

**Mercedes-Benz HighPerformanceEngines Limited**

**Directors' report and financial  
statements**

**Registered number 1760288**

**31 December 2006**



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## Directors' report

The directors submit their report and the financial statements for the year ended 31 December 2006

### Principal activities and business review

The principal activity of the company is the design, development and manufacture of Mercedes-Benz Formula One engines which power the Vodafone McLaren Mercedes Formula One Team

The directors consider quality, technical excellence, speed and flexibility combined with cost control, to be the principal KPI's to assess progress towards achieving the company's strategies over the medium term, and performance against these measurables is reviewed regularly

Overall turnover has fallen to £86.8 million from £97.6 million due primarily to the divestment of the Special Projects Group business activities during 2005

In the year, the company made a profit before tax and interest of £4.0 million, representing a margin of 4.6% against turnover. Despite a fall in turnover this compares favourably to the margin of 3.8% achieved in 2005 before the exceptional item and income from shares in a group undertaking. This is attributable to improvements in cost control.

The company also generated positive cash flows during the year which were enhanced through a continuing focus on optimization of working capital.

In the coming year the company will continue with its principal activities for the FIA Formula One World Championship together with undertaking additional design and development work in preparation for future changes in FIA regulations.

### Principal risks and uncertainties

As the company operates principally in two currencies (Sterling and Euro) there is inherent exposure to exchange risk.

Interest rate exposure is limited to the internal borrowing rate set by DaimlerChrysler UK Holding Plc.

### Research and development

The company engages in research and development in relation to the design and development of high-performance engines. During the year an amount of £48.0 million (2005: £59.1 million) was charged in respect of research and development expenditure.

### Dividends

No dividend was paid during the year (2005: £10,000,000).

### Directors

The directors who held office during the year were as follows:

Norbert Haug	(German)
Sten Ola Kallenius	(Swedish)
Dr. Thomas Weber	(German)
Dr. Leopold Mikulic	(German)
Christian Andreas Struwe	(German)

### Charitable donations

The company made charitable donations of £4,977 during the year (2005: £11,438).

### Policy and practice on payment of creditors

The company does not follow a specific standard or code for the payment of suppliers. It agrees payment terms with its suppliers when it enters into purchase contracts. It then seeks to adhere to these arrangements providing it is satisfied that the suppliers have provided the goods or services in accordance with the agreed terms and conditions.

At the year end, there were 23 days (2005: 31 days) purchases in trade creditors.

## **Directors' report** *(continued)*

### **Employees**

The company's management has an open policy on the communication of information to employees concerning factors affecting their interests as employees and also the development of the company and consults employees on a regular basis to ensure that their views are taken into account in making decisions on matters likely to affect their interests

It is the company's policy to give full and fair consideration to suitable applications for employment by disabled persons having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all training, career development and promotion opportunities available to staff. Opportunities also exist for employees of the company who become disabled to continue their employment or to be trained in other positions in the group


### **Disclosure of information to auditors**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board



Sten Ola Kallenius  
Director

Morgan Drive  
Brixworth  
Northamptonshire  
NN6 9GZ

## **Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements**

The directors are responsible for preparing the Directors' report 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## **KPMG Audit Plc**

Altius House  
One North Fourth Street  
Milton Keynes  
MK9 1NE  
United Kingdom

### **Independent auditors' report to the members of Mercedes-Benz HighPerformanceEngines Limited**

We have audited the financial statements of Mercedes-Benz HighPerformanceEngines Limited for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**Independent auditors' report to the members of Mercedes-Benz  
HighPerformanceEngines Limited (*continued*)**

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements

*KPMG Audit Plc.*

*Chartered Accountants  
Registered Auditor*

*31 October, 2007*

**Profit and loss account**  
*for the year ended 31 December 2006*

		Discontinued Activities	Continuing Activities	Total	Discontinued Activities	Continuing Activities	Total
	Note	2006 £000	2006 £000	2006 £000	2005 £000	2005 £000	2005 £000
<b>Turnover</b>	1,2	-	86,843	86,843	8,844	88,715	97,559
Cost of sales		-	(71,996)	(71,996)	(5,999)	(70,404)	(76,403)
<b>Gross profit</b>		-	14,847	14,847	2,845	18,311	21,156
Administrative expenses		-	(11,263)	(11,263)	(92)	(17,326)	(17,418)
<b>Operating profit</b>		-	3,584	3,584	2,753	985	3,738
Exceptional item – profit on sale of discontinued operation	4	400	-	400	3,960	-	3,960
Income from shares in group undertaking		-	-	-	-	878	878
<b>Profit on ordinary activities before interest and taxation</b>	3	400	3,584	3,984	6,713	1,863	8,576
Interest receivable	5			493			672
Interest payable	6			(163)			(172)
<b>Profit on ordinary activities before taxation</b>	3			4,314			9,076
Tax on profit on ordinary activities	9			-			-
<b>Profit for the year</b>				4,314			9,076

