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# DIVIDEND PAYMENT BEHAVIOUR OF COMPANIES DUE TO CHANGE OF DIVIDEND TAX RATE IN ROMANIA

Case  
Study

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## Keywords

*Fiscal policy,  
Taxation,  
Financial crisis,  
Dividend pay-out*

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## JEL Classification

*E62, H20, G01, G3*

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## Abstract

*This paper examines Romanian companies' behaviour (listed on the Bucharest Stock Exchange) to a change of dividend tax rate. Even if the number of companies which had paid dividends in 2016, for 2015 decreased to 32, compared with 34 companies from previous year, the total value of paid dividends increased with 53% comparatively with dividends paid for 2014. This can be explained through the new tax rate which has been reduced from 16% to 5%. We found that the shareholders obtain profit from two sources: due to increase of gross dividend and due to decrease of the tax rate. Moreover, the paper found also: for the companies who paid higher dividend for 2015 compared with 2014 the dividend paid for 2015 is statistically significant different than the dividend paid for 2014; for the companies who paid smallest dividend for 2015, we were not able to find any statistical difference. This means that the companies which increased the dividend for 2015, took into consideration the new legislation and they are motivated to pay more to the shareholders; companies which decreased the dividend value for 2015 is due to some internal factors.*

## INTRODUCTION

The behaviour of companies to the dividend pay-out due to new cut tax reform has been the subject of much research in different regions. Searching in this old debate in economic literature, we found two points of view: first, the old view (Hall and Jorgenson, 1967; Cummins, Hassett, and Hubbard, 1994; Caballero, Engel, and Haltiwanger, 1995, etc.) which predicts that dividend pay-out reacts positively to a cut of tax reform; secondly, the new view (Black and Scholes, 1974; Miller and Scholes, 1982; Kalay and Michaely, 2000; Blouin et al., 2004; Andres, et.al, 2012) disputes these conclusions predicting no investment response of companies' behaviour to a cut of tax.

However, after the cut dividend tax reform introduced, a decrease of the cost is expected by companies, which also has been reflected to an increase of their incomes. This does not always provide a stimulus to companies' incentives to pay more dividends to shareholders. This happens because dividend tax is reduced and the companies must choose to proceed according to their objectives before deciding to pay the dividends. They have to decide where to allocate these incomes (produced due to a cut tax): to generate more investments or to increase the dividend payments (Dragotă, et.al, 2009).

Therefore, the paper has as a purpose to analyze the dividend payment behaviour of companies in Romania, which are listed on the Bucharest Stock Exchange, to a modification of dividend tax reform, by a descriptive analysis of the evolution of the dividend payments and dividend tax rate and also by identifying the main differences or similarities between them.

This paper is structured as follows: the second section, reviews the literature; the third section, describes the data selection process and the sample characteristics; the fourth section shows the methodology used, the fifth section reports the results. Finally, in the conclusions of the study are concentrated in the last section.

## LITERATURE REVIEW

The perfect storming form of economic, as well as the stability growth, can be easily perceived by everyone. The latter is the highest priority in economy but it seems difficult to be depicted even if through sacrificing fiscal policy. Also, the policy makers many times find it difficult to implement an alternative to reduce the dividend tax which can have significant effect over the capital cost of the companies and investments.

Dividend tax is widely discussed in perspective of being avoided in order to eliminate the double

taxation of shareholder's revenues which does not allow companies to develop in a certain level. Studying different systems of taxation in different developed and developing countries from European Union, Lazar, (2010) recommended for Romanian flat tax fiscal framework, the deduction system of dividends after calculating the tax. The classic systems (used in Romania) based on double taxation of profit (used for instance in US and Romania) create crowding-out effects of capital investment (Harberger, 1962).

The impact of fiscal reforms to growth dividend per share and to stimulating investment, especially in developed countries companies, seems to have higher impact (IMF 2015). During the past 10 years, the effects of fiscal policy on this growth is registered on an average of 2.5 percentage point per share, at least for developing countries with low incomes. Also, companies in Ireland and Netherland have recorded an increase of dividend payment after reducing the dividend tax. In some developed and developing countries, such are Austria, Belgium, Brazil, and Italy, apply a specific scheme which excludes the taxation of investments with normal return. But, on the other hand, when it comes to discussed about the Foreign Direct Investment (FDI), we must to consider also other direct factors with an influence over them, such is: macroeconomic stability; the quality of infrastructure, etc.

