Company Registration No. 984275

MERCER LIMITED

Report and Financial Statements

31 December 2008

MERCER LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

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MERCER LIMITED

REPORT AND FINANCIAL STATEMENTS 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Heyward
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

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The principal activities of the company are to provide actuarial, human resource, financial, and management consultancy advice together with related services. The company is regulated by the Financial Services Authority (FSA).

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

As shown in the company's profit and loss account on page 9, turnover grew by 3.7 (2007 - 2.5) per cent, driven by the challenging pensions and employee compensation market. Operating profit margin decreased from 21.4 per cent to 18.5 per cent due to increased employee costs and one-off restructuring costs. 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 £60,404,000 (2007 - £61,629,000). An interim dividend of £55,300,000 was paid on the ordinary shares on 29th December 2008 (2007 - £nil). The directors do not recommend the payment of a final dividend (2007 - £25,000,000). No dividends were received from subsidiary companies (2007 - £nil).

As shown on the balance sheet on page 11, net assets have decreased by 20.7 (2007 – increase 62.1) per cent. This was primarily driven by the payment of dividends, the reduction in the company's pension asset as outlined in note 23 and strong profits for the year.

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 consisting mainly of cash and debtors and is not reliant on funding from third parties. As a consequence, the directors believe that the group 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.

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 on 9 November 2006.

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.

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 £48,880 (2007 - £76,850).

DIRECTORS

The directors of the company during the year ended 31 December 2008, all of whom were directors throughout the year except as noted below, were:

A K Whalley	Chairman
D N Williams	
D Heyward	Appointed 17 March 2008

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 s234ZA of the Companies Act 1985.

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

AUDITORS

The members of the company have passed an Elective Resolution pursuant to section 386 of The Companies Act 1985, the effect of which is that the obligation to appoint auditors annually has been dispensed with. Accordingly, Deloitte LLP are deemed to continue in office as auditors of the company.

This report was approved by the board of directors on 24th April 2009 and signed on its behalf by:

MF Brindley

M F Brindley
Secretary

24th April 2009

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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with Companies Act 1985. 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 AUDITORS' REPORT TO THE MEMBERS OF MERCER LIMITED

We have audited the financial statements of Mercer Limited for the year ended 31 December 2008 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. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London

24 April 2009

MERCER LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
TURNOVER	1, 2	337,892	325,952
Administrative expenses		(275,418)	(256,065)
OPERATING PROFIT		62,474	69,887
Interest receivable and similar income	3	12,895	16,083
Interest payable and similar charges	4	(1,486)	(1,706)
Other finance income	5	10,140	6,666
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	84,023	90,930
Tax on profit on ordinary activities	8	(23,619)	(29,301)
RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	19	60,404	61,629

Turnover and operating profit derive solely from continuing operations.

MERCER LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Profit for the financial year		60,404	61,629
Actuarial (loss)/ gain in respect of pension scheme	23	(73,700)	95,100
Actuarial gain/ (loss) in respect of other retirement benefits	24	1,975	(2,122)
Deferred tax relating to actuarial gains and losses		20,082	(26,035)
Actuarial (loss)/ gain on retirement benefits asset/liability net of taxation	19	(51,643)	66,943
TOTAL GAINS AND LOSSES RECOGNISED		**8,761**	**128,572**

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Profit on ordinary activities after taxation		60,404	61,629
Distribution to shareholders		(80,300)	-
Actuarial (loss)/ gain relating to retirement benefits	19	(51,643)	66,943
Capital contribution in respect of share based payments	19	1,517	1,340
NET CHANGE TO SHAREHOLDERS' FUNDS		**(70,022)**	**129,912**
OPENING SHAREHOLDERS' FUNDS		**338,995**	**209,083**
CLOSING SHAREHOLDERS' FUNDS		**268,973**	**338,995**

