REPORT
AND
FINANCIAL STATEMENTS

Severn Valley Railway (Holdings)

Public Limited Company

(Registered No. 1046274)

FOR THE YEAR ENDED 31 DECEMBER 2006

Severn Valley Railway (Holdings) Plc

NOTICE OF MEETING

Notice is hereby given that the Thirty Fifth Annual General Meeting of the above-named Company will be held on the top floor of Bridgnorth Town Hall, High Street, Bridgnorth on Saturday 14 July 2007 at 8 00 pm to transact the following business

1 To approve the Minutes of the 2006 Annual General Meeting and to consider any matters arising therefrom

2 To elect Directors.

3 To consider the Company's Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2006

4 To re-appoint Horwath Clark Whitehill LLP as Auditors of the Company and to authorise the Directors to fix their remuneration

5 To transact any other business which may be properly transacted at an Annual General Meeting

By order of the Board
A S Harding
Secretary

1 May 2007

The Railway Station, Bewdley, Worcestershire DY12 1BG

Note Any member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, to vote in his/her stead A proxy need not be a member of the Company

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

DIRECTORS, OFFICERS AND ADVISERS

Directors

M R York - Chairman
R S Smith - Deputy Chairman
A Barker
A Davies (SVR Assoc Representative)
R F Hobson (SVR Co Ltd Representative)
C F Homer
A D Owen
N C Paul
R K Power
C G Thomas
C W Walton
D C Williams (SVR Co Ltd Representative)

Secretary and Registered Office

A S Harding
The Railway Station
Bewdley
Worcestershire DY12 1BG

Stockbrokers

Rowan Dartington & Co Ltd
Green Park Offices
James Street West
Bath BA1 2BA

Registrar

A S Harding
The Railway Station
Bewdley
Worcestershire DY12 1BG

Registered Auditors

Horwath Clark Whitehill LLP
Foley House
123 Stourport Road
Kidderminster
Worcestershire DY11 7BW

Bankers

HSBC Bank plc
31 Church Street
Kidderminster
Worcestershire DY10 2AY

Solicitors

Harrison Clark
5 Deansway
Worcester WR1 2JG

NOTE

For the purposes of this Report and Accounts

"SVR Assoc" is the Severn Valley Railway Association

"SVR Co Ltd" is the Severn Valley Railway Company Limited

CHAIRMAN'S STATEMENT

Whilst there were many positives to be taken from the year and good progress made in a number of areas, in purely financial terms 2006 was disappointing, with the year end after-tax loss of £51,731 certainly not reflecting the tremendous effort put in by our dedicated staff throughout the year We always knew that the results of the previous year were not going to be easy to replicate and so it has proved to be

Sustaining passenger numbers at the record level of 2005 was always going to be difficult, given many people's concern over the amount of disposable income available to them But what certainly did not help was being inflicted with 3 months of roadworks right outside our principal station at Kidderminster to lay new water pipes, and this at a peak period for our business We have estimated that this alone cost us over 5,000 passengers As a consequence, the total number of passengers carried in the year was down 2 5% to 245,771

Total revenues for the year were very much in line with 2005 at £4,462,000, as indeed were Traffic revenues at £2,301,000 Of this latter total, Special Events realised £730,000 and continued to contribute significantly to overall Company gross profits To underline the vital importance of these activities, 31% of all visitors to the Railway do so on Special Event days The Schools Education Service again performed extremely well, achieving record revenues of £171,000, Charters generated income of £59,000 and Footplate Experience Courses continued their appeal, with revenues exceeding £100,000 for the first time