Some other researchers found difficult to conclude to the same reaction of dividend payment behaviour of companies. Andres, et.al (2012), researching for 220 firms in Germania, mention that the higher the tax dividend does not have any affect over the dividend pay-out, even if firms have significantly higher dividend pay-outs and even if firms have significantly lower dividend pay-outs than all other firms. Moreover, Chetty and Saez (2005), in their paper revealed that due to a cut of tax reform a larger number of companies has changed positively their behaviours towards shareholders' dividends payment. Immediately after the six quarter of the new reform is felt an increase of payments with 20% and a regular payment of dividends. Bell and Jenkinson (2000), found the same for UK case. Also, Blouin et.al (2004) revealed to the same conclusion but for a few number of companies and a few number of firms did not respond to the new cut tax reform.

From another perspective, we must to know that investment has a direct response to a reduce of capital cost (Hall and Jorgenson 1967; Cummins, Hassett, and Hubbard 1994; Caballero, Engel, and Haltiwanger 1995), even if the dividend tax is one of the factors which can affect the firm's capital cost (Ryan 2011, 2012; Hubbard et al. 2012) to provide greater returns of investment. For this reason, in the moment that companies are not responding by increasing the dividend pay-out to a

decrease of dividend taxation (which induce to an increase of gross income), is important to take in consideration the concentration of companies behaviour to investments due to this modification of dividend tax, as Dragotă, et.al 2009 mention in their paper.

Furthermore, in many papers (Harberger 1962,1966; Feldstein 1970; Poterba and Summers 1985; Chugh and Ghironiz, 2012) the dividend cut tax reforms affect the cost of capital and investment. Also, Jugurnath, et.al (2008) searching in two different kinds of systems, in Australia dividend imputation system and in United States Tax Reform Act system, found a positive effect over investment due to a decrease of the tax in both systems. On the other side, reading recent researches we found evidence from the Yagan (2015) paper, which analyzing the cut tax rate effect on dividend per share in the US (which have been reduced from 38.6 percent to 15 percent in 2003), they found a slowly effect over the firms cost capital. But Chugh and Ghironiz (2012), resulted that dividend cut tax has an impact over the shareholders' incentives to invest in the future. While for US case, Black and Scholes (1974), Miller and Scholes (1982) and Kalay and Michaely (2000), rejected this fact.

Romanian companies' behaviour to a tax change case is also analyzed by Dragotă, et al., 2009. In their paper taking under analyze several companies listed on the Bucharest Stock Exchange, for the period 1998-2005, they demonstrated that the companies have changed the behaviour toward the dividend pay-out only in 2005 when the tax rate of 16% was introduced. But they also concluded that many companies are maintaining the incomes and not paying dividends. Maybe, this can be explained due to the fiscal modification which are applied too late to improve companies' behaviour.

## DATA AND DESCRIPTIVE STATISTICS

The study employs yearly data for period 2008-2015, for the dividends payment evolution by companies listed on Bucharest Stock Exchange (BVB). Number of total shares (from the year that has begun to pay until now) for each company have been downloaded also from BVB and is multiplied with yearly dividend paid per share by each company to obtain the total dividend paid to shareholders. All the values are expressed in RON. This paper also used the information per tax liabilities related to investment activities determined by the Fiscal Code, Law no. 227/2015. Between 2005 and 2015 the dividend tax has been 16% and from 2016, when the new law has entered in force, the tax for dividend has decreased to 5%. So, the companies which decided to pay dividends in 2016 for the year 2015, have paid a tax of only 5%, according to the new law.

Going on, Table No.1 presents number of companies (for each year) which have paid dividends and the total number of companies listed on BVB with investment activities in Romanian capital market.

Based on the information from Table No.1, we can see that the most favourable year for shareholders has been recorded in 2014 and 2015, when 41% and respective 38% from total companies listed on BVB have paid dividends to shareholders; the smallest numbers of companies which paid dividends has been recorded in 2008, when 18% of total companies paid dividends.