MERCER LIMITED

BALANCE SHEET
At 31 December 2008

	Notes	£'000	2008 £'000	£'000	2007 £'000
FIXED ASSETS					
Intangible assets	9		300		450
Tangible assets	10		19,675		20,871
Investments	11		600		1,405
			20,575		22,726
CURRENT ASSETS					
Debtors	12	139,111		141,183	
Debtors due after more than one year	13	46,921		65,588	
Cash at bank and in hand		249,712		259,712	
			435,744		466,483
CREDITORS: amounts falling due within one year	15		(94,420)		(84,964)
NET CURRENT ASSETS			341,324		381,519
TOTAL ASSETS LESS CURRENT LIABILITIES			361,899		404,245
CREDITORS: amounts falling due after more than one year	16		(20,575)		(20,068)
PROVISIONS FOR LIABILITIES	17		(62,095)		(68,449)
NET ASSETS EXCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			279,229		315,728
Pension (liability)/asset	23		(1,585)		32,831
Other retirement benefits liability	24		(8,671)		(9,564)
NET ASSETS INCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES			268,973		338,995
CAPITAL AND RESERVES					
Called up share capital	18		224,400		224,400
Other reserves	19		8,906		7,389
Profit and loss account	19,20		35,667		107,206
TOTAL SHAREHOLDERS' FUNDS			268,973		338,995

These financial statements were approved by the Board of Directors on 24th April 2009 and signed on its behalf by:

D N WILLIAMS Director

A K WHALLEY Director

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

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. Under section 228A of the Companies Act 1985, the company is exempt from the obligation to prepare and deliver 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 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 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 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 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 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

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 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 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 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.

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

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008 £'000	2007 £'000
Other interest receivable	12,827	15,069
Unwinding of discount on provisions	68	1,014
	12,895	16,083

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £'000	2007 £'000
Interest payable on subordinated loans (note 16)	1,486	1,705
Other interest payable	-	1
	1,486	1,706

5. OTHER FINANCE INCOME

	2008 £'000	2007 £'000
Net finance income relating to pension scheme (note 23)	10,900	7,200
Net finance charges relating to post retirement medical benefits (note 24)	(760)	(534)
Net finance income relating to retirement benefits	10,140	6,666

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and amounts written off tangible fixed assets		
Owned	4,656	3,803
Amortisation of intangible fixed assets	150	150
Rentals under operating leases		
Land and Buildings	5,503	5,451
Other operating leases	1,362	2,823
Sublet rental income	(880)	(869)
Auditors' remuneration - audit fees	301	297
- other services for taxation	9	12
Onerous lease provision (note 17)	5,449	5,065
Restructuring costs (note 17)	4,009	406
Write off of insurance recoveries	3,210	-

7. STAFF COSTS

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

	2008 £'000	2007 £'000
Employee costs during the year amounted to:		
Wages and salaries	166,737	155,230
Social security costs	15,037	13,995
Other pension costs	22,556	19,009
	204,330	188,234

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

The company incurred costs of £285,000 (2007 - £231,000) 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:	2008 Number	2007 Number
Consulting	2,285	2,280
Non-consulting	805	751
	3,090	3,031

Directors' remuneration was paid in respect of directors of the company as follows:	£'000	£'000
Emoluments	592	2,339
Amounts receivable (other than shares and share options) under long-term incentive schemes	38	277

	Number	Number
The number of directors accruing benefits under defined benefit pension schemes was:	3	7

The directors' remuneration shown above (excluding pensions and pension contributions) included:	£'000	£'000
Highest paid director	360	634

At 31 December 2008 the amount of the highest paid director's accrued annual pension was £11,362 (2007 - £20,155).

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 £4,412 (2007 - £81,876).

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge for the year

	2008		2007	
	£'000	**£'000**	**£'000**	**£'000**
Current tax:				
UK corporation tax on profit for the year	17,819		26,284	
Adjustment in respect of prior years	(723)		2,085	
Total current tax charge		17,096		28,369
Deferred tax:				
Timing differences, origination and reversal	7,056		1,961	
Impact of change in tax rate	(65)		1,485	
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(468)		(2,514)	
Total deferred tax charge		6,523		932
Tax charge on profit on ordinary activities		23,619		29,301

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: 2008 28.5% (2007 30%)

The differences are explained below:

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation	84,023	90,930
UK corporation tax at 28.5% (2007 – 30%)	23,947	27,279
Effects of:		
Expenses not deductible for tax purposes	882	533
UK to UK transfer pricing adjustment	(275)	27
Timing differences, origination and reversal	(6,209)	(2,412)
Capital allowances	(526)	853
Adjustment in respect of prior years	(723)	2,085
Overseas taxes	-	4
	17,096	28,369

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 2008 and 31 December 2008	750
Amortisation	
At 1 January 2008	300
Charge for the year	150
At 31 December 2008	450
Net book value	
At 31 December 2008	300
At 31 December 2007	450

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 2008	8,596	13,481	8,350	26,683	1,525	58,635
Additions	-	-	9	841	2,619	3,469
Disposals	-	-	(9)	(17,735)	-	(17,744)
At 31 December 2008	8,596	13,481	8,350	9,789	4,144	44,360
Depreciation						
At 1 January 2008	2,019	8,680	6,249	20,816	-	37,764
Charge for year	165	1,422	689	2,380	-	4,656
Disposals	-	-	-	(17,735)	-	(17,735)
At 31 December 2008	2,184	10,102	6,938	5,461	-	24,685
Net book value						
At 31 December 2008	6,412	3,379	1,412	4,328	4,144	19,675
At 31 December 2007	6,577	4,801	2,101	5,867	1,525	20,871

Included in land and buildings is land held at cost of £2,013,000 (2007 - £2,013,000) which is not subject to depreciation.

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

11. FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	2008 £'000	2007 £'000
Cost and net book value		
At 1 January	1,405	2,486
Disposals	(805)	(1,081)
At 31 December	600	1,405

A provision was made against the investment in Summit Management Company Limited of £805,000 because it was dissolved on 4 February 2009.

Subsidiary undertakings

The company's principal subsidiary undertakings as at 31 December 2008, 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	Dormant Company
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
Summit Management Company Limited	England and Wales	United Kingdom	Non-Trading Company
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
Mercer Consulting Limited	England and Wales	United Kingdom	Dormant Company
Mercer Human Resource Consulting Limited	England and Wales	United Kingdom	Dormant Company

Summit Management Company Limited and Mercer Consulting Limited were dissolved on 4 February 2009. Mercer Human Resource Consulting Limited was dissolved on 10 March 2009.

MERCER LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

12. DEBTORS

	2008 £'000	2007 £'000
Billed debtors	63,441	65,218
Unbilled debtors	31,564	34,217
Amounts owed by group companies:		
Subsidiary undertakings	5,368	5,578
Parent and fellow subsidiary undertakings	18,352	19,567
Amounts due from other group companies in respect of taxation	2,980	3,421
Corporation tax	14,362	5,893
Other debtors	1,893	2,653
Other prepayments and accrued income	1,151	4,636
	139,111	141,183

Included within amounts owed by parent and fellow subsidiary undertakings is £1,452,000 (2007 - £6,617,000) in respect of professional indemnity insurance claims.

13. DEBTORS DUE AFTER MORE THAN ONE YEAR

	Notes	2008 £'000	2007 £'000
Amount owed by fellow subsidiary		-	4,732
Deferred taxation	14	4,336	3,813
Professional indemnity insurance claims	17	40,539	53,160
Other prepayments and accrued income		2,046	3,883
		46,921	65,588

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

On 17 December 2008 the loan of £4,732,000 was repaid by MMC UK Limited.

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

14. DEFERRED TAXATION

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

	2008 £'000	2007 £'000
Provided		
Movements on the deferred taxation account were as follows:		
At 1 January	3,813	5,514
Charged to profit and loss account in current year	(7,056)	(1,961)
Prior year adjustment	468	2,514
Impact of change in tax rate	65	(1,486)
Transfer to statement of total recognised gains and losses	-	(1,875)
Movement in net post-retirement liability	7,046	1,107
At 31 December	4,336	3,813

Analysis of deferred tax balance:

	2008 £'000	2007 £'000
Accelerated capital allowances	2,480	2,585
Short-term timing differences	1,856	1,228
	4,336	3,813

The rate of Corporation Tax reduced from 30% to 28% from 1 April 2008, