

High Speed Two (HS2) Limited

**Report of the Directors and
Financial Statements for the Year Ended
31 March 2013**



Engine for Growth

High Speed Two (HS2) Limited

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Financial Statements for the Year Ended
31 March 2013**

Presented to Parliament Pursuant to the
Government Resources and Accounts Act 2000 (audit of non- profit-making
companies) Order 2009 as amended by the Government Resources and
Accounts Act 2000 (audit of public bodies) Order 2012

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This document is also available from our website at www.hs2.org.uk

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High Speed Two (HS2) Limited

**Contents of the Financial Statements
for the Year Ended 31 March 2013**

	Page
Company Information	2
Report of the Directors	3
Remuneration Report	8
Statement of Directors' Responsibilities	12
Governance Statement	13
Report of the Independent Auditor	24
Statement of Comprehensive Income	26
Statement of Financial Position	27
Statement of Cash Flows	28
Statement of Changes in Equity	29
Notes to the Financial Statements	30

High Speed Two (HS2) Limited

Company Information

Directors:	D E Oakervee (Chairman) Ms A M Munro (Chief Executive) Sir B Briscoe M W Welton R H Brown D W Sutherland Ms B A West A G McNaughton
Secretary:	Ms B C Morgan
Registered Office:	2nd Floor, Eland House Bressenden Place London SW1E 5DU
Registered number:	06791686 (England and Wales)
Auditor:	Comptroller and Auditor General 157-197 Buckingham Palace Road London SW1W 9SP

High Speed Two (HS2) Limited

Report of the Directors for the Year Ended 31 March 2013

The Directors present their report with the financial statements of the Company for the year ended 31 March 2013.

Statutory Background

High Speed Two Limited ('HS2 Ltd') was incorporated as a Company Limited by Guarantee and began operating on 14 January 2009. On 1 April 2010, HS2 Ltd was classified as an Executive Non Departmental Public Body ('NDPB') in accordance with the Government Resources and Accounts Act 2000. HS2 Ltd operates within the terms of the Financial Framework which is the agreement between HS2 Ltd and the Department for Transport ('DfT'). This requires us to follow the Government Financial Reporting Manual ('FRM'), Government Internal Audit Standard ('GIAS'), HM Treasury's publication Managing Public Money and International Financial Reporting Standards ('IFRS').

Principal Activity

HS2 Ltd is responsible for developing proposals and for promoting the UK's new high speed rail network and is wholly owned by the Department for Transport.

Review of Business and Future Developments

HS2 Ltd was asked initially by Government to conduct a feasibility study into the development of a high speed rail link from London to the West Midlands and in 2011/12, carried out one of the largest national consultations ever undertaken and oversaw the analysis of responses. Following consultation, HS2 Ltd reviewed and refined aspects of the proposed route in order to provide advice to the Secretary of State for Transport to inform the Government's decision on whether to proceed with a high speed rail line from London to the West Midlands. HS2 Ltd also worked with the DfT to produce an economic case which considered the overall benefits and costs of the scheme and addressed issues of value for money, affordability and the deliverability of the proposals.

In January 2012, the Government announced its intention to proceed with the development of a new high speed rail network in the UK. An updated remit was given to HS2 Ltd under which it has undertaken further design and environmental impact assessment work to enable the Secretary of State for Transport to deposit a hybrid bill with Parliament by the end of 2013, for the first phase high speed rail route from London to the West Midlands.

On 29 March 2012, HS2 Ltd also submitted a report to Government on the feasibility of Phase 2 of the high speed rail link and on 28 January 2013, the Government announced its preferred routes from Birmingham to Manchester and from Birmingham to Leeds respectively. Consultation on these routes will commence in summer 2013 to inform the Government on its route options.

On 15 March 2013, the results of a Judicial Review were handed down at the Royal Courts of Justice. Although nine of the ten grounds for challenge were dismissed by Lord Justice Ouseley, the consultation on the proposed compensation scheme was held to be unlawful and will require re-consultation during 2013/14.

High Speed Two (HS2) Limited

Report of the Directors for the Year Ended 31 March 2013 (continued)

Financial Overview

The operating budget for HS2 Ltd for the financial year 2012/13 was £179.3m (2011/12: £42.2m). Actual expenditure for the year was £176.4m (2011/12: £33.9m). HS2 Ltd is not registered for VAT and all figures are shown inclusive of VAT. HS2 Ltd also had a budget for capital expenditure of £8.2m for the financial year against which it incurred actual expenditure of £8.1m.

HS2 Ltd's original budget for 2012/13 of £163.3m was increased during the year to £179.3m and was financed by grant from the DfT. This increase was required in order to undertake additional design work arising from public consultation and further ecological studies following advice from Parliamentary Counsel. The budget includes provision for VAT on the basis that it will remain irrecoverable by HS2 Ltd.

Performance Indicators

Key performance indicators against which HS2 Ltd monitored its performance in 2012/13 included the completion of the public consultation on Phase 1, the development of design options, the environment impact assessment for Phase 1 and the delivery of initial route options for Phase 2 to enable consultation to commence. HS2 Ltd operated throughout the year in line with its remit and maintained expenditure within its agreed budget.

Dividends

No dividends will be distributed for the year ended 31 March 2013.

Directors

The directors who have held office during the period from 1 April 2012 to 31 March 2013 are as follows:

D E Oakervee	Chairman from 01 April 2012
Sir B Briscoe	Retired as Chairman 31 March 2012; Appointed as Non-Executive Director as of 1st April 2012
Ms A M Munro	Chief Executive
A Friend	Resigned 30 June 2012
M W Welton	
M Capstick	Resigned 19 December 2012
S Bowles	Resigned 30 June 2012
D Goldstone	Resigned 30 June 2012
R H Brown	Appointed 01 July 2012
G W N Smith	Appointed 01 July 2012; Resigned 19 December 2012
D W Sutherland	Appointed 01 July 2012
Ms B A West	Appointed 21 December 2012
A G McNaughton	Appointed 21 December 2012

High Speed Two (HS2) Limited

Report of the Directors for the Year Ended 31 March 2013 (continued)

Risks Facing HS2 Ltd

The HS2 Ltd Executive and Board regularly review the risks facing the Company throughout the year. At the year end the major risks identified were those associated with the initial stages of development for a major infrastructure project, including the management of key professional service contracts, stakeholder relations, land access, governance arrangements and recruitment. Full details are set out in the Governance Statement on pages 13 to 23.

Financial Risks

HS2 Ltd has no borrowings and its activities are entirely funded by grant from the DfT. The Company maintains minimal holdings of cash & cash equivalents, and has no significant third party receivables. For these reasons HS2 Ltd is considered to have no material credit, liquidity, interest rate or market risk.

Company's Policy on Payment of Creditors

HS2 Ltd observes the principles of the Confederation of British Industry 'Prompt Payment' code and aims to pay all approved invoices within stated payment terms or otherwise within 30 working days of invoice date. Monitoring of payments made during 2012/13 shows that just under 96% of invoices received were paid within 30 working days (2011/12: 99%). No claims were received during the year from suppliers for late payment of invoices under the Late Payment of Commercial Debts (Interest) Act 1998.

Political and Charitable Contributions

During the year the Company made no charitable or political donations.

Governance Report and Remuneration Report

The attached Remuneration Report (pages 8 to 11) and Governance Statement (pages 13 to 23) are required under the FReM and form part of these financial statements. The Governance Statement addresses the Company's risk and control framework.

Business Interests of Board Directors

Board members do not have any company directorships or other significant interests which may conflict with their management responsibilities.

Employees

HS2 Ltd is an inclusive employer welcoming applications from a broad range of candidates. We believe that a diverse and inclusive workforce creates an environment where our objectives can be communicated and delivered in an effective way. Employees are regularly updated on the progress of the HS2 project through regular briefing and team meetings as well as through publications.

Sickness Absence

Staff absence due to sickness equated to an average of 1 day per employee during the year (2011/12: 3.3 days), for direct employees of HS2 Ltd.

High Speed Two (HS2) Limited

Report of the Directors for the Year Ended 31 March 2013 (continued)

Staff Pensions

Permanent staff may participate in a Stakeholder (defined contribution) pension scheme. Seconded staff may be members of the Principal Civil Service Pension Scheme. As a consequence of these arrangements, pension liabilities do not rest with HS2 Ltd.

Going Concern

HS2 Ltd undertakes work as remitted by the Secretary of State for Transport and is funded entirely by grant as provided by Section 6 of the Railways Act 2005. The Government is currently conducting a Spending Round which will, inter alia, establish the level of resources for HS2 Ltd in the period up to 2016 and provide an indication of funding for the period to 2021. In view of the Government's statement on its support for high speed rail and continuing financial support from the DfT, the Directors are confident that sufficient resources will be available to meet the Company's operational plans and budgeted expenditure. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Sustainability and Environmental Matters

HS2 Ltd is committed to minimising the environmental impact of the proposed high speed rail infrastructure in the UK in order to achieve world class standard. A key focus of the work during and after public consultation was an appraisal of sustainability related to the proposed route. HS2 Ltd is concluding a number of environmental surveys which will form the basis of a comprehensive Environmental Statement to be submitted to Parliament as part of the Hybrid Bill. In terms of its own practices, HS2 Ltd aims to minimise its impact on the environment including energy use, recycling and procurement procedures.

Personal Data Related Incidents

No protected personal data related incidents have arisen which have required reporting to the Information Commissioner's Office.

Statement as to Disclosure of Information to Auditors

As far as the Directors and the Chief Executive as Accounting Officer are aware, there is no relevant audit information of which the auditors are unaware. The Directors have taken all necessary steps required to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditor

The Comptroller and Auditor General is appointed in accordance with the Government Resource and Accounts Act 2000.

High Speed Two (HS2) Limited

**Report of the Directors
for the Year Ended 31 March 2013 (continued)**

Website

The report of the Directors and Financial Statements for the Year Ended 31 March 2013 is available on the HS2 Ltd website: www.hs2.org.uk

On behalf of the Board



Ms A M Munro – Chief Executive and Accounting Officer

Signed on 13 June 2013

High Speed Two (HS2) Limited

Remuneration Report for the Year Ended 31 March 2013

The remuneration report for HS2 Ltd includes the Chairman and other HS2 Ltd Board Members. The Chief Executive is an employee of the DfT whose salary is based on the Civil Service salary structure. Charges to HS2 Ltd by the DfT are inclusive of VAT.

The Chair is contracted to an average contribution of two days per week and the other Board Members' are contracted to an average contribution of two days per calendar month.

Travel expenses of HS2 Ltd's Board Members are reimbursed at the rates allowed to staff of HS2 Ltd or reasonable actual costs incurred.

Board Members (Audited)

All Non-Executive Board Members are entitled to a month's notice period with no compensation terms for early termination of their contracts. Executive Board Members are entitled to notice as stated in their contracts. The fees and salaries of Board Members during the year were as follows:

	Year ended 31 March 2013		Year ended 31 March 2012		Date appointed	Date resigned
	Fees and salaries	Non- Consolidated Performance Pay	Fees and salaries	Non- Consolidated Performance Pay		
	£'000	£'000	£'000	£'000		
Douglas Oakervee (Chair 2012/13)	120 - 125	-	-	-	01 April 2012	-
Sir Brian Briscoe (Chair 2011/12 – Non-Executive)	35 - 40	-	100 - 105	-	13 Feb 2009	-
Alison Munro (Chief Executive)	120 - 125	-	105 - 110	5 - 10	28 Jan 2009	-
Mike Welton (Non-Executive)	20 - 25	-	20 - 25	-	15 April 2009	-
Andy Friend (Non-Executive)	5 - 10	-	20 - 25	-	17 Mar 2009	30 June 2012
Martin Capstick (Non-Executive)	-	-	-	-	01 Jan 2011	19 Dec 2012

High Speed Two (HS2) Limited

Remuneration Report for the Year Ended 31 March 2013 (continued)

Board Members (Audited) continued

	Year ended 31 March 2013		Year ended 31 March 2012		Date appointed	Date resigned
	Fees and salaries	Non-Consolidated Performance Pay	Fees and salaries	Non-Consolidated Performance Pay		
	£'000	£'000	£'000	£'000		
Simon Bowles (Non-Executive)	-	-	-	-	27 Feb 2012	30 June 2012
David Goldstone (Non-Executive)	-	-	-	-	27 Feb 2012	30 June 2012
Richard Brown (Non-Executive)	10 - 15	-	-	-	1 July 2012	-
Godric Smith (Non-Executive)	-	-	-	-	1 July 2012	19 Dec 2012
Duncan Sutherland (Non-Executive)	20 - 25	-	-	-	1 July 2012	-
Beth West (Executive)	45 – 50 (165 – 170 annualised)	-	-	-	21 Dec 2012	-
Andrew McNaughton (Executive)	45 -50 (180 – 185 annualised)	Note 1	-	-	21 Dec 2012	-

Notes:

- [1] Andrew McNaughton received Non-Consolidated Performance Pay in respect of the financial year 2011/12 within the range £15k - £20k prior to his appointment to the Board.
- [2] Sir Brian Briscoe resigned as Chairman on 31 March 2012 but remains on the Board as non-executive director.
- [3] Martin Capstick, Simon Bowles, David Goldstone and Godric Smith were employed by other public bodies, at no cost to HS2 Ltd.

High Speed Two (HS2) Limited

Remuneration Report for the Year Ended 31 March 2013 (continued)

Alison Munro was appointed CEO and a Board Member of HS2 Ltd on 28 January 2009. The total charged by the DfT for her services for the financial year 2012/13 was £202,642 (2011/12 £186,063). This comprises a salary of £123,877 plus Employers National Insurance, Pension Scheme and VAT.

Pension Benefits of Alison Munro (Audited)

	£'000
Accrued pension at pension age as at 31 March 2013	55 - 60
Related Lump Sum at pension age as at 31 March 2013	170 – 175
Real Increase in pension	5 – 10
Real increase in lump sum	20 - 25
CETV at 31/3/13	1,259
CETV at 31/3/12	1,027
Real increase in CETV	172

Notes:

[4] Alison Munro is a member of the Civil Service Pension Scheme by virtue of her employment with the Department of Transport. The figures have been supplied by 'My Civil Service Pension Scheme' after liaising with the relevant administrator for those who are secondees.