Even if the number of companies which had paid dividends in 2016, decreased to 32 in 2015, compared with previous year (34 companies), the total value of paid dividends increased with 53% comparative with dividends paid for 2014. This can be explained through the new cut tax rate (5% compared with 16%), which stimulated a part of these companies increasing the dividends pay-out.

## METHODOLOGY

Through this paper we want to highlight the difference between the dividends paid for 2015 (new legislation – 5%) compared with dividends paid in 2014 (old legislation – 16%). Based on this we want to point out the dividend payment behaviour of companies from Romanian capital market, per new fiscal policy.

$$H_0: \mu_{D(2015)} = \mu_{D(2014)}$$

(1)

$$H_1: \mu_{D(2015)} \neq \mu_{D(2014)}$$

Considering the hypothesis presented in relation (1), it can be checked if the average dividend value per share paid for 2015 is significantly different from the average dividend value per share paid for 2014. Before applying the test, we computed the series of differences between the average dividends values per share paid, for the two selected years, based on the relation (2):

$$(2) \quad X_k = D_{(2014)k} - D_{(2015)k}, \quad k = \text{company}$$

The paired sample t-test is computed based on formula (3) knowing that the expected value of the differences series is 0 ( $\mu_x = 0$ ), and the number of observation from the sample is N.

$$(3) \quad t = \frac{(\bar{X} - \mu_x)}{S_x} = \frac{(\bar{X} - \mu_x)}{\sqrt{\frac{\sum(X - \bar{X})^2}{N-1}}} \times \sqrt{\frac{N-1}{N}}$$

Where  $\bar{X}$  is the mean of the differences series between the average dividends values per share,

paid for the two selected years,  $s_x$  is the standard deviation of the differences series.

## RESULTS

In order to understand if there is a relationship between dividends paid by companies listed on Romanian capital market and the new fiscal policy, undertaken by central authorities, this paper tried to split our empirical analysis in two parts: first we analyzed the evolution of the total dividend paid and total dividend tax paid per year which are showed in Figure No.1 and Figure No.2, through which we concluded if total dividend tax paid, during the period taken under analyses, has had an influence over the total dividend paid over years and secondly, we analysed the companies behaviour in paying dividends for 2015 and 2014.

The evolution of total dividends paid per year to shareholders are presented in Figure No.1. Based on this we can see a huge increase after 2009 of total dividends paid (4.051 mil RON in 2011). A decrease after 2011 (3.653 mil RON in 2012) and a decrease also from 2012 to 2013 around to 4.448 mil RON is due to the financial crisis. Moreover, we can see an immediately increase in dividends paid for 2015 (4.275 mil RON) which has as main cause the reduction of dividend tax from 16% to 5%.

Regarding the total dividend tax paid per year, as it is showed in Figure No.2, at first glance we are able to see that from 2008 to 2014 (when the dividend was 16%) the trend of dividend tax paid is the same with the trend of total dividends paid per year to shareholders. On the other side we can see that from 2015, when the law for lower taxes over dividend is introduced has begun to pay more dividends (4,275 mil RON), due to the lower dividend tax paid in 2015 (214 mil RON).

In case that the dividend tax remained unchanged to 16% instead of 5% also for dividends paid for 2015, the tax dividend paid to the state would be 684 mil RON instead of 214 mil RON. This can be seen in the Figure No.2 by red dashed line.

Trying to understand the evolution of dividends paid we take in consideration two big categories: the first category are companies which started to pay dividends in 2016 for 2015, and didn't pay dividends until this point; the second category the companies which started to pay dividends in 2015-2014 and also before this point.

Also, in Table No.2, there are 6 companies which started to pay dividends in 2016 for 2015, and didn't pay dividends until this point – 5 of them, or had paid more than 3 years in the past (BRD).

To understand more clearly the evolution of the dividend paid for 2015 compared with dividends paid for 2014, we have considered two subcategories of companies: the first subcategory

are the companies which has recorded an increase of dividend paid for 2015 compared with 2014 and the second subcategory are the companies with a decrease of dividend paid for 2015 compared with 2014 (Table No.3 and Table No.4).

