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The use of fair value and its potential effects on dividends

A study regarding how the use of fair value has affected dividend payouts from real estate companies

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Acknowledgment

The discussion of the advantages and disadvantages of using fair value is something that we have discussed several times during our studies at the University of Lund. During one lecture, a lecturer mention that unrealized gains from fair value could be paid out as dividends, and this caught our interest. At that moment, we both knew what we would like to write our thesis about.

The debate about the use of fair value has in the academic discussion mostly focusing on the risk of higher volatility. The subject of this thesis has been neglected, but we believe that it´s important to investigate. We have found several authors elaborating about the risk of increased dividends due to fair value, but only one study has presented empirical evidence for their thoughts.

After reading our thesis, we hope that the reader has received a broader understanding of the link between fair value and companies´ dividend payout decisions. We are also hoping that the results will contribute evidence to the research field and the debate if tighter regulation is necessary.

We would like to thank Kristina Artsberg for her engagement, her willingness to discuss different questions and her critical review of our work.

We would also like to thank the persons that accepted to be interviewed, for their willingness to give us of their time to answer our questions, in their often tight schedules.

Abstract

Title: The implementation of IFRS and the effects on dividends.

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Key words: Divided policy, earnings, fair value, gross profit, IFRS.

Purpose: The purpose with this thesis is to analyze whether the implementation of IFRS have impacted the dividend payout from real estate companies. There is limited previous research regarding whether the implementation has had any impact on companies´ dividend payout, and we would like to contribute to the research field with a research regarding if changes in dividend payout can be connected to the implementation of IFRS.

Methodology: We have combined a quantitative and a qualitative approach to answer the purpose. We have looked at the actual dividend, the dividend policy and comparing the actual dividend with four factors, for Swedish public listed real estate companies´ from 2003 to 2011. We will also make interviews with representatives from our investigated companies.

Theoretical Perspectives: Within the theoretical framework, we will first present articles regarding dividend payouts and the reasons behind. We will present advantages and disadvantages of using fair value. In the end of the theoretical framework, we present an investigation, which investigate the effects the use of fair value has on dividend payouts.

Empirical Foundations: In this chapter we will present the quantitative material, and the answers we have received from the interviewed.

Conclusion: We believe that the use of fair value for investment properties hasn't impacted the actual dividend payout. However, we have found that the use of fair value had impact the dividend policy. When the dividend policies have been adjusted for unrealized gains that occur from the use of fair value, the actual dividend payout isn't impacted by unrealized gains. The reason to this, we believe is a combination between knowledgeable investors and powerful creditors.

Definitions:

Dividend policy: A policy that's clarifies the company´s long term commitment regarding dividend payouts.

Earnings: In this thesis, earnings are referred to as the bottom line results on the income statement.

Fair value: is defined by IASB as the transfer price that will occur between two independent parts that have an interest of completing the transaction.[1]

Gross profit: Is the difference between the revenue from a product or service, and the cost that arise from the product or service.

IASB: Stand for **I**nternational **A**ccounting **S**tandards **B**oard. IASB are an independent private organization, who aims to develop global accepted accounting standards.[2]

IASC: Stand for **I**nternational **A**ccounting **S**tandards **C**ommittee, and are the predecessor to IASB.[3]

IAS: Stands for **I**nternational **A**ccounting **S**tandards

IFRS: Globally accepted accounting standards that IASB develops.[4]

Income from property management: is the net income for the year after changes in the assets value and taxes.[5]

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[1] IFRS 1. Appendix A. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.81
[2] IFRS(2013) *About the IFRS Foundation and the IASB*, http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx, fetched 2013-05-13
[3] Nobes.C & Parker.R(2012) *Comparative International Accounting*, Pearson Education, Gosport, 12th Edition. Page. 85
[4] IFRS(2013) *About the IFRS Foundation and the IASB*, http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx, fetched 2013-05-13
[5] Castellum(2013) *Definitions*, http://www.castellum.se/en/investor-relations/financial-reports/definitioner.html, fetched 2013-05-13

Table of Content

Chapter 1, Introduction

In this chapter we present a short introduction of the subject, a problem discussion regarding the implementation of IFRS and its effects on the amount available for dividend. Furthermore, our purpose with this thesis is presented and the delimitations we have made. The chapter ends with a presentation of the thesis continuance.

1.1. Background

IASB is the successor of IASC that was founded in 1973 by the accounting bodies of nine countries, among these; six were classified by Mason (1978) as *vital countries* for the start of the global accounting harmonization.[6] In 2000 IOSCO (The International Organization of Securities Commissions) recommended their members to use IFRS, and in the same year EU announced a proposal that public listed companies within EU should use IFRS.[7] Since 2005 it was required by all listed companies in EU to present their consolidated financial statements in accordance with IFRS. Within the conceptual framework of IFRS, there are two fundamental qualitative characteristics; *relevance* and *faithful representation*. Relevance means that the information provided in the financial reports must be relevant for the users' decisions. Faithful representation means that the information must be complete, neutral and free from error. Otherwise wouldn't the information be useful for the users.[8] The framework shows that IFRS is aimed to make it easier for the users to understand the financial statements, which is the opposite of the Swedish company act, which aims to protect creditors and minority owners.[9]

One change in the Swedish commercial legislation due to the implementation of IFRS is the option to use fair value for valuation of investment properties, instead of only allowing historical cost valuation. Before the implementation of IFRS, the Swedish government made investigation to evaluate if there was a need for a tighter regulation when fair value for investment properties should be used. The reason for this was the risk that unrealized gains otherwise would be available for dividend payout. This investigation was the base for a government bill which stated that a regulation would be ineffective, and it would be better if the companies themselves found solutions for the use of unrealized gains.

[6] Nobes.C & Parker.R(2012) *Comparative International Accounting*, Pearson Education, Gosport, 12th Edition. Page. 85
[7] Ibid. Page. 89
[8] IASB(2010)*The conceptual framework for Financial Reporting*, Chapter 3, QC 4-13
[9] Ibid. Chapter 1, OB 2. Chapter 1 OB. 2, and R.Skog(2009) *Rodhes Aktiebolagsrätt*, Norstedts Juridik AB, Stockholm, 22:1 edition. Page. 22

That managers have a responsibility for the companies going concern, was something that was advocated by Sillén, the first Swedish professor in business administration.[10] He argued that it is best to look upon a company for a cycle of 7-9 years and that the companies during profitable periods could prepare themselves for difficult periods, and to avoid the risk of making dividend payments which instead would be needed for the companies' long run performance.[11] By using the principle of business cycle smoothing, the companies are more aware of the risks that can arise in the future. A disadvantage with the principle is an increased risk of subject judgement from management.[12]

One way to achieve the purpose of the business cycle smoothing principle is that managers create hidden reserves within the company. Sillén meant that hidden reserves could be created through different use of depreciation and asset valuation.[13] Sillén thought that every responsible manager had the responsibility to protect their company from potential damage that could arise during bad years, since it is in the interest of the community that companies maintain a healthy economy.

The purposes of the use of hidden reserves aren't to pay lower dividend to shareholders. It is rather a way to ensure the going concern of the company. When the companies present good results, shareholders might not have the right understanding of the companies´ business, and by presenting high earnings, the pressure might increase from shareholders for higher payouts. Shareholders tend to have a short perspective, and not the right understanding of the fact that companies might need the capital in the future. Other stakeholder groups such as clients and employees can, during good times, demand a higher part of the companies´ earnings.[14]

The reasoning that Sillén made regarding the possibility for mangers to use hidden reserves to ensure the companies going concern, can be compared to the Swedish public inquiry regarding the implementation of IFRS.[15] In this, it is stated that the managers are having a responsibility against the company, and therefore it isn't a need of a regulation regarding dividend payment based on unrealized gains. The discussion regarding this is based on the suspicions

[10] Nationalencyklopedin(2013) *Oskar Sillén*, http://www.ne.se/oskar-sillen fetched 2013-05-02
[11] Sillén.O& Västhagen.N(1965) *Balans värderings principer med särskild hänsyn till resultatberäkning vid växlande priser och penningvärde.* Norstedts, 8 Edition, 37:1000. Page. 66
[12] Ibid. Page. 68
[13] Ibid. Page.66-68
[14] Ibid. Page. 70
[15] Public inquiry, SOU 2003:71, *Internationell redovisning i svenska företag,* Stockholm, Justitiedepartementet, Page.180

that the dividend would increase due to higher earning arising from unrealized gains when using fair value instead of historical cost.

Support for the Swedish Governments decision not to regulate can be found in Russia. Goncharov and van Triest[16] investigated the impact the introduction of IAS 39, financial instruments, has had on Russian companies. Their result showed that Russian companies instead lowered their dividends when fair value accounting was introduced.

There aren't many studies made on the subject of the connection between the use of fair value and dividends, but when looking at use of fair value and dividend separately, there are several studies made. One of them is made by Kormendi and Zarowin[17] that confirmed the permanent earnings theory, with the complement that it isn't only permanent earnings that are the determining aspect in dividend decisions; instead other factors combined with permanent earnings are determining. The authors don't give the implementation of a new accounting standard as an example, but the question can be raised since IFRS and the use of fair value has a great impact on real estate companies´ income statement. For example, in 2011 earnings of Hufvudstaden (one of the company in the survey) was before tax 1, 96 Billion SEK[18], including a post of 1, 2 Billions SEK which arises from unrealized gains from fair value valuation. It is unquestionable that the implementation of IFRS has created both a more volatile income statement and balance sheet. Earnings are present on the bottom line in the income statement, and due to that, one of the easiest numbers for shareholder to understand. The focus on earnings is also well represented in forecasts made by analyst. The simplicity of understanding earnings for stakeholders was also showed in the investigation of Lintner, where shareholders believed that they owned a part of the company´s earnings. Since fair value has great impact on the public real estate companies´ earnings, questions can be raised if shareholders will demand more dividends in the future.

The debate around the world regarding fair value has mainly focused on the increased volatility that the use of fair value creates. There has been a little interest for the fact that unrealized gains from fair value valuation will be available for dividends. The negative effects of paying unrealized gains as dividends would be that the companies´ financial position would be significantly worse if the value of the assets declines. The paradox that IFRS aims to provide users

[16] Goncharov.I& van Triest.S(2011) Do fair value adjustments influence dividend policy?, *Accounting and Business Research*, Vol. 41, No. 1, Page. 51-68
[17] Kormendi.R& Zarowin.P(1996) Dividend Policy and Permanence of Earnings, *Review of Accounting Studies*, Vol. 1, Page. 141-160
[18] *Hufvudstaden*, Annual Report 2011

of financial reports with better information, instead has created an opportunity for the board to increase the dividend payout has been questioned by Richards.[19] Instead he thought that a combination of valuation to historical cost combined with disclosures of fair value would provide the users of financial statements with much broader information, and eliminate the risk of unrealized gains being paid out as dividends.

1.2. Problem discussion

One of the main changes to the public companies in Sweden when they implemented IFRS during 2005 was the possibility to use fair value instead of historical cost when valuating assets. Before the implementation of IFRS, the use of fair value accounting was a discussed topic. The valuation model that once started as a reporting model for certain financial instruments would now become the standard valuation model for most countries.[20] Today it isn't only the financial instruments that are allowed to be valued at fair value, investment properties and biological assets can also be measured at fair value. The debate regarding the implementation of IFRS and valuation to fair value has mainly focused on whether the use of fair value will increase volatility among companies and enhance negative effects during financial crises.[21] What also has been discussed is whether the implementation was subject for regulation regarding the companies´ possibility to make dividend payments based on unrealized gains which have occur due to the use of fair value.[22]

Among investors, dividend payouts have been one way to predict the performance of the companies, when increased dividend had signalize a trust in stable earnings from the company, while decreased dividend has been interpreted as the opposite.[23] Therefore, changes in dividend have been reviewed closely trying to make forecast for future earnings. Changes in dividends are connected to a high level of conservatism from the companies, knowing that changes in dividends can be seen as signals of the future. [24]

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[19]Richard.J(2004) The secret past of fair value: Lessons from history applied to the French case, *Accounting in Europe*, Vol.1,Page. 106

[20] Hitz.J-M(2007) The decision usefulness of fair value accounting- A theoretical perspective, *European Accounting Review*, Vol.16, No.2, Page 324

[21] Plantin.G, Sapra.H& Song Shin.H(2008) Marking-to-Market: Panacea or Pandora´s Box?, *Journal of Accounting Research*, Vol. 46, No.2, May 2008, Page. 435-460

[22] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4

[23] Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, *Journal of Financial Economics*, Vol.77, Page. 511

[24] Lintner.J(1956) Distribution of incomes of corporations among dividends, retained earnings, and taxes, *The American Economic Review*, Vol. 46, No. 2, Page. 99

The purpose of IFRS is to create standards that are understandable for the users of financial reports.[25] Therefore, the implementation of IFRS would reduce the information asymmetry that occurs within the financial market and provide users with better information regarding the company's financial statement. For example Mueller et al. mean that the uses of IFRS have lowered the information asymmetry. Therefore we are questioning whether changes in dividend payout have played out its role as source of information.

In our review of relevant literature, in which we study scientific article to wider our knowledge, we found that there are several different perspectives whether the implementation of IFRS would impact the company's financials or not. There are few articles dealing with the subject whether the implementation of IFRS have had an impact on the dividend payout. What we have found; is that researchers that discussing the risk of higher dividend payouts, have little empirical evidence to proof their theory. A study with empirical evidence is made by Goncharov and van Triest, who found that use of fair value for intangible assets, reduced the dividend payout at the Russian market after the implementation of IFRS. However, what we can't find are studies that investigate whether the implementation of IFRS had make companies more willing to pay higher dividend due to the increased earnings based on valuation of tangible assets. What we know is that the value on commercial real estate has increased in Sweden since the 1980:s except from the dip in the beginning of the 1990:s, which should lead to increased unrealized gains due to higher real estate price when using fair value. If the increased unrealized gains are looked upon as permanent, this will mean that the increase in earnings also will be looked upon as permanent. There aren't that much study made on this topic, and therefore we believe there are too few studies made to be able to react that the use of fair value could lead to higher dividend payouts. Another reason to studying this subject is to get a deeper understanding for the future. If we look one step ahead, what might happened, is that also non listed companies in Sweden are allowed to use fair value. To better understand what might happen if they are allowed to use fair value it can be important to really understand what had happened among the listed companies after the implementation of IFRS.

1.3.1. Problem formulations

How has the use of fair value affected the dividend payout from real estate companies in Sweden?

[25] IASB(2010)*The conceptual framework for Financial Reporting*, Chapter 1, OB 2. Chapter 1 ob.2

1.3.2. Purpose

The purpose with this thesis is to investigate whether the use of fair value for real estate companies, which was a possible valuation model with the implementation of IFRS, has impacted the dividend payout from these companies. This will give us a deeper understanding whether changed accounting standards and more specific, a change of valuation method, has impacted the dividend payout. When there is limited previous research regarding if the implementation of IFRS had impact the dividend, we would like to contribute to the research by trying to explain possible changes in dividend payouts can be connected to the implementation of IFRS among public Swedish real estate companies.

1.3.3. Delimitations

We have decided to only investigate real estate companies listed at NASDAQ OMX Stockholm because these are under the same legislation and also the same regulations when it comes to source of finance, which makes it easier to compare the companies to each other. The time period that we have investigated is from 2003 until 2011.

1.3.4. Target group

There are two primary target group of this thesis. The first is students who studies business administration or political economy. The second is researchers within this area that might benefit from this thesis due to limited previous research in this field. Persons with similar knowledge may also find this thesis interesting. The reader should have some prior knowledge of business administration and the work made by IFRS, and a basic knowledge of terminology.

1.4. The thesis continued outline

In the *practical framework*, we will present the Swedish Company act which companies in Sweden must follow when they are making a dividend payout. We will also present a public inquiry and a governmental bill that the Swedish government made before the implementation of IFRS. Finally, we will present the accounting standard that has the most impact on real estate companies, IAS 40, since this standards allows company to value their assets to fair value.

In the *theoretical framework*, we will present earlier research and theories that we will use as a ground in the analysis. We will start by presenting research that investigates the reasons behind dividend payouts, if IFRS reduces information asymmetry. Further in this section we will present some critics of fair value accounting. The section ends with an investigation on the Russian market whether the implementation of IFRS has had any impact on companies´ dividend payout.

In the *method*, we will present how we want to achieve the purpose, and how we will work with the empirical material. The used calculations and the selected interview questions will be presented, giving the reader a broader understanding for the selected questions and calculations.

In the *empirical framework*, we will present the investigated companies dividend policies. The calculation from the investigated companies´ annual reports will be presented, giving the reader an understanding of what had happened before and after the implementation of IFRS. The respond from the interviewees will be presented. The combination of qualitative and quantitative research, will give the reader a broader understanding of the purpose.

In the *analysis*, we will analyze the material. This will be made by combining the practical- and theoretical framework with the findings from the empirical material.

In the *conclusion*, we will present the results from the analysis. We will also present suggestions on future research that we believe are interesting to investigate.

Chapter 2, Practical framework

In this chapter we present some basic knowledge that might be necessary for the reader to better understand the future text. The chapter starts with a presentation of how dividend pay-out is regulated within the Swedish Company Act. After this, we present governmental investigations produced due to the implementation of IFRS. The chapter ends with a presentation of IAS-40, one of the standards within IFRS that has affected the real estate companies most.

2.1. The Swedish company act

The current Swedish company act was established 2005. The act clarifies that shareholders have limited obligations regarding contracts that limited companies makes with other parts. In Sweden, limited companies are classified as own legal units, with their own rights and obligations, and a third part has no possibility to pursue remedies against the shareholders.[26] That the shareholders have no personal responsibility towards the companies' creditors is a fundamental part in the Swedish company act.[27] Since creditors usually only have the companies own funds as security, the Swedish company act is focusing on the protection of the company's creditors.[28] Despite that the company act mainly focus on creditors; the rules do not unfavour the shareholders. Without these rules it would be much more difficult for the companies to raise capital and to make investments that would gain the shareholders.[29] Except from the protection of creditors in the Swedish company act, the protection of minority shareholders interests are also in the focus of the act.

Dividend proposal is presented by the board on the annual general meeting, where the shareholders decide if they want to accept the proposal or not. Shareholders have the right to present their own dividend proposals, but their proposed amount is not allowed to exceed the initial proposal from the board.[30] The Swedish company act includes dividends in the term; *transfer of wealth (värdeöverföring)*. In this term, all transaction out of the company is included. For example; a transaction that is gratuitous is classified as a transfer of wealth, and has due to the gratuitous, several restrictions that aims to protect the creditors.[31]

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[26] Skog.R(2009) *Rodhes Aktiebolagsrätt*, Norstedts Juridik AB, Stockholm, 22:1 Edition. Page. 21
[27] The Swedish Company act, SFS 2005:551, Aktiebolagslagen, Stockholm, Justitiedepartementet, §1:3
[28] Skog.R(2009) *Rodhes Aktiebolagsrätt*, Norstedts Juridik AB, Stockholm, 22:1 Edition. Page. 22
[29] Ibid. Page. 22
[30] Ibid. Page. 92
[31] Ibid. Page. 83

In the company act, there are mainly two limitations that protect the companies´ creditors from shareholders transferring funds to themselves. These two limitations are *¨beloppsspärren¨* and the precautionary principle.[32]

Beloppsspärren limits the amount available for dividends, and regulate that there must be enough unrestricted equity left to cover the company´s restricted equity after the dividend payout.[33]

Precautionary principle isn't a direct regulation of the amount available for dividend. Instead the principle regulates the size of the dividend payout. The dividend payout must be justifiable depending on the company´s; size, risks and liquidity, in order not to compromise the going concern of the company.[34] The company act isn't clear whether the considerations of risk should be taken; based on the companies' specific risks or based on the market risk. The importance is to protect the creditors of the company's ability to receive their capital, and the going concern of the company.[35]

There are also incentives for the board to follow these two limitations. If the board don´t follow these limitations, the dividend payout will be classified as illegal. The shareholders need to repay the given dividend, but only if they realized or should realized that the dividend payment was illegal. If the shareholders didn´t realize that the dividend payment was illegal, it´s the board and those persons involved in the dividend payout decision, that they are personally responsible for the repayment.[36]

When the board presents their proposal for dividend payout, they must show that the proposal is in line with the precautionary principle. When fair value accounting is used, the board must present how much of the equity capital that is affected by this valuation method, but only when it comes to financial assets, and not when use fair value for investment properties.[37]

2.2. Governmental investigation regarding the implementation of IFRS

In 2002, the Swedish government made a public inquiry, due to the proposed implementation of IFRS among public traded companies. The reason behind the public inquiry was to change the Swedish commercial legislation so it become in line with EU´s fourth directive. The

[32] The Swedish Company act, SFS 2005:551, Aktiebolagslagen, Stockholm, Justitiedepartementet, §17:3
[33] Skog.R(2009) *Rodhes Aktiebolagsrätt*, Norstedts Juridik AB, Stockholm, 22:1 Edition. Page. 84
[34] Ibid. Page. 87
[35] Ibid. Page. 88
[36] Ibid. Page. 108
[37] The Swedish Company Act, SFS 2005:551, Aktiebolagslagen, Stockholm, Justitiedepartementet

fourth directive allows companies to value other assets than financial assets, to their fair value. The directive and the change in the Swedish commercial legislation, was one step towards harmonization and standardization of accounting within the EU.[38]

The public inquiry proposed that unrealised gains and losses from the valuation of investment properties and biological assets should be recognized in the income statement. This could be compared to the other assets, which profit or lost from valuation should be recognized in the balance sheet as a valuation post.[39] The public inquiry didn´t showed that a regulation of the amount available for dividend due to fair value measurement was necessary. Instead it showed that the precautionary principle combined with the board's obligation to motivating their dividend decision and how the effects of valuation had been handled, would give enough protection to the creditors.[40] Despite the proposed regulation which should have forced the companies to disclose how the valuation affects the dividend payout, this only became mandatory for financial assets.

