MERCER LIMITED

Company No 984275

Report and Financial Statements

31 December 2009

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MERCER LIMITED

REPORT AND FINANCIAL STATEMENTS 2009

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MERCER LIMITED

REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G Beneplanc
P E Middleton
S D Smith
A K Whalley
D N Williams

SECRETARY

M F Brindley

REGISTERED OFFICE

1 Tower Place West
Tower Place
London
EC3R 5BU

BANKERS

The Royal Bank of Scotland plc
ABN Amro Bank N V
Citibank N A

SOLICITORS

Slaughter & May

AUDITORS

Deloitte LLP
Chartered Accountants
London

MERCER LIMITED

DIRECTORS' REPORT

The dırectors present theır annual report and the audıted financıal statements for the year ended 31 December 2009

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The prıncıpal actıvıtıes of the company are to provıde actuarıal, human resource, financıal, and management consultancy advıce together wıth related servıces The company ıs regulated by the Fınancıal Servıces Authorıty (FSA)

The company's key performance ındıcators ınclude revenue growth, contrıbutıon margın, employee utılısatıon, tıme recovery, bıllıng performance, and receıvables collectıon tıme

As shown ın the company's profit and loss account on page 7, turnover fell by 2 5 (2008 – grew by 3 7) per cent, drıven by the challengıng economıc envıronment, leadıng clıents to delay dıscretıonary spend Operatıng profit margın ıncreased from 18 5 per cent to 20 9 per cent due to a reductıon ın employee costs as a result of re-alıgnıng resources to match clıent demand The dırectors consıder utılısatıon, recovery and workıng capıtal statıstıcs to be commercıally sensıtıve so have not dısclosed them ın thıs report

The company reported retaıned profit for the financıal year after taxatıon of £50,907,000 (2008 - £60,404,000) No ınterım dıvıdend was paıd on the ordınary shares (2008 - £55,300,000) The dırectors do not recommend the payment of a final dıvıdend (2008 - £nıl) No dıvıdends were receıved from subsıdıary companıes (2008 - £nıl)

As shown on the balance sheet on page 9, net assets have decreased by 1 9 (2008 – decrease 20 7) per cent Thıs ıs a result of strong profits for the year, offset by an actuarıal loss ın respect of the company's defined benefit pensıon scheme, as outlıned ın note 23

FINANCIAL RISK MANAGEMENT

The company ıs exposed to financıal rısk through ıts financıal assets and lıabılıtıes The key financıal rısk ıs that the proceeds from financıal assets are not suffıcıent to fund the oblıgatıons arısıng from lıabılıtıes as they fall due The most ımportant components of financıal rısk are ınterest rate rısk, currency rısk, credıt rısk, lıquıdıty rısk, cash flow rısk and prıce rısk Due to the nature of the company's busıness and the assets and lıabılıtıes contaıned wıthın the company's balance sheet the only financıal rısks the dırectors consıder relevant to thıs company are credıt rısk and lıquıdıty rısk These rısks are mıtıgated by credıt control procedures and the dıverse clıent base

Under Pıllar 3 of the Capıtal Requırements Dırectıve, the company ıs requıred to dısclose ınformatıon relatıng to ıts rısks and ıts capıtal and rısk management objectıves and polıcıes The Pıllar 3 dısclosures are provıded on the company's websıte

GOING CONCERN

The company has a strong lıquıd asset posıtıon consıstıng maınly of cash and debtors and ıs not relıant on fundıng from thırd partıes As a consequence, the dırectors belıeve that the group ıs well placed to manage ıts busıness rısks successfully despıte the current uncertaın economıc outlook After makıng enquırıes, the dırectors have a reasonable expectatıon that the company has adequate resources to contınue ın operatıonal exıstence for the foreseeable future Accordıngly, they contınue to adopt the goıng concern basıs ın preparıng the annual report and accounts

INVESTOR IN PEOPLE

The company receıved the "Investor ın People" (IIP) award ın July 1997 IIP ıs the natıonal standard whıch ensures that the traınıng and development of employees ıs lınked dırectly to busıness goals The company has maıntaıned thıs standard, attaınıng re-accredıtatıon on 23 May 2009

DISABLED EMPLOYEES

It ıs the polıcy of the company to gıve full consıderatıon to suıtable applıcatıons for employment of dısabled persons Every effort ıs made, where employees of the company become dısabled, to retaın them ın theır employment, or consıder them for other posıtıons

DIRECTORS' REPORT

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company

PAYMENTS FOR CHARITABLE PURPOSES

Donations to charitable organisations in the United Kingdom totalled £41,351 (2008 - £48,880)

DIRECTORS

The directors of the company during the year ended 31 December 2009, all of whom were directors throughout the year except as noted below, were

A K Whalley	
D N Williams	
D Heyward	Resigned 22 September 2009
P E Middleton	Appointed 1 May 2009 – Chairman

Since the year end S Drummond Smith was appointed as a director on 5 February 2010 G Beneplanc was also appointed as a director on 17 February 2010

Each of the directors at the date of approval of this report confirms that

1 so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

2 the director has taken all steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

The company has inserted a clause in the Articles of Association to indemnify directors, officers or FSA approved persons of the company against losses or liabilities sustained in the execution of their duties of office, subject to certain exclusions The indemnity is a qualifying third party indemnity provision under S309A and B of the Companies (Audit, Investigating and Community Enterprise) Act 2004

AUDITORS

Deloitte LLP were the Company's auditors during the year and have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

This report was approved by the board of directors on 22 April 2010 and signed on its behalf by

M F Brindley

M F Brindley
Secretary

22 April 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 judgments and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCER LIMITED

We have audited the financial statements of Mercer Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' 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 explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCER LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Emma Cox (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London
United Kingdom

22 April 2010

MERCER LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
TURNOVER	1, 2	329,350	337,892
Administrative expenses		(260,391)	(275,418)
OPERATING PROFIT		68,959	62,474
Interest receivable and similar income	3	1,792	12,895
Interest payable and similar charges	4	(1,580)	(1,486)
Other finance income	5	3,340	10,140
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	72,511	84,023
Tax on profit on ordinary activities	8	(21,604)	(23,619)
PROFIT FOR THE FINANCIAL YEAR	19	50,907	60,404

Turnover and operating profit derive solely from continuing operations

MERCER LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Profit for the financial year		50,907	60,404
Actuarial loss in respect of pension scheme	23	(86,000)	(73,700)
Actuarial gain in respect of other retirement benefits	24	2,672	1,975
Deferred tax relating to actuarial gains and losses		23,332	20,082
Actuarial loss on retirement benefits asset/liability net of taxation	19	(59,996)	(51,643)
TOTAL LOSSES AND GAINS RECOGNISED		**(9,089)**	**8,761**

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Profit on ordinary activities after taxation		50,907	60,404
Distribution to shareholders		-	(80,300)
Net actuarial loss relating to retirement benefits	19	(59,996)	(51,643)
Capital contribution in respect of share based payments	19	3,922	1,517
NET CHANGE TO SHAREHOLDERS' FUNDS		**(5,167)**	**(70,022)**
OPENING SHAREHOLDERS' FUNDS		**268,973**	**338,995**
CLOSING SHAREHOLDERS' FUNDS		**263,806**	**268,973**

MERCER LIMITED **Company Registration No. 984275**

BALANCE SHEET
At 31 December 2009

	Notes	£'000	2009 £'000	£'000	2008 £'000
FIXED ASSETS					
Intangible assets	9		150		300
Tangible assets	10		16,222		19,675
Investments	11		600		600
			16,972		20,575
CURRENT ASSETS					
Debtors	12	121,538		139,111	
Debtors due after more than one year	13	63,298		46,921	
Cash at bank and in hand		204,045		249,712	
			388,881		435,744
CREDITORS: amounts falling due within one year	15		(57,512)		(94,420)
NET CURRENT ASSETS			331,369		341,324
TOTAL ASSETS LESS CURRENT LIABILITIES			348,341		361,899
CREDITORS amounts falling due after more than one year	16		(19,350)		(20,575)
PROVISIONS FOR LIABILITIES	17		(60,604)		(62,095)
NET ASSETS EXCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			268,387		279,229
Pension asset/(liability)	23		2,700		(1,585)
Other retirement benefits liability	24		(7,281)		(8,671)
NET ASSETS INCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			263,806		268,973
CAPITAL AND RESERVES					
Called up share capital	18		224,400		224,400
Other reserves	19		12,828		8,906
Profit and loss account	19,20		26,578		35,667
SHAREHOLDERS' FUNDS			263,806		268,973

These financial statements were approved by the Board of Directors on 22 April 2010 and signed on its behalf by

D N WILLIAMS Director

A K WHALLEY Director

AK Whalley

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2009

1. **ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards The accounting policies adopted by the directors, and summarised below, have been applied consistently in both the current and prior year

Basis of accounting

The accounts have been prepared under the historical cost convention

Basis of preparation

The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc , its ultimate parent undertaking, incorporated in the State of Delaware, USA The company is exempt under section 401 of the Companies Act 2006 from preparing group financial statements for the company and its subsidiaries, section 401 covers exemptions for companies including non-EEA group accounts The largest and smallest group into which the company's results are consolidated is that headed by Marsh & McLennan Companies, Inc Accordingly these financial statements present information about this company as an individual undertaking and not as a group and the company is not obliged to produce a cash flow statement

The company has also taken advantage of the exemption available under FRS8 "Related Party Disclosures" not to disclose transactions between entities where 100% of those voting rights are controlled within the group

The company's financial and liquidity position are described in the Directors' report Accordingly, the accounts have been prepared on the going concern basis

Turnover

Turnover comprises the total of fees and commissions earned in the financial year These are considered to represent one class of business by the directors Fee income is recognised in the profit and loss account on the basis of either chargeable hours or evenly over the duration of the contract for straight line fixed fee clients Any uninvoiced amounts are shown as unbilled debtors, net of any provisions for amounts considered to be unbillable Commission is recognised when the company earns the right to consideration for services provided

Intangible fixed assets

Goodwill arising on acquisition of a business is capitalised and amortised over the business' estimated useful economic life

The Healthcare business previously carried on by Marsh UK Limited is being amortised over a five year period

Tangible fixed assets

Tangible fixed assets are shown at original historical cost less accumulated depreciation and any provision for impairment Freehold land is not depreciated Depreciation is provided on a straight-line basis over their estimated useful lives, as follows

Freehold buildings	40 years
Leasehold improvements	over the remaining life of the lease, limited to a period not exceeding 10 years
Furniture and equipment	3 to 10 years
IT equipment	3 to 5 years

Fixed asset investments

Investments are shown at cost less any provision for impairment Income from shares in group undertakings is included in the accounts of the year in which it is receivable

Leasing commitments

Rentals paid under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis

1. **ACCOUNTING POLICIES (continued)**

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and law that have been enacted or substantively enacted by the balance sheet date Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered Deferred tax assets and liabilities are not discounted

Pension costs

The Group operates a funded defined benefits pension scheme for the majority of its employees and a defined contribution scheme for employees who are not eligible or choose not to join the defined benefit scheme

The company also operates an unfunded non-contributory scheme for medical benefits, whereby defined medical benefits are provided to retired UK members who started their services with the company on or prior to 1 December 1988 and completed five years of service with the company at retirement

Regular valuations are prepared by an independent professionally qualified actuary employed within the MMC group These determine the level of contributions required to fund the benefits set out in the rules of the plans and allow for the periodic increase of pensions in payment The regular service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within other finance income/ (charges) This is based on the market value of the assets of the schemes at the start of the financial year

A charge within other finance income/ (charges), representing the expected increase in the liabilities of the retirement benefit schemes during the year, is included within net interest This arises from the liabilities of the schemes being one year closer to payment

The difference between the market values of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax The asset figure disclosed reflects the fair value of assets (i e bid value where available) plus the amount held in the Trustee's bank account at the balance sheet date The liabilities of the Fund are measured using the projected unit method

Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year, together with differences arising from changes in assumptions

The MMC UK Pension Fund is a Trust based scheme, hence the assets are held separately from the Employer Allowance has been made in the pension disclosure for unapproved unfunded pension benefits that cannot be provided through the MMC UK Pension Fund

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

1. ACCOUNTING POLICIES (continued)

Foreign exchange

All foreign currency monetary assets and liabilities are recorded at the rate of exchange prevailing at the date of the balance sheet Transactions in foreign currencies are recorded at the dates of the transactions Translation gains or losses arising during the year are included in the profit and loss account

Investors' compensation scheme levies

Levies made by the regulator under the Financial Services Act are recognised in the profit and loss account as notified

Share-based payment

The company has applied the requirements of Financial Reporting Standard 20 *Share-based payment* ("FRS 20") In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006

The company's ultimate parent company, Marsh & McLennan Companies Inc ("MMC"), maintains multiple equity settled share-based payment arrangements in the UK, under which employees are awarded grants of Stock Options, Save As You Earn (SAYE) awards, Stock Awards and Share Purchase Plans

Share based payments are measured at the fair value at grant, expensed over the vesting period, based on the company's estimate of shares that will eventually vest and adjusted for the effect of non market based vesting conditions

Fair value is measured using either the Black-Scholes pricing model (no market based triggering event) or the Binomial valuation model (market based triggering event) The expected life used in the model is estimated using the contractual term of the option and the effects of employees' expected exercise and post-vesting employment termination behaviour

Share awards are measured at the fair value at grant, and this expense is recognised over the vesting period of three years

The company also provides employees with the ability to purchase MMC's ordinary shares at 95% of the current market value The company records an expense on the date the shares are purchased

The company records a liability at the balance sheet date being the amount payable to MMC in respect of share-based payments, recognised over the vesting period If the fair value expensed at that date exceeds the liability, the excess is treated as a capital contribution and is recorded in other reserves If the fair value expensed is less than the liability, the deficiency is treated as a distribution

Cash flow statement

The company has taken advantage of the exemption granted by paragraph 5(a) of Financial Reporting Standard 1 (Revised 1996), not to prepare a cash flow statement

2. SEGMENTAL ANALYSIS

The company operates solely within the United Kingdom, their business being the provision of actuarial advice and related services It is the opinion of the directors that further segmental disclosure of turnover would be seriously prejudicial to the interests of the company

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 £'000	2008 £'000
Other interest receivable	1,792	12,827
Unwinding of discount on provisions	-	68
	1,792	12,895

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £'000	2008 £'000
Interest payable on subordinated loans (note 16)	460	1,486
Unwinding of discount on provisions	1,120	-
	1,580	1,486

5. OTHER FINANCE INCOME

	2009 £'000	2008 £'000
Net finance income relating to pension scheme (note 23)	4,100	10,900
Net finance charges relating to post retirement medical benefits (note 24)	(760)	(760)
Net finance income relating to retirement benefits	3,340	10,140

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible fixed assets		
Owned	5,260	4,656
Amortisation of intangible fixed assets	150	150
Loss on disposal of fixed assets	85	-
Rentals under operating leases		
Land and Buildings	5,434	5,503
Other operating leases	983	1,362
Sublet rental income	(784)	(880)
Auditors' remuneration - audit fees	316	301
- other services for taxation	-	9
Onerous lease provision (note 17)	2,882	5,449
Restructuring costs (note 17)	4,950	4,009
Write off of insurance recoveries	-	3,210

7 STAFF COSTS

Particulars of employees (including executive directors) are as shown below

	2009 £'000	2008 £'000
Employee costs during the year amounted to:		
Wages and salaries	154,435	166,737
Social security costs	14,708	15,037
Other pension costs	18,683	22,556
	187,826	204,330

The above does not include employee related restructuring costs (see note 6)

The company incurred costs of £244,000 (2008 - £285,000) paid to certain former employees relating to post retirement medical benefits (see note 24) included above

The average monthly number of persons employed by the company during the year was as follows:	2009 Number	2008 Number
Consulting	2,069	2,285
Non-consulting	827	805
	2,896	3,090

Directors' remuneration was paid in respect of directors of the company as follows:	£'000	£'000
Emoluments	596	592
Amounts receivable (other than shares and share options) under long-term incentive schemes	25	38

	Number	Number
The number of directors accruing benefits under defined benefit pension schemes was	3	3

The directors' remuneration shown above (excluding pensions and pension contributions) included:	£'000	£'000
Highest paid director	377	360

At 31 December 2009 the amount of the highest paid director's accrued annual pension was £16,478 (2008 - £11,362)

Money and net value of other assets (other than shares and share options) paid to or receivable by the highest paid director under long term incentive schemes was £24,927 (2008 - £4,412)

7. STAFF COSTS (continued)

Certain directors of the company are also directors of other companies within the Marsh & McLennan Companies UK Limited group of companies and their emoluments are paid in respect of services to those companies Accordingly, their emoluments have been excluded from the above amounts, but are disclosed in the accounts of the relevant companies within the group

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge for the year

	2009		2008	
	£'000	**£'000**	**£'000**	**£'000**
Current tax				
UK corporation tax on profit for the year	12,028		17,819	
Adjustment in respect of prior years	(290)		(723)	
Total current tax charge		11,738		17,096
Deferred tax				
Timing differences, origination and reversal	9,928		7,056	
Impact of change in tax rate	-		(65)	
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(62)		(468)	
Total deferred tax charge		9,866		6,523
Tax charge on profit on ordinary activities		21,604		23,619

Factors affecting current tax charge for the year

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK 2009 28% (2008 28 5%)

The differences are explained below

	2009 £'000	2008 £'000
Profit on ordinary activities before taxation	72,511	84,023
UK corporation tax at 28% (2008 – 28 5%)	20,303	23,947
Effects of		
Expenses not deductible for tax purposes	545	882
UK to UK transfer pricing adjustment	10	(275)
Timing differences, origination and reversal	1,824	(6,209)
Capital allowances	1,142	(526)
Adjustment in respect of prior years	(290)	(723)
Movement in pensions and post retirement benefits	(11,796)	-
	11,738	17,096

The future tax rate is expected to be above the standard United Kingdom tax rate due to expenses not deductible for tax purposes

9. INTANGIBLE FIXED ASSETS

	£'000
Cost	
At 1 January 2009 and 31 December 2009	750
Amortisation	
At 1 January 2009	450
Charge for the year	150
At 31 December 2009	600
Net book value	
At 31 December 2009	150
At 31 December 2008	300

Intangible fixed assets represent the Healthcare business transferred from Marsh UK Limited

10. TANGIBLE FIXED ASSETS

The movements in the year were as follows	Land and buildings £'000	Leasehold improvements £'000	Furniture and equipment £'000	IT equipment £'000	Assets under construction £'000	Total £'000
Cost						
At 1 January 2009	8,596	13,481	8,350	9,789	4,144	44,360
Additions	-	-	-	1,008	1,540	2,548
Disposals	-	(3,090)	(1,945)	(2,137)	-	(7,172)
Reclassification	-			3,566	(4,222)	(656)
At 31 December 2009	8,596	10,391	6,405	12,226	1,462	39,080
Depreciation						
At 1 January 2009	2,184	10,102	6,938	5,461	-	24,685
Charge for year	164	1,428	622	3,046	-	5,260
Disposals	-	(3,009)	(1,945)	(2,133)	-	(7,087)
At 31 December 2009	2,348	8,521	5,615	6,374	-	22,858
Net book value						
At 31 December 2009	6,248	1,870	790	5,852	1,462	16,222
At 31 December 2008	6,412	3,379	1,412	4,328	4,144	19,675

Included in land and buildings is land held at cost of £2,013,000 (2008 - £2,013,000) which is not subject to depreciation

£656,000, included in the assets under construction opening balance, was re-classified to prepayments as these are not capitalised

NOTES TO THE ACCOUNTS
Year ended 31 December 2009

11 FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	**2009** £'000	**2008** £'000
Cost and net book value		
At 1 January	600	1,405
Disposals	-	(805)
At 31 December	600	600

Subsidiary undertakings

The company's principal subsidiary undertakings as at 31 December 2009, all of which represent 100% ownership of ordinary shares, were

Principal subsidiary undertakings	Country of registration or incorporation	Country of operation	Principal activity
Mercer Trustees Limited	England and Wales	United Kingdom	Trustee Company (Dormant)
Pension Trustees Limited	England and Wales	United Kingdom	Trustee Company (Dormant)
PFT Limited	England and Wales	United Kingdom	Trustee of funds held for pension scheme administration (Dormant)
Sedgwick Noble Lowndes Group Limited	England and Wales	United Kingdom	Holding company for other subsidiary undertakings
English Pension Trustees Limited	England and Wales	United Kingdom	Trustee Company (Dormant)
Sedgwick Trustees Limited	England and Wales	United Kingdom	Trustee Company (Dormant)
Settlement Trustees Limited	England and Wales	United Kingdom	Trustee Company (Dormant)
Mercer UK Limited	England and Wales	United Kingdom	Dormant Company

Summit Management Company Limited and Mercer Consulting Limited were dissolved on 10 February 2009
Mercer Human Resource Consulting Limited was dissolved on 10 March 2009

On 31 March 2010, Mercer UK Limited changed its name to Mercer Consulting Limited

12. DEBTORS

	2009 £'000	2008 £'000
Billed debtors	56,728	63,441
Unbilled debtors	29,191	31,564
Amounts owed by group companies		
Subsidiary undertakings	4,865	5,368
Parent and fellow subsidiary undertakings	14,599	18,352
Amounts due from other group companies in respect of taxation	2,902	2,980
Corporation tax	-	14,362
Other debtors	3,624	1,893
Other prepayments and accrued income	9,629	1,151
	121,538	139,111

Included within amounts owed by parent and fellow subsidiary undertakings is £603,000 (2008 - £1,452,000) in respect of professional indemnity insurance claims

13. DEBTORS DUE AFTER MORE THAN ONE YEAR

	Notes	2009 £'000	2008 £'000
Deferred taxation	14	19,966	4,336
Professional indemnity insurance claims	17	40,546	40,539
Other prepayments and accrued income		2,786	2,046
		63,298	46,921

Amounts receivable in respect of professional indemnity insurance claims are receivable from other group undertakings

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2009

14. DEFERRED TAXATION

The movement in deferred taxation represents the charge for the year Analysis of the deferred tax asset is as follows

	2009 £'000	2008 £'000
Provided		
Movements on the deferred taxation account were as follows:		
At 1 January	4,336	3,813
Charged to profit and loss account in current year	(9,928)	(7,056)
Prior year adjustment	62	468
Impact of change in tax rate	-	65
Deferred tax on spread pension contributions	18,267	-
Movement in net post-retirement liability	7,229	7,046
At 31 December	19,966	4,336

Analysis of deferred tax balance·

	2009 £'000	2008 £'000
Accelerated capital allowances	3,679	2,480
Short-term timing differences	2,587	1,856
Deferred tax on pension contributions	13,700	-
	19,966	4,336

15. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2009 £'000	2008 £'000
Trade creditors	522	209
Amounts owed to group companies		
Parent and fellow subsidiary undertakings	10,606	5,686
Subsidiary undertakings	640	640
Amounts due to other group undertakings in respect of taxation	1,683	42,784
Other creditors		
VAT payable	7,032	7,874
Social security and PAYE	7,126	7,310
Accruals and deferred income	29,903	29,917
	57,512	94,420

16. CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2009 £'000	2008 £'000
Amounts owed to group companies		
Parent and fellow subsidiary undertakings	350	1,575
Subordinated loans	19,000	19,000
	19,350	20,575

As part of the acquisition of the business of Sedgwick Noble Lowndes Limited, on 16 July 1999, the company assumed the rights and obligations relating to a subordinated loan advanced to Sedgwick Noble Lowndes Limited, by its immediate holding company on 20 January 1999 in the amount of £19,000,000 This loan attracts interest at LIBOR plus 0 25% per annum, payable half-yearly, and is repayable two years from the date on which notice of repayment is given

17. PROVISIONS FOR LIABILITIES

Provisions for liabilities and charges and the movements thereon during the year are as follows

	At 1 January 2009 £'000	Increase in provision £'000	Reductions in provision £'000	Unwinding of discount £'000	Utilisation £000	At 31 December 2009 £'000
Onerous lease commitments	15,623	2,434	(672)	1,120	(2,438)	16,067
Professional indemnity claims	42,962	13,570	(5,046)	-	(8,492)	42,994
Restructuring costs	3,510	4,736	(186)	-	(6,517)	1,543
	62,095	20,740	(5,904)	1,120	(17,447)	60,604

The provision for onerous lease commitments represents rental and other commitments on leased properties less anticipated sublet rental income The company is subject to a contractual fixed rent increase until 2020 when rent will move to an open market rate Given the current economic climate and depressed rental income market, sub-let rental income is unlikely to increase in line with the contractual obligations of the company and this has been reflected in the provision

The company is subject to a number of professional indemnity claims in the ordinary course of business Such claims and lawsuits consist principally of alleged errors and omissions (known as E&O's) in connection with the performance of professional services The company utilises internal actuarial and other estimates, and case level reviews by inside and outside counsel, to establish the potential liability Such liabilities are recorded or provided as appropriate when a reliable estimate can be made of any obligation

The company participates in an insurance programme which ensures that, as far as possible, liabilities which may arise from such litigation and claims will be met in full However, in respect of claims that may be settled in respect of the 2001 and 2002 policy years, it is uncertain that these will be recoverable and therefore these claims have been provided for in full Accordingly, insurance recoveries of £40,546,000 (2008 - £40,539,000) have been recognised within debtors due after more than one year (see note 13)

The provision for restructuring costs represents an obligation to pay redundancy costs following a group-wide efficiency review in 2009

18. CALLED UP SHARE CAPITAL

	2009		2008	
	Number	£'000	Number	£'000
Authorised Ordinary shares of £1 each	300,000,000	300,000	300,000,000	300,000
Allotted, called up and fully paid Ordinary shares of £1 each	224,400,000	224,400	224,400,000	224,400

MERCER LIMITED

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19. MOVEMENT ON RESERVES

	Notes	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2009		224,400	8,906	35,667	268,973
Actuarial loss in respect of pension scheme	23	-	-	(86,000)	(86,000)
Actuarial gain in respect of post retirement medical benefits	24	-	-	2,672	2,672
Deferred tax relating to actuarial gains and losses		-	-	23,332	23,332
Actuarial loss on pensions liability net of taxation		-	-	(59,996)	(59,996)
Capital contributions in respect of share based payments		-	3,922	-	3,922
Profit for the financial year		-	-	50,907	50,907
Net addition to/(reduction in) shareholders' funds		-	3,922	(9,089)	(5,167)
As at 31 December 2009		224,400	12,828	26,578	263,806

19. MOVEMENT ON RESERVES (continued)

	Notes	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2008		224,400	7,389	107,206	338,995
Actuarial loss in respect of pension scheme	23	-	-	(73,700)	(73,700)
Actuarial gain in respect of post retirement medical benefits	24	-	-	1,975	1,975
Deferred tax relating to actuarial gains and losses		-	-	20,082	20,082
Actuarial loss on pensions liability net of taxation		-	-	(51,643)	(51,643)
Capital contributions in respect of share based payments		-	1,517	-	1,517
Profit for the financial year		-	-	60,404	60,404
Distributions to shareholders		-	-	(80,300)	(80,300)
Net addition to/(reduction in) shareholders' funds		-	1,517	(71,539)	(70,022)
As at 31 December 2008		224,400	8,906	35,667	268,973

20. PROFIT AND LOSS ACCOUNT

	2009 £'000	2008 £'000
Profit and loss reserve excluding retirement benefits liability	31,159	45,923
Pension asset/ (liability)	2,700	(1,585)
Other retirement benefits liability	(7,281)	(8,671)
Profit and loss reserve	26,578	35,667

21. GUARANTEES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Operatıng lease commitments

As at 31 December 2009, the company was commıtted to makıng the followıng payments durıng the next year ın respect of operatıng leases

	2009		2008	
	Land and buıldıngs £'000	**Other £'000**	**Land and buildings £'000**	**Other £'000**
Leases whıch expıre				
Wıthın one year	621	376	465	326
Wıthın two to five years	3,955	684	2,906	19
After five years	9,405	-	10,470	-
	13,981	1,060	13,841	345

The company has a commıtment to pay a lease on a property ınto whıch the company had ıntended to move, but whıch the company dıd not occupy The company has an oblıgatıon to pay rentals on the lease, whıch expıres ın 2028, and agaınst whıch the company receıves sublet rental ıncome Expected future net costs assocıated wıth the property have been provıded for wıthın the onerous lease provısıon (see note 17) Durıng the next year the company ıs commıtted to payıng £1,002,900, net of sub-let ıncome, ın respect of thıs lease

Contingent liabilities

The company has contıngent lıabılıtıes as securıty ın respect of the followıng property lease

(a) fellow subsıdıary undertakıng ın respect of a lease wıth less than five years remaınıng wıth a current annual rental of £825,000

The Company partıcıpates ın cash poolıng arrangements wıth Cıtıbank N A Each member of the pool guarantees agaınst all losses ıncurred as a result of the faılure of any other pool member The maxımum lıabılıty of the Company ıs the total amount of ıts pooled funds at any poınt ın tıme The other members of the poolıng arrangements are companıes owned by Marsh & McLennan Companıes, Inc

MERCER LIMITED

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22. PENSION TRANSFERS AND OPT-OUT BUSINESS

Mercer Limited

Durıng 2004 the company settled ıts remaınıng oblıgatıons under Pensıon Transfers and Opt-outs The Revıew was dısbanded and final agreement reached wıth ınsurers on the outstandıng ınsurance recoverıes

Sedgwıck Noble Lowndes Limited and Sedgwıck Financial Services Limited

On 16 July 1999 and 17 October 2000 Mercer Lımıted ındemnıfied Sedgwıck Noble Lowndes Lımıted and Sedgwıck Fınancıal Servıces Lımıted respectıvely agaınst any costs, expenses and lıabılıtıes (ıncludıng any fines) ıncurred and to be ıncurred ın respect of the management, admınıstratıon and/or settlement of mıs-sellıng claıms and mıs-sellıng lıabılıtıes to the extent that they exceed the provısıon (net of estımated ınsurance recoverıes) of £83,200,000 and £14,600,000 recorded ın the books of Sedgwıck Noble Lowndes Lımıted and Sedgwıck Fınancıal Servıces Lımıted respectıvely at the date the ındemnıtıes were gıven Amounts of £nıl became payable under the ındemnıtıes ın 2009 (2008 - £56,000) No further amounts are expected to become payable ın the future

23. PENSION SCHEME

The group operates a defined benefit scheme ın the UK An actuarıal valuatıon was carrıed out at 31 December 2008 and updated to 31 December 2009 by a qualıfied actuary (who ıs employed wıthın the MMC group) The servıce cost has been calculated usıng the Projected Unıt Method

	2009 £m	2008 £m
Components of pension cost		
Current servıce cost	18 0	21 1
Interest cost	40 6	40 0
Expected return on plan assets	(44 7)	(50 9)
Past servıce cost	(0 2)	0 5
Total pensıon cost recognısed ın the profit and loss account	13 7	10 7
Actuarıal losses ımmedıately recognısed	86 0	73 7
Total pensıon cost recognısed ın the statement of total recognısed gaıns and losses	86 0	73 7
Cumulatıve amount of actuarıal (gaıns)/ losses ımmedıately recognısed	214 9	128 9

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23. PENSION SCHEME (continued)

Amounts recognised in the balance sheet	2009 £m	2008 £m
Fair value of plan assets	807 1	635 5
Present value of funded obligations	(796 5)	(632 3)
	10 6	3 2
Present value of unfunded obligations	(6 9)	(5 3)
	3 7	(2 1)
Related deferred tax (liability)/ asset	(1 0)	0 6
Net amount recognised	2 7	(1 5)
Amounts recognised as		
Assets	581 1	457 6
Liabilities	(578 4)	(459 1)
Net amount recognised	2 7	(1 5)

Change in benefit obligation	2009 £m	2008 £m
Benefit obligation at 1 January	637 6	671 6
Current service cost	18 0	21 1
Interest cost	40 6	40 0
Plan participants' contributions	0 6	1 3
Past service costs	(0 2)	0 5
Actuarial losses/(gains)	132 0	(78 4)
Benefits paid	(25 2)	(18 5)
Benefit obligation at 31 December	803 4	637 6

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2009

23. PENSION SCHEME (continued)

Analysis of defined benefit obligation	2009 £m	2008 £m
Plans that are wholly or partly funded	796 5	632 3
Plans that are wholly unfunded	6 9	5 3
Total	803 4	637 6

Change in plan assets	2009 £m	2008 £m
Fair value of plan assets at 1 January	635 5	717 2
Expected return on plan assets	44 7	50 9
Actuarial gains/(losses)	46 0	(152 1)
Employer contributions	105 5	36 6
Member contributions	0 6	1 4
Benefits paid	(25 2)	(18 5)
Fair value of plan assets at 31 December	807 1	635 5

Funded status	2 7	(1 5)
Net amount recognised	2 7	(1 5)

The actuarial valuation as at 31 December 2009 showed an improvement from a deficit of £1 5 million to a surplus of £2 7 million

23. PENSION SCHEME (contınued)

Fund assets

The weıghted-average asset allocatıons at the year end were as follows

	2009	2008
Equıtıes	58 7%	54 2%
Government Bonds	14 8%	17 3%
Corporate Bonds	20 5%	21 2%
Property	5 0%	5 7%
Insured	0 2%	0 3%
Cash	0 8%	1 3%
	100 0%	100 0%

To develop the expected long-term rate of return on assets assumptıon, the employer consıdered the current level of expected returns on rısk-free ınvestments (prımarıly government bonds), the hıstorıcal level of the rısk premıum assocıated wıth the other asset classes ın whıch the portfolıo ıs ınvested and the expectatıons for future returns of each asset class The expected return for each asset class was then weıghted based on the target asset allocatıon to develop the expected long-term rate of return on assets assumptıon for the portfolıo Thıs resulted ın the selectıon of the 6 40% assumptıon for the 2009 expense and 6 90% for the 2010 expense

	2009 £m	2008 £m
Actual return on plan assets	90 7	(101 2)

	2009	2008
Weighted average assumptıons used to determine benefit obligations at:		
Dıscount rate	5 70%	6 40%
Rate of compensatıon ıncrease	4 50%	4 00%
Rate of pensıon ıncreases ın deferment (5% LPI)	3 50%	3 00%
Weighted average assumptıons used to determine net pension cost for year ended:		
Dıscount rate	6 40%	5 80%
Expected long-term return on plan assets	6 40%	7 00%
Rate of compensatıon ıncrease	4 00%	4 00%
Rate of pensıon ıncreases ın deferment (5% LPI)	3 00%	3 20%
Rate of pensıon ıncreases ın payment (2 5% LPI)	2 10%	2 30%

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23. PENSION SCHEME (continued)

	2009		2008	
	Male	**Female**	**Male**	**Female**
Weighted average life expectancy for mortality tables used to determine benefit obligations at:				
Member age 65 (current life expectancy)	21 2	24 0	21 1	24 0
Member age 45 (life expectancy at age 65)	22 2	25 0	22 2	25 0

If future life expectancy for all members were to increase by a further one year then this would increase the liabilities for FRS17 purposes by about 2 7% A change in the life expectancy assumption at the year end balance sheet date also leads to an increase in the following year's pensions charge to the profit and loss account

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Five year history					
Fair value of plan assets at end of year	807 1	635 5	717 2	660 7	600 0
Benefit obligation at end of year	(803 4)	(637 6)	(671 6)	(721 2)	(714 8)
	3 7	(2 1)	45 6	(60 5)	(114 8)
Related deferred tax (liability)/ asset	(1 0)	0 6	(12 8)	18 2	34 4
Surplus/ (deficit)	2 7	(1 5)	32 8	(42 3)	(80 4)

	2009	2008	2007	2006	2005
Difference between expected and actual return on scheme assets					
Amount (£m)	46 0	(152 1)	6 3	19 6	43 6
Percentage of scheme assets	6%	(24)%	1%	3%	7%
Experience gains and losses on scheme liabilities					
Amount (£m)	0 9	8 9	2 4	12 0	18 5
Percentage of scheme liabilities	0%	1%	0%	2%	3%

