

The Board of Administration  
Chairman  
Dan Weiler

To,

The Ministry of Energy  
The General Direction for Privatization and Administration of State Participations  
in Energy

Regarding: letter no. 261109/13.04.2016, submitted to the Ministry of Energy, based on which have been requested additional information regarding the proposal of the Board of Administration for the OGMS to approve the distribution of the retained earnings for dividends (note no. 8754/23.03.2016).

Following the analysis of the financial position and global result at December 31, 2015, of the budget indicators, cash flows and need for investments during 2016-2018, the Board of Administration of CONPET S.A. decided to recommend for the General Meeting of Shareholders' approval, the distribution of a special dividend out of the retained earnings based on the financial statements concluded at December 31, 2015, in amount of 72.3 million RON.

The main elements taken into account when deciding upon the proposal to distribute the dividend out of the retained earnings was:

- Budget indicators (operating profit, net profit) increasing during 2016-2018 (operating profit: 2016 - 71.3 million Ron, 2017 - 73.5 million RON, 2018 - 73.7 million RON; net profit 2016 - 62.7 million RON, 2017 - 64.4 million RON, 2018 - 64.5 million RON);
- The investments budget, increasing during 2016-2018, benefitting from total financing from own sources (2015 - 38 million RON; 2016 - 56.9 million RON; 2017 - 82.7 million RON; 2018 - 80.4 million RON);
- Positive net cash flow from operating activity (2016-2018 approx. 70 million RON, annually)
- Availabilities in accounts and short-term investments (maturity deposits and government securities) in balance at December 31, 2015, in amount of 380 million RON.

The positive evolution of the operating activity generated stable and visible cash flows, the cash and short-term investments (investments in government securities) amounting to 380 million RON at the end of 2015, with an annual increase of approx. 10%.



At December 31, 2015, CONPET registers current assets in amount of 434 million RON, out of which 380 million RON (88%) availabilities in account and investments in government securities and has no debts towards financial institutions (loans, leasing etc). The availabilities in the account include restricted cash (modernization quota), in amount of 167 million RON (43.9% of the total cash and short-term investments) which are used exclusively for investments in the public domain.

Annually, in the investments programs have been included investments works for the modernization of the national transport system and new projects regarding the transport activity (the cathodic protection system on pipelines, the crude leak detection system etc). The investments performed within the last three years have been financed out of the modernization quota (almost 80%) and other own sources - amortization and profit (approx. 20%).

During 2016-2018, the company stipulated in the budget, based on the crude oil quantities contracted for 2016 and communicated by the clients for 2017 and 2018, revenues and resources necessary to provide internal financial balance and pursuit of the economic activity under conditions of effectiveness.

The cash flows forecasted based on the multi annual revenues and expenditure budget (2016 - 2018) **annually generate net operating cash amounting to 70 million RON.**

The operating activity is also sustained by the investments program which, mainly, comprises investment objectives for the modernization of the National Transport System and other investments related to the company's core business. The investments stipulated in the multi annual budget 2016-2018 are in amount of 220.1 million RON and shall be financed out of own sources: modernization quota 160.5 million RON, amortization and profit 59.6 million RON.

Consequently, considering the above, the proposal to distribute the dividend out of the retained earnings existing in the balance at December 31, 2015 is sustained by positive economic and financial indicators calculated based on 2016-2018 revenues and expenditure budget, on the positive cash flows and does not affect the multi-annual investments budget. Another aspect to be mentioned is that following the payment of this special dividend there will not be other reserves that can be distributed to the shareholders. Consequently, independent of the arguments shown above, this payment shall not bear negative impact on the company development.