Based on the public inquiry, the Swedish government made a government bill to propose how the use of fair value should be handled. All of the respondents, except the association of Swedish Accounting Consultants, had been positive to the proposal to not regulate the possibility to pay unrealized gains as dividends. The association of Swedish Accounting Consultants was the only part that believed a regulation would be positive to protect the creditors. Instead they advocated a valuation post on the balance sheet. [41]

In the governmental bill, scepticism was presented, to whether a regulation of the possibility of paying unrealized gains as dividend was necessary. Instead it was advocated that unrealized gains from valuation should be handled in the same way as financial instruments, i.e. that unrealized gains and losses are recognized in the income statement.

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[38]Governmental bill, 2004/05:24,*Internationell redovisning i svenska företag*, Stockholm, Justitiedepartementet, Appendix 2, P.6
[39] Public inquiry, SOU 2003:71, *Internationell redovisning i svenska företag*, Stockholm, Justitiedepartementet, Page. 135
[40] Ibid. Page.180
[41] Governmental bill 2004/05:24,*Internationell redovisning i svenska företag*, Stockholm, Justitiedepartementet, Page. 127-128

In the governmental bill it was stated that a regulation would risk being far too static and it wasn't sure whether it would strengthen the protection of the creditors. Instead, it was proposed that it would be better if the companies themselves handled this potential problem.[42]

2.3. IAS 40- Investment properties

When IASB was created in 2001, the purpose was ¨*...to develop, in the public interest, a single set of high quality, understandable and international financial reporting standards for general purpose financial statements*¨.[43] The purpose shows that the public is the primary stakeholder. One of the major differences between the Swedish GAAP and IFRS is that some asset should be valued at fair value according to IFRS and valued at historical cost according to Swedish GAAP. In IAS 1, Presentation of financial statements, IASB defines the meaning fair value. Fair value is defined as the transfer price/value that will occur if the asset is transferred between two independent parts that have interest of completing the transaction.[44]

The IFRS standard that has the most impact on the real estate companies is IAS 40.[45] The purpose of IAS 40 is to guide the real estate companies how to value their investment properties in the accounting and what disclosures that is necessary in the annual report.[46] The real estate companies are not required to value their investment properties to fair value, they can still continue with historical cost. This means that the implementation of IAS 40 gives the companies an optional way to measure.

If the company decided to value their investment properties to fair value, all their investment properties have to be valued the same way.[47] When a company has decided to use fair value in their valuation, there is a limited possibility to change back to historical cost again. According to IAS 8, accounting policies, it is possible to change accounting methods if the change provides information in the financial statements that are more accurate and relevant. To

[42] Governmental bill 2004/05:24,*Internationell redovisning i svenska företag*, Stockholm, Justitiedepartementet, Page. 127-128

[43] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4, Page. 3593

[44] IFRS 1. Appendix A. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.81

[45] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4, Page. 3594

[46] IAS 40 P.1. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.630

[47] IAS 40 P.30. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.635

change to historical cost once the company has stated to use fair value is not seen as a change that makes the information in the financial statement more accurate and relevant.[48]

IAS 40 requires that companies present their investment properties to fair value, even if they decided to not change their valuation to fair value. They must present the fair value of the investment properties in the disclosures. The standard encourages the companies to use independent experts to make the valuation, but this isn't mandatory.[49] If there isn't a market price for the investment property, the company need to estimate a fair value. This is made by comparing similar assets on other markets, compare prices on other similar markets and by calculate future cash flows.[50]

Gains and losses that occur from the fair value measurement should be recognized in the income statements.[51] This means that unrealized gains and losses will affect the company´s result, and could create a more unstable result if there are fluctuations in the price of the asset. If the companies are using earnings as the base for their dividend policy, the fluctuations in earnings will also affect the dividend payout.[52]

[48] IAS 40 P. 31., FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page. 635
[49] IAS 40 P.32. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.635
[50] IAS 40 P.46. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page. 637
[51] IAS 40 P. 35. FAR Akdemi(2011) *IFRS-Volymen 2011*, Stockholm, Page.635
[52] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4, Page. 3588-3596

Chapter 3, Theoretical framework

In this chapter we present earlier research, which gives a broader understanding of this topic. In the first part of the chapter, we present articles regarding dividend payout. In the second part, we present research regarding the use of IFRS. In the end of the chapter, we present an investigation, which examine the effects the use of fair value has on dividend payouts.

3.1. What is the reason behind companies dividend decisions

In an early report made by Lintner, in 1956, he investigated what influence the dividend policy for 28 listed companies in the US. The investigated companies were followed over seven years, which gave Lintner 196 company-years of dividend actions to investigate. The results from this investigation are often referred to as; *the Lintner Framework*, which states that companies wants their dividends to be stable in correlation to their earnings.[53]

Based on academic literature and theories from corporate finance, Lintner used fifteen easily observable factors in his study, to see how these factors affected companies' dividend policies. Some of the factors used by Lintner were *company size*, *stability of earnings* and *frequency of changes in rates*. Between each other, the investigated companies had very different dividend payout policy. The companies paid between 20-80% of their earnings as dividends.[54]

Lintner found that all the investigated companies considered the existing payout ratio, and if there was reason for it to be changed, before they decided how much dividend that should be paid out. A change in the existing payout ratio would only occur if the management believed that a change in dividend would have positive effects for the company.

The high level of conservatism and inertia combined with managers strong belief that stockholder preferred a stable payout ratio, and the belief that the market awards companies with a stable payout ratio, have contributed to that most managers hesitate to changes the payout ratio because they don't want to risk changing back in the near future. [55]

When a change in dividend is proposed, it is not only the shareholders that need to be convinced. Outsider groups such as shareholders and financial analysts also need understand why the change is made. When arguing for a change in dividend, earnings have a key-role, since it is easy for the investors to understand, and earnings are frequently reported in media. After

[53] Goncharov.I& van Triest.S(2011) Do fair value adjustments influence dividend policy?, *Accounting and Business Research*, Vol. 41, No. 1, Page. 52
[54] Lintner.J(1956) Distribution of incomes of corporations among dividends, retained earnings, and taxes, *The American Economic Review*, Vol. 46, No. 2, Page. 102
[55] Ibid. Page 99

the decision that the dividend ratio should be changed, Lintner found that earning was the dominant factor when deciding which payout ratio that should be used, due to the simplicity for outsider to understand earnings.[56]

The strong belief that managers had regarding dividend changes, was proven by looking at the behaviour of dividend decision. Changes in dividends were only made when signs, such as permanent increased earnings were seen in the financial figures. The reliance of premiums from the stockholders convinces managers to maintain long term dividend ratios, instead of shortly increased dividends that risk to be reversed in the near future.[57] The companies want to ensure that they are capable to maintain the new ratio before a dividend change is made. Otherwise there is a risk of negative reactions from shareholders.

The main reason why there is a high level of inertia and conservatism from managers when it comes to change the dividend ratio is because of the signals that a change in dividend sends to the investors. An increased payout ratio can be looked upon as a sign that manager's don´t have any potential investments opportunities in the near future, and the investors therefore might start questioning the company's long-term ability to maintain the share price growth and earnings. On the other hand, if the company has to decrease their dividend, this can be seen as a signal from the investors that the managers are unsecure regarding the company's ability to generate future earnings.

There are several reasons why the belief of; dividends as signals, occurs.[58] One reason is that managers have a personal interest in maintain or increase dividends, since decreased dividends can have a negative impact on their career. A second reason is that, it is unusual that companies lower their current dividends. Managers prefer to take other actions before lowering dividends. A third reason could be that managers are resisting to lowering dividends, since the signals can be seen by investors as bad performance and problems with the future earnings.[59] The debate among researcher, regarding if changes in dividends provide any information about the company's future earnings has been discussed for several years. Bhattacharya (1979) suggested that under information asymmetry, dividends have an important role as

[56] Lintner.J(1956) Distribution of incomes of corporations among dividends, retained earnings, and taxes, *The American Economic Review*, Vol. 46, No. 2, Page. 102
[57] Ibid. Page. 99
[58] Aggarwal.R, Cao.J& Cheng.F(2012) Information Enviroment, Dividend Changes, and Signaling: Evidence from ADR Firms, *Contemporary Accounting Research*, Vol. 29, No. 2, Page. 408
[59]Ibid. Page. 408

signals, but without empirical evidence that supported the theory.[60] The lack of empirical evidence also rejects Miller and Modigliani´s (1961) theory that dividend increases conveys credible information.[61] Aggarwal et al. found empirical support for the signal theory, that dividend send signals, when they investigated cross-listed companies in the US. They found that newly listed companies used dividends as signals in the beginning, but as they received better information channels, the use of dividends as signals decline.

3.2. Is permanent change in earnings the only determining aspect

Despite the fact that Lintner´s study was made over 50 years ago, his work is still used as the basis for several researcher.[62] Lately, the framework of Lintner has been criticized. Kormendi and Zarowin were critical and argued that earnings aren't the only determining aspect when companies set their dividend targets. Kormendi and Zarowin based their thoughts on the *permanent earnings model*, a model that has the assumption that an increased dividend payout ratio will only occur when there is a permanent change of earnings. Temporary changes in earnings have none or little impact on the dividend decision. Kormendi and Zarowin used a sample of 337 US-companies over a 40 years period, from 1950 until 1989, in their study. The authors based their investigation on two key indicators; earnings per share and dividends per share.[63]

The hypothesis that Kormendi and Zarowin tested, was if earnings and dividends are co-integrated or not. If they are co-integrated, permanent earnings is the primary determining aspect for dividend decision, and other aspects such as taxes and transactions costs are secondary. The work of Lintner assumes that the earnings are the determining aspect for dividend decisions. Dividends can then be seen as a constant fraction of permanent earnings. If earnings and dividends aren't co-integrated, then permanent earnings aren't the only determining aspect; instead there are several aspects that influence companies' dividend payout decisions.[64] Examples on aspects that could affect the company's dividend policy are taxes, transaction costs and clienteles effects.

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[60] Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, *Journal of Financial Economics*, Vol. 77, Page. 513
[61] Aggarwal.R, Cao.J& Cheng.F(2012) Information Enviroment, Dividend Changes, and Signaling: Evidence from ADR Firms, *Contemporary Accounting Research*, Vol. 29, No. 2, Page. 403
[62]Kormendi.R& Zarowin.P(1996) Dividend Policy and Permanence of Earnings, *Review of Accounting Studies*, Vol. 1, Page. 145
[63] Ibid. Page. 146
[64] Ibid. Page. 141-142

The results from Kormendi and Zarowin were consistent with the permanent earnings model, permanent increased earnings have a correlation with increased dividends.[65] Despite this, they found that earnings and dividends aren't co-integrated, and managers include aspects, such as taxes, when they are setting their dividend payout. Further their result showed that permanent earnings aren't the only determining aspect when companies make their dividend decision.

The authors also found evidence that managers are focusing on long-term when setting dividend policies, because of the signals that a change in dividend would send.

Kormendi and Zarowin findings are interest for our research, since they showed that other aspects than permanent earnings were seen as important by managers. The question whether a changed accounting method will impact the dividend were not investigated by the authors, but since earnings and dividend aren't co-integrated, it gives our research relevance to investigate if the implementation of a new accounting standards have any impact on the companies´ dividend payout.

3.3. Is the Lintner Framework still relevant?

Brav et al. made an investigation about how dividend policies are set up within American companies during the 21st century.[66] Among the investigated questions, the assumption from Lintner in the 1950s, that companies tried to have sustainable long-term dividend ratios, was investigated. The empirical material included statistical calculations, questioners and interviews. The sample contains responses from 384 financial executives, financial information from 256 public- and 128 private companies. The empirical material was complemented with 23 interviews with top executives (CFOs, treasures and executives officers).[67]

The corporate environment and challenges that today´s managers are facing are quite different from those in the 1950s. One option that managers have today is to repurchase stocks. This is something that has been very popular in the US, where dividends are faced with high taxes. When the comparison with Lintner was made, Brav et al. compared the *cash cow companies* towards each other. The reason why they compare cash cow companies to Lintner´s study is because the authors believed that these companies were more similar to the companies that Lintner studied, and also with the assumption that these companies are more likely to main-

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[65] Kormendi.R& Zarowin.P(1996) Dividend Policy and Permanence of Earnings, *Review of Accounting Studies*, Vol. 1, Page. 156

[66] Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, *Journal of Financial Economics*, Vol. 77, Page. 484

[67] Ibid. Page. 486

tain a stable dividend ratio over the years. A cash cow is defined by Brav et al. as; a profitable company with an A or higher credit rating and with a P/E ratio that is lower than the median P/E ratio among profitable companies with A or higher credit rating. [68]

The question whether to pay dividend or reinvest in the business, are still a question discussed among managers. Several of the interviewed managers said that they were willing to reject investments, rather than decrease the current dividends ratio. This question was also asked in the questioner, where the managers rates whether investment decision had higher priority than dividends, on a scale from -2 to +2. The average rating became -0,3, which proves that maintaining current dividend ratio are, according to the financial executives, still more important than making investment with a positive net present value.[69] 94% of the dividend paying companies replied that they strongly would try to avoid reducing their dividends.[70] This shows that within the 21st century, there is still a high level of conservatism from managers to lower the dividend ratio. This finding confirms Lintner´s investigation, of an existing inertia to lower dividends.

Brav et al. also found support for Lintner´s theory that companies strives to have a high correlation between dividend and earnings, and only change dividend if the change in earnings were assumed to be permanent. More than two-third of the interviewed said that future increase in dividends are depending on how stable the future earnings are expected to be. When companies are facing temporary increased earnings, these have little impact on the companies´ dividend payout. If these temporary increased earnings should be given to the shareholders, most of the company's preferred to do this through repurchases. Only 8,4% of the companies believed that temporary increasing in earnings had impact on their dividend payout.[71]

Brav et al. found that managers didn't felt that they received much reward from the market if they increased the current dividend payout. While the opposite, if the managers lowered the dividend payout ratio, they felt that this action was connected with high penalties from investors. In the survey Brav et al. did, almost 90% responded that they believed lowering divi-

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[68] Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, *Journal of Financial Economics*, Vol. 77, Page. 499
[69] Ibid. Page. 490
[70] Ibid. Page. 499
[71] Ibid. Page. 500

dends were connected with negative consequences.[72] In the interviews, several executives told that they wanted to decrease the current dividend payout ratio, but that they were captured from lowering the ratio, due to their historical policy.[73]

The differs in the study made by Brav et al. with that from the work of Lintner, was whether payout ratio still was the target for payout decisions. Lintner found that among his investigated companies, dividend decisions always started with a question regarding the current dividend ratio. The *cash cow firms* within Brav et al. study primary target were growth in dividends per share.

In this questionnaire, 45 % of the interviewed said that they were flexible in fulfilling their target payout ratio, and 12% believed that the used target wasn’t really a goal at all.[74] This means that the target payout ratio no longer is that important compared to what Lintner stated. The same result was also shown in their statistical calculations. From this, the authors draws the conclusion that target payout ratios didn´t have a central position for companies´ current dividend decision.[75] But still, to have a stable dividend payout remains important.

Another question raised by the authors, was if changes in dividend would send signals to investors regarding the companies´ future cash flows. This, since insiders within the company have more information than people outside the companies´, and due to that, changes in dividends might be signals of the firms´ future performance. In the questioner, 80% of the executives believed that changed dividend communicate information about the future. This was also confirmed in the interviews. Almost all the executives believed that dividend payout communicate the manager’s beliefs about the companies´ future.[76] From the research, a clear pattern emerges; dividend payouts are sending signals to investors.

Brav et al. found evidence that supported the conclusion by Kormendi and Zarowin; dividends aren´t co-integrated and other aspects than future permanent earnings affects the dividend payouts.[77] For example 30% of the CFOs from the dividend paying companies, said that lower taxes on dividends would lead to increased dividends from their companies. The authors found that taxes affect the dividend decision, but wasn’t the key-question, for several of

[72] Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, *Journal of Financial Economics*, Vol. 77, Page. 500
[73] Ibid. Page. 501
[74] Ibid. Page. 501
[75] Ibid. Page. 506
[76] Ibid. Page. 511
[77] Ibid. Page. 507-516

the companies.[78] Other aspects that could affect the companies´ dividend policy were clienteles and agency conflicts.[79]Managers also believed that individual investors preferred dividends in front of repurchases. Half of them believed that dividends were necessary to attract individual investors. Several of the managers also believed that institutional investors tried to affect the current dividend policy, and almost half of the executives believed that their dividend decisions were affected by the influence from institutional investors.

3.4. Does IFRS lower the information asymmetry?

One of the main advantages with IFRS is that the harmonization and standardization among accounting standards provides the *users* of financial statements with more understandable and comparable information.[80] Fair value measurement will provide the users of financial statements with information about the current value of company's assets, unlike the use of historical cost that don't provide the users with any information about the current situation. Mueller et al. investigated if the implementation of IFRS had lowered the information asymmetry. They investigated the European real estate industry and if the implementation of IAS 40 - investment property, has had any effect on the information asymmetry across market participants. Their sample includes 178 publicly traded companies,[81] with investment properties representing 78 % of their total assets, which are required to follow IAS 40. The investigated period was five years, with start in 2005, which gave them an empirical material of 890 company years. The key variable used to determine if there had been any reduction of information asymmetry was the bid-ask spreads.[82] Bid-ask spreads can, according to Stoll (1978), be seen as the difference in information knowledge among investors.

Before the implementation of IFRS in Europe, each country had a different way of account for investment property, but they can broadly be categorized into two different models; *cost* or *revaluation*. The cost model was used in Germany and continental Europe, while revaluation was used in the Anglo-Saxon countries. A few countries, such as Belgium, allowed companies to choose between cost and revaluation in the accounting.[83] There were also some companies that had voluntary adopted IFRS and the use of fair value valuation. Depending on knowledge and experience of valuation, the introduction of IAS 40 created different compli-

[78]Brav.A, Graham.J, Harvey.C& Michaely.R(2005) Payout policy in the 21st century, Journal *of Financial Economics*, Vol. 77, Page. 509
[79]Ibid. Page. 507-511
[80] IASB(2010)*The conceptual framework for Financial Reporting*, Chapter 1, OB 2. Chapter 1 ob.2
[81] Mueller.K, Riedl.E& Sellhorn.T(2011)Mandatory fair value accounting and information asymmetry: evidence from the European real estate industry, *Management Science*, Vol. 57, No.6, Page. 1142
[82] Ibid. Page. 1139
[83] Ibid. Page. 1141

cations. Based on these conditions, Mueller et al. formed two hypotheses. The first one was that the companies who were mandated to follow IFRS experienced a decline in the information asymmetry, compared to those companies who voluntary adopted IFRS. The second hypothesis was that companies who mandatory adopted IFRS should face a higher information asymmetry, than those who voluntary adopted IFRS.[84]

The authors found evidence that companies mandatory adopted IFRS and IAS 40 retained higher information asymmetry compared to those who voluntary adopt IFRS.[85] Companies that didn't use fair value valuation before the mandatory implementation, maintained the same bid-ask spread as before the implementation of IFRS. The companies that voluntary had adopted IFRS, was found to have lower information asymmetry. The bid-ask spreads were lower, but not eliminated. Based on this result, the authors tried to investigate if there were any particularly characteristics when the implementation was mandatory or voluntary that could explain their results. They found that companies´ who mandatory implemented IFRS and fair value valuation were less reliable than those who voluntary adopted IFRS.[86] This might be explained by the lack of experience those companies´ had, regarding how to value their assets. Companies that used the big audit firms, and didn't have an international portfolio were more likely to voluntary adopt IFRS. One explanation why companies´ didn't voluntary adopt IFRS could be due to the higher cost for audit.[87] A general conclusion from the research was that the implementation of IFRS in the short run couldn't reduce the information asymmetry. While the information asymmetry in the long run could be reduced, but not eliminated, based on the bid-ask spreads.

The findings from Mueller et al. show that the information asymmetry is reduced after the implementation of IFRS. In the long run, this finding could affect those companies that are using dividends as signals of future earnings. The need to send information as signals through dividends would be reduced, since IFRS gives the outsiders better information of the companies´ financial performance. One question that can be raised is if the belief of dividends as signals will remain among investors in the future.

[84]Mueller.K, Riedl.E& Sellhorn.T(2011)Mandatory fair value accounting and information asymmetry: evidence from the European real estate industry, *Management Science*, Vol. 57, No.6, Page. 1142
[85] Ibid. Page. 1149
[86] Ibid. Page. 1152
[87] Ibid. Page. 1150

3.5. Critics against the use of fair value accounting

The implementation of IFRS and the use of fair value have caused a heavy debate around the world. Two sectors that have complained most against the implementation are banks and insurance companies.[88] They are arguing that the use of fair value would create a volatility which is unwanted within the capital market. Many of their intangible assets, such as loans, are illiquid and don´t have an active market. Instead this requires estimations for the market price and involves professional judgements, which in times of crises could strengthen the negative effects. [89] Concerns' regarding those companies with large tangible assets and fair value valuation has also been raised. Unrealized gains from fair value valuation are recognized in the income statement, and are available for dividend payout. Wai-Meng et al. investigated the legislation in six countries, and pointed out that all investigated countries legislation allowed companies to pay out unrealized gains from fair value valuation, as dividends, as long it didn't harm the companies´ long run performance.[90] The authors point out that there is a risk that companies that are using IFRS will favour their shareholder in expenses of their creditors. Future research with investigations of changes in cash flows will provide information if a tighter regulation is necessary when fair value accounting is used.

