

The Private Investor Issue 168 · January 2014

A Message from the Chairman

To begin, I would like to wish you all a Happy New Year! I trust the markets have been kind you so far in 2014.

In our recent board meeting prior to the Christmas break we progressed further plans that we initially reported on at the AGM; addressing the financial position so as to allow UKSA to be less reliant on member funds and subscriptions, with the view to then allow such subscriptions to be driven back to the regions to be applied to the benefit of members there. So far it has proved difficult to generate funds this way, but your board will continue actively to discuss options and *would welcome suggestions from members*.



Additionally, Malcolm Howard has been working further on our cost base and financial reporting structures in order to bring about further improvements on UKSA finances and secure our wellbeing for the future. Recruitment has seen an improvement following on a well-supported World Money Show at the London Olympia - I feel that we have turned a corner here.

Much of this has been supported by the detailed work and knowledge of the UKSA Policy Committee, which you will have seen in November's issue continues to develop its relations with the FRC; and more recently, on the website, Roger Collinge gives more detail on the Conceptual Framework. Incidentally, while the website being maintained in its current format, when skills and funds provide, we do have plans and ideas to develop it so as to be to be more engaging in terms of content and usability, especially in the members' area.

The point is that all of these matters are aimed at developing a sound footing for UKSA to now revive and then grow, and to affirm its position as *the* group for representing private investors in the United Kingdom.

Chris Hulme

Can we send you the AGM Notice and Accounts by e-mail? For further particulars please see Page 10.

UKSA - The independent voice of the private shareholder

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2013-2014 - Whither Markets Now?

Given that this is our first issue since last November it seems a good vantage point to look back and see how far markets have come over the past year; and to try to discern the mist-shrouded path along which we'll be travelling in 2014.

Looking back is of course a lot easier than looking forward; we're struck by how much better 2013 turned out than we had any right to expect. Last February the main concern was an impending bond crash; the Fed's "QE Infinity" (the pledge to buy \$85 billion of Treasury bonds a month in perpetuity, or until the US unemployment rate fell below 7%, whichever was the sooner). Even though this seemed like a one-way bet for bond investors, was the Fed actually losing control of short-term interest rates? Bond prices were actually falling, and yields were rising. Japan introduced a similar QE programme, and the same phenomenon was observed there too. The result is that it has been a grim year for bond investors as the Barclays' US Aggregate index notched up its worst annual loss for 14 years with investors withdrawing \$144 billion just in the last few months of last year. Amazingly these developments have happened at a time when the Fed has continued to buy up over \$1 trillion of US Treasuries, which was supposed to cushion bond investors from such losses.



Bill Johnston Editor

Yet so far, although bond prices have continued to fall, they have done so in a relatively orderly manner. You couldn't really categorise this as a bloodbath. The bond crash some feared has not materialised. But is the danger even greater now? for reasons that will become apparent later in this piece where we discuss the future outlook.

The other big area of concern last year was the possibility of a new eruption of the eurozone debt crisis. Several countries were in the spotlight over concerns that they might have to default, notably Greece, Italy, Spain and Portugal. But as it happened, there was only a relatively mild irruption, and it involved Cyprus; as it turned out, the Cyprus mini-saga was as bad as the eurozone crisis got this year. But some commentators hey say that banks in countries such as Greece and Portugal remain in a precarious state, and that they will inevitably require another bailout. On the other hand, there's that now-famous statement in 2012 by ECB president Mario Draghi:

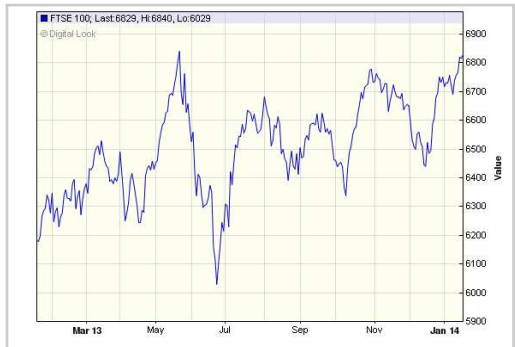
'Within our mandate, the ECB is ready to do whatever it takes to preserve the euro - believe me, it will be enough.'

The ECB that it hasn't had to carry out its threat yet; the threat itself has been enough to convince investors of its serious intent. The great hope is that the eurozone countries will be able to grow themselves out of trouble. It seems a forlorn hope until (in the eyes of the europhiles) you look at Ireland. Its economy was devastated by the banking crisis, and it was one of four countries that got a bailout from the troika. It suffered intense austerity.

The empty new housing developments all over the country are a testament to that. Yet Ireland has now returned to growth, and annual budget deficits are falling. The unemployment rate has dropped from a peak of 15.1% to 13.2%; and even house prices have started rising. Ireland has already raised €21 billion from bond issues, which covers its borrowing needs for the whole of 2014. So the hope is that if Ireland can escape the debt trap, other nations can. More sceptical voices point to beneficial differences as well as similarities with Spain Portugal and Greece and the ease with which Irish people can emigrate – and have to. Meanwhile Italy stagnates, and the latest figures from France have presumably been one factor prompting its President to travel by moped to demonstrate to his fellow citizens that thrift (*inter alia*) nestles close to the heart of government.