Our commercial activities contributed useful profits, although performances were mixed, even within departments Clearly the disruption caused by the Kidderminster Station building work and the roadworks outside the station had a detrimental effect on results there The Bars Department turnover was again up, with the Railwayman's Arms at Bridgnorth increasing sales by an excellent 8%, whereas at Kidderminster the King and Castle failed to reach its budget The on-train bar cars service saw sales rise to a new high of £127,000 and the volunteer-operated Venturer Dining Car services recorded a splendid 30% increase in sales to £30,000 Overall contribution from the Bars Department to Company gross profits was a commendable £109,000 Catering also experienced mixed fortunes The popularity of our on-train dining services was reflected in a 21% increase in revenues and corresponding increase in profit, but this was tempered by the performance of the land-based catering facilities, in particular the new buffet at Kidderminster, which opened in September and has yet to realise its full potential Giftshops had a very difficult trading year, with revenues down by over 6%, Bridgnorth suffering as well as Kidderminster Even so, they still managed to contribute £54,000 to total Company gross profits Contract Engineering consolidated revenues and recorded a profit of £57,000 A healthy increase in 'other income' reflected a growing business in carriage maintenance and repair work for both heritage and mainline companies, as well as supplying water treatment for other private railways Gross spending on maintenance in the year exceeded £1 million for the first time and whilst the need to contain expenditure remains a major challenge, it does also demonstrate the Company's on-going commitment to run a safe and successful railway operation

The substantial losses incurred in the last 12 months have arisen from a number of issues Firstly, the reduction in passenger numbers, due in no small part to the long running roadworks at Kidderminster, which not only hit traffic revenues but also sales through our bars, buffets and giftshops The impact was such that a claim for compensation is being lodged with the water company There was the need to spend more on the maintenance of our ageing railway infrastructure – our bridges, permanent way, rolling stock and stations Significant repair work planned for 2005 wasn't undertaken until early 2006 This has impacted on the profitability of the Company in 2006, although this should be restricted to the 2006 results only

There was substantial capital investment in the Railway in 2006, with more than £3,030,000 being spent on new capital additions Building work was completed at Kidderminster station on the new buffet/function room and the superb concourse canopy, at an investment in the year of £755,000 This project was magnificently supported by our shareholders and members through donations and share purchases, as well as a commercial loan fixed on very favourable terms with our bankers, HSBC We are grateful to the bank for the support they have shown us over the past year The development was officially opened by our Patron, HRH The Duke of Gloucester, in October A further £2,066,000 was invested during the year in the Highley Engine House Visitor Centre, the largest-ever project undertaken on the SVR and only made possible through funding from Heritage Lottery Fund, European Regional Development Fund, Bridgnorth District Council and Advantage West Midlands

Further capital expenditure, in the sum of £59,000, went on a Biodisk sewage/water treatment plant at Arley station which will save us over £8,000 a year in effluent charges and provide a healthier environment for the 50,000 people who visit the station each year £33,500 was invested in a new platform dock at Kidderminster for use by the Catering Department when preparing dining trains, and we must thank Severn Valley Railway Company Ltd for agreeing to help fund this project £78,000 was spent on the new carriage washing plant which was part-funded by the bonus we received from the West Bromwich Building Society, Severn Valley Branch Account We are grateful to the West Brom

CHAIRMAN'S STATEMENT (continued...)

for their ongoing support who have, since the scheme began, provided nearly £200,000 towards a number of important projects This support can only continue if we keep sufficient funds in the Account, if you feel you can help in this way, please see the inside back cover for full details of the scheme £40,000 was spent on stonework renovation at Bridgnorth station with the generous assistance of a £17,000 grant from Bridgnorth District Council The encouragement and support received from the Council each year is much appreciated Replacing the Victorian water mains at Bewdley station cost us £15,700 but this expenditure should pay for itself in less than a year following a spate of sizeable water leaks

On the locomotive front, 4566 was finally completed towards the end of the year and very smart she looks too The loco was always popular with crews, and is a very welcome addition to the working fleet Hopefully, she will prove every bit as reliable as 5164, which is clocking up quite a mileage only 2 years after entering traffic The boiler of 7812 was nearing completion at the year-end and now just awaits the remaining mechanical work to be finished before it too can join the fleet Work progressed well through the year on the major repairs to 43106 and 2857, with 2857 Society members providing valuable assistance on their loco to our boilersmiths In the Carriage Department no fewer than 18 coaches received attention, ranging from repainting/revarnishing, through various levels of maintenance/repairs, to heavy rebuilds and major modification To assist with the programme, several vehicles were contracted out to receive attention and welcome financial assistance was provided by the SVR Rolling Stock Trust for vehicles in their custody Visitors to the Railway cannot fail to be impressed by the general standard of our coaching stock, both inside and out, and we can be justifiably proud of the fact that the LMS set is again running with all 8 vehicles In fact, no other railway can muster more than 2 LMS vehicles at a time!

