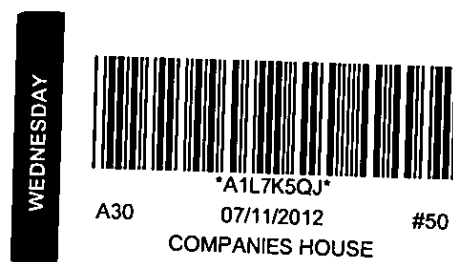


WELSH HIGHLAND RAILWAY LIMITED
(Limited by Guarantee)

DIRECTORS' REPORT
and
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011



Company No 0790125 (England and Wales)
Registered Charity No 1039817

WELSH HIGHLAND RAILWAY LIMITED

(Limited by Guarantee)

COMPANY INFORMATION

Directors C N J Boulter (resigned July 22, 2012)
S Currinn
L C Dittrich
G Farr
A J Goodwin
R W Harrison
J B Holmes
A McNicol
M J Owen (Chairman)
R A Sinclair

Secretary C R Willby

Company Number 0790125 (England and Wales)

Registered Charity Number 1039817

Registered Office The Station Building
Tremadog Road
Porthmadog
Gwynedd
LL49 9DY

Auditors Morris Gregory
Chartered Accountants
and
Statutory Auditors
County End Business Centre
Jackson Street
Springhead
Oldham
OL4 4TZ

Bankers Santander UK
Customer Service Centre
Bootle
Merseyside
L30 4GB

CAF Bank Limited
25 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4JQ

National Westminster Bank Plc
72 High Street
Porthmadog
Gwynedd
LL49 9NR

WELSH HIGHLAND RAILWAY LIMITED
(Limited by Guarantee)

CONTENTS

	Page
Directors' report	1
Auditors' report	5
Statement of financial activities	7
Balance sheet	8
Notes to the financial statements	9 - 14

WELSH HIGHLAND RAILWAY LIMITED
(Limited by Guarantee)

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED DECEMBER 31, 2011

The Directors, who act as Trustees of the charity, present their annual report and audited financial statements for the year ended December 31, 2011

Structure, Governance and Management

The charity is a company limited by guarantee. The registered company number is 790125 (England and Wales) and the registered charity number is 1039817

The company is limited by guarantee and its governing document is its Memorandum and Articles of Association. Each member has undertaken to contribute a maximum of £1 to the assets of the company in the event of its winding up.

Directors

The ten members of the Board are each elected by the membership and serve for three years.

At the Annual General Meeting Alasdair McNicol stood down by rotation having completed his elected period. Chris Dearden also decided for personal reasons to stand down from the Board, and there was a vacancy arising from James Hewett's resignation following the 2010 AGM. Alasdair McNicol was re-elected, and Lewis Dittrich and John Holmes were elected to the remaining posts.

Statement of Directors' Responsibilities for the Financial Statements

The directors, who are also trustees for the purposes of the Charities Acts, are required by law to prepare financial statements which give a true and fair view of the state of affairs of the charity at the end of the financial year, and of the financial activities and total recognised gains or losses for the year.

The directors are of the opinion that in preparing the financial statements on pages 7 to 14, appropriate accounting policies have been consistently applied, supported by reasonable and prudent estimates and judgements and all applicable accounting standards have been followed. We are also satisfied that the charity has adequate resources to meet its operational needs for the foreseeable future, and accordingly, we continue to adopt the going concern basis in preparing the financial statements.

The directors are responsible for ensuring that the charity keeps accounting records which disclose with reasonable accuracy the financial position of the charity, and which enable us to ensure that the accounts comply with the Companies Act 2006 and Statement of Recommended Practice, Accounting and Reporting by Charities. We are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Object and Activities

The objectives of the charity continue to be:

- a) To advance the education of the public in matters concerning railways
- b) For the public benefit to provide or assist in the provision of facilities for the recreation and other leisure time operations in the interest of social welfare and with the object of improving life

The charity continues to fulfil these objectives by operating heritage trains between Porthmadog to Pen-y-Mount, and by giving visitors chance to tour the Engine Sheds and ride on the miniature railway

The charity's activities are subsidised by train fares and revenue from the shop, which is run by its trading subsidiary, Cwmni Rheilffordd Beddgelert Cyfyngedig. Donations from members and supporters continue to form an important source of income, particularly to fund specific improvement projects

To ensure that the charity's objectives are met, the directors lay down policies to be carried out by the Commercial Manager, Engineering Manager and their staff

Achievements and Performance

Review of Developments

The work of the charity was consolidated during 2011, and some alterations began to be implemented to the displays during the latter part of the year in preparation for the Season 2012. In addition, a major refurbishment was undertaken on one of the historic carriages to improve its overall condition and enhance its heritage/period appearance. This will add to the "Heritage" experience for visitors

The museum building has already won praise from visitors and the local community as a quality facility, and was in receipt of a major award from the Heritage Railway Association in recognition of the high standard of the displays it contains. The Museum continues to be a major asset in the delivery of one of the charity's core objectives, telling the story of the narrow gauge railways of Porthmadog and their influence round the world

Other restoration projects continued to make steady progress during the year. Further work was carried out on the only surviving locomotive from the old Welsh Highland Railway – Russell. Since the year end a contract has been signed with Alan Keef Ltd of Ross-on-Wye for the majority of the remaining work to be completed by them, on a timescale dictated by incoming funds

Work also progressed well on the other Locomotive restoration projects, in particular on Baldwin locomotive No 794. This locomotive belongs to the Imperial War Museum, and is on long-term loan to the Welsh Highland Railway Ltd. The locomotive is identical to one which ran on the original Welsh Highland Railway and was scrapped in 1942. It is intended that it should be restored to look like its WHR sister, and recreate scenes from the 1920s and 1930s. Since the year end we have received the new boiler from our contractors, Israel Newton & Sons

Visitor numbers fell very slightly during 2011, when compared to 2010, but given the economic circumstances in the wider economy held up very well

Our train services continue to run from our main station at Porthmadog to the other end of our line at Pen-y-Mount, and discussions took place with our neighbours the Ffestiniog Railway Company with the aim of operating occasional special trains beyond our current limits

Towards the end of the year the Toilet Facilities at Porthmadog Station were replaced by a modern pre-fabricated building designed and fitted out specifically for this purpose. The building itself was acquired second-hand but in extremely good and hardly used condition and substantially increases the standard of the welfare facilities which are available to our visitors

Cwmni Rheilffordd Beddgelert Cyfyngedig

This is the trading subsidiary operating the book and gift shop, a legal necessity for charities. Turnover fell slightly, but costs were kept under control. However a serious financial irregularity arose during the year, continuing into the early part of 2012, and a substantial cash deficiency has been identified, resulting in a contribution to the parent company for 2011 of £3,076, rather than an anticipated result just into five figures.

Staff and Members

The directors wish to thank all volunteers and paid staff for their contribution during 2011. Our successes could not have been achieved without the hard work of a great many people, whether for just a few hours volunteering or on the full time payroll.

Chris Dearden stood down as Museum Manager, with John Kerr taking on the role.

A number of changes occurred in other key departmental posts. Wendy Dearden stood down as Commercial Manager. The role was re-evaluated, and a Commercial Department Team was formed as it was felt that the position had outgrown a single volunteer's ability to fulfil the function.

Health and Safety

The directors take the view that the safety of the travelling public and those working on the railway is paramount. We are pleased that the charity was able to maintain its good safety record during 2011.

Richard Harrison, in his role as Health & Safety Manager, continues to review the company's procedures and advise the board on areas for improvement.

Risk Management

A detailed assessment of the risks facing the charity was drawn up as part of the Business Plan, which was adopted by the Board towards the end of 2005. This was reviewed during the year. The risks identified are taken into account informally as part of the day to day operation of the company.

The directors are working towards the preparation of a new business plan, including a more comprehensive risk management strategy.

Results and Financial Position

The net surplus for 2011, including all donations, was £28,943 compared to £55,265 in 2010.

Income from fares fell slightly during 2011, this being seen as a result of the general economic climate. That the returns were only slightly less than in 2010 is a credit to our volunteers and staff.

Donations received towards Special Projects amounted to £41,403 (2010 £60,450) while General Fund donations were £19,396 (2010 £21,329).

Reserves Policy

The directors currently have a policy to maintain unrestricted reserves to support an operating season's expenditure costs. This is reviewed based on activities and the nature of the charitable company's income streams.

The calculation of the required reserves is an integral part of the charitable company's planning and budgeting processes and is reviewed on an annual basis.

Supplier Payment Policy

The company's normal policy is to make payment at the end of the month following purchase unless terms agreed with the supplier require earlier payment. The company is aware that it trades in an economically sensitive area of Wales, and special care is taken to ensure that local suppliers are paid promptly and in full.

The Future

The charity's core role will continue to be developing its work with visitors to its site in Porthmadog, providing better facilities for them, and conserving the historic items of Welsh narrow gauge heritage in our care.

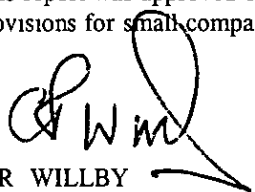
The immediate priority must be completion of the Russell and Baldwin restoration projects. We also continue to invest in our Heritage train rolling stock.

Members' support in this will be vital, whether as volunteers, donors or simply by supporting from a distance.

Auditors

Morris Gregory have confirmed their willingness to be re-appointed for a further term in accordance with the provisions of Section 487(2) of the Companies Act 2006.

This report was approved by the Board on October 16, 2012 and has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.



C R WILLBY
Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WELSH HIGHLAND RAILWAY LIMITED

We have audited the financial statements of Welsh Highland Railway Limited for the year ended December 31, 2011, which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the charity's members, as a body, in accordance with Section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charity's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for being satisfied that the financial statements give a true and fair view are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and have been prepared in accordance with the Companies Act 2006. We also report to you whether, in our opinion, the information given in the Directors' Annual Report is consistent with those financial statements.

In addition we report to you if, in our opinion, the charitable company has not kept adequate accounting records, if the charitable company's financial statements are not in agreement with the accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of Directors' remuneration specified by law are not made.

We read other information contained in the Directors' Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

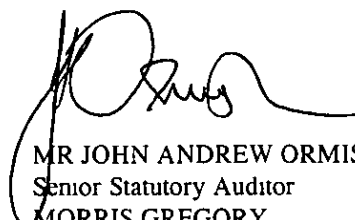
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the charitable company's affairs as at December 31, 2011 and of its incoming resources and application of resources, including its income and expenditure for the year then ended, the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the financial statements have been properly prepared in accordance with the Companies Act 2006, and the information given in the Directors' Annual Report is consistent with the financial statements

County End Business Centre
Jackson Street
Springhead
Oldham
Lancashire
OL4 4TZ



MR JOHN ANDREW ORMISTON
Senior Statutory Auditor
MORRIS GREGORY
Chartered Accountants and
Statutory Auditor

October 16, 2012

STATEMENT OF FINANCIAL ACTIVITIES
(INCORPORATING AN INCOME AND EXPENDITURE ACCOUNT)
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Total 2011</u>	<u>Total 2010</u>
	£	£	£	£
Incoming resources				
Incoming resources from charitable activities				
Fundraising and subscriptions	31,403	41,403	72,806	96,698
Covenanted income from subsidiary companies	3,076	-	3,076	3,054
Activities in furtherance of the charity's objects				
Passenger fares and other income (Note 2)	82,759	-	82,759	90,008
Incoming resources from generated funds				
Interest receivable	1,179	2	1,181	1,409
Total incoming resources	£ 118,417	£ 41,405	£ 159,822	£ 191,169
Resources expended				
Cost of generating funds				
Cost of activities in furtherance of the charity's objectives				
Railway operating costs and projects	115,009	2,541	117,550	124,990
Management and administration	11,129	-	11,129	8,914
Governance costs - auditor's remuneration	2,200	-	2,200	2,000
Total resources expended	£ 128,338	£ 2,541	£ 130,879	£ 135,904
Net movement in funds (Note 12)	(9,921)	38,864	28,943	55,265
Transfer between funds (Note 12)	(33,600)	33,600	-	-
Transfer from revaluation reserve (Note 12)	436	-	436	436
Fund balances brought forward at January 1, 2011	708,376	28,475	736,851	681,150
Fund balances carried forward at December 31, 2011	£ 665,291	£ 100,939	£ 766,230	£ 736,851

All gains and losses recognised in the year are included in the Statement of Financial Affairs

All amounts relate to continuing operations

The notes on pages 9 to 14 form part of these financial statements

WELSH HIGHLAND RAILWAY LIMITED
(Limited by Guarantee)

8

BALANCE SHEET
AT DECEMBER 31, 2011

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
		£	£
Fixed assets			
Tangible assets	5	772,346	760,967
Investments	6	18,102	18,104
		<u>790,448</u>	<u>779,071</u>
Current assets			
Stocks		500	500
Debtors	7	113,885	103,392
Cash at bank and in hand		4,543	1,174
		<u>118,928</u>	<u>105,066</u>
Creditors amounts falling due within one year	8	(19,432)	(21,351)
Net current assets		<u>99,496</u>	<u>83,715</u>
Total assets less current liabilities		<u>889,944</u>	<u>862,786</u>
Creditors: amounts falling due after more than one year	9	(144)	(1,644)
Deferred grants	10	(8,973)	(9,258)
		<u>£ 880,827</u>	<u>£ 851,884</u>
Capital			
Revaluation reserve	12	114,597	115,033
Restricted income funds	12	100,939	28,475
Unrestricted funds	12	665,291	708,376
Retained funds	13	<u>£ 880,827</u>	<u>£ 851,884</u>

These financial statements have been prepared in accordance with the special provisions for small companies under part 15 of the Companies Act 2006

These financial statements were approved by the directors and authorised for issue on October 16, 2012 and are signed on their behalf by



R A SINCLAIR
Director

The notes on pages 9 to 14 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. Accounting policies

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards and incorporate the results of the principal activity which is described in the directors' report and which is continuing

The financial statements have been prepared in compliance with the Companies Act 2006 and the Statement of Recommended Practice Accounting and Reporting by Charities

The company has taken advantage of the exemption in FRS 1 from the requirement to prepare a cash flow statement on the grounds that it is a small company

The company and its subsidiary undertakings comprise a small group. The company has taken advantage of the exemption provided by Section 408 of the Companies Act 2006 not to prepare group accounts. The financial statements therefore present information about the company as one individual undertaking and not about its group

The company is a registered charity under Charity Number 1039817

1.2 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation

Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Freehold buildings	-	2% straight line basis
Rail, rolling stock, plant and machinery	-	rates between 10% reducing balance basis and 50% straight line basis

1.3 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks

2. Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts. Turnover is attributable to one continuing activity

There were no exports during the year

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

3. Operating surplus

The operating surplus is stated after charging or (crediting)

	<u>2011</u>	<u>2010</u>
	£	£
Depreciation of tangible fixed assets		
- owned by the company	18,942	19,992
Life memberships released to income	(1,500)	(1,500)
Grant released to income	(285)	(285)
	<u> </u>	<u> </u>

4 Taxation

There is no corporation tax payable because of the company's charitable status

5. Tangible fixed assets

	<u>Freehold land and buildings</u>	<u>Rail, rolling stock, plant and machinery</u>	<u>Total</u>
	£	£	£
Cost or valuation			
At January 1, 2011	403,471	569,435	972,906
Additions	3,541	26,780	30,321
Disposal	-	-	-
At December 31, 2011	<u>407,012</u>	<u>596,215</u>	<u>1,003,227</u>
Depreciation			
At January 1, 2011	58,794	153,145	211,939
Charge for the year	5,815	13,127	18,942
At December 31, 2011	<u>64,609</u>	<u>166,272</u>	<u>230,881</u>
Net book values			
At December 31, 2011	<u>£ 342,403</u>	<u>£ 429,943</u>	<u>£ 772,346</u>
At December 31, 2010	<u>£ 344,677</u>	<u>£ 416,290</u>	<u>£ 760,967</u>

Included in the cost or valuation of freehold land and buildings are assets stated at their 1990 valuation of £150,000. The original cost of these assets amounted to £35,549.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

6 Investments

	<u>2011</u>	<u>2010</u>
	£	£
Investment in subsidiary undertakings		
Subsidiary company		
- Cwmni Rheilffordd Beddgelert Cyfyngedig (CRB)	18,100	18,100
- Welsh Highland Railway Trading Limited (dissolved)	-	2
- Ashbury Railway Carriage & Iron Company Limited	2	2
	<u>£ 18,102</u>	<u>£ 18,104</u>

**Ashbury Railway Carriage
& Iron Company Limited**

CRB

Country of registration	England and Wales	England and Wales
Holding	Ordinary shares	Ordinary shares
Proportion held	100%	100%
Aggregate of share capital and reserves		
At December 31, 2011	2	18,351
Profit/(loss) retained for the financial year ended		
December 31, 2011	£ -	£ -
Nature of business	Non-trading	(see below)*

*The raising of funds by various means in order to rebuild, restore and operate the narrow gauge railway between Porthmadog and Dinas The company also operates the shop

7. Debtors

	<u>2011</u>	<u>2010</u>
	£	£
Due within one year		
Income tax recoverable	22,017	52,728
Other taxation recoverable	2,179	-
Amounts due from subsidiary companies	54,380	25,782
Other debtors	22,466	22,260
Prepayments and accrued income	12,843	2,622
	<u>£ 113,885</u>	<u>£ 103,392</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

8 Creditors: amounts falling due within one year

	<u>2011</u>	<u>2010</u>
	£	£
Trade creditors	-	3,576
Other taxation and social security	2,520	4,442
Interest free loans	2,100	2,100
Accruals	4,200	1,998
Life memberships reserve	1,500	1,500
Other creditors	9,112	7,735
	<u>£ 19,432</u>	<u>£ 21,351</u>

9. Creditors: amounts falling due after more than one year

	<u>2011</u>	<u>2010</u>
	£	£
Life memberships reserve	<u>£ 144</u>	<u>£ 1,644</u>

10. Deferred grants

	At January 1, <u>2011</u>	Received during the year	Released to income	At December 31, <u>2011</u>
	£	£	£	£
Welsh Development Agency	5,770	-	230	5,540
Welsh Tourist Board	2,048	-	15	2,033
Gwynedd Council	1,440	-	40	1,400
	<u>£ 9,258</u>	<u>£ -</u>	<u>£ 285</u>	<u>£ 8,973</u>
To be released				
Within 12 months				285
After 12 months				8,688
				<u>£ 8,973</u>

The grants will be released back to income over the life of the assets to which they relate

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

11 Liability of members

The number of members at December 31, 2011 is 739 (2010 1,019) and in the event of a winding up of the company each member shall contribute to the debts and liabilities up to a maximum of £1. In addition to the above there are 7 junior members

12 Reserves

	<u>Restricted income funds</u>	<u>Unrestricted funds</u>	<u>Revaluation reserve</u>
	£	£	£
At January 1, 2011	28,475	708,376	115,033
Net income for the year	38,864	(9,921)	-
Transfer from revaluation reserve	-	436	(436)
Capital expenditure	(25,654)	25,654	-
Transfers from unrestricted income funds	59,254	(59,254)	-
At December 31, 2011	<u>£ 100,939</u>	<u>£ 665,291</u>	<u>£ 114,597</u>

13. Reconciliation of movement in retained funds

	<u>2011</u>	<u>2010</u>
	£	£
At January 1, 2011	851,884	796,619
Surplus for the year	28,943	55,265
At December 31, 2011	<u>£ 880,827</u>	<u>£ 851,884</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

14. Special projects

During the year the company had received special donations of £41,403 (2010 £60,450), together with bank interest of £2 which were applied to funds in connection with future expenditure on various projects

	At Jan 1, 2011	Donations received	Bank interest	Capital expenditure	Transfer from general funds	Fund raising costs	At Dec 31, 2011
	£	£	£	£	£	£	£
Baldwin 590	8,104	14,578	2	(20,375)	-	(358)	1,951
Gelert Owners (Bagnall 3050)	1,462	60	-	-	-	-	1,522
Gelert (boiler)	6,400	6,400	-	(1,550)	-	-	11,250
Russell Restoration	6,231	10,012	-	(2,868)	14,254	(2,183)	25,446
Heritage Train Fund	(35,185)	2,677	-	(861)	45,000	-	11,631
Karen	2,875	-	-	-	-	-	2,875
NG15	-	-	-	-	-	-	-
Extension fund	38,588	7,676	-	-	-	-	46,264
	<u>£ 28,475</u>	<u>£ 41,403</u>	<u>£ 2</u>	<u>(25,654)£</u>	<u>59,254</u>	<u>£ (2,541)£</u>	<u>100,939</u>

A transfer of £45,000 from general funds has been made to cover the shortfall in the Heritage Train Fund

15. Analysis of fund balances between the net assets

	<u>Revaluation reserve</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
	£	£	£	£
Tangible fixed assets	114,597	657,749	-	772,346
Investments	-	18,102	-	18,102
Net current assets	-	(1,443)	100,939	99,496
Creditors due after more than one year	-	(144)	-	(144)
Deferred grants	-	(8,973)	-	(8,973)
	<u>£ 114,597</u>	<u>£ 665,291</u>	<u>£ 100,939</u>	<u>£ 880,827</u>

16. Capital commitments

At December 31, 2011 the company had capital commitments of £6,834 (2010 £Nil) both authorised and contracted for in respect of the new toilet unit