4. Dividend policy.

Dividends are a monetary income of shareholders. It in a certain degree signals that the enterprise in which actions they have invested the money, works successfully.

The dividend policy is making decision on, whether to pay the earned money in the form of dividends or reinvest them in firm assets.

The Reinvest part of profit is:

1. Internal source of financing of activity of the enterprise.
2. More acceptable and rather cheap form of financing of the enterprise expanding the activity.
3. Allows to avoid additional expenses which take place at issue of new shares.
4. Control of activity of the enterprises as in this case the number of shareholders does not change remains.

The essence of dividend policy, that is the decision-making, bringing to deduction from profit, consists in the following:

1. If level of profitability of investment projects of firm surpasses necessary level, will use net profit for their financing.
2. If the part of net profit remains unspent after financing of all accepted investment projects, it is distributed between shareholders in the form of dividends.
3. If the total cost of all worthy projects surpasses volume of net profit, the firm will finance this insufficiency a new share issue.

Thus, it is possible to draw the following conclusion:

- ♦ If the firm has many favorable possibilities for investment of means, the dividend exit will be equal to zero.
- ♦ If the firm has no possibilities for favorable investment of means, the dividend exit, most likely, will make 100 %.
- ♦ For any intermediate situation the dividend exit will accept values from 0 to 100 %.

Definition of level of dividend payments on one common stock is carried out on the following formula:

UDV = (FDV - VD) / $K_{p.a.}$

- UDV - level of dividend payments
- FDV-fund of dividend payments

- VD - payment of dividends to owners of preference stocks.
- Kp.a-number of common stocks