to the 15th of November, 2012.

This 4th annual event will bring together key players from the energy industry, both from the private and public sectors, tackling important issues facing the development of the Baltic Energy market. More than 150 leading participants will meet to debate the issues fundamental to the Baltic Energy market's future.

CEEP Members will receive a 15% discount on the registration fee for this event.

# The Essential Role of Energy

By Roman Szyszko,  
Vice-Chairman of Central Europe Energy Partners, Vice-President of ENERGA SA



The global economic slow-down implies reconsidering assumptions of energy policy. The necessary changes go well beyond the short term effects of a lower demand for energy. The altered economic conditions require a new assessment of long-term risks. There is a growing appreciation of the fact that the effectiveness of the energy sector has an important

impact on the development of the industrial sector. Consequently, employment and overall prosperity rests on the ability of the energy sector to provide its services efficiently.

The depth of the present crisis goes beyond the range of typical business cycle fluctuations. As weakness in the rate of growth turns out to be more persistent than it was previously expected, the vision of the development of the energy sector must be revised. Ensuring the effective functioning of the financial sector has been supplemented by the recognition of the importance of enhancing Europe's global competitiveness. A forward-looking approach is required to attain sustainable economic growth.

One of the major objectives of the energy sector is to provide a reliable foundation for business develop-



ment. Consequently, operations of the energy sector constitute a milestone of economic activity. Facilitating business growth cannot be easily achieved in turbulent times. In the last few years, many widely-accepted economic rules have been challenged. It is safe to assume that unconventional economic circumstances will continue to prevail. In these circumstances, flexibility and the ability to adjust swiftly become crucial business features.

In current economic conditions, the ability to diversify energy risks becomes imperative. It is crucial to be able to implement new technology solutions. Developing the ability to derive benefits from energy innovation ensures that the economy will not be burdened by high energy costs. The effective reaction of the energy sector to the challenging conditions constitutes an important contribution to European economic integration. In the wider perspective, the success of the energy sector contributes to improving fiscal outlook and the long-term sustainable growth of the European economy.

*The Energa Capital Group, noted mainly for electricity generation and distribution, provides its services to more than two-and-a-half million households and 300,000 companies. It is also a leader in Poland in generating energy from renewable sources. Its green energy production currently totals 28% of the overall energy produced by the company, and comes to more than 10% of total production in Poland.*

# European climate policy must distinguish between West and East

By Friedbert Pflüger



Having been a participant at two energy conferences in Prague and Katowice recently, and following closely the debates in Central and Eastern

Europe, I have come to the conclusion that we are witnessing growing discontent within the new EU member states concerning the energy and environmental policy of the European Union.

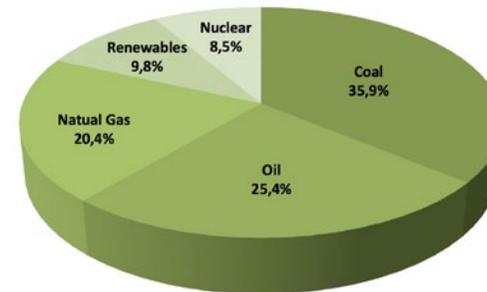
This is not only true for the specific instruments and measures coming from Brussels; it also applies to the values and aims proclaimed by the European Commission and the Council of Europe. The Polish government's veto in June 2011 regarding the European Commission's low carbon Roadmap for 2050 and its firm stance against any higher EU reduction goals up to 2020 are no accidents. These decisions probably mark the beginning of intense debates, if not confronta-

tion, within the European Union. In order to maintain unity and enable policymakers in Brussels to pursue a common energy strategy, it is necessary to listen carefully to these signals and attempt as quickly as possible to understand the specific challenges facing Central and Eastern European countries in order to meet the proclaimed aims of the Union. The obligations of the proposed EU Roadmap are increasingly being perceived by Central and East European states as unfair. A recent comprehensive Ernst & Young study commissioned by Central Europe Energy Partners (CEEP) – an association of energy companies from the region – claims that, due to the different technologies traditionally used in the new member states, as well as individual determinants, the burden associated with EU environmental protection and climate goals is disproportionately higher for the EU-11. According to the report, the energy mix of the EU-11 differs considerably from the EU-15.