Knowing that the tax rate has been changed on 2015, we must know how this fiscal measure has influenced companies and the shareholders on Romanian capital market.

The paper has showed that the number of companies which have increased the dividends is 14 and the number of companies which have decreased the dividends is 12, recoding an average of gross profit per share to 32% and an average decrease to -29%.

In Table No.5 and Table No.6 we can observe in details much better how these increases or decreases of dividends are influenced. So, in case of companies which have increased the dividend, the shareholders obtain profit from two sources: their incomes are effected by an increase of gross dividend and by a decrease of the tax rate. But through this increase of gross profit (32%) and the decrease of tax rate (-59%) has resulted for them a net increase of 49%.

In case of companies which have recorded a decrease of dividend, gross profit of shareholders has decrease with 29% and their net income only with 25%. The decrease of tax rate has resulted in loss reducing which have resulted also in a greater final increase of shareholders.

Going further we wanted to test if the dividend per share paid by companies for 2015 statistically differ toward the dividend per share paid by companies for 2014. Regarding this, we split the companies in 2 samples: companies who paid higher dividends for 2015 compared with 2014, and the companies who paid smallest dividends for 2015 compared with 2014.

The results are presented in Table No.7, and we can see that only companies who paid higher dividend for 2015 compared with 2014, the dividend paid for 2015 is statistically significant different by the dividend paid for 2014,(at a confidence level of 10%). This means that the companies which increased the dividend for 2015, take into consideration the new legislation and they are motivated to pay more to the shareholders.

Regarding to the other sample, about the companies who paid smallest dividend for 2015 compared with 2014, we were not able to find any statistically difference between the dividend paid for 2015 and the one paid for 2014. This means that those companies decreased the dividend value for 2015, not because of the new legislation but more due to some internal factors.

## CONCLUSIONS

This paper analysed the dividend payment behaviour of companies to a modification of dividend tax rate, for the case of companies listed on Bucharest Stock Exchange. The paper concluded that due to the new Romanian fiscal policy, the evolution of total dividends paid per year to shareholders recorded an immediately increase with 53% of the total value of paid dividends for 2015 (4.275 mil RON) comparative with dividends paid for 2014 (2.801 mil RON), even if the number of companies which had paid dividends in 2015 decreased to 32, compared with previous year (34 companies). This can be explained through the new Fiscal Code, Law no. 227/2015, which decreased the dividend tax rate from 16% to 5%, recording in 2015 a lower dividend paid by companies to shareholders of about 214 mil RON.

Anyway, we concluded also that the years 2014 and 2015 are considered the most favourable years for shareholders, where 41% and respective 38%, from total companies listed on BVB, have paid dividends to shareholders. The most unfavourable year has been recorded in 2008, when 18% of total companies, paid dividends. But on the other side, is important to mention that, even the financial crises have been felt after 2011 with a decrease of total dividends paid (4.051 mil RON) until in 2013 with around to 4.448 mil RON. Moreover, in case that the dividend tax remained unchanged to 16% instead of 5% for dividends paid for 2015, the tax dividend paid to the state would be 684 mil RON instead of 214 mil RON.

The paper' results confirmed that the shareholders' incomes or the behaviour of companies in pay-out dividends are effected by two sources: by an increase of gross dividend and by a dividend tax rate decrease. These conclusions are similar with what Dragotă, et.al 2009 demonstrated in their paper. For instance: companies with an increase of dividend in 2015 instead to 2014 have recorded a net increase of 49%, this due to an increase of gross profit to 32% and to a decrease of cost of tax rate to -59%; companies with a decrease of dividend in 2015 instead to 2014 have recorded a net income decrease of -25% due to a decrease of gross profit of shareholders with -29% and to a decrease of costs from tax rate to -79%.

However, the results showed that a change of fiscal policy has an influence over the companies' behaviour but this is not respected by all companies (Chetty and Saez 2005). Some companies which increase the dividend after a new cut dividend tax, take into consideration the new legislation and they are motivated to pay more shareholders. Many of firms maintain the entire income for some other objectives such is investment, and prefer not to pay dividends (Kalay and Michaely, 2000; Blouin et al.,

2004; Andres, et.al, 2012). This happened not because of the new legislation but more due to some internal factors: maybe due to large previous dividends to be paid or for other different reasons. From the other hand, decreasing the dividends paid, especially when a cut dividend tax is introduced, induce to a huge decrease of shareholders' incomes. This might influence the growth.

