Company Registration No. 984275

Mercer Limited

Report and Financial Statements

31 December 2014

Mercer Limited

Report and financial statements 2014

Contents

Mercer Limited

Report and financial statements 2014

Officers and professional advisers

Directors

J V Barker
F S Dunsire
M A Ferland
A J Kirton
S E Martin
D N Williams

Registered Office

1 Tower Place West
Tower Place
London
EC3R 5BU

Bankers

The Royal Bank of Scotland plc
Citibank N. A

Solicitors

Slaughter & May

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditors
London

Mercer Limited

Strategic report

The directors, in preparing the Strategic Report, have complied with s414C of the Companies Act 2006.

Business review and principal activities

The principal activities of the company are to provide consulting, administration and investment services, including the design, governance and management of retirement and health plans, talent, reward and investment solutions. The company is regulated by the Financial Conduct Authority (FCA). The directors are not aware, at the date of this report, of any likely major changes in the group's activities in the next year.

The company's key performance indicators include revenue growth, net operating income, employee utilisation, time recovery, billing performance, and receivables collection time.

As shown in the company's profit and loss account on page 8, turnover decreased by 0.9 percent (2013 - rose by 4.7 percent), driven by market conditions. Operating profit margin decreased from 21.3 percent to 18.6 percent, due to costs associated with restructuring the company's pension arrangements. The directors consider utilisation, recovery and working capital statistics to be commercially sensitive so have not disclosed them in this report.

The company reported retained profit for the financial year after taxation of £63,204,000 (2013 - £68,185,000). Interim dividends of £40,000,000 were paid on the ordinary shares (2013 - £nil). The directors do not recommend the payment of a final dividend (2013 - £nil). No dividends were received from subsidiary companies (2013 - £nil).

As shown on the balance sheet on page 10, net assets have increased by 3.5 percent (2013 – reduced by 12.4 percent) resulting from retained profits in excess of interim dividends paid.

Financial risk management

The company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the company's business and the assets and liabilities contained within the company's balance sheet the only financial risks the directors consider relevant to this company are credit risk and liquidity risk. These risks are mitigated by credit control procedures and the diverse client base.

Under Pillar 3 of the Capital Requirements Directive, the company is required to disclose information relating to its risks and its capital and risk management objectives and policies. The Pillar 3 disclosures are provided on the company's website.

The company has a strong liquid asset position of £391m cash and is not reliant on funding from third parties. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

Disabled employees

It is the policy of the company to give full consideration to suitable applications for employment of disabled persons. Every effort is made, where employees of the company become disabled, to retain them in their employment, or consider them for other positions.

Mercer Limited

Strategic report

Payments for charitable purposes

Donations to charitable organisations in the United Kingdom totalled £46,779 (2013 - £49,472).

D N Williams
Director

21 April 2015

Mercer Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Investor in people

The company received the "Investor in People" (IIP) award in July 1997. IIP is the national standard which ensures that the training and development of employees is linked directly to business goals. The company has maintained this standard, attaining re-accreditation in December 2012.

Directors

The directors of the company during the year ended 31 December 2014, all of whom were directors throughout the year except as noted below, were:

J V Barker	
F S Dunsire	
M A Ferland	
A J Kirton	Appointed 27 August 2014
S E Martin	
P E Middleton	Resigned 31 July 2014
W S O'Regan	Resigned 6 August 2014
D N Williams	

P E Middleton resigned as chair of the Board on 31 July 2014. J V Barker was appointed in his place on 1 August 2014.

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 auditor is unaware; and
2. the director has taken all 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.

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 FCA 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 S.309A and B of the Companies (Audit, Investigating and Community Enterprise) Act 2004.

Dividends

Interim dividends of £40,000,000 were paid on the ordinary shares (2013 - £nil). The directors do not recommend the payment of a final dividend (2013 - £nil). No dividends were received from subsidiary companies (2013 - £nil).

Auditor

Deloitte LLP were the company's auditor 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 auditor in the absence of an Annual General Meeting

This report was approved by the board of directors on 21 April 2015 and signed on its behalf by

D N Williams
Director

21 April 2015

Mercer Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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.

Independent auditor's report to the members of Mercer Limited

We have audited the financial statements of Mercer Limited for the year ended 31 December 2014 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 26. 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 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 auditor

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statement

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's 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.