## THE EU-11 HAS:

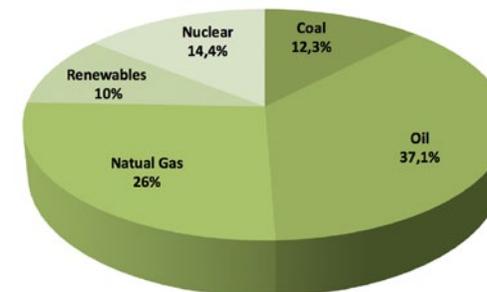
- A significantly higher share of coal than in the EU-15 (almost 36% compared to only 12.3%, for the EU-15)
- A lower share of nuclear power (8.5% versus 14.4%)

## Energy- Mix EU-11, 2010



Source: Own chart; Data from Ernst & Young Executive Summary to the Report: 'Introductory analysis of EU-11 countries' energy sectors, 2012.

## Energy- Mix EU-15, 2010



Source: Own chart; Data from Ernst & Young Executive Summary to the Report: 'Introductory analysis of EU-11 countries' energy sectors, 2012.

- A considerably lower share of petroleum products (25.4% vs. over 37%)

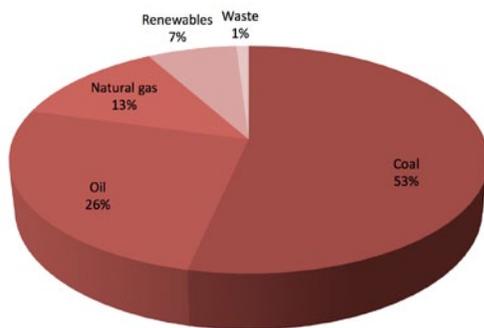
Both the higher share of coal and the lower share of nuclear power in the EU-11's gross inland consumption of energy are major grounds for the higher carbon intensity (emissions of CO<sub>2</sub> in relation to energy consumption) of their economies.

The higher share of coal makes most of the new member states more vulnerable to stricter EU environmental protection policies. In Poland, for example, the general consensus is that EU climate policy will lead to considerably higher electricity prices and thus the migration of important industries. A report by the World Bank concluded that the EU's climate policy will cost Poland 1.5 to 2.2 percent of its GDP until 2015 and 1.8 to 3.1 percent for 2020. Moreover, the Polish Chamber of Commerce has estimated that implementing the Roadmap would triple or even quadruple energy prices after 2020. The motives that prompted Warsaw to veto the EU's climate aims become clearer (and perhaps more understandable) when looking at Poland's specific energy-mix: >>>

# European climate policy must distinguish between West and East

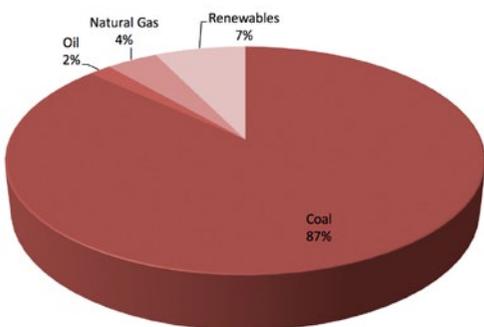
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## Poland's Energy-Mix, 2010



Source: EU Commission; <http://ec.europa.eu/energy/observatory/countries/doc/2010-country-factsheets.pdf>

## Poland's Power-Mix, 2010



Source: EU Commission; <http://ec.europa.eu/energy/observatory/countries/doc/2010-country-factsheets.pdf>

This clearly illustrates the difficulty for the Poles - and the situation is not very different in most of the other new member states. The starting position concerning reduction targets differs considerably from that of the older members - because of Poland's dramatically different energy-mix. In addition, given the fact that the EU-11 still have a long way to go until they reach the average EU GDP per capita, one can understand the enormous challenge in attempting to meet the EU's climate goals, whilst trying to catch up with Western European countries economically. The economic standing of the EU-11 is still far behind the EU average - an average GDP per capita of €9,000 in 2010 represented only 32% of the EU-15 average (the EU-11's average GDP in purchasing-power parity in 2010 amounted to €14,700, which represented 54.9% of the EU-15), according to the Ernst & Young report.