3.6. Does fair value accounting increase the risk of unrealized gains been paid out as dividends?

A research made by Goncharov and van Triest investigated if the implementation of IFRS and fair value in Russia, had resulted in higher dividends payout and if they paid unrealized gains as dividends. Their investigation include over 4000 company-year observations during 2003-2006.[91] They investigated whether the implementation of IFRS 32, financial instruments, had increased the dividend ratio due to valuation at fair value.

If the positive fair value adjustments are persistent, the dividend distribution would be affected through higher dividends. On the other side, if fair value adjustments are affecting the income statements positively, but instead have a transitory shape, the companies´ core earnings and in the end the dividends, would not be affected. These assumptions are in line with

[88] Plantin.G, Sapra.H& Song Shin.H(2008) Marking-to-Market: Panacea or Pandora´s Box?, *Journal of Accounting Research*, Vol. 46, No.2, May 2008, Page. 435

[89] Ibid. Page. 435

[90] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4, Page. 3591-3593

[91] Goncharov.I& van Triest.S(2011) Do fair value adjustments influence dividend policy?, Accounting and *Business Research*, Vol. 41, No. 1, Page. 52

the framework of Lintner. Goncharov and van Triest used these assumptions when they formulated their hypothesis; *Positive fair value adjustments have no distribution consequence.*[92]

The results from their tests were that positive fair value valuation had no distribution consequence on dividends; In fact, the use of fair value had a negative correlation to dividend. Companies with positive value adjustments, tends to increase their dividends significantly less than other companies. The authors have two potential explanations for this phenomenon. The first explanation[93] was that managers are using gains from fair value opportunistically as an argument to lower current dividends. From the perspective of investors, lowering dividends are seen as a negative signal, but in this case, the managers had an acceptable reason to lowering the dividend. By claiming the use of fair value increased the company risk, the managers could lowering their dividends without risking that investors believes its negative signals. If gains from fair value is used opportunistic by managers, fair value adjustments to lower dividends is likely to occur in companies with a weak corporate governance mechanism.[94] The second explanation[95] was that the use of fair value will make the growth of sales looks bigger than it actually is. By not increase or decrease the dividend, the managers make a clear statement that the sales growth isn't connected to fair value and should not change the dividend.

Based on the empirical material, Goncharov and van Triest couldn't proof which of the two explanations that impact dividends most. Another investigation that has been made on similar topic, but which isn't in line with the result of Goncharov and van Triest, is presented by the European central bank. In their study, the use of fair value has been criticized for creating cyclical behavior among companies using fair value measurement on their financial asset.[96]

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[92] Goncharov.I& van Triest.S(2011) Do fair value adjustments influence dividend policy?, *Accounting and Business Research*, Vol. 41, No. 1, Page. 54
[93] Ibid. Page. 63
[94] Ibid. Page. 63
[95] Ibid. Page. 63
[96] Enria.A, Cappiello.L, Dierick.F, Grittini.S, Haralambous.A, Maddaloni.A, Molitor.P, Pires.F& Poloni.P(2004)*Fair value accounting and financial stability*, European Central Bank, Occasional paper series no.13/April 2004, Frankfurt am Main. Page.42

Chapter 4, Method

In this chapter we present how to achieve our purpose, by presenting how we handled the empirical material. We will also present how we; collected the qualitative material, chose the parameters and how we made the calculations. The interview questions are then presented and the reasons why we chose these. In the end of the chapter, critics of sources are presented.

The overall method to answer the purpose is to use both a quantitative and qualitative approach.

In the first stage of the thesis, we have used a quantitative approach which in turn is divided into three parts. The first part is to look at the company's actual dividend payout to see if there are any significant changes throughout the years.

The second part is to look at the annual report from each company to see if there is a change in the dividend policy related in time to the implementation of IFRS. The purpose with this was to see if there was a change in the dividend payout, and which changes there are in the dividend policy compared before and after the implementation of IFRS.

The third part of the quantitative method is to collect data from the investigated companies to compare the dividend payout with; *Investment properties*, *Gross profit*, *Earnings* and *Cash flow from operating activities before change in working capital*. The purpose with this is to see if there are any connections between the changes in these and the potential changes in dividend payout. By investigating the possible connections; this will give an indication of what the dividend payout actually is based on.

The second stage of the thesis - the qualitative approach, will be based on interviews. To start with a quantitative method we believe will give us a better understanding of what impacts the dividend and inter alia based on this, we will use a quantitative method and make interviewees with managers from the companies that we have investigated in the quantitative part. We have asked questions about the companies´ dividend behavior, and if there have been any effects on the dividend payout behavior due to the implementation of IFRS.

4.1. Time period

In the quantitative empirical study, we have looked at the annual dividend payout from 2003 until 2011. The reason why we decided to collect data, and investigate the companies for all years, between 2003 until 2011, was to be able to make coherent graphs over potential changes, and in that way hopefully be able to see pattern in dividend payout. Why we decided to not look at the figures from 2002 and earlier, were due to our suspicion that these might be affected by financial crisis in 2001. This is also the reason why we initially didn't aim to look closer at the figures from 2009, when we suspected that these might have been affected by the financial crisis in 2008.

4.2. Selection of companies

We initially intended to look at all companies listed at NASDAQ OMX Stockholm, throughout these years, to see if there were any significant changes in dividend after the implementation of IFRS. When IFRS was implemented in 2005, the use of historical cost, when valued assets, were complemented so that some assets also were allowed to be valued at fair value. One industry which was affected by this change is the real estate industry, since their assets could be valued at fair value. Therefore, we decide to investigate the real estate companies that were listed at NASDAQ OMX Stockholm in 2011.

4.2.1. Excluded companies

The quantitative sample contains of sixteen Swedish listed real estate companies. To be able to analyse the effects that the implementation of IFRS might have on these companies, we need to be able to compare the financial figures before and after the implementation.

To make an analysis of the effects the implementation of IFRS has had on dividends, it is essential that the companies made dividend payouts before 2005. If the companies haven't made any dividend payouts before the implementation of IFRS or any dividend payouts at all, we have to exclude them. Corem made their first dividend payout 2009, and Sagax made their first payout in 2011. Since we cannot compare the dividend payout before and after the implementation of IFRS, these two companies are excluded from the investigation. There are also companies that were introduced on NASDAQ OMX Stockholm after 2005, and due to that reduce essential information that is necessary for the comparison. Balder, Catena and Diös wasn't listed until after the implementation, and is because of that excluded.

This gives the sample a loss of 31, 3 percent, which can be compared to the research made by Goncharov and van Triest where 30 percent of the companies were excluded due to no dividend payouts.[97]

4.3. Parameters

As mentioned, we have decided to investigate dividend in relation to; *Investment properties, Gross profit, Earnings* and *Cash flow from operating activities before change in working capital (*hereafter "Cash flow").

The reason why we decided to look closer at the relation between dividends and property, plant and equipment (PPE) is because we found it interesting to investigate whether the change in PPE is correlated to the change in dividend payout. Lintner used company size as a factor when he made his investigation. Company size and the value of PPE isn´t direct the same, but we believe that it is interesting to investigate PPE, since these assets are direct affected by the implementation of IFRS.

Wai-Meng et al. pointed out the risk that unrealized gains could be paid out as dividends due to the lack of regulation.[98] Their suggestion for further research was to investigate changes in cash flows to ensure that unrealized gains weren't paid out as dividends. For us, it felt natural that cash flow should be one of the factors to compare dividend against, when this is a measure that shows the actual cash flows in the company and is not affected it the valuation method change from historical fair value. Another reason why dividend in relation to Cash flow also is interesting is because one of the companies in the study uses Cash flow as base for their dividend payout.

The reason why we decided to compare dividend and gross profit is because gross profit is similar to income from property management, which is used as base for dividend among some of the companies in the survey, after the implementation of IFRS. Gross profit is also interesting to look upon, as this is a measure of result that isn't affected by the use of fair value.

Earnings were the most used base for dividend before the implementation of IFRS among the companies in our study. After the implementation, most of the companies that previous had based their dividend on earning changed this to earnings excluded unrealized gains. Due to

[97]Goncharov.I& van Triest.S(2011) Do fair value adjustments influence dividend policy?, *Accounting and Business Research*, Vol. 41, No. 1, Page. 51-68

[98] Wai-Meng.C, Susela.D, Sai-Leong.L& Kok-Thye.N(2010) Convergence to international financial reporting standards(IFRS): The need to tighten the rule on divisible profit, *African Journal of Business Management*, Vol. 4, Page. 3591-3593

this, a comparison of dividend and earnings felt relevant for the study. Earnings has over many years had an important role in companies dividend decisions, since several researchers have showed the importance of permanent earnings when dividends are changed. We find it interesting to investigate whether earnings still is important in the company's dividend decision.

Most of the parameters will be presented in diagrams. These will partly be presented in the empirical framework, but also in the appendix, where larger versions of the diagrams will be presented.

4.4. Calculation

To calculate the parameters, for example gross profit in relation to dividend, we have divided the actual dividend with the actual gross profit. This gives us a percentage that shows the dividend in percent of gross profit. To be able to compare the changes in dividend in relation to the parameters we have made an index based on the figures in 2003. This is made through calculations which put the figures in 2003 to 0, and all figures are present in terms of what were the figures in 2003. For example; if the dividend in percent of gross profit was 100 in 2003 and 150 in 2005 this will mean that there is an increase of 50 percent from 2003 to 2005.

To understand the diagrams that are showing different ratios which will be used, we need to explain how the diagrams explains movements. If the graph is straight, then there are no changes in the ratio. If the ratio increases; this is due to higher dividend compare to the underlying factor. If the ratio decrease, this is due to the opposite reason, i.e. that the dividend is lower, compared to the underlying factor.

4.5. Interviews

We have contacted all the investigated companies and asked them for an interview regarding the implementation of IFRS and how these have impacted the dividend payout. The companies that required the questions in advance were given the questions before the interview. Since questions regarding dividend payouts can be seen as sensitive information for the investigated companies, we will not use quotes, and we will not refer to names in the empirical material.

We tried to get in contact with persons within all the investigated companies to make interviews. Due to different reasons, such as lack of time, we finally could arrange interview with six representatives from the companies in the study. Three of them are CFO, one Head of Accounting, one deputy CEO and one Head of Finance and Accounting. Some of these preferred to be anonymous in their answer, but those who didn't, are presented in the biography.

The interview questions are based on earlier research, combined with the current Swedish legislation and the data from the quantitative analyse. We have tried to avoid forming the questions as leading, since we are keen to avoid influencing the interviewed persons. By doing the interview by phone or e-mail, the interviewed answered the questions in their everyday environment. This is one way to ensure that the interviewed isn't feeling unsecure, and due to that, telling us what they believes we want to hear.

4.6. The interview questions

The questions that we used in the interviews are developed by combining the findings of earlier research with the current legislation, and the results from the quantitative data. The interviewed were asked nine questions are presented in next two sections.

4.6.1 Questions regarding dividend payouts

The first question is if it´s important to have a stable dividend payout. The question arises from the study made by Brav et al. which highlight the importance of a stable dividend payout.

The second question is whether the interviewed believed that they were rewarded from the market, if they maintained a stable dividend payout. The question arises from the findings of Brav et al. They found that managers believed that the market gave them reward, in forms of easier to attract capital, when they maintained a stable dividend payout. If the interviewed believe that they are rewarded from the market, this could be an explanation that they want to maintain a stable dividend payout.

The third question is whether temporary earnings, such as unrealized gains, have any impact on the companies´ dividend payout. The framework of Lintner predict that temporary earnings wouldn't have any impact on the companies dividends, and this was also confirmed in the research made by Brav et al, where only 8,4% of the interviewed managers believed that temporary earnings had any impact on the dividend payout. The question is also interesting due to the fact that the market for commercial real estates in Sweden have increased in value every year since the middle of the 90s. The answer will reveal if the managers believe that the annually growth in value of the investment properties, are seen as temporary or permanent.

The fourth question is whether the companies prefer to reduce the current dividend payout in benefit for investments in the company. Brav et al. found that several of the interviewed managers in their study would prefer to reduce the dividend, but felt captured by the shareholders to maintain the same dividend as before. They also found that managers rather give up good investments than lowering the dividends. Lintner found that there was a high level of conservatism from managers to lowering dividend payout, and the question whether conservatism still exists is relevant for our research.

The fifth question is whether the dividend policy is determined by the dividend payout, or does the dividend payout determined by the dividend policy. The reason why we decided to look at this was because most of the companies changed their dividend policy after the implementation of IFRS while they remained a similar dividend payout as before the change of dividend policy. What we suspect is that the dividend policies were needed to be changed because earnings were suspected to be quite volatile. To maintain a stable dividend payout is, like written before, one of the fundamentals in the framework of Lintner.

4.6.2. Questions regarding overall regulation and IFRS

The sixth question is whether the change in dividend policy in 2005 was a direct reaction of the implementation of IFRS. This question arises from the quantitative material, where we found that all the investigated companies, except two, changed their dividend policy after the implementation of IFRS. This question is also supported by the discussion made by Lintner, where he argue that it is important to maintain a stable dividend payout, which in turn support that the change in dividend policy could be due to the implementation of IFRS. Also Goncharov and van Triest did investigations within this topic, where they found that the use of fair value gave the managers acceptable reasons to decrease the dividend, which also could mean that the implementation of IFRS is an acceptable reason to change the dividend policy.

The seventh question is whether the managers believe that the implementation of IFRS, and due to that, higher earnings have created pressure from the investors to pay higher dividends. The question arises from the effects on earnings that use of fair value has. Sillén believed in the middle of the 50s that the companies needed to have hidden reserves through different valuation methods, and by this reduce the earnings, so the shareholders didn't demand higher dividend payouts. His reasoning can be compared with the effects that fair value adjustments has on the income statement today, and due to that we will investigate whether the implementation of IFRS has increased the shareholders demand for dividend.

The eighth question is whether there is a need of tighter regulation, so that unrealized gains isn´t available for dividend payouts. Concerns for this question were raised by Wai-Meng et al. who argued that the lack of regulation would benefit the companies´ shareholders in front of their creditors. The Swedish Government was of the opposite opinion, believed that a regulation would be impractical and better that the companies themselves decided how they wanted to handle this situation. We want to investigate what the interviewed opinion regarding this is.

The ninth question is which advantages and disadvantages the use of IFRS have on companies´ dividends. The question is relevant from several aspects. First, Kormendi and Zarowin found that permanent earnings isn´t the only determining aspect when dividend decisions are made. For example, taxes and transaction costs have also impact. An interesting question is if a new accounting standard has had any impact on the companies´ dividend decisions. Furthermore did Mueller et al. found that IFRS reduced the information asymmetry among the market, which could reduce dividends role as signals to investors.

4.7. Criticism of sources

4.7.1. Reliability

When we collected the empirical material, we have carefully selected the used information sources, and only used reliable sources. The articles that we have used are all published in academic journals. These articles are written by persons who have proved their knowledge within their research area, which provides their research with a high level of reliability.

The quantitative material that we have collected, are consisting of primary information from the companies' annual reports. This since we want to have the primary source, to ensure that the used information isn't contaminated with errors. The companies´ annual reports must be in accordance with the Swedish legislation, and the annual reports have been audited by the companies' auditors. Finally, since we are investigating listed companies, the companies must follow the rules from Finansinspektionen. These control mechanisms gives the annual reports high reliability.

The qualitative material is based on interviews with persons in the investigated companies, which we believe have the right knowledge to credible contribute to the research. The interviewed will be anonymous in their reply, this to ensure that the interviewed persons maintain their reliability when specific questions is asked. We have also attempted not to ask leading questions.

4.7.2. Replication

The information that we have used for the quantitative part of the investigation arise from the investigated companies´ annual reports. It is important that we present where we have found the information that we are using in the calculations, since it must be possible to replicate the findings.[99] Therefore we explain the calculations in the method chapter to eliminate any potential questions that might arise from the quantitative research. Within the qualitative investigation, we are presenting the interview questions and when possible also present who we have interviewed.

We think that a high level of transparency from our side will reduce any potential questions that might arise from the empirical material.

4.7.3. Validity

Validity is according to Bryman & Bell in several ways the most important criteria of research.[100] There are different types of validity that we need to be aware of and handle. *Measurement validity* means that the quantitative material reflects the investigated purpose. We believe that the investigated parameters provide us with relevant information of what had happened before and after the implementation of IFRS. By looking two years before and six years after the implementation, we believe that we have relevance in the quantitative empirical material. We also believe that the used parameters are relevant for the purpose in this thesis.

Internal validity is whether a conclusion incorporates a casual relationship of two parameters.[101] Based on earlier research within the area of dividend policy, we believe that the used parameters in both the qualitative and quantitative material are relevant for the purpose. It has been proved by several authors that permanent earnings are essential if there would be a change in the dividend payout, and by using this assumption, we believe that we maintain a high validity on our work.

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[99] Bryman.A& Bell.E(2003)*Business research methods*, Oxford University Press, Oxford, 1th edition, Page. 33
[100] Ibid. Page. 33
[101] Ibid. Page. 34

External validity makes us questioning if the results can be generalized beyond the research context.[102] We believe that the findings will reflect the potential impact IFRS has had on real estate companies´ dividend policy. The quantitative material is collected from the investigated companies´ annual reports, and the qualitative material is collected through interviews with relevant person within these companies. Based on this, we believe that our findings well can be generalized on public real estate companies that are using IFRS.

Ecological validity focuses on the link between research findings and the everyday life within the organizations.[103] By making the interviews by phone and e-mail, interviewed will have the possibility to answer in their everyday life. To the extent it has been required, the questions have been send out to the interviewed before the interview were made, both to ensure that they are willing to answer the questions with reliable information, and also to ensure that they are comfortable with which questions that will be raised.

[102] Bryman.A& Bell.E(2003)*Business research methods*, Oxford University Press, Oxford, 1th edition, Page. 34
[103] Ibid. Page. 34-35

Chapter 5, Empirical framework

In this chapter we present the empirical material. We will present the Swedish real estate market and the real estate companies' dividend policies and payouts, both in actual terms but also in relation to the used parameters. The replies from the interviews will also be presented.

5.1.1. The Swedish real estate market.

The market for real estates in Sweden is one of the most liquid markets for commercial real estates in Europe, with sales of 9,2% of the total invested real estate market.[104] The high level of liquidity on the Swedish real estate market facilitates the fair value measurement, as there often is a market price for the real estates. The Swedish real estate market with a total volume of 106 Billion Euro is a relative small market compared to other European markets, for example did the UK real estate market has a total value of approximately 636 Billion Euro. The Swedish market is seen by European investors as a relative safe market, due to the low impact from the financial crises, and that the Swedish banks are seen as stable since they haven´t had many losses in related to lending.[105]

Despite that the Swedish real estate market is classified as relative safe, there are some threats. The tighter regulation of banks, due to the implementation of BASEL III in 2013, has made it more difficult for companies to finance their investments already years before the implementation. [106] BASEL III is a regulation that requires banks to increase their solvency ratio.[107] In 2011 the number of transactions and the volume of these transactions were lower than estimated. Companies with a high level of own equity was the one that gain from this situation, since they could finance their investment by using their own capital.[108]

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[104] Fastighetsvärlden(2013) *Sverige återtar positionen som Europas mest likvida*, http://www.fastighetsvarlden.se/notiser/sverige-atertar-position-som-europas-mest-likvida-marknad/, fetched 2013-05-02

[105] Ibid.

[106] Affärsvärlden(2012) *Svårare för företagen att låna av banken*, http://www.affarsvarlden.se/hem/bank_finans/article3527056.ece, fetched 2013-05-08.

[107] Finansinspektion(2011)*Promemoria, Frågor och svar om förslaget till högre kapitaltäckningskrav för det stora svenska bankgrupperna*, http://www.fi.se/upload/30_Regler/50_Kapitaltackning/2011/FoS_kapital_25nov11ny.pdf , fetched 2013-05-08.

[108] NAI Svefa(2012) *Svensk fastighetsmarknad*, http://fastighetsnytt.se/wp-content/uploads/2012/03/Svensk-Fastighetsmarknad.pdf, Page 7,fetched 2013-05-03

Diagram 1 show the price index for Swedish commercial real estate's with base 1981.[109] After the decreasing of prices in the beginning of the 90s, the price for commercial real estates in Sweden has had a positive growth every year, even during the financial crises in 2008. The diagram shows that the price on real estate since the implementation of IFRS has increased with more than 50 percent.

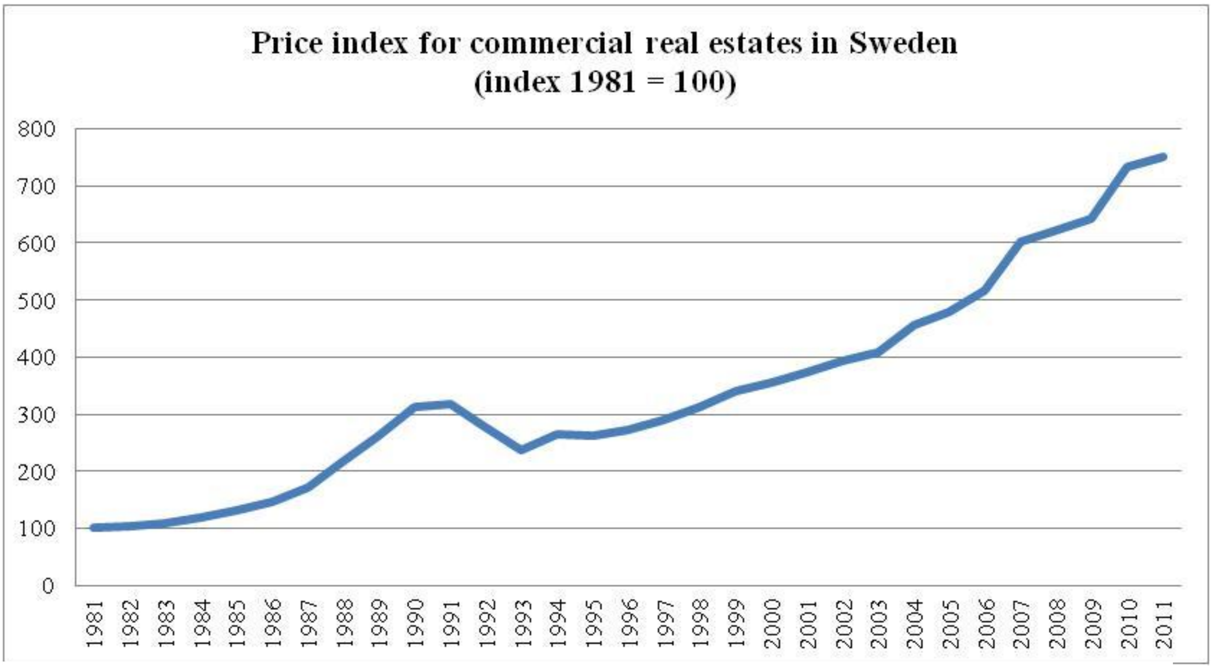

Diagram 1, Price index for real estates in Sweden

5.1.2. The dividend policy of the investigated companies.

When looking at dividend payout we also need to take the dividend policy into account. Bellow follows a table that show which dividend policy the companies had before and after the implementation of IFRS.[110] The companies are presented closer in appendix A, from where table 1 is a summary.

[109] Statistiska Centralbyrån(2012) *Fastighetspriser och lagfarter*, http://www.scb.se/Pages/TableAndChart____74164.aspx, fetched 2013-05-03
[110] Appendix A.

Company	The dividend policy **before** the implementation of IFRS allow them to do dividend payment based on:	The dividend policy **after** the implementation of IFRS (the current), allow them to do dividend payment based on:
Atrium Ljungberg	50% of earnings, except capitals gains	50% of earnings, except capital gains and changes in value (unrealized gains)
Brinova	50 % of earnings	50% of earnings, excluded unrealized gains
Castellum	50% of earnings	60 % of income from property management before taxes
Faberge	50% of earnings	50% of operating activities and realized result from capital gains
FastPartner	Before the implementation of IFRS, they didn´t have any dividend policy	One third of their earnings before taxes and unrealized gains
Heba	80% of their earnings excluded items affecting comparability	70% of earnings, excluded unrealized gains and items affecting comparability
Hufvudstaden	50% of the earnings from net profit from operations	Haven´t change their dividend policy
Klövern	50% of earnings	50% of earnings exclude unrealized gains
Kungsleden	50 % of earnings	50 % of cash flow from operations
Wallenstam	40% of income from property management after taxes	Haven´t change their dividend policy
Wihlborgs	50% of earnings	50% of income from property management after taxes

Table 1, Dividend policy

What can be seen in table 1 is that most of the companies have changed their dividend policy after the implementation of IFRS. Before the implementation, earnings were a quite common base for dividend payout. After the implementation of IFRS, several companies have changed their dividend policy so that they exclude unrealized gains. Only one of the companies is using a cash flow base for the dividend payout. The two companies that haven't changed their dividend policy is Hufvudstaden, that use net profit as base and Wallenstam that are using income from property management after tax as base

5.1.3. Extra dividends

Throughout the investigated period, three companies have paid extra dividends to their shareholders. These three companies are; Brinova, Heba and Hufvudstaden. In 2006, Hufvudstaden sold one of their properties which affected the income from property management after taxes. Since the income from property management was positive affected; Hufvudstaden made an extra dividend payment to their shareholders.[111] Just like Hufvudstaden, Heba base their extra dividend on sale of properties. In 2006, they sold properties and gave the share-holders an extra dividend payment.[112] Brinova did extra dividend payout to their shareholders in 2006 and 2007.[113] What differs with Brinova is that they didn't specify closer the reason for these two extra dividend payments in their annual reports.

Since these extra dividend payments are allowed by the Swedish company act, and within the framework of the companies' dividend policy, we will in some diagrams and calculations exclude these companies to make a more accurate comparison between the companies in the diagram. The reasons why we in some parts will exclude these are due to the risk that the fig-ures from these companies will be misleading, especially when calculating the average for all companies. Despite this, we will in some part of the research, include these companies be-cause of the fact that they are allowed, both by the legislation and by the companies´ dividend policies, to do these payments.

5.2. Dividend payouts

When looking at diagram 2, this diagram shows the comparison of the dividend payout in percent of the dividend in 2003. There have been clear fluctuations in dividend among most of the company in the survey between 2005 and 2008. Despite the fluctuations, all companies except from Kungsleden and Wihlborgs have a higher dividend in 2011 compared to the divi-dend in 2003. To notice is that the dividend of Wihlborgs has increased annually since 2005. When looking at the dividend in 2011 compared to the dividend in 2003, there is also clear difference between the companies in terms of dividend growth. There are four companies that have increased their dividend with between 400 and about 600 percent since 2003. Five of the companies had increased their dividend with between 0 to 200 percent. And as mentioned before there were two companies with a negative growth.

In terms of actual dividend change from previous year, which can be found in table 2, there are especially two events that particularly stand out. This is the general increase in 2004-2007 and the decrease in 2008. From 2005 until 2006 all the companies, except from Castellum, Fabege and Wallenstam increased the dividend with more than 50 percent. From 2004 until 2005 did Brinova, Fast Partner and Kungsleden increase their dividend with more than 50

[111] *Hufvudstaden,* Annual Report 2006 and 2007
[112] *Heba,* Annual Report 2006
[113] *Brinova,* Annual Report 2006

percent. This means that only Castellum, Fabege and Wallenstam didn't have had any annual increase of dividend with more than 50 percent during this period of years.

The fluctuation in the ratio among Castellum and FastPartner differs from the other companies. These two are the only that haven't decreased their dividend from previous year one single time during the investigated period. Another company that has increased their dividend almost each year, except from 2008 when they decrease the dividend with only two percent compared to the previous year, is Wallenstam. Wihlborgs also needs to be mentioned since they have had increased annual dividend payouts since 2004. Among the other companies, there are only Atrium Ljungberg and Brinova that have had a decreased dividend compared to the previous year only in 2008. The remaining companies have had several years where the dividend has been less than the previous year.

What we need to have in mind is that Fabege, Hufvudstaden and Klövern increased their dividend with at least 50 percent already between 2003 and 2004, i.e. already before the implementation of IFRS.

In table 2 below, there are some hash tags, this is because there were no dividends the previous year, and the change is therefore impossible to calculate. "-100%" mean that there are no dividend, since the dividend had decreased with 100 percent since the year before. This also explain why there are hash tags in 2008 and 2009 for Kungsleden, this is due to that they haven't any dividend in 2007 and 2008.

Change in actual dividend from previous year

	2004	2005	2006	2007	2008	2009	2010	2011
Atrium Ljungberg	12%	16%	162%	70%	-28%	12%	7%	8%
Brinova	25%	192%	138%	5%	-52%	23%	14%	0%
Castellum	12%	11%	9%	5%	5%	11%	3%	3%
Fabege	71%	16%	6%	-11%	-51%	0%	34%	11%
FastPartner	30%	92%	28%	9%	0%	14%	15%	14%
Heba	0%	46%	120%	-64%	-100%	###	10%	-9%
Hufudstaden	233%	-64%	700%	-85%	9%	11%	10%	7%
Klövern	90%	43%	73%	19%	-35%	25%	20%	32%
Kungsleden	15%	76%	220%	-100%	###	###	-47%	-100%
Wallenstam	18%	26%	21%	15%	-2%	8%	6%	3%
Wihlborgs	-100%	###	57%	11%	1%	7%	6%	7%

Table 2, Change in actual dividend

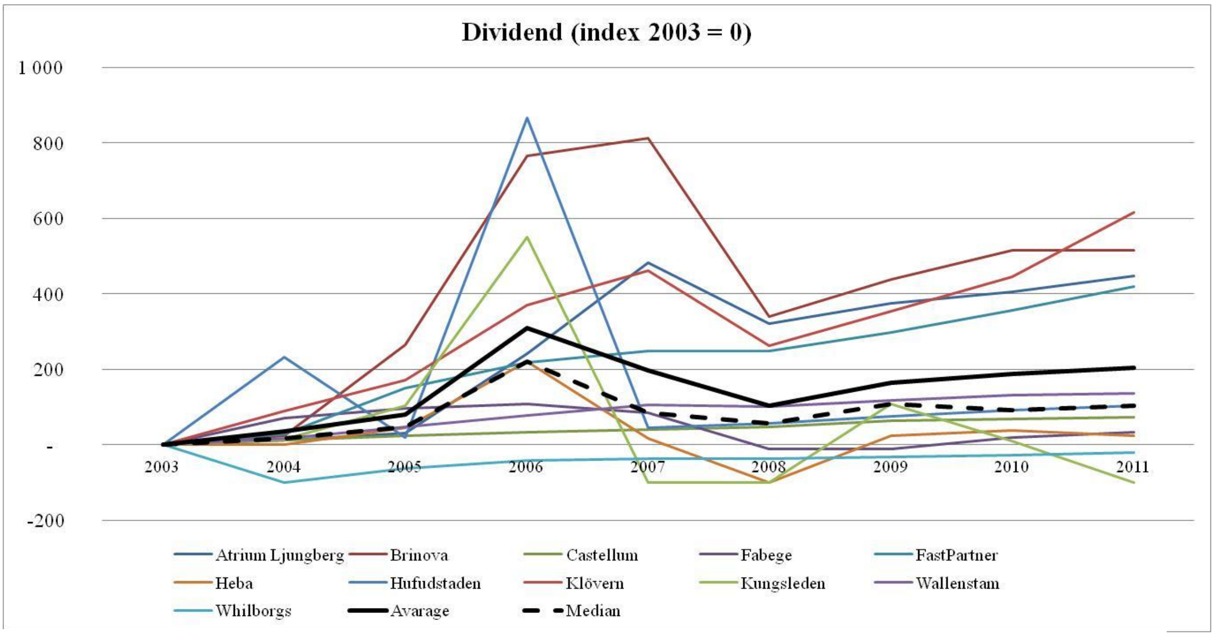

Diagram 2, Actual dividend, index 2003

5.2.1 Dividends in relation to property plant and equipment (PPE)

Diagram 3 shows dividends in percent to PPE. In this diagram, the companies which have paid extra dividend are excluded. Why we decide to exclude the companies is to make the diagram more transparent. The diagram where these three companies are included can be found in Appendix B. In diagram 3, the company that differs from the other in terms of volatility is Kungsleden. When looking at the remaining companies, most of them, except from FastPartner, are relatively well correlated to each other. These are also well correlated to the median. When looking at the average and medium graph of the diagram, there are decreases in dividend in relation to PPE comparing 2011 with 2003 for both. Especially the median graph of this ratio has in relation to the other ratios a relative low volatility.

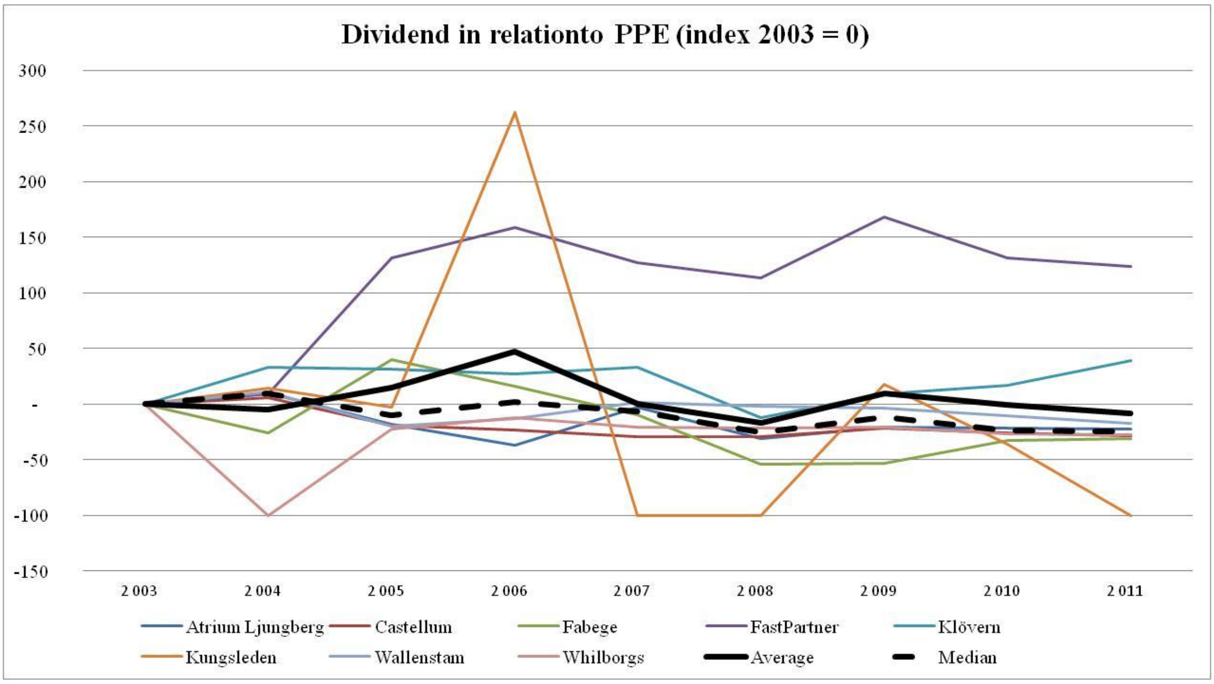

Diagram 3, Dividend in relation to PPE, index 2003

5.2.2. Dividends in relation to cash flow

Diagram 4 illustrate dividend in percent of cash flow for all companies. What can be seen in this diagram, and also when looking at the standard derivation in table 3, is a higher degree of volatility between 2003 and 2007 compared to between 2008 and 2011. When looking at table 3, it is only Klövern and Castellum that had a higher standard derivation in 2008-2011 compared to 2003-2007. The two companies that differs most from the average when it comes to volatility over the whole period, is Kungsleden and Heba, whose volatility is relatively high throughout the whole period.

When looking at diagram 4 we couldn't foreseen that there are fluctuations over the whole period, but we can see a clear difference between 2003-2007 and 2008-2011, as the standard derivation In table 3 also showed. When looking at the average and median, these both dimensions indicate a higher ratio in 2003 and also a low ratio in 2008. By looking closer at the diagram, there is a graph of the median for the whole period, a straight line graph, which can be compared to the annual median to see the high ratio in 2005 and the low in 2008. When looking at the diagram in Appendix C, where the companies with extra dividend are excluded, this also indicated the high ratio in 2005 and low in 2008

	Annual change in dividend in relation to Cash flow								Standard derivation	
	2004	2005	2006	2007	2008	2009	2010	2011	2003-2007	2008-2011
Atrium Ljungberg	-1%	6%	52%	-23%	-18%	20%	-20%	12%	32%	21%
Brinova	19%	288%	-42%	13%	-51%	-12%	22%	13%	148%	33%
Castellum	-2%	11%	-7%	0%	-9%	14%	-3%	-2%	7%	10%
Fabege	89%	-46%	233%	-50%	-13%	-19%	4%	50%	134%	31%
Fast Partner	-6%	49%	40%	-44%	-7%	1%	24%	20%	43%	15%
Heba	-28%	186%	7%	-70%	-100%	###	-5%	0%	113%	56%
Hufudstaden	262%	-74%	728%	-86%	1%	17%	11%	8%	383%	7%
Klövern	-8%	18%	24%	-13%	-27%	-13%	34%	35%	18%	32%
Kungsleden	5%	3%	10%	-100%	###	###	-36%	-100%	53%	46%
Wallenstam	-2%	8%	40%	15%	-15%	-25%	4%	8%	18%	16%
Whilborgs	-100%	###	24%	5%	-8%	-7%	-3%	1%	67%	4%

Table 3, Dividend in relation to Cash flow

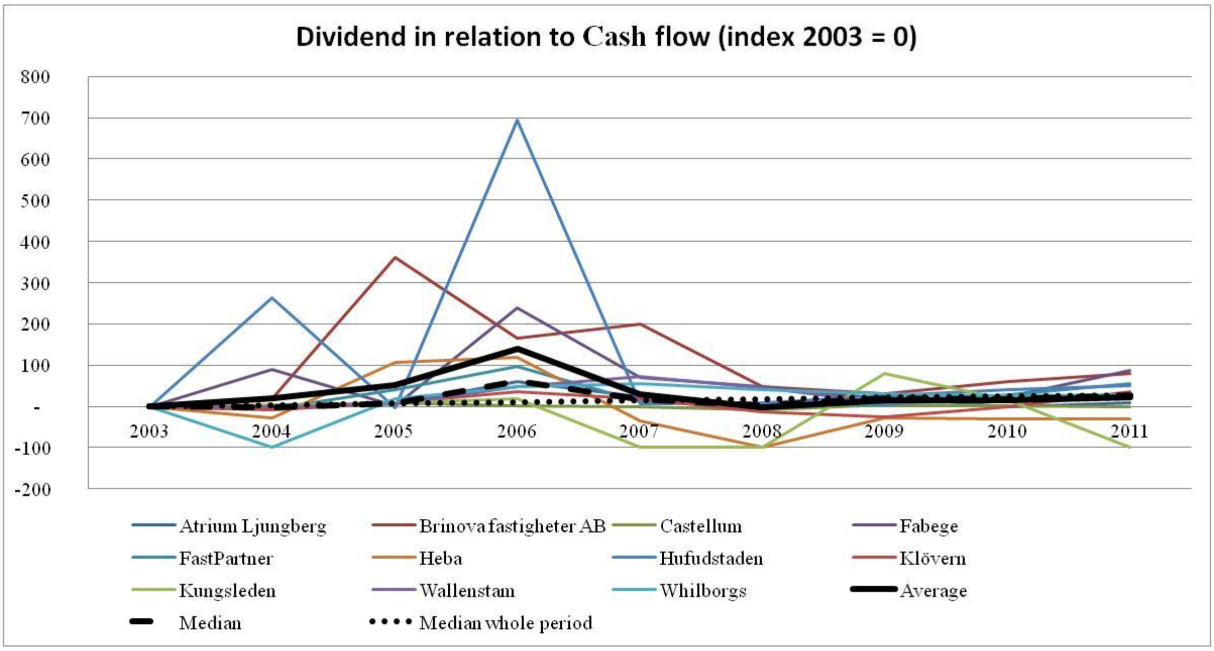

Diagram 4, Dividend in relation to cash flow, index 2003

5.2.3. Dividends in relation to gross profit

Diagram 5 show dividends in relation to gross profit. In the diagram, the companies with extra dividend are excluded in favor for clearness. We can't see that much fluctuation in this diagram, but what we can see first is that the average and median graph is differing more from each other before 2008 compared to after. What also can be seen is a light trend of a more stable graph after 2008 compared to before. Once again the graph of Kungsleden differ a lot compared to the other companies.

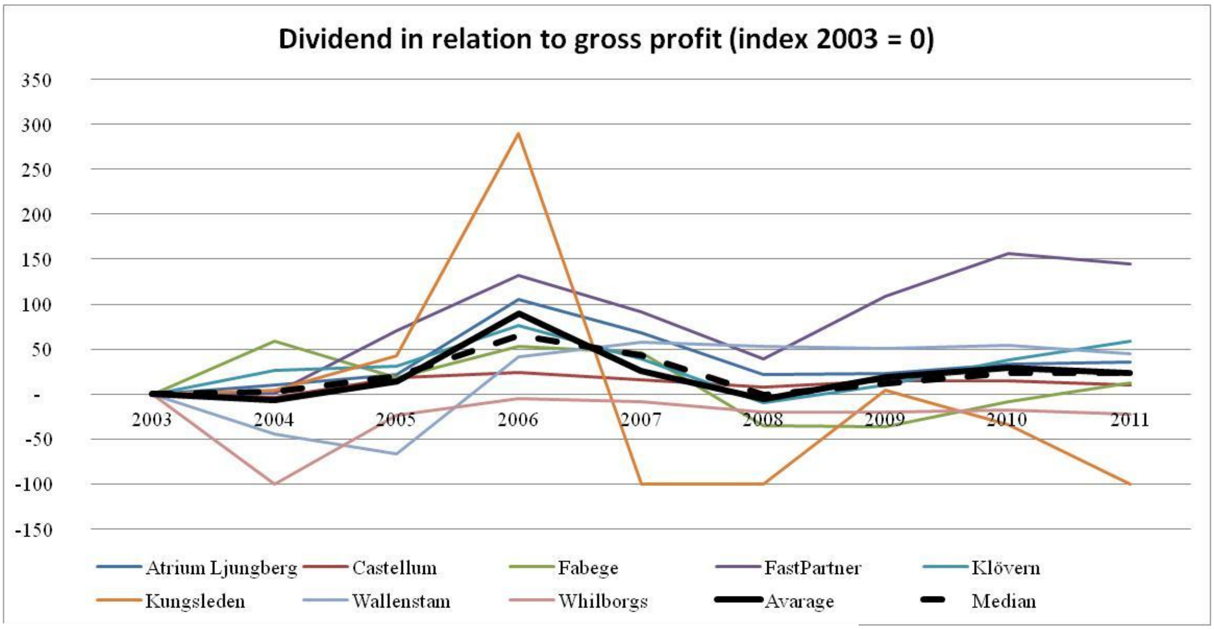

Diagram 5, Dividend in relation to gross profit, index 2003

5.2.4 Dividends in percent of Earnings.

When looking at diagram 6, that illustrate dividend in relation to earnings for all the companies. This diagram differs from the previous four diagrams in terms of when volatility is high and low. There is a major volatility in the graph between 2007 and 2009. The reason why it is a major decrees in 2008 is due to the fact that several of the companies´ earnings were negative, while dividend for most of the company´s still were paid out. In 2008 all companies except from Brinova and Wallenstam showed negative earnings. The same year, all companies except from Heba and Kungsleden made dividend payouts. The companies that did dividend payments despite a negative Earning is below 100 percent in the diagram. This is also the reason behind that the graph of Hufvudstaden is below 100 percent in 2009. The figures below 100 percent make it unnecessary to look closer to the average, when this will be materially affected by the figures from 2008. Despite the large volatility between 2007 and 2010, the volatility for the reaming years is relative low. What also needs to be noted; is that the companies with extra dividend do not stand out in this diagram, compared from the previous diagrams where they have been represented.

