

Registered number: 06641019

## British American Railway Services Limited

Annual report and financial statements

For the year ended 31 December 2016



**British American Railway Services Limited**

**Company Information**

<b>Directors</b>	K Busath (resigned 1 February 2017) E Ellis S Gregory (resigned 20 June 2017) C Roper (resigned 15 July 2017) G J Hanson (resigned 8 November 2017) H M McConville (appointed 8 November 2017)
<b>Registered number</b>	06641019
<b>Registered office</b>	Stanhope Station Stanhope Bishop Auckland County Durham DL13 2YS
<b>Independent auditors</b>	Kreston Reeves LLP Chartered Accountants & Statutory Auditor Third Floor 24 Chiswell Street London EC1Y 4YX

## **British American Railway Services Limited**

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## **British American Railway Services Limited**

### **Group strategic report For the year ended 31 December 2016**

#### **Business review**

2016 was another challenging year for British American Railway Services (BARS). Consolidated turnover declined 5% to £5.2 million, and the loss for the year jumped to £(2.2) million from £(1.6) million in 2015.

- Dartmoor Railway's turnover climbed 13% to £848,003, on the strength of a strong Christmas event in November/December. Despite this, Dartmoor's loss increased slightly to £(138,816) due to an increase in expenses.
- Devon & Cornwall Railway (DCR) continued to be BARS' poorest performing unit, with turnover dropping 9% and a loss of £(774,397), although the loss was less than in 2015. The long-anticipated opening of the proposed London transload terminal suffered from a variety of delays, and is still not operational.
- Rail Management Services also had a bad year, as turnover dropped 21%. The loss also increased substantially, to £(817,117) reflecting both the drop in turnover and the absence of a gain on sale of rolling stock in 2015. Within the RMS group, the locomotive hire operation was profitable, the track maintenance unit suffered increased losses, and the administration unit (after adjusting for non-recurring items in 2015) reduced expenses significantly, with the largest single item being a reduction in insurance expense.
- Weardale Railway's turnover was up 10% from 2015 to £1,624,474 due to a successful Christmas event. Despite this, Weardale's loss increased significantly to £(399,834), this was primarily due to one-off fixed asset impairment charges incurred in the year.

#### **2017 Outlook**

Despite the fact that DCR offers substantial potential when the proposed London terminal opens, the continuing delays in making the terminal operational, and DCR management's inability to secure profitable business in the meantime, created a cash drain on the company that could not continue to be tolerated. Accordingly, DCR was sold in November, 2017. Benefits of this transaction include the fact that BARS is now essentially debt-free, and that ongoing payments will significantly improve BARS' working capital situation and liquidity.

Simultaneous with the sale of DCR, RMS terminated its receivables factoring. This action will save the company approximately £50,000 annually.

Another major change in 2017 is replacing the licensed Christmas events at Dartmoor and Weardale railways with "Train To Christmas Town" events; this is an event developed internally at Iowa Pacific Holdings. Although "Train To Christmas Town" does not have the market visibility of the previous event, it also does not carry with it the liability of paying a substantial percentage of revenue in the form of royalties. Thus, even if the Dartmoor/Weardale events draw fewer passengers, the company expects that the financial performance will be comparable to or better than that in prior years.

In view of the steadily declining performance of RMS's track maintenance unit, the decision has been made to wind this down in 2018, with employees transferred as necessary to the Dartmoor and Weardale operations to maintain track as needed.

The company's near-term challenge is to improve margins and reduce the backlog of vendor payments at all the business units.

**British American Railway Services Limited**

**Group strategic report  
For the year ended 31 December 2016**

**Management Changes**

Edwin Ellis remains president.

Garcia Hanson, managing director of DCR, stayed with DCR under its new owners and is no longer a BARS director.

Howard Clark III, previously responsible for RMS, Dartmoor and Weardale, relinquished these roles to concentrate on his responsibilities at Iowa Pacific. Bill Warriner, who has been financial controller, has assumed responsibility for RMS, Dartmoor, and Weardale, while continuing his financial controller role. His new title is executive general manager.

While Kevin Busath resigned as director on 1st February 2017, he continues to assist the directors in his role as Vice President – Strategic Planning of the ultimate holding company.

**Principal Risks and Uncertainties**

Cash flow will remain an issue for the near-term. However, sale of DCR and winding down of track maintenance will eliminate the cash drain that these operations represented, and will enable the company to focus on the profitable locomotive hire and heritage railway operations. In addition, the cash stream from the sale of DCR will significantly improve liquidity.

The United Kingdom's pending exit from the European Union ("Brexit") continues to add an element of uncertainty to the UK's economic outlook, but at this point the directors are unable to identify any specific turnover risk to BARS as a result of Brexit.

This report was approved by the board on *5 January 2018* and signed on its behalf.



**E Ellis**  
Director

## **British American Railway Services Limited**

### **Directors' report**

**For the year ended 31 December 2016**

The directors present their report and the financial statements for the year ended 31 December 2016.

### **Results and dividends**

The loss for the year, after taxation and non-controlling interest, amounted to £2,223,291 (2015: £1,591,187).

No dividend is recommended for the year.

### **Directors**

The directors who served during the year were:

K Busath (resigned 1 February 2017)  
E Ellis  
S Gregory (resigned 20 June 2017)  
C Roper (resigned 15 July 2017)  
G J Hanson (resigned 8 November 2017)

On the 8 November 2017 H M McConville was appointed a director.

### **Directors' responsibilities statement**

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Matters covered in the strategic report**

Items required under Schedule 7 to be disclosed in the directors' report are set out in strategic report in accordance with s.414C(11) CA 2006.

**British American Railway Services Limited**

**Directors' report (continued)  
For the year ended 31 December 2016**

**Disclosure 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 the director is aware, there is no relevant audit information of which the Company and the Group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

**Auditors**

The auditors, Kreston Reeves LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on *5 January 2018* and signed on its behalf.

  
E. Ellis  
Director

## **British American Railway Services Limited**

### **Independent auditors' report to the shareholders of British American Railway Services Limited**

We have audited the financial statements of British American Railway Services Limited for the year ended 31 December 2016, which comprise the Group Statement of comprehensive income, the Group and Company Balance sheets, the Group Statement of cash flows, the Group and Company Statement of changes in equity and the related notes. The relevant financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 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 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 explained more fully in the Directors' responsibilities statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2016 and of the Group's profit or loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Emphasis of matter**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.3 to the financial statements concerning the group's capability to continue as a going concern.

The group has incurred a loss after taxation and non-controlling interest of £2,223,291 (2015: £1,591,187) during the year ended 31 December 2016, the group is showing a total net liability position of £10,651,386 (2015: £8,428,095) as at 31 December 2016. These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the group's ability to continue as a going concern. The financial



**British American Railway Services Limited**

**Independent auditors' report to the shareholders of British American Railway Services Limited  
(continued)**

statements do not include the adjustments that would result if the group was unable to continue as a going concern.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Group strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

In the light of our knowledge and understanding of the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group strategic report and the Directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Stephen Tanner BSc(Econ) FCA (Senior Statutory Auditor)

for and on behalf of  
**Kreston Reeves LLP**

Chartered Accountants  
Statutory Auditor

Third Floor  
24 Chiswell Street  
London  
EC1Y 4YX

Date: 11<sup>th</sup> January, 2018

**British American Railway Services Limited**

**Consolidated statement of comprehensive income  
For the year ended 31 December 2016**

	Note	2016 £	2015 £
Turnover	3	5,200,141	5,477,940
Cost of sales		<u>(4,343,299)</u>	<u>(4,786,636)</u>
<b>Gross profit</b>		<b>856,842</b>	<b>691,304</b>
Administrative expenses		<u>(2,740,967)</u>	<u>(2,238,870)</u>
Exceptional other income		-	300,000
<b>Operating loss</b>	5	<b>(1,884,125)</b>	<b>(1,247,566)</b>
Interest receivable and similar income	8	-	657
Interest payable and expenses	9	<u>(339,166)</u>	<u>(344,278)</u>
<b>Loss before taxation</b>		<b>(2,223,291)</b>	<b>(1,591,187)</b>
Tax on loss	10	-	-
<b>Loss for the year</b>		<b><u>(2,223,291)</u></b>	<b><u>(1,591,187)</u></b>
<b>Total comprehensive income for the year</b>		<b><u>(2,223,291)</u></b>	<b><u>(1,591,187)</u></b>
Non-controlling interests		<u>(8,685)</u>	<u>(60,720)</u>
Owners of the parent Company		<u>(2,214,606)</u>	<u>(1,530,467)</u>
		<b><u>(2,223,291)</u></b>	<b><u>(1,591,187)</u></b>

There were no recognised gains and losses for 2016 or 2015 other than those included in the consolidated statement of comprehensive income.

The notes on pages 14 to 27 form part of these financial statements.

**British American Railway Services Limited**  
Registered number: 06641019

**Consolidated balance sheet**  
**As at 31 December 2016**

	Note	2016 £	2015 £
<b>Fixed assets</b>			
Goodwill		128,015	161,615
Negative goodwill		(369,175)	(434,193)
		<u>(241,160)</u>	<u>(272,578)</u>
Tangible Fixed Assets	13	4,856,912	5,563,952
		<u>4,615,752</u>	<u>5,291,374</u>
<b>Current assets</b>			
Stocks	15	204,954	135,107
Debtors: amounts falling due within one year	16	1,488,808	1,182,681
Cash at bank and in hand	17	161,613	101,029
		<u>1,855,375</u>	<u>1,418,817</u>
Creditors: amounts falling due within one year	18	(16,709,513)	(14,715,543)
<b>Net current liabilities</b>		<u>(14,854,138)</u>	<u>(13,296,726)</u>
<b>Total assets less current liabilities</b>		<u>(10,238,386)</u>	<u>(8,005,352)</u>
Creditors: amounts falling due after more than one year	19	(413,000)	(422,743)
<b>Provisions for liabilities</b>			
<b>Net liabilities</b>		<u>(10,651,386)</u>	<u>(8,428,095)</u>
<b>Capital and reserves</b>			
Called up share capital	22	1,000	1,000
Other reserves	21	571,247	571,247
Profit and loss account	21	(11,291,154)	(9,076,548)
<b>Equity attributable to owners of the parent Company</b>		<u>(10,718,907)</u>	<u>(8,504,301)</u>
Non-controlling interests		67,521	76,206
		<u>(10,651,386)</u>	<u>(8,428,095)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

  
E Ellis  
Director

5 January 2017

The notes on pages 14 to 27 form part of these financial statements.

**British American Railway Services Limited**  
Registered number: 06641019

**Company balance sheet**  
**As at 31 December 2016**

	Note	2016 £	2015 £
<b>Fixed assets</b>			
Investments	14	<u>2,652,070</u>	<u>2,652,070</u>
		<b>2,652,070</b>	<b>2,652,070</b>
<b>Current assets</b>			
Debtors: amounts falling due within one year	16	<u>3,984,460</u>	<u>2,845,818</u>
Cash at bank and in hand	17	<u>15</u>	<u>75</u>
		<b>3,984,475</b>	<b>2,845,893</b>
Creditors: amounts falling due within one year	18	<u>(7,972,164)</u>	<u>(6,639,872)</u>
<b>Net current liabilities</b>		<u><b>(3,987,689)</b></u>	<u><b>(3,793,979)</b></u>
<b>Total assets less current liabilities</b>		<u><b>(1,335,619)</b></u>	<u><b>(1,141,909)</b></u>
Creditors: amounts falling due after more than one year	19	<u>(113,000)</u>	<u>(113,000)</u>
<b>Net liabilities</b>		<u><u><b>(1,448,619)</b></u></u>	<u><u><b>(1,254,909)</b></u></u>
<b>Capital and reserves</b>			
Called up share capital	22	<u>1,000</u>	<u>1,000</u>
Other reserves	21	<u>571,247</u>	<u>571,247</u>
Profit and loss account	21	<u>(2,020,866)</u>	<u>(1,827,156)</u>
		<u><u><b>(1,448,619)</b></u></u>	<u><u><b>(1,254,909)</b></u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on  
5 January 2018

  
E Eljis  
Director

The notes on pages 14 to 27 form part of these financial statements.

British American Railway Services Limited

Consolidated statement of changes in equity  
For the year ended 31 December 2016

	Called up share capital	Other reserves	Profit and loss account	Equity attributable to owners of parent Company	Non- controlling interests	Total equity
	£	£	£	£	£	£
At 1 January 2016	1,000	571,247	(9,076,548)	(8,504,301)	76,206	(8,428,095)
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	(2,214,606)	(2,214,606)	(8,685)	(2,223,291)
<b>Total comprehensive income for the year</b>	-	-	(2,214,606)	(2,214,606)	(8,685)	(2,223,291)
<b>At 31 December 2016</b>	<b>1,000</b>	<b>571,247</b>	<b>(11,291,154)</b>	<b>(10,718,907)</b>	<b>67,521</b>	<b>(10,651,386)</b>

**British American Railway Services Limited**

**Consolidated statement of changes in equity  
For the year ended 31 December 2015**

	Called up share capital	Other reserves	Profit and loss account	Equity attributable to owners of parent Company	Non- controlling interests	Total equity
	£	£	£	£	£	£
At 1 January 2015 (as previously stated)	1,000	571,247	(7,703,413)	(7,131,166)	136,926	(6,994,240)
Prior year adjustment	-	-	157,332	157,332	-	157,332
At 1 January 2015 (as restated)	<u>1,000</u>	<u>571,247</u>	<u>(7,546,081)</u>	<u>(6,973,834)</u>	<u>136,926</u>	<u>(6,836,908)</u>
<b>Comprehensive income for the year</b>						
Loss for the year	-	-	(1,530,467)	(1,530,467)	(60,720)	(1,591,187)
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>	<u>(1,530,467)</u>	<u>(1,530,467)</u>	<u>(60,720)</u>	<u>(1,591,187)</u>
<b>At 31 December 2015</b>	<u><u>1,000</u></u>	<u><u>571,247</u></u>	<u><u>(9,076,548)</u></u>	<u><u>(8,504,301)</u></u>	<u><u>76,206</u></u>	<u><u>(8,428,095)</u></u>

The notes on pages 14 to 27 form part of these financial statements.

**British American Railway Services Limited**

**Company statement of changes in equity  
For the year ended 31 December 2016**

	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
At 1 January 2016	1,000	571,247	(1,827,156)	(1,254,909)
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(193,710)	(193,710)
<b>Total comprehensive income for the year</b>	-	-	(193,710)	(193,710)
<b>At 31 December 2016</b>	<b>1,000</b>	<b>571,247</b>	<b>(2,020,866)</b>	<b>(1,448,619)</b>

**Company statement of changes in equity  
For the year ended 31 December 2015**

	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
At 1 January 2015 (as previously stated)	1,000	571,247	(1,700,678)	(1,128,431)
Prior year adjustment	-	-	157,332	157,332
At 1 January 2015 (as restated)	1,000	571,247	(1,543,346)	(971,099)
<b>Comprehensive income for the year</b>				
Loss for the year	-	-	(283,810)	(283,810)
<b>Total comprehensive income for the year</b>	-	-	(283,810)	(283,810)
<b>At 31 December 2015</b>	<b>1,000</b>	<b>571,247</b>	<b>(1,827,156)</b>	<b>(1,254,909)</b>

The notes on pages 14 to 27 form part of these financial statements.

**British American Railway Services Limited**

**Consolidated statement of cash flows  
For the year ended 31 December 2016**

	2016 £	2015 £
<b>Cash flows from operating activities</b>		
Loss for the financial year	(2,223,291)	(1,591,187)
<b>Adjustments for:</b>		
Amortisation of intangible assets	(31,417)	(34,218)
Depreciation of tangible assets	346,657	382,685
Loss on disposal of tangible assets	-	(172,200)
Interest paid	339,166	344,278
Interest received	-	(657)
(Increase)/decrease in stocks	(69,847)	40,879
(Increase)/decrease in debtors	(306,127)	392,345
Increase in creditors	209,010	314,089
Increase in amounts owed to groups	1,275,889	807,987
Fixed asset Impairments	418,735	-
<b>Net cash generated from operating activities</b>	<b>(41,225)</b>	<b>484,001</b>
<b>Cash flows from investing activities</b>		
Purchase of tangible fixed assets	(58,353)	(18,949)
Sale of tangible fixed assets	-	210,200
Interest received	-	657
HP interest paid	(13,974)	(17,294)
<b>Net cash from investing activities</b>	<b>(72,327)</b>	<b>174,614</b>
<b>Cash flows from financing activities</b>		
Other new loans	534,623	-
Repayment of other loans	-	(312,192)
Repayment of/new finance leases	(27,175)	(18,255)
Interest paid	(325,192)	(326,984)
<b>Net cash used in financing activities</b>	<b>182,256</b>	<b>(657,431)</b>
<b>Net increase in cash and cash equivalents</b>	<b>68,704</b>	<b>1,184</b>
Cash and cash equivalents at beginning of year	64,487	63,303
<b>Cash and cash equivalents at the end of year</b>	<b>133,191</b>	<b>64,487</b>
<b>Cash and cash equivalents at the end of year comprise:</b>		
Cash at bank and in hand	161,613	101,029
Bank overdrafts	(28,422)	(36,542)
	<b>133,191</b>	<b>64,487</b>



## **British American Railway Services Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

#### **1. Accounting policies**

##### **1.1 Legal form**

British American Railways Services Limited (the Company) is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office and principal place of business are disclosed on the company information page. The principal activity of the group is that of providing services in the fields of railway track maintenance, locomotive hire and maintenance and statutory railway operation including associated leisure and freight services.

##### **1.2 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

##### **1.3 Going concern**

Notwithstanding that the group has net liabilities of £10,651,386 (2015: £8,428,095) at the balance sheet date and has made a loss after tax and non-controlling interest for the year of £2,214,606 (2015: £1,530,467) the financial statements have been prepared on a going concern basis.

The directors, after considering the proceeds to the group from the sale of a subsidiary as well as expected cash flows from continuing operations, believe that the group have sufficient funds in place to provide support to other group members. Therefore the directors believe that the group will continue as a going concern for the foreseeable future.

##### **1.4 Basis of consolidation**

The financial statements consolidate the accounts of British American Railway Services Limited and all of its subsidiary undertakings ('subsidiaries').

##### **1.5 Turnover**

Turnover comprises revenue recognised by the group in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts. Turnover is recognised when earned in accordance with obligations delivered.

Income from the hire of rolling stock is credited to the profit and loss account on a straight line basis over the period of the lease.

## British American Railway Services Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 1. Accounting policies (continued)

##### 1.6 Intangible assets

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Profit and loss account over its useful economic life.

Amortisation is provided at the following rates:

Negative goodwill	- over 14 years
Goodwill	- over 10 years

The company has taken advantage of the exemption available under FRS 102 Section 35.10(a) not to restate the carrying value of goodwill.

##### 1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is not charged on freehold land. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost of those assets, less their estimated residual value, over their expected useful lives.

Depreciation is provided on the following basis:

Freehold property	- 2% & 4% straight line
Leasehold improvements	- over the term to expiry of lease
Plant and machinery	- 25% straight line
Vehicles and rolling stock	- 10 - 20% straight line
Furniture, fittings and equipment	- 25% straight line

##### 1.8 Operating leases: the Group as lessee

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

The company has taken advantage of the exemption available under FRS 102 Section 35.10(p) not to restate the lease incentive term as the lease commenced before the date of transition.

##### 1.9 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

##### 1.10 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

## **British American Railway Services Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

#### **1. Accounting policies (continued)**

##### **1.11 Impairment of fixed assets and goodwill**

Assets that are subject to depreciation or amortisation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

##### **1.12 Debtors**

Short term debtors are measured at transaction price, less any impairment.

##### **1.13 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

##### **1.14 Financial instruments**

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

##### **1.15 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

##### **1.16 Finance costs**

Finance costs are charged to the Consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

## **British American Railway Services Limited**

### **Notes to the financial statements For the year ended 31 December 2016**

#### **1. Accounting policies (continued)**

##### **1.17 Pensions**

###### **Defined contribution pension plan**

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

##### **1.18 Interest income**

Interest income is recognised in the Consolidated statement of comprehensive income using the effective interest method.

##### **1.19 Borrowing costs**

All borrowing costs are recognised in the Consolidated statement of comprehensive income in the year in which they are incurred.

##### **1.20 Pensions**

The group operates a defined contribution pension scheme and the pension charge represents the amounts payable by the group to the fund in respect of the year.

##### **1.21 Invoice discounting**

The group has an agreement whereby the majority of its trade debtors are invoice discounted, with recourse after 75 days. On the basis that the benefit and risks attaching to the debts remain with the company, a separate presentation has been adopted, in accordance with the Financial Reporting Standard 102. On this basis the gross debts are included as an asset within trade debtors and the proceeds received are included within other creditors as a liability.

##### **1.22 Taxation**

Tax is recognised in the Consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

##### **1.23 Exceptional items**

Exceptional items are transactions that fall within the ordinary activities of the Group but are presented separately due to their size or incidence.

## British American Railway Services Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 2. Judgments in applying accounting policies and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### (a) Critical judgements in applying the entity's accounting policies

###### (i) *Going concern*

The directors consider the company to be a going concern, for the reasons as detailed in Note 1.3 to these financial statements.

###### (ii) *Deferred tax*

Assessing whether the company will have sufficient available profits in the future to utilise taxable trade losses against requires judgement. For the reasons detailed in Note 10 the directors have decided not to recognise a deferred tax asset in these financial statements.

##### (b) Key accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

###### (i) *Useful economic lives of tangible assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 13 for the carrying amount of the property, plant and equipment, and Note 1.7 for the useful economic lives of each class of assets.

###### (ii) *Useful economic lives of goodwill*

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on economic utilisation of the assets. See Note 12 for the carrying amount of the goodwill, and Note 1.6 for the useful economic life.

#### 3. Turnover

The whole of the turnover is attributable to related railway services. These services comprise of railway track maintenance, locomotive hire and maintenance, a short-line railway operation and a licensed freight operation.

	2016 £	2015 £
Turnover	5,200,141	5,477,940
	<u>5,200,141</u>	<u>5,477,940</u>

All turnover arose within the United Kingdom.

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**4. Exceptional other income**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Insurance claim	-	300,000
	<u>-</u>	<u>300,000</u>
	<u>-</u>	<u>300,000</u>

**5. Operating loss**

The operating loss is stated after charging:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Depreciation of tangible fixed assets	<b>382,222</b>	382,685
Impairment of tangible fixed assets	<b>(418,735)</b>	-
Amortisation of intangible assets, including goodwill	<b>(33,600)</b>	(34,218)
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	<b>47,800</b>	46,400
Defined contribution pension cost	<b>10,901</b>	9,256
	<u>10,901</u>	<u>9,256</u>

**6. Employees**

Staff costs, including directors' remuneration, were as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Wages and salaries	<b>2,315,385</b>	2,453,175
Social security costs	<b>194,868</b>	215,783
Cost of defined contribution scheme	<b>10,901</b>	9,256
	<u>2,521,154</u>	<u>2,678,214</u>

The average monthly number of employees, including the directors, during the year was as follows:

	<b>2016</b>	<b>2015</b>
	<b>No.</b>	<b>No.</b>
Employees	<b>71</b>	84
	<u>71</u>	<u>84</u>

**7. Directors' remuneration**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Directors' emoluments	<b>60,000</b>	67,568
	<u>60,000</u>	<u>67,568</u>

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**8. Interest receivable**

	2016 £	2015 £
Other interest receivable	-	657
	<u>-</u>	<u>657</u>
	<u>-</u>	<u>657</u>

**9. Interest payable and similar charges**

	2016 £	2015 £
Other loan interest payable	325,192	326,984
Finance leases and hire purchase contracts	13,974	17,294
	<u>339,166</u>	<u>344,278</u>
	<u>339,166</u>	<u>344,278</u>

**10. Taxation**

	2016 £	2015 £
<b>Total current tax</b>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2015 - higher than) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	2016 £	2015 £
Loss on ordinary activities before tax	<u>(2,223,291)</u>	<u>(1,591,187)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	(444,658)	(318,237)
<b>Effects of:</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	24,562	3,894
Capital allowances for year in excess of depreciation	33,220	40,066
Non-taxable accounting adjustments	83,747	-
Non-taxable income	-	(37,314)
Losses utilised	(22,709)	-
Carried forward losses	325,838	311,591
<b>Total tax charge for the year</b>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**10. Taxation (continued)**

**Factors that may affect future tax charges**

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses, accelerated capital allowances and short term timing differences as there is insufficient evidence that the asset will be recovered in the foreseeable future.

The company has unutilised trading losses of £464,456 (2015: £280,923) available to carry forward against future trading profits.

**11. Parent Company Profit for the year**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The profit after tax of the parent Company for the year was £94,435 (2015: loss of £283,810).

**12. Intangible assets**

**Group and Company**

	<b>Goodwill £</b>	<b>Negative goodwill £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 January 2016	335,988	(910,247)	(574,259)
At 31 December 2016	<u>335,988</u>	<u>(910,247)</u>	<u>(574,259)</u>
<b>Amortisation</b>			
At 1 January 2016	174,373	(476,054)	(301,681)
Charge for the year	33,600	(65,018)	(31,418)
At 31 December 2016	<u>207,973</u>	<u>(541,072)</u>	<u>(333,099)</u>
<b>Net book value</b>			
At 31 December 2016	<u>128,015</u>	<u>(369,175)</u>	<u>(241,160)</u>
At 31 December 2015	<u>161,615</u>	<u>(434,193)</u>	<u>(272,578)</u>



**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**13. Tangible fixed assets**

**Group**

	Land and buildings £	Plant and machinery £	Vehicles and rolling stock £	Furniture, fittings and equipment £	Total £
<b>Cost or valuation</b>					
At 1 January 2016	5,334,312	411,302	2,735,706	211,484	8,692,804
Additions	-	-	-	58,353	58,353
At 31 December 2016	<u>5,334,312</u>	<u>411,302</u>	<u>2,735,706</u>	<u>269,837</u>	<u>8,751,157</u>
<b>Depreciation</b>					
At 1 January 2016	604,543	383,558	1,960,064	180,687	3,128,852
Charge for the period on owned assets	103,209	15,399	196,448	31,602	346,658
Impairment charge	418,735	-	-	-	418,735
At 31 December 2016	<u>1,126,487</u>	<u>398,957</u>	<u>2,156,512</u>	<u>212,289</u>	<u>3,894,245</u>
<b>Net book value</b>					
At 31 December 2016	<u>4,207,825</u>	<u>12,345</u>	<u>579,194</u>	<u>57,548</u>	<u>4,856,912</u>
At 31 December 2015	<u>4,729,769</u>	<u>27,744</u>	<u>775,642</u>	<u>30,797</u>	<u>5,563,952</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2016 £	2015 £
<b>Group</b>		
Vehicles and rolling stock	<u>203,750</u>	251,250
	<u>203,750</u>	<u>251,250</u>

Included in land and buildings is freehold land carried at cost of £1,844,956 (2015: £1,844,956) which is not depreciated.

Included within vehicles and rolling stock are assets at cost of £2,153,028 (2015: £2,153,028) with accumulated depreciation of £1,454,534 (2015: £1,454,534) held for use in operating leases.

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**14. Fixed asset investments**

**Company**

	<b>Investments in subsidiary companies £</b>
<b>Cost or valuation</b>	
At 1 January 2016	<u>2,652,070</u>
At 31 December 2016	<u>2,652,070</u>
<b>Net book value</b>	
At 31 December 2016	<u>2,652,070</u>
At 31 December 2015	<u>2,652,070</u>

Details of the principal subsidiaries can be found in note 26 below.

**15. Stocks**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
Raw materials	<u>204,954</u>	<u>135,107</u>	<u>-</u>	<u>-</u>
	<u>204,954</u>	<u>135,107</u>	<u>-</u>	<u>-</u>

**16. Debtors**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
<b>Due within one year</b>				
Trade debtors	933,623	710,992	-	-
Amounts owed by group undertakings	-	-	3,968,039	2,845,622
Other debtors	210,953	150,637	16,421	196
Prepayments and accrued income	344,232	321,052	-	-
	<u>1,488,808</u>	<u>1,182,681</u>	<u>3,984,460</u>	<u>2,845,818</u>

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**17. Cash and cash equivalents**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
Cash at bank and in hand	161,613	101,029	15	75
Less: bank overdrafts	<b>(28,422)</b>	<b>(36,542)</b>	-	-
	<b>133,191</b>	<b>64,487</b>	<b>15</b>	<b>75</b>

**18. Creditors: Amounts falling due within one year**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
Bank overdrafts	<b>28,422</b>	36,542	-	-
Other loans	<b>2,334,389</b>	1,799,766	<b>1,934,389</b>	1,799,766
Trade creditors	<b>1,255,706</b>	1,105,757	<b>65,306</b>	11,002
Amounts owed to group undertakings	<b>11,913,825</b>	10,637,936	<b>5,952,720</b>	4,764,126
Taxation and social security	<b>169,645</b>	120,150	-	-
Obligations under finance lease and hire purchase contracts	<b>6,667</b>	24,099	-	-
Other creditors	<b>515,770</b>	577,879	-	-
Accruals and deferred income	<b>485,089</b>	413,414	<b>19,749</b>	64,978
	<b>16,709,513</b>	<b>14,715,543</b>	<b>7,972,164</b>	<b>6,639,872</b>

The invoice discounting facilities, included in other creditors, are secured by a fixed and floating charge over the assets of the group.