### HOT ISSUE

Before all this becomes a real hot issue for the headlines of newspapers and a burning subject at EU summits, one should carefully try to build bridges, find compromises and help the new members to find ways to meet the ambitious EU targets. It is therefore necessary to formulate a

new strategic consensus within the EU on energy and climate policy.

In light of the significant differences between the EU-11 and EU-15 in terms of the level of economic development and the structure of their energy sectors, it is essential that EU energy policy balance the objectives of energy security and sustainable development while avoiding adverse effects on the competitiveness of European economies. A balanced policy requires different approaches for the EU-15 and EU-11, one that does not exert a disproportionate burden on the economies of the Central and East European countries, or any other state for that matter. This would entail adopting a more integrated and flexible approach that takes the specific needs and requirements of each member state into consideration when implementing policies.

### Friedbert Pflüger

Professor and Director of the European Centre for Energy and Resource Security (EUCERS) at King's College, London and CEO of Pflüger International Consulting. He is also a senior advisor to Central Europe Energy Partners (CEEP).

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CENTRAL EUROPE ENERGY PARTNERS, AISBL  
ROND POINT SCHUMAN 6 (BOX 5)  
ETTERBEEK (B-1040 BRUSSELS)  
BELGIUM  
BRUSSELS@CEEP.BE  
TEL: +32 22 34 6368  
FAX: +32 22 34 7911



## Coal Round Table

The main topic of the discussion at the 18th Coal Round Table was: 'Whether the EU Emissions Trading Scheme fits its purpose'. Representatives of the biggest companies from the European energy sector were present. Welcoming remarks were presented by **MEPs Christian Ehler and Bogdan Marcinkiewicz**. Mr. Marcinkiewicz emphasised that more stringent ETS would have a negative impact on the European energy sector, especially when, during the EU's economic crisis we should be against any increase of energy prices. He suggested that the EU's Climate policy is 'upstream of the global trends', whilst coal is the cheapest and the most predictable energy source.

The next spokesman **Mr. Nigel Yaxley**, former President of the Eurocoal, presented DG Climate's proposal for changes in ETS auctions. He insisted that coal production and imports are still crucial for Europe and stressed huge differences in sources of energy in Europe. Whilst Western Europe has diversity in energy production, in Central Europe the main source is still lignite and hard coal. When compared with price increases of crude oil, coal is very competitive. However, the raising of CO<sub>2</sub> prices will weaken this competitive advantage. Mr. Yaxley suggested that we should re-think European aims and try to reduce the CO<sub>2</sub> emissions globally, not only in the European Union. We should also strive for a new international agreement with achievable and realistic aims. Mr. Yaxley pointed to the example of 'Bogdanka SA' (first private Polish coal mine), that coal production in Europe could be very efficient and produce economic growth in

Europe. The Coal sector in Europe still provides direct employment for 255,000 people, and indirectly for approximately one million people.

**Mr. Jerzy Janikowski** from Tauron S.A. – (a member of CEEP) – said that the key driver of EU energy policy, was strengthening the security of supply and reducing energy price levels, which should, in turn, increase the competitiveness of the EU in the global market. Sadly, the results are opposite to what was expected. As the security of supply dropped, energy prices went up, which reduced EU competitiveness. Moreover, higher CO<sub>2</sub> prices inflated electricity prices for industry and households, which in turn is having a negative impact on Member States' economies. Lower economic growth results in job losses. Reducing the number of allowances in the auctioning system will ultimately discourage investment in clean-coal technologies, putting conventional power in a very difficult market position. In the ensuing discussion most of those present agreed that there should be no interference with ETS regulations, and the system should be operated by market forces. To be more effective and have a real positive climatic influence there should be global agreement on CO<sub>2</sub> emissions trading, including the most industrialised countries (the biggest emitters) outside of the EU.