And what of last year's financial scandals? After the pension-transfer revelations, the endowment mortgage scandal, the sub-prime the PPI affairs, Libor interest-fixing (the EU having fined the banks a record €1.7 billion), a multitude of insider trading allegations and a host of lesser peculations, can we now assume that that the banking and finance sector has cleared up its act? Few UKSA members would be so complacent!

One story that's building rapidly is that Forex dealers around the world are colluding to manipulate currency exchange rates. Expect to see more headlines about this in the coming year. And there are strong suspicions that a similar thing is happening in the gold market. Although gold now trades around the clock on several futures exchanges, traders rely on the unfortunately-named 'London Fix', which happens twice a day. Five top bullion dealers have a conference call, compare notes, and set the gold price to balance their customers' buy and sell orders. They've been doing this since 1919. But now an Australian professor, *Andrew Caminschi*, has discovered that gold trading spikes higher during the conference call, which can last anything from a few



12-month FTSE 100 index graph

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minutes to more than an hour. During this time, the participants have inside information not available to the rest of the market. And there is no restriction on the participants trading gold or its derivatives during that period. The allegation is that the London 'fixers' are using their inside knowledge to profit at the expense of other investors. Furthermore, four traders interviewed by Bloomberg have stated that the price spikes are coming from orders placed by the London bullion dealers and their clients, using insider information from the conference call. Let's see if this new scandal has legs in 2015.

As the graph illustrates, investment is part art and part science - the conventional wisdom at the start of 2013 (backed by every iota of common sense coupled with irrefutable analysis of the behaviour of world currencies) pointed to the irresistible factors shooting gold inexorably towards, well - at least \$2,500 an ounce. The same factors which were supposed to impel the price skywards are still *in situ* more than ever perhaps. Will the U-turn take place in 2014? Ah well, that's where the art comes in. Best of luck.



This might be very interesting, but it isn't front page stuff... yet. There's really only one show in town for now: the Fed's tapering saga. When will it start reducing its \$85 billion bond-buying spree? The consensus view is that it won't begin before March at the earliest - unless the US employment figures turn especially good, in which case the Fed may bring it forward. That's why we have all this 'good news-is-bad-news' nonsense - every time the economy looks to be recovering well, stock-markets go down because they fear the withdrawal of the stimulus.

Has the Fed made a terrible mistake? The QE programme was meant to be an emergency measure that would only last a few months. But it has gone on for years, with very little effect on the economy. Most of the money has either gone to prop up the banks' balance sheets, or has driven up share and other asset prices. If this analysis is correct the outlook for equities appears fairly sunny at least *pro tem*.

Bill Johnston

Holding shares directly without paper certificates

In the last issue of *The Private Investor*, I reported that pressure from the European Union to bring about an early end to paper share certificates was softening. It now seems even more likely that what is technically known as the “mandatory dematerialisation” of shareholdings will be delayed, perhaps for as long as ten years. This is likely to be principally a result of UK government pressure, as our politicians are fearful of what is believed to be millions of voters, pensioners in particular, rising in rage if their share certificates become worthless.

But would rage be the right reaction? Only if we’re forced into nominee accounts: that would be a scandal.

As I noted last time, the holding of paper share certificates is already being eroded and this is a process which may be difficult to stop. Power rests with the stockbrokers and by interposing themselves between investors and the companies in which they invest, stockbrokers are able to levy charges which, except for those who may choose this means of holding their investments, are in reality completely unnecessary. I refer, of course, to pooled nominee accounts, into which private investors are enticed, cajoled and bullied, with the alternatives of holding paper certificates or using personal (sponsored) Crest accounts either made unavailable or priced beyond reach.

All brokers charge for providing nominee accounts, in a variety of ways. Some charge for collecting and remitting dividends, some for providing company reports and attending AGMs, some for other things. Your investments are a source of a broker income *after* you’ve paid for them and if you want out they’ll charge you for that too whether or not they are sold. But if you hold your shares directly from the companies which issue them, there will be no extra charges for what the Companies Act tells us are shareholder rights. Using a nominee account breaks the link between investor and company and what should be the investor’s automatic rights, paid for by the company, are now only available, as a concession, from the nominee account provider, the broker.

The pressure to go electronic, to “dematerialise” shareholdings, is inexorable. Even the UK government is probably hoping that by, say, 2025, most of those who value the direct legal ownership of shares guaranteed by their paper certificates will have died off. That is to treat the matter as a “people problem” but it’s not. It’s a systemic problem, which will become worse not better if nothing is done. Fortunately, a solution is on the horizon, in the “direct record

model” which was presented to UKSA’s members at a specially convened conference last July (see Issue 165). Set out below is how the direct record model will work. I would like all members to consider it, however you currently hold your shares. See if you can find any flaws in it and please let me know if you do, because as things stand I can see a lot to be gained if we could, collectively, give the model our support.