Tim Steel

Timothy Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
United Kingdom

21 April 2015

Mercer Limited

Profit and loss account
Year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
TURNOVER	1, 2	359,929	363,009
Administrative expenses		(292,936)	(285,694)
OPERATING PROFIT		66,993	77,315
Interest receivable and similar income	3	795	770
Interest payable and similar charges	4	(1,569)	(1,655)
Other finance income	5	14,668	11,893
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	80,887	88,323
Tax on profit on ordinary activities	8	(17,683)	(20,138)
RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	19	63,204	68,185

Turnover and operating profit derive solely from continuing operations.

Mercer Limited

Statement of total recognised gains and losses
Year ended 31 December 2014

	Notes	£'000	2014 £'000	£'000	2013 £'000
Profit for the financial year			63,204		68,185
Actuarial (loss)/gain in respect of pension scheme	22	(17,100)		33,700	
Actuarial gain in respect of other retirement benefits	23	1,329		2,838	
Pension scheme surplus cap	22	576		(191,638)	
Deferred tax relating to post retirement benefits	19	3,037		35,195	
Loss on retirement benefits liability net of taxation	19		**(12,158)**		**(119,905)**
TOTAL GAINS AND LOSSES RECOGNISED			**51,046**		**(51,720)**

Reconciliation of movements in shareholders' funds
Year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Profit on ordinary activities after taxation		63,204	68,185
Distributions to shareholders		(40,000)	-
Loss relating to retirement benefits	19	(12,158)	(119,905)
Capital contribution in respect of share based payments	19	1,311	1,711
NET CHANGE TO SHAREHOLDERS' FUNDS		**12,357**	**(50,009)**
OPENING SHAREHOLDERS' FUNDS		**354,894**	**404,903**
CLOSING SHAREHOLDERS' FUNDS		**367,251**	**354,894**

Mercer Limited

Balance sheet
31 December 2014

	Notes	£'000	2014 £'000	£'000	2013 £'000
FIXED ASSETS					
Intangible assets	9		1,080		1,385
Tangible assets	10		11,708		11,348
Investments	11		600		600
			13,388		13,333
CURRENT ASSETS					
Debtors	12	136,378		128,800	
Debtors due after more than one year	13	39,718		54,095	
Cash at bank and in hand		390,814		363,994	
			566,910		546,889
CREDITORS: amounts falling due within one year	15		(120,820)		(97,201)
NET CURRENT ASSETS			446,090		449,688
TOTAL ASSETS LESS CURRENT LIABILITIES			459,478		463,021
CREDITORS: amounts falling due after more than one year	16		(19,000)		(19,000)
PROVISIONS FOR LIABILITIES	17		(56,820)		(71,831)
NET ASSETS EXCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			383,658		372,190
Pension (liability) / asset	22		(800)		(1,200)
Other retirement benefits liability	23		(15,607)		(16,096)
NET ASSETS INCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			367,251		354,894
CAPITAL AND RESERVES					
Called up share capital	18		224,400		224,400
Other reserves	19		24,819		23,508
Profit and loss account	19		118,032		106,986
TOTAL SHAREHOLDERS' FUNDS			367,251		354,894

These financial statements of Mercer Limited, registered number 984275, were approved by the Board of Directors on 21 April 2015.

D N WILLIAMS Director

F S DUNSIRE Director

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

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 are 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 90% or more of those voting rights are controlled within the group.

The company's financial and liquidity position are described in the Strategic 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 from the supply of services and represents the value of services provided under contracts to the extent there is a right to consideration due. 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 on a cash receipts basis.

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 fully amortised.

The Consulting business previously carried on by Organization Resources Counselors Limited is being amortised over a ten year period.

The Leadership Development business previously owned by Oliver Wyman Limited is being amortised over a five year period.

1. **ACCOUNTING POLICIES (continued)**

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 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.

Taxation

Current tax, including UK corporation tax and foreign 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

In accordance with FRS 19, deferred tax is provided in full on timing differences which 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 current tax rates and law. 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 that they will be recovered. Deferred tax assets and liabilities are not discounted.

Pension costs

Prior to 1 August 2014 the company operated a funded defined benefits pension scheme and a defined contribution scheme for employees who were not eligible or chose not to join the defined benefit scheme. From 1 August 2014 the company closed both schemes to future benefit accrual and replaced it with a new defined contribution section of the pension scheme.

The company also operates an unfunded non-contributory scheme for medical benefits, whereby defined medical benefits are provided to current and 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 Marsh & McLennan Companies, Inc. 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.

1. ACCOUNTING POLICIES (continued)

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

A charge representing the expected increase in the liabilities of the retirement benefit schemes during the year is included within other finance income. 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.

