

COMPANY NUMBER : 1412568

SWANAGE RAILWAY COMPANY LIMITED
DIRECTORS' REPORT
AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2006

SWANAGE RAILWAY COMPANY LIMITED

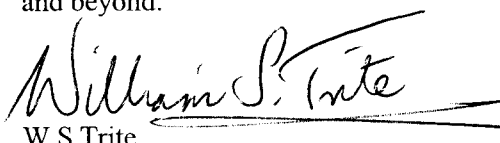
CHAIRMAN'S REPORT FOR 2007

2006 was a good year both for the Trust and its trading subsidiary, the Swanage Railway Company Ltd. The net income of the Trust rose significantly, due both to greater success with fundraising activities and to improved profitability of the trading subsidiary. This result has not been achieved by accident, but is the first fruit of the Trust Council's greater focus on fundraising as a core activity and the Company Board's on profitability. These objectives are managed such that they are wholly consistent, complimentary and as they should be in the eyes of the Charity Commission. Their demand – which is the law - is that the subsidiary must support the charity through the delivery of profit, while the Trust's demand is that the Board operate the railway in a manner that is consistent with the Trust's stated objectives and policies. Thus we have in effect a self-regulating balance between profitability and preservation – profits enable us to preserve, a well-preserved Swanage Railway helps us to make profits.

2006 also saw the transfer of certain assets between the Trust and the Company. While at the consolidated level the transfer had a nil effect, the sale of assets used by the Company in its daily business has resulted in greater clarity as to where financial responsibility for the maintenance and replacement of these lies and further enabled the Trust to focus on its charitable objectives.

While the net profit recorded in 2006 is not dissimilar to that recorded in 2005, the Board is pleased to report an improved cash position at year end and a consequential reduction in the seasonal overdraft anticipated to be needed in 2007. This reduction in exposure is a key element of the Board's goals. The Board also continues to maintain focus on costs and the reduction of locomotive running costs (primarily coal) is a pleasing vindication of the difficult decisions made in 2005 about the regular use of large locomotives. Such difficult decisions will continue to be taken as necessary as it is only by taking them can we manage situations that don't always go our way and deliver the required profit to our charitable parent, the Swanage Railway Trust. The Company Board is not quite yet at the point where it can say that the operation of the railway covers its full costs on a long-term sustainable basis. This has to be our goal in the short to medium term.

I am pleased to conclude by noting the Swanage Railway continued ascent of the ranks of heritage railways such that by some measures it is now within the top 3 standard gauge lines in the UK. My thanks to all concerned with making the Swanage Railway the success it is today and ensuring this will continue in 2007 and beyond.



W.S.Trite

Chairman

28/4/07

SWANAGE RAILWAY COMPANY LIMITED

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SWANAGE RAILWAY COMPANY LIMITED

COMPANY INFORMATION

Directors

W.S. Trite – Chairman
A.L. Moore – Finance director
K.R. Gooding - Secretary
S.W. Doughty – Deputy Chairman
P.A. Thrower
P.N. Sills

Secretary

K.R. Gooding

Registered Office

The Station House,
Swanage,
Dorset BH19 1HB.

Auditors

Shipleys LLP,
10 Orange Street,
Haymarket,
London WC2H 7DQ.

SWANAGE RAILWAY COMPANY LIMITED

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITY

The principal activity of the company continued to be that of operating the Swanage Railway, and associated trading activities.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their interests in the company are as stated below:

	Ordinary Non-voting Shares	
	31st December, 2006	1st January, 2006
S.W. Doughty	30	30
K.R. Gooding	200	200
A.L. Moore	10	10
P.A. Thrower	-	-
W.S. Trite	70	70
P.N. Sills	-	-

SHARE CAPITAL

SUBSTANTIAL SHAREHOLDINGS

Throughout the year the Swanage Railway Trust held all the voting shares and 30 non-voting shares out of a total issued share capital at 31st December, 2006 of 486,963 voting and non-voting shares. A total of 357,613 shares were issued at par during the year as shown in Note 11.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the financial period and of the result for that period. The directors consider that in preparing the financial statements the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and confirm that all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and for ensuring that the financial statements comply with the Companies Act 1985. The directors also have responsibility for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information.

SWANAGE RAILWAY COMPANY LIMITED**DIRECTORS' REPORT - CONTINUED****AUDITORS**

On 1st May, 2006 the practice of AGN Shipleys transferred its business to Shipleys LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The company's consent has been given to treating the appointment of AGN Shipleys as extending to Shipleys LLP with effect from 1st May, 2006 under the provisions of section 26(5) Companies Act 1989. Shipleys LLP are deemed to be reappointed in accordance with section 386 of the Companies Act 1985 by virtue of an elective resolution passed by the members which dispenses with the requirement to appoint auditors annually.

This report is prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

On Behalf of the Board

W.S. Trite
Director

28/4/07

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SWANAGE RAILWAY COMPANY LIMITED**

We have audited the financial statements of Swanage Railway Company Limited for the year ended 31st December, 2006, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005) under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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 on Auditing (UK & 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 Directors' report and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK & 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.

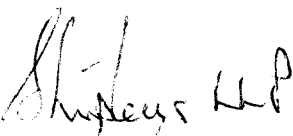
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SWANAGE RAILWAY COMPANY LIMITED – CONTINUED**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 December 2006 and of its profit 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 financial statements.


Shipleys LLP
Chartered Accountants and
Registered Auditors
10 Orange Street
Haymarket
London
WC2H 7DQ

28/4/07

SWANAGE RAILWAY COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	Notes	2006 £	2005 £
TURNOVER	1.2 & 2	1,782,040	1,636,752
COST OF SALES		<u>(797,006)</u>	<u>(766,213)</u>
GROSS PROFIT		985,034	870,539
ADMINISTRATIVE EXPENSES		<u>(935,617)</u>	<u>(830,889)</u>
OPERATING PROFIT	3	49,417	39,650
OTHER INTEREST RECEIVABLE AND SIMILAR INCOME		957	2
INTEREST PAYABLE AND SIMILAR CHARGES	4	<u>(14,228)</u>	<u>(3,870)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION		36,146	35,782
ACCUMULATED LOSS BROUGHT FORWARD		<u>£(3,837)</u>	<u>(39,619)</u>
ACCUMULATED PROFIT/(LOSS) CARRIED FORWARD		<u>£32,309</u> =====	<u>£(3,837)</u> =====

The notes on pages 8 to 14 form part of these financial statements.

SWANAGE RAILWAY COMPANY LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER, 2006

	Notes	2006		2005	
		£	£	£	£
FIXED ASSETS					
Tangible assets	6		695,873		121,328
CURRENT ASSETS					
Stocks	7	26,548		22,462	
Debtors	8	55,559		70,296	
Cash at bank and in hand		<u>102,167</u>		<u>24,991</u>	
		184,274		117,749	
CREDITORS : Amounts falling due within one year	9	<u>(154,208)</u>		<u>(100,699)</u>	
NET CURRENT ASSETS			<u>30,066</u>		<u>17,050</u>
			725,939		138,378
CREDITORS : Amounts falling due after more than one year	10		<u>(206,667)</u>		<u>(12,865)</u>
NET ASSETS			<u>£519,272</u>		<u>£125,513</u>
CAPITAL AND RESERVES					
Called up share capital	11		486,963		129,350
Profit and loss account			<u>32,309</u>		<u>(3,837)</u>
EQUITY SHAREHOLDERS' FUNDS			<u>£519,272</u>		<u>£125,513</u>

The financial statements are prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and the Financial Reporting Standards for Smaller Entities (effective January 2005).