Eric Chalker, Policy Co-ordinator

The Direct Record Model will work this way:

1. Just as now, you will need to have an account with a stockbroker which is satisfied that it “knows its customer”.
2. To buy shares, you will give an appropriate instruction to the broker which then carries out the purchase just as it would do today.
3. Once the purchase the broker has undertaken on your behalf has been carried out, you will receive a contract note from the broker just as now and also just as now the registrar will be notified of the transfer of those shares into your name.
4. Instead of a paper share certificate sent to you by the registrar via your broker, you will receive a notification, on paper or by email (your choice), of the unique number which identifies your shareholding on the company’s register. If the purchase is to supplement an existing shareholding, your broker will be able to request that the shares are added under the existing unique number (assuming those shares are already in dematerialised form).
5. Because your shareholding will be separately identified and recorded on the share register of the company in which you have bought and become the legal owner of shares, you will have the same relationship with that company as has been the case when holding a share certificate printed on paper. Your right to receive company reports, dividends and other material (including any additional shareholder benefits) will be exactly the same.
6. To sell all or some of the shares you hold in a company, you will provide your unique number as part of the sale instruction to any broker with which you have an account, which might first check your holding with the registrar before carrying out the sale just as it would do now.
7. You will receive a contract note from the broker in the usual way and the registrar will be notified of the transfer to enable settlement of your sale transaction.
8. The registrar will amend the share register, reducing your shareholding by the requisite amount and then the transaction will be complete. You will receive the sale proceeds from your broker in due course, just as today.

The Money Advice Service Under Pressure

In 2010 an extension to the Financial Services and Markets Act 2000 enshrined into statute a body called the Consumer Finance Education Body (CFEB), to be under the joint control of the Financial Services Authority (FSA, the regulator at the time) and the Treasury. UKSA made strong representations both in public and private that this was a mistake, citing potential conflicts of interest, confusion of objectives and weak governance.

It came as no surprise when a recent Treasury Select Committee report delivered a scathing attack on the appointed CFEB – the Money Advice Service (MAS) – citing (ahem) conflicts of interest, confused objectives and weak governance. The report stopped short of demanding immediate closure but called for an independent review of the service to report next summer and expected to have a significant bearing on whether it continues. *'We are unconvinced the service has adopted the right strategy or that it performs the correct role.'* In truth, to those of us with historical perspective this was a car crash that could be seen coming a long way off. UKSA has always been a staunch promoter of financial education and unbiased financial advice. It has followed, with a weary eye, the history of the regulator's involvement with financial education. It makes a depressing story.

The FSA (predecessor of the current regulator, the Financial Conduct Authority) first introduced its consumer education work in 1999. Six years of scattered initiatives followed: *'Education for Financial Capability'*; *'Adult Learning Programme'*; *'Consumer Publications'*; *'Consumer Help Website'*; *'Consumer Campaigns'*; *'Consumer Research'*; *'Consumer Helpline'*; *'Comparative Tables'*; *'Interactive adult learning programme'*; and *'tools to analyse consumer products and their inherent risks'*. These initiatives became subsumed into a 'National Strategy for Financial Capability' first given prominence in the FSA's 2005/6 Business Plan, which trailed (inter alia) *'launching a financial healthcheck tool on websites'*. Five years of work on the National Strategy followed. In 2010 the activity was appointed as CFEB and branded as MoneyMadeClear, (once again announcing *'a new money guidance pathfinder to include an advice website'*). After a year or so, but not before some branding expenditure, 'MoneyMadeClear' was quietly renamed 'Money Advice Service'.

Three business plans followed, for (April – March) 2011/12, 2012/13 and 2013/14. These remarkable documents, weighing in at 20, 28 and 46 pages respectively, manage to contain not one single word on achievement against the objectives in the previous year's plan; not one word of evidence to substantiate 94 pages of promises. That probably didn't matter much, as it

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happens, given the weakness in the FSA's oversight exposed in the Committee's report. Thankfully, the Select Committee review was announced.

UKSA responded to the call for evidence with a 1600-word submission supported by 6000 words of evidence. It focussed particularly on the evidence of governance weaknesses and made proposals to correct them. It made a detailed critique of the web offerings as evidence of lack of competence (Martin Lewis of MoneySavingExpert.com, in his later verbal submission to the Committee, rather more succinctly described the website, with particular reference to an interactive tool called the Health Check, as 'crap'). The Committee report twice referenced UKSA's submission.

So here we are. After some 15 years of attempting to attach an education function to the regulator, and £250m+ of expenditure (depending on what gets counted – the 2013/14 budget was £46 million for Money Advice and £35 million for Debt Advice), we have achieved what exactly? The Committee's call for an independent review needs to be heeded. The Treasury wants to conduct its own review, but its motives are questionable: it bears some responsibility for the mess, and it likes the current structure and particularly the funding method. The MAS is funded not out of general taxation but out of two separate levies on the financial services industry, one to cover 'Money Advice' and one to cover 'Debt Advice' This is equivalent to the foxes funding the chicken-wire (c.f. the current excitement about green energy funding) and it's a hidden tax on all savers. It is hard to suppress the suspicion that an ill-educated public suits both the industry, which can continue to peddle its unsuitable products, and the Treasury, which depends on the industry's tax take. And of course a genuinely effective free advice service is a threat to the existing 'advice' industry.

