

Mercedes-Benz HighPerformanceEngines Limited

**Directors' report and financial
statements**

Registered number 1760288

31 December 2008



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Directors' report

The directors submit their report and the financial statements for the year ended 31 December 2008.

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 increased to £96.9 million from £80.7 million due primarily to the development of the Kinetic Energy Recovery System (KERS) to be raced in the 2009 season.

In the year, the company made a profit before taxation of £5.5 million, representing a margin of 5.7% against turnover.

In the year, the company continued making 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. The company will also supply a Customer Team with racing engines.

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 £52.8 million (2007: £48.0 million) was charged in respect of research and development expenditure.

Dividends

No dividend was paid during the year (2007: £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 £13,770 during the year (2007: £11,903).

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 63 days (2007: 53 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

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

By order of the board



Sten Olof Kallenius
Director

Mercedes-Benz Technology Centre
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 2008, 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

The Director's responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 2008 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

14 September, 2009

Profit and loss account
for the year ended 31 December 2008

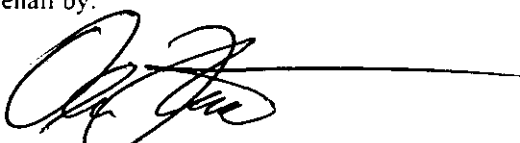
	<i>Note</i>	2008 £000	2007 £000
Turnover	2	96,905	80,658
Cost of sales		(80,176)	(66,410)
Gross profit		16,729	14,248
Administrative expenses		(11,383)	(8,560)
Operating profit		5,346	5,688
Exceptional item -- provision for loss on sale of fixed assets	3	-	(5,369)
Profit on ordinary activities before interest and taxation	3, 6 & 7	5,346	319
Interest receivable and similar income	4	585	646
Interest payable and similar charges	5	(434)	(109)
Profit on ordinary activities before taxation		5,497	856
Tax on profit on ordinary activities	8	1,345	-
Profit for the financial year	15	6,842	856

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 2008

	<i>Note</i>	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	9		86,120		54,157
Current assets					
Stocks	10	7,771		3,470	
Debtors	11	28,899		10,551	
Cash at bank and in hand		32		32	
		<u>36,702</u>		<u>14,053</u>	
Creditors: amounts falling due within one year	12	(57,217)		(24,431)	
Net current liabilities			(20,515)		(10,378)
Total assets less current liabilities			65,605		43,779
Creditors: amounts falling due after more than one year	13		(123)		(139)
Net assets			65,482		43,640
Capital and reserves					
Called up share capital	14		18		16
Share premium account	15		14,998		-
Profit and loss account	15		50,466		43,624
Shareholders' funds			65,482		43,640

These financial statements were approved by the board of directors on 31st Aug 2009 and were signed on its behalf by:


Sten Ola Kallenius
Director

Reconciliation of movements in shareholders' funds
for the year ended 31 December 2008

	2008 £000	2007 £000
Profit for the financial year	6,842	856
New share capital subscribed	15,000	-
Net addition to shareholders' funds	21,842	856
Opening shareholders' funds	43,640	42,784
Closing shareholders' funds	65,482	43,640

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.

These financial statements have been prepared on a going concern basis as the ultimate parent company, Daimler AG, has provided written guarantees to ensure the liabilities of its subsidiaries, should such support be required. On this basis, the directors consider that they will be able to meet their liabilities, as and when they fall due, for a period of not less than 12 months from the date of signing these financial statements.

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.

Notes (continued)

1 Accounting policies (continued)

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.

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 income received from Daimler AG for the development and supply of engines to the Vodafone McLaren Mercedes Formula One Team.

3 Profit on ordinary activities before taxation

	2008 £000	2007 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration:		
Audit	64	61
Other services – Corporation Tax services	(1)	74
Depreciation and other amounts written off tangible fixed assets:		
Owned (2007: including impairment charge of £5,369,000)	3,380	7,371
Leased	64	812
Hire of land and buildings - operating leases	426	330
Research and development expense	52,800	48,000
(Profit)/loss on disposal of fixed assets	(133)	36

In 2007, an impairment charge of £5,369,000 was recorded and included within depreciation in respect of the impairment of the carrying value of certain land and buildings and plant & machinery. These assets were included in a disposal in 2008 for which the sale price indicated an impairment had occurred as at the prior year end. Reflecting the fact that this impairment charge related to a subsequent sale of fixed assets, this charge was 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 and similar income

	2008 £000	2007 £000
Receivable from group undertakings	390	646
Other interest	195	-
	<u>585</u>	<u>646</u>

5 Interest payable and similar charges

	2008 £000	2007 £000
Hire purchase and finance lease interest	33	61
Payable to group undertakings	400	48
Other interest	1	-
	<u>434</u>	<u>109</u>

6 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	631	438
Company contributions to money purchase pension schemes	-	-
	<u>631</u>	<u>438</u>

The emoluments of the highest paid director were £630,959 (2007: £437,660) and company pension contributions of £nil (2007: £nil) were made to a money purchase scheme on his behalf.

No retirements benefits under money purchase schemes are accruing to directors (2007: 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	
	2008	2007
Production	419	407
Administration	20	18
	<u>439</u>	<u>425</u>

The aggregate payroll costs of these persons were as follows:

	2008	2007
	£000	£000
Wages and salaries	20,206	19,261
Social security costs	2,318	2,312
Pension costs	2,084	1,966
	<u>24,608</u>	<u>23,539</u>

8 Tax on profit on ordinary activities

Analysis of charge in period:

	2008	2007
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
Adjustments in respect of previous years	1,345	-
Total current tax	<u>1,345</u>	<u>-</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	-	-
Adjustments in respect of previous years	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Tax on profit on ordinary activities	<u>1,345</u>	<u>-</u>

The adjustment in respect of previous years relates to the repayment of tax overpaid in 2001 and the release of a tax creditor which the directors now consider to no longer be required.