After a very busy 2006, what can we expect in 2007? Well, so far both passenger numbers and revenue remain in line with budget and already we have held a successful 1960's Transport Day, a Branch Line Gala and a Members and Shareholders Weekend Our visitors are enjoying the benefit of the new concourse canopy at Kidderminster and we have been presented with the prestigious Heritage Railway Association Annual Award for Large Groups, in recognition of our significant investment in the future The Executive Committee is doing an excellent job in looking after the management of the Railway and will continue to provide support and assistance when a new General Manager is appointed, hopefully in the very near future Following restructuring of the SVR organisation last year, the new Joint Board does, by general consensus, appear to be working reasonably well Recent decisions have included agreement to purchase, for strategic reasons, the small cottage adjacent to Bridgnorth station, although the ultimate use for the building and land have yet to be agreed A new Business Plan to develop Contract Engineering has been agreed in principle and approval given to increase the number of skilled engineers in the Locomotive Department The Board has also agreed to seek expert help in managing the catering on all our land-based sites, with particular attention being given to Kidderminster, and has entered into a Management Contract with Redcliffe Catering The very successful on-train dining services are not included in the arrangement

I need to update you on progress with The Engine House at Highley Building work is progressing well and the Centre is now scheduled to open to the public on 1st August Eight locomotives will be on display, including one from the National Railway Museum's collection I am delighted to announce that this guest locomotive has been confirmed as one of the Museum's most prestigious assets, the magnificent Midland Railway Compound 4-4-0 No 1000, resplendent in crimson lake livery That in itself will make a visit to The Engine House well worthwhile, but there will be much, much more to see, including a demonstration freight-train, Travelling Post Office, a history of the Severn Valley and its railway, plus many interactive displays I would urge you all to visit this spectacular new attraction when it opens – but not all on the same day, please! The Engine House really will be an attraction for the whole family, with not only the exhibits to enjoy, but also superb views across the Severn Valley from the upper floor balcony and nature trails for the more adventurous May I take this opportunity to thank all those who have responded to our Appeal for financial support towards the increased costs of this project The Appeal has so far raised almost a third of the £300,000 needed, for which we are most grateful

2006 was a very busy year and once again I would like to pay tribute to the tremendous commitment of all members of staff, both paid and volunteer, and our army of supporters, without whom this Railway could not succeed There may be many challenges ahead, but there is much to look forward to in 2007 and beyond

Finally, I would like to express my gratitude to Richard Power for the significant contribution he has made to the Board and the Railway in general Having successfully provided the project management of the recently completed Kidderminster Station development, Richard has decided the time has come for him to retire gracefully from active service We wish him well with his next project – a new home!

M R York, Chairman **1 May 2007**

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2006
The Directors present their Report and the audited Financial Statements for the year ended 31 December 2006

Principal Activity
The principal activity of the Company is to operate the Severn Valley Railway between Bridgnorth in Shropshire and Kidderminster in Worcestershire. A review of the year is included in the Chairman's Statement on pages 4 to 5 and which is deemed to form part of this Report

Results and Dividends
The result for the year is stated in the Profit and Loss Account on page 10
In accordance with the special resolutions passed at the Extraordinary General Meeting of the Company on 19 December 1997, the Memorandum and Articles of Association of the Company no longer permit either the payment of dividends or the participation of members in the distribution of any residual property or assets upon the winding up or dissolution of the Company During 2006, the Company made a loss before tax of £142,297 compared to a profit of £59,885 in 2005. This year's deferred taxation credit of £90,566 has resulted in a loss of £51,731 being absorbed into reserves

Key Performance Indicators
The Board monitors the Company's performance against strategic objectives and the financial performance on a regular basis Performance is assessed against the budgets using financial and non-financial measures

The following are some of the most significant key performance indicators

- Passenger numbers
- Turnover
- Gross profit and cashflow

The Directors consider the following issues to be the Company's main risks and uncertainties

- Weather and its impact on the number of passengers
- Availability of coal, oil and other necessary resources
- Age of working volunteers and their continuing support of the Railway
- Risk of not finding funding for future or ongoing projects
- Availability and recruitment of skilled staff
- Ongoing changes to legislation
- Environmental issues

In order to mitigate these risks and uncertainties, the Directors produce detailed business plans and monitor progress against these

A detailed review of the results for the year, the key issues and the expectations for 2007 are described in the Chairman's Statement on page 4 and 5

Directors
The Directors of the Company are listed on page 3

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2006 (continued...)

