

REPORT AND FINANCIAL STATEMENTS

Severn Valley Railway (Holdings)

Public Limited Company

(Registered No. 1046274)

FOR THE YEAR ENDED 31 DECEMBER 2008

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NOTICE OF MEETING

Notice is hereby given that the Thirty Seventh Annual General Meeting of the above-named Company will be held at the Kidderminster Railway Museum, Comberton Hill, Kidderminster, Worcestershire DY10 1QX on Saturday 11 July 2009 at 8pm to transact the following business:

1. To approve the Minutes of the 2008 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 2008.
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 

5 May 2009

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 2008

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DIRECTORS, OFFICERS AND ADVISERS

Directors

M R York - Chairman
R S Smith - Deputy Chairman
M E Ball
A Barker
A Davies (SVR Assoc Representative)
R F Hobson (SVR Co Ltd Representative) – resigned 18.01.08
and re-appointed 11.2.09
C F Homer
J L Houlders (SVR Co Ltd Representative) – appointed 18.01.08
and resigned 21.12.08
A D Owen
N C Paul
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

Brea Avalon LLP
Orchard Hill
The Barton
Corston
Bath, BA2 9AN

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

The re-opening of the Railway after the disastrous storm damage of 2007, the eagerly awaited opening of The Engine House Visitor Centre, a high profile Royal visit by TRH The Prince of Wales and The Duchess of Cornwall and one of the best Autumn Steam Galas in recent memory. That was 2008 and these were just the highlights of another remarkable year in the life of the SVR.

With the whole length of the line not being able to open until the end of March, the Board had set a very cautious budget based on 190,000 passengers, but happily there was clearly a pent-up demand to savour the delights of the Severn Valley once again. So much so that by the year-end we had carried 238,056 passengers, only 14,000 fewer than our 2005 record year.

As a result of the serious problems encountered in early 2008 at Borle viaduct and additional work required at Northwood Lane to stabilise the railway formation, involving state of the art engineering techniques, the revised total cost of repairing the 2007 flood damage is now expected to be £3,826,000. Funding totalling almost £2,000,000 has been obtained from Grant Agencies, the insurance claim under our material damage policy paid us £980,000 and the Flood Damage Appeal attracted donations amounting to almost £600,000. Quite magnificent! The Appeal remains open and so far in 2009 has raised a further £1,300.

During the year, there was a surplus of income over expenditure on the Railway Stabilisation Work following the 2007 flood damage of £135,517. During the current trading year and also in 2010 there will be further receipts of grant income by way of retention release as well as donations and other income which will give a further additional surplus over expenditure of £98,407. The anticipated total shortfall is now expected to be around £250,525. Negotiations are on-going with connected parties regarding further contributions and if this comes to fruition there could be an additional surplus of £20,000 giving an overall net shortfall for the flood repairs of £230,525.

Largely as a result of the reduced trading in the first quarter of the year, the Company suffered a trading loss during 2008 of £37,592. However, when combined with the surplus on the Stabilisation Works, there was an overall profit before tax of £97,925.

For many years, the Financial Statements have been prepared under the historical cost convention but modified by the revaluation of freehold land and buildings. This year, the Board has taken advice from the Audit Committee and other professional advisers and made the decision to change the Company's accounting policy by no longer revaluing the land and buildings but showing them at their original cost less provision for depreciation. The reason for this decision is that by the adoption of the reporting of historic cost without revaluation of certain assets, the Company will be brought into line with other heritage railways making comparisons more meaningful. It will also save on the costs and time associated with regular revaluation exercises. This means that for 2008, the revaluation reserve as previously shown in the 2007 Report has now been eliminated and the fixed assets reflect the true original cost less accumulated depreciation to date. Under accounting regulations, the 2007 comparison figures have been adjusted to reflect the change in accounting policy so that the results can be accurately compared.

Traffic revenues reached almost £2,500,000 and with most of our profit centres performing well total gross revenues for the year exceeded £5,500,000 for the first time. To this must be added £1,542,019 in flood related income from donations, grants and insurance payments giving a grand total of over £7,000,000. Income from Special Events was down slightly from 2006 levels mainly due to the loss of a second Thomas event, whereas the extremely successful Autumn Steam Gala attracted no fewer than 7,596 visitors and saw ticket revenue for the weekend exceed £100,000. Included in Traffic revenues was £117,000 from Special Charters, £113,000 from the ever-popular Footplate Experience Courses and £77,000 from the Schools Education Service. The four weeks of December produced sales of more than £700,000 underlining once again the vital importance of the Santa operation to the Railway's finances.

CHAIRMAN'S STATEMENT (continued...)