Cash Equivalent Transfer Values

The Cash Equivalent Transfer Value [CETV] is the actuarially capitalised value of pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The opening CETV shown in this year's report will differ from the amount shown as the closing CETV in last year's report because the factors used in the CETV calculation have been revised during the year.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

High Speed Two (HS2) Limited

Remuneration Report **for the Year Ended 31 March 2013 (continued)**

The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The real increase in CETV reflects the increase effectively funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and it uses common market valuation factors for the start and end of the period.

Pension Liabilities

Seconded employees of the Company are covered by the provisions of the Principal Civil Service Pension Scheme. The scheme is a defined benefit scheme and liability rests with the Scheme, and not the Company. Details of the scheme can be found at www.civilservice-pensions.gov.uk.

Beth West is a member of a Stakeholder (defined contribution) pension scheme, in which the Company matches employee contributions to a maximum of 5%. In 2012/13 the Company's contribution to the scheme after her appointment to the Board totalled £2,290.

Median Staff Cost

The total remuneration of the highest paid director for 2012/13 fell within the salary band £195k - £200k. (2011/12: £115k - £120k). This was 4.8 times the median basic salary of the directly employed workforce which was £41,433 (2011/12: 3.2 times the median of £35,671). The median salary is determined as the mid-point of all salaries of direct employees. The increase in the ratio for this year is due to the fact that the highest paid employee for 2011/12 was appointed to the Board during 2012/13 and became the highest paid director. In addition, the pay of the highest paid director for 2012/13 includes a non-consolidated performance related pay award relating to 2011/12.

No direct employees received remuneration in excess of the total remuneration of the highest paid director in the year (2011/12: one employee earning £149k).

Total remuneration includes where appropriate annualised salary, performance related pay and benefits-in-kind. It does not include employer pension contributions or the CETV of pensions.

On behalf of the Board



Ms A M Munro – Chief Executive and Accounting Officer

Signed on 13 June 2013

High Speed Two (HS2) Limited

Statement of Directors' Responsibilities for the Year Ended 31 March 2013

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations and for ensuring that proper accounting records are maintained that disclose with reasonable accuracy at any time the financial position of the Company 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Under the Railways and Transport Safety Act (2003) the Secretary of State for Transport has also directed HS2 Ltd to prepare for each financial period a set of financial statements in the form and on the basis set out in the Accounts Direction. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of HS2 Ltd and of its income and expenditure, changes in equity and cash flows for the financial period.

In preparing accounts, the Directors are required to comply with the requirements of the Government Finance Reporting Manual ('FReM') and in particular to:

- Observe the Accounts Direction issued to the Secretary of State for Transport, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a consistent and reasonable basis;
- Confirm that applicable accounting standards as set out in the Government FReM have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

The DfT's Principal Accounting Officer, acting on behalf of the Treasury, has designated the Chief Executive of HS2 Ltd as its Accounting Officer. The duties of an Accounting Officer, as set out in the HM Treasury's publication 'Managing Public Money', include responsibility for the propriety and regularity of public finances, keeping proper records and safeguarding HS2 Ltd's assets.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013

The Governance Statement records the stewardship of the organisation to supplement the accounts, providing a sense of how vulnerable the organisation's performance is or might be; and of how successfully it has coped with the challenge it faces.

The Accounting Officer's Introduction to HS2 Ltd's Corporate Governance

As Accounting Officer for High Speed Two Ltd (HS2 Ltd), I have responsibility for maintaining a sound system of internal control that supports the achievement of the HS2 Ltd policies, aims and objectives, whilst safeguarding the funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me by the Secretary of State for Transport.

The HS2 Ltd Board meets on a monthly basis to review the performance of the business against its policy, strategy and risks, making key decisions to ensure its ability to go forward and meet its objectives as agreed with the DfT, the Sponsor Department.

Corporate Governance Code

HS2 Ltd complies with the principles of 'Corporate Governance in Central Government Departments: Code of Good Practice 2011' where relevant and practical.

Following the extension in early 2012 of HS2 Ltd's remit to deposit the Hybrid Bill by late 2013, HS2 Ltd has been actively collaborating with DfT to review and strengthen its governance and processes in order to reflect the higher levels of assurance required.

Key Risks to the Organisation

In 2012/13 HS2 Ltd's main objectives were, following public consultation on the London to the West Midlands route (Phase 1), to undertake design and environmental assessment work leading to the submission of the Hybrid Bill in late 2013, to provide advice to ministers and separately to provide advice on potential routes to Leeds, Manchester and Heathrow (Phase 2). Key risks were around consultation response handling, the outcome of a judicial review challenge, cost control and achieving a challenging delivery timetable.

These risks were managed through established processes of internal reviews at key milestones, reviews by the Board of key outputs, peer review by our external challenge panels, a robust framework of management reporting and a strong programme and project framework.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

In January 2012, the Government announced its intention to proceed with the development of a new high speed rail network in the UK. An updated remit was given to HS2 Ltd to undertake further design and environmental impact assessment work to enable the Secretary of State for Transport to deposit a hybrid bill with Parliament by the end of 2013 for the first phase high speed rail route from London to the West Midlands. This work has been carried out through a combination of a growing complement of internal staff and through 16 Professional Services Company (PSC) contracts managed by CH2M Hill as a Development Partner to HS2 Ltd. The 16 contracts cover four main areas of activity; civil and design works; systems design; environmental and land access/third party works. Included in this work is the assessment of consultation responses, design options analysis arising from stakeholder consultation proposals and the preparation of a draft Environmental Statement.

On 29 March 2012, HS2 Ltd also submitted a report to Government on the feasibility of Phase 2 of the high speed rail link and on 28 January 2013, the Government announced its preferred routes from Birmingham to Manchester and from Birmingham to Leeds respectively. Consultation on these routes will commence in summer 2013 to inform the Government on its route options and preparatory design work will subsequently be undertaken.

Key risks managed by HS2 during 2012/13 included:

- the possible outcomes of a Judicial Review challenge;
- establishing an effective long-term relationship with external stakeholders and, in particular, those directly affected by the route;
- the timely completion of land survey work;
- the production of a draft Environmental Statement;
- establishing effective working between HS2 Ltd, CH2M Hill and the professional service contractors;
- the growth in staffing requirements of HS2 Ltd;
- establishing robust business continuity arrangements and
- establishing both programme and project governance arrangements and ensuring an effective delegations framework between the DfT and HS2 Ltd.

Organisation and Structure

Role of the Secretary of State for Transport

The Secretary of State for Transport is accountable to Parliament for the activities and performance of HS2 Ltd and through DfT officials, agrees with the HS2 Ltd Board the strategic objectives and policy framework within which HS2 Ltd operates.

The Secretary of State for Transport lays HS2 Ltd's accounts and Annual Report before Parliament and approves grant to be paid, securing Parliamentary or Treasury approval as necessary.

