

Report of the Directors and
Financial Statements for the Period 14 January 2009 to 31 March 2010
for
High Speed 2 (HS2) Limited



High Speed 2 (HS2) Limited

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for the Period 14 January 2009 to 31 March 2010

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High Speed 2 (HS2) Limited

Company Information
for the Period 14 January 2009 to 31 March 2010

DIRECTORS:	Sir B Briscoe Ms A M Munro A Friend M W Welton T J Wellburn
SECRETARY:	Ms S Roddie
REGISTERED OFFICE:	55 Victoria Street London SW1H 0EU
REGISTERED NUMBER:	06791686 (England and Wales)
AUDITORS:	Thornton Springer LLP 67 Westow Street Upper Norwood United Kingdom SE19 3RW

High Speed 2 (HS2) Limited

Report of the Directors for the Period 14 January 2009 to 31 March 2010

The directors present their report with the financial statements of the company for the period 14 January 2009 to 31 March 2010.

INCORPORATION

The company was incorporated on 14 January 2009 and commenced trading on the same date.

PRINCIPAL ACTIVITY

HS2 Ltd was established by the Secretary of State for Transport, as a separate arms length body, to conduct a feasibility study into the development of a high speed rail link from London to West Midlands.

REVIEW OF BUSINESS

The feasibility report, which included potential routes, costs and benefits and possible financing, was delivered to the Ministers at the end of 2009 for consideration. In March 2010 the then Government published a Command Paper announcing its support for the development, subject to consultation and further assessment.

The next stage in the evolution of the project will be to develop proposals for the further extension of the route to Manchester and Leeds as well as preparation for formal public consultation on the route between London and Birmingham.

HS2 Ltd's budget for the period to 31 March 2010 was £8.5m plus VAT. The actual expenditure for the period was £8.2m net (£9.4m including VAT). The study and report were produced within budget and within the Department for Transport's allocated timeframe.

DIVIDENDS

No dividends will be distributed for the period ended 31 March 2010.

DIRECTORS

The directors who have held office during the period from 14 January 2009 to the date of this report are as follows:

Sir B Briscoe - appointed 13 February 2009
Ms A M Munro - appointed 28 January 2009
A Friend - appointed 17 March 2009
M W Welton - appointed 15 April 2009
T J Wellburn - appointed 14 January 2009
Sir D Rowlands KCB - appointed 19 January 2009 - resigned 18 February 2010
R W Linnard - appointed 14 January 2009 - resigned 18 February 2009

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 with its stated payment terms or otherwise within 30 days of receipt of a valid invoice.

POLITICAL AND CHARITABLE CONTRIBUTIONS

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

High Speed 2 (HS2) Limited

Report of the Directors **for the Period 14 January 2009 to 31 March 2010**

STATEMENT OF INTERNAL CONTROL

Scope of responsibility

The Chief Executive of HS2 Ltd has responsibility: for maintaining a sound system of internal control to support the achievement of the HS2 Ltd policies; aims and objectives; whilst safeguarding the assets of the company; and for taking reasonable steps for the prevention and detection of fraud and other irregularities, ensuring proper use of the funds assigned to the company.

The Board meets on a monthly basis to discuss and make decisions on issues of policy and strategy as well as reviewing the risk register. The Secretary of State, as sole member, receives a monthly update from the Chairman. This reviews progress against key performance indicators as well as highlighting appropriate risks and their mitigation. The two main key performance indicators are cost against budget and progress towards the completion of the work within the determined timescale.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can only provide reasonable and not absolute assurance of effectiveness. 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 system of internal control has been in constant development and improvement during the period ended 31 March 2010 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

HS2 Ltd has recognised that the management of risk should be governed by the Programme Board comprised of its Executive Team.

All recommendations, changes, additions and mitigation actions are reported in the risk register and kept for recording purposes.

The Board reviews risks of concerns, generally risks highlighted with an Amber Red or Red Rating on a monthly basis and reviews the complete risk register quarterly.

The Risk and Control Framework

A template has been developed including: a description of the risk, the mitigating measures, a risk owner and an assessment of the risk exposure. Each risk is assigned to an owner who is responsible for monitoring and updating the programme board on the performance. Each risk is measured using a 'traffic light' rating (Red, Amber Red, Amber Green, Green). These risks are reviewed regularly at the Programme Board meeting and on a monthly basis, the Red and Amber Red risks are reviewed by the Board.

Review of effectiveness and areas of development

During the year the accounting and internal control systems were developed to take account of the growth in the number of staff and number of financial transactions. The directors have ensured that the systems were appropriate at each stage in the company's development. This is an ongoing process and, as the obligations on the company changes, the systems will be adapted to meet the demands and risks imposed upon it.

RISKS FACING HS2 LTD

As previously stated the company maintains a register of risks which is regularly reviewed and updated where considered necessary by the Executive and Board. At the financial year end the major risks identified were those with the early stages in the development of any major project, including changes in political or economic conditions. The major risks associated with any feasibility report of this nature are the general acceptance of the report by all interested parties, its ongoing development, the possibilities of the emergence of alternative strategies and any changes in political or economic conditions.

2010-2011 Budget

As at the end of March 2010, the 2010/11 budget was agreed at £21.1m (excluding VAT). This is entirely funded by the Department for Transport.

High Speed 2 (HS2) Limited

Report of the Directors for the Period 14 January 2009 to 31 March 2010

REMUNERATION REPORT

For the purpose of the Remuneration report, the senior managers of HS2 Ltd are considered to be the Chair and other Board members. The Chief Executive is an employee of the Department for Transport and is remunerated by that department. Her services to HS2 Ltd are charged to HS2 Ltd by the Department for Transport. Details of the amount charged for her services, including VAT is set out below. This is based on the Civil Service salary structure as paid by the Department for Transport.

The Chair's remuneration for the year is based on an average contribution of two days per week and the Board members' remuneration for the period is based on 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.

Other Board Members

All Board Members are entitled to a month's notice period with no compensation terms for early termination of their contracts.

	Board fees paid in the period ending 31 March 2010 £'000	Date appointment commenced	Appointment expired date
Sir Brian Briscoe (Chair)	36.0	13/02/2009	-
Sir D Rowlands (previous Chair)	108.3	19/01/2009	18/02/2010
Mike Welton	21.9	15/04/2009	-
Andy Friend	23.7	17/03/2009	-
Timothy Wellburn (Note 1)	-	14/01/2009	-
Robert Wynne Linnard	-	14/01/2009	18/02/2009

Note 1: Mr Wellburn represents the Secretary of State for Transport and is employed by the Department for Transport.

Chief Executive

Ms Alison Munro was appointed CEO of HS2 Ltd on the 28 January 2009. The total cost of her services as charged by the Department for Transport was £203k. This amount included Salary, Employer National Insurance, Pension Scheme and VAT for services provide from January 2009 to March 2010.

GOING CONCERN

HS2 Ltd is funded by grants-in-aid as provided by Section 6 of the Railways Act 2005. In March 2010, the previous Government published a Command Paper requesting HS2 Ltd to continue work on the development of the high speed rail network project. The then Secretary of State delivered a remit to HS2 Ltd, setting out the role for the Company in 2010/11. In view of the continuing support from the Department for Transport and the commitment to further funding, the Directors are confident that there are sufficient resources available to meets the company's budgeted expenditure. Consequently, it is considered appropriate to adopt a going concern basis for the preparation of these financial statements.

High Speed 2 (HS2) Limited

**Report of the Directors
for the Period 14 January 2009 to 31 March 2010**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the 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 International Financial Reporting Standards as adopted for use in the European Union. 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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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 hence 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

Thornton Springer LLP were appointed auditors during the period and their reappointment will be proposed in accordance with Section 485 of the Companies Act 2006. Details of their remuneration are contained within these financial statements.

ON BEHALF OF THE BOARD:



.....
Ms A M Munro - Director

Date: 7 June 2010

**Report of the Independent Auditors to the Members of
High Speed 2 (HS2) Limited**

We have audited the financial statements of High Speed 2 (HS2) Limited for the period ended 31 March 2010 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

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 a Report of the Auditors 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 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. Our responsibility is to audit 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 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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted for use in the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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 we are required to report by exception

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Peter L Wallyn (Senior Statutory Auditor)
for and on behalf of Thornton Springer LLP
67 Westow Street
Upper Norwood
United Kingdom
SE19 3RW



Date: 7 June 2010

High Speed 2 (HS2) Limited

Income Statement
for the Period 14 January 2009 to 31 March 2010

	Notes	£
CONTINUING OPERATIONS		
Revenue		9,445,141
Direct costs		<u>(8,414,913)</u>
GROSS PROFIT		1,030,228
Administrative expenses		<u>(1,030,228)</u>
OPERATING PROFIT		-
PROFIT BEFORE INCOME TAX	3	-
Income tax	4	<u>-</u>
PROFIT FOR THE PERIOD		<u>-</u>

The notes form part of these financial statements

High Speed 2 (HS2) Limited

Statement of Comprehensive Income
for the Period 14 January 2009 to 31 March 2010

	£
PROFIT FOR THE PERIOD	-
OTHER COMPREHENSIVE INCOME	- _____
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	- =====

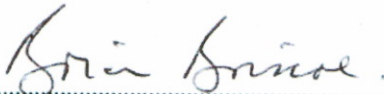
The notes form part of these financial statements

High Speed 2 (HS2) Limited

Statement of Financial Position
31 March 2010

	Notes	£
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	5	<u>25,816</u>
CURRENT ASSETS		
Trade and other receivables	6	36,667
Cash and cash equivalents	7	<u>781,951</u>
		<u>818,618</u>
TOTAL ASSETS		<u><u>844,434</u></u>
EQUITY		
SHAREHOLDERS' EQUITY		
TOTAL EQUITY		<u>-</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	9	<u>844,434</u>
TOTAL LIABILITIES		<u>844,434</u>
TOTAL EQUITY AND LIABILITIES		<u><u>844,434</u></u>