The pension scheme surplus is included on the Company's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent they are recoverable through reduced contributions in the future or through refunds from the scheme. At 31 December 2013, the Company determined that it no longer expects the pension scheme surplus to be recoverable under FRS17. Following the closure of the fund to future benefit accrual from 1 August 2014, the Company continues to assess the pension scheme surplus as unrecoverable under FRS 17 as at 31 December 2014.

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., 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.

Notes to the financial statements
Year ended 31 December 2014

1. ACCOUNTING POLICIES (continued)

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 the Black-Scholes pricing model (no 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 Marsh & McLennan Companies, Inc.'s ordinary shares at 95% of the current market value. The company records an expense on the date the shares are purchased.

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 one class of business, being the provision of advice and related services, and operates solely within the United Kingdom.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014 £'000	2013 £'000
Interest receivable	795	770
	795	770

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2014 £'000	2013 £'000
Interest payable on subordinated loans	168	164
Unwinding of discount on provisions (note 17)	1,401	1,491
	1,569	1,655

5. OTHER FINANCE INCOME

	2014 £'000	2013 £'000
Net finance income relating to pension scheme	15,600	12,900
Net finance charges relating to post retirement medical benefits (note 23)	(932)	(1,007)
Net finance income relating to retirement benefits	14,668	11,893

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible fixed assets		
Owned (note 10)	2,879	3,072
Amortisation of intangible fixed assets	305	305
Loss on disposal of fixed assets	44	115
Rentals under operating leases		
Land and Buildings	4,658	5,024
Other operating leases	452	752
Sublet rental income	(863)	(867)
Auditor's remuneration - audit fees	333	329
Increase in onerous lease provision (note 17)	1,322	356
Increase in dilapidation provision (note 17)	112	436
Restructuring costs	891	605

7. STAFF COSTS

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

Employee costs during the year amounted to:	2014 £'000	2013 £'000
Wages and salaries	163,122	163,238
Social security costs	18,908	17,439
Other pension costs	29,630	22,845
	211,660	203,552

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

The company incurred costs of £288,000 (2013 - £331,000) paid to certain former employees relating to post retirement medical benefits (see note 23) included above.

Other pension costs included £8.3m transitional payments in relation to certain existing defined benefit members in relation to changes in pension benefit design from 1 August 2014 (see note 22).

7. STAFF COSTS (continued)

	2014 Number	2013 Number
The average monthly number of persons employed by the company during the year was as follows:		
Consulting	1,846	1,856
Non-consulting	589	603
	2,435	2,459

	2014 £'000	2013 £'000
Directors' remuneration was paid in respect of directors of the company as follows:		
Emoluments	2,774	2,322
Amounts receivable (other than shares and share options) under long-term incentive schemes	296	167

The number of directors who:	Number	Number
Exercised options in the year:	4	2
Accrued benefits under a defined benefit pension schemes:	4	6
Had awards receivable in the form of shares under a long-term incentive scheme:	2	2

The directors' remuneration shown above (excluding pensions and pension contributions) included:	£'000	£'000
Highest paid director	800	1,122

At 31 December 2014 the amount of the highest paid director's accrued annual pension was £nil (2013 - £59,930).

The highest paid director exercised share options in the year and received shares in respect of qualifying services under a long term incentive scheme.

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 £85,624 (2013 - £84,801).

Certain directors of the company are also directors of other companies within the Marsh & McLennan Companies group 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.

Notes to the financial statements
Year ended 31 December 2014

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge for the year

	2014		2013	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profit for the year	12,975		3,029	
Overseas tax	72		-	
Adjustment in respect of prior years	761		(558)	
Total current tax charge		13,808		2,471
Deferred tax:				
Timing differences, origination and reversal	3,763		16,854	
Impact of change in tax rate	-		739	
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	112		74	
Total deferred tax charge		3,875		17,667
Tax charge on profit on ordinary activities		17,683		20,138

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: 2014 - 21.49% (2013- 23.25%)

The differences are explained below:

	2014	2013
	£'000	£'000
Profit on ordinary activities before taxation	80,887	88,323
UK corporation tax at 21.49% (2013 – 23.25%)	17,383	20,535
Effects of:		
Expenses not deductible for tax purposes	(279)	(563)
Overseas tax	72	-
Goodwill	66	71
Timing differences, origination and reversal	3	(551)
Capital allowances	(526)	(584)
Adjustment in respect of prior years	761	(559)
Movement in pensions and post retirement benefits	(3,672)	(15,878)
	13,808	2,471

The rate of corporation tax reduced from 23% to 21% on 1 April 2014, and will reduce from 21% to 20% from 1 April 2015.