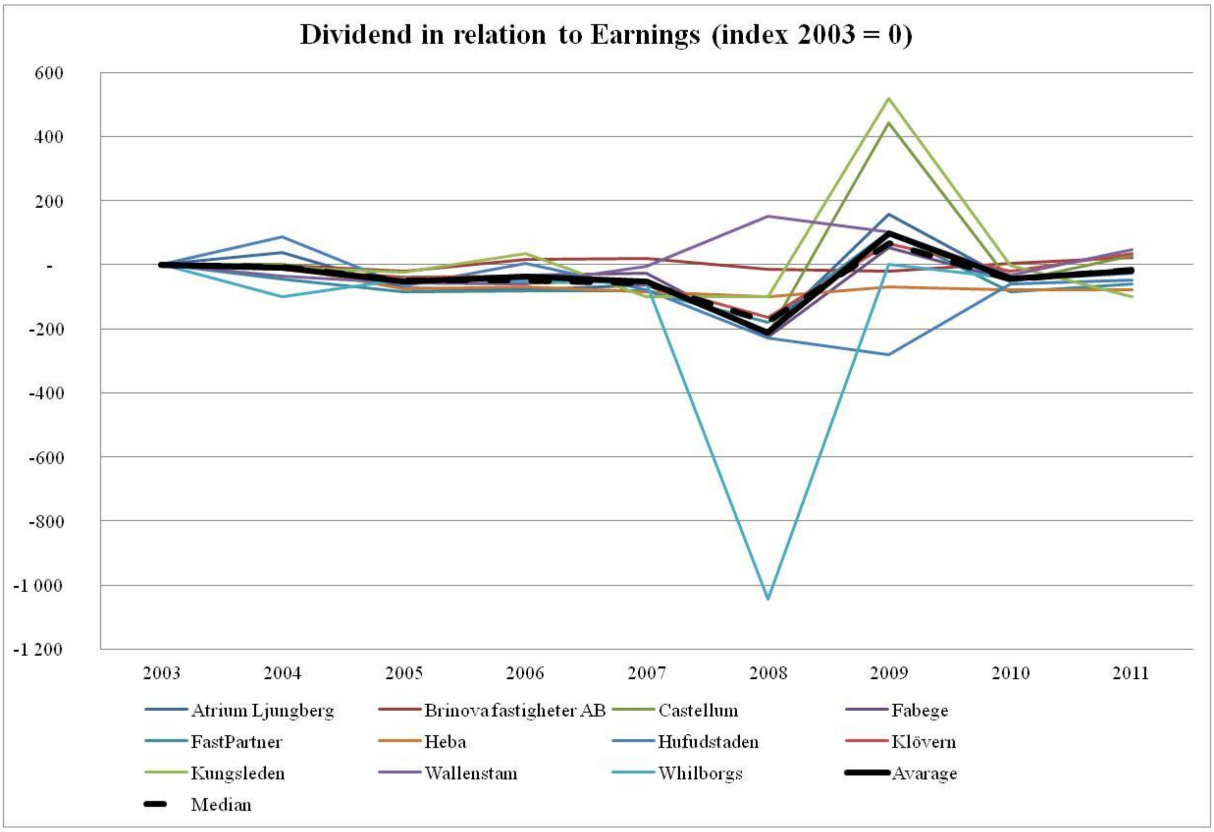

Diagram 6, Dividend in relation to earnings, index 2003

5.2.5. Comparison

To summary the diagrams above, Diagram 7 is a Comparison of the average and median from the previous diagrams. In this diagram, one trend can be seen among all the factors except from Dividend in relation to earnings, i.e. a high value in 2005 and a low value in 2008. What is important to understand in this diagram is that the yellow graph of dividend is in accrual terms, and not a relation as the remaining. This will mean that if the ratio graphs have a low volatility, this will mean a high connection dividend. With this in mind when looking at the diagram, this shows that there is a higher connection between earnings and dividend until 2007, but not after, while there is a relative high connection between the other factors and the dividend for the years after 2007.

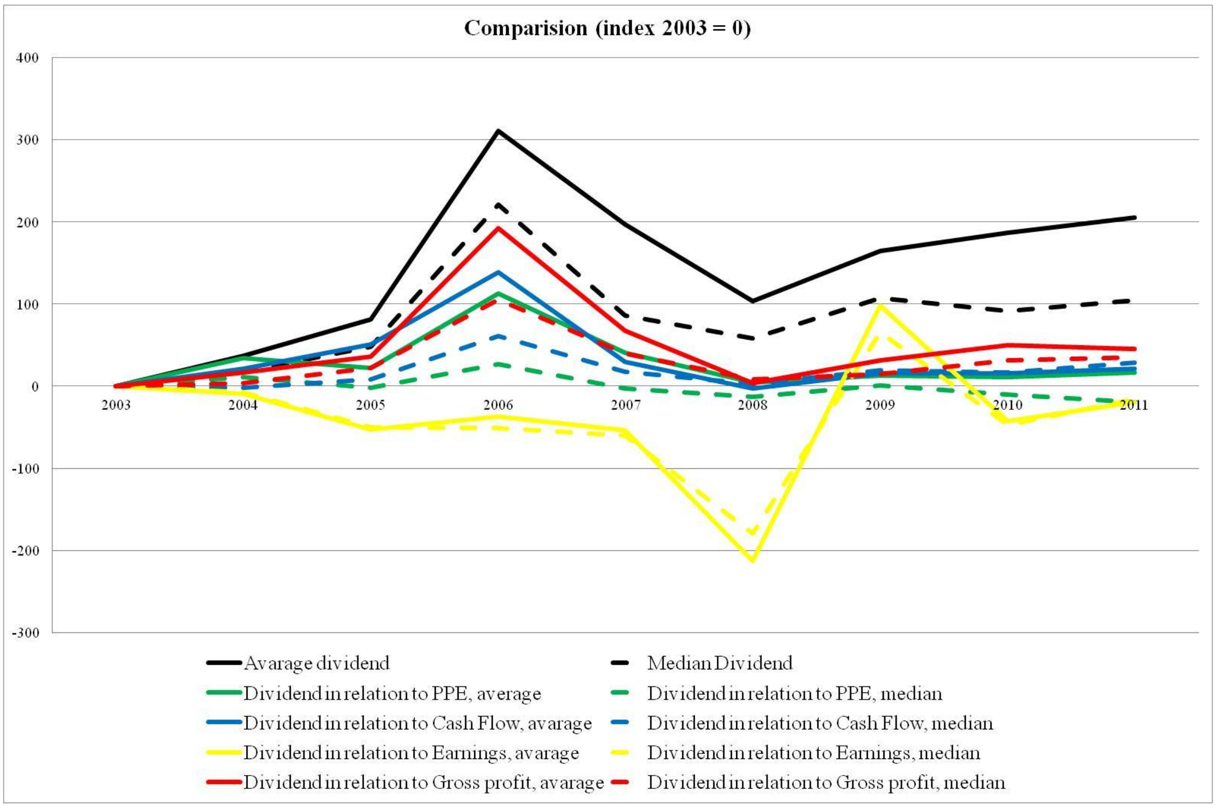

Diagram 7, Comparison of average- and median change for the ratios, index 2003

5.3. Interviews

We have made six interviews with persons within the investigated companies. It is our opinion that the six interviewed have the right knowledge to contribute to the investigation with relevant information due to their position within the companies.

5.3.1. The interviewed answers regarding dividend payouts

Whether it is important for the companies to have a stable dividend payout, the companies gave similar, but at the same time, different answers to. One thought that it is important to maintain a stable dividend payout, and when the company had extraordinary earnings due to sales of investment properties, they rather prefer an extra dividend payout instead of increased regular dividend. The purpose with this was to maintain a stable dividend payout, and avoiding temporary increases in dividends that they have to reverse in the near future. To pay extra dividend instead of an increased regular dividend was also looked upon as psychological, when extra dividend clear state that this is an ordinary dividend payout. A second opinion regarding this question was also that it is important to maintain a stable dividend payout, pointing out that this is important for the shareholders, when these needs to feel some security that there will be dividend from the company in which they have invest. Otherwise they might look for another company to invest in. Further, a third person agree that it is important to have a stable dividend, but stated clear that it is ratio between the base for dividend and the actual dividend which is the most important, when the dividend should reflect the actual result of the company's operations. The remaining three interviewed also thought that it´s important to have a stable dividend payout.

The answer of the question; whether the interviewed believed that they were rewarded from the market, if the maintained a stable dividend payout, was quite clear among the interviewed. All the interviewed replied that it is assumed that real estate companies are relatively stable in their dividend payout and also in their business. However, the interviewed didn't felt that the companies were rewarded for maintaining a stable dividend. On the other hand, despite that the interviewed didn't thought that the market rewards them, they mean that to have investors, could be seen as a reward in itself.

One of the questions were all the interviewed had the same opinion was whether temporary earnings, such as unrealized gains have any impact on the companies´ dividend payout. None of the interviewed stated that temporary earnings had any impact on their dividend payout. The companies´ dividend polices are changed to avoiding that unrealized gains are paid out as dividends. The interviewed clearly stated that an unrealized gain isn't "real" money and that they therefore shouldn't be paid out as dividend.

Whether the companies´ prefer to reduce the current dividend payout instead of making investments within the company, the response from the interviewed differs a lot. One interviewed mean that dividends for their company was secondary, compared to creating net value to their shareholders. They preferred instead to reinvest in their core business rather than to pay dividend to shareholders, and argued that this was the best way of adding value to their shareholders. Another interviewed had a more careful approach, when this person find it important to have a good balance between investments and shareholders interest in dividends, since the investments hopefully will gain the shareholders in the future. The third statement is the classic Latin phrase pacta sund servanda, meaning that agreements must be kept. The person meant that through their dividend policy, they have made an agreement with their shareholders, and that this agreement was something that they had to follow.

The question whether the dividend policy is determined by the dividend payout, or if the dividend payouts determine the dividend policy, was a question where most of the interviewed had the same opinion. They mean that dividends are determined by the dividend policy. This since the dividend policy is a strategic long term decision proposed by the board and approved by the shareholder, to ensure annual dividend payouts. One opinion that differs from the others was that the dividend policy was based partly on a reasonable dividend level and the company's operations and future financial power.

5.3.2. The interviewed thoughts regarding overall regulation and IFRS

Five of six companies in the study, have changed their dividend policy in connection to the implementation of IFRS. The reasons behind the change aren't clear. Three of the companies in the study, had equal dividend policies before the implementation. After the implementation, all three companies changed their dividend policy. Two of them change to equal dividend policies, while the third change to another. What was in common among these was that all three changed to dividend policies that excluded unrealized gains. What's interesting in their answers is that one argued that the change was due to the implementation while the others stated that the change of dividend policy wasn't due to the implementation of IFRS. Another company which also had changed the dividend policy, to exclude unrealized gains after the implementation of IFRS, stated that they haven't changed their dividend policy due to the implementation of IFRS. A fifth interviewed stated that the change wasn't due to the implementation and that the purpose with their change was to provide the owners with a stable dividend payout and to create conditions for the company to grow by its own power. The company in the study that didn't change the dividend policy had already before the implementation a base which already was excluding unrealized gains.

Regarding whether the implementation of IFRS, and due to that, higher earnings have created pressure from the investors to pay higher dividends, none of the interviewed felt that this was the case for their companies. Two of the interviewed thought that their shareholders understand that their earnings were a result from the used accounting methods, and that the shareholders understood that some difference in earnings was due to the use of fair value. The interviewed thought the shareholders cared about the long run performance of the company and therefore did not put extra pressure on the company.

Whether a tighter regulation of dividend based on unrealized gains is needed, all the interviewed had the same thoughts. They didn't believe that there was a need for a tighter regulation. One interviewed argued that it's in the company's interest to not have to high dividend which could risk the going concern of the company. Another interviewed said that it was more a question of sensible shareholders. If the shareholders want to increase the dividend to a risky high level, they can achieve this despite tighter regulation. It is clear that they don´t believe in increasing dividend if the company going concern is at risk. The shareholders have often a more long term perspective, and aren´t rewarded from temporary increased dividend payouts. An explanation by one of the interviewed why a tighter regulation isn't needed, is that the real estate companies´ creditors mainly is banks in which real estate companies are dependent on, to be able to finance their investments, and that gives the banks a good insight in the company's financial position. This close relationship gives the creditors power against the company, which is similar to a self-regulation where the creditors ensure that the companies don't pay too much dividend, since these have incentives in well progressing companies so that they can pay their debts to the creditors.

Regarding the advantages and disadvantages that the uses of IFRS have had on companies´ dividends, most of the interviewed had neutral or negative thoughts. One believed that the use of IFRS haven´t had any impact on the companies´ dividend payout at all. This since they excluded unrealized gains from the amount available for dividend, which reduces the major difference between Swedish GAAP and IFRS. The criticism was also direct against IFRS because they believed that the use of IFRS could increase the earnings, and create a temptation to increase the dividends. One opinion was that there isn't any affect on dividend due to the use of IFRS, since they don't do dividend payment based on unrealized gains. A positive opinion regarding the impacts was that it is possible to see the amount of equity at the time of dividend payout.

Chapter 6, Analysis

In this chapter we analyze the empirical material and combine the findings with earlier research.

6.1. Analysis of the price index for real estates

By looking at diagram 1 of the price index development for real estate's for the past 30 years, it is clear that the price on real estate's has increased. This means that the use of fair value for investment properties have impacted the earnings in terms of increased unrealized gains. Since the price of investment properties has increased annually since the beginning of the 90s, the question whether these changes should be seen as permanent or temporary can be discussed. If they are seen as permanent, this would according to Lintner mean that the companies' dividend payout would risk to be affected by unrealized gains, when these permanent changes in unrealized gains will lead to permanent changes in earnings and in the end to increased dividend. The assumption from Lintner would be supported by Kormendi and Zarowin, since they also found strong support for changes in permanent earnings are affecting the dividend payout. What differentiates the findings from Kormendi and Zarowin from Lintner is that they found that other aspects in combination with permanent earnings are affecting the dividend payout. Also the investigation from Brav et al. gives support to the belief that permanent earnings are affecting the dividend payout.

6.2. Analysis of the change in dividend policy

Also table 1 of dividend policy change is relatively clear. From this table we find that the companies which didn't exclude unrealized gains in their dividend policy before the implementation of IFRS changed their dividend policy after the implementation.

Further, that the companies have decided not to base their dividend policy on unadjusted earnings is in one sense in opposite of the discussion made by Lintner, who argued that earnings was the base for dividend. This is on the other hand more in line with Kormendi and Zarowin who meant that the dividend decision isn't only based on the changes in earnings. At the same time Lintner did argue that it is important to have a stable dividend payout, which the changed dividend policies might have resulted in.

6.3. Analysis of the ratios

From the theoretical part, the assumption is that the dividend payout should be relatively stable and that there should not be any major changes due to the caution among companies to make change in dividend payout. A stable dividend payout in actual terms is something that

Brav et al. advocate in their article. By looking at the diagram 2 of actual dividend change since 2003, the dividend payout isn't that stable as suspected after reading the article by Brav et al. If we exclude the companies that did extra dividend payout in 2005 and 2006, several companies have increased their dividend in 2005 and 2006. Lintner and Brav et al. mean that an increased dividend can be justified if the companies think they, in the long run, can maintain the level to which the dividend was changed. With their assumptions in mind when looking at table 2, this reasoning can justified the high increased dividend from Atrium Ljungberg, FastPartner, and Klövern, since they didn't decrease their dividend until 2008. When looking at the three companies that have had an extra dividend payout; Brinova, Heba and Hufvudstaden, in table 2, all of these had a decreased dividend the year after the extra dividend. None of the theories we have studied are discussing extra dividend. However one of the interviewed justified that they have used an extra dividend instead of an increased regular dividend for psychological reasons. The use of extra dividend can therefore justify that the total dividend next year would not be at the same level. To make an extra dividend payout also states that it is an unusual event for the company which has been the base for the extra dividend payout decision. These arguments can be looked upon as a way of trying to give the market a fair view of the company, and in that way try to control how the market will interpret the extra dividend, to avoid that the market itself creates own interpretations. The risk that the market creates their own interpretation if they don't fully understand why the total dividend decrease the year after the extra dividend can be explained by the findings made by Brav et al. They found that the executives believes that the level of dividend payout send signals to the market regarding the wealth of the company. The use of extra dividend with the purpose to not increase the regular dividend can be linked to the discussion made by Lintner, and the importance of a stable dividend.

For most of the companies, there were decreased dividends, but still dividend payouts in 2008, the year when the financial crisis hit the economy. One way to explain the decreased dividend could simply be by referring to the financial crisis. Another explanation could be that that the financial crisis has been used an excuse to lower the dividend more than necessary. This possible explanation is based on the reasoning that Brav el al. presented, that many managers thinks that the dividend is too high, but that they don't want to decrease the dividend due to the signals that will send if they did. To use an event in the overall market to justify the decreased dividend is something that Goncharov and van Triest found that might have happened after the implementation of IFRS. We therefore think this also could explain parts of the reduction of dividend when the financial crisis hit the economy.

The fact that dividend generally had increased after the implementation of IFRS in 2005, is in direct opposite of the result presented by Goncharov and van Triest, who found that the dividends had decreased after the implementation of IFRS. This can be due to several different explanations. One possible explanation is that the study made by Goncharov and van Triest was based on the use of fair value for financial assets, while we are focusing on companies with portfolios of investment properties. That there is a difference between companies with a high level of financial assets and other companies are discussed in the article by Plantin et al. which support the possible explanation that these companies with high level of financial assets differs from companies with high level of investment properties. One aspect that we can't ignore is that the companies might actually have presented good result and due to that increased the dividend.

Dividend in relation to PPE, as illustrated in diagram 3 shows a relatively low fluctuation. This diagram gives us an indication that the value of PPE might be one factor that impacts the dividend payout due to the low fluctuation. Despite this, by looking at the company's dividend policies, there isn't any company that is using value of property plant and equipment as base for their dividend decision. What we do see, is that the ratio is lower in 2011 compared to 2003, and had slowly decreased through these years. This is in contrast to dividend in relation to cash flow and gross profit, which had increased the same period. From earlier diagram (2), we know that the dividend has increased over the period. By looking at diagram 3, we can see that the PPE also has increased, but with a higher ratio then the dividend, which resulted in a general decrease in the dividend in relation to PPE. That the dependent factor (dividend, because dividend is based on something) is increasing less than the independent factor (PPE) could be explained by that the depended factor will grow with X percent of the growth of the independent factor. The growth of PPE can be explained by the fact that this measure is affected by the price of real estate, which seems to be almost constantly growing. This could indicate that the divided is set based on the growth of PPE, which partly is assigned to unrealized gains.

Dividend in relation to Cash flow has an increased ratio especially in 2006, which is illustrated in diagram 4. As we know from previous data the dividend increased for all of the companies in 2005, which can be seen in diagram 2. If the cash flow would have been the base for the dividend, this would have been straight or slowly decreased. What can be seen in table 3 is that the standard deviation is lower in 2008-2011 compared to 2003-2007 among nine of the eleven companies. One possible reason for this could be that the dividend policy among the companies is more fitted to cash flow after 2007. What also is a bit interesting is that the company that fluctuates most in the diagram is Wallenstam – the company that changed their dividend policy from being based on earnings to Cash flow.

The companies in our study are relatively well synchronized when looking at dividend in relation to gross profit in diagram 5; there are a decrease in 2005 and an increase in 2008. One of the companies that differ most from the other is Wihlborgs, with a low volatility. Overall this diagram shows that the companies that use gross profit or similar as base in their dividend policy are following their policy, and do not includes unrealized gain in their dividend payout. When most of the companies change their dividend policy to use measurement similar to gross profit, i.e. earnings reduced by unrealized gains, this might result in the better connection between gross profit and dividend after the implementation of IFRS. The importance of a stable ratio is stated by Brav et al which might explain why the companies follow their dividend policy.

When looking at the graphs in diagram 6 - dividend in relation to earnings, it is obvious that there are major changes in the graphs in 2008 and 2009. The reason for this is that most of the companies showed negative earnings in 2008, and despite this, they did dividend payment. If they would have used actual and annual earnings as base for dividend, the companies would not pay any dividend when the earnings are negative. One reason why the companies paid dividend despite the negative earnings could be because the companies didn’t find the decreased earning as permanent and that they due to that didn’t decreased the dividend more than they did. This is in line with for example Lintner, Brav et al. and Kormendi & Zarowin which all stated that permanent changes in earnings are affecting the dividend. The relative low volatility among the companies the first years in the diagram could be explained by the use of earnings as base that later was changed. Lintner found that earnings had a key role when making dividend decisions, due to the simplicity to understand, and the frequent use in media. When IFRS was implemented, earnings role in dividend decisions was reduced. All the investigated companies that used unadjusted earnings in their dividend policy, changed to other measurements, which excludes unrealized gains. We questioning if Lintner´s claim that earnings is an important factor when making the dividend decision. A presented in diagram 6, we don´t find any connection between dividend and earnings in 2008 and 2009. Despite the lack or connections in 2008 and 2009, it is interesting to look at the ratio after the implementation of IFRS. This indicates that earnings still might give an indication of the level of dividend, despite that unadjusted earnings are removed from the company's dividend policies. Since the ratio is similar in 2005 to 2007 compared to 2010 and 2011, this makes us believe that the earnings may give an indication of the level of dividend.