Directors' Interests
The interests of the current Directors in the shares of the Company at 31 December 2006, together with their beneficial interests at 1 January 2006, or date of their appointment, were

	1 January 2006	31 December 2006
A Barker	4,250	4,370
A Barker – Trustee holding for SVR Association	43,978	44,898
A Davies	500	500
R F Hobson	350	400
C F Homer	1,510	1,510
A D Owen	500	500
N C Paul	251	251
R K Power	1,501	1,601
R S Smith	7,500	7,500
C G Thomas	302	302
C W Walton	600	600
D C Williams	2,005	2,005
M R York	425	425

Certain Directors have interests in the rolling stock maintained and utilised by the Railway under the terms of rolling stock agreements. These interests were recognised but were deemed to be minimal

Suppliers Payment Policy
It is the Company's policy that payments to suppliers are made in accordance with mutually agreed terms as far as possible, provided that the supplier is also complying with all relevant terms and conditions The Company's average number of days outstanding in respect of trade creditors at 31 December 2006 was 56 (2005 36) The Company had an arrangement with a supplier whereby extended payment terms were granted in 2006 Had the supplier been paid on normal terms then the average number of days outstanding would have been 38

Charitable Donations
During the year the Company made charitable donations of £350 (2005 £2,865).

Substantial Shareholdings
The following had holdings in excess of 3% of the issued share capital of the Company at 31 December 2006

	No. of Shares	% of Total
SVR Co. Ltd	748,544	21 5
Rubery Owen Holdings Ltd	150,000	4 3
Philip Walter Swallow	127,753	3 7

Fixed Assets
The movements in fixed assets during the year are set out in note 8 to the financial statements.

Auditors
Horwath Clark Whitehill LLP have expressed their willingness to continue in office as Auditors and a resolution proposing their reappointment will be submitted to the forthcoming Annual General Meeting

By order of the Board

A S Harding
Company Secretary

1 May 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The purpose of this statement is to distinguish the Directors' responsibilities for the accounts from those of the Auditors, as stated in their Report.

Company law requires the Directors to prepare accounts for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The accounts are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these 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, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts on the going concern basis, unless it is inappropriate to assume 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 accounts 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 of fraud and other irregularities

So far as each of the Directors is aware at the time the report is approved

- there is no relevant audit information of which the Company's auditors are unaware, and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SEVERN VALLEY RAILWAY (HOLDINGS) PLC

We have audited the financial statements of Severn Valley Railway (Holdings) PLC for the year ended 31 December 2006 set out on pages 10 to 23 These financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and the accounting policies set out on pages 14 and 15

This Report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an Auditors' 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 Company and the Company's shareholders as a body, for our audit work, for this Report or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS
As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Statement Report that is cross referred from the Business Review section of the Directors' Report

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements The other information comprises only the Directors' Report and the Chairman's Statement. 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 of 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 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

UNQUALIFIED OPINION
In our opinion
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the accounts

Horwath Clark Whitehill LLP

Horwath Clark Whitehill LLP.

1 May 2007

Chartered Accountants & Registered Auditors
Foley House, 123 Stourport Road
Kidderminster, Worcs DY11 7BW

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Turnover	2	**4,218,263**	4,229,422
Cost of sales		**(3,962,529)**	(3,781,138)
Gross profit		**255,734**	448,284
Administrative expenses		**(626,713)**	(593,591)
		(370,979)	(145,307)
Other operating income	3	**244,492**	198,515
Operating (Loss)/Profit		**(126,487)**	53,208
Interest received		**2,760**	7,580
Interest payable and similar charges	4	**(18,570)**	(903)
(Loss)/Profit on ordinary activities before taxation	5	**(142,297)**	59,885
Tax on ordinary activities	14	**90,566**	11,720
Retained (Loss)/Profit for the financial year	17/18	**(51,731)**	71,605