The evidence of Sajid Javid (Financial Secretary to the Treasury) to the Committee in June 2013, after all other evidence had been taken, was not encouraging: *'I think MAS has an important role in this area and, from what I have seen so far, it is carrying that out effectively, although it is early days with this new mandate'* and he defended the Health Check with *'I think it is a very useful tool'*. In the face of the evidence this is denial on an epic scale (or, more likely, lack of interest allied to weak briefing).

Four years (or 15 years?) may be 'early days' for the Treasury but the rest of us would prefer to see a little more urgency and a lot more understanding of what is needed to build a financially-literate society.

John Hunter

Northern Rock Shareholders Action Group

It's been a while since there was anything substantive to report from the group but there are positives ahead of us from here.

The unexpected response from the European Courts in late 2012 that refused even to have our case heard led to many questions of "how can this be fair and right?" Much consideration and deliberation has been given about the legal case and arguments put forward that will never see the light of day in a fair and final hearing, but the revelations of what did actually happen in the midst of 2007 and early 2008 are nevertheless enlightening indeed.

Whatever legal arguments that were presented, it still hasn't been satisfactorily answered as to why and how could the former Labour Government trod roughshod over its heartland voters in the North East of England taking property and shares that has by many been termed "Unjust Enrichment". The latest best-guess is that the enrichment gained from the nationalisation of Northern Rock is to the tune of £12 billion, all from a bank that was deemed worthless by Labour.

This action group has continued to work behind the scenes on how we can now take this case forward and we will be picking up on this in the coming weeks to progress our next challenge to the claims made about the bank when it was taken from us in 2008. Updates will appear on the Northern Rock Action Group page of the UKSA website.

AGM Notice and Accounts

In preparation for this year's AGM and to make use Article 19 which was revised at last year's AGM. The purpose is of course, to allow electronic communication of AGM Notices; to this end we will soon send you an email requesting your agreement for us to send the notices to you by email.

You will recall that whilst the Article was amended to allow these to be emailed this would only be done by you "opting in" and the default position would be that you would receive Notices by post.

We would be grateful if you would email Liz Baxter at uksa@uksa.org.uk to confirm you are in agreement for the Notice and Accounts to be sent by email and to confirm which email address you would prefer. This will also make it easier for you to vote as you can return your voting paper by the same method, saving your own postage costs as well as UKSA's. Please look out for the email arriving any time soon!

Chris Hulme

EuroFinUse

EuroFinUse has been nominated for a European Public Affairs Awards, which single out organisations for excellence in their respective sector. The nomination recognises EuroFinUse's expertise in engaging stakeholders on a variety of policy issues and its capacity to influence public opinion and decision makers alike in a challenging environment.



Guillaume Prache

I think that this news carries more weight than such things usually do and for this reason; just in case you missed it, here is a key paragraph from November's issue of The Private Investor:

'And what can be done to alleviate the burden of financial repression? Whereas a lot of answers were provided, one was reiterated over and over again and echoed by most participants at the conference and Guillaume Prache of EuroFinUse: "it is time to go back to basics and return to simple low-cost long-term saving products. The good news is that there's one product that was invented a very long time ago: it is called equities."'

But how do get equities to work for you? Living as I do in Central Europe there are two things worth noting; first the idea of equity investment as a hobby (and an especially absorbing one) as well as a savings strategy commands very little attention; and second, if you think that savings institutions are remote and insensitive (not to say incompetent) in the United Kingdom, then you would be in for a cold douche indeed by strolling into their counterparts here.

Even in Great Britain I do not wish to challenge professional money managers *per se*. There are many dedicated and skilled professionals well worthy of their hire. Equally however there are many, perhaps, given the nature of the bell curve when it comes to human abilities the majority, who are pretty clueless. The more junior elements have little or no experience of real life and are often wedded to fashionable and often disastrous theoretical constructs. Moreover, the attractions of the herd are compelling. Their superiors and sometimes regulators, impose guidelines or even rules for the spreading of risk which mean that your expensively-acquired advice will merely gravitate to the norm. But the idea that the individual can beat the professional, and should, is totally alien to the very vast majority even of moneyed people in Continental Europe, especially the ex-Communist lands; which is not to say that they expect sparkling performance from such funds as they do invest in. Nor do they get it – a state of affairs which is rendered less painful that it might be by the fact that such communications as they do receive as near-impossible to understand.

Bill Johnston

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Caveat Emptor – IFRS Accounting
is imprudent

by Malcolm Howard FCMA

In the September 2012 issue of 'The Private Investor' I set out what was wrong with IFRS (International Financial Reporting Standards) accounting. The key was then and still is 'prudence'. It seems to me that it must be extremely difficult for the layman to understand accounting in its current form when even qualified accountants are baffled, as explained below. Observe the figures.