Another possible explanation why the graph looks as it looks in especially 2008 is made by one of the interviewed. The interviewed stated that the real estate companies normally are depended on interest rates due to high debt ratios, and was therefore strongly affected by the change in interest rates in 2008.

When looking at diagram 7 - comparison between the average and median for each ratio, the volatility in dividend in percent of earnings has a quite low volatility until 2007, while the other ratios had a quite low volatility after 2007. This could be due to the change of dividend policy after the implementation of IFRS, which was made among most of the companies.

6.4. Analysis of the interviews

6.4.1. Analysis of the responds regarding dividend payouts

The response we received on the question whether it is important for the companies to have a stable dividend payout is in line with several of the theories that we have used. To have a stable actual dividend payout is something that is advocated by Brav et al. which is something that five of six interviews opinions are in line with. The other opinion states that it is important to have a dividend that is connected to the policy and to follow the dividend ratio of the policy. This could be linked to the study made by Lintner, which means that the companies are looking at the existing payout ratio before making the dividend payout decision. The argument, made by the interviewed, regarding why to use extra dividend instead of increased regular dividend, can be connected to the article by Brav et al, which states that a decreased dividend will send negative signals to the market. This will be avoided if the company decides to use extra dividend instead of increasing the regular dividend.

The interviewed didn't thought that the companies were rewarded by maintaining a stable dividend and one of the interviewed stated that they preferred extra dividend instead of increasing the regular dividend. This is in line with the discussion of Brav et al. which stated that the companies´ will not be rewarded for a stable payout dividend or increased dividend, but that they will be punished if they decrease the dividend payout. That the companies will be punished if they decrease the dividend is also in line with the discussion made by Lintner, but he also means, however, that the companies are rewarded by the market if they have a stable dividend. This is in the opposite to the thoughts of the interviewed, and also of the discussion made by Brav et al.

All the companies we interviewed agreed that temporary earnings do not impact dividend and this is in line with the opinions of; Lintner, Kormendi & Zarowin A. Brav et al. The question we raise ourselves when the interviewed replied that unrealized gains isn't impact the dividend, is when unrealized gains can be looked upon as permanent changes. The reason why we do this is, because 30 years of increased real estate prices doesn't seems to be convincing enough to classify the increase as permanent. When the development of real estate prices looks as it does, we think that this could be evidence enough to look upon, at least some part, of the unrealized gains as permanent changes, and therefore base dividend on these.

Whether to make dividend or reinvest in the company was a question on which we received different answer. One interviewed stated clear that they would prefer to reinvest in the company, but that they have to make at least some dividend payout to attract investors. To maintain a certain level of dividend to attract investors is partly in line with the thoughts of Brav et al. who meant this is important when trying to attract individual investors. Another statement from one of the interviewed was the classic Latin phrase pacta sund servanda, which indicates conservatisms, and is in line with both Lintner and Brav et al, who stated that most managers prefer a stable dividend instead of lowering the dividend in benefit of investments in the company.

That the interviewed replied that the dividend was determined by the dividend policy and not the opposite makes us little suspicious, in particular as most of the companies decides to change dividend policy in the same direction, i.e. to exclude unrealized gains, after the implementation of IFRS. What support our suspicion is that the dividend has remained stable after the implementation of IFRS, which could be a reason why they changed the dividend policy, i.e. to remain a stable dividend payout. Arguments that support this can be taken from especially Brav et al. who highlights the importance of maintaining a stable dividend payout.

6.4.2. Analysis of the responds regarding overall regulation and IFRS

From the interviewed, there isn't a clear answer whether they have changed the dividend policy due to the implementation of IFRS or not, but table 1 where dividend policies is shown, speaks by itself. We found clear indications that the dividend policies have been changed towards an elimination of the unrealized gains that can occur with the implementation of IFRS if the companies decide to use fair value. This could be interpreted to mean that the companies changed dividend policy to avoid that unrealized gains impacts the dividends and therefore they de facto changed their dividend policy due to the implementation of IFRS. The change of dividend policy to eliminate the impacts that the implementation of IFRS could have on dividend, can be one explanation to why the companies don't mean that the implementation of IFRS has impacted the dividend. As we can conclude that most of the dividend policies have been changed, our findings can be compared to the findings made by Goncharov and van Triest. However, we are questioning whether the change in dividend that they found might be due to changed dividend policy. The reason for this is that the article are mentioning correlation between the implementation of IFRS and the dividend policy, but not particularly whether the companies had changed dividend policy after the implementation.

That the implementation of IFRS didn't lead to increased pressure from the investors on the company to pay more dividend, according to the interviewed, can be compared to the discussion that Sillén had about whether hidden reserves was needed to decrease the earnings so that the shareholder shouldn't require more dividend. That the pressure from the investors hasn't increased due to the implementation of IFRS and higher earnings can be explained by combining the comments from the interviewed and the findings made by Lintner. The interviewed mean that the investors are knowledgeable enough to understand why the earnings have increased, while Lintner highlight the importance of having financial statements that were understandable for persons outside the company. Lintner stated that the importance of earnings among others was important because it is easy to understand. If the current dividend policy are understandable for the investors, and that they understand why earnings isn't the base for dividend, can explain why there isn't any pressure on higher dividend due to the implementation of IFRS.

Whether there is a need of a tighter regulation regarding the possible dividend payout of unrealized gains was needed, the interviewees thoughts was in line with the Swedish governmental bill that the companies were responsible enough to regulate this by themselves. This is in opposite to the opinion of Wai-Meng et al. which argue that a tighter regulation regarding the possibility to make dividend payment based on unrealized earnings might be needed. That the interviewed and the governmental bill were opposed to the need of regulation may be interpreted as the Swedish company act already provides enough protection. This since the act already includes personal responsibility for the board if they neglect their responsibility for the companies going concern.

Overall comments regarding the impact that IFRS have had on dividend were that IFRS don't impact the dividend at all because the dividend policies exclude unrealized gains that had occurred from the use of fair value. Despite that some of the interviewed mean that there isn't a need of regulation and that the companies are responsible enough to not base the dividend on unrealized gains, criticism of IFRS is that IFRS could increase the earnings, or create a temptation to increase the dividends. Mueller et al. found that information asymmetry was reduced when IFRS were implemented. When there is a level of conservatism in the overall answer from the interviewed we interpret this as that the importance of dividend as a signal might still remain. This indicates that the high level of conservatism regarding change in dividend payouts, that has been discussed by for example Lintner and Brav et al. still remains.

Chapter 7, Conclusion

In this chapter we present our conclusion of our research, answering how the use of fair value has affected the dividend payout from real estate companies in Sweden. In the end of the chapter, we will also present our suggestions on future research.

7.1. Conclusion

The problem formulation for this thesis was; how has the use of fair value affected the dividend payout from real estate companies in Sweden. Throughout the thesis we have tried to answer this question by investigating different possible ways that the implementation of IFRS and the use of fair value for real estate properties have impacted the dividend. The most obvious change that we found in connection to the implementation of IFRS is the change of dividend policy among most of the companies.

From the interviewees we can identify skepticism against the implementation of IFRS and the use of fair value, but also positive voices regarding how the implementation has improve the understanding of the company's financial statements. Despite the fact that the use of fair value is not mandatory, all the companies in the study decides to use fair value for valuation of investment properties, but changed at the same time their dividend policy to exclude unrealized gains. That the companies did change valuation method and used fair value, and at the same time changed the dividend policy, indicate that they think that the use of fair value has some value, but not necessarily when it comes to use it as base for the dividend decision. The change of dividend policy might be the main reason why it is hard to find indications that the use of fair value should impact the dividend payout at all.

By looking at the actual dividend payout, it is hard to make any definite conclusions, but we can see indication of that the dividend is increasing over the years. A stronger indication of increased dividend payout can be seen in 2005 and 2006, where it was a general increase among most of the company's dividend payout. We also found that there is a major difference between the companies in how much the dividend had increased since 2003. Despite these findings, we can't connect the changes in dividend to the implementation of IFRS in 2005.

To understand why the dividend has increased, we have looked at the company's dividend policies. We conclude that most of them, which were unadjusted for unrealized gains before the implementation of IFRS, have changed after the implementation, so that they had a dividend policy adjusted for unrealized gains. For us, it is quite obvious that the companies changed their dividend policy at least partly due to the implementation of IFRS, since all the companies´ new polices excludes unrealized gains that occur from the use of fair value.

Linking together the effects that the use of fair value has on the earnings, the development of real estate prices the past 30 years and the current dividend policy, our initial assumption were that dividend in relation to earnings shouldn't correlate at all after the implementation of IFRS. This because most of the dividend policies were adjusted for differences in accounting caused by the use of fair value. This should mean that the previous and current dividend policy would give similar dividends because the changes that had occurred within the accounting with the implementation of IFRS were neutralized in the dividend policy. However, we thought there would be a better connection between dividend and gross profit, since the dividend policies after the implementation are based on a measurement similar to gross profit. Similar graphs as for dividend in relation to gross profit was expected when looking at dividend in relation to cash flow, partly because cash flow neither is impacted by the use of fair value. On the other hand was dividend in relation to PPE more unpredictable, when PPE would increase due to the use of fair value, while the dividend shouldn't due to the changed dividend policies.

What we found were that dividends in relation to earnings actually were quite stable also after the implementation of IFRS. We interpret this as that changes in earnings can still give an indication of the amount of dividend payout. Regarding the connection between dividend and gross profit, there is an increase in the diagram in 2005 and 2006, which could occur due to a higher increase in dividend compared to gross profit. We interpret this as that the change in dividend policy wasn't immediately affective, and that the importance of maintaining a stable dividend was more important than following the ratio that the policy advocates, which could be an explanation why there were more fluctuation in the beginning of diagram 5. The link between dividend and cash flow isn't high, but the connection is higher after 2007 compared to before, which might be for the same reasons as the change in gross profit.

Since the property management is part of the core business for the real estate companies, the value of PPE might give an indication of the future result of the companies. The reason for this, is that future income from property management will be impact by the current unrealized gains. When the real estate is sold, the former unrealized gains are transformed into realized gains, and that the values of PPE therefore indicate parts the future income from property management. This would also mean that the price index for real estate would give an indication on which direction the business are going. One of the interviewed meant that there is a connection between dividend and future performance of the companies, which could explain the link between PPE and dividend and why PPE in relation to dividend is the ratio, which is least volatile, among the ratio we have studied. Our conclusion is that there could be a connection between dividend and PPE and that the unrealized gains indirectly could affect the dividend.

The quantitative part was complemented by the qualitative part, where we did interviews to get a wider dimension of the effects that the implementation have had on dividend. What surprised us most with the interviews was that some of the interviewed didn’t mean that the change of dividend policy was due to the implementation of IFRS. That some interviewed also meant that the dividend was determined by the dividend policy and not vice versa, also surprised us. The reason why this surprises us is because we interpret the change of dividend policies, at least partly, as a direct reaction of the implementation of IFRS. When our opinion differs from the interviewed, one explanation to their answer could be that their primary aim with the change of dividend policy was to maintain a stable dividend, and that they therefore didn’t consider the implementation of IFRS as the main reason to the change. We believe the reason why the interviewed didn’t thought the dividend policy was determined by the dividend payout, was because they want the dividend policy to be fair for the result of the company. We believe most of the companies (that changed policy) thought the dividend policy were fair before the implementation of IFRS, and that they changed the dividend policy after the implementation because the old dividend policy wasn’t fair due to the new valuation method. Despite these possible explanations, we interpret it as they changed dividend policy due to the implementation of IFRS.

Overall we do agree more with Brav et al. than with Lintner regarding the factors that impact the dividend amount, as we believe that the consideration of earnings is of less importance when making the dividend decision. We agree with Brav et al. regarding the importance of holding on to the current actual dividend is higher than the importance of consider the dividend ratio when making dividend decision. In according to the assumption made by Kormendi and Zarowin there are more than permanent changes in earnings that impacts the dividend. Whether a change in valuation method can be seen as one determining factor, cannot be rejected, despite we haven’t found any direct connections between the implementation of IFRS and changed dividend. That the implementation of fair value hasn’t impacted the dividend payout is because the effects of fair value have been neutralized through the change of dividend policy.

If, however, the companies haven't adjusted their dividend policies for unrealized gains, we believe that there would be an effect on dividend due to the use of fair value. That our finding differs from the result by Goncharov and van Triest, we believe is due to which type of asset that are measured at fair value. Our opinion is that the valuation of investment properties is easier than the valuation of financial assets since it is easier to establish a market price and therefore lower degree of insecurity.

We believe that the use of fair value for investment properties has impacted the dividend policy, as the dividend policies had been adjusted for the fair value, in order to secure that unrealized gains not impact the dividends. We believe that the main reason to changing the dividend policy has been to avoid that the fluctuation in earnings should impact the dividend, which were predicted due to the use of fair value. The importance of having a stable dividend policy is supported by for example Brav et al. but also by the interviews we have made. An influencing factor of why the companies have adjusted the dividend policy for unrealized gains, we believe is due to a combination between knowledgeable investors and powerful creditors. The investors understand why the dividends aren't based on unadjusted earnings, which includes unrealized gains. The creditors on the other hand are powerful, which make them influential and gives the companies incentives to take responsible for the dividend payouts.

7.2. Suggestions on future research

Throughout the work with this thesis, we have found two research fields we believe are interesting for future research.

- The first field we found interesting for future research is whether executives' compensation systems are based on earnings. The reason this would be interesting is due to the increased earnings attributable to the use of fair value. Since the real estate companies are excluding unrealized gains in their dividend policies, it would be interesting to investigate whether the executives' compensations systems are including or excluding unrealized gains. It would be interesting to see if the companies distinguish between how to measure the performance depending on whether this should be based for dividend or bonus decisions i.e. "compensation" to shareholder vs. executives.

- The second area for future research is whether there is need of a tighter regulation regarding the possibility to make dividend payouts based on unrealized gains if private real estate companies are allowed to use fair value for investment properties. The reason why we found this interesting is due to the structure in private companies where the executives and the owner often could be the same person. Because of this, there might be other incentives for the owners to increase the dividend payout and base these payouts on unrealized gains, which in the end could risk the companies going concern.

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NAI Svefa(2012) *Svensk fastighetsmarknad*, http://fastighetsnytt.se/wp-content/uploads/2012/03/Svensk-Fastighetsmarknad.pdf, fetched 2013-05-03

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Annual Reports

Atrium Ljungberg 2004-2011

Balder 2005-2011

Brinova 2004-2011

Castellum 2001-2011

Catena 2004-2011

Corem 2007-2011

Diös 2005-20011

Fabege 2004-2011

Fast Partner 2004-2011

Heba 2004-2011

Hufvudstaden 2004-2011

Klövern 2004-2011

Kungsleden 2004-2011

Sagax 2004-2011

Wallenstam 2004-2011

Wihlborgs 2004-2011

Appendixes

Appendix A

Atrium Ljungberg is the result of a fusion in 2006 between the public Swedish company Ljungbergsgruppen, an old Swedish company that had been public since 1994, and the part of the Swedish consumer association, COOP, active within the real estate business.[114] Today Atrium Ljungberg has 57 real estates and their main focus is commercial and office estates. Their estates have a current value of 24, 6 billion SEK and are mostly located in Stockholm, Malmo and Uppsala.[115] Before the implementation of IFRS, Atrium Ljungberg dividend policy was to pay maximum 50% of their result, except capitals gains, as dividend.[116] After the implementation of IFRS, Atrium Ljungberg changed their dividend policy, to exclude the unrealized gains from the result available for dividends.[117]

Balder was a spin-off from the Swedish company Enlight AB in 2005, and went the year after that public. Today Balder owns 433 real estates, valued at 17, 6 Billions SEK and are located in; Stockholm, Gothenburg, Malmo and in growth areas.[118] Balder hasn't yet established a dividend policy; instead the Balder is focusing on growth, capital structure and liquidity.[119]

Brinova was established in 2002 when three companies through a fusion, become Brinova.[120] Today Brinova owns 32 real estates, valued to 2, 25 Billion SEK. They also own shares in several other real estate companies. Brinova is focusing on the south and middle part of Sweden, and two of the biggest clients are Citygross and Green Cargo.[121] Before the implementation of IFRS, Brinova had a dividend policy that allowed them to pay 50% of their earnings as dividends. The dividend policy was changed in 2005, where consideration to unrealized gain was made, but the same target ratio was kept.[122]

Castellum is one of the biggest public real estate companies in Sweden, with real estate's valued to over 36 Billion SEK. Castellum is divided into six subsidiaries, working in five regions

[114] Atrium Ljungberg(2006) *Historia*, http://www.atriumljungberg.se/Omoss/Vart-foretag/Historia/, fetched 2013-05-03
[115] Atrium Ljungberg(2013) *Atrium Ljungberg på två minuter*, http://www.atriumljungberg.se/Omoss/Vart-foretag/Atrium-Ljungberg-pa-2-minuter/, fetched 2013-05-03
[116] *Atrium Ljungberg*, Annual Report 2003
[117] *Atrium Ljungberg*, Annual Report 2006
[118] Balder(2011)*Balders utveckling*, http://www.balder.se/frontsida/balder/balderbolag/balder.aspx, fetched 2013-05-03
[119] *Balder*, Annual Report 2006-2011
[120] Brinova(2012)*Brinova startade starkt*, http://www.brinova.se/historik, fetched 2013-05-03
[121] *Brinova*, Annual Report 2011
[122] *Brinova*, Annual Report 2003,2006

of Sweden: Gothenburg, Stockholm, Malmo, Mälardalen and eastern Götaland. In total, Castellum owns 588 real estates, and have currently additional 47 development projects.[123] The dividend policy before the implementation of IFRS allowed Castellum to pay 50% of their earnings as dividends. After the implementation, Castellum changed their dividend policy from being based on earnings to instead be based on income from property management before tax. The payout ratio was also increased to 60% instead of 50 %.[124] In 2011, the payout ratio was changed back to 50%, when Castellum changed their base for dividend to gross profit. Castellum argued that the new dividend policy would be more in line with the actual dividend paid over the last years.[125]

Catena is a spin-off from Bilia, which were made in 2005, and became public the next year.[126] Today Catena´s real estate is valued over 850 million SEK. Their dividend policy, has since 2006, giving Catena the possibility to pay maximum 75% of their income from property management after tax as dividend.[127]

Corem is the result of the acquisition of M2 Industrilokaler made by the public biotech company Biolight International. After the acquisition did Biolight International changed name to Corem, and did after that a spin-off, of the former activity that Biolight had, and through this manage to take the business of the former M2 Industrilokaler public under the name Corem. Today, Corem owns 132 real estates, in Denmark and in the middle and south part of Sweden. The estates are valued at 5, 8 Billions SEK.[128] Corem made their first dividend payout during 2009, and their first dividend policy, allowed do pay 25% of their income from property management. This policy were changed 2011, and currently allows them to pay 50% of their income from property management after taxes as dividend.[129]

Diös is relative a young company, established in 2005. One year later Diös went public.[130] Diös focusing on the real estate market in the north part of Sweden, and their real estate's are currently valued at 11, 9 Billion SEK. Diös established a dividend policy the same year they

[123] Castellum(2013) *The real estate portfolio*, http://www.castellum.se/en/castellums-operations/the-real-estate-portfolio.html, fetched 2013-05-03
[124] *Castellum*, Annual Report 2006
[125] *Castellum*, Annual Report 2011
[126] Catena(2006) *Catenas historia*, http://catenafastigheter.se/om-catena/catenas-historia/, fetched 2013-05-03
[127] *Catena*, Annual Report 2006-2011
[128] Corem(2007)*Bakgrund*, http://www.corem.se/F%C3%B6retaget/Bakgrund.aspx, fetched 2013-05-03
[129] *Corem*, Annual Report 2011
[130] Diös(2012)*Om Diös*, http://www.dios.se/omdios.html, fetched 2013-05-03

went public, allowing them to pay 50% of their earnings except unrealized gains as dividends.[131]

Fabege: In 2004 did Wihlborgs (who was listed) an acquisition of Fabege. The same year, Whilborgs decided to make a spin-off in dividend form, of the part of the company that previous had been Wihlborgs. The remaining company changed name at the company to Fabege and named the part that has been spin-off to Wihlborgs Fastigheter. This means that Fabege now was listed, while the "new" Wihlborgs went public first in 2005.

Fabege is focusing on properties within the area of Stockholm, and own 95 estates, valued at 31, 6 Billion SEK.[132] Before the implementation of IFRS, did the dividend policy of Fabege, allowed them to pay 50% of their earnings as dividend. After the implementation of IFRS, Fabege changed dividend policy to allowing them to pay 50% of operating activities and realized results from capital gains as dividend.[133]

FastPartner was established in 1987. The company went public 1994 but it wasn't until 2003 they did their first dividend payout.[134] FastPartner owns 145 real estates[135] in Stockholm and Gävle, valued at 7, 8 Billion SEK.[136] When FastPartner did their first dividend payment in 2003, they didn't have any dividend policy. Their first dividend policy was published in 2005. The dividend policy allowed FastPartner to pay one third of their earnings before taxes and unrealized gains as dividend.