The Secretary of State for Transport also reviews the performance of the Chair and approves the activities of HS2 Ltd to make arrangements for the remuneration, pensions, allowances and expenses of Directors and staff.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

Role of the Chair

The Chair is appointed by the Secretary of State for Transport and is responsible for ensuring that HS2 Ltd fulfils its aims and objectives agreed with the DfT. The Board's views are ordinarily conveyed to the Secretary of State for Transport, as well as to the public, through the Chair.

The Chair ensures that the policies and actions of HS2 Ltd support the wider strategic policies of the Secretary of State for Transport and that HS2 Ltd's affairs are conducted with probity and that the work of the Board and its members are reviewed and working effectively.

Role of the Accounting Officer

The Chief Executive is designated as the Accounting Officer (AO) for HS2 Ltd by the Department's Principal Accounting Officer, acting on behalf of the Treasury.

The AO safeguards public funds for which she has charge, and ensures propriety and regularity in their handling and the day-to-day operations and management of HS2 Ltd. The AO ensures that HS2 Ltd's governance, decision-making and financial management follow guidelines set out in 'Managing Public Money'.

The AO signs the accounts and, supported by the Audit Committee, ensures that proper records are kept and that the accounts are properly prepared and presented in accordance with directions issued by the Secretary of State for Transport. She also signs the Report of the Directors and the Remuneration Report. The AO also ensures effective complaints procedures for HS2 Ltd and that these are available on the HS2 website.

The HS2 Ltd Board

The role of the Board is to:

- ensure effective governance of the Company, making sure that the Company makes decisions at the right time and properly manages risks;
- shape, challenge and direct the agenda of the Company, delivering stated priorities;
- monitor performance and risk, make recommendations to ministers on priorities/risk appetite; and
- oversee the health of relations with stakeholders and commercial partners

Ethics and Values

The Board abides by its own Code of Practice which is in keeping with the Cabinet Office model code of practice for board members of executive NDPBs. The Code of Practice has been agreed with the DfT, HS2 Ltd's sponsor Department.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

Board Members and Commitment

Board members are appointed by the DfT. Biographies of current HS2 Ltd Board members are published on the HS2 Ltd website.

Douglas Oakervee	Chair from 1 April 2012; Contractual commitment of two days per week
Sir Brian Briscoe	Chair until 31 March 2012; Contractual commitment of two days per month
Andy Friend	Non-Executive Board Member until 30 June 2012; Contractual commitment of two days per month
Mike Welton	Non-Executive Board Member; Contractual commitment of two days per month
Martin Capstick	Non-Executive Board Member until 19 December 2012; Full time Civil Servant within the Sponsor Department who attended on the same basis as other Non-Executive Board members
Simon Bowles	Non-Executive Board Member from 27 February 2012 to 30 June 2012; Full time Civil Servant who attended on the same basis as other Non-Executive Board members
David Goldstone	Non-Executive Board Member from 27 February 2012 to 30 June 2012; Full time Civil Servant who attended on the same basis as other Non-Executive Board members
Alison Munro	Board Member and HS2 Ltd Chief Executive, employed by the DfT
Richard Brown	Non-Executive Board Member from 1 July 2012; Contractual commitment of two days per month
Godric Smith	Non-Executive Board Member from 1 July 2012 to 19 December 2012; Contractual commitment of two days per month; Full time Civil Servant who attended on the same basis as other Non-Executive Board members
Duncan Sutherland	Non-Executive Board Member from 1 July 2012; Contractual commitment of two days per month
Beth West	Member of the HS2 Ltd Executive and Board Member from 21 December 2012
Andrew McNaughton	Member of the HS2 Ltd Executive and Board Member from 21 December 2012

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

Attendance at Meetings

All Board members have been present at monthly meetings during their periods of appointment, except where indicated below:

- 15 May 2012 – Andy Friend/Mike Welton
- 11 June 2012 – Simon Bowles/David Goldstone
- 24 July 2012 – Sir Brian Briscoe
- 16 August 2012 – Sir Brian Briscoe
- 4 October 2012 – Godric Smith/Martin Capstick
- 31 October 2012 – Sir Brian Briscoe
- 28 November 2012 – Mike Welton

Changes to the Board

On 1 April 2012, Douglas Oakervee took over from Sir Brian Briscoe as Chair of HS2 Ltd. Sir Brian is continuing on the Board as an independent Non-Executive Director to provide continuity and experience.

To ensure that HS2 Ltd is able to deliver successfully a wide programme of activities leading to the submission of the Hybrid Bill in late 2013, the Board has been strengthened by further recruitment, ensuring that the necessary expertise is reflected in the Board composition.

On 27 February 2012, Simon Bowles and David Goldstone were appointed as HS2 Ltd Non-Executive Board members, bringing with them financial expertise to support the Board. Their appointment was on an interim basis until the Secretary of State made further appointments to the Board. Both resigned their positions along with Andy Friend on 30 June 2012. Godric Smith served on the Board from 1 July 2012 to 19 December 2012 when he also resigned in advance of a potential conflict of interest.

HS2 Ltd's Framework document provides for the appointment by the Secretary of State of a senior civil servant as a departmental representative with observer status at HS2 Ltd Board meetings. DfT are no longer represented by a Non-Executive Director. Martin Capstick resigned his position as Non-Executive Board Member on 19 December 2012 and became the first DfT Observer from this date until replaced by David Prout, Director General for HS2, on 21 February 2013.

Director Independence

The Chair and four of the Non-Executive Directors are independent directors. The HS2 Ltd Chief Executive and two members of the Executive Management Team are also Board members. Any conflicts of interest or business interests are declared by Board members.

Conflicts of Interest

Board members update HS2 Ltd on conflicts of interest as and when they arise. They are asked on a quarterly basis to declare any interests, as are members of the Audit Committee. A Register of Board members' business interests is maintained.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

Board Effectiveness

Board Evaluation

The Chair oversees and reviews the work of the Board and its members to ensure they are working effectively. The last self-assessment of the Board was conducted on 12 June 2013. The Board was satisfied that it was operating effectively and a further review is planned to take place in spring 2014.

Information and professional development

Current members of the HS2 Ltd Board are experienced in matters of corporate governance and have received up to date guidance on corporate best practice. Board members have met and worked with HS2 Ltd staff, attended background briefing sessions and are becoming familiar with specific issues relating to the project as well as attending site visits. An induction process is in place for new Board members, which includes one to one meetings with the Chairman followed by individual briefings with the Chief Executive or Commercial Director. New Board members are provided with induction materials in line with Cabinet Office Guidance and attend background briefings on the work of HS2 Ltd. Site visits are arranged as appropriate.

Board Decision-making

The previous Board Self Assessment process and the Triennial Review were satisfied that to date, there were adequate systems in place to ensure that efficient delegated authority, reporting and approvals processes were being carried out. Future arrangements are under review as the organisation looks towards future objectives.

The Corporate and Business Plan, updated annually, is overseen and approved by the Board. Project milestones and risks are regularly reviewed, and the Board is regularly apprised of the latest financial information. The Audit and Remuneration Committees have delegated authority to advise on matters in their respective areas, as set out in their Terms of Reference.