Company A

Year to March 31	2009	2008	2007	2006	2005
Gross margin%	62.8	63.4	63.8	63.0	61.3
Interest cover (times)	(1.0)	6.5	14.3	13.8	7.0
Earnings per share (p)	(62.8)	89.5	186.1	81.2	29.9
Shareholders' funds (p)	435	503	426	238	158
ROC (%)	(4.2)	13.7	23.3	25.4	14.5
Return on equity (%)	(14.5)	17.8	43.7	34.2	18.9
Gearing ratio (%)	39.7	34.6	31.0	51.5	53.8

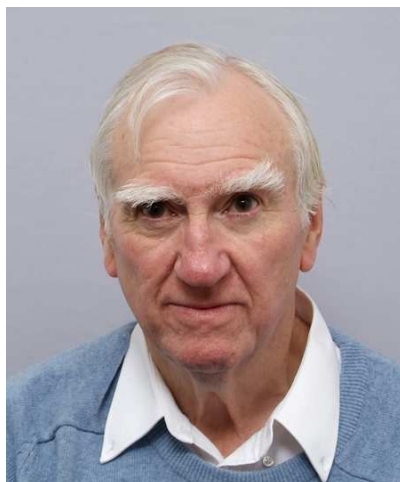
Company B

Year to March 31	2009	2008	2007	2006	2005
Gross margin%	47.4	48.8	50.8	48.8	45.3
Interest cover (times)	0.6	1.5	1.9	2.2	1.8
Earnings per share (p)	(4.7)	4.2	5.6	5.8	2.7
Shareholders' funds (p)	62	74	77	52	58
ROC (%)	2.4	5.5	6.8	7.2	5.4
Return on equity (%)	(7.5)	5.7	7.3	11.1	4.6
Gearing ratio (%)	81.2	77.5	69.4	75.7	67.7

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All of this took place at Chelmsford in February 2010 in which the talk was about company valuation. The delegates were asked to come up with a valuation per ordinary share for two companies. To arrive at their valuation for each company they were given a detailed ratio analysis, as seen on the previous page.

The delegates could see at a glance that Company A was much stronger financially than Company B. In fact, there was nothing encouraging about Company B, with, compared to Company A, had a much lower gross margin percentage and shareholders' funds and a much higher gearing percentage. In fact, Company B's latest gearing percentage of 81.2% may cause analysts some concern, while Company A's percentage at 39.7% looked relatively safe.



Malcolm Howard our Finance Director

Thirty-one delegates took part in the valuation competition, with the following results:

Valuation pence per share	Company A	Company B
Minimum valuation	5	2
Maximum valuation	960	501
Mean	268	94
Standard deviation	211	135

The delegates were stunned when they were told that Company A and Company B was one and the same company. Company A was the ratio analysis calculated from the actual accounts of the *Big Yellow Group plc*, published to conform to IFRS. Company B was calculated from how the accounts would have looked if produced under UK GAAP.

The differences between the two concepts as far as these accounts are concerned are shown in the table in the following page.

UK GAAP

IFRS

Rent	Charged to 'cost of sales'	Recognised as a financial lease and charged to interest.
Share based payments	Not recognised.	Theoretical cost of options charged to Income Statement (debit). There is no corresponding credit as the 'Equity' side of the Balance Sheet is the same regardless or whether or not this entry is made.
Investment properties	Valued at historic cost and depreciated as appropriate.	Valued at 'fair value' with unrealised profits/(losses) taken into the Income Statement.
Taxation	Based on realised profits.	Based on both realised and unrealised profits, with tax on the latter shown as 'deferred tax liabilities' in the Balance Sheet.
Dividends	Proposed dividends charged to Income Statement, with corresponding liability shown in the Balance Sheet.	Ignored
Goodwill	Intangible assets slowly amortised	No amortisation; impaired as necessary

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'Fair Value' would be fine if the valuation was at the Balance Sheet date and increases in valuation compared to historical cost were charged to reserves in the Balance Sheet rather than taken as unrealised profit in the Income Statement. Instead, being based on a valuation that reflects 'normal' rather than 'current' times means that 'fair value' is guesswork at best and sheer fantasy at worst. Such absurdity can be clearly seen in Big Yellow Group plc 2009 Accounts, where the following reservation was given with regard to fair value:

C&W's valuation report comments on valuation uncertainty resulting from exceptional volatility in the financial markets and a lack of transactions in the property investment market. C&W note that although there were a number of self storage transactions in 2007, the only significant transaction in the past 18 months was the sale of a 51% share in Shurgard Europe which was announced in January and completed on 31 March 2008. C&W observe that in order to provide a rational opinion of value at the present time it is necessary to assume that the property market will continue to trade in an orderly fashion. Accordingly, they have assumed that the self storage sector will continue to perform in a way not greatly different from that being anticipated prior to the 'credit crunch', however they have reflected negative sentiment in their capitalisation rates and they have reflected current trading conditions in their cash flow projections for each property. C&W state that there is therefore greater uncertainty attached to their opinion of value than would be anticipated during more normal market conditions.

