

**Mercedes-Benz HighPerformanceEngines Limited**

**Directors' report and financial  
statements**

Registered number 1760288

31 December 2007

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## Directors' report

The directors submit their report and the financial statements for the year ended 31 December 2007

### 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. Performance against these measurables is reviewed regularly.

Overall turnover has decreased to £80.7 million from £86.8 million due primarily to the success of the ongoing 'cost down' programme.

In the year, the company made a profit before taxation of £0.9 million, representing a margin of 1.1% against turnover. This included an impairment charge of £5.4 million against the carrying value of fixed assets, in anticipation of the sale of certain land, buildings and other assets which was completed in early 2008.

In the year, the company made significant capital investment regarding the ongoing construction of the Mercedes-Benz Technology Centre.

In the coming year the company will continue with its principal activities for the FIA Formula One World Championships together with undertaking additional design and development work as requested by the group.

### Principal risks and uncertainties

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

Interest rate exposure is limited to the internal borrowing rate set by Daimler AG.

### 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 (2006: £48.0 million) was charged in respect of research and development expenditure.

### Dividends

No dividend was paid during the year (2006: £nil).

### Directors

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

Norbert Haug	(German)
Sten Ola Källenius	(Swedish)
Dr Thomas Weber	(German)
Dr Leopold Mikulic	(German)

### Charitable donations

The company made charitable donations of £11,903 during the year (2006: £4,977).

### Policy and practice on payment of creditors

The company follows its standard terms and conditions for the payment of suppliers. It implies 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 53 days (2006: 23 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 Källenius  
Director

Morgan Drive  
Brinkworth  
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 2007, 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 2007 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.*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

*2 September, 2008.*

## Profit and loss account

for the year ended 31 December 2007

	Note	Continuing operations 2007 £000	Total 2007 £000	Discontinued operations 2006 £000	Continuing operations 2006 £000	Total 2006 £000
<b>Turnover</b>	2	80,658	80,658	-	86,843	86,843
Cost of sales		(66,410)	(66,410)	-	(71,996)	(71,996)
<b>Gross profit</b>		14,248	14,248	-	14,847	14,847
Administrative expenses		(8,560)	(8,560)	-	(11,263)	(11,263)
<b>Operating profit</b>		5,688	5,688	-	3,584	3,584
Exceptional item – profit on sale of discontinued operation		-	-	400	-	400
Exceptional item – provision for loss on sale of fixed assets	3	(5,369)	(5,369)	-	-	-
<b>Profit on ordinary activities before interest and taxation</b>	3-7	319	319	400	3,584	3,984
Interest receivable	4		646			493
Interest payable	5		(109)			(163)
<b>Profit on ordinary activities before taxation</b>			856			4,314
Tax on profit on ordinary activities	8		-			-
<b>Profit for the financial year</b>	15		856			4,314

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 2007

	<i>Note</i>	<b>2007</b> <b>£000</b>	<b>2007</b> <b>£000</b>	<b>2006</b> <b>£000</b>	<b>2006</b> <b>£000</b>
<b>Fixed assets</b>					
Tangible assets	9		54,157		43,655
<b>Current assets</b>					
Stocks	10	3,470		2,611	
Debtors	11	10,551		31,165	
Cash at bank and in hand		32		12	
		<u>14,053</u>		<u>33,788</u>	
<b>Creditors</b> amounts falling due within one year	12	<u>(24,431)</u>		<u>(34,185)</u>	
<b>Net current liabilities</b>			(10,378)		(397)
<b>Total assets less current liabilities</b>			<u>43,779</u>		<u>43,258</u>
<b>Creditors</b> amounts falling due after more than one year	13		<u>(139)</u>		<u>(474)</u>
<b>Net assets</b>			<u>43,640</u>		<u>42,784</u>
<b>Capital and reserves</b>					
Called up share capital	14		16		16
Profit and loss account	15		43,624		42,768
<b>Shareholders' funds</b>			<u>43,640</u>		<u>42,784</u>

These financial statements were approved by the board of directors on *28 August, 2008* and were signed on its behalf by



Sten Ola Kallenius  
 Director

**Reconciliation of movements in shareholders' funds**  
*for the year ended 31 December 2007*

	2007 £000	2006 £000
<b>Profit for the year</b>	<b>856</b>	<b>4,314</b>
Dividends	-	-
	<hr/>	<hr/>
<b>Net addition to shareholders' funds</b>	<b>856</b>	<b>4,314</b>
Opening shareholders' funds	<b>42,784</b>	<b>38,470</b>
	<hr/>	<hr/>
<b>Closing shareholders' funds</b>	<b>43,640</b>	<b>42,784</b>
	<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*

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	-	3 – 10% per annum
Plant fixtures and fittings	-	6% - 33% 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

#### *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

#### *Pensions*

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

#### *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

## Notes (continued)

### 1 Accounting policies (continued)

#### *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

#### *Employee benefit trust*

The company has approved the establishment of a critical illness trust for which funds are held and administered outside the control of the company. The company obtains no future economic benefit, nor exercises any future rights or control, over amounts it transfers. The existence of the trust neither relieves nor creates any obligations in respect of benefits provided. Contributions made to the trust are recorded as an expense in the period in which they are made.

### 2 Turnover and segmental information

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

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

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration		
Audit	61	57
Other services – (Corporation Tax services)	74	31
Depreciation and other amounts written off tangible fixed assets		
Owned (2007 including impairment charge of £5,369,000)	7,371	5,254
Leased	812	602
Hire of land and buildings - operating leases	330	347
Research and development expense	48,000	48,032
Loss on disposal of fixed assets	36	57
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An impairment charge of £5,369,000 has been recorded and included within depreciation above in respect of the impairment of the carrying value of certain land and buildings and plant & machinery. These assets were included in a disposal subsequent to the year end for which the sale price indicated an impairment as at the year end. Reflecting the fact that this impairment charge relates to a subsequent sale of fixed assets, this charge 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)*

**4 Interest receivable**

	2007 £000	2006 £000
Bank interest	646	488
Other interest	-	5
	<u>646</u>	<u>493</u>

**5 Interest payable**

	2007 £000	2006 £000
Bank overdraft interest	48	47
Hire purchase and finance lease interest	61	111
Other interest	-	5
	<u>109</u>	<u>163</u>

**6 Remuneration of directors**

	2007 £000	2006 £000
Directors' emoluments	438	367
Company contributions to money purchase pension schemes	-	-
	<u>438</u>	<u>367</u>

The emoluments of the highest paid director were £437 660 (2006 £367,000) and company pension contributions of £nil (2006 £nil) were made to a money purchase scheme on his behalf

No retirements benefits under money purchase schemes are accruing to directors (2006 nil)

## Notes (continued)

### 7 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	
	2007	2006
Production	407	425
Administration	18	17
	<u>425</u>	<u>442</u>

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	19,261	19 220
Social security costs	2,312	1,991
Pension costs	1,966	1,839
	<u>23,539</u>	<u>23 050</u>

### 8 Tax on profit on ordinary activities

Analysis of charge in period

	2007 £000	2006 £000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustment in respect of previous years	-	-
Total current tax	-	-
<i>Deferred tax</i>		
Origination/reversal of timing differences	-	-
Adjustment in respect of previous years	-	-
Total deferred tax	-	-
Tax on profit on ordinary activities	-	-

## Notes (continued)

### 8 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 (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	856	4,314
Current tax at 30% (2006 30%)	257	1,294
<i>Effects of</i>		
Expenses not deductible for tax purposes	75	279
Capital items expenses	(156)	-
Timing differences between depreciation and capital allowances	596	(784)
Other timing differences	-	(112)
R&D tax credit	(3,602)	(3,602)
Group relief surrendered	2,830	2,925
Total current tax charge (see above)	-	-

#### Deferred taxation

The company has identified a potential deferred tax asset of £5,638,000 (2006 £5,386,000), 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 tax losses.