The star performer amongst our commercial activities was once again the Bars Department, where the bars, Valley Suite, on-train buffets and Venturer operation achieved record sales of £1,070,000, an amazing 34% up on the previous best year. What was particularly pleasing to see was the continuing growth at the King and Castle and The Railwayman's Arms, who both strengthened their appeal to the local clientele thus making them less dependant on railway visitors for their custom. Mind you, they do serve a very good pint! Catering also had a very successful year, particularly with the on-train dining service, and they too achieved record sales at £476,000 up 11% on their previous best performance in 2006. Gift shops, on the other hand, found 2008 a difficult trading year but still managed to increase sales by 23% over the previous year and contributed a useful £33,500 to Company profits. Contract Engineering sales increased to almost £300,000. A new profit centre, The Engine House Visitor and Education Centre at Highley, finally opened its doors to the public on Good Friday, 21st March and immediately proved very popular with visitors. 64,241 customers paid a visit during the year generating £281,000 gross revenue from admissions, catering and shop sales. We are most grateful to our funding partners for their patience in awaiting the delayed opening of the Centre. The installation during the summer of a children's play area also added to the attraction of the Engine House for our family visitors. This was part funded by the bonus paid to us from the Severn Valley Branch Account, for which we are indebted to the West Bromwich Building Society who continue to give us their support in spite of the current economic climate.

Gross spending on maintenance in the year was £1,336,700 with the major spend, not surprisingly, being on Civil Engineering which amounted to £407,000. This included major repairs to Worcester Road Bridge at Kidderminster, at a cost of £231,000 including relaying ¼ mile of rail, and the refurbishment of the water tank at Highley station. The flood problems of 2007 highlighted the need for increased ongoing maintenance on our culverts and consequently the spend in 2008 amounted to £56,000. A 75% increase in the cost of coal and a similar increase in gas oil prices, neither of which had been predicted, had the effect of pushing up expenditure on coal, oil and water to almost £300,000, underlining the need for an ever more gentle hand on the regulator or power handle.

£748,000 was spent on acquiring fixed assets in the year. This included £220,000 on final construction work and fitting out of The Engine House, £259,000 on a new footbridge at Highley and £155,000 redeveloping Highley Station following the successful opening of The Engine House. We are greatly indebted to the Heritage Lottery Fund, The European Regional Development Fund, Advantage West Midlands and Bridgnorth District Council for the grant aid provided for these projects. Additionally, £62,000 was spent on building a new culvert near Arley Station, £19,000 was spent on the new Catering Dock at Kidderminster Station and £15,000 was spent on a Fire Alarm System for the Carriage and Wagon Works at Kidderminster.

The Railway not only received a number of prestigious Awards during the year but was also privileged to receive a visit in June from TRH The Prince of Wales and The Duchess of Cornwall. They brought with them the Royal Train, which was hauled on the SVR by visiting air-braked locomotive 6024 *King Edward 1*, and very kindly invited a number of SVR personnel to travel with them up the line. It was a memorable occasion for all concerned and one very much enjoyed by the royal couple who were most impressed by what they saw and heard.

The year saw the withdrawal from active service of old favourites 45110 and 48773, whilst the only addition to the loco fleet in 2008 saw the return to traffic of 7812 *Erlestoke Manor*. We are having to wait a little bit longer to welcome back 43106 after an absence of 20 years. Hopefully, by the time this Report drops through the letterbox, the 'Flying Pig' will once again be earning its corn for the Railway following a major and expensive overhaul. Following on is 2857 where work is progressing well with much valuable assistance from the owning group, but completion is unlikely before the end of 2009. On the carriage front the Department not only carried out repairs / repainting / revarnishing to 17 of our own vehicles, but also earned contract revenue for the Company by undertaking repairs / repainting on a further 8 coaches and 2 diesel locomotives. The Department also found time to load / unload 52 rail vehicles for road movement.

CHAIRMAN'S STATEMENT (continued...)

I am pleased to report that the buoyant trading seen in 2008 has continued into 2009 and with passenger numbers and revenue so far running ahead of budget, our cash flow is looking healthier than we might have expected. A well attended 1960's Transport Day in February gave us a good start, then a superb Festival of Steam Gala in March attracted over 5,500 passengers and this was followed a few weeks later by another successful Members and Shareholders Weekend. We are delighted to have made the start we have but we certainly can't afford to be complacent. We must remain vigilant for any signs of adverse impact from the economic downturn and be prepared to act. Our bankers, HSBC, have been and continue to be, very supportive, but with the next 12-18 months being so difficult to predict it is our intention to improve our cash position as much as we can. Consequently, there will be a tight control on capital expenditure for the remainder of the year, once existing projects have been completed, and the decision has already been taken to defer repairs to Bridgnorth bypass bridge until 2010. We must continue to contain costs wherever we can and promote the attractions of the SVR at every opportunity. That is something we can all help with when talking to friends or work colleagues, for there is nothing better than a personal recommendation.