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

9. INTANGIBLE FIXED ASSETS

	Goodwill **£'000**
Cost	
At 1 January 2014	2,738
At 31 December 2014	2,738
Amortisation	
At 1 January 2014	1,353
Charge for the year	305
At 31 December 2014	1,658
Net book value	
At 31 December 2014	1,080
At 31 December 2013	1,385

Intangible fixed assets relate to the Healthcare business transferred from Marsh UK Limited, the consulting business previously carried on by Organization Resources Counselors Limited and the Leadership Development business transferred from Oliver Wyman Limited.

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

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 and software £'000	Assets under construction £'000	Total £'000
Cost						
At 1 January 2014	8,596	279	1,030	18,360	973	29,238
Additions	-	-	1,607	1,025	651	3,283
Disposals	-	(117)	(46)	(129)	-	(292)
Reclassification	-	-	-	30	(30)	-
At 31 December 2014	8,596	162	2,591	19,286	1,594	32,229
Depreciation						
At 1 January 2014	3,007	195	939	13,749	-	17,890
Charge for year	165	18	185	2,511	-	2,879
Disposals	-	(116)	(24)	(108)	-	(248)
Reclassification	-	-	-	-	-	-
At 31 December 2014	3,172	97	1,100	16,152	-	20,521
Net book value						
At 31 December 2014	5,424	65	1,491	3,134	1,594	11,708
At 31 December 2013	5,589	84	91	4,611	973	11,348

Included in land and buildings is land held at cost of £2,013,000 (2013 - £2,013,000) which is not subject to depreciation.

11. FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	2014 £'000	2013 £'000
Cost and net book value		
At 1 January and at 31 December	600	600

11. FIXED ASSET INVESTMENTS (continued)

Subsidiary undertakings

The company's principal subsidiary undertakings as at 31 December 2014, 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	Pension Schemes administered on behalf of Mercer Limited clients
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)
Organization Resources Counselors Limited	England and Wales	United Kingdom	Dormant Company

12. DEBTORS

	2014 £'000	2013 £'000
Billed debtors	61,827	62,012
Unbilled debtors	30,796	31,739
Amounts owed by group companies:		
Subsidiary undertakings	4,841	4,853
Parent and fellow subsidiary undertakings	35,879	23,367
Amounts due from other group companies in respect of taxation	-	2,867
Other debtors	1,596	3,242
Other prepayments and accrued income	1,439	720
	136,378	128,800

Included within amounts owed by parent and fellow subsidiary undertakings is £1,687,125 (2013 - £1,877,627) in respect of professional indemnity insurance claims.

13. DEBTORS DUE AFTER MORE THAN ONE YEAR

	Notes	2014 £'000	2013 £'000
Deferred taxation		3,484	4,076
Professional indemnity insurance claims	17	34,295	46,386
Other prepayments and accrued income		1,939	3,633
		39,718	54,095

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

14. DEFERRED TAXATION

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

	2014 £'000	2013 £'000
Movements on the deferred taxation account were as follows:		
At 1 January	4,075	5,737
Charged to profit and loss account in current year	(3,763)	(16,855)
Prior year adjustment	(112)	(74)
Impact of change in tax rate	-	(739)
Movement in net pension and post-retirement liability	3,283	16,006
At 31 December	3,483	4,075

Analysis of deferred tax balance:

	2014 £'000	2013 £'000
Accelerated capital allowances	2,657	3,147
Short-term timing differences	826	928
	3,483	4,075

Deferred timing differences have been provided for at tax rates substantively enacted at the balance sheet date which will apply when the timing differences are expected to reverse. The tax rates substantively enacted at the balance sheet date are 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015). No further tax rate changes have been announced.