There are no recognised gains or losses for the financial year except for those shown above. Accordingly, no separate statement of total recognised gains and losses has been prepared.




## Balance sheet

at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
<b>Fixed assets</b>					
Tangible assets	10		43,655		36,754
<b>Current assets</b>					
Stocks	11	2,611		3,393	
Debtors	12	31,165		22,704	
Cash at bank and in hand		12		6	
		<u>33,788</u>		<u>26,103</u>	
<b>Creditors</b> amounts falling due within one year	13	<u>(34,185)</u>		<u>(23,403)</u>	
<b>Net current (liabilities)/assets</b>			(397)		2,700
<b>Total assets less current liabilities</b>			<u>43,258</u>		<u>39,454</u>
<b>Creditors</b> amounts falling due after more than one year	14		<u>(474)</u>		<u>(984)</u>
<b>Net assets</b>			<u>42,784</u>		<u>38,470</u>
<b>Capital and reserves</b>					
Called up share capital	15		16		16
Profit and loss account	16		42,768		38,454
<b>Shareholders' funds</b>			<u>42,784</u>		<u>38,470</u>

These financial statements were approved by the board of directors on 31 October 2007 and were signed on its behalf by

  
**Sten Ola Hallenius**  
 Director

**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 December 2006*

	2006 £000	2005 £000
Profit for the year	4,314	9,076
Dividends	-	(10,000)
	<hr/>	<hr/>
Net addition to/(reduction in) shareholders' funds	4,314	(924)
Opening shareholders' funds	38,470	39,394
	<hr/>	<hr/>
Closing shareholders' funds	42,784	38,470
	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### *Basis of preparation*

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

#### *Cash flow statement*

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

#### *Tangible fixed assets and depreciation*

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Buildings	-	4% per annum
Plant fixtures and fittings	-	15% - 50% per annum

No depreciation is provided on assets under construction until they are brought into use

No depreciation is provided on freehold land

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves

#### *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

#### *Pension*

The company contributes to money purchase pension schemes and contributions are charged to the profit and loss account as incurred

#### *Development costs*

Development costs are written off as incurred

**Notes (continued)**

**1 Accounting policies (continued)**

**Stocks**

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

**Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

**Turnover**

Turnover represents amounts receivable for goods and services and is stated net of value added tax.

**Research and development expenditure**

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

**2 Turnover and profit on ordinary activities before taxation**

Turnover and profit on ordinary activities are attributable to the principal activity of the company. The directors do not consider it in the interests of the group to give a geographical analysis of turnover.

**3 Profit on ordinary activities before taxation**

	2006 £000	2005 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration		
Audit	57	75
Other services - fees paid to the auditor and its associates	31	60
Depreciation and other amounts written off tangible fixed assets		
Owned	5,254	6,050
Leased	602	602
Hire of other assets - operating leases	-	324
Research and development expense	48,032	59,063
Loss/(profit) on disposal of fixed assets	57	(48)
	<hr/>	<hr/>

**4 Exceptional item – profit on sale of discontinued operation**

The 'special projects group' division, which constituted the non Formula One activities of the business, was sold to Penske Racing of Delaware and Mario Illien on 30 June 2005 and the release of excess provisions against certain expected future costs relating to the disposed business resulted in an exceptional gain in the current year of £400,000, in addition to the gain on disposal of £3,960,000 already reported in 2005.

This has been presented as an exceptional item on the face of the profit and loss account, in line with the requirements of Financial Reporting Standard 3.