My thanks go to every member of the SVR Team who, working together, have helped the Railway to achieve what was without doubt a very satisfying and successful year. I would also like to record my sincere thanks to Jason Houlders who resigned from the SVR Company Ltd Board and consequently as one of their Representatives on the Holdings Company Board, on 21 December 2008, due to personal reasons. Although only a Holdings Company Director for a little under a year he had been able to make effective contributions to Joint Board meetings for a number of years in his capacity as an SVR Company Ltd Director and we are sorry to lose him. In his place we welcome back Roger Hobson who has been re-appointed by SVR Company Ltd as its second nominee.



M R York
Chairman

5 May 2009

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2008

The Directors present their Report and the audited Financial Statements for the year ended 31 December 2008.

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's business is included in the Chairman's Statement on pages 4 to 6 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 12.

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 2008, the Company made a profit before tax of £97,925 compared to a restated loss of £525,431 in 2007.

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:

- Cashflow
- Passenger numbers
- Turnover
- Gross profit

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 ongoing or future 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 2009 are described in the Chairman's Statement on pages 4 to 6.

Directors

The Directors of the Company are listed on page 3.

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2008 (continued...)

Provision of Information to Auditors

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Company's Auditors are unaware, and
- that Director has taken all the steps that ought to have been taken as a Director in order to be aware of any information needed by the Company's Auditors in connection with preparing their report and to establish that the Company's Auditors are aware of that information.

Directors' Interests

The interests of the current Directors in the shares of the Company at 31 December 2008, together with their beneficial interests at 1 January 2008, or date of their appointment, were:

	1 January 2008	31 December 2008
A Barker	5,090	5,718
A Barker - Trustee holding for SVR Association	50,048	50,048
M E Ball	500	500
A Davies	500	500
R F Hobson	450	450
C F Homer	3,010	3,010
A D Owen	500	500
N C Paul	1,451	1,451
R S Smith	7,500	7,500
C G Thomas	302	452
C W Walton	700	700
D C Williams	2,005	2,005
M R York	500	500

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 2008 was 50 (2007: 60).

Charitable Donations

During the year the Company made charitable donations of £50 (2007: £NIL).

Substantial Shareholdings

The following had holdings in excess of 3% of the issued share capital of the Company at 31 December 2008.

	No. of Shares	% of Total
SVR Co. Ltd	918,701	22.9
Rubery Owen Holdings Ltd	150,000	3.7
Philip Walter Swallow	136,753	3.4

DIRECTORS' REPORT

Directors' Report for the year ended 31 December 2008 (continued...)

Fixed Assets

In order to improve comparability of the Company's Financial Statements with those of other companies operating within the heritage railways industry sector, the Company changed its accounting policy regarding the measurement of freehold land and buildings.

Details of the change, including its effect on previously reported results, are included in note 1 to the accounts.

The comparative figures have been restated.

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.

Approved by the board of Directors and signed on its behalf by:



A S Harding
Company Secretary

5 May 2009

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.

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

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 Financial Statements 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 Financial Statements 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 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 of fraud and other irregularities.

In determining how amounts are presented within items in the Profit and Loss Account and Balance Sheet, the Directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles.

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 2008 set out on pages 12 to 26. These Financial Statements have been prepared under the accounting policies set out therein.

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

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 other transactions 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 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 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 2008 and of its results 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.

5 May 2009

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

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	<i>As restated</i> 2007 £
Turnover	1,2	5,019,105	3,033,731
Cost of sales	5	<u>(6,343,197)</u>	<u>(6,407,366)</u>
Gross Loss		(1,324,092)	(3,373,635)
Administrative expenses		(623,847)	(590,640)
Other operating income	3,5	<u>2,088,300</u>	<u>3,475,414</u>
Operating Profit/(Loss)	4	140,361	(488,861)
Interest received		1,309	10,610
Interest payable and similar charges	6	<u>(43,745)</u>	<u>(47,180)</u>
Profit/(Loss) on ordinary activities before taxation		97,925	(525,431)
Tax on ordinary activities	16	<u>-</u>	<u>-</u>
Retained Profit/(Loss) for the financial year	19	<u><u>97,925</u></u>	<u><u>(525,431)</u></u>

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

The notes on pages 16 to 26 form part of these financial statements

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £	<i>As restated</i> 2007 £
Profit/(Loss) and total recognised gains/(losses) for the financial year	97,925	<u>(525,431)</u>
Prior year adjustment – note 1	<u>(1,463,247)</u>	
Total losses since the last Financial Statements	<u>(1,365,322)</u>	

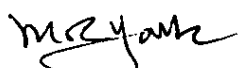
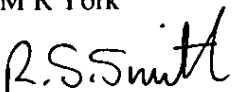
The notes on pages 16 to 26 form part of these Financial Statements.