Approved by the Board on 28/4/07

W.S. Tritte)
) Directors
 A.L. Moore)

William Tritte
AL Moore

The notes on pages 8 to 14 form part of these financial statements.

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

31ST DECEMBER, 2006

1. ACCOUNTING POLICIES

1.1 Accounting Convention

The financial statements are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005).

1.2 Turnover

Turnover represents the amount derived from the operation of the Swanage Railway and related activities, excluding value added tax.

1.3 Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated in the balance sheet at cost, less accumulated depreciation. Depreciation is calculated to write off the cost of tangible fixed assets at the following rates:-

Locomotives	- 10% on straight line basis
Plant, machinery and equipment	- 20% on reducing balance method
Shop fittings and equipment	- 20% on reducing balance method
Motor vehicles	- 20% on reducing balance method
Land & Buildings	- 10% on straight line basis
Track & Construction	- 4% on straight line basis

1.4 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.5 Stock

Stock is valued at the lower of cost and net realisable value.

1.6 Deferred Taxation

Provision is made for deferred taxation in full using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes.

2. TURNOVER

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

3. OPERATING PROFIT	2006	2005
	£	£
Operating profit is stated after charging:-		
Depreciation and other amounts written off tangible assets	82,165	21,148
Operating lease rentals		
- Locomotive hire	158,700	135,300
- Land and buildings	21,625	18,000
- Contribution for use of Herston Works	24,374	25,894
Infrastructure charge	23,471	27,158
Auditors' remuneration	4,500	4,350
	<u>=====</u>	<u>=====</u>

The infrastructure charge is levied by the Swanage Railway Trust to the Swanage Railway Company Limited for the use of rolling stock, track and infrastructure. This charge is equivalent to the annual depreciation charge on the assets concerned in the Trust accounts.

4. INTEREST PAYABLE AND SIMILAR CHARGES	2006	2005
Bank interest	4,031	3,870
Interest on loan from The Swanage Railway Trust	<u>10,197</u>	<u>-</u>
	<u>£14,228</u>	<u>£3,870</u>
	<u>=====</u>	<u>=====</u>

5. DIRECTORS AND EMPLOYEES	£	£
Staff costs including directors' emoluments		
Wages and salaries	488,888	470,906
Social security costs	36,884	35,465
Recharges to Swanage Railway Trust	<u>(3,192)</u>	<u>(6,969)</u>
	<u>£522,580</u>	<u>£499,402</u>
	<u>=====</u>	<u>=====</u>

The company had 41 (2005 – 35) full and part-time employees at the year end, excluding directors. However, some of the salary costs are charged to the Swanage Railway Trust. The directors did not receive any remuneration for their services.

The company is heavily reliant on volunteer staff in all areas of its activities.

SWANAGE RAILWAY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

6. TANGIBLE FIXED ASSETS

	Land & Buildings £	Locomotives & Rolling Stock £	Plant, Machinery & Equipment £	Shop Fittings & Equipment £	Track & Construction £	Motor Vehicles £	Total
Cost							
At 1st January, 2006	30,011	32,100	181,583	13,302	-	9,000	265,996
Additions	-	281,873	3,301	4,003	367,533	-	656,710
At 31st December, 2006	<u>30,011</u>	<u>301,137</u>	<u>184,884</u>	<u>17,305</u>	<u>367,533</u>	<u>9,000</u>	<u>909,870</u>
Depreciation							
At 1st January, 2006	1,200	4,543	123,087	11,578	-	4,260	144,668
Charge for the year	3,001	40,745	19,619	1,138	16,763	899	82,165
At 31st December, 2006	<u>4,201</u>	<u>45,288</u>	<u>142,706</u>	<u>12,716</u>	<u>16,763</u>	<u>5,159</u>	<u>226,833</u>
Net Book Value							
At 31st December, 2006	<u>£25,810</u>	<u>£268,685</u>	<u>£42,178</u>	<u>£4,589</u>	<u>£350,770</u>	<u>£3,841</u>	<u>£695,873</u>
At 31st December, 2005	<u>£ 28,811</u>	<u>£27,557</u>	<u>£58,496</u>	<u>£1,724</u>	<u>£-</u>	<u>£4,740</u>	<u>£121,328</u>

On 31st March, 2006 fixed assets were purchased for £583,400 from the holding organisation, The Swanage Railway Trust. The fixed assets purchased comprise track and rolling stock which are used in the operation of the Swanage Railway. This purchase has been financed by the issue of new shares and a loan from The Swanage Railway Trust.