This view will be presented during November's 'European Coal Days', co-organised by CEEP, to which, according to Mr. Ehler, a special Chinese delegation, will be invited, to make 'Coal Days' more global and make EU policy more compatible with the global trends.

# Central European Gas-Oil Transmission Corridor

BRATISLAVA 18.09.2012

A Slovakian member of Central Europe Energy Partners (CEEP), TRANSPETROL a.s., co-hosted recently a major international conference on the transport of gas and oil in the region.

Representatives of companies from Central Europe met with leading suppliers of oil and gas to Europe, including the General-Director of Gazprom Export, Alexander I. Medvedev and Vice-President of Transneft, Mikhail V. Barkov, at an international conference on 'The Central European Gas-Oil Transmission Corridor'.

The conference was also attended by the Slovak Minister of the Economy, Tomas Malatinsky; Vice-President of the European Commission, and European Commissioner for Education, Training, Culture and Youth, Maros Sefcovic; the Russian Federation Ambassador to Slovakia, Pavel M. Kuznecov; the Secretary General of the International Gas Union, Torstein Indrebo, and the President of the Slovak Gas and Oil Association, Paul Janočko.

Minister Malatinsky emphasised that safety and the reliability of gas and oil pipelines in Slovakia are important in terms of ensuring domestic consumption, as in the case of transporting fuels to other European countries. He reviewed the current situation regarding the supply of gas and oil on the Slovak market, and stressed the historical significance of transport corridors. Touching upon the gas crisis in 2009, which became a lesson on how to address security of gas supply in the context of European space, he noted that, efforts should



also focus on building new infrastructures and finding financial resources for this purpose. In this context, he pointed out the active approach of the Slovak Republic to the current activities of the EU, in matters of trans-European energy infrastructure and the creation of projects of common interest, particularly in the field of natural gas.

Mr. Alexander Medvedev, confirmed that co-operation between the Slovak companies and Gazprom is historically at

a very high level. He explained that in relation to the changes on the international gas market, Gazprom can supply Europe with as much gas as it needs. He also stressed that repetition of the gas crisis in the context of relations with Ukraine is not at risk, as long as all partners fulfill agreements to which they are committed.

Mikhail V. Barkov, declared that the "Druzhiba pipeline is one of the symbols of our society. In 50 years of existence in Slovakia, the pipeline has transported approximately 150 million tons of oil". Mr Barkov also pointed to a very good relationship and high level of co-operation with Transpetrol.

*TRANSPETROL, a.s. - as the only operator of the crude oil pipeline transportation system in the Slovak Republic, it is one of the strategic enterprises in the Slovak economy. Owner of 100 per cent shares in the TRANSPETROL joint-stock company is the Slovak Republic, via its Ministry of the Economy.*

*The company provides for the transit and domestic transportation of crude oil through the territory of the Slovak Republic and has the required capabilities in place for its interconnection to European transit routes. Since the beginning of 2012, the company has been a member of CEEP.*

# POLAND CRITICISES EU ENERGY POLICY

Warsaw requests refraining from one-sided climate goals

By Nils Kreimeier and  
Nikolai Fichtner, Berlin

Poland is blaming EU climate policy for endangering the competitiveness of its domestic industry. “We think it is wrong to add artificial costs to emissions”, declared Waldemar Pawlak, Polish Deputy Prime Minister, on a visit to Berlin. “We are already paying high prices for our oil and gas in Europe, added to which are the costs for CO<sub>2</sub> emissions.” This, claims the Minister, undermines the competitiveness of energy intensive companies.

The country is resisting an expansion of EU climate goals, mainly because of its coal-based energy production structures, and is asking for a new conceptualisation of European energy policy. “Energy efficiency should come first”, asserted Pawlak. “Climate policy, however, should be discussed on a global scale, as only this would have a noticeable effect”, he continued. He further stated that only then could one talk about new reduction targets.