**19. Creditors: Amounts falling due after more than one year**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
Other loans	<b>413,000</b>	413,000	<b>113,000</b>	113,000
Net obligations under finance leases and hire purchase contracts	-	9,743	-	-
	<b>413,000</b>	<b>422,743</b>	<b>113,000</b>	<b>113,000</b>

Other loans are secured by a fixed and floating charge over all of the assets of the group. E Ellis, a director of the company, has personally guaranteed £2,059,670 (2015: £2,070,870) relating to loan notes issued.

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**20. Financial instruments**

	<b>Group 2016 £</b>	<b>Group 2015 £</b>	<b>Company 2016 £</b>	<b>Company 2015 £</b>
Financial assets that are debt instruments measured at amortised cost	<b>1,357,134</b>	992,478	<b>3,968,039</b>	2,845,819
	<u><b>1,357,134</b></u>	<u>992,478</u>	<u><b>3,968,039</b></u>	<u>2,845,819</u>
Financial liabilities measured at amortised cost	<b>(16,630,135)</b>	(14,789,452)	<b>(8,065,415)</b>	(6,714,117)
	<u><b>(16,630,135)</b></u>	<u>(14,789,452)</u>	<u><b>(8,065,415)</b></u>	<u>(6,714,117)</u>

Financial assets measured at amortised cost comprise trade and other debtors and amounts owed by group undertakings.

Financial Liabilities measured at amortised cost comprise trade and other creditors, amounts due to group undertakings and other creditors.

**21. Reserves**

**Other reserves**

This represents the capital contribution upon the purchase of Hanson Traction Limited by Rail Management Services Limited.

**Profit & loss account**

This reserve comprises all current and prior period retained profits and losses after deducting any distributions made to the company's shareholders.

**Share Capital**

This represents the nominal value of shares that have been issued by the company.

**22. Share capital**

	<b>2016 £</b>	<b>2015 £</b>
<b>Shares classified as equity</b>		
<b>Allotted, called up and fully paid</b>		
1,000 Ordinary shares of £1 each	<u><b>1,000</b></u>	<u><b>1,000</b></u>

## British American Railway Services Limited

### Notes to the financial statements For the year ended 31 December 2016

#### 23. Pension commitments

The Group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £10,901 (2015: £9,253).

#### 24. Related party transactions

The group has taken advantage of the exemption provided by Section 33 Related Party Disclosures paragraph 33.1A of Financial Reporting Standard 102 from disclosing related party transactions entered into between the company and other group companies, where the subsidiary undertaking is wholly owned by a member of the group.

Group related party transactions undertaken during the period where the group undertakings party to the transaction with the company are not wholly owned by a member of the group consist of the following:

	2016	2015
	£	£
Creditors amounts due to group undertakings	<u>(11,913,834)</u>	<u>(10,614,819)</u>

During the year, the group made net sales of £119,038 (2015: £87,821) to Weardale Railway CIC, a subsidiary of British American Railway Services Limited. As at the balance sheet date, the company was owed £434,758 (2015: £346,896) which is included within 'Debtors: Amounts owed by group undertakings'. No interest is accrued on this balance.

#### 25. Post balance sheet events

At the date of the audit report the group were in protracted negotiations with a third party with a view to finalising the sale of a subsidiary company, this is expected to be finalised over the coming weeks.

#### 26. Controlling party

The directors consider that the ultimate parent undertaking and controlling party of this company as at the balance sheet date is Iowa Pacific Holdings LLC, a company incorporated in the United States of America. The largest and smallest group of undertakings for which group accounts have been produced is that headed by Iowa Pacific Holdings LLC.

Copies of the Iowa Pacific Holdings LLC financial statements may be obtained from 118 South Clinton Street, Suite 400, Chicago, IL 60661.

**British American Railway Services Limited**

**Notes to the financial statements  
For the year ended 31 December 2016**

**27. Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

<b>Name</b>	<b>Holding</b>	<b>Principal activity</b>
Rail Management Services Limited	100 %	Maintenance, refurbishment and operation of industrial rail track and the hire of shunting locomotives
Weardale Railways CIC	75 %	Statutory railway and associated leisure activities
Dartmoor Railway CIC	100 %	Statutory railway and associated leisure activities
Devon and Cornwall Railways Limited	100 %	Provision of freight rail under licence
Hanson Traction Limited	100 %	Dormant
R T Rail Limited	100 %	Dormant
RMS Locotec (IOM) Limited	100 %	Dormant