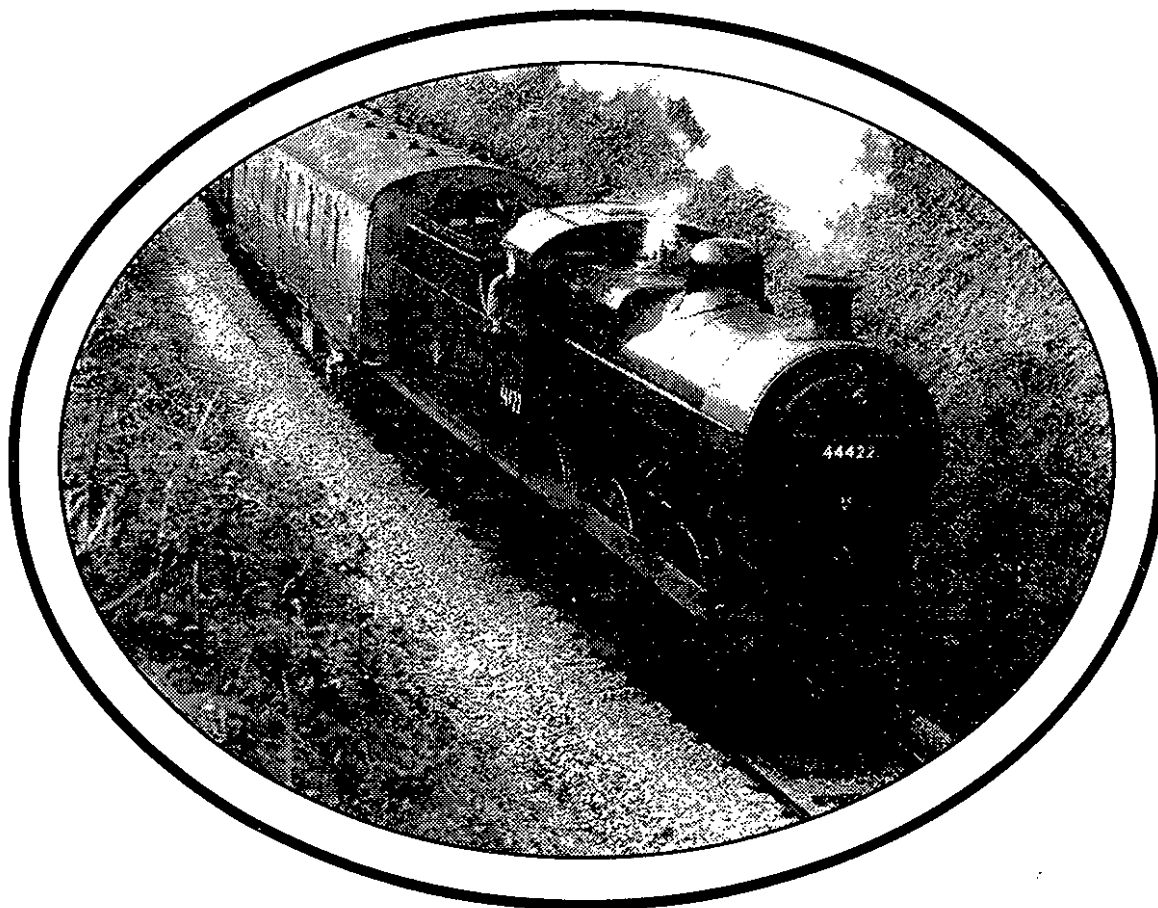


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West Somerset Railway

Public Limited Company



Report
and
Financial Statements
for the year ended 31st December 1996

Company Information

DIRECTORS

‡D. H. Taylor F.C.I.S., F.Inst.Mgt., F.Inst. Pet. Chairman

øM. L. Smith Managing Director

*†øD. T. Morgan T.D., M.C.I.T. Deputy Chairman

C. W. J. Dowrick A.C.I.B.

†R. L. Lizars A.C.I.B. Secretary

*Mrs. A. M. Short F.C.A. (W.S.R.A. Representative)

*†J. M. Donner

*øC. A. Austin M.A., A.C.I.T.