All amounts in the current and preceding year relate to continuing operations

Note of historical cost profits and losses

There is no material difference between the profit on ordinary activities before tax and the retained profit for the year stated above, and their historical cost equivalents

The notes on pages 14 to 23 form part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £	2005 £
(Loss)/profit for the financial year	(51,731)	71,605
Unrealised deficit on revaluation of properties	(130,130)	-
Total recognised gains and losses relating to the year	(181,861)	71,605

The notes on pages 14 to 23 form part of these financial statements

BALANCE SHEET
31 DECEMBER 2006

	Notes	2006 £	2005 £
Fixed Assets			
Tangible Assets	8	10,577,215	7,857,516
Current Assets			
Stocks	9	255,400	269,653
Debtors	10	777,705	401,090
Cash at bank and in hand	11	174,196	224,396
		1,207,301	895,139
Creditors: Amounts falling due within one year	12	(1,647,533)	(781,804)
Net Current (Liabilities)/Assets		(440,232)	113,335
Total Assets Less Current Liabilities		10,136,983	7,970,851
Creditors: Amounts falling due after more than one year	13	(4,309,667)	(2,039,142)
		5,827,316	5,931,709
Provisions for liabilities and charges			
Deferred taxation	14 3	-	(90,566)
Net Assets		5,827,316	5,841,143
Capital and Reserves			
Called up share capital	16	3,477,170	3,309,136
Revaluation reserve	17	1,426,436	1,529,984
Profit and loss account	17	923,710	1,002,023
Shareholders' Funds – all equity	18	5,827,316	5,841,143

The Financial Statements on pages 10 to 23, were approved by the Board of Directors on 1 May 2007 and signed on its behalf by

M R York }
} Directors
R S Smith }

The notes on pages 14 to 23 form part of these financial statements

CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £	2005 £
Net cash inflow from operating activities		**2,467,301**	118,111
Returns on investment and servicing of finance			
Interest received		**2,760**	7,580
Interest paid		**(19,473)**	-
Net cash inflow from investment and servicing of finance		**(16,713)**	7,580
Taxation			
Tax paid		**-**	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(3,036,223)**	(322,877)
Sale of tangible fixed assets		**-**	-
Net cash outflow from investment and servicing of finance		**(3,036,223)**	(322,877)
Net cash outflow before financing		**(585,635)**	(197,186)
Financing			
Issue of loans		**367,401**	-
Issue of ordinary share capital		**168,034**	41,562
Net cash inflow from financing		**535,435**	41,562
Decrease in cash in the year	23	**(50,200)**	(155,624)

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating (loss)/profit	**(126,487)**	53,208
Depreciation charge	**186,394**	168,808
Movement in working capital		
Decrease in stocks	**14,253**	(35,735)
Increase in debtors	**(376,615)**	(124,682)
Increase in creditors	**2,769,756**	56,512
Net cash inflow from operating activities	**2,467,301**	118,111

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom A summary of the more important accounting policies, which have been applied consistently, are set out below

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets

Tangible fixed assets

The cost of acquired fixed assets is their purchase cost, together with any incidental costs of acquisition

Capital work in progress comprises the cost of capital projects under development, which includes, where appropriate, elements of specifically identifiable and attributable internal labour costs. Capital projects comprise major repair or refurbishment works, which give rise to a significant and continuing economic benefit to the Railway. Depreciation is provided against the cost of such projects in the period in which they are completed

Interests in land and buildings are included at a valuation. Subsequent additions are stated at cost

A full valuation of the freehold land and buildings was made on 25 December 2003 by professionally qualified valuers. The basis of valuation is in accordance with Financial Reporting Standard Number 15 as follows·

- Freehold land, bridges and tunnels at market value
- Non-specialised property, including the stations and engineering works, at existing use value
- Specialised property, the carriage shed, at depreciated replacement cost

Full valuations have been undertaken every 5 years with interim valuations every 3rd year. The Directors review the assets in the intervening years to ensure that there are no material changes requiring disclosure.