23. PENSION SCHEME (continued)

Contributions

During 2009 the Employer made regular contributions of 14 1% of pensionable salary plus shortfall correction contributions of £3 1m in respect of members of the Mercer section and 20 6% of pensionable salary plus shortfall correction contributions of £15 4m in respect of members of the Sedgwick section In addition, the Employer made special lump sum shortfall correction contributions of £22 3m and £45m to the Mercer and Sedgwick sections respectively

Defined contribution scheme

The group also operates a defined contribution scheme for employees who are not eligible or choose not join the defined benefit scheme Contributions to this section, which are charged to the profit and loss account as incurred, amounted to £883,000 (2008 - £956,000)

24 POST RETIREMENT MEDICAL BENEFITS

The Company operates an unfunded non-contributory scheme for medical benefits As part of this scheme, defined medical benefits are provided to retired UK members who started their services with the Company on or prior to 1 December 1988 and completed five years of service with the Company at retirement The costs of private medical care are subsidised for these pensioners One group of pensioners receive a fixed subsidy of £250 regardless of marital status while the remainder and current eligible employees are entitled to fully insured benefits in retirement for themselves, their spouses and eligible dependents On a pensioner's death the benefit ceases for the widow or widower at the end of the scheme year in which death occurs Currently, 281 pensioners receive these benefits and 123 employees are entitled to receive them should they reach retirement with the Company

A full actuarial valuation of the accrued liability and annual charge in respect of post retirement medical benefits was carried out as at 31 December 2009 by a qualified actuary (who is employed within the MMC group) The method used was the projected unit method The major assumptions used for the actuarial valuation were (in nominal terms)

Assumptions	**31 December 2009**	**31 December 2008**	**31 December 2007**	**31 December 2006**	**31 December 2005**
Gross interest rate	5 7%	6 4%	5 8%	5 1%	4 7%
Medical cost trend rate for one year	4 5%	7 0%	6 5%	4 5%	5 0%
Medical cost trend rate after one year	4 5%	6 0%	5 5%	4 0%	4 0%

24. POST RETIREMENT MEDICAL BENEFITS (continued)

The following amounts have been recognised in the performance statements in the year to 31 December 2009 in respect of post retirement medical benefits under the requirements of FRS 17

	2009 £'000	2008 £'000
Analysis of amounts charged to operating profit		
Current service cost	244	285
Total included within operating profit	244	285
Analysis of amount charged to other finance costs		
Interest on scheme liabilities	760	760
Net finance cost	760	760
Analysis of the actuarial loss in the Statement of total recognised gains and losses		
Experience gains and losses arising on scheme liabilities	1,340	(148)
Effects of changes in assumptions underlying the present value of scheme liabilities	1,332	2,123
Actuarial gain	2,672	1,975

Movement in scheme liability during the year

	2009 £'000	2008 £'000
Liability in the scheme at 1 January	12,043	13,284
Current service cost	244	285
Payments	(261)	(311)
Interest on scheme liabilities	760	760
Actuarial gain	(2,672)	(1,975)
Liability in the scheme at 31 December	10,114	12,043
Related deferred tax asset	(2,833)	(3,372)
Net liability in the scheme at 31 December	7,281	8,671

24. POST RETIREMENT MEDICAL BENEFITS (continued)

	2009	2008	2007	2006	2005
History of experience gains and losses					
Experience gains/(losses) on scheme liabilities					
Amount (£'000)	1,340	(148)	63	141	(540)
Percentage of the present value of the scheme liabilities	13%	(1)%	0%	1%	(5)%
Total actuarial gain/(loss) recognised in statement of total recognised gains and losses					
Amount (£'000)	2,672	1,975	(2,122)	(193)	(498)
Percentage of the present value of the scheme liabilities	26%	16%	(16)%	(2)%	(5)%

25. SHARE-BASED PAYMENTS

Mercer Limited's Ultimate Parent Company, Marsh & McLennan Companies Inc ("MMC"), maintains multiple equity settled share-based payment arrangements in the UK, under which employees are awarded grants of stock options and Save As You Earn (SAYE) awards, Shares Awards and Share Purchase arrangements (Share Purchase Plan and Share Incentive Plan)

Prior to 1 January 2006, Share Awards were classified as liabilities and measured at their respective grant date fair values Prepaid compensation cost was recognised for the unearned portion of such awards Upon implementation of FRS 20, such awards were adjusted to the respective accrued grant date fair values, with a liability to MMC The effect of forfeitures was recognised when they occurred and dividend equivalents were expensed in the period incurred

In addition, SAYE awards were not considered compensatory and there was no cost to the Company, therefore no expense was required to be recognised

Share Purchase Plan costs were accrued in the year of grant

From 1 January 2006, the company has applied the requirements of Financial Reporting Standard 20 *Share-based payment* ("FRS 20") In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006

As no benefit is granted by the company under the Share Incentive Plan, this plan does not fall under the scope of FRS 20

Non-Qualified Stock Options

The company has a stock option scheme for designated employees Options are granted with an exercise price equal to the market value of MMC's stock at the date of grant The options vest at 25% per annum beginning one year from the date of grant, and have a contractual term of 10 years

On 16 March 2005 Marsh & McLennan Companies Inc began granting options that provide for a market-based triggering event before a vested option can be exercised The terms and conditions of these stock option awards provide that options will vest at a rate of 25% per year beginning one year from the date of grant, and each vested tranche will only become exercisable if the market price of MMC's stock appreciates to a level of 15% above the exercise price of the option and maintains that level for at least 10 consecutive trading days after the award has vested The company accounts for these awards as market-condition options The effect of the market condition is reflected in the grant date fair value of such awards

25. SHARE-BASED PAYMENTS (continued)

For both types of grant, the cost associated with each tranche of awards under each grant is spread over the appropriate vesting period Stock options are forfeited if the employee leaves the company before the options vest The vesting schedule is accelerated for retiree-eligible individuals should they retire before the options have vested in full

Effective 1 July 2005, employees were given the opportunity to exchange certain deeply underwater options for new options with an estimated fair value equal to 90% of the value of the options surrendered in exchange The new options were unvested when granted, and vest on the later of the second anniversary of the grant date of the new options and the original vesting date of the previous options