There is still a lot of place opened for extending the research on this theme by using larger samples of countries, different time frequencies, but also by using other variables such are: other corporate tax (maybe double taxation of companies) which influence the companies' behaviour; other corporate indicators such as capitalization which might have been influenced by the change of the tax reform and this later may have influence over the companies' behaviour to dividends pay-out.

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## ANEXES

### Tables

Table No.1

*Companies that paid dividends vice versa listed companies*

Year	Companies which paid dividends	Total Companies	Paid dividends (%)
2015	32	84	38%
2014	34	83	41%
2013	24	83	29%
2012	27	79	34%
2011	22	79	28%
2010	18	74	24%
2009	15	69	22%
2008	12	68	18%

Source (Author's computation)

Table No.2

*Companies which started to pay/repay dividends for 2015*

Company	Number of shares	2015	2014	2013	2012	2011	2010	2009	2008
BANCA TRANSILVANIA S.A.	3,646,037,641	0.3900	-	-	-	-	-	-	-
BRD - GROUPE SOCIETE GENERALE S.A.	696,901,518	0.3200	-	-	-	0.1670	0.1800	0.2790	0.7280
PREBET SA AIUD	45,553,043	0.3470	-	-	-	-	-	-	-
SOCIETATEA ENERGETICA ELECTRICA S.A.	345,939,929	0.8600	-	-	-	-	-	-	-
IAR SA Brasov	18,878,853	0.3470	-	-	-	-	-	-	-
PREFAB SA	48,533,419	0.0130	-	-	-	-	-	-	-

Source (Bucharest Stock Exchange and Author's computation)

Table No.3

*Companies which has recorded an increase of dividend paid for 2015 compared with 2014*

Company	Number of shares	2015	2014	2013	2012	2011	2010	2009	2008	Increase dividend / share
CONPET S.A.	8,657,528	7.3000	5.9400	3.4100	2.5700	4.0200	2.1900	-	-	23%
ROMCARBON S.A.	264,122,096	2.2450	2.0070	1.0030	1.6000	2.6100	-	-	-	12%
CARBOCHIM S.A.	4,930,175	0.4000	0.1900	-	-	-	0.3100	-	0.1800	111%
SIF OLTENIA S.A.	580,165,714	0.1300	0.1200	0.1600	0.1300	0.1300	0.0750	0.1600	0.0600	8%
S.N. NUCLEARELECTRICA S.A.	301,513,851	0.3300	0.3000	1.2100	-	-	-	-	-	10%
VRANCART S.A.	863,717,920	0.0160	0.0030	-	-	-	-	-	-	433%
ELECTROARGES SA	69,764,650	0.0950	0.0600	-	-	-	-	-	-	58%
SIF TRANSILVANIA S.A.	2,184,286,664	0.0265	0.0125	-	0.1750	0.1710	0.0300	0.0300	-	112%
STIROM SA	16,278,692	1.1760	0.3030	0.1100	-	-	-	-	-	288%
OIL TERMINAL S.A.	582,430,253	0.0050	0.0004	-	0.0008	0.0030	0.0030	0.0006	0.0009	1150%
Company	Number of shares	2015	2014	2013	2012	2011	2010	2009	2008	Increase dividend / share
ARTEGO SA	9,949,377	0.5260	0.3570	0.3570	0.5950	0.2380	-	-	-	47%

TURISM, HOTELURI, RESTAURANTE MAREA NEAGRA S.A.	578,949,939	0.0050	0.0040	-	0.0020	-	-	-	-	25%
BERMAS S. A	21,553,049	0.0600	0.0400	0.0550	0.0650	0.0600	0.0650	0.0550	-	50%
TURISM FELIX S.A.	496,149,456	0.0060	0.0040	0.0040	0.0030	-	-	-	-	50%
<b>AVERAGE DIVIDEND / SHARE</b>		<b>0.8800</b>	<b>0.6672</b>	<b>0.7886</b>	<b>0.5712</b>	<b>1.0331</b>	<b>0.4455</b>	<b>0.0614</b>	<b>0.0803</b>	<b>32%</b>