Depreciation is calculated so as to write off the cost, or valuation, of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned The principal annual rates used for this purpose are:

Freehold buildings and permanent way	2% - 20% on cost or valuation
Locomotives and rolling stock	5% - 10% on cost
Office and computer equipment	20% - 25% on cost
Motor vehicles	20% - 25% on cost
Commercial fixtures, fittings and equipment	10% - 20% on cost

Freehold land is not depreciated

Where fixed assets are acquired with the aid of specific grants, they are capitalised and depreciated as above The related grants are treated as deferred capital grants and released to income over the expected useful life of the asset.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

1. Principal accounting policies - continued

Stocks
Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first-in first-out basis and includes transport and handling costs Where necessary, provision is made for obsolete, slow moving and defective stocks

Deferred taxation
Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets No provision is made for taxation on permanent differences

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered

Pension costs
The Company operates a defined contribution pension scheme Amounts falling due are charged to the Profit and Loss Account as incurred

Grants
Grants are released to the Profit and Loss Account over the same period to which the related costs are charged Where the grant is for a capital project, it is released to the Profit and Loss Account over the same period as the asset is depreciated Where the grant is for a revenue project, it is recognised in the same period as the expenditure

Rental Income
Rental income is on an accruals basis

Locomotive and Rolling Stock
These arrangements are in the nature of operating leases. Repairs and maintenance are provided for in accordance with the locomotive and rolling stock agreements Costs of repairs and maintenance, over and above those in the terms of the agreement, are charged to the Profit and Loss Account as incurred

2. Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied. In the opinion of the Directors, the Company's business is a single entity, that of operating a heritage railway in the United Kingdom No further segmental analysis is considered necessary

3. Other operating income

	2006	2005
	£	£
Rents received	19,403	18,515
Donations	91,807	140,144
Release of deferred grants/donations	133,282	39,856
	244,492	198,515

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

4. Interest payable and similar charges

	2006	2005
	£	£
On other loans	3,968	903
On bank loans and overdrafts	14,602	-
	18,570	903

5. (Loss)/profit on ordinary activities before taxation

	2006	2005
	£	£
(Loss)/profit on ordinary activities before taxation is stated after charging		
Depreciation on tangible owned fixed assets	186,394	168,808
Hire of other assets – operating leases	3,528	3,488
Auditors' remuneration for		
Audit	10,495	10,000
Tax	1,500	1,500

6. Directors' emoluments

No Director, including the Chairman, directly received any fees, salary payments (including benefits in kind), pension contributions or other emoluments.

A company in which one of our directors has an interest received fees for services supplied during the year This amounted to £519 and was paid in the year

7. Employee information

The average number of persons employed by the Company during the year was

	2006 Number	2005 Number
Full time	72	75
Part time	39	30
	111	105

	£	£
Staff costs for the above		
Wages and salaries	1,446,203	1,281,961
Social security costs	109,588	100,121
Other pension costs	66,704	59,192
	1,622,495	1,441,274

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

8. Tangible fixed assets

	Total	Freehold land and buildings	Locos and rolling stock	Commercial fixtures, fittings and equipment	Office equipment and motor vehicles	Capital work in progress
	£	£	£	£	£	£
Cost or valuation						
At 1 January 2006	9,052,897	7,583,678	689,320	361,509	103,169	315,221
Additions	3,036,223	778,516	7,801	144,609	4,980	2,100,317
Reallocation	-	59,487	16,369	565	-	(76,421)
Revaluation	(511,428)	(511,428)	-	-	-	-
At 31 December 2006	11,577,692	7,910,253	713,490	506,683	108,149	2,339,117
Depreciation						
At 1 January 2006	1,195,381	242,511	634,493	226,860	91,517	-
Charge for the year	186,394	138,787	11,165	30,791	5,651	-
Revaluation	(381,298)	(381,298)	-	-	-	-
At 31 December 2006	1,000,477	-	645,658	257,651	97,168	-
Net book value						
At 31 December 2006	**10,577,215**	**7,910,253**	**67,832**	**249,032**	**10,981**	**2,339,117**
At 31 December 2005	7,857,516	7,341,167	54,827	134,649	11,652	315,221