A deferred tax asset of £837,635 (2013: £837,635) representing losses from the Leadership Development business which transferred from Oliver Wyman Limited has not been recognised due to the uncertainity of when the asset will be realised.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £'000	2013 £'000
Trade creditors	1,491	1,725
Amounts owed to group companies:		
Parent and fellow subsidiary undertakings	35,307	23,335
Subsidiary undertakings	3,100	3,089
Amounts due to other group undertakings in respect of taxation	15,491	8,839
Other creditors:		
VAT payable	9,762	10,552
Social security and PAYE	9,674	8,469
Accruals and deferred income	45,995	41,192
	120,820	97,201

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2014 £'000	2013 £'000
Subordinated loans	19,000	19,000

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 2014 £'000	Increase in provision £'000	Reductions in provision £'000	Unwinding of discount £'000	Utilisation £000	At 31 December 2014 £'000
Onerous lease commitments	20,000	33	-	1,289	(3,649)	17,673
Professional indemnity claims	48,138	13,668	(12,824)	-	(13,179)	35,803
Dilapidations	3,406	-	-	112	(495)	3,023
Restructuring costs	287	197	-	-	(163)	321
	71,831	13,898	(12,824)	1,401	(17,486)	56,820

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 for one property until 2020 when rent will move to an open market rate. Current assumptions reflect the expectation that 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 provision for one other property was increased as, since no sub-let tenant had yet been found, the assumptions regarding sub-let rental income were revised.

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 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 without a corresponding insurance receivable. Accordingly, insurance recoveries (representing receivables from other group companies) of £34,295,000 (2013 - £46,386,000) have been recognised within debtors due after more than one year (see note 13).

The provision for dilapidations represents the cost that the company has estimated that it is likely to incur on vacating its leased properties where there is a contractual obligation to remove leasehold improvements on expiration of the lease.

The provision for restructuring costs represents an obligation to pay redundancy costs following a realignment of resources to client demands in certain business lines.

18. CALLED UP SHARE CAPITAL

	2014 Number	2014 £'000	2013 Number	2013 £'000
Issued shares of £1 each	224,400,000	224,400	224,400,000	224,400

19. MOVEMENT ON RESERVES

	Notes	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2014		224,400	23,508	106,986	354,894
Actuarial loss in respect of pension scheme	22	-	-	(17,100)	(17,100)
Actuarial gain in respect of post retirement medical benefits	23	-	-	1,329	1,329
Pension scheme surplus cap	22	-	-	576	576
Deferred tax relating to post retirement benefits		-	-	3,037	3,037
Actuarial loss on pensions liability net of taxation		-	-	(12,158)	(12,158)
Capital contributions in respect of share-based payments		-	1,311	-	1,311
Payments to shareholders		-	-	(40,000)	(40,000)
Profit for the financial year		-	-	63,204	63,204
Net addition to shareholders' funds		-	1,311	11,046	12,357
As at 31 December 2014		224,400	24,819	118,032	367,251

19. MOVEMENT ON RESERVES (continued)

		Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2013		224,400	21,797	158,706	404,903
Actuarial gain in respect of pension scheme	22	-	-	33,700	33,700
Actuarial gain in respect of post retirement medical benefits	23	-	-	2,838	2,838
Pension scheme surplus cap	22	-	-	(191,638)	(191,638)
Deferred tax relating to actuarial gains and losses		-	-	35,195	35,195
Actuarial loss on pensions liability net of taxation		-	-	(119,905)	(119,905)
Capital contributions in respect of share-based payments		-	1,711	-	1,711
Profit for the financial year		-	-	68,185	68,185
Net addition to shareholders' funds		-	1,711	(51,720)	(50,009)
As at 31 December 2013		224,400	23,508	106,986	354,894

20. GUARANTEES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Operating lease commitments

As at 31 December 2014, the company was committed to making the following payments during the next year in respect of operating leases:

	2014		2013	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	403	-	1,757	-
Within two to five years	889	-	8,403	-
After five years	9,698	-	2,894	-
	10,990	-	13,054	-

20. GUARANTEES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS (continued)

Contingent liabilities

The company participates in cash pooling arrangements with Citibank N.A and The Royal Bank of Scotland plc. Each member of the pool guarantees against all losses incurred as a result of the failure of any other pool member. The maximum liability of the company is the total amount of its pooled funds (£340,450,000) at any point in time. The only other members of the pooling arrangements are companies owned by Marsh & McLennan Companies, Inc.

The company has provided a guarantee of £1,500,000 to the Royal Bank of Scotland in respect of a bank account operated by PFT Limited, a wholly owned subsidiary of the company.

21. PENSION TRANSFERS AND OPT-OUT BUSINESS

Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited

On 16 July 1999 and 17 October 2000 the company indemnified Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively against any costs, expenses and liabilities (including any fines) incurred and to be incurred in respect of the management, administration and/or settlement of mis-selling claims and mis-selling liabilities to the extent that they exceed the provision (net of estimated insurance recoveries) of £83,200,000 and £14,600,000 recorded in the books of Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively at the date the indemnities were given. £nil became payable under the indemnities in 2014 (2013 - £nil). No further amounts are expected to become payable in the future.