Table No.4

*Companies which has recorded a decrease of dividend paid for 2015 compared with 2014*

Company	Number of shares	2015	2014	2013	2012	2011	2010	2009	2008	Increase dividend / share
ALUMIL ROM INDUSTRY S.A.	31,250,000	0.1200	-	0.6400	-	-	-	0.0800	0.2900	-81%
COMELF S.A.	23,412,940	0.1000	0.1910	0.1090	0.0800	0.0180	-	-	0.0370	-48%
S.N.G.N. ROMGAZ S.A.	385,422,400	2.7000	3.1500	2.5700	-	-	-	-	-	-14%
SIF MOLDOVA S.A.	1,038,179,176	0.0450	0.1010	0.0660	0.2400	-	-	-	-	-55%
AEROSTAR S.A.	152,277,450	0.0840	0.0890	0.0890	0.0900	0.0720	0.0700	0.0680	-	-6%
C.N.T.E.E. TRANSELECTRICA	73,303,142	2.6500	2.8030	2.2280	0.4040	1.1000	0.0500	0.3000	-	-5%
CONTED SA	239,702	4.2100	7.0500	11.2770	9.8100	-	-	-	-	-40%
ZENTIVA S.A.	416,961,150	0.0960	0.1300	0.0720	0.0480	0.0810	0.2990	-	-	-26%
BURSA DE VALORI BUCURESTI SA	7,674,198	0.8690	1.4580	1.1780	1.1120	2.1420	0.7020	-	-	-40%
SOCEP S.A.	343,425,744	0.0030	0.0040	-	0.0020	-	-	-	-	-25%
ANTIBIOTICE S.A.	671,338,040	0.0210	0.0230	0.0180	-	0.0150	-	-	0.0170	-9%
CASA DE BUCOVINA-CLUB DE MUNTE	167,339,600	0.0030	0.0030	0.0080	-	0.0090	-	0.0070	-	0%
<b>AVERAGE DIVIDEND / SHARE</b>										

Table No.5

*Category I. Increase dividends/share*

Indicator	2014	2015	Results
Gross profit/share	0.6672	0.8800	32%
Net income/share	0.5605	0.8360	49%
Tax	0.1068	0.0440	-59%

Source: Author's computation

Table No.6

*Category II. Decrease dividend/share*

Indicator	2014	2015	Results
Gross profit/share	1.3638	0.9084	-29%
Net income/share	1.1456	0.8630	-25%
Tax	0.2182	0.0454	-79%

Table No.7

*Companies which has recorded a decrease of dividend paid for 2015 compared with 2014*

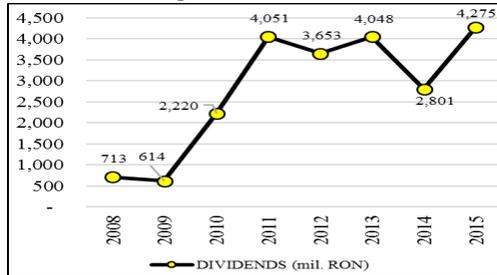
Sample of companies	t-test value	Sig. Value
Companies which paid <b>HIGHER</b> dividend for 2015 compared with 2014	1.962*	0.07
Companies which paid <b>SMALLEST</b> dividend for 2015 compared with 2014	-1.528	0.16

\* - Statistically significant at 10% confident level

**Figures**

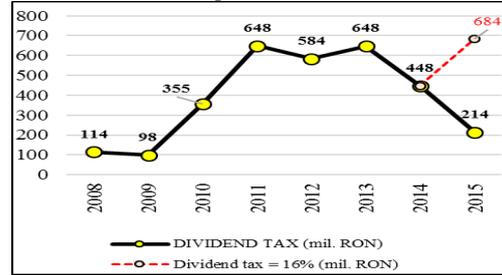
**Figure No.1**

*Total dividends paid (mil. RON)*



**Figure No.2**

*Total dividend tax paid (mil. RON)*



*Source (Author's computation)*