The freehold land and buildings were revalued on 25 December 2003 in accordance with accounting policy by R J Wilkins, FRICS, of Wilkins Surveyors Limited, a firm of chartered surveyors. R J Wilkins is a minority shareholder of Severn Valley Railway (Holdings) Plc In accordance with accounting standards, R J Wilkins has undertaken an interim valuation at the year end

In addition to the locomotives and rolling stock owned by the Company, the Company has entered into agreements with various third parties to operate and maintain a range of other locomotives and rolling stock for use on the line. In the opinion of the Directors, these arrangements are in the nature of operating leases and the costs of maintenance are charged to the Profit and Loss Account in line with the accounting policy.

If land and buildings had not been revalued, they would have been included at the following amounts

	2006	2005
	£	£
Land and Buildings		
Cost	7,719,420	6,881,417
Aggregate depreciation	(1,235,603)	(1,070,234)
Net book value	6,483,817	5,811,183

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

9. Stocks

	2006	2005
	£	£
Goods for resale	119,209	124,027
Stores	136,191	145,626
	255,400	269,653

10. Debtors

	2006	2005
	£	£
Trade debtors	181,238	189,363
Other debtors	485,377	86,298
Prepayments and accrued income	111,090	125,429
	777,705	401,090

11. Cash at bank and in hand

	2006	2005
	£	£
Balance at bank	168,323	218,378
Petty cash and cash floats	5,873	6,018
	174,196	224,396

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

12. Creditors - Amounts falling due within one year

	2006	Restated 2005
	£	£
Bank and other loans	209,132	-
Trade creditors	967,487	368,244
Other taxation and social security	32,411	29,164
Other creditors	266,187	154,222
Accruals and deferred income	172,316	230,174
	1,647,533	781,804

A bank overdraft facility is available and is secured by means of a fixed charge over all book debts and freehold properties and a floating charge over all assets, goodwill, undertakings and uncalled capital both present and future

13. Creditors - Amounts falling due after more than one year

	2006	Restated 2005
	£	£
Bank loan	158,269	-
Deferred income	3,985,247	1,866,142
Accruals	166,151	173,000
	4,309,667	2,039,142

The bank loan was acquired to assist the funding of Kidderminster station building improvements The loan limit is capped at £550,000 and is repayable in monthly instalments of £3,863 repayable within twenty years, with £136,526 repayable in 2 to 5 years and the balance over 5 years

Interest is charged at 1 25% over the bank's base rates but capped at 4.95%.

The bank loan is secured by means of a fixed charge over all book debts and freehold properties and a floating charge over all assets, goodwill, undertakings and uncalled capital, both present and future

Deferred income includes grants and public donations received towards Kidderminster carriage shed, Kidderminster station building improvements, Highley Engine House and Bridgnorth locomotive shed roof refurbishment. The grants and donations are being released to the Profit and Loss Account over the economic useful life of the respective asset and in line with depreciation for freehold buildings

The 2005 figures have been restated to more appropriately reflect the split of accruals and deferred income between amounts falling due within and amounts falling due after one year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

14. Taxation

14.1 Corporation Tax

	2006 £	2005 £
Analysis of tax charge in year		
Current tax (see note 14.2)		
UK corporation tax on profits of the year	-	-
Deferred tax		
Accelerated capital allowances	(212,082)	6,745
Short term timing differences	4,372	(1,553)
Taxable losses carried forward	117,144	(16,912)
Total deferred tax (see note 14 3)	(90,566)	(11,720)
Tax on profit on ordinary activities	(90,566)	(11,720)

14.2 Factors affecting tax charge for the year

The tax assessed is lower than the standard rate of corporation tax in the UK (20%). The differences are explained below

	2006 £	2005 £
(Loss)/profit on ordinary activities before tax	(142,297)	59,885
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2005-19%)	(28,459)	11,378
Effects of:		
Donations received	(18,361)	(26,627)
Movement on accelerated capital allowances	(1,188)	3,357
Expenses not deductible for tax purposes.	113	1,000
Unrelieved tax losses	76,567	16,912
Release of deferred income	(23,916)	(7,573)
Other differences	(4,756)	1,553
Current tax charge for the year (see note above)	-	-