22. PENSION SCHEME

The group operates a defined benefit scheme in the UK. An actuarial valuation was carried out at 31 December 2013 and updated to 31 December 2014 by a qualified actuary (who is employed within the Marsh & McLennan Companies group). The service cost and liability have been calculated using the Projected Unit Method.

After completion of a consultation period with affected colleagues, in January 2014, the group amended its UK defined benefit pension scheme, to close this scheme to future benefit accruals with effect from 1 August 2014 and replaced this scheme, along with its existing defined contribution plan, with a new, comprehensive defined contribution arrangement.

	2014 £m	2013 £m
Components of pension cost		
Current service cost	16.1	23.3
Interest cost	49.8	45.7
Expected return on plan assets	(65.4)	(58.6)
Past service cost	-	-
Total pension cost recognised in the profit and loss account	0.5	10.4
Actuarial gains/(losses) immediately recognised	17.1	(33.7)
Effect of surplus cap	(0.5)	191.7
Total pension cost recognised in the statement of total recognised gains and losses	16.6	158.0
Cumulative amount of actuarial losses immediately recognised	227.5	210.4

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

22. PENSION SCHEME (Continued)

	2014 £m	2013 £m
Amounts recognised in the balance sheet		
Fair value of plan assets	1,503.0	1,265.7
Present value of funded obligations	(1,311.9)	(1,074.0)
	191.1	191.7
Present value of unfunded obligations	(0.9)	(1.5)
	190.2	190.2
Related deferred tax liability	(38.0)	(38.0)
Net amount recognised prior to surplus cap	152.2	152.2

Change in benefit obligation

	2014 £m	2013 £m
Benefit obligation at 1 January	1,075.5	1,027.1
Current service cost	16.1	23.3
Interest cost	49.8	45.7
Plan participants' contributions	0.2	0.3
Past service credit	-	-
Actuarial losses/(gains)	199.6	9.7
Allocation of another group company's obligations	5.4	-
Business combinations	-	-
Benefits paid	(33.8)	(30.6)
Benefit obligation at 31 December	1,312.8	1,075.5

Analysis of defined benefit obligation

	2014 £m	2013 £m
Plans that are wholly or partly funded	1,311.9	1,074.0
Plans that are wholly unfunded	0.9	1.5
Total	1,312.8	1,075.5

22. PENSION SCHEME (continued)

	2014 £m	2013 £m
Change in plan assets		
Fair value of plan assets at 1 January	1,265.6	1,114.5
Expected return on plan assets	65.4	58.6
Actuarial gains	181.0	43.4
Allocation of another group company's assets	6.9	-
Business combinations	-	-
Employer contributions	17.7	79.5
Member contributions	0.2	0.3
Benefits paid	(33.8)	(30.6)
Fair value of plan assets at 31 December	1,503.0	1,265.7
Funded status	190.2	190.2
Effect of surplus cap	(191.1)	(191.7)
Related deferred tax asset	0.1	0.2
Net amount recognised	(0.8)	(1.3)

Fund assets

The weighted-average asset allocations at the year end were as follows:

	2014	2013
Equities	40.8%	46.6%
Government Bonds	26.0%	17.7%
Corporate Bonds	20.2%	23.9%
Property	4.1%	4.6%
Insured	0.2%	0.1%
Cash	8.7%	7.1%
	100.0%	100.0%

To develop the expected long-term rate of return on assets assumption, the employer considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.4% assumption for the 2014 expense and 5.3% for the 2013 expense.

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

22. PENSION SCHEME (continued)

	2014 £m	2013 £m
Actual return on plan assets	246.4	101.9

Weighted average assumptions used to determine benefit obligations at:	2014	2013
Discount rate	3.65%	4.65%
Rate of compensation increase	2.70%	3.05%
Rate of pension increases in deferment	1.95%	2.30%
Inflation rate (RPI)	2.95%	3.30%
Inflation rate (CPI)	1.95%	2.30%

Weighted average assumptions used to determine net pension cost for year ended:	2014	2013
Discount rate	4.65%	4.46%
Expected long-term return on plan assets	5.39%	5.39%
Rate of compensation increase	3.05%	2.65%
Rate of pension increases in deferment (5% LPI)	-	-
Rate of pension increases in payment (2.5% LPI)	-	-

	2014		2013	
Weighted average life expectancy for mortality tables used to determine benefit obligations at:	Male	Female	Male	Female
Member age 65 (current life expectancy)	23.3	25.3	23.3	25.2
Member age 45 (life expectancy at age 65)	25.0	27.2	24.9	27.1

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 3%. 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.

