

**Mercedes AMG High Performance Powertrains
Limited**

Annual report and financial statements

Registered number 1760288

31 December 2019



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Strategic Report

Principal activities and business review

The principal activity of the company is the design, the development and the manufacture of the Mercedes-Benz Formula One Power Unit, on behalf of its parent company Daimler AG, which powered the Mercedes AMG Petronas Formula One Team, Racing Point UK and Martini Williams Racing Team for the 2019 Formula One race season.

The directors consider quality, technical excellence, speed and flexibility, combined with cost control, to be the principal success factors towards realising the company's strategies and achieving the company's targets. Performance against these measurables is regularly reviewed.

The company had another successful season with the Mercedes M10 EQ Power+ power unit winning both the Constructors' and Drivers' Formula One World Championships for the sixth year in succession. The Mercedes Power Unit achieved 15 race wins, with 10 pole positions and 9 1, 2 finishes. The company's Power Unit accumulated 38% (2018: 36%) of the total points available during the season.

Overall turnover was £237.8 million (2018: £195.5 million). Turnover also includes design, development and manufacturing activities on behalf of the parent company Daimler AG for transferring F1 technology to the Project One car and for preparation for the 2019/20 (Season 6) Formula E race season.

In the year, the company made a profit before taxation of £10.2 million (2018: £8.2 million), representing a margin of 4.3% (2018: 4.2%) against turnover.

In 2020 the company will continue with its principal activities to design, develop and manufacture the Formula One Power Unit on behalf of its parent company Daimler AG. Whilst also undertaking additional design, development and manufacturing work for Daimler, including finalising development and testing of the Project One hypercar, transitioning into its full production in the second half of the year. Formula E will conclude Season 6 (2019/20), and begin development on Season 7 (2020/21) which commences with the race in Saudi Arabia in January 2021.

The United Kingdom remains a global centre of competence for the motorsport industry and this coupled with the Government's support for Research and Development has enabled the company to continue to invest in a highly skilled workforce and technologically advanced asset base. The company now employs 742 staff members and contributes over 82% (2018: 85%) of its total expenditure within the United Kingdom.

Management have continued to monitor the potential impacts of Brexit and work has continued to mitigate the risks both to people and supply chain.

Principal risks and uncertainties


The Contract Manufacturing Agreement with Daimler AG minimises all significant business risks for the company. However, as the company operated principally in two currencies (Sterling and Euro) there is inherent exposure to exchange rate risk.

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

The company has assessed and continues to monitor the potential impact of COVID-19 very carefully and is taking all necessary precautions to protect the workforce in line with Government advice. At this stage the Project One hypercar project has not suffered any significant disruption and despite the impact on both the Formula One and Formula E calendars, the company is able to maintain profitability and to meet all financial obligations. The company will continue to review the possible impacts on the business and will refine its contingency plans to mitigate the effects of the virus on the business.

By order of the board

Hywel Thomas
Director



22 September 2020

Directors' report

The directors present their report with the financial statements of the company for the year ended 31 December 2019.

Research and development

The company engages in research and development activity to support the development of Formula One Power Units, Formula E power units and the transfer of that technology to road car projects. The total research and development expenditure was £152.2 million (2018: £116.7 million).

Dividend

A dividend of £3m was paid during the year (2018: £8 million) in accordance with Daimler AG group equity guidelines.

Directors

The directors who held office during the year and up to the date of the signing of the Financial Statements were as follows:

Markus Schaefer	Non-executive and Chairman	
Andy Cowell	Managing Director	Resigned 30 June 2020
Hywel Thomas	Managing Director	Appointed 1 July 2020
Torsten Eder	Non-executive	
Jochen Hermann	Non-executive	

Employee and Stakeholder Engagement

It is a duty of the directors, under section 172 of the Companies Act 2006, to promote the success of the Company for the benefit of its members as a whole and in doing so have regards to the likely consequences of any decision in the long term; the interests of the company's employees; and its relationships with suppliers, customers and others.

Employees are central to this success, as such the company's management has an open policy on the communication of information to employees concerning factors affecting their interests as employees and the development of the company; it also 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 company.

Political contributions

The company made no political donations or incurred any political expenditure during the year (2018: £nil).

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 auditor is 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 auditor is aware of that information.

Directors' report *(continued)*

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Hywel Thomas
Director



Mercedes AMG High Performance Powertrains Ltd
Morgan Drive
Brixworth
Northamptonshire
NN6 9GZ

22 September 2020

Statement of directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, 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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and 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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.



Independent auditor's report to the members of Mercedes AMG High Performance Powertrains Limited

Opinion

We have audited the financial statements of Mercedes AMG High Performance Powertrains Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and loss account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of Mercedes AMG High Performance Powertrains Limited (*continued*)

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Mercedes AMG High Performance Powertrains Limited (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.



29 September, 2020

Peter Selvey (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

The Pinnacle
170 Midsummer Boulevard
Milton Keynes
MK9 1FD

Profit and loss account
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	2	237,770	195,495
Cost of sales		(172,574)	(160,148)
Gross profit		65,196	35,347
Administrative expenses		(54,118)	(26,566)
Operating profit		11,078	8,781
Interest receivable and similar income	6	45	55
Interest payable and similar charges	7	(954)	(670)
Profit on ordinary activities before taxation		10,169	8,166
Tax on profit on ordinary activities	8	(3,730)	(5,376)
Profit on ordinary activities after taxation		6,439	2,790

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.

The notes on pages 11 to 23 form part of these financial statements.

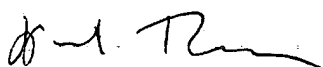
Balance Sheet
at 31 December 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	9	2,460	3,098
Tangible assets	10	127,455	128,196
		<u>129,915</u>	<u>131,294</u>
Current assets			
Stocks	11	9,099	3,618
Debtors	12	57,266	59,051
Cash at bank and in hand		3	5
		<u>66,368</u>	<u>62,674</u>
Creditors: amounts falling due within one year	13	<u>(78,106)</u>	<u>(80,517)</u>
Net current (liabilities) / assets		<u>(11,738)</u>	<u>(17,843)</u>
Total assets less current liabilities		<u>118,177</u>	<u>113,451</u>
Creditors: amounts falling due after more than one year	14	<u>(23,423)</u>	<u>(23,084)</u>
Provisions for liabilities			
Deferred tax liability	16	<u>(18,565)</u>	<u>(17,617)</u>
		<u>(41,988)</u>	<u>(40,701)</u>
Net assets		<u>76,189</u>	<u>72,750</u>
Capital and reserves			
Called up share capital	18	17	17
Share premium account		14,999	14,999
Redenomination reserve		1	1
Profit and loss account	19	61,172	57,733
Shareholders' funds		<u>76,189</u>	<u>72,750</u>

The notes on pages 11 to 23 form part of these financial statements.

These financial statements were approved by the board of directors on 22 September 2020 and were signed on its behalf by:

Hywel Thomas
Director



Company registered number: 1760288

Statement of Changes in Equity
for the year ended 31 December 2019

	Called-up Share capital	Share Premium	Redenomination Reserve	Profit and Loss account	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2018	17	14,999	1	62,943	77,960
Profit for the year	-	-	-	2,790	2,790
Dividends	-	-	-	(8,000)	(8,000)
Balance at 31 December 2018	17	14,999	1	57,733	72,750
Profit for the year	-	-	-	6,439	6,439
Dividends	-	-	-	(3,000)	(3,000)
Balance at 31 December 2019	17	14,999	1	61,172	76,189

Notes

(forming part of the financial statements)

1 Accounting policies

Mercedes AMG High Performance Powertrains Limited (the “company”) is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (“FRS 102”) as issued in August 2014. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The company’s ultimate parent undertaking, Daimler AG includes the company in its consolidated financial statements. The consolidated financial statements of Daimler AG are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Daimler UK Ltd, Tongwell, Milton Keynes, MK15 8BA. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Related Party transactions;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Notwithstanding net current liabilities of £11.7m as at 31 December 2019, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Contract Manufacturing Agreement between the parent company, Daimler AG, and Mercedes AMG High Performance Powertrains Limited ensures that the company will be provided with sufficient funds to enable it to meet its liabilities as they fall due and that the parent company will not seek repayment of amounts due from the Company. The Directors have assessed the effects on the Company of COVID-19, which to date have been limited, and consider that the effects to date and the reasonably possible future impacts are effectively mitigated by this Agreement.

Subsequent to the year end, the intercompany loan amounts presented as due within one year per Note 15 have been superseded by a new £60m loan which falls payable on 20 September 2021, in addition to the existing £22m loan payable on 5 October 2021. As per the Daimler AG Capital Structure Policy, the Group’s treasury division ensures that all Group Companies have access to funds sufficient to meet their payment obligations. Therefore, the Treasury division develops respective funding structures for Group Companies and is responsible for all external and internal funding measures of Group companies including the related support policy.

This effectively means that Daimler AG will supply funding from whichever source they believe to be appropriate specific to the Company’s future needs.

The Company participates in the Daimler AG cash-pooling arrangement, under which the Company held a positive balance of £14.9m at the balance sheet date. All funds held under this central arrangement are managed by Daimler AG treasury division and, under the terms of the Capital Structure policy, the Company is able to gain immediate access to these funds.

The directors consider that pursuant to this policy, Daimler AG directly or through any of its group entities will continue to provide the necessary funding that should enable the Company to continue in operational existence for at least a period of 12 months from the date of approval of these financial statements.

Notes (continued)

1 Accounting policies (continued)

1.2 Going concern (continued)

In forming their conclusion, the directors have made appropriate inquiries of the parent company and have not identified any matters which impact its conclusions regarding the ability of the company to continue as a going concern. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

On this basis, the Directors consider that they will be able to meet their liabilities, as and when they fall due, for a period not less than 12 months from the date of signing of these financial statements.

1.3 Foreign currency

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets; for example land is treated separately from buildings.

Leases in which the company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described in 1.11 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- buildings 10 - 40 years
- plant and equipment 3 - 16 years

Notes (continued)

1 Accounting policies (continued)

1.5 Tangible fixed assets (continued)

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Assets under construction are not depreciated until the asset is taken into use. Depreciation is charged based on the useful lives given above.

1.6 Intangible assets

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Other intangible assets

Other intangible assets that are acquired by the company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date that they are available for use. The estimated useful lives are as follows:

- computer software 3 - 5 years

The basis for choosing these useful lives is an assessment of the likely useful life with regard to prior experience and anticipated technological changes.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Intangible assets are tested for impairment in accordance with FRS102 Section 27 Impairment of assets when there is an indication that an intangible asset may be impaired.

Assets under construction are not depreciated until the asset is taken into use. Depreciation is charged based on the useful lives given above.

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

The company only includes in the year end carrying value those components and parts that in the opinion of the directors will form part of the first "track-ready" or "road-ready" power units, i.e. production power unit.

1.8 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.9 Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Notes (continued)

1 Accounting policies (continued)

1.10 Turnover

Turnover represents income received from Daimler AG for the development and supply of Formula One powertrains to Mercedes AMG Petronas Formula One Team, Racing Point UK Ltd and Williams Formula One Team, and for the development and supply of Formula E powertrains to Mercedes Benz Formula E and Venturi Racing, alongside other R&D activities on behalf of the parent company Daimler AG for road car projects. The turnover from any additional work performed on behalf of any of the above Formula One and Formula E teams is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty.

1.11 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable and finance charges on finance leases recognised in profit or loss using the effective interest method.

Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Turnover

	2019 £000	2018 £000
Sale of goods	2,273	147
Rendering of services	235,497	195,348
Total turnover	237,770	195,495

3 Expenses and auditor's remuneration

Included in profit are the following:

	2019 £000	2018 £000
Research and development expensed as incurred	155,089	116,659
Hire of land and buildings – operating leases	112	96
Hire of plant and machinery – operating leases	1,768	829
(Profit) on disposal of fixed assets	(1)	(193)

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements	48	48

4 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	
	2019	2018
Production	629	587
Administration (includes graduates, apprentices and placements)	113	108
	742	695

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	53,017	46,854
Social security costs	6,799	6,173
Contributions to defined contribution pension plans	4,599	4,140
	64,415	57,167

Notes (continued)

5 Directors' remuneration

	2019 £000	2018 £000
Directors' remuneration	3,381	2,648
Amounts receivable under long-term incentive schemes	47	50
Company contributions to money purchase pension plans	-	-
	<u>3,428</u>	<u>2,986</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £3,380,981 (2018: £2,698,715), and company pension contributions of £Nil (2018: £Nil) were made to a money purchase scheme on their behalf.

	Number of directors 2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>1</u>	<u>1</u>

6 Other interest receivable and similar income

	2019 £000	2018 £000
Receivable from group undertakings	45	27
Other interest	-	28
	<u>45</u>	<u>55</u>
Total interest receivable and similar income	<u>45</u>	<u>55</u>

7 Interest payable and similar charges

	2019 £000	2018 £000
Hire purchase and finance lease interest	6	2
Payable to group undertakings	948	668
Other interest	-	-
	<u>954</u>	<u>670</u>
Total other interest payable and similar charges	<u>954</u>	<u>670</u>

Interest payable and similar charges includes interest payable on loans and borrowings of £948,098 (2018: £667,721), all of which was payable to group undertakings.

Notes (continued)

8 Taxation

Total tax expense recognised in the profit and loss account

	2019 £000	2018 £000
Profit Before Tax	10,169	8,166

Summary of Tax Charge

Analysis of Tax Charge in Period

UK Corporation Tax	19.00%	
- Current tax on income for the period	2,864	-
- Adjustments in respect of prior periods	(82)	-

UK Current Tax

2,782	-
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Group relief paid for previous year

-	(1,128)
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Total Current Tax

-	(1,128)
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Deferred Tax
- Origination / reversal of temp diff's
- Adj. in respect of previous periods

(249)	1,584
1,197	4,920

Total Deferred Tax

948	6,504
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Total Tax Expense

3,730	5,376
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The taxation charge relates entirely to UK taxes.

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	6,439	2,790
Total tax expense	3,730	5,376
Profit before taxation	10,169	8,166
Tax using the UK corporation tax rate	19.00%	19.00%
Adjustment in respect of previous periods	1,932	1,551
Origination and reversal of timing differences	1,115	3,792
Non-deductible expenses	676	-
	7	33
Total tax expense included in profit or loss	3,730	5,376

Notes (continued)

9 Intangible assets

	Software £000	Assets under construction £000	Total £000
Cost			
Balance at 1 January 2019	13,337	326	13,663
Additions	160	617	777
Disposals	-	-	-
Transfers	658	(283)	375
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	14,155	660	14,815
	<hr/>	<hr/>	<hr/>
Amortisation			
Balance at 1 January 2019	10,565	-	10,565
Amortisation for the year	1,790	-	1,790
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	12,355	-	12,355
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 January 2019	2,772	326	3,098
	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,800	660	2,460
	<hr/>	<hr/>	<hr/>

Transfers represent completion of assets under construction, with £374,020 being transferred from Tangible Assets under construction to Software due to a reclassification on capitalisation.

Notes (continued)

10 Tangible fixed assets

	Land and buildings £000	Plant and Equipment £000	Assets Under construction £000	Total £000
Cost				
Balance at 1 January 2019	57,719	169,715	23,047	250,481
Additions	2,082	4,785	6,569	13,436
Disposals	-	(707)	-	(707)
Transfers	672	17,692	(18,739)	(375)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	60,473	191,485	10,877	262,835
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
Balance at 1 January 2019	15,069	107,216	-	122,285
Depreciation charge for the year	1,478	12,299	-	13,777
Disposals	-	(682)	-	(682)
Transfers between items	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	16,547	118,833	-	135,380
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 1 January 2019	42,650	62,499	23,047	128,196
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	43,926	72,652	10,877	127,455
	<hr/>	<hr/>	<hr/>	<hr/>

Transfers represent completion of assets under construction with £374,020 being transferred from Tangible Assets under construction to Software due to a reclassification on capitalisation.

Leased plant and machinery

At 31 December 2019 the net carrying amount of plant, fixtures and vehicles leased under a finance lease was £105,461 (2018: £nil). Depreciation for the year on these assets was £13,078 (2018: £nil).

Notes (continued)

11 Stocks

	2019 £000	2018 £000
Raw materials and consumables	9,099	3,618
	<u>9,099</u>	<u>3,618</u>

12 Debtors

	2019 £000	2018 £000
Trade debtors	382	126
Amounts owed by group undertakings	18,536	22,887
Tax and Social Security	4,891	8,476
Other debtors	27,461	22,876
Prepayments and accrued income	5,996	4,686
	<u>57,266</u>	<u>59,051</u>

All debtors are due within one year.

13 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Obligations under finance leases (see note 15)	25	-
Payments on account	373	-
Trade creditors	15,523	18,699
Amounts owed to group undertakings (see note 15)	48,234	45,368
Taxation and social security	3,663	3,697
Other creditors	13	12
Accruals and deferred income	10,275	12,741
	<u>78,106</u>	<u>80,517</u>

14 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Obligations under finance leases (see note 15)	75	-
Amounts owed to group undertakings	22,000	22,000
Accruals and deferred income	1,348	1,084
	<u>23,423</u>	<u>23,084</u>

Notes (continued)

15 Interest-bearing loans and borrowings

	2019 £000	2018 £000
Creditors falling due more than one year		
Loan from group undertaking	22,000	22,000
Finance Lease Liabilities	75	-
	<u>22,075</u>	<u>22,000</u>
	2019 £000	2018 £000
Creditors falling within less than one year		
Loan from group undertaking, including accrued interest	45,360	40,282
Finance Lease Liabilities	25	-
	<u>45,385</u>	<u>40,282</u>

The loans from group undertaking are repayable as follows:

Value	Repayable Date	Interest Rate
22,000,000	5 th October 2021	1.390%
25,000,000	20 th May 2020	1.396%
20,000,000	10 th January 2020	1.310%

Finance lease liabilities falling due after more than one year are all due between one year and less than five years.