Effective, structured decision-making is crucial as the project develops. Following the Secretary of State for Transport's announcement on 10 January 2012, the Board has agreed a decision-making approach and a project delivery structure for the organisation which will be kept under review.

Audit Committee

The Audit Committee, chaired by Mike Welton, provides independent assurance to the Board that effective arrangements are in place for risk management, governance and internal control. The Committee oversees all assurance work, including that of HS2 Ltd's internal auditors. Audit Committee meets quarterly or when matters arise and its members during the year were:

Mike Welton	Chair
Richard Brown	Non-Executive Director from 1 July 2012
Andy Friend	Non-Executive Director until 30 June 2012
Simon Bowles	Non-Executive Director until 30 June 2012
David Goldstone	Non-Executive Director until 30 June 2012
Godric Smith	Non-Executive Director from 1 July 2012 until 19 December 2012

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

The Audit Committee reviews risk as a standing item at meetings. Updates are given by internal and external auditors. The audit committee also signs off internal and external annual audit plans. The annual accounts are approved by the Committee before being submitted to the Board. The Chairman of the Audit Committee updates the Board after each meeting. The Audit Committee also considers significant finance policies.

Remuneration Sub-Committee:

The Remuneration Committee, chaired by Richard Brown, reviews HS2 Ltd's pay policy and advises on matters concerning the remuneration of senior executives. Remuneration Committee members include:

Andy Friend	Chair until 30 June 2012
Richard Brown	Chair from 1 July 2012
Sir Brian Briscoe	
Duncan Sutherland	Non-Executive Director from 1 July 2012

Procurement Sub-Committee:

During the year the Procurement sub-committee met to approve the Development Partner contract award and awards under the professional services framework. Once the Procurement sub-committee completed its work in this regard, it did not meet again during the year and was formally wound up on 24 April 2013.

The HS2 Ltd Executive Team

The Executive Team manage the day to day running and operations of HS2 Ltd and comprise the following members:

Alison Munro	Chief Executive
Andrew McNaughton	Technical Director
Ian Jordan	Leeds Manchester Heathrow (Phase 2) Director
Mark Bayley	Interim Commercial Director, resigned 30 August 2012
Beth West	Commercial Director from 3 October 2012
Roy Hill [1]	London West Midlands (Phase 1) Director
Clinton Leeks	External and Parliamentary Relations Director from 26 April 2012
Kieran Rix	Finance and Corporate Services Director from 27 September 2012

[1] Roy Hill is Managing Director of HS2 Ltd's development partner, CH2M Hill and joined HS2 Ltd on 3 February 2012. He takes no part in Executive Team discussions relating to the Development Partner contract.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

HS2 Ltd Executive Team (continued)

The Executive team meets weekly to consider project-wide programme issues and monthly to consider corporate management issues. A separate Contracts sub Committee also meets on a weekly basis to consider procurement proposals. Separate London West Midlands ('LWM' or 'Phase 1') and Leeds Manchester Heathrow ('LMH' or 'Phase 2') Project Boards are also held on a weekly basis where decisions relating specifically to these elements of the project are discussed. The current structure was set up in March 2013 to enhance the effectiveness of the Executive Team in directing the operations of HS2 Ltd.

Executive Directors' Other Directorships

A Register of Business Interests is kept for Executive Directors' and Heads of Business Units.

HS2 Workforce

The HS2 Ltd workforce is made up of direct HS2 Ltd staff, secondees from DfT, Network Rail and other Government departments, contractors and agency staff.

HS2 Ltd has policies on rights and responsibilities of staff, holiday entitlement, working hours, conflicts of interest and Whistleblowing.

Staff training and development needs are identified as part of the annual employee performance monitoring and these are reviewed during the year.

Suppliers and Contractors

HS2 Ltd employs specialist suppliers and contractors as deemed necessary to supply technical services necessary to achieve the objectives of HS2 Ltd. Suppliers and contractors are procured and managed in accordance with Government-wide procurement guidance.

Risk Management

An assessment of the risks facing HS2 Ltd is set out on pages 13 to 14. The Accounting Officer and Board acknowledge their responsibility for risk management, which is overseen through a process of risk escalation to the Executive and Board as appropriate.

In line with the approach adopted by DfT, the Company's risk appetite is 'open', which under HM Treasury guidance means that the Company is 'willing to consider all options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward', considering each risk on its own merit. A cautious risk appetite has been adopted for the Company's personal and other sensitive information.

HS2 Ltd has adopted a risk management strategy in line with HM Treasury guidance Management of Risk: Principles and Concepts (also known as 'The Orange Book'). Each business area monitors the risks facing their area of HS2 Ltd's operations. Project Risks are reported through project boards; corporate risks are reported via the Executive. Corporate risks include finance, procurement, HR, governance, information assurance and public enquiries.

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

The HS2 Ltd Executive reviews risks on a monthly basis, bringing issues to the HS2 Ltd Board as required. Project Boards include risk as a standing item at each weekly meeting. The Board and Audit Committee review risks every three months, and the Audit Committee also reviews the Company's risk management systems and advises the Board on risk.

Clear and Balanced Business Strategy

HS2 Ltd produces a Corporate Plan, which sets out a three year corporate strategy. An annual business plan is also in production which sets out our business strategy in the shorter term.

Internal Control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk. It can provide reasonable and not absolute assurance of effectiveness. The system of internal control supports the achievement of HS2 Ltd's policies, aims and objectives, whilst safeguarding the funds and assets of the organisation. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of HS2 Ltd policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically. The controls are also designed to safeguard public funds and departmental assets in accordance with HM Treasury's 'Managing Public Money'.

Best practice guidance is followed on the monitoring of income and expenditure within HS2 Ltd. The Board reviews HS2 Ltd's financial position monthly examining the expenditure and variances for the period to date and year end. Full-year forecasts are updated regularly and re-profiling carried out as required.

The system of internal control has been in constant development and improvement during the year ended 31 March 2013 and up to the date of approval of the annual report and accounts.

A Triennial Review of HS2 Ltd was carried out at the end of 2011 to review the status of HS2 Ltd as an NDPB, and to review the control and governance arrangements to ensure that the Company complies with recognised principles of good corporate governance. The review found that arrangements which had been put in place for HS2 Ltd during its original remit, considering the case for HS2 Ltd and in supporting the consultation process for the first phase of the project, were adequate.

The review of the effectiveness of HS2 Ltd's system of internal control is driven largely by information received through the reviews and monitoring carried out by senior managers in conjunction with the Audit Committee, through the Internal Audit programme of audits and reporting, and through management letters and reports received from External Auditors.

In his annual opinion, the independent Head of Internal Audit (HIA) has noted that HS2 Ltd has undergone significant growth and change during the year, and that it has been a challenge for the Company to develop and enhance its governance, risk management and internal controls processes to ensure their maturity matches the underlying requirements of the organisation. Overall, the Head of Internal Audit has concluded that there is 'reasonable' assurance that the arrangements have been adequate and effective for 2012/13. The majority of audits in the 2012/13 Internal Audit programme were given an overall assurance opinion of 'reasonable' ('reasonable' being 'Systems of corporate governance, risk management and internal control arrangements are generally established and effective, with some minor weaknesses or gaps identified').