Mercer Limited

Notes to the financial statements
Year ended 31 December 2014

22. PENSION SCHEME (continued)

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Five year history					
Fair value of plan assets at end of year	1,503.0	1,265.7	1,114.5	963.4	920.7
Benefit obligation at end of year	(1,312.8)	(1,075.5)	(1,027.1)	(1,009.1)	(883.6)
	190.2	190.2	87.4	(45.7)	37.1
Related deferred tax (liability)/asset	(38.0)	(38.0)	(20.1)	11.4	(10.0)
Surplus/(deficit)	152.2	152.2	67.3	(34.3)	27.1

	2014	2013	2012	2011	2010
Difference between expected and actual return on scheme assets:					
Amount (£m)	181.0	43.4	67.3	(34.7)	42.7
Percentage of scheme assets	12%	3%	6%	(4)%	5%
Experience gains and losses on scheme liabilities					
Amount (£m)	4.1	(18.9)	10.8	(7.5)	4.5
Percentage of scheme liabilities	0%	(2)%	1%	(1)%	1%

Contributions

For the period 1 January 2014 to 31 July 2014 the company made regular contributions of 19.8% of pensionable salary in respect of members of the Mercer section and 21.5% of pensionable salary in respect of members of the Sedgwick section. In 2013, the company made contributions of £35.8 million to pre-fund all of the 2014 deficit contributions and a portion of subsequent deficit contributions. The 2014 contributions include an allowance for administrative expenses and PPF levies. The company expects to pay contributions of £11.1m during 2015.

Defined contribution scheme

Prior to 1 August 2014, the group also operated a defined contribution scheme for employees who were not eligible or chose not to join the defined benefit scheme.

From 1 August 2014, the Company's defined benefit section of the pension scheme and the existing defined contribution plan were both closed to future benefit accrual. All future pension benefits from 1 August 2014 are provided under a new defined contribution section of the pension scheme. The Company made defined contribution payments of £14.2m during 2014 (2013 £0.8m), which includes a £8.3m transitional payment in relation to certain existing defined benefit members in light of the change in pension benefit design from 1 August 2014.

23. 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 had 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, 266 pensioners receive these benefits and 70 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 2014 by a qualified actuary (who is employed within the Marsh & McLennan Companies group). The method used was the projected unit method. The major assumptions used for the actuarial valuation were (in nominal terms):

Assumptions	**31 December 2014**	**31 December 2013**	**31 December 2012**	**31 December 2011**	**31 December 2010**
Gross interest rate	4.7%	4.7%	4.3%	4.7%	5.7%
Medical cost trend rate for one year	5.5%	10.5%	6.1%	5.2%	6.0%
Medical cost trend rate after one year	5.5%	5.5%	6.1%	5.2%	6.0%

The following amounts have been recognised in the performance statements in the year to 31 December 2014 in respect of post retirement medical benefits under the requirements of FRS 17:

	2014 £'000	**2013 £'000**
Analysis of amounts charged to operating profit		
Current service cost	288	331
Total included within operating profit	288	331
Analysis of amount charged to other finance costs		
Interest on scheme liabilities	932	1,007
Net finance cost	932	1,007
Analysis of the actuarial gain in the statement of total recognised gains and losses		
Experience gains and losses arising on scheme liabilities	1,190	1,586
Effects of changes in assumptions underlying the present value of scheme liabilities	139	1,252
Actuarial gain	1,329	2,838

23. POST RETIREMENT MEDICAL BENEFITS (continued)

Movement in scheme liability during the year:

	2014 £'000	2013 £'000
Liability in the scheme at 1 January	20,119	22,151
Current service cost	288	331
Payments	(503)	(532)
Interest on scheme liabilities	932	1,007
Actuarial gain	(1,329)	(2,838)
Liability in the scheme at 31 December	19,507	20,119
Related deferred tax asset	(3,900)	(4,023)
Net liability in the scheme at 31 December	15,607	16,096

History of experience gains and losses	2014	2013	2012	2011	2010
Experience gains/(losses) on scheme liabilities:					
Amount (£'000)	1,190	1,586	(63)	348	(31)
Percentage of the present value of the scheme liabilities	6%	8%	0%.	2%	0%
Total actuarial gain/(loss) recognised in statement of total recognised gains and losses:					
Amount (£'000)	1,329	2,838	(1,878)	(5,738)	(2,920)
Percentage of the present value of the scheme liabilities	7%	14%	(8)%	(29)%	(22)%

24. SHARE-BASED PAYMENTS

Mercer Limited's ultimate parent company, Marsh & McLennan Companies, Inc., 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 Marsh & McLennan Companies, Inc. 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.