Of course an even more absurd aspect of 'fair value' is where banks are on the verge of insolvency and cannot meet their liabilities. In these cases, IFRS reduces these liabilities from the amount owed to the amount that the bank can afford to pay back and the difference is taken as profit.

Roger Collinge and Eric Chalker, heading UKSA's Policy Group, spend hours behind the scenes making representation on our behalf. They have just completed a submission to the IASB (International Accounting Standards Board) pointing out the failures inherent in IFRS. Included in this submission is a detailed paper headed 'Prudence is missing'. This is a brilliant piece of work that is well worth reading when it is on UKSA's website.

Letters

Dear Sir,

I have read with great interest and not a little amusement Malcolm Howard's piece (*see pages 12-15 - Editor*) on the astonishing changes in perception which different accounting treatment can wreak on the opinions of even seasoned professionals when attributing value to an enterprise.

Accounts should be the things that tell us properly what the company has done with our money. The accounting standard setter, the IASB has recently put out a discussion paper on what it calls its Conceptual Framework. So UKSA has submitted comments. The problem is that the IASB are not intending to have a fresh look at certain basics as they take the view that these were settled in 2010. These covered the subjects of the reliability of the numbers in accounts, whether the accounts were drawn up on a prudent basis and who the accounts are for- what they call accountability.

Our submission basically says that they should go back to basics and think again on these matters. We are not alone in this. Along with some large institutions in the City we have been pushing the UK regulator, the FRC, to follow our lead and they have now made their own submission to the IASB with very similar comments. Not only that, the European parliament- perhaps surprisingly- is taking an interest. It is discussing an internal analysis of the IASB discussion paper which says much the same things.

Things won't move quickly. The IASB have a lot of people to please. But we'll keep pushing for change. As shareholders we cannot stop directors doing foolish things. But at least the accounts should make clear what they have done and the risks they have taken.

Roger Collinge

Dear Sir,

I wonder how many of our members use the FT's subscription service to get their daily copies. Are they inconvenienced as I am by the switch from vouchers to a card that has to be swiped or scanned?

By the FT's own admission the number of outlets where the subscription can be used is considerably reduced since it has to be one where PayPoint or Payzone is available and it cannot be used at WH Smith nor at four major supermarkets. My local newsagent accepts the card but when away recently I

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had to pay cash three times to get my copy for which I had already paid by subscription. The new system also prevents one giving vouchers to friends when one cannot use them oneself. However, there does seem to be an arrangement to suspend the card when on holiday which I have not yet tried.

I have both e-mailed and written to the FT complaining and asking for a refund for the copies I had to buy but so far have had nothing in reply. If others are equally inconvenienced it would be useful if they would complain too which might help to make the FT rethink the change.

Roy Colbran

I am reprinting a letter which appeared recently in 'The Scotsman' which other members may find of interest. Editor.

'Sir

'Terry Murden (Comment 15 Jan) is concerned about the falling number of individual shareholdings in quoted companies but he doesn't mention one major cause of this decline, namely ISAs (Individual Savings Accounts). In trying to encourage a "shareholding democracy" successive governments have forced shareholders into the clutches of stockbrokers and investment companies, which are the only entities allowed to operate ISAs. But there is no requirement to give holders of share ISAs the full rights of shareholders, while the title to the shares remains in the name of the operators.

'Perhaps Mr. Murden could point your readers in the direction of the UK Shareholders Association, whose main aim is to stand up for the rights of individual shareholders.

Roger MacCormack

May I make an earnest request for more members to join in our debates? It can be seen that both the Chairman and the Policy Coordinator are asking for feedback. 'The wisdom of crowds' argues that the disseminated information and opinion throughout our membership can and should be harnessed for the benefit of the objectives which are common to all of us. And there is no need to stop at the Letters Page; all our pages are open to those that have something to say.

I look forward to hearing from anyone interested.

Editor

Innovation Group

In November UKSA members had the opportunity to question leading figures from this company. This is the information subsequently published: and commented on by the group Chairman:

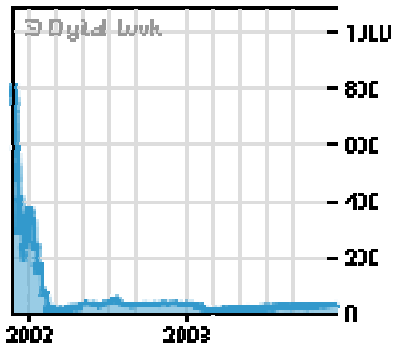
'I am pleased to report that the Group has had a very good year, growing profit at both the statutory profit and adjusted profit levels....'

'As with most businesses, we are dependent on the economy for an element of our growth as a high proportion of our revenue is volume

dependent. Therefore, I am especially pleased that we have been able to achieve a solid level of revenue growth against a backdrop of a flat economy in almost all of the markets in which we operate. This has been achieved by our teams selling into growth segments of the market and delivering excellent customer service which is on a par with the best in the industry. As the economies where we operate begin their slow rise out of recession, we are well positioned to take advantage of the expected increase in the number of both motor and property claims.