High Speed Two (HS2) Limited

Governance Statement for the Year Ended 31 March 2013 (continued)

One area where controls need strengthening and clarifying is the governance arrangements between the HS2 Ltd Board and the wider High Speed Rail programme, in the context of a rapidly growing and changing organisation. This has required ongoing development during the year to ensure alignment and clarity of arrangements and further development will be needed into the future. HS2 Ltd management have developed plans to address the identified issues and these are being implemented to improve the governance, risk management and controls in all areas.

The Audit Committee maintains an overview of process performance and improvement measures, and receives reports on the outcome of internal and external audits. HS2 Ltd is proactive in identifying and addressing the outcomes of audits carried out by external bodies. Progress against management actions on all audit recommendations is taken to the Audit Committee for review.

Regulation, Parliament and the Public

The Annual Accounts are presented to Parliament by the Secretary of State for Transport. They are also made available to the public on the HS2 Ltd website and through Companies House. HS2 Ltd upholds and promotes a policy of transparency. Relevant documents relating to Governance are published on the HS2 Ltd website.

Major Projects Authority and Gateway Reviews

In May 2013, two reports were issued which related to the Government's High speed rail programme.

The National Audit Office (NAO) report High Speed 2: A review of early programme preparation (<http://www.nao.org.uk/wp-content/uploads/2013/05/Full-Report.pdf>), was an early review of progress by the DfT in planning for the high speed rail network.

The second report, the first Annual Report of the Major Projects Authority (MPA) (<https://engage.cabinetoffice.gov.uk/major-projects-authority/>), looked more widely at the risks of Government Infrastructure projects.

Conclusion

As reflected in the information presented in this statement, it is my view that HS2 Ltd's internal control and governance mechanisms are adequate and fit for purpose. Where possible improvements have been identified, these have been or are in the process of being implemented.

The overall opinion I have received from the Head of Internal Audit for 2012/13 endorses this view. He has provided me with 'reasonable' assurance that HS2 Ltd's governance, risk management and control arrangements are appropriately defined and found to be working effectively.

In the areas where Internal Audit identified the need for control enhancements, these were not deemed to be significant in the context of the overall control environment. Where enhancements were proposed, corrective action has been agreed and subsequent delivery has contributed to the overall assurance reported within the Governance Statement.

High Speed Two (HS2) Limited

**Governance Statement
for the Year Ended 31 March 2013 (continued)**

As Accounting Officer I am confident that there is a sound system of internal control that supports the achievement of the HS2 Ltd policies, aims and objectives.

A handwritten signature in black ink, appearing to read 'A M Munro', written in a cursive style.

Ms A M Munro – Chief Executive and Accounting Officer

Signed on 13 June 2013

The Certificate of the Comptroller and Auditor General to the Members of

High Speed Two (HS2) Limited

I certify that I have audited the financial statements of High Speed Two (HS2) Limited for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff 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 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 I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2013 and of the result for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government Financial Reporting Manual; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept by the company, or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Dated 17 June 2013

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

High Speed Two (HS2) Limited

**Statement of Comprehensive Income
for the Year Ended 31 March 2013**

		Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
	Note		
<hr/>			
Expenditure			
Staff costs	3	15,226	6,754
Other expenditure	4	159,520	27,031
Non-cash items	4	1,644	162
		<hr/>	<hr/>
		176,390	33,947
Income			
Income from activities	5	(176,390)	(33,947)
		<hr/>	<hr/>
Net Income/ Expenditure		-	-
		<hr/>	<hr/>
Taxation	6	-	-
Net income/ Expenditure after taxation		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>

A Statement of Other Comprehensive Income has not been prepared as there are no other income items in the year.

The Accounting Policies and Notes on pages 30 to 41 form part of these financial statements

High Speed Two (HS2) Limited

Statement of Financial Position
as at 31 March 2013

		31 March 2013 £'000	31 March 2012 £'000
	Note		
<hr/>			
Non-current assets:			
Property, plant and equipment	7	5,804	294
Intangible assets	8	935	31
Total non-current assets		<hr/> 6,739	<hr/> 325
Current assets			
Trade and other receivables	10	24,643	1,576
Cash and cash equivalents	11	1,485	2,799
Total current assets		<hr/> 26,128	<hr/> 4,375
Total assets		<hr/> 32,867	<hr/> 4,700
Current liabilities			
Trade and other payables	12	(32,867)	(4,700)
Total current liabilities		<hr/> (32,867)	<hr/> (4,700)
Total net assets		<hr/> -	<hr/> -
Taxpayers equity			
Revaluation reserve		-	-
General reserve		-	-
		<hr/> -	<hr/> -

The financial statements on pages 26 to 41 were approved by the Board on 12 June 2013 and were signed on its behalf on 13 June 2013 by:



Ms A M Munro, Chief Executive and Accounting Officer

The Accounting Policies and Notes on pages 30 to 41 form part of these financial statements

High Speed Two (HS2) Limited

Statement of Cash Flows
for the Year Ended 31 March 2013

		Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
	Note		
<hr/>			
Cash flows from operating activities			
Net income per Income Statement		-	-
(Increase) / decrease in trade and other receivables	10	(23,067)	(1,558)
Increase in trade and other payables	12	28,167	447
Add : Non-cash costs	4	1,644	162
Net cash outflow from operating activities		<hr/> 6,744	<hr/> (949)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(7,023)	(399)
Purchase of intangible assets	8	(1,035)	(12)
Net cash outflow from investing activities		<hr/> (8,058)	<hr/> (411)
Net (decrease)/increase in cash and cash equivalents in the period		<hr/> (1,314)	<hr/> (1,360)
Cash and cash equivalents at the beginning of the year	11	2,799	4,159
Cash and cash equivalents at the end of the year	11	<hr/> 1,485	<hr/> 2,799

The Accounting Policies and Notes on pages 30 to 41 form part of these financial statements

High Speed Two (HS2) Limited

Statement of Changes in Equity
for the Year Ended 31 March 2013

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Shareholder equity at 1 April	-	-
Net expenditure after interest and grants	-	-
Shareholder equity at 31 March	-	-

The Accounting Policies and Notes on pages 30 to 41 form part of these financial statements

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013

1. Statement of Accounting Policies

HS2 Ltd is a Non-Departmental Public Body, entirely funded by grant from the DfT.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The 2012/13 Government FReM issued by HM Treasury has been adopted, applying IFRSs as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HS2 Ltd for the purpose of giving a true and fair view has been selected. The particular policies adopted by HS2 Ltd are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment.

1.2 Government Grants

The Company is entirely funded by grant from the DfT. Any element of grant received in excess of expenditure is shown in deferred income and any expenditure incurred in excess of grant income is shown as a receivable. Transfers are made from these accounts to ensure that, at all times, grant income equals total expenditure incurred.

1.3 Property, Plant and Equipment

Expenditure on property, plant and equipment of £1,000 or more is capitalised.