Options granted without a market-based triggering event

The estimated fair value of options is calculated using the Black-Scholes option pricing valuation model

The inputs into the Black-Scholes option pricing model are as follows, in United States dollars

	2009	2008	2007	2006	2005
Weighted average share price	-	-	-	$28 98	$27 86
Weighted average exercise price	-	-	-	$28 98	$27 86
Expected volatility	-	-	-	29 0%	23 5%
Expected life	-	-	-	2-5 years	2-5 years
Risk-free rate	-	-	-	5 0%	3 9%
Expected dividends	-	-	-	2 3%	2 3%

The risk free interest rate assumption is based on the yield on US Treasury zero-coupon issues with a term equal to the expected life of the option, as of the grant date

Expected volatility prior to 1 July 2005 was calculated based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis Subsequent to 1 July 2005 a blended volatility rate was used based on the following volatility derived from daily closing price observations for the ten year period ended on the valuation date, implied volatility derived from traded options for the period one week before and one week after the valuation date, average volatility for the ten year periods ended on 15 anniversaries prior to the valuation date, using daily closing price observations This is consistent with the methodology adopted by the group

The expected life used in the model is estimated using the contractual term of the option and the effects of employees' expected exercise and post-vesting employment termination behaviour

The expected dividend yield is based on expected dividends for the expected term of the stock options

No stock options were granted in 2008 or 2009

Options granted with a market-based triggering event

The estimated fair value of options granted with a market-based triggering event was calculated using a binomial valuation model The factors and assumptions used in this model are similar to those utilised in the Black-Scholes option pricing valuation model, except that the risk free interest rate is based on the US Treasury zero-coupon yield curve over the contractual term of the option, and the expected life is calculated by the model

No stock options were granted in 2008 or 2009

25. SHARE-BASED PAYMENTS (contınued)

Detaıls of the share optıons outstandıng durıng the year are as follows

	2009		2008	
	Number of share options	Weighted average exercise price (US$)	Number of share optıons	Weighted average exercise prıce (US$)
Outstandıng at begınnıng of perıod	2,330,246	36 44	2,671,891	35 71
Granted durıng the perıod	-	-	-	-
Forfeıted/expıred durıng the perıod	409,569	36 72	289,777	31 21
Cancelled or exchanged durıng the perıod	-	-	-	-
Exercısed durıng the perıod	-	-	51,868	27 86
Outstandıng at the end of the perıod	1,920,677	36 40	2,330,246	36 44
Exercısable at the end of the perıod	1,147,181	40 55	1,515,986	39 78

The optıons outstandıng at 31 December 2009 had a weıghted average exercıse prıce of $36 40 (2008 - $36 44), and a weıghted average remaınıng contractual lıfe of 2 74 years (2008 - 3 31 years) No optıons were granted ın 2009 (2008 – Nıl)

The company recognısed total expenses of £253,000 and £558,000 ın relatıon to all non-qualıfied stock optıons ın 2009 and 2008 respectıvely

Share Awards

Share Awards - restrıcted stock unıts, performance based restrıcted stock unıts, deferred stock unıts and stock bonus unıts of MMC's common stock - may be awarded under MMC's Incentıve and Stock Awards plans The faır value at grant of these awards ıs amortısed over the vestıng perıod of three years, takıng ınto account the estımated effect of forfeıtures Members are entıtled to receıve dıvıdend payments durıng the vestıng perıod Stock unıts are forfeıted ıf the employee leaves the company before the awards vest

25. SHARE-BASED PAYMENTS (continued)

	2009		2008	
	Number of shares	Weighted average grant date fair value (US$)	Number of shares	Weighted average grant date fair value (US$)
Outstanding at beginning of period	390,739	27 77	253,979	29 09
Granted during the period	390,063	19 01	175,828	26 28
Forfeited during the period	32,619	25 89	767	29 80
Vested during period	87,719	28 13	38,301	29 64
Outstanding at the end of the period	660,464	22 61	390,739	27 77

The company recognised total expenses of £3,844,000 and £2,373,000 in relation to stock awards in 2009 and 2008 respectively

SAYE Awards

SAYE plans are UK Treasury sponsored schemes that run each year from 1 October Members are granted options at a discounted rate based on the market value at that date, with either a three or five year vesting period Options must be exercised within six months of vesting, otherwise they will lapse No performance conditions apply

These options are valued using the Black-Scholes method, as stated above for stock options The expected life is valued at three or five years based on the terms of the plan The cost is recognised over the appropriate vesting period

Under this scheme £370,586 was expensed during 2009 (2008 - £459,809) in relation to three and five year schemes commencing during the years 2004 to 2009

Other share-based payment plans

The employee share purchase plan is operated in the UK, and is open to almost all the employees in the UK Employees pay monthly contributions and have the opportunity at every quarter end to purchase MMC common stock at 95% of market value This discount applied from October 2005 Previous to this, employees purchased stock at 85% of market value Under this scheme, employees purchased 31,911 ordinary shares in 2009 (2008 – 45,386), at a weighted average share price of £13 70 (2008 - £12 77) The discount of £22,826 (2008 - £30,116) is recognised in full when the shares are purchased

26 ULTIMATE PARENT UNDERTAKING

The company's ımmedıate parent company ıs MMC UK Group Lımıted, regıstered ın England and Wales The ultımate parent company and controllıng entıty ıs Marsh & McLennan Companıes, Inc , ıncorporated ın the State of Delaware, USA The largest and smallest group ın whıch the financıal statements of Mercer Lımıted are consolıdated ıs that headed by Marsh & McLennan Companıes, Inc

The accounts of Marsh & McLennan Companıes, Inc , are avaılable to the publıc and may be obtaıned from

The Company Secretary
Marsh & McLennan Companıes UK Lımıted
1 Tower Place West
Tower Place
London EC3R 5BU

27. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemptıon granted by paragraph 3(c) of FRS 8, Related Party Dısclosures, not to dısclose transactıons wıth Marsh & McLennan Companıes, Inc , or ınvestees of the group qualıfyıng as related partıes, on the basıs that all subsıdıarıes are wholly-owned by the group