7. STOCKS

	2006 £	2005 £
Shop stocks for resale	16,358	14,123
Catering stock	2,920	2,527
Consumable stocks	3,811	2,072
Special events stock	3,459	3,740
	<u>£26,548</u>	<u>£22,462</u>

8. DEBTORS

	£	£
Trade debtors	23,093	13,541
Other debtors	26,577	36,366
Prepayments and accrued income	5,889	20,389
	<u>£55,559</u>	<u>£70,296</u>

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

9. CREDITORS : Amounts falling due within one year	2006 £	2005 £
Bank loans and overdrafts - secured	-	3,367
Trade creditors	101,388	70,642
Loan from The Swanage Railway Trust	19,515	7,835
Accruals and deferred income	33,305	18,855
	<hr/>	<hr/>
	£154,208	£100,699
	<hr/> <hr/>	<hr/> <hr/>
10. CREDITORS : Amounts falling due after more than one year	£	£
Loan from The Swanage Railway Trust	206,667	-
Bank loan	<hr/>	<hr/>
	£206,667	£12,865
	<hr/> <hr/>	<hr/> <hr/>

The loan from The Swanage Railway Trust was for a period of 10 years and is repayable in equal monthly instalments. Interest is charged at 1.5% above the banks base lending rate and the amount of interest charged in the year was £10,197.

The total amount outstanding on the loan at 31st December, 2006 was £226,182 and of this amount £116,000 is repayable in more than 5 years. The loan will be fully repaid in 2016.

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

11. SHARE CAPITAL	2006		2005	
	Number of Shares	£	Number of Shares	£
Authorised				
Non-voting shares of £1 each	75,000	75,000	75,000	75,000
Ordinary voting shares of £1 each	925,000	925,000	175,000	175,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
		£1,000,000		£250,000
		<u>=====</u>		<u>=====</u>
Allotted, called up and fully paid				
Non-Voting				
At 1 st January, 2006	19,009	19,009	17,559	17,559
Shares issued in year	-	-	1,500	1,500
Transfer to voting shares	(30)	(30)	(50)	(50)
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 31 st December, 2006	18,979	18,979	19,009	19,009
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Ordinary Voting				
At 1 st January, 2006	110,341	110,341	81,709	81,709
Shares issued in year	357,613	357,613	28,582	28,582
Transfer from non-voting shares	30	30	50	50
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
At 31 st December, 2006	467,984	467,984	110,341	110,341
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
Total		486,963		129,350
		<u>=====</u>		<u>=====</u>

The ordinary £1 voting shares are all held by The Swanage Railway Trust, a registered charity, which is the only body that may hold voting rights.

The Swanage Railway Trust also has a non-beneficial holding of 30 non-voting ordinary shares in the company.

On 25th February, 2006 an Extraordinary General Meeting of the company was held at which a resolution was passed to increase the authorised share capital to £1,000,000. This was achieved by increasing the authorised Ordinary voting shares by 750,000 of £1 each.

The shares were issued at par to increase the capital base of the company for the purchase of assets in 2006 - See note 6.

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

12. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31st December, 2007.

	2006	2005
	Land and Buildings	Land and Buildings
Expiring after five years	£21,625 =====	£18,000 =====

The company also has an informal arrangement with The Swanage Railway Trust under which it pays a variable amount in respect of its occupation of Herston Works.