Heba was established 1952 and stayed in private ownership until 1994 when they went public. Heba do only focus on real estate's within the area of Stockholm.[137] Today Heba own 60 estates.[138] Before the implementation of IFRS, Heba had a dividend policy allowed them to pay 80% of their earnings excluding items affecting comparability as dividend. After the implementation of IFRS, the dividend policy was changed, and instead, Heba was allowed to pay

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[131] *Diös*, Annual Report 2006
[132] Fabege(2013) *Detta är Fabege*, http://www.fabege.se/sv/Om-Fabege/Detta-ar-Fabege/, fetched 2013-05-03
[133] *Fabege*, Annual Report 2006, 2011
[134] FastPartner(2011)*Om FastPartner*, http://www.fastpartner.se/om-fastpartner, fetched 2013-05-03
[135] FastPartner(2012)*Fastighetsförteckning*, http://www.fastpartner.se/media/20913/fastighetsf_rteckning_per_2012-12-31.pdf, fetched 2013-05-03
[136] *FastPartner*, Annual Report 2012
[137] Heba(2010)*Historik*, http://www.hebafast.se/CM/Templates/Article/general.aspx?cmguid=0e1ed0d3-67b1-4493-bd51-6855168cd894, fetched 2013-05-03
[138] Heba(2012) *Verksamhet*, http://www.hebafast.se/CM/Templates/Article/general.aspx?cmguid=d31d0241-69dc-4d8b-a1f6-d7ac618dc956, fetched 2013-05-03

70% of their earnings excluded unrealized gains and items affecting comparability as dividends.[139]

Hufvudstaden is, in the sample, the oldest company, established in 1915 by Ivan Kreuger. The company went public in 1938. Today Hufvudstaden owns commercial properties in central Stockholm and Gothenburg.[140] Hufvudstaden own 30 commercial properties, valued at 23, 1 Billion SEK. Despite the implementation of IFRS, Hufvudstaden had maintained the same dividend policy. Their dividend policy allows them to pay half of the earnings from net profit from operations as dividend.[141] Since earnings from net profit from operations, arises from the cash flow statement, fair value adjustments are excluded.

Klövern was established in 2002 through a spin-off of Adcore. The year after, Klövern went public.[142] Klövern owns 387 real estates, valued to 22, 6 Billion SEK. The business is divided into four areas, active in the south and middle part of Sweden.[143] When IFRS was introduced, Klövern changed their dividend policy to exclude unrealized gains from valuation. The current dividend policy allows Klövern to pay 50% of their earnings exclude unrealized gains, as dividends.[144]

Kungsleden was created as a temporary solution for the Göta Bank AB, which can be seen as a spin-off, to handle their properties that they had taken over from borrower, that couldn't pay their debts, with the properties as security, during the 1990s. The temporary solution continued until 1999, when the company went public.[145] Today Kungsleden own 278 properties throughout Sweden, valued at 15, 8 Billion SEK.[146]

The aim of the dividend policy of Kungsleden has always been to have stable dividend payouts. Before the implementation of IFRS, Kungsleden was allowed to pay 50 % of their earnings as dividends. After the implementation of IFRS, Kungsleden changed base for their divi-

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[139] *Heba*, Annual Report 2003,2006,2011
[140] Hufvudstaden(2011)*History*, http://www.hufvudstaden.se/en/About-us/Hufvudstaden-in-brief/History/, fetched 2013-05-03
[141] *Hufvudstaden*, Annual report 2003,2006,2011
[142] Klövern(2012)*Historik*, http://www.klovern.se/sv/Om-klovern/Historik/, fetched 2013-05-03
[143] Klövern(2013) *Om Klövern*, http://www.klovern.se/sv/Om-klovern/, fetched 2013-05-03
[144] *Klövern*, Annual Report 2003,2006,2011
[145] Kungleden(2013)*Our History*, http://www.kungsleden.se/en/about-kungsleden/get-to-know-us/history/, fetched 2013-05-03
[146] Kungsleden(2013) *Våra fastigheter*, http://www.kungsleden.se/om/kungsleden/fastighetsportfolj/, fetched 2013-05-03

dend payout, from being based earnings to be based on cash flow from operations, to exclude unrealized gains from Fair value valuation.[147]

Sagax was established in 2004 when Effnet Group made an acquisition of Stockholm Reality Alpha KB and Stockholm Reality Beta KB. The company decided the same year to make a spin-off, of their technology operations as dividends to their shareholder. After that the Effnet Group changed name to Sagax, and the core business became industrial properties.[148] Sagax own 134 industrial properties both in Sweden and Finland, with half of their properties located in Stockholm.[149] Sagax has focused on growth and due to that, they haven't paid any dividends until 2011. When they paid their first dividend, they also established a dividend policy that allows them to pay one third of their income from property management after taxes as dividend.[150]

Wallenstam was established during the 1940s and stayed in private ownership until 1984, when the company was listed at the Swedish stock market. Today Wallenstam owns 300 properties valued at 28 Billion SEK, located in three areas; Stockholm, Gothenburg and Helsingborg.[151] The implementation of IFRS had no impact on Wallenstam´s dividend policy. This since the dividend policy of Wallenstam allowed them to pay 40% of their income from property management after taxes as dividend.[152]

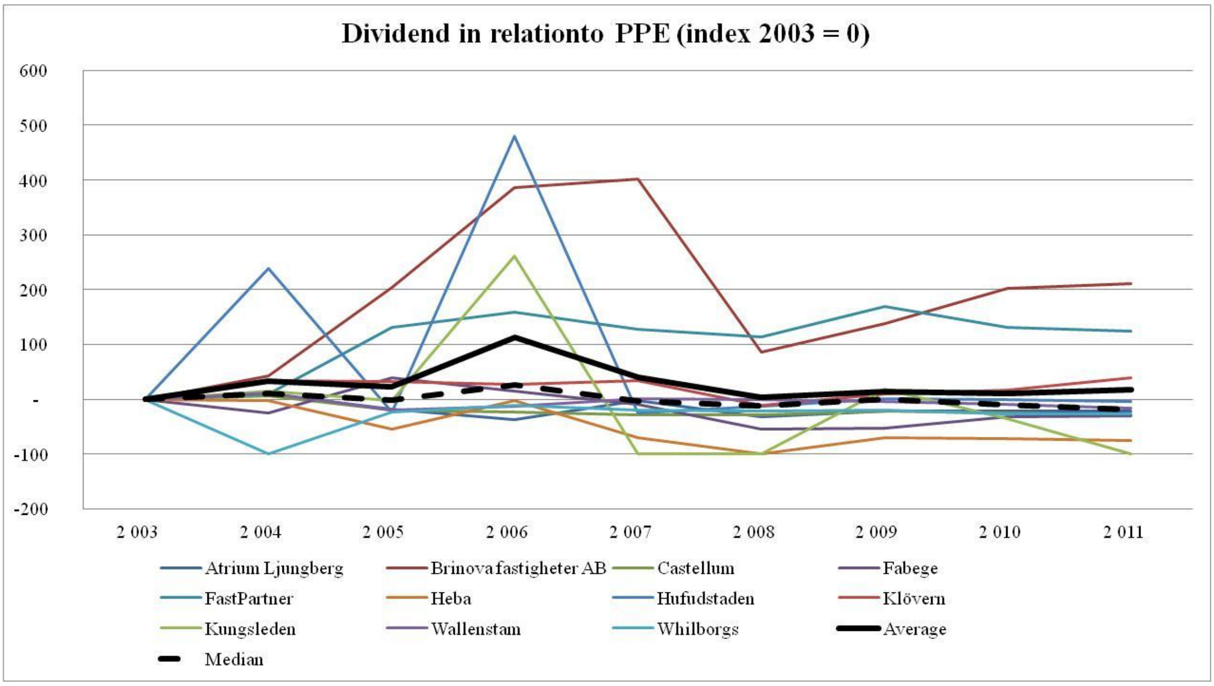
Wihlborgs was established 1924 and stayed private until 1990, when they went public. Through the acquisition of Fabege in 2004, and the spin-off of Wihlborgs, they went public again 2005.[153]

The "new" Wihlborgs is focusing on properties in the south part of Sweden and owns 253 properties in; Copenhagen, Malmo, Helsingborg and Lund[154] Before the implementation of IFRS, Wihlborgs had a dividend policy allowing them to pay 50% of their earnings. After the introduction of IFRS, Wihlborgs changed dividend policy, allowing them to pay 50% of their

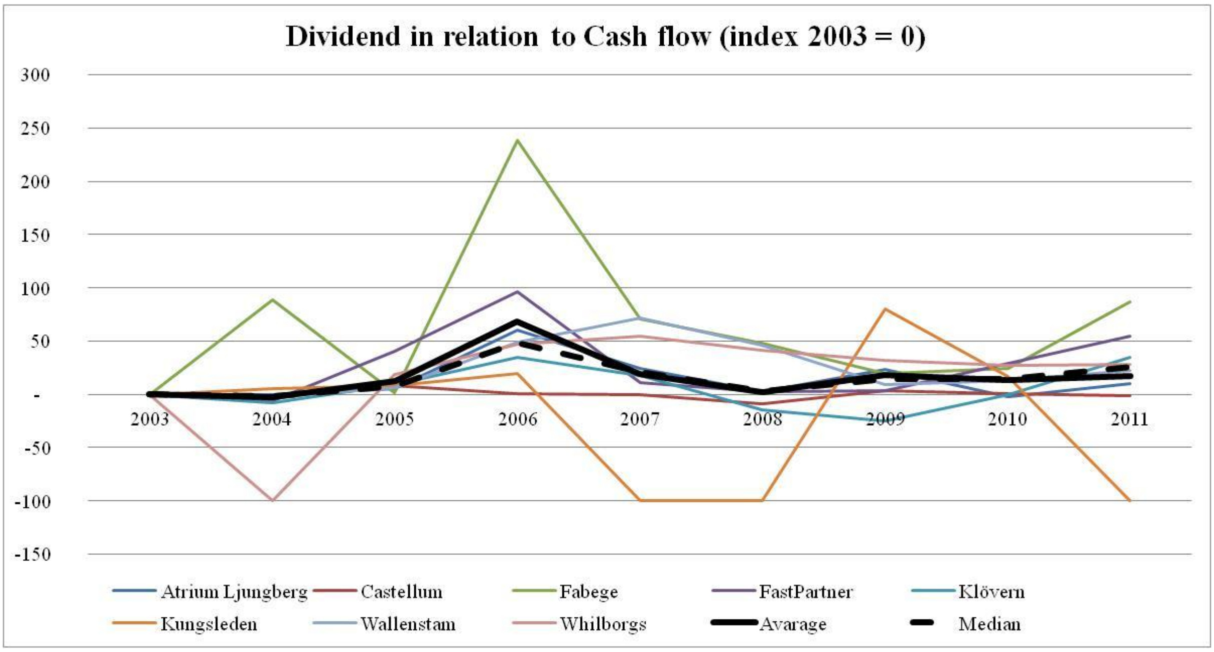
147 *Kungsleden*, Annual Report 2003,2006,2011
148 *Sagax*, Annual Report 2004
149 Sagax(2013) *Sagax i korthet*, http://www.sagax.se/sv/Om-Sagax/AB-Sagax-i-korthet/, fetched 2013-05-03
150 *Sagax*, Annual Report 2004,2006,2011
151 Wallenstam(2013) *Om Wallenstam*, http://www.wallenstam.se/om/om-oss/, fetched 2013-05-03
152 *Wallenstam*, Annual Report 2003,2006,2011
153 Wihlborgs(2013) *Historia*, http://www.wihlborgs.se/Om-Wihlborgs/Historia/, fetched 2013-05-03
154 Wihlborgs(2013) *Fastigheter*, http://www.wihlborgs.se/Fastigheter/, fetched 2013-05-03

income from property management after taxes, and half of the gain from sales of properties as dividend.[155]

Appendix B



Appendix C



155 *Wihlborgs*, Annual Report 2003,2006

Appendix D, Raw data for calculations

Dividend (thousand SEK)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Atrium Ljungberg	338 408	312 377	292 853	260 314	360 214	211 505	80 714	69 485	61 765
Brinova	104 396	104 396	91 347	74 480	154 671	146 895	61 836	21 189	16 951
Castellum	606 800	590 400	574 000	516 600	492 000	467 400	430 500	389 500	348 500
Fabege	486 675	438 940	328 783	328 764	677 233	761 339	721 253	624 461	364 613
FastPartner	132 750	116 766	101 536	88 844	88 886	81 525	63 750	33 150	25 528
Heba	41 280	45 403	41 280	-	38 528	105 952	48 160	33 024	33 024
Hufudstaden	505 352	474 412	433 158	391 905	360 965	2 392 700	299 086	824 964	247 519
Klövern	317 440	241 204	201 004	160 803	248 653	208 180	120 364	84 289	44 270
Kungsleden	-	273 004	511 883	-	-	1 602 000	500 507	284 379	246 462
Wallenstam	206 160	200 998	189 000	175 643	179 098	155 273	128 608	102 206	86 822
Whilborgs	288 218	268 999	252 882	235 391	233 944	211 356	134 499	-	365 000

Property, plant and equipment (thousand SEK)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Atrium Ljungberg	21 896 700	19 940 000	18 616 600	19 058 700	18 698 600	16 854 900	4 975 532	3 164 922	3 109 625
Brinova	3 773 900	3 884 800	4 300 000	4 492 000	3 461 900	3 389 900	2 284 800	1 674 200	1 903 000
Castellum	33 867 000	31 768 000	29 267 000	29 165 000	27 717 000	24 238 000	21 270 000	14 741 000	13 911 000
Fabege	29 150 000	26 969 000	29 193 000	29 511 000	30 829 000	27 188 000	21 296 000	34 584 000	15 070 000
FastPartner	5 990 300	5 099 400	3 815 700	4 192 600	3 943 500	3 177 100	2 781 900	3 053 100	2 577 300
Heba	4 151 112	3 925 355	3 283 011	3 045 105	3 117 900	2 674 400	2 542 500	824 410	806 284
Hufudstaden	22 251 200	20 148 300	18 125 300	19 083 200	20 530 500	17 408 800	16 276 000	10 272 100	10 437 000
Klövern	14 879 900	13 493 170	12 032 189	11 894 878	12 154 044	10 700 902	5 967 855	4 123 706	2 889 564
Kungsleden	26 122 300	21 500 600	21 860 500	28 575 800	25 737 000	22 256 000	25 750 400	12 463 000	12 396 300
Wallenstam	26 296 000	23 637 000	20 728 000	18 881 000	18 715 000	18 930 000	16 986 400	9 744 100	9 191 400
Whilborgs	18 046 000	16 678 000	14 418 000	13 620 000	13 397 000	10 888 000	7 890 000	6 672	16 580 000

Cash flow from operating activities before change in working capital (cash flow) (thousand SEK)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Atrium Ljungberg	612 700	632 900	473 600	506 200	576 433	261 640	152 136	139 185	122 803
Brinova	203 600	230 600	246 600	177 200	181 700	194 300	47 100	62 600	59 600
Castellum	1 174 000	1 117 000	1 057 000	1 080 000	937 000	887 000	760 000	760 000	664 000
Fabege	748 000	1 015 000	789 000	640 000	1 142 000	646 000	2 038 000	950 000	1 048 000
FastPartner	185 600	195 400	211 000	186 400	173 500	89 600	98 100	76 100	55 100
Heba	72 561	79 972	69 138	58 563	71 870	58 747	28 472	55 907	40 267
Hufudstaden	613 800	620 100	628 700	662 900	615 100	550 800	570 200	416 400	452 500
Klövern	432 638	443 886	494 575	345 201	388 447	283 661	202 681	167 339	81 284
Kungsleden	665 600	508 500	614 400	571 500	2 019 300	2 912 800	1 001 100	586 700	533 700
Wallenstam	388 000	409 000	400 000	277 000	240 000	240 000	279 000	239 700	199 900
Whilborgs	645 000	608 000	552 000	477 000	434 000	413 000	325 000	950 000	1 048 000

Earnings (thousand SEK)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Atrium Ljungberg	753 700	976 000	186 900	- 402 401	1 635 896	1 556 816	497 103	83 254	101 528
Brinova	232 200	276 800	312 100	241 100	351 200	346 000	212 200	59 200	46 200
Castellum	711 000	1 964 000	160 000	- 663 000	1 487 000	1 674 000	1 294 000	586 000	526 000
Fabege	1 141 000	1 697 000	425 000	- 511 000	1 812 000	2 266 000	2 666 000	1 352 000	718 000
FastPartner	224 700	508 300	34 600	- 77 100	363 800	315 000	321 400	41 300	17 600
Heba	210 963	239 464	148 133	- 25 470	258 060	355 175	211 414	37 718	35 225

Hufudstaden	1 435 300	1 733 300	- 357 500	- 449 200	2 400 900	3 423 200	1 333 900	664 100	370 100
Klövern	465 418	604 789	237 229	- 475 790	1 225 851	630 685	378 697	192 948	86 610
Kungsleden	638 400	841 000	249 500	- 961 500	2 399 500	3 573 000	1 986 800	928 300	745 200
Wallenstam	736 000	1 572 000	489 000	368 000	1 008 000	2 007 000	1 634 600	833 100	456 800
Whilborgs	665 000	922 000	487 000	- 49 000	1 114 000	850 000	470 000	1 413 000	718 000

Gross profit (thousand SEK)

	2011	2010	2009	2008	2007	2006	2005	2004	2003
Atrium Ljungberg	1 109 800	1 039 000	1 059 400	946 263	947 436	455 713	293 659	280 502	273 884
Brinova	225 500	229 800	288 400	237 000	216 400	219 400	149 100	132 900	147 800
Castellum	1 916 000	1 799 000	1 752 000	1 670 000	1 488 000	1 314 000	1 270 000	1 421 000	1 219 000
Fabege	1 227 000	1 348 000	1 465 000	1 438 000	1 312 000	1 401 000	1 714 000	1 107 000	1 030 000
FastPartner	294 500	246 700	264 200	345 300	252 700	190 500	202 200	178 200	138 500
Heba	131 007	130 335	112 771	106 773	97 048	96 834	95 093	82 298	82 031
Hufudstaden	964 600	943 900	943 900	906 900	865 100	745 100	814 700	736 800	647 000
Klövern	856 658	744 995	780 809	758 168	761 067	504 174	391 218	285 562	189 258
Kungsleden	1 877 400	1 545 200	1 817 300	1 982 200	1 705 400	1 528 200	1 304 100	1 017 100	917 300
Wallenstam	1 003 000	918 000	885 000	810 000	804 000	776 000	2 719 700	1 301 200	612 900
Whilborgs	1 042 000	921 000	888 000	832 000	723 000	627 000	497 000	1 107 000	1 030 000