**Notes (continued)**

**5 Interest receivable**

	2006 £000	2005 £000
Bank interest	488	672
Other interest	5	-
	<u>493</u>	<u>672</u>

**6 Interest payable**

	2006 £000	2005 £000
Bank overdraft interest	47	15
Hire purchase and finance lease interest	111	156
Other interest	5	1
	<u>163</u>	<u>172</u>

**7 Remuneration of directors**

	2006 £000	2005 £000
Directors' emoluments	509	2,533
Company contributions to money purchase pension schemes	-	744
	<u>509</u>	<u>3,277</u>

The emoluments of the highest paid director were £367,000 (2005 £2,533,000) and company pension contributions of £nil (2005 £744,060) were made to a money purchase scheme on his behalf

No retirements benefits under money purchase schemes are accruing to directors (2005 nil)

**Notes (continued)**

**8 Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Production	425	460
Administration	17	17
	<u>442</u>	<u>477</u>

The aggregate payroll costs of these persons were as follows

	2006	2005
	£000	£000
Wages and salaries	19,220	22,001
Social security costs	1,991	2,513
Pension costs	1,839	2,313
	<u>23,050</u>	<u>26,827</u>

**9 Tax on profit on ordinary activities**

Analysis of charge in period

	2006	2005
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustment in respect of previous years	-	-
Total current tax	<u>-</u>	<u>-</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	-	-
Adjustment in respect of previous years	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

## Notes (continued)

### 9 Tax on profit on ordinary activities (continued)

#### Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 30%). The differences are explained below

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	4,314	9,076
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	1,294	2,723
	<hr/>	<hr/>
<i>Effects of</i>		
Expenses not deductible for tax purposes	279	221
Depreciation for period in excess of capital allowances	(784)	168
Other timing differences	(112)	63
R&D tax credit	(3,602)	(4,430)
Tax losses carried forward	-	1,255
Group relief surrendered	2,925	-
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

#### Deferred taxation

The company has identified a potential deferred tax asset of £5,386,000 (2005 £6,282,000 as revised), as noted below, relating to accelerated capital allowances, other short term timing differences and tax losses. It is considered that the availability of sufficient taxable profits in the future against which these timing differences can be deducted cannot be seen with reasonable certainty. Therefore the deferred tax asset has not been recognised. An appropriate asset will be recognised when the company can demonstrate a reasonable expectation of sufficient suitable taxable profits to utilise the timing difference.

	2006 £000	2005 £000
Difference between accumulated depreciation and amortisation and capital allowances	(2,570)	(1,786)
Other timing differences	340	452
Tax losses	7,616	7,616
	<hr/>	<hr/>
Unrecognised deferred tax asset	5,386	6,282
	<hr/>	<hr/>

#### Factors affecting future tax charges

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008. The potential deferred tax asset (unrecognised) has been calculated at 30% in accordance with FRS 19. Any timing or temporary differences which reverse before 1 April 2008 will be charged or relieved at 30%, any which exist at 1 April 2008 will reverse at 28%.

**Notes (continued)**

**10 Tangible fixed assets**

	Land and buildings	Plant, fixtures & vehicles	Assets under construction	Total
	£000	£000	£000	£000
<i>Cost</i>				
At beginning of year	29,465	46,640	2,691	78,796
Additions	2,683	5,952	4,155	12,790
Disposals	-	(1,538)	-	(1,538)
Transfers between items	234	2,144	(2,378)	-
<b>At end of year</b>	<b>32,382</b>	<b>53,198</b>	<b>4,468</b>	<b>90,048</b>
<i>Depreciation</i>				
At beginning of year	6,275	35,767	-	42,042
Charge for the period	1,140	4,716	-	5,856
Disposals	-	(1,505)	-	(1,505)
<b>At end of year</b>	<b>7,415</b>	<b>38,978</b>	<b>-</b>	<b>46,393</b>
<i>Net book value</i>				
At 31 December 2006	24,967	14,220	4,468	43,655
At 31 December 2005	23,190	10,873	2,691	36,754

Included in the net book value of plant, fixtures and vehicles is £931,555 (2005 £1,539,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £602,000 (2005 £602,000).