On initial recognition, assets are measured at cost, including any costs such as installation directly attributable to bringing them into working condition. All tangible assets are deemed to be short – life or low value assets and are, therefore, valued on the basis of depreciated historic cost as an approximation of fair value. Tangible assets are reviewed annually for impairment. In line with IAS 37 Provisions, contingent liabilities and contingent assets, any capital provision made for the cost of restoring the Company's leasehold property to its original state at the end of the lease will be recognised as part of the leasehold improvements asset and will be depreciated prospectively over the remaining lease term.

1.4 Intangible Assets

Expenditure on intangible assets, which are software licences and the associated costs of implementation, is capitalised where the cost is £1,000 or more. Subsequent acquisitions of less than £1,000 value which are of the same nature as existing grouped assets will be appended. Intangible assets are reviewed annually for impairment and are stated at amortised historic cost. Software licences are amortised on a straight line basis over the shorter of the term of the licence and the useful economic life of the asset.

High Speed Two (HS2) Limited

Notes to the Financial Statements **for the Year Ended 31 March 2013 (continued)**

1.5 Depreciation/Amortisation

Depreciation/amortisation is provided on all non-current assets, at rates calculated to write off the cost of each asset, less any estimated residual value, evenly over its expected useful life. The expected useful lives of the principal categories are:

- Leasehold improvements: 3 years
- Plant & equipment: 3 years
- IT equipment: 3 years
- Website: 3 years
- Software: 3 years

1.6 Intra-Government Balances

Intra-Government receivables and payables have been disclosed in accordance with the FReM.

1.7 Taxation

The Company operates on a not-for-profit basis and does not currently trade. Any grant not spent will be returned and any grant shortfall will be reimbursed by the DfT. On this basis the directors do not consider that the Company is liable to corporation tax.

1.8 Value Added Tax (VAT)

The Company's activities are considered to fall outside the scope of VAT in the period to 31 March 2013. Any input VAT incurred is included with the expenditure to which it relates.

1.9 Provisions

The Company makes provision for liabilities and charges in accordance with IAS 37 where, at the end of the current reporting period, a legal or constructive liability (i.e. a present obligation from past events) exists, the transfer of economic benefits is probable and a reasonable estimate can be made. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the rates set by HM Treasury. When the discount is unwound, the adjustment is recognised as an interest expense.

1.10 Contingent Liabilities

In accordance with IAS 37, the Company discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Company's control, unless their likelihood is considered to be remote. Guarantees, indemnities and undertakings are treated as contingent liabilities.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Company also discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

Where a guarantee meets the IAS 39 definition of a financial guarantee contract, it will be recognised as a liability in accordance with the measurement requirements of that standard, and any additional disclosures required under IAS 37 as interpreted by the FReM will be provided with the disclosures for other contingent liabilities. Such additional disclosures will include an estimate of the amount required to settle the liability.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.11 Estimation Techniques Used and Changes in Accounting Estimates

Estimation techniques have been applied in the calculation of accruals, details of which are in note 12.

1.12 Segmental Reporting

In line with HM Treasury guidance the Company has applied IFRS8 in full

The Company's operating segments have been identified on the basis of internal reports regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and assess its performance. The Company has three reportable segments.

- Phase 1: London West Midlands
- Phase 2: Leeds Manchester Heathrow
- System wide

1.13 Accounting Standards Issued But Not Yet Effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2013, and have not been applied in preparing these financial statements. The following may need to be adopted in subsequent periods:

- IFRS 9 (Financial Instruments) and IFRS 7 (Financial Instruments: Disclosure) –Adoption will not be mandatory until periods after 1 January 2015.

There were no new standards issued for 2012/13 and not applied, which would materially affect the Company's financial statements.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

2. Statement of Net Expenditure by Operating Segment

Segment:	£'000
Phase 1: London West Midlands	158,130
Phase 2: Leeds Manchester Heathrow	10,733
System Wide	7,527
Total Net Expenditure	<u>176,390</u>
Analysed as to:	£'000
Programme Costs	170,665
Administration Costs	5,725
Total Net Expenditure	<u>176,390</u>

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

3. Staff Numbers and Related Costs

	Directly employed staff 2012/13 £'000	Other staff 2012/13 £'000	Total Year ended 31 March 2013 £'000	Total Year ended 31 March 2012 £'000
Staff costs comprise:				
Wages and Salaries	5,722	7,639	13,361	5,839
Social security costs	676	276	952	368
Other pension costs	178	510	688	399
Non-executive Directors' fees and expenses	-	225	225	148
Total staff costs	6,576	8,650	15,226	6,754

£203k (including VAT) was charged by DfT for the services of the Chief Executive (2011/12: £186k). This cost is included in Wages & Salaries above. The fees and salaries payable to HS2 Ltd Directors are set out in the Remuneration report on pages 8 to 11.

Direct employees of HS2 Ltd are eligible to participate in a Stakeholder (defined contribution) pension scheme, in which the Company matches employee contributions to a maximum of 5%. Staff of HS2 Ltd, with the exception of those employed by DfT and on secondment from Government entities, are not eligible for Civil Service pensions. The pension scheme came into effect in February 2011 and is managed on the Company's behalf by Legal and General Ltd. For 2012/13, employers' contributions were £178k (2011/12: £44k).

'Other staff' costs include the cost of staff seconded from other Government bodies, together with subcontracted and agency personnel, and include VAT.

The costs of HS2 Ltd's project development partner CH2M Hill, which is working alongside HS2 Ltd, is included within the cost of external services.

Average Number of Persons Employed

The average number of whole-time equivalent persons employed during the year was as follows.

	Year ended 31 March 2013	Year ended 31 March 2012
Directly employed	115	35
Other staff	79	53
Total	194	88

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

4. Other Expenditure includes:

	Year ended 31 March 2013 £'000	Restated Year ended 31 March 2012 £'000
Professional services	143,786	24,788
Licences and Surveys	6,171	185
Communication and Information Technology	4,125	496
Accommodation	2,441	193
Property Advice and Valuation	861	616
Legal costs	314	249
Travel and subsistence	340	184
Auditors' remuneration and expenses	147	47
Other Costs	1,335	273
	<hr/>	<hr/>
	159,520	27,031
Non-cash items:		
Depreciation of tangible assets	1,212	147
Amortisation of intangible assets	131	15
Impairment of tangible assets	301	-
	<hr/>	<hr/>
Total operating costs (excluding staff costs)	161,164	27,193

External audit fees for the year ended 31 March 2013 were £35,000 (2011/12: £22,000).

Comparative totals have been restated because of additional current year expenditure headings.