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 (2007: lower) than the standard rate of corporation tax in the UK of 28% (2007: 30%). The differences are explained below:

	2008 £000	2007 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	5,497	856
	<hr/>	<hr/>
Current tax at 28% (2007: 30%)	1,566	257
<i>Effects of:</i>		
Expenses not deductible for tax purposes	218	75
Capital items expensed	38	(156)
Timing differences between depreciation and capital allowances	(1,323)	596
Other timing differences	(368)	-
R&D tax credit	(3,762)	(3,602)
Group relief surrendered	3,631	2,830
Adjustments in respect of previous years	1,345	-
	<hr/>	<hr/>
Total current tax charge (see above)	1,345	-
	<hr/>	<hr/>

The corporation tax rate applicable to the company changed from 30% to 28% from 1 April 2008.

Deferred taxation

The company has identified a potential deferred tax asset of £4,229,206 (2007: £5,638,000), 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.

	2008 £000	2007 £000
Timing differences between accumulated depreciation and capital allowances	(4,871)	(3,021)
Other timing differences	72	301
Tax losses	9,028	8,358
	<hr/>	<hr/>
Unrecognised deferred tax asset	4,229	5,638
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Land and buildings	Plant, fixtures & vehicles	Assets under construction	Total
	£000	£000	£000	£000
Cost				
At beginning of year	36,798	59,351	12,174	108,323
Additions	526	4,435	35,003	39,964
Disposals	(14,050)	(10,234)	-	(24,284)
Transfers between items	1,593	5,295	(6,888)	-
At end of year	24,867	58,847	40,289	124,003
Depreciation				
At beginning of year	12,850	41,316	-	54,166
Charge for the period	602	2,842	-	3,444
Disposals	(10,009)	(9,718)	-	(19,727)
At end of year	3,443	34,440	-	37,883
Net book value				
At 31 December 2008	21,424	24,407	40,289	86,120
At 31 December 2007	23,948	18,035	12,174	54,157

Included in the net book value of plant, fixtures and vehicles is £127,119 (2007: £119,835) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £63,560 (2007: £811,720 including impairment of £731,328).

The net book value of land and buildings comprises:

	2008 £000	2007 £000
Freehold land	2,022	3,340
Freehold buildings	19,402	20,608
	21,424	23,948

Notes (continued)

10 Stocks

	2008 £000	2007 £000
Raw materials and consumables	5,765	859
Work in progress	1,230	727
Finished goods and goods for resale	776	1,884
	<u>7,771</u>	<u>3,470</u>

11 Debtors

	2008 £000	2007 £000
Trade debtors	209	46
Amounts owed by group undertaking	26,727	5,733
Tax and Social Security	1,147	2,000
Other debtors	104	292
Prepayments and accrued income	712	2,480
	<u>28,899</u>	<u>10,551</u>

All debtors are due within one year.

12 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank loan and overdraft	221	177
Obligations under hire purchase contracts, finance leases and similar contracts	113	335
Amounts owed to group undertakings	10,144	2,909
Loan from Group undertaking	20,364	-
Payment on Account	3,654	-
Trade creditors	13,915	5,685
Corporation tax	-	3,485
Other taxation and Social Security	1,224	990
Other creditors	2,941	2,788
Accruals and deferred income	4,641	8,062
	<u>57,217</u>	<u>24,431</u>

The 'Loan from Group undertaking' is repayable on 25 September 2009 and bears interest at the rate of 6.92%, payable on the date of repayment. Daimler AG has guarantees in place across the group to ensure the liabilities of its subsidiaries.

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Obligations under hire purchase contracts, finance leases and similar contracts	123	139

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

	2008 £000	2007 £000
Within one year	113	335
In the second to fifth years	123	139
	<u>236</u>	<u>474</u>

14 Called up share capital

	2008 £	2007 £
<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
2,263 'E' ordinary shares of \$1 each	1,455	-
	<u>17,859</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.

During the year the Company issued 2,263 \$1 ordinary 'E' shares for a consideration of £15,000,000, which was settled in cash.

Notes (continued)

15 Reserves

	Share Premium	Profit and loss account £000
At beginning of year	-	43,624
Profit for the financial year	-	6,842
Share premium upon issue of ordinary share capital (note 14)	14,998	-
At end of year	<u>14,998</u>	<u>50,466</u>

16 Related party transactions

As the company is a wholly owned subsidiary of Daimler UK 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 2008 the company had commitments, for which no provision has been made, under contracts placed in respect of capital expenditure amounting to £16,665,000 (2007: £3,104,000).

18 Financial commitments

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

	2008 Land and buildings £000	2008 Other £000	2007 Land and buildings £000	2007 Other £000
Within one year	226	-	260	-
In the second to fifth years inclusive	183	-	33	-
Over five years	-	-	-	-
	<u>409</u>	<u>-</u>	<u>293</u>	<u>-</u>

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 £2,084,000 (2007: £1,966,000). The outstanding contributions as at 31 December 2008 were £nil (2007: £nil).

Notes *(continued)*

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

Daimler UK 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:

Daimler UK Plc
Tongwell
Milton Keynes
MK15 8BA