*øB. J. Crudge (W.S.R.A. Representative)

*†‡P. T. Swan F.C.A.

N. I. Lowther F.C.A.

*H. R. Davies I.Eng., M.I.B.F. (W.S.R.A. Representative)

Appointed 27.1.96

*R. S. Savill F.C.A.

Appointed 22.2.97

* Non Executive Director

† Member of Audit Committee

‡ Member of Remuneration Committee

ø Member of Safety Audit Committee

REGISTERED OFFICE

The Railway Station

Minehead

Somerset TA24 5BG

Telephone 01643 704996

AUDITORS

Deloitte & Touche

Queen Anne House

69 - 71 Queen Square

Bristol BS1 4JP

BANKERS

Lloyds Bank Plc

19 The Parade


Minehead

Somerset TA24 5LU

Notice of Meeting

NOTICE IS HEREBY GIVEN of the twenty fifth Annual General Meeting of the Company which will be held at The Hobby Horse Inn, Sea Front, Minehead on Saturday, 28th June 1997 at 2.30 p.m. to transact the following business:

1. To consider the Company's financial statements and the Reports of the Directors and Auditors for the year ended 31st December 1996.
2. To elect Directors (see Directors' Report).
3. To re-appoint Messrs. Deloitte & Touche as Auditors to the Company and to authorise the Directors to agree their remuneration.
4. To transact any other business which may be properly transacted at an Annual General Meeting.


By Order of the Board
R. L. Lizars A.C.I.B.
Secretary
26th April 1997

The Railway Station, Minehead, Somerset TA24 5BG

NOTE: Any member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.



Directors' Report

The Directors present their report and the audited financial statements for the year ended 31st December 1996.

Activities

The principal activity of the Company is to operate the West Somerset Railway between Minehead and Bishops Lydeard in the County of Somerset.

Results and Dividends

The profit for the year is as stated in the profit and loss account. The Directors do not recommend the payment of a dividend.

Issue of Shares

The Company issued a further 372,600 10p ordinary shares at par for cash consideration in order to provide additional capital.

Review of Developments and Future Prospects

A review of activities for the year and likely future developments is included in the Chairman's report on page 5 which is deemed to form part of this report.

Directors

The Directors and their interests in the Share Capital of the Company on 1st January 1996 (or the date of appointment) and 31st December 1996 were as follows:

	Ordinary Shares of 10p each	
	31st December	1st January
D. H. Taylor	7,000	7,000
D. T. Morgan	3,000	3,000
C. W. J. Dowrick	15,750	15,750
R. L. Lizars	21,800	21,800
M. L. Smith	13,000	12,000
Mrs. A. M. Short	12,000	12,000
J. M. Donner	50,000	50,000
C. A. Austin	7,500	2,500
B. J. Crudge	50	50
P. T. Swan	10,000	10,000
N. I. Lowther	1,000	1,000
H. R. Davies (Appointed 27.1.96)	1,000	500
R. S. Savill (Appointed 22.2.97)	2,800	2,800
(R. P. Jones resigned 27.1.96)		

In accordance with the Articles of Association Messrs. Taylor, Crudge and Swan retire from office and, being eligible, offer themselves for re-election.

A resolution will be proposed at the forthcoming Annual General Meeting to confirm the appointment of Mr. R. S. Savill, having been appointed since the last Annual General Meeting.

Directors' Report (continued)

Corporate Governance

The Cadbury Committee's report on the financial aspects of corporate governance contained a Code of Best Practice. Whilst there is no requirement on the Company to do so, the Directors have reviewed the Company's practices in respect of those recommendations contained in the Code which they believe to be most relevant to the Company. The following information is presented as voluntary disclosures for the benefit of the shareholders. The Company has not complied with, and has not attempted to comply with, the full requirements of the Code.