5. Income

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Income from Government Grants receivable	176,390	33,947
	<hr/>	<hr/>
	176,390	33,947

6. Taxation

No liability to pay UK Corporation tax arose on ordinary activities for the year ended 31 March 2013 nor for the year ended 31 March 2012.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

7. Property, Plant and Equipment

	Leasehold improvements, plant and equipment £'000	IT equipment £'000	Total £'000
Cost or valuation			
At 1 April 2012	399	48	447
Additions	296	6,727	7,023
Impairments	(282)	(64)	(346)
At 31 March 2013	413	6,711	7,124
Depreciation			
At 1 April 2012	131	22	153
Charged in year	177	1,035	1,212
Impairments	(42)	(3)	(45)
At 31 March 2013	266	1,054	1,320
Net book value at 31 March 2013	147	5,657	5,804
Net book value at 31 March 2012	268	26	294

All assets are owned and there are no finance leases

	Leasehold improvements, plant and equipment £'000	IT equipment £'000	Total £'000
Cost or valuation			
At 1 April 2011	-	48	48
Additions	399	-	399
At 31 March 2012	399	48	447
Depreciation			
At 1 April 2011	-	6	6
Charged in year	131	16	147
At 31 March 2012	131	22	153
Net book value at 31 March 2012	268	26	294
Net book value at 31 March 2011	-	42	42

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

8. Intangible Assets

	Website	Software	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April 2012	-	56	56
Additions	81	954	1,035
At 31 March 2013	81	1,010	1,091
Depreciation			
At 1 April 2012	-	25	25
Charged in year	7	124	131
At 31 March 2013	7	149	156
Net book value at 31 March 2013	74	861	935
Net book value at 31 March 2012	-	31	31

HS2 Ltd does not have any intangible assets under a finance lease

	Website	Software	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 April 2011	-	44	44
Additions	-	12	12
At 31 March 2012	-	56	56
Depreciation			
At 1 April 2011	-	10	10
Charged in year	-	15	15
At 31 March 2012	-	25	25
Net book value at 31 March 2012	-	31	31
Net book value at 31 March 2011	-	34	34

9. Impairments

An impairment charge for the year of £301k has been made to the Statement of Comprehensive Income (2011/12 £Nil). It is anticipated that HS2 Limited will vacate accommodation at Eland House June 2014 as a result of the sub-lessor surrendering its head lease. Office refurbishment costs to date and also IT assets which cannot be transported have been impaired with immediate effect.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

10. Trade Receivables and Other Current Assets

	31 March	31 March
	2013	2012
	£'000	£'000
Amounts falling due within one year:		
Other receivables	24,291	1,452
Prepayments and accrued income	352	124
	<hr/> 24,643	<hr/> 1,576

Analysis of balance:

	31 March	31 March
	2013	2012
	£'000	£'000
Balances with:		
Other Central Government bodies - Grant receivable	24,241	1,452
Bodies External to Government	402	124
	<hr/> 24,643	<hr/> 1,576

11. Cash and Cash Equivalents

	31 March	31 March
	2013	2012
	£'000	£'000
Balance at 1 April	2,799	4,159
Net change in cash and cash equivalent balances	(1,314)	(1,360)
Balance at 31 March	<hr/> 1,485	<hr/> 2,799

12. Trade Payables and Other Current Liabilities

	31 March	31 March
	2013	2012
	£'000	£'000
Amounts falling due within one year:		
Trade payables	1,263	309
Accruals and deferred income	31,604	4,391
	<hr/> 32,867	<hr/> 4,700

Analysis of balance:

	31 March	31 March
	2013	2012
	£'000	£'000
Balances with:		
Other Central Government bodies	1,906	105
Local Authorities	533	-
Bodies External to Government	30,428	4,595
	<hr/> 32,867	<hr/> 4,700

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

13. Financial Instruments

HS2 Ltd has no borrowings and is entirely funded by grants from the DfT. The Company maintains minimal holdings of cash & cash equivalents, and has no significant third party receivables. For these reasons HS2 Ltd is considered have no material credit, liquidity, interest rate or market risk.

14. Commitments under leases

14.1 Operating Leases

As at 31 March 2013, the Company occupied premises in London and Birmingham under arrangements with the Department for Communities and Local Government. A Memorandum of Terms of Occupation is in operation and these arrangements are treated as operating lease obligations.

Obligation under Operating Leases comprise:

	31 March	31 March
	2013	2012
	£'000	£'000
Buildings:		
Not later than one year	3,204	-
Later than one year and not later than five years	877	-
Later than five years	-	-
	<hr/> <hr/> 4,081	<hr/> <hr/> -

14.2 Finance Leases

The Company has no finance leases in the period

15. Other Commitments

Financial commitments, which were contracted but not provided in the financial statements, comprised £70.8 million at 31 March 2013 (2012: £108.0m).

Of these, contracted capital commitments at 31 March not otherwise included in these financial statements were as follows:

Property, plant and equipment:	£ Nil
Intangible assets:	£ 0.4 million

The Company has not entered into any non-cancellable contracts or entered into any quantifiable guarantees, indemnities or provided any letters of comfort.

Following a legal judgement and the decision by the Secretary of State not to appeal, a re-consultation on the proposed discretionary compensation scheme will be carried out during 2013/14.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

16. Contingent Liabilities

The Company has a potential aggregate contingent liability of up to £8.4 million in relation to incentive payments that may become payable to the HS2 Limited Development Partner, CH2M Hill UK and 16 Professional Service Contract (PSC) organisations. This liability will be determined by HS2 Ltd in line with contract terms. No provision has been made for incentive liabilities as none could be determined with certainty as at 31 March 2013.

17. Related Party Transactions

HS2 Ltd is an Executive Non-Departmental Public Body sponsored by the Department for Transport, which is regarded as a related party. Grant amounting to £176.4 million was receivable from the DfT and was applied to the operating costs for the year (£2012: £33.9 million). Grant funding from the DfT which is received ahead of accrued expenditure is held within creditors as deferred income, and any amount due from the DfT is shown as other receivables.

Charges amounting to £1.17 million were levied by the Department for Communities and Local Government for HS2 Ltd's accommodation at Eland House during the year to 31 March 2013 (2012: £0.11million).

Charges amounting to £10,125 were levied by the DCLG for HS2 Ltd's accommodation in Birmingham.

Fees amounting to £101,520 were paid to the DfT for internal audit services in the year (2012: £24,840).

Costs incurred during the year on behalf of the DfT to the value of £244,348 have been recharged to the DfT.

The Company has undertaken transactions with other Government Departments, Central Government Bodies and other public sector organisations during the year.

Other than their remuneration, none of the Board members or key management staff has undertaken any material transactions with HS2 Ltd or its related parties during the year, and none has a financial interest in the activities of HS2 Ltd such as to influence their work with HS2 Ltd.

18. Losses and Special Payments

Total losses and special payments made were below the threshold that requires reporting.

19. Events after the Reporting Period

There are no reportable events after the reporting period. These financial statements are laid before the Houses of Parliament. International Accounting Standards (IAS10) require the Company to disclose the date on which the accounts are authorised for issue. This is the date on which the Comptroller and Auditor General signs the audit certificate (pages 24 to 25).

20. Ultimate Controlling Party

The ultimate controlling party is considered to be the Secretary of State for Transport.

High Speed Two (HS2) Limited

Notes to the Financial Statements for the Year Ended 31 March 2013 (continued)

21. Company Structure

The Company is limited by guarantee without having a share capital. Every member of the Company undertakes to contribute up to £1 to the Company's assets towards the Company's debts in the event that it is wound up. At 31 March 2013 there was one member, the Secretary of State for Transport.



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