24. SHARE-BASED PAYMENTS (continued)

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 Marsh & McLennan Companies, Inc 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 ten 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 Marsh & McLennan Companies, Inc.'s stock appreciates to a level of 15% above the exercise price of the option and maintains that level for at least ten 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.

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:

	2014	2013	2012	2011	2010
Weighted average share price	$48.00	$36.49	$31.88	$30.60	$22.71
Weighted average exercise price	$48.00	$36.49	$31.88	$30.60	$22.71
Expected volatility	24.16%	23.8%	26.2%	25.4%	27.6%
Expected life	6.0 years	6.0 years	6.5 years	6.75 years	6.75 years
Risk-free rate	1.88%	1.09%	1.27%	2.9%	3.15%
Expected dividends	2.08%	2.52%	2.76%	2.75%	3.52%

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.

24. SHARE-BASED PAYMENTS (continued)

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 Marsh & McLennan Companies 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.

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.

Details of the share options outstanding during the year are as follows:

	2014		2013	
	Number of share options	**Weighted average exercise price (US$)**	**Number of share options**	**Weighted average exercise price (US$)**
Outstanding at beginning of period	311,035	29.42	827,137	29.57
Granted during the period	16,822	48.00	22,178	36.50
Forfeited/expired during the period	(7,913)	29.81	(10,450)	29.82
Exercised during the period	(155,849)	27.49	(527,830)	29.95
Outstanding at the end of the period	164,095	33.14	311,035	29.42
Exercisable at the end of the period	114,282	30.71	248,739	28.93

The options outstanding at 31 December 2014 had a weighted average exercise price of $33.14 (2013 - $29.42), and a weighted average remaining contractual life of 4.27 years (2013 – 3.96 years). The number of options granted in 2014 was 16,822 (2013 – 22,178).

The company recognised total expenses of £82,300 and £81,500 in relation to all non-qualified stock options in 2014 and 2013 respectively.

Share Awards

Share Awards - restricted stock units, performance based restricted stock units, deferred stock units and stock bonus units of Marsh & McLennan Companies, Inc.'s common stock - may be awarded under Marsh & McLennan Companies, Inc.'s Incentive and Stock Awards plans. The fair value at grant of these awards is amortised over the vesting period of three years, taking into account the estimated effect of forfeitures. Members are entitled to receive dividend payments during the vesting period. Stock units are forfeited if the employee leaves the company before the awards vest.

24. SHARE-BASED PAYMENTS (continued)

	2014		2013	
	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	142,975	32.14	250,660	29.21
Granted during the period	25,785	48.00	30,902	36.50
Forfeited during the period	(7,759)	33.20	(7,994)	32.03
Vested during period	(93,404)	31.18	(130,593)	27.55
Outstanding at the end of the period	67,597	39.39	142,975	32.14

The company recognised total expenses of £982,000 and £1,452,000 in relation to stock awards in 2014 and 2013 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 £232,841 was expensed during 2014 (2013 - £159,882) in relation to three and five year schemes commencing during the years 2009 to 2014.

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 Marsh & McLennan Companies, Inc. 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 10,702 ordinary shares in 2014 (2013 – 13,641), at a weighted average share price of £28.74 (2013 - £23.63). The discount of £16,009 (2013 - £17,117) is recognised in full when the shares are purchased.

25. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is MMC UK Group Limited, which is incorporated in the United Kingdom and registered in England and Wales. The ultimate parent company and controlling entity is Marsh & McLennan Companies, Inc., incorporated in the State of Delaware, USA. The largest and smallest group in which the financial statements of Mercer Limited are consolidated is that headed by Marsh & McLennan Companies, Inc.

The accounts of Marsh & McLennan Companies, Inc., are available to the public and may be obtained from:

The Company Secretary
Marsh & McLennan Companies UK Limited
1 Tower Place West
Tower Place
London
EC3R 5BU

26. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by paragraph 3(c) of FRS 8, Related Party Disclosures, not to disclose transactions with Marsh & McLennan Companies, Inc., or investees of the group qualifying as related parties.