The financial statements were approved by the Board of Directors on 7 June 2010 and were signed on its behalf by:



.....
Sir B Briscoe - Director

The notes form part of these financial statements

High Speed 2 (HS2) Limited

Statement of Changes in Equity
for the Period 14 January 2009 to 31 March 2010

	Profit and loss account £	Total equity £
Changes in equity	_____ =====	_____ =====

The notes form part of these financial statements

High Speed 2 (HS2) Limited

Statement of Cash Flows
for the Period 14 January 2009 to 31 March 2010

		£
Cash flows from operating activities		
Cash generated from operations	1	<u>812,366</u>
Net cash from operating activities		<u>812,366</u>
Cash flows from investing activities		
Purchase of tangible fixed assets		<u>(30,415)</u>
Net cash from investing activities		<u>(30,415)</u>
Increase in cash and cash equivalents		<u>781,951</u>
Cash and cash equivalents at beginning of period	2	<u>-</u>
Cash and cash equivalents at end of period	2	<u>781,951</u>

The notes form part of these financial statements

High Speed 2 (HS2) Limited

Notes to the Statement of Cash Flows
for the Period 14 January 2009 to 31 March 2010

1. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	£
Profit before income tax	-
Depreciation charges	<u>4,599</u>
	4,599
Increase in trade and other receivables	(36,667)
Increase in trade and other payables	<u>844,434</u>
Cash generated from operations	<u>812,366</u>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the cash flow in respect of cash and cash equivalents are in respect of these balance sheet amounts:

Period ended 31 March 2010

	31.3.10	14.1.09
	£	£
Cash and cash equivalents	<u>781,951</u>	<u>-</u>

High Speed 2 (HS2) Limited

Notes to the Financial Statements for the Period 14 January 2009 to 31 March 2010

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

At the date of approval of the financial statements the following standards and interpretations which have not been applied in these financial standards were in issue, but not yet effective;

IFRS 1	First-time Adoption of International Reporting Standards" (revised 2008)
IFRS 2	"Share-based Payment - Group Cash-settled Share-based Payment Transactions (amended)
IFRS 3	"Business Combinations" (revised 2008)
IFRS 5	"Non-current Assets Held for Sale and Discontinued Operations" (amended)
IFRS 9	"Financial Instruments"
IAS 24	"Related Party Disclosures" (revised 2009)
IAS 27	"Consolidated and Separate Financial Statements (amended 2008)
IAS 32	"Financial Instruments: Presentation - Classification of Rights Issues (amended)
IAS 39	"Eligible Hedged Items" (amended)
IFRIC 14 and IAS 19	"The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction" (amended)
IFRIC 17	"Distributions of Non-cash Assets to Owners"
IFRIC 19	"Extinguishing Financial Liabilities with Equity Instruments"

The Directors expect the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company.

Revenue recognition

The company is entirely funded by a grant from the Department for Transport. Any element of grant received in excess of expenditure is shown in accrued income and any expenditure incurred in excess of grant income is shown as a debtor. Transfers are made from these accounts to ensure that, at all times, grant income equals total expenditure incurred.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Computer equipment - 33.3% on cost

Taxation

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

2. EMPLOYEES AND DIRECTORS

Directors' fees	£ 189,906
Seconded and subcontracted staff	<u>2,771,290</u>
	<u><u>2,961,196</u></u>

High Speed 2 (HS2) Limited

Notes to the Financial Statements - continued
for the Period 14 January 2009 to 31 March 2010

3. PROFIT BEFORE INCOME TAX

The results before income tax is stated after charging:

Depreciation - owned assets	£ 4,599
Auditor's remuneration	10,575

4. INCOME TAX

Analysis of the tax charge

No liability to UK corporation tax arose on ordinary activities for the period.

5. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment £
COST	
Additions	<u>30,415</u>
At 31 March 2010	<u>30,415</u>
DEPRECIATION	
Charge for period	<u>4,599</u>
At 31 March 2010	<u>4,599</u>
NET BOOK VALUE	
At 31 March 2010	<u><u>25,816</u></u>

6. TRADE AND OTHER RECEIVABLES

	£
Current:	
Grants receivable from the Department for Transport	35,850
Prepayments	<u>817</u>
	<u><u>36,667</u></u>

7. CASH AND CASH EQUIVALENTS

	£
Cash in hand	45
Bank accounts	<u>781,906</u>
	<u><u>781,951</u></u>

High Speed 2 (HS2) Limited

Notes to the Financial Statements - continued
for the Period 14 January 2009 to 31 March 2010

8. RESERVES

	Retained earnings £
Profit for the period	—
At 31 March 2010	<u>—</u>

9. TRADE AND OTHER PAYABLES

	£
Current:	
Trade creditors	550,550
Accrued expenses	<u>293,884</u>
	<u>844,434</u>

10. ULTIMATE CONTROLLING PARTY

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

11. 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 2010 there was one member.