Locomotive Hire Agreements

The company utilises the motive power and engineering support provided by Southern Locomotives Engineering Limited for which there is an agreement under which Swanage Railway Company Limited pays a fixed amount each year. As detailed in note 13 a number of the directors are also directors and/or shareholders in Southern Locomotives Limited, the holding company of Southern Locomotives Engineering Limited.

The amount invoiced by Southern Locomotives Engineering Limited for the supply of motive power and engineering support in respect of the year was £69,510 (2005: £110,000).

13. DIRECTORS INTERESTS (SEE NOTE 12)

A number of the directors are shareholders in Southern Locomotives Limited which as detailed in Note 12 entered into an arrangement with Swanage Railway Company Limited for the provision of motive power and engineering support.

The directors' interests in Southern Locomotives Limited as at 31st December, 2006 were as follows:-

	Number of Ordinary £250 shares held
S.W. Doughty	3
A.L. Moore (Director)	42
W.S. Trite	37

As at 31st December, 2006 Southern Locomotives Limited had 6,233 ordinary £250 shares in issue.

SWANAGE RAILWAY COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

31ST DECEMBER, 2006

14. CAPITAL COMMITMENTS

At 31 December, 2006 the company had a capital commitment of £15,000 under its coach refurbishment programme for work which had been authorised but not yet been undertaken.

15. CONTROLLING INTEREST

As detailed in the Directors' Report, Swanage Railway Company Limited was controlled by The Swanage Railway Trust throughout the year.

SWANAGE RAILWAY COMPANY LIMITED
DETAILED TRADING PROFIT AND LOSS ACCOUNT AND EXPENSES SCHEDULE
FOR THE YEAR ENDED 31ST DECEMBER, 2006

	2006	2005
	£	£
TURNOVER		
Passenger takings	1,185,643	1,083,459
Shop income	214,630	224,394
Catering income	246,349	227,945
Norden Park and Ride	55,327	53,182
Driver experience takings	42,076	40,972
Sundry income	<u>38,015</u>	<u>6,800</u>
	1,782,040	1,636,752
COST OF SALES		
Locomotive running costs	104,757	126,848
Special event costs	116,224	116,164
Shop purchases	132,691	142,554
Catering purchases	105,193	96,257
Infrastructure charge	23,471	27,158
Locomotive hire	158,700	135,300
Locomotive, carriage and wagon repairs	113,975	77,997
Norden Park & Ride	<u>41,995</u>	<u>43,935</u>
	<u>(797,006)</u>	<u>(766,213)</u>
GROSS PROFIT	985,034	870,539
Bank deposit interest	<u>957</u>	<u>2</u>
	985,991	870,541
ADMINISTRATIVE EXPENSES		
Wages	488,888	470,906
National insurance	36,884	35,465
Less : wages recharged to The Swanage Railway Trust	(3,192)	(6,969)
Rent	21,625	18,000
Contribution for use of Herston Works	24,374	25,894
Rates	12,402	12,479
Insurance	41,756	48,437
Heat, light and water	15,382	21,380
Cleaning and laundry	21,634	15,774
Repairs and maintenance	65,131	45,253
Printing, postage and stationery	20,216	29,702
Marketing and publicity	52,762	41,549
Telephone	13,134	11,701
Motor and travelling expenses	5,467	5,211
Legal & Professional fees	3,675	6,840
Auditors' remuneration	4,500	4,350
Bank charges	7,044	7,136
Credit card charges	7,619	6,972
General expenses	13,873	9,522
Depreciation	82,166	21,148
Bad debt written off	<u>277</u>	<u>139</u>
	<u>(935,617)</u>	<u>(830,889)</u>
OPERATING PROFIT	50,574	39,652
Bank interest	(3,123)	(3,870)
Loan Interest	<u>(11,105)</u>	<u>-</u>
NET PROFIT FOR THE YEAR	<u>£36,146</u>	<u>£35,782</u>