BALANCE SHEET

31 DECEMBER 2008

	Notes	2008 £	<i>As restated</i> 2007 £
Fixed Assets			
Tangible Assets	10	<u>11,875,837</u>	<u>11,544,612</u>
Current Assets			
Stocks	11	269,906	278,775
Debtors	12	361,449	1,214,940
Cash at bank and in hand	13	<u>7,783</u>	<u>37,151</u>
		639,138	1,530,866
Creditors: Amounts falling due within one year	14	<u>(1,712,140)</u>	<u>(2,355,481)</u>
Net Current Liabilities		<u>(1,073,002)</u>	<u>(824,615)</u>
Total Assets Less Current Liabilities		10,802,835	10,719,997
Creditors: Amounts falling due after more than one year	15	<u>(6,293,460)</u>	<u>(6,399,970)</u>
Net Assets		<u>4,509,375</u>	<u>4,320,027</u>
Capital and Reserves			
Called up share capital	18	4,013,171	3,921,748
Profit and Loss account	19	<u>496,204</u>	<u>398,279</u>
Shareholders' Funds – all equity	20	<u>4,509,375</u>	<u>4,320,027</u>

The Financial Statements on pages 12 to 26 were approved and authorised for issue by the Board of Directors on 5 May 2009 and signed on its behalf by:


 M R York }

 R S Smith }
 } Directors
 }
 }

The notes on pages 16 to 26 form part of these financial statements.

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	As restated 2007 £
Net cash inflow from operating activities		<u>930,531</u>	<u>1,406,335</u>
Returns on investment and servicing of finance			
Interest received		1,309	10,610
Interest paid		<u>(43,745)</u>	<u>(47,180)</u>
Net cash outflow from investment and servicing of finance		<u>(42,436)</u>	<u>(36,570)</u>
Taxation			
Tax paid		<u>-</u>	<u>-</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(748,448)	(2,645,108)
Sale proceeds from tangible fixed assets		<u>13,849</u>	<u>9,252</u>
Net cash outflow from investment and servicing of finance		<u>(734,599)</u>	<u>(2,635,856)</u>
Net cash inflow/(outflow) before financing		153,496	(1,266,091)
Financing			
Issue of loans		1,238	711,426
Loan repayments		(279,601)	(213,385)
Issue of ordinary share capital		<u>91,423</u>	<u>444,578</u>
Net cash (outflow)/inflow from financing		<u>(186,940)</u>	<u>942,619</u>
Decrease in cash in the year	24	<u>(33,444)</u>	<u>(323,472)</u>

RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £	As restated 2007 £
Operating profit/(loss)	140,361	(488,861)
Depreciation charge	403,459	244,569
(Profit) on sale of tangible fixed assets	(85)	(2,546)
Movement in working capital:		
Decrease/(Increase) in stocks	8,869	(23,375)
Decrease/(Increase) in debtors	853,491	(437,235)
(Decrease)/Increase in creditors	<u>(475,564)</u>	<u>2,113,783</u>
Net cash inflow from operating activities	<u>930,531</u>	<u>1,406,335</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. Principal accounting policies

The Financial Statements have been prepared in accordance with the Companies Act 1985 and 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.

Turnover

Turnover comprises revenue recognised by the Company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts.

Income associated with credit sales is recognised at the point an invoice is raised. Invoices are raised once the Company becomes entitled to consideration for goods and services supplied.

Income associated with cash sales is recognised at the point of sale for non-refundable goods and services. Where services are purchased in advance of the date that the service is provided, the income is deferred until the date of supply.

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.

Depreciation is calculated so as to write off the cost 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
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 2008 (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.

Stocks include goods for resale and stores of goods for use in operation of the Railway.

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.

Deferred tax assets and liabilities are not discounted.

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 once confirmation of the grant amount to be received is certain. 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 recognised on an accruals basis.

Locomotives 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.