'Our business model.....has proved itself in terms of both profit and cash generation. We continue to be net cash positive which allows us to invest both in research & development that broadens the solutions we are able to offer to our customers, and in acquisitions. During the year we completed three acquisitions and a strategic partnership with AXA in France. As a Board, we continue to look for both bolt-on and strategic acquisitions, which would increase the volume of incidents handled, broaden our product set or increase our share of the margin within the supply chain, which currently we believe is the best use of our funds to continue to drive shareholder return.'

There is of course a long way to go for this business-process outsourcing specialist, and the share-price chart says much more about stock-market excesses than it does about the company. The shares have advanced by a brisk 10% since UKSA members had the chance to interface with the principals.

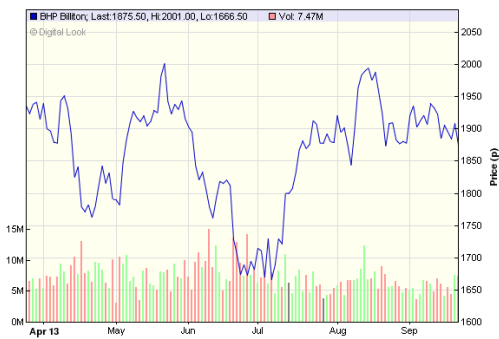


The Innovation Group

BHP Billiton

BHP Billiton gave a presentation to UKSA members just before the end of the company's September quarter.

Subsequently it was revealed that production had increased by 11% from the prior corresponding period. Optimisation of the Western Australia Iron Ore (WAIO) supply chain continues to unlock substantial value with 2014 financial year production guidance raised to 212 million tonnes (100% basis).



BHP Billiton - 6-month price graph

* Total petroleum production for the September 2013 quarter was a record 62.7 million barrels of oil equivalent. A 16% increase in liquids production was underpinned by significant growth in Onshore US volumes, primarily in the Black Hawk, and the start-up of a new production well at Atlantis. An additional Atlantis production well is scheduled for completion in the second half

* Queensland Coal continued to benefit from its focus on productivity as it sustained an annualised production rate of 61 million tonnes (100% basis) in the September 2013 quarter.

* Four major projects delivered first production, including the WAIO Jumblebar Mine Expansion where first production was achieved approximately six months ahead of the original schedule. All other projects are tracking to plan.

* The ability to simplify the portfolio and focus on diversified pillars of Petroleum, Copper, Iron Ore and Coal was said to remain an important point of differentiation. Since the beginning of the 2013 financial year the group completed major transactions totalling \$6.5 billion, which included \$2.2 billion received in the financial year to date.

The share price has ebbed slightly in the last three months, but a forecast PEG ratio of 0.5 and a yield look to be pretty staunch current indicators; the key question of course being the future of commodity prices.



Cranswick

The first half of the year has overall been quite a positive period for the Company.

Continued growth in sales, significant investment in the asset base, most notably the commissioning of the new pastry facility, along with the strategic development of the Company's pig breeding and rearing activities were all positive features of the six months trading. As previously reported the business had to contend with the challenge of rising input costs as pig prices reached record highs.



Both total and underlying sales for the period were significantly ahead of the comparable period a year ago. Total sales at £484 million were 15 per cent higher whilst underlying sales were 13 per cent ahead.

The increase in sales is especially encouraging. It further develops the sales growth achieved in recent years, evidences the success of the investment in new product development and underlines pork's health attributes, versatility and pricing credentials compared to other proteins. Adjusted operating margin was lower than that achieved a year ago due to the impact of the rise in pig prices to historical highs and the absorption of start-up costs at the new pastry facility.

The impact of higher pig prices has been partially mitigated by on-going efficiency improvements, sales volume growth, acquisitions and through constructive discussions with customers. Prices have continued at historical highs and, as previously reported, are expected to remain so through to the end of the calendar year at least. The pastry business is making progress and, working closely with its customer base, has recently seen a number of successful new product launches supported by a high profile promotional campaign. Consumer response to these products has been very favourable. The factory has substantial capacity to meet management's future sales aspirations and expectations are for this category to develop in a similar way to other comparable areas of the group.

British Polythene

The exception which proves the rule for UKSA members in terms of share-price performance is the visit to this company, reported in our November issue.

Prior to entering the closed period ahead of the preliminary results for the year to 31 December 2013, British Polythene Industries provided an update on current trading.



British Polythene Industries - 6-month share-price graph

'Trading remains broadly consistent with that disclosed in our Interim Management Statement on 8 November. Demand has been slightly better than last year and we currently anticipate that underlying volumes for the year, excluding additional volumes from the acquisition of Flexfilm, will be marginally ahead of 2012.'

'Raw material costs did soften slightly in November, but are firming in December with a forecast of further increases early next year, a similar pattern to last year.'