16 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Accelerated capital allowances	-	-	18,868	17,821	18,868	17,821
Employee benefits	(303)	(204)	-	-	(303)	(204)
Unutilised tax losses	-	-	-	-	-	-
	<u>(303)</u>	<u>(204)</u>	<u>18,868</u>	<u>17,821</u>	<u>18,565</u>	<u>17,617</u>
Net tax (assets) / liabilities	(303)	(204)	18,868	17,821	18,565	17,617

In addition to the deferred tax asset above, the company has additional unrecognised gross tax losses of £8,532,704 (2018: £15,018,510). Losses have reduced as a result of capital allowances on the company's capital investment programme.

A reduction in the UK corporation tax rate from 20% to 17% (effective 1 April 2020) was originally enacted on 6 September 2016. This reduction was overturned on 11th March 2020, resulting in a non-adjusting post balance sheet increase of £2,184,102 to Mercedes AMG High Performance Powertrains' Deferred tax liabilities in relation to 2019.

Notes (continued)

17 Share based remuneration

In 2005, Daimler AG adopted a 'Performance Phantom Share Plan' (PPSP) under which eligible employees of Mercedes AMG High Performance Powertrains Limited are granted phantom shares enabling them to receive cash payments. The terms and conditions of the PPSP are as follows:

Nature of scheme	Grant date	Employees entitled	Number of shares allocated	Vesting conditions	Expiry date
Cash-settled award	2016	18	3,751	See below	2020
Cash-settled award	2017	19	4,596	See below	2021
Cash-settled award	2018	13	4,143	See below	2022
Cash-settled award	2019	16	7,960	See below	2023

As at 31 December 2019 the company recognised £355,179 payable to Daimler AG for the award of the PPSP (2018: £339,223).

The amount of cash paid to eligible employees is based on the number of vested phantom shares (determined over a three-year performance period) multiplied by the quoted price of Daimler AG's ordinary shares (calculated as an average price over a specified period at the end of the four years of service). The number of phantom shares that vest will depend on the achievement of corporate performance goals, based on competitive and internal benchmarks. Since payment per vested phantom share depends on the quoted price of one Daimler AG ordinary share, the quoted price represents the fair value of each phantom share.

The company recognised in the profit and loss account a charge of £192,485 (2018: £75,017) related to cash settled share-based payments.

18 Capital and reserves

Share capital

	2019 £000	2018 £000
<i>Allocated, called up and fully paid</i>		
1,000 ordinary shares of £17.359 each	17	17
	<hr/>	<hr/>
	17	17
	<hr/>	<hr/>

19 Profit and loss account

	£000
At beginning of year	57,733
Profit for the year	6,439
Dividend	(3,000)
At end of year	<hr/> 61,172 <hr/>

Notes (continued)

20 Reconciliation of movements in shareholders' funds

	2019 £000	2018 £000
Opening shareholders' funds	72,750	77,960
Profit for the year	6,439	2,790
Dividends	(3,000)	(8,000)
Closing shareholders' funds	76,189	72,750

21 Operating leases

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

	2019 £000	2018 £000
Less than one year	166	335
Between one and five years	1,835	1,261
	2,001	1,596

During the year £1,880,294 was recognised as an expense in the profit and loss account in respect of operating leases (2018: £924,652).

22 Commitments

Capital commitments

The company's contractual commitments to purchase tangible fixed assets at the year-end were £1,300,667 (2018: £4,016,943).

23 Ultimate parent company and parent company of larger group

The company is a subsidiary undertaking of Daimler AG. The ultimate controlling party is Daimler AG.

The largest group in which the results of the company are consolidated is that headed by Daimler AG, incorporated in Germany. The consolidated financial statements of Daimler AG are available to the public and may be obtained from Daimler UK Limited, Tongwell, Milton Keynes, MK15 8BA.