Railway Stabilisation Works (Flood Damage)

The income and expenditure associated with stabilising and making good damage suffered by the Railway during the flooding in 2007 is accounted for on the following bases:

- All costs incurred during the year associated with repairing damages caused by the flooding are charged to the Profit and Loss Account;
- Income from donations is credited to the Profit and Loss Account as received;
- Income from grant providers is credited to the Profit and Loss Account when confirmation of the grant amount to be received is certain;
- Income from material damage insurance and business interruption insurance is recognised in the same period as the flood damage expenditure to which it relates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued...)

1. Principal accounting policies - continued

Change in accounting policy – Freehold land and buildings

In 2008, the Company changed its accounting policy regarding the measurement of freehold land and buildings recognised in the Financial Statements.

The Company's previous policy was to recognise and measure freehold land and buildings at a valuation in accordance with the provisions of Financial Reporting Standard No.15, 'Tangible Fixed Assets'.

The Directors consider that in order to improve comparability with Financial Statements published by other companies operating within the same industry sector as Severn Valley Railway (Holdings) Plc, land and buildings be measured at historic cost, less provision for depreciation.

The prior year figures have been adjusted to recognise the change in policy. The effect on previously reported results is as follows:

	As previously reported 2007 £	As restated 2007 £
Loss for the year	488,620	525,431
Tangible fixed assets	13,007,859	11,544,612
Revaluation reserve	1,463,247	-
Shareholders' funds	<u>5,783,274</u>	<u>4,320,027</u>

2. Turnover

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

	2008 £	2007 £
Rents received	19,703	18,235
Insurance claim for bridge impact damage	11,875	-
Insurance claim for stock theft	-	13,700
Grant income relating to railway stabilisation works	985,386	920,296
Flood appeal donations	59,741	523,903
Insurance claim for material damage	350,892	630,000
Insurance claim for loss of profits	146,000	1,100,000
Other donations and legacies	196,675	103,638
Other non trading income	6,977	55,745
Other grant income	133,222	-
Release of deferred grants/donations	<u>177,829</u>	<u>109,897</u>
	<u>2,088,300</u>	<u>3,475,414</u>

Other non trading income includes amounts receivable from West Bromwich Building Society on the monies held in Severn Valley Affinity Accounts run by the Society.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued...)

4. Operating Profit/(Loss)

	2008 £	<i>As restated</i> 2007 £
The operating profit/(loss) is stated after charging:		
Depreciation on tangible owned fixed assets	403,459	244,569
Hire of other assets – operating leases	2,018	2,572
Net (surplus)/shortfall attributable to railway stabilisation works (see note 5)	<u>(135,517)</u>	<u>484,449</u>

5. Railway Stabilisation Works following Flood Damage

	2007 Income & Expenditure £	2008 Income & Expenditure £	2009/10 Estimated Income & Expenditure £	Total Estimated Income & Expenditure £
Income Included Within Other Operating Income:				
Donations	523,903	59,741	1,300	584,944
Grants	920,296	985,386	94,121	1,999,803
Insurance claim	630,000	350,892	-	980,892
Other	-	-	10,000	10,000
	<u>2,074,199</u>	<u>1,396,019</u>	<u>105,421</u>	<u>3,575,639</u>
Less Railway Stabilisation Works Expenditure				
Included Within Cost of Sales:	(2,558,648)	(1,260,502)	(7,014)	(3,826,164)
Surplus/(shortfall) before unconfirmed income	<u>(484,449)</u>	<u>135,517</u>	<u>98,407</u>	<u>(250,525)</u>
Anticipated additional income not yet confirmed	-	-	20,000	20,000
Surplus/(shortfall) after unconfirmed income	<u>(484,449)</u>	<u>135,517</u>	<u>118,407</u>	<u>(230,525)</u>

Reconciliation with Cost of Sales in the Profit & Loss Account

	£
Railway Stabilisation Works expenditure	1,260,502
Cost of sales relating to normal trading activity	<u>5,082,695</u>
Cost of sales as per the Profit and Loss Account	<u>6,343,197</u>

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

6. Interest payable and similar charges

	2008	2007
	£	£
On other loans	12,403	4,426
On bank loans and overdrafts	<u>31,342</u>	<u>42,754</u>
	<u>43,745</u>	<u>47,180</u>

7. Auditors' remuneration

	2008	2007
	£	£
Fees payable to the Company's auditor for the audit of the annual accounts	13,000	11,000
Fees payable to the Company's auditor in respect of:		
Other services relating to taxation	5,000	1,500
Other services	<u>4,750</u>	<u>1,825</u>

8. Directors' emoluments

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

In the prior year, a company in which one of our Directors has an interest received £13,494 of fees for services supplied during the year. No such fees have been charged in the current year.