'We anticipate that our underlying trading results for 2013 will be broadly in line with current market forecasts, but we now expect to incur costs of around £1 million for restructuring in our Consumer

business where we have very recently been unsuccessful in retaining a contract for bread bags with a major UK bakery. This has resulted in the announcement of around 90 redundancies at our Worcester plant. After the implementation of this restructuring, we do not anticipate that this loss of business will have any noticeable impact on future profit.'



BPI's Investment in recycling

Regional Information

These events are open to members from all regions, and their guests, unless otherwise indicated. For 'waiting list' events all places are taken but there is a waiting list for cancellations.

LONDON & SOUTH-EAST

All events must be booked in advance via the specific organiser. Future events are shown in this magazine and on the UKSA website. Members from other regions are very welcome. For more information please contact Harry Braund on 020 7731 5942 or email harrybraund@yahoo.co.uk

Within this region there is a separate Croydon and Purley Group which meets in Croydon, usually on the second Monday of each month, at the Spread Eagle pub, next to the Town Hall. Please contact Tony Birks on 01322 669 120 or by email ahbirks@btinternet.com, who will confirm actual dates. There is no charge and no booking necessary.

MIDLANDS

For general information, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

At the present time no meetings are being arranged specifically for the region, but members are cordially invited to attend meetings in the North or South West regions where they will be made very welcome; or indeed London if that is more convenient.

SOUTH-WEST AND SOUTH WALES

All South-West events must be booked in advance, and are open to all members and their guests subject to availability.

SCOTLAND

For information on Scotland please contact Mr George Miller at g.miller1010@btinternet.com

Didmarton: The King's Arms, Didmarton: cost is £22.50, including coffees and lunch. Events are at 10 for 10.30am. To book, contact Peter Wilson 01453 834486 or 07712 591032 or petertwilson@dsl.pipex.com

NORTH-EAST

Advance notice is required for all company visits and lunches. Knaresborough: venue is the Public Library, The Market Place, Knaresborough. For more information (except where stated otherwise), please contact Brian Peart, 01388 488419.

NORTH-WEST & NORTH WALES

For details of events, please contact D. L. King, 01829 751 153

It's all about Company Meetings...

One of the most vital aspects we hear members talk about as a reason for being an UKSA Member are the analyst-style meetings with companies on which UKSA has a phenomenal track record. With over 75 meetings arranged in London and Southeast alone in the last few years and the activities in the Southwest and Northeast maintaining a proactive programme of events, its all credit to the Chairs and Officers in these Regions that members have such a varied and educated programme of company meetings.



We are continually meeting new companies and more recently have been speaking to SSE, the energy company based in The Fair City of Perth. They are keen to engage with private investors and to promote shareholder value in SSE. This bears all the hallmarks of the type of commitment UKSA Members look for in companies.

We are looking to arrange an Analyst style meeting with SSE nearer summer time and we will keep you posted on progress. If any members are interested in meeting SSE, please email me at chairman@uksa.org.uk and I will follow up accordingly.

Chris Hulme

Shareholder Meeting with Diageo PLC

Diageo is the world's leading premium drinks business with an outstanding collection of beverage alcohol brands across spirits, beer and wine. These brands include Johnnie Walker, Crown Royal, J&B, Windsor, Buchanan's and Bushmills whiskies, Smirnoff, Ciroc and Ketel One vodkas, Baileys, Captain Morgan, Tanqueray and Guinness.

Diageo trades in approximately 180 countries, employing over 28,000 people around the world. With offices in 80 countries, they also have manufacturing facilities across the globe including Great Britain, Ireland, United States, Canada, Spain, Italy, Africa, Latin America, Australia, India and the Caribbean. Diageo has been named 'Britain's Most Admired Company' for the third time, and for the second consecutive year, in a peer review of corporate reputation run by leading UK business magazine Management Today.

At the recent Investor Conference, CEO Ivan Menezes, said:

'Diageo is a strong business and through the last five years, we have strengthened it. We've widened our geographic footprint as we increase our presence in the emerging markets. World class marketing and the level of our spend has built even stronger brand equities over the last five years, with share gains in scotch, vodka, rum and gin. We've taken innovation to a new level and led the industry. We've increased our focus on cost and we are now delivering efficient growth with sustained top line growth and margin improvement. We will remain very disciplined on capital deployment.'

We will receive a presentation from Angela Ryker Gallagher and Pier Falcione, Investor Relations Directors.

Attendance is limited to 22 members and places will be allotted on a

Date	Wednesday 12 th February 2014
Location	21 St James's Square, London SW1Y 4JZ
Assembly	10.30 am onwards
Meeting Start	11.00 am
Meeting Concludes	12.30 pm
Room Capacity	22
Company Contact	Suzanne Austin 07803 857088
Group Leader/ Organiser	Phil Clarke

first come, first served basis. Can you please reply directly to me, preferably by e-mail? I shall be sending a list of attendees to the Company on Wednesday 5th February for security/reception purposes.

UKSA members who have not attended one of these meetings may not appreciate how valuable they are. They are invariably addressed by one or other of the three principal directors and the information presented is the same as that given to City analysts. For some of those who do attend, these occasions are UKSA's most valuable membership benefit and, for this reason, there is often competition for places.