The net book value of land and buildings comprises

	2006 £000	2005 £000
Freehold land	3,337	3,337
Freehold buildings	21,630	19,973
	<b>24,967</b>	<b>23,310</b>

**11 Stocks**

	2006 £000	2005 £000
Raw materials and consumables	393	354
Work in progress	923	1,791
Finished goods and goods for resale	1,295	1,248
	<b>2,611</b>	<b>3,393</b>



**Notes (continued)**

**12 Debtors**

	2006 £000	2005 £000
Trade debtors	131	260
Amounts owed by group undertaking	29,660	20,358
Tax and Social Security	732	1,185
Other debtors	433	26
Prepayments and accrued income	209	875
	<u>31,165</u>	<u>22,704</u>

**13 Creditors: amounts falling due within one year**

	2006 £000	2005 £000
Bank loan and overdraft	1	2
Obligations under hire purchase contracts, finance leases and similar contracts	511	651
Amounts owed to group undertakings	14,280	2,442
Trade creditors	4,539	6,449
Corporation tax	3,485	3,485
Other taxation and Social Security	890	947
Other creditors	167	6,759
Accruals and deferred income	10,312	2,668
	<u>34,185</u>	<u>23,403</u>

Any bank overdraft is secured by a charge over the land and buildings

**14 Creditors: amounts falling due after more than one year**

	2006 £000	2005 £000
Obligations under hire purchase contracts, finance leases and similar contracts	474	984

The maturity of obligations under finance leases and hire purchase contracts is as follows

	2006 £000	2005 £000
Within one year	511	650
In the second to fifth years	474	984
	<u>985</u>	<u>1,634</u>

## Notes (continued)

### 15 Called up share capital

	2006 £	2005 £
<i>Authorised, allotted, called up and fully paid</i>		
10,000 ordinary shares of £1 each	10,000	10,000
2,500 'A' ordinary shares of \$1 each	1,601	1,601
2,500 'B' ordinary shares of \$1 each	1,601	1,601
2,500 'C' ordinary shares of \$1 each	1,601	1,601
2,500 'D' ordinary shares of \$1 each	1,601	1,601
	<hr/>	<hr/>
	16,404	16,404
	<hr/>	<hr/>

The sterling shares and dollar shares constitute different classes of shares

#### *Sterling shares*

The holders of sterling shares are not entitled to any participation in the profit or assets of the company

On a winding up, the maximum that the shareholders of sterling shares shall receive will be £1 per share

None of the sterling shares carry any right to receive notice of or attend and vote at any general meeting of the company

#### *Dollar shares*

The holders of dollar shares carry the right to participate in the profits of the company

The dollar shares are not subject to any limit in distribution on winding up of the company provided amounts payable to the holders of sterling shares shall first have been paid

Holders of the dollar shares are entitled to receive notice of and to attend and vote at every general meeting of the company

### 16 Reserves

	Profit and loss account £000
At beginning of year	38,454
Profit for the year	4,314
	<hr/>
At end of year	42,768
	<hr/>

### 17 Related party transactions

As the company is a wholly owned subsidiary of DaimlerChrysler UK Holding Plc and the company's voting rights are controlled within the group headed by DaimlerChrysler Aktiengesellschaft, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with other group companies. The consolidated financial statements of DaimlerChrysler Aktiengesellschaft, within which this company is included, can be obtained from the address given in note 21

## Notes (continued)

### 18 Capital commitments

At 31 December 2006 the company had commitments, for which no provision has been made, under contracts placed in respect of capital expenditure amounting to £2,519,012 (2005 £1,924,201)

### 19 Financial commitments

There are obligations under operating leases to pay rentals during the next year which expire

	2006 Land and buildings £000	2006 Other £000	2005 Land and buildings £000	2005 Other £000
Within one year	-	-	-	-
In the second to fifth years inclusive	-	-	212	-
Over five years	184	-	-	-
	<u>184</u>	<u>-</u>	<u>212</u>	<u>-</u>

### 20 Pension scheme

The company contributes to various money purchase pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The charge for the period represents contributions payable to the schemes and amounted to £1,839,000 (2005 £2,312,000). The outstanding contributions as at 31 December 2006 were £158,252 (2005 £nil).

### 21 Ultimate holding company and parent of larger group in which the company is a member

DaimlerChrysler UK Holding Plc held 100% of the voting rights of the company as at the year end.

The company's ultimate holding company and controlling party is DaimlerChrysler Aktiengesellschaft which is incorporated in Germany and heads the only group in which the results are consolidated for statutory purposes. The consolidated accounts of DaimlerChrysler Aktiengesellschaft are available to the public and may be obtained from the offices of

DaimlerChrysler UK Holding Plc  
 Tongwell  
 Milton Keynes  
 MK15 8BA