9. Employee information

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

	2008 Number	2007 Number
Full time	83	83
Part time	<u>40</u>	<u>24</u>
	<u>123</u>	<u>107</u>
	£	£
Staff costs for the above		
Wages and salaries	1,700,922	1,532,278
Social security costs	116,467	116,325
Other pension costs	<u>64,268</u>	<u>53,156</u>
	<u>1,881,657</u>	<u>1,701,759</u>

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

10. 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						
At 1 January 2008 –						
<i>As restated</i>	14,021,965	7,913,250	724,100	561,287	160,966	4,662,362
Additions	748,448	251,726	-	54,950	5,995	435,777
Reallocation	-	4,607,301	-	-	-	(4,607,301)
Disposals	(18,759)	(7,479)	-	-	(4,995)	(6,285)
At 31 December 2008	<u>14,751,654</u>	<u>12,764,798</u>	<u>724,100</u>	<u>616,237</u>	<u>161,966</u>	<u>484,553</u>
Depreciation						
At 1 January 2008 –						
<i>As restated</i>	2,477,353	1,430,969	656,333	286,021	104,030	-
Charge for the year	403,459	336,190	10,355	41,915	14,999	-
Disposals	(4,995)	-	-	-	(4,995)	-
At 31 December 2008	<u>2,875,817</u>	<u>1,767,159</u>	<u>666,688</u>	<u>327,936</u>	<u>114,034</u>	<u>-</u>
Net book value						
At 31 December 2008	<u>11,875,837</u>	<u>10,997,639</u>	<u>57,412</u>	<u>288,301</u>	<u>47,932</u>	<u>484,553</u>
At 31 December 2007 –						
<i>As restated</i>	<u>11,544,612</u>	<u>6,482,281</u>	<u>67,767</u>	<u>275,266</u>	<u>56,936</u>	<u>4,662,362</u>

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.

11. Stocks

	2008 £	2007 £
Goods for resale	144,724	144,020
Stores	<u>125,182</u>	<u>134,755</u>
	<u>269,906</u>	<u>278,775</u>

12. Debtors

	2008 £	2007 £
Trade debtors	83,668	129,189
Other debtors	139,516	639,575
Prepayments and accrued income	<u>138,265</u>	<u>446,176</u>
	<u>361,449</u>	<u>1,214,940</u>

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

13. Cash at bank and in hand

	2008 £	2007 £
Balance at bank	1	31,671
Petty cash and cash floats	<u>7,782</u>	<u>5,480</u>
	<u>7,783</u>	<u>37,151</u>

14. Creditors - Amounts falling due within one year

	2008 £	2007 £
Bank and other loans and overdrafts	322,656	555,281
Trade creditors	900,853	1,143,984
Other taxation and social security	39,912	35,690
Other creditors	147,088	272,122
Accruals and deferred income	<u>301,631</u>	<u>348,404</u>
	<u>1,712,140</u>	<u>2,355,481</u>

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

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

	2008 £	2007 £
Bank loan	454,926	496,588
Deferred income	5,661,534	5,716,382
Accruals	<u>177,000</u>	<u>187,000</u>
	<u>6,293,460</u>	<u>6,399,970</u>

The loan limit is capped at £550,000 and was initially repayable in monthly instalments of £3,863 repayable within twenty years. From 1 April 2008, monthly instalments were increased to £4,000 in order to accelerate repayment of the capital amount, with £149,581 repayable in 2 to 5 years and the balance over 5 years.

Interest is charged at 1.25% over the bank's base rate but capped at 4.95%.

The bank borrowings are secured by means of a fixed charge over all book debts and certain freehold properties and a floating charge over certain 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued...)

16. Taxation

16.1 Corporation Tax and Deferred Tax

No Corporation tax or deferred tax is chargeable to either the current or the prior year.

16.2 Factors affecting tax charge for the year

The tax assessed is lower than the standard rate of corporation tax in the UK (21%). The differences are explained below:

	2008	<i>As restated</i> 2007
	£	£
Profit/(Loss) on ordinary activities before tax	<u>97,925</u>	<u>(525,431)</u>
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 21% (2007-21%)	20,564	(110,341)
Effects of:		
Depreciation on ineligible assets	62,759	31,857
Donations received	(50,697)	(131,784)
Movement on accelerated capital allowances	(10,576)	(20,450)
Expenses not deductible for tax purposes.	120	49
Unrelieved tax losses	39,632	256,672
Release of deferred income	(61,630)	(22,968)
Other differences	<u>(172)</u>	<u>(3,035)</u>
Current tax charge for the year (see note above)	<u><u>-</u></u>	<u><u>-</u></u>

There were no factors that may affect future tax charges.