	2007 £000	2006 £000
Timing differences between accumulated depreciation and capital allowances	(3,021)	(2,570)
Other timing differences	301	340
Tax losses	8,358	7,616
Unrecognised deferred tax asset	5,638	5,386

#### 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 28% 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)

### 9 Tangible fixed assets

	Land and buildings	Plant, fixtures & vehicles	Assets under construction	Total
	£000	£000	£000	£000
<b>Cost</b>				
At beginning of year	32 382	53,198	4 468	90 048
Additions	3 117	3 784	11 662	18 563
Disposals	-	(454)	-	(454)
Transfers between items	1 299	2 657	(3 956)	-
<b>At end of year</b>	<b>36,798</b>	<b>59,351</b>	<b>12,174</b>	<b>108,323</b>
<b>Depreciation</b>				
At beginning of year	7,415	38,978	-	46 393
Charge for the period	797	2 017	-	2 814
Impairment charge	4 638	731	-	5 369
Disposals	-	(422)	-	(422)
<b>At end of year</b>	<b>12,850</b>	<b>41,316</b>	<b>-</b>	<b>54,166</b>
<b>Net book value</b>				
At 31 December 2007	23,948	18,035	12,174	54,157
At 31 December 2006	24,967	14,220	4,468	43 655

Included in the net book value of plant, fixtures and vehicles is £119,835 (2006 £931,555) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £811,720 (2006 £602,000).

The net book value of land and buildings comprises

	2007 £000	2006 £000
Freehold land	3,340	3 337
Freehold buildings	20,608	21 630
	<b>23,948</b>	<b>24,967</b>



**Notes (continued)**

**10 Stocks**

	2007 £000	2006 £000
Raw materials and consumables	859	393
Work in progress	727	923
Finished goods and goods for resale	1,884	1 295
	<u>3,470</u>	<u>2,611</u>

**11 Debtors**

	2007 £000	2006 £000
Trade debtors	46	131
Amounts owed by group undertaking	5,733	29 660
Tax and Social Security	2,000	732
Other debtors	292	433
Prepayments and accrued income	2,480	209
	<u>10,551</u>	<u>31 165</u>

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

	2007 £000	2006 £000
Bank loan and overdraft	177	1
Obligations under hire purchase contracts, finance leases and similar contracts	335	511
Amounts owed to group undertakings	2,909	14,280
Trade creditors	5,685	4,539
Corporation tax	3,485	3,485
Other taxation and Social Security	990	890
Other creditors	2,788	167
Accruals and deferred income	8,062	10,312
	<u>24,431</u>	<u>34 185</u>

**Notes (continued)**

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

	2007 £000	2006 £000
Obligations under hire purchase contracts, finance leases and similar contracts	139	474

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

	2007 £000	2006 £000
Within one year	335	511
In the second to fifth years	139	474
	<u>474</u>	<u>985</u>

**14 Called up share capital**

	2007 £	2006 £
<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
	<u>16,404</u>	<u>16,404</u>

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

## Notes (continued)

### 15 Reserves

	Profit and loss account £000
At beginning of year	42,768
Profit for the year	856
	<hr/>
At end of year	43,624
	<hr/>

### 16 Related party transactions

As the company is a wholly owned subsidiary of Mercedes-Benz UK Holdings Plc and the company's voting rights are controlled within the group headed by Daimler 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 Daimler Aktiengesellschaft, within which this company is included, can be obtained from the address given in note 20.

### 17 Capital commitments

At 31 December 2007 the company had commitments, for which no provision has been made, under contracts placed in respect of capital expenditure amounting to £3,104,000 (2006 £2,519,012).

### 18 Financial commitments

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

	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
Within one year	260	-	-	-
In the second to fifth years inclusive	33	-	-	-
Over five years	-	-	184	-
	<hr/>	<hr/>	<hr/>	<hr/>
	293	-	184	-
	<hr/>	<hr/>	<hr/>	<hr/>

### 19 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 £1,966,000 (2006 £1,839,000). The outstanding contributions as at 31 December 2007 were £nil (2006 £158,252).

**Notes** *(continued)*

**20 Ultimate holding company and parent of larger group in which the company is a member**

Mercedes-Benz UK Holdings 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 Daimler Aktiengesellschaft which is incorporated in Germany and heads the only group in which the results are consolidated for statutory purposes. The consolidated accounts of Daimler Aktiengesellschaft are available to the public and may be obtained from the offices of

Mercedes-Benz UK Holdings Plc  
Tongwell  
Milton Keynes  
MK15 8BA