During the controversy concerning energy policy, Poland also ran into conflict with Germany. Berlin is in favour of a unilateral 30 percent, instead of a 20 percent reduction accepted by Poland, concerning EU CO<sub>2</sub> emissions by 2020. Additionally, the German focus on wind energy in the con-

text of the ‘Energiewende’ is causing problems in Poland, as electricity is frequently diverted into the Polish grids, when there are capacity overloads in Germany.

The German Federal Minister for the Environment, Peter Altmaier, tried last week to resolve Polish doubts. “We regret that it didn’t prove possible last year to get our neighbours on board, when agreeing on the ‘Energiewende’. I want to make up the leeway now”, stated the Minister during the ‘Energiegespräche am Reichstag’, of which the FTG is a media partner. “We have to work towards a better interconnection of our electric energy grids. It will make the German ‘Energiewende’ cheaper if we include our neighbours.”

Altmaier is also striving for a ‘German-Polish agreement’ on climate policy before

reaching an EU-wide understanding. “We don’t want to instruct any country how to structure its energy-mix.”



This article was first published by the FTG on 17th of September, 2012 and its translation appears here by courtesy of the FTG.

# CEEP – first AGM

**Members of the Central Europe Energy Partners met for the first Annual General Meeting in Brussels on the 18th September, 2012. CEEP activities were presented by Mr. Paweł Olechnowicz, Chairman of the Board of Directors of CEEP, President and CEO of Grupa LOTOS S.A.**

Mr. Olechnowicz’s speech centred on the question of energy and its security as one of the most debated global issues of today. Geopolitical developments, political conflicts and global climate changes triggered excessively high and volatile energy prices. While the situation might vary from country to country, there is a strong common interest to make sure that Europe enjoys access to energy at reasonable costs, manages consumption in a sustainable way – and does it all collectively.

The enhancement of energy security will require an international approach, combined with special initiatives on the regional and national level. All of this is of concern to CEEP and a driving force behind its actions.

Mr. Olechnowicz made it very clear that CEEP, together with its members, and for its members, is striving to foster an environment that ensures secure and cleaner sources of energy and produces a predictable and relatively stable market, with an economically optimal distribution network, equitable access for investment in all aspects of the development, along with supply, processing, sales, and standardised rules for all players. The attendees were reminded that the challenges for all in Central Europe are enormous: the European Union still lacks an effective

common energy policy or even a common energy market! The gap between the interests of the older and newer EU members persist. One of the common issues for all is the use of indigenous resources – an important issue that CEEP promotes ‘loud and clear’.



All the problems of Central Europe are unfortunately not fully reflected in the Energy Roadmap 2050. CEEP is making it clear that different countries within the EU-27 have different starting positions. There is no ‘one-size-fits-all’ solution. Blindly adopting the Roadmap’s strict conditions may, and indeed will, widen the welfare and competitiveness gap between our region and that of our Western friends.

Mr. Olechnowicz elaborated on the various key projects CEEP has been conducting: the report ‘Analysis of Central Europe Energy Sectors’ (commissioned by CEEP and prepared by Ernst & Young); the ‘Gespräche am Reichstag’; the ‘29 + 1’ Conference and some others.

CEEP’s Chairman remarked that Central Europe Energy Partners is acting on several stages apart from the EU. It has been asked by the International Energy Agency to join its very prestigious Energy Business Council - sitting at one table with the biggest multinational energy companies - as the only association representing regional members. Concluding his statement, Mr. Olechnowicz said: “We have not only to speak up for ourselves. We have to stand-up for ourselves. If we do not present one clear position – we will just not be heard”.

At present, CEEP represents 18 members from Lithuania, Poland, the Czech Republic, Slovakia, Hungary, and Romania, whose combined annual turnover is above 32 billion EUR, whilst employing around 250,000 people. The position of CEEP is becoming stronger and will continue to do so.

The next two presentations were made by Mr. Roman Szyszko, Vice-Chairman of CEEP’s Board of Directors and Vice-President of ENERGA S.A., and Mr. Janusz Luks, CEO of CEEP. Three resolutions were adopted unanimously: approving the statutory financial statements for the fiscal year 2011; approving the budget of this year, and discharging the Directors holding office from liability.