The tax rate of 21% 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.

The Company has a potential deferred tax asset of £755,730 relating to taxable losses carried forward and a potential deferred tax asset of £999,364 relating to fixed asset timing differences. These assets have not been provided for, as the Directors do not believe there will be taxable profits against which these losses can reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

17. 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 £64,268 (2007: £53,156).

18. Called up Share Capital

	2008 £	2007 £
Authorised ordinary shares of £1 each	<u>8,000,000</u>	<u>5,000,000</u>
Allotted, called up and fully paid ordinary shares of £1 each	<u>4,013,171</u>	<u>3,921,748</u>

During the year the Company increased its authorised share capital by £3,000,000.

19. Reserves

	Revaluation Reserve £	Profit and loss account £
At 1 January 2008 as previously reported	1,463,247	398,279
Prior year adjustment (note 1)	<u>(1,463,247)</u>	-
At 1 January 2008 as restated	-	398,279
Profit for the financial year	<u>-</u>	<u>97,925</u>
At 31 December 2008	<u>-</u>	<u>496,204</u>

20. Reconciliation of movements in shareholders' funds

	2008 £	As restated 2007 £
Profit/(loss) for the financial year	97,925	(525,431)
Issue of share capital	<u>91,423</u>	<u>444,578</u>
Net addition to/(reduction of) shareholders' funds	<u>189,348</u>	<u>(80,853)</u>
Opening shareholders' funds as previously reported	5,783,274	5,827,316
Prior year adjustment (note 1)	<u>(1,463,247)</u>	<u>(1,426,436)</u>
Opening shareholders' funds as restated	<u>4,320,027</u>	<u>4,400,880</u>
Closing shareholders' funds (2007 – as restated)	<u>4,509,375</u>	<u>4,320,027</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued...)

21. Capital commitments

	2008 £	2007 £
Capital expenditure that has been contracted for, but has not been provided for in the financial statements	<u>-</u>	<u>164,000</u>

Since the Balance Sheet date, the Directors have committed the Company to capital expenditure of £225,000.

22. Other financial commitments

The following annual commitments existed at 31 December 2008 in respect of non-cancellable operating leases:

	2008 £	2007 £
Plant and Equipment:		
Between 2 to 5 years	<u>1,808</u>	<u>1,808</u>

23. Related Party Transactions

During the year, the following transactions were undertaken with Severn Valley Railway Company Limited who own 22.9 % of the Company's shares

	During 2008 £	Balance at 31.12.08 £	During 2007 £	Balance at 31.12.07 £
Recharges to SVR Co Ltd	<u>12,845</u>	<u>27,899</u>	<u>23,631</u>	<u>23,631</u>
Recharges from SVR Co Ltd	<u>6,398</u>	<u>2,401</u>	<u>2,607</u>	<u>-</u>

Loans totalling £1,238 were made during the year from Severn Valley Railway Company Limited to Severn Valley Railway (Holdings) Plc. This represented interest of £1,238 which was charged on part of the outstanding loan during the year at 0.5% above the ruling money market rate for investments. £6,435 of the loan was converted to Ordinary Shares during the year and the balance of the loan outstanding at the year-end was £75,024 and this figure is included in Creditors.

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

24. Reconciliation of net cash flow to movements in net debt

	2008 £	2007 £
Decrease in cash in the year	(33,444)	(323,472)
Cash inflow/(outflow) from reduction/(increase) in debt financing	<u>278,363</u>	<u>(498,041)</u>
Change in net debt	244,919	(821,513)
Net debt at 1 January 2008	<u>(1,014,718)</u>	<u>(193,205)</u>
Net debt at 31 December 2008	<u><u>(769,799)</u></u>	<u><u>(1,014,718)</u></u>

25. Analysis of changes in net debt

	01.01.08 £	Cash flows £	Non-cash movement £	31.12.08 £
Cash in hand and at bank	37,151	(29,368)	-	7,783
Bank overdraft	(186,427)	(4,076)	-	(190,503)
Loans due within 1 year	(368,854)	278,363	(41,662)	(132,153)
Loans due after more than 1 year	<u>(496,588)</u>	<u>-</u>	<u>41,662</u>	<u>(454,926)</u>
	<u><u>(1,014,718)</u></u>	<u><u>244,919</u></u>	<u><u>-</u></u>	<u><u>(769,799)</u></u>

ADDITIONAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2008

The analysis below is provided purely as additional information for the shareholders and does not form part of the audited Financial Statements.