There were no factors that may affect future tax charges

The tax rate of 20% has been used, as the Directors consider that this is the rate applicable to the Company taking into account its expected level of future profits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

14. Taxation (continued)

14.3 Deferred Taxation

	2006 £	2005 £
At 1 January 2006	90,566	102,286
Credit for the year	(90,566)	(11,720)
At 31 December 2006	-	90,566

The provision for deferred tax is made up as follows:

	2006	2005
Accelerated capital allowances	233,877	440,691
Short term timing differences	(2,892)	(7,436)
	230,985	433,255
Taxable losses carried forward	(230,985)	(342,689)
	-	90,566

Due to a change in taxation principles, the deferred tax on fixed asset timing differences has reduced significantly This has created a deferred tax asset of £214,152 for taxable losses. This asset has not been provided for, as the Directors do not believe it is likely to reverse in the foreseeable future

15. Pension Scheme

The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company and are in an independently administered fund. The pension cost charge against profits in the year represents contributions payable to the fund and amounted to £66,704 (2005 £59,192)

16. Called up Share Capital

	2006 £	2005 £
Authorised ordinary shares of £1 each	5,000,000	5,000,000
Allotted, called up and fully paid ordinary shares of £1 each	3,477,170	3,309,136

The Company allotted 168,034 ordinary shares of £1 each at par during the year ended 31 December 2006

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

17. Reserves

	Revaluation Reserve £	Profit and loss account £
At 1 January 2006	1,529,984	1,002,023
Historical cost depreciation adjustment	26,582	(26,582)
Loss for the financial year	-	(51,731)
Revaluation in the year	(130,130)	-
At 31 December 2006	**1,426,436**	**923,710**

18. Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the financial year	(51,731)	71,605
Revaluation in the year	(130,130)	-
Issue of share capital	168,034	41,562
Net (reduction of)/addition to shareholders' funds	(13,827)	113,167
Opening shareholders' funds	5,841,143	5,727,976
Closing shareholders' funds	**5,827,316**	**5,841,143**

19. Capital commitments

	2006 £	2005 £
Capital expenditure that has been contracted for, but has not been provided for in the financial statements	1,837,167	80,866

Since the Balance Sheet date, the Directors have committed the Company to further capital expenditure of £165,000 to purchase a cottage at Bridgnorth Station

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued...)

20. Other financial commitments

The following annual commitments existed at 31 December 2006 in respect of non-cancellable operating leases:

	2006	2005
	£	£
Plant and Equipment:		
Falling due in less than 1 year	-	1,679
Between 2 to 5 years	1,808	-
After 5 years	-	1,808

21. Related Party Transactions

During the year, the following transactions were undertaken with Severn Valley Railway Company Limited who own 21.5 % of the Company's shares

	During 2006	Balance at 31.12.06	During 2005	Balance at 31.12.05
	£	£	£	£
Recharges to SVR Co Ltd	11,839	13,751	9,772	11,482
Recharges from SVR Co Ltd	(3,968)	(4,871)	(903)	(903)

A loan of £175,000 was made during the year from Severn Valley Railway Company Limited to Severn Valley Railway (Holdings) Plc Interest of £3,968 was charged on the loan during the year at 0 5% above the ruling money market rate for investments and the balance of the loan outstanding at the year end was £175,000 and included in other loans

22. Reconciliation of net cash flow to movements in net funds

	2006	2005
	£	£
Decrease in cash in the year	(50,200)	(155,624)
Cash outflow from increase in debt financing	(367,401)	-
Change in net (debt)	(417,601)	(155,624)
Net funds at 1 January 2006	224,396	380,020
Net debt at 31 December 2006	(193,205)	224,396

23. Analysis of changes in net funds

	01.01.06	Cash flows	Non-cash movement	31.12.06
	£	£	£	£
Cash in hand and at bank	224,396	(50,200)	-	174,196
Loans due within 1 year	-	(209,132)	-	(209,132)
Loans due after more than 1 year	-	(158,269)	-	(158,269)
	224,396	(417,601)	-	(193,205)