Appendix E, Diagram 2 – 8

Diagram 2

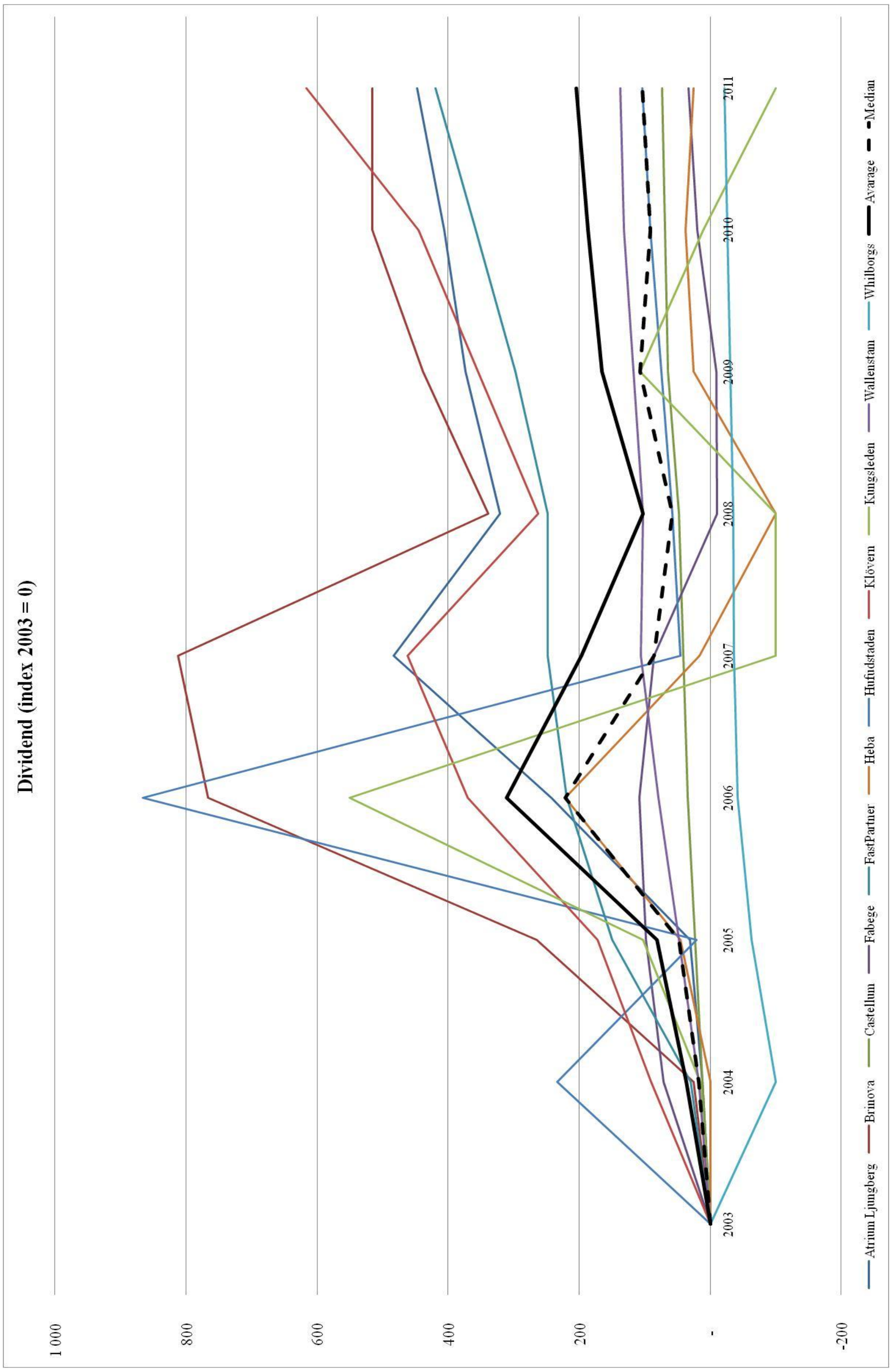
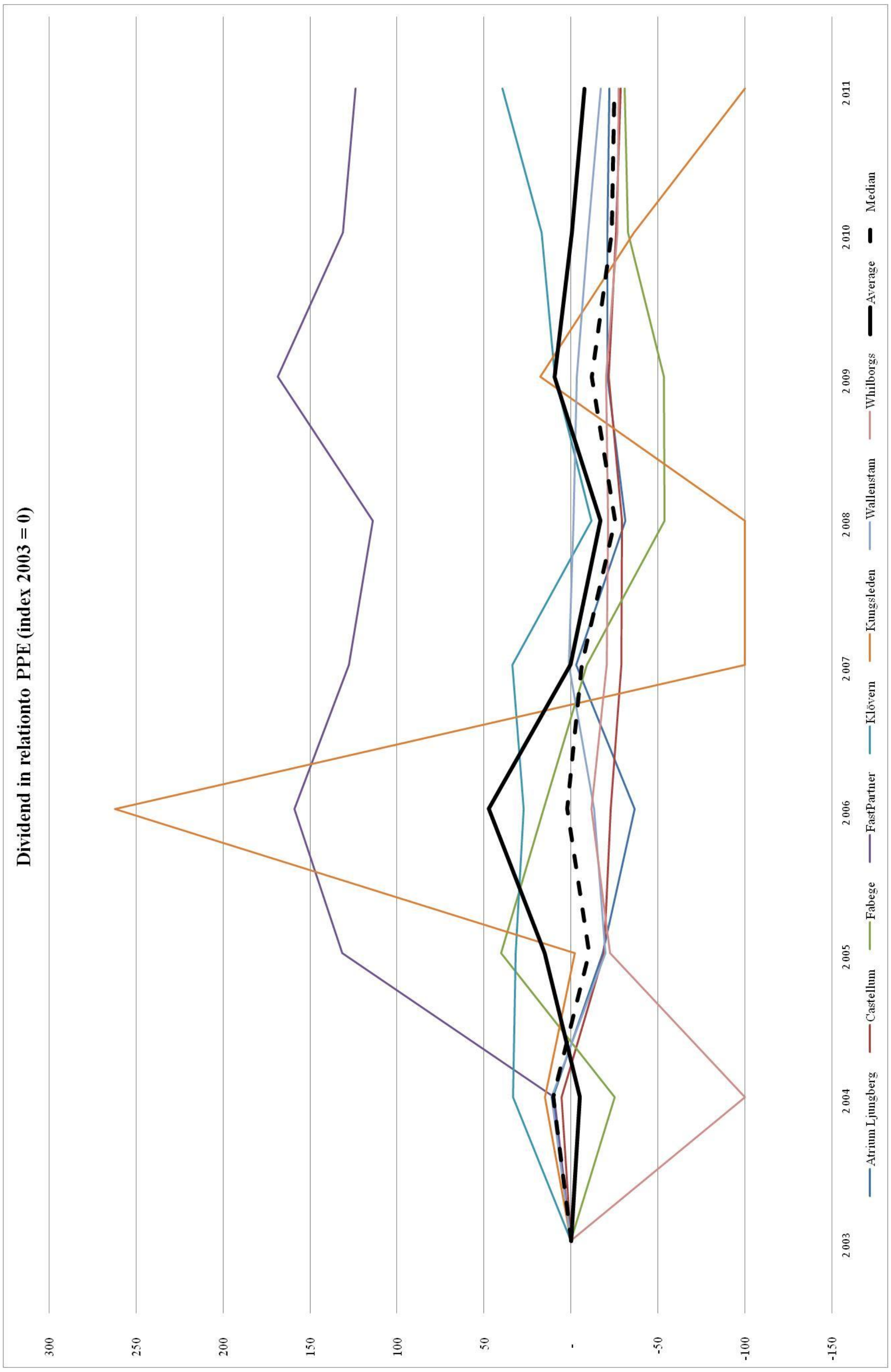
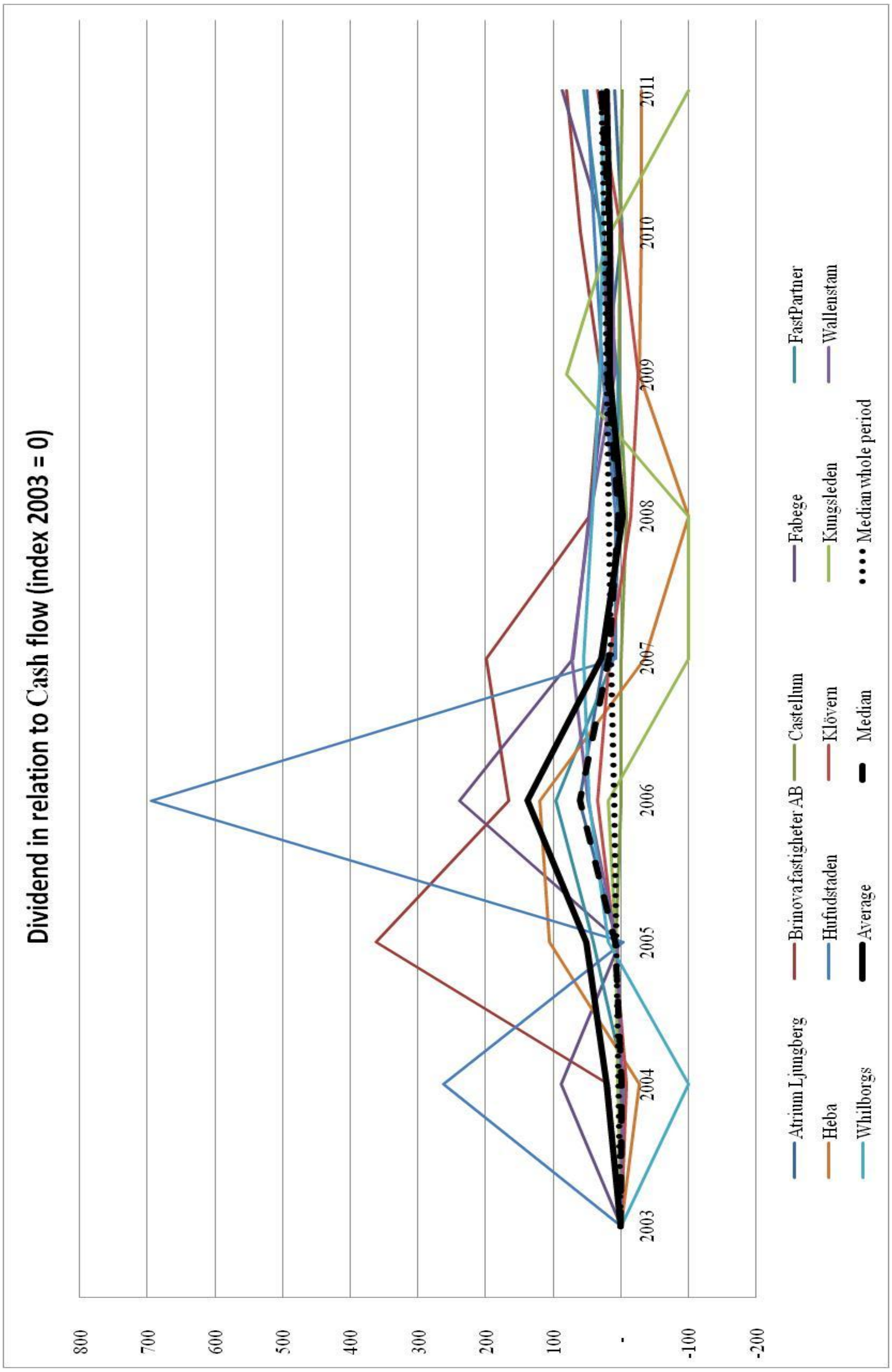


Diagram 3



Dividend in relationto PPE (index 2003 = 0)
300
250
200
150
100
50
-
-50
-100
-150
2 003
2 004
2 005
2 006
2 007
2 008
2 009
2 010
2 011
Atrium Ljungberg
Castellum
Fabege
FastPartner
Klövern
Kungsleden
Wallenstam
Wihlborgs
Average
Median

Diagram 4



Dividend in relation to Cash flow (index 2003 = 0)
800
700
600
500
400
300
200
100
-
-100
-200
2003
2004
2005
2006
2007
2008
2009
2010
2011
Atrium Ljungberg
Brinovafastigheter AB
Castellum
Fabege
FastPartner
Heba
Hufudstaden
Klövern
Kungsleden
Wallenstam
Whilborgs
Average
Median
Median whole period

Diagram 5

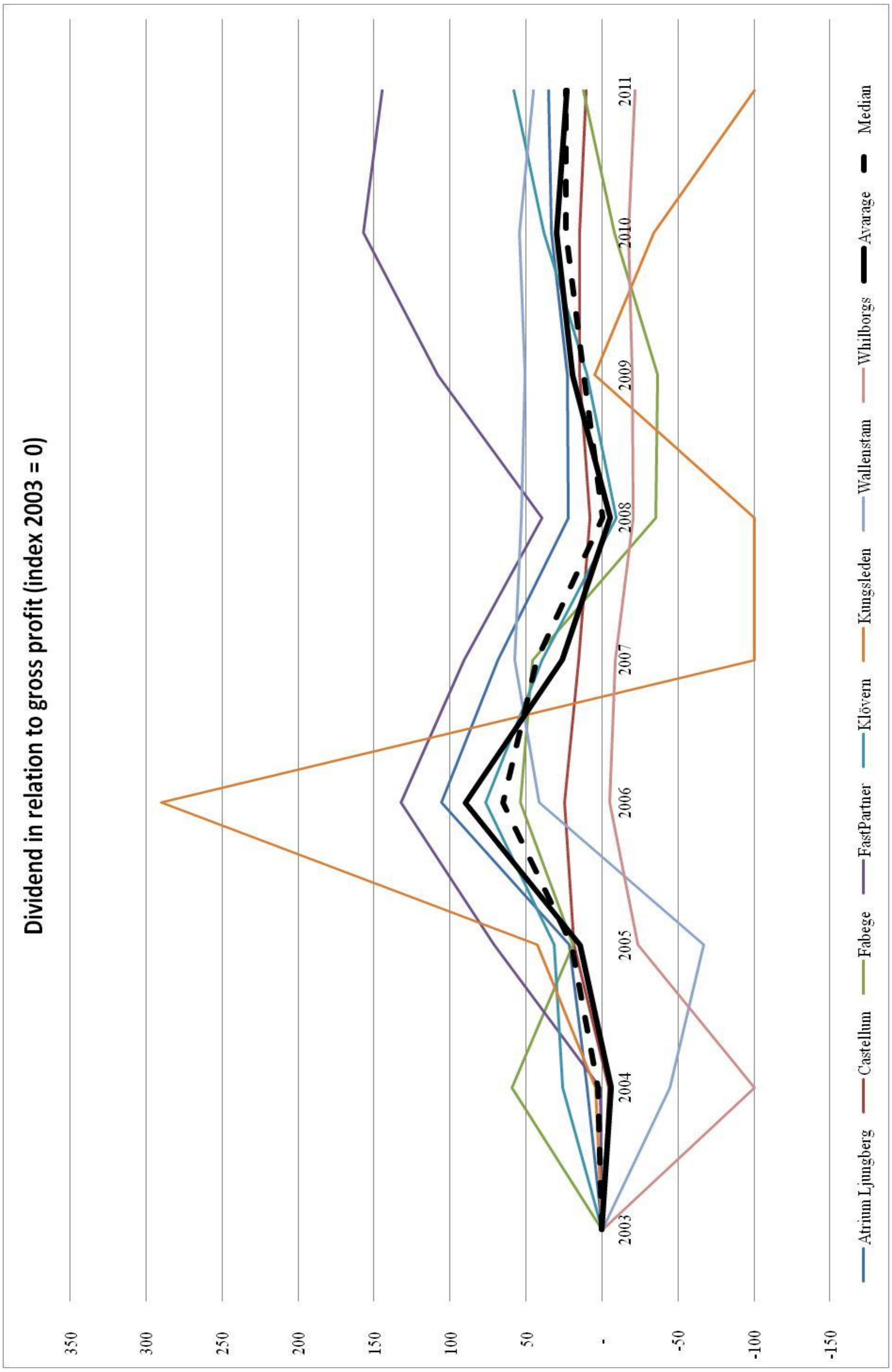
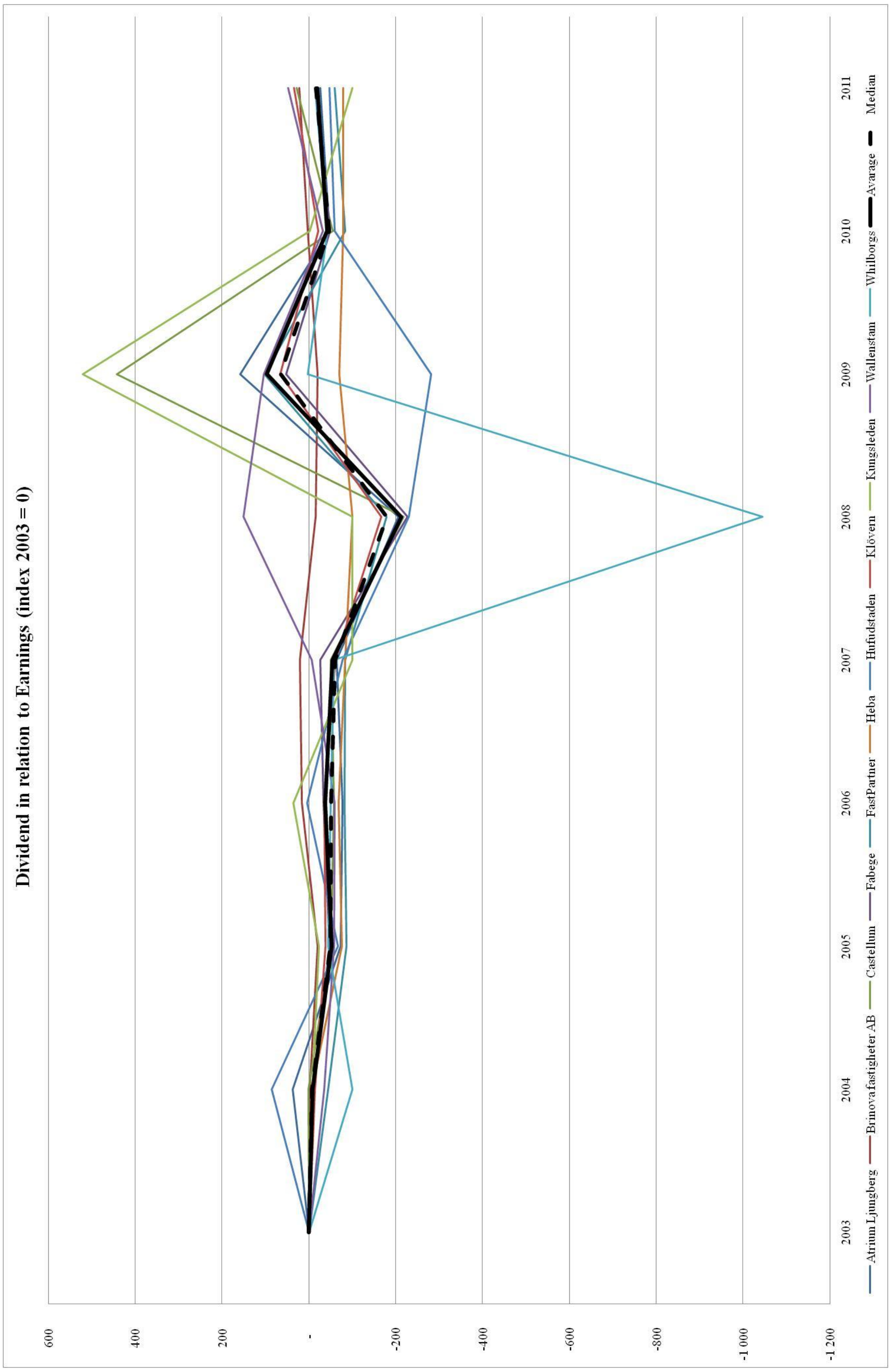
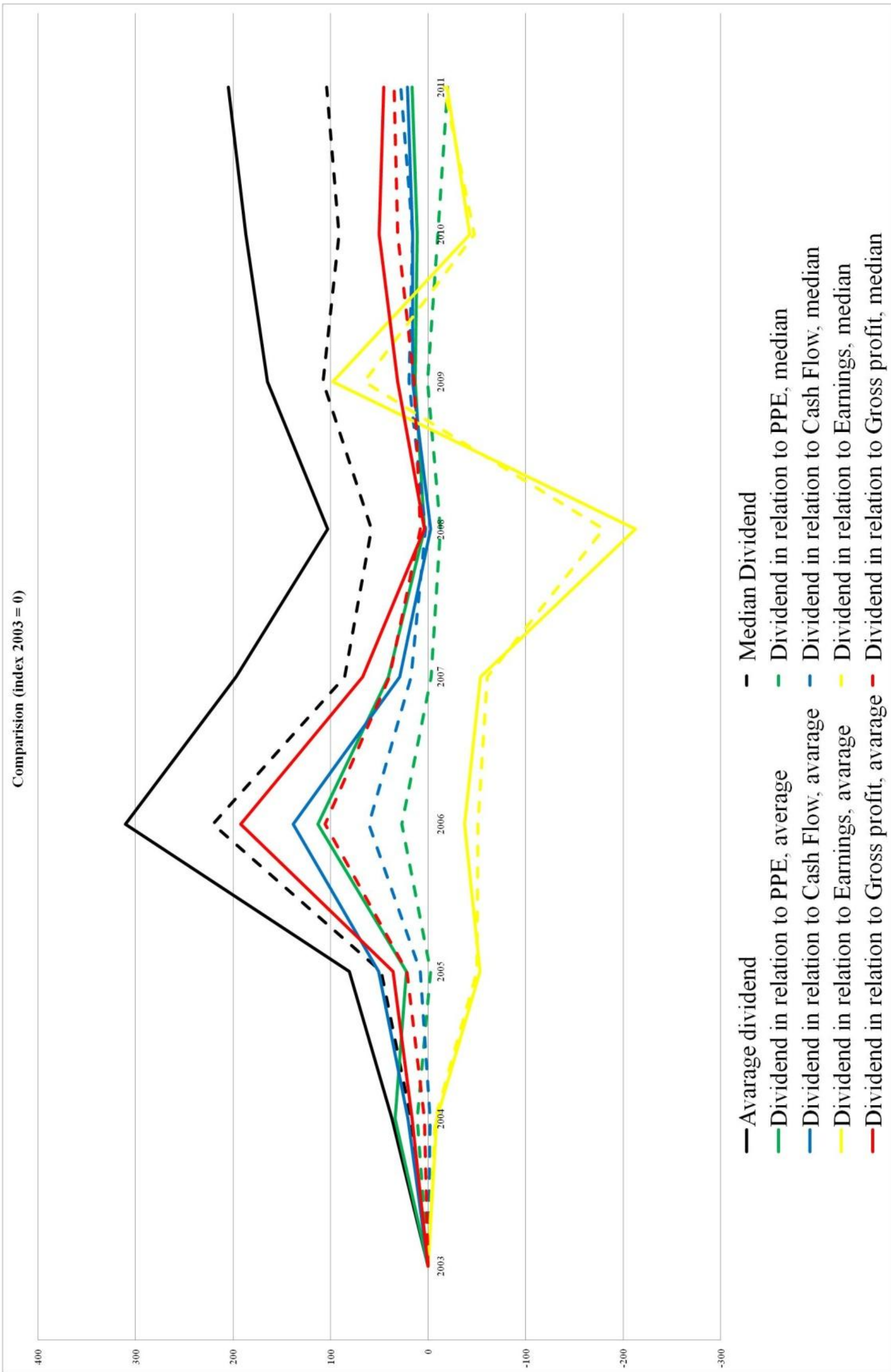

Dividend in relation to gross profit (index 2003 = 0)
Atrium Ljungberg
Castellum
Fabege
FastPartner
Klövern
Kungsleden
Wallenstam
Whilborgs
Avarage
Median

Diagram 6



Dividend in relation to Earnings (index 2003 = 0)
600
400
200
-
-200
-400
-600
-800
-1 000
-1 200
2003
2004
2005
2006
2007
2008
2009
2010
2011
Atrium Ljungberg
Brinova fastigheter AB
Castellum
Fabege
FastPartner
Heba
Hufvudstaden
Klövern
Kungsleden
Wallenstam
Whilborgs
Avarage
Median

Diagram 7



Comparision (index 2003 = 0)
400
300
200
100
0
-100
-200
-300
2003
2004
2005
2006
2007
2008
2009
2010
2011
Avarage dividend
Median Dividend
Dividend in relation to PPE, average
Dividend in relation to PPE, median
Dividend in relation to Cash Flow, avarage
Dividend in relation to Cash Flow, median
Dividend in relation to Earnings, avarage
Dividend in relation to Earnings, median
Dividend in relation to Gross profit, avarage
Dividend in relation to Gross profit, median