Turnover	2008 £	2007 £
Engine House – admissions, catering and giftware	281,403	-
Traffic	2,473,704	1,285,501
Giftware	362,836	294,847
Bars	1,070,875	789,904
Catering	476,322	334,156
Contract engineering	295,885	281,747
Locomotive hire	20,275	42,765
Other	37,805	4,811
	<u>5,019,105</u>	<u>3,033,731</u>

Cost of Sales Relating to Traffic includes Working Expenses of:

	2008 £	<i>As restated</i> 2007 £
Operating wages and salaries	797,309	894,155
Locomotive maintenance	161,116	212,769
Carriage maintenance and cleaning	141,217	90,296
Coal, oil and water	298,639	164,759
Civil engineering	407,719	59,671
Permanent way maintenance	35,431	20,908
Railway stabilisation works	1,260,502	2,558,648
Signals and telecommunications	6,871	8,415
Plant, machinery and electrical repairs	38,499	36,228
Visiting locomotive costs	19,800	6,880
Sundry traffic expenses	70,710	94,148
Depreciation of buildings and equipment	166,812	172,731
Events including Galas, Santa, Filming, School Education and Thomas the Tank Engine © Gullane (Thomas) Ltd (2008)	162,885	161,671
Publicity	191,888	175,970
Station expenses	164,957	174,996
	<u>3,924,355</u>	<u>4,832,245</u>

ADDITIONAL INFORMATION **FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued...)

	2008	2007
	£	£
Administrative Expenses:		
Wages, salaries, pension and PHI	300,698	271,195
Bank charges	35,953	23,344
Rent, rates and insurance	126,846	118,593
Postage and telephone	35,283	44,810
Printing and stationery	20,637	24,827
Professional fees (including Civil Engineering fees)	6,813	10,329
Registrar's costs	7,910	8,139
Auditors' remuneration	13,000	11,000
General expenses	61,789	73,757
Office repairs	3,253	2,768
Motor travel	666	718
Entertainment	276	235
Depreciation of computer equipment and software	9,000	1,663
Profit on the sale of an asset	(85)	(2,546)
Office machinery leasing and hire of equipment	1,808	1,808
	<u>623,847</u>	<u>590,640</u>



Special Events in 2009

June 27/28 & July 4/5 – 1940's Weekends. Another opportunity to take a nostalgic look at Britain during the Second World War, with period cars and commercial vehicles, period dress, Big Band Shows, re-enactments and frequent trains linking all the activities. (Special timetable in operation).

July 25/26 – Severn Valley in Bloom. A day in the countryside at the height of summer. Always a popular event in our calendar, 'Severn Valley in Bloom' is further enhanced this year by a range of countryside events and activities that show the Severn Valley in summertime at its very colourful best. (Timetable C on Saturday and B on Sunday will be in operation).

September 5/6 – Seaside Special. Back by popular demand, we bring the seaside to the Midlands! (Special timetable in operation).

September 11 to 13 – Beer Festival at Bridgnorth Station. Featuring a wide range of Real Ales from across the country.

September 13 – Bus Rally. Bewdley Station will host a variety of historic buses. (Timetable B in operation).

September 25 to 27 – Autumn Steam Gala. Still the UK's premier steam railway event, including all-night train services on Friday and Saturday, visiting locomotives and frequent services on all three days. Something for all the family to enjoy. (Special timetable in operation).

October 8 to 10 – Diesel Gala. Running to its Autumn slot, this event is for those with an interest in modern traction. Thursday and Friday will use diesel locomotives only. (Special timetable in operation).

October 11 – Classic Car & Bike Day. A comprehensive gathering of classic cars and motorcycles at stations all along the line. Now a firm annual favourite! (Special timetable in operation).

October 24 – Jazz train. This is being held in conjunction with the Bridgnorth Jazz Festival. (Timetable B will be in operation).

November 8 – Remembrance Day Service. Held at Kidderminster Town Station under the magnificent canopy. An additional service is also held at Bridgnorth Station. (Timetable A in operation).

December 5/6, 12/13, 19/20 & 24 – Santa Steam Specials. An intensive service of trains from Kidderminster to Arley with presents for all children (aged 1 to 15). Further details will be available from late August 2009. Advance booking is essential on 01299 403816 from September 21 onwards. (Special timetable in operation).

December 26 to 31 and January 1 to 3, 2010 - Festive Season Specials. After Christmas, why not relax with a leisurely ride along the beautiful Severn Valley? No advance booking required. (Special timetable in operation).

Finally, a reminder that the SVR has developed a comprehensive range of events for schools covering a wide variety of topics. Our Education Office will be delighted to hear from any teacher or PTA wishing to arrange a visit.