Board of Directors:

The Company has a Board of Directors of five executive and eight non executive Directors which the Board believes is appropriate for the Company at the current time. The Board meets formally on a regular basis, normally each month. Written procedures have been approved by the Board covering matters which require specific Board approval. Similarly, there are written procedures enabling Board members to seek independent professional advice in furtherance of their duties.

Remuneration Committee:

The Remuneration Committee consists of one Non-Executive Director and one Executive Director. The remuneration of the one paid Executive Director is decided by the Remuneration Committee.

Audit Committee:

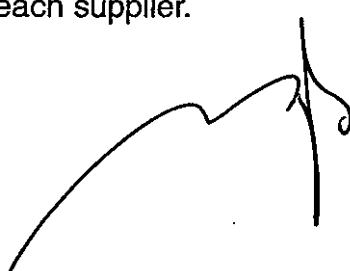
The Audit Committee consists of three Non-Executive Directors and the Company Secretary who is also secretary of the Audit Committee. Other Board members also have the right to attend. However, at least once each year, the Committee will meet with the external auditors without executive Board members being present, except by invitation.

Safety Audit Committee:

It is the Board's policy to oversee the safe operation of the railway, and it has appointed a committee of three Non-Executive Directors and the Managing Director to supervise all matters relating to safety concerns.

Payment Policy:

It is Company policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier.



Approved by the Board of Directors
and signed on behalf of the Board
R. L. Lizars A.C.I.B.
Secretary
26th April, 1997

Chairman's Report

It gives me great pleasure to submit to you, this my Tenth Chairman's Report, following as it does on our "21st" Anniversary since commencing operations. Another successful year.

The number of passengers carried in 1996 reached an all time record of 144,947, which is reflected in the sharp increase in turnover recorded in the following accounts. Additionally the retail shop and buffet sales and resultant nett profits were at record levels.

That the profit of £6,750 before taxation showed a fall of £5,006 was due to an increase in costs of maintaining and improving your railway infrastructure together with increased operating costs to meet the very considerable increase in demand. The nett worth of the Company at 31st December 1996 was £881,881.

Whilst I reported last year on our very detailed "Safety Case" submissions, I am pleased to report this was accepted by the Authorities, but in order to comply with the approval we will be faced with increased administrative costs in the future.

The improvements at Bishops Lydeard have yet to be completed, the liaison with local Authorities and the Rural Development Commission is proving to be slow. We anticipate further progress being made this year, in as much as work is due to commence on 28th April 1997. We have enjoyed a considerable advantage in having the use of the new Machine Shop referred to in my last report.

Whilst I am pleased to report that our application for European Funding (E.R.D.F. 5B) has been accepted, it will still be necessary for us to find from our resources in excess of £120,000 to finance the building of a new Engine Repair Shed, work on which will commence in September this year. PLEASE FIND ENCLOSED A SEPARATE PAPER ON THIS DEVELOPMENT, which I hope you will support.

I would here make reference to the Cash Balances shown in our Balance Sheet at the year end. Normal expenses in the first quarter of 1997 which you will appreciate are unsupported by income in that period, accounted for £200,000 of the figure to which one has to add the committed expenditure of £41,000 at Bishops Lydeard, some £70,000 on the major overhaul of No. 88 which while anticipated and reserved for will affect our Cash Flow and £120,000 on the new Engine Shed. There are a number of other considerable costs on the horizon including the very expensive renovation of road bridges. We will also have to be prepared, if necessary, to carry out essential coastal protection works to prevent incursion of the sea which arose due to autumn storms. Your Board feels therefore that it is prudent to have sufficient of our resources to hand to ensure the speedy and effective completion of such works, and indeed to meet any other unforeseen expenses. For example, increased passenger numbers will result in our having to purchase further carriages, and indeed restore them, so as to enable us to cope effectively and reliably with that demand.

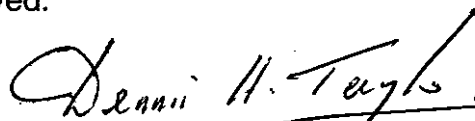
Chairman's Report (continued)

The studies with regard to the possibility of a passenger train service between Mainline network and Bishops Lydeard continue. In June of last year a meeting was held between ourselves, Somerset County Council, District Councils and other interested bodies, together with Railtrack to enable a feasibility study to be carried out by Railtrack as to the possibility of a permanent, signalled access to the main line, for passenger traffic. It is hoped that Railtrack's study will be completed by June of this year indicating whether it is feasible for a connection on the one hand and possible costs on the other. Your Board are keeping this position under constant review with the ultimate hope that main line operators will be able to provide a service to Bishops Lydeard.

The priority over the last year has been to complete the gauging and track slewing work which allowed us to receive the first ever HST to Minehead in March. Much of the limited time of the relevant directors and officers has also been taken up in preparing for the through running of freight trains, where the administrative and Safety Case requirements have stretched our resources considerably. The work done has, however, also improved the prospects for increased charter train operation.

We have been successful in obtaining a contract to lay a siding at Minehead for the unloading of stone, together with a contract for track access to enable contractors to bring in 100,000 tonnes from the main line to Minehead in connection with the essential sea front repairs being carried out by the Authorities. It is too early to say what the nett financial rewards will be, but even after allowing for further improvements and renovations of the track it is expected there will be a surplus to be employed in the further development of your Railway. Suffice it to say had we not upgraded the track and obtained Safety Case approval we would not have been in a position to accept the work.

There is no doubt whatsoever that the successful 21st Gala on your line held in March drew attention to the dedicated service of the staff, the Association and our volunteers in ensuring not only that specific success but the ability to continue our expansion, year on year. The Board are grateful to all those involved.



Dennis H. Taylor
Chairman

25th April 1997

West Somerset Railway Public Limited Company

Profit and Loss Account

for the year ended 31st December 1996

	Note	1996 £	1995 £
Turnover		944,762	837,729
Staff costs	(2)	(236,429)	(210,607)
Depreciation		(42,634)	(40,323)
Other operating charges		(680,598)	(601,034)
Interest receivable		21,649	27,204
Interest payable		—	(1,213)
Profit on ordinary activities before taxation	(3)	6,750	11,756
Taxation	(4)	(2,398)	(4,244)
Profit on ordinary activities after taxation	(11)	4,352	7,512

The company has no recognised gains or losses other than those included in the Profits above and therefore no separate statement of total recognised gains and losses has been presented.
All items relate to continuing operations.

Balance Sheet

as at 31st December 1996

	Note	1996 £	1995 £
Fixed Assets			
Tangible Assets	(5)	376,160	374,768
Current Assets			
Stocks	(7)	65,536	52,592
Debtors	(8)	36,218	50,007
Prepayments		2,723	594
Cash at bank and in hand		559,413	508,448
		<u>663,890</u>	<u>611,641</u>
Creditors: Amounts Falling Due Within One Year			
Trade creditors		39,975	46,622
Tax & social security		7,956	3,692
Other creditors		29,372	10,847
Accruals		36,016	53,727
		<u>113,319</u>	<u>114,888</u>
Net Current Assets		<u>550,571</u>	<u>496,753</u>
Total Assets Less Current Liabilities		<u>926,731</u>	<u>871,521</u>
Provisions for Liabilities and Charges	(9)	<u>(44,850)</u>	<u>(31,252)</u>
		<u>881,881</u>	<u>840,269</u>
Capital and Reserves			
Called up share capital	(10)	927,227	889,967
Profit and loss account	(11)	(45,346)	(49,698)
Equity shareholders' funds		<u>881,881</u>	<u>840,269</u>

The financial statements on pages 7 to 13 were approved by the Board of Directors on 26th April 1997
Signed on behalf of the Board of Directors

D. H. TAYLOR
M. L. SMITH

Directors

D. H. Taylor
D. H. Taylor

Mark L. Smith
Mark L. Smith

West Somerset Railway Public Limited Company

Statement of Cash Flows

for the year ended 31st December 1996

	Note	£	1996 £	£	1995 £
Net cash inflow/ (outflow) from operating activities	(15)		35,845		(58,048)
Returns on investments & servicing of finance					
Interest received		21,649		27,204	
Interest paid		—		(1,213)	
Net cash inflow from returns on investment and servicing of finance			21,649		25,991
Taxation					
Corporation tax paid			(226)		(3,110)
Investing activities					
Purchase of tangible fixed assets		(44,026)		(118,969)	
Proceeds from sale of tangible fixed assets		463	(43,563)	615	(118,354)
			13,705		(153,521)
Financing					
Issue of ordinary share capital		37,260		38,085	
Net cash inflow from financing			37,260		38,085
Increase/(Decrease) in cash & cash equivalents (16)			<u>50,965</u>		<u>(115,436)</u>

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

to the members of the West Somerset Railway Public Limited Company

We have audited the financial statements on pages 7 to 13 which have been prepared under the accounting policies set out on page 10.

Respective responsibilities of directors and auditors

As described on page 8 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 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 company's affairs as at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants
and Registered Auditors

Queen Anne House
69-71 Queen Square
Bristol BS1 4JP

1st May 1997

1 May 1997

West Somerset Railway Public Limited Company

Notes to the Financial Statements

for the year ended 31st December 1996

1. Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

(a) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention.

(b) TANGIBLE FIXED ASSETS

Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Long leasehold land & buildings	2% per annum
Rolling Stock	13-30% per annum
Plant and machinery	10-33% per annum
Fixtures and fittings	20-50% per annum
Motor vehicles	33-40% per annum
Track & pointwork	10-13% per annum
Leasehold improvements	4% per annum

(c) DEFERRED TAXATION

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

(d) STOCKS

Stocks are valued at the lower of cost and net realisable value.

2. Information Regarding Directors and Employees

	1996 £	1995 £
Directors' emoluments (as employees):		
Remuneration	25,200	24,468
Pension costs	2,514	2,447
	<u>27,714</u>	<u>26,915</u>

No Directors apart from the Managing Director received any remuneration or expenses during 1995 & 1996

Employee costs during the year:

Wages and salaries	214,230	188,533
Social security costs	13,249	13,530
Pension costs	8,950	8,544
	<u>236,429</u>	<u>210,607</u>

Average number of persons employed:

	No.	No.
Railway	22	20
Shop	4	4
Total (full time equivalents)	<u>26</u>	<u>24</u>

3. Profit on Ordinary Activities Before Taxation

	1996 £	1995 £
Profit on ordinary activities before taxation is after charging:		
Rolling stock hire	128,444	93,627
Auditors' remuneration – audit fee	3,000	2,000
– non audit work	1,175	1,250
Rental under operating lease	<u>7,833</u>	<u>7,000</u>

West Somerset Railway Public Limited Company

Notes to the Financial Statements

(cont.) for the year ended 31st December 1996

4. Taxation

	1996 £	1995 £
United Kingdom Corporation Tax at 24.25% based on the profit for the year	3,620	46
Deferred taxation	(964)	3,944
Adjustment in respect of prior years – Corporation tax	180	(3,181)
– Deferred tax	(438)	3,435
	<u>2,398</u>	<u>4,244</u>

The tax charge is disproportionately high in relation to the profit for the year because of the incidence of depreciation on assets not qualifying for capital allowances.

5. Tangible Fixed Assets

	Total £	Long Leasehold Land & Buildings £	Fixtures & Fittings £	Leasehold Improve- ments £	Plant & Machinery £	Rolling Stock £	Motor Vehicles £	Track & Point Work £
COST								
As at 1.1.96	645,595	210,000	26,234	102,063	57,608	89,080	3,992	156,618
Additions	44,026	–	3,507	27,407	2,500	–	–	10,612
Less Disposals	(7,228)	–	(3,259)	–	(1,250)	(1,319)	(1,400)	–
As at 31.12.96	<u>682,393</u>	<u>210,000</u>	<u>26,482</u>	<u>129,470</u>	<u>58,858</u>	<u>87,761</u>	<u>2,592</u>	<u>167,230</u>
ACCUMULATED DEPRECIATION								
As at 1.1.96	270,827	27,300	22,422	33,263	46,395	71,014	3,990	66,443
Charge for year	42,634	4,200	3,076	4,511	7,234	3,988	–	19,625
	<u>313,461</u>	<u>31,500</u>	<u>25,498</u>	<u>37,774</u>	<u>53,629</u>	<u>75,002</u>	<u>3,990</u>	<u>86,068</u>
Less Disposals	(7,228)	–	(3,259)	–	(1,250)	(1,319)	(1,400)	–
As at 31.12.96	<u>306,233</u>	<u>31,500</u>	<u>22,239</u>	<u>37,774</u>	<u>52,379</u>	<u>73,683</u>	<u>2,590</u>	<u>86,068</u>
NET BOOK VALUE								
As at 31.12.96	<u>376,160</u>	<u>178,500</u>	<u>4,243</u>	<u>91,696</u>	<u>6,479</u>	<u>14,078</u>	<u>2</u>	<u>81,162</u>
As at 31.12.95	<u>374,768</u>	<u>182,700</u>	<u>3,812</u>	<u>68,800</u>	<u>11,213</u>	<u>18,066</u>	<u>2</u>	<u>90,175</u>

6. Investments

The company holds one £500 share in 5542 Limited which was given to the company and therefore has a nil cost.

7. Stocks

	1996 £	1995 £
Raw materials and consumables	26,763	23,103
Goods for resale	38,773	29,489
	<u>65,536</u>	<u>52,592</u>

8. Debtors

Included in debtors are amounts due after more than one year of £574 (1995: £4,967)

West Somerset Railway Public Limited Company

Notes to the Financial Statements

(cont.) for the year ended 31st December 1996

9. Provisions for Liabilities and Charges

	Balance at 1st January 1996 £	Charged/ (Credited) to profit and loss account £	Balance at 31st December 1996 £
Deferred maintenance provision	22,500	15,000	37,500
Deferred taxation	8,752	(1,402)	7,350
	<u>31,252</u>	<u>13,598</u>	<u>44,850</u>

Deferred Taxation

The amount of deferred taxation provided in the accounts is as follows:

Excess of capital allowances over depreciation
Short term differences

	1996 £	1995 £
	7,968	8,741
	(618)	11
	<u>7,350</u>	<u>8,752</u>

There were no unprovided amounts

10. Called Up Share Capital

	1996		1995	
	No.	£	No.	£
Authorised ordinary shares of 10p each	15,000,000	1,500,000	15,000,000	1,500,000
Allotted and fully paid:				
Balance at beginning of year	8,899,670	889,967	8,518,820	851,882
Ordinary shares issued in year	372,600	37,260	380,850	38,085
Balance at end of year	<u>9,272,270</u>	<u>927,227</u>	<u>8,899,670</u>	<u>889,967</u>

During the year a further 372,600 Ordinary Shares were issued at par for cash to provide additional capital

11. Combined reconciliation of movement in Shareholders' Funds and movements in Reserves

	Called up share capital £	Profit and loss account £	Total £	1995 Total £
Balance as at 1st January	889,967	(49,698)	840,269	794,672
Shares issued in year	37,260	—	37,260	38,085
Retained profit for year	—	4,352	4,352	7,512
Balance at 31st December	<u>927,227</u>	<u>(45,346)</u>	<u>881,881</u>	<u>840,269</u>

12. Operating Lease Commitments

At 31st December 1996 the Company was committed to payments of £7,000 p.a. for the next 6 years under a land lease.

13. Contingent Liabilities

No liability will now arise in respect of the contingent liability disclosed in earlier years for costs which might have arisen if the Company had been required by the Health & Safety Inspectorate to dispose of the diesel multiple unit in which asbestos exists, as arrangements are being made for the disposal of the unit at a minimal cost to the Company.

No provision has been made for any costs which might arise if the Company were required to contribute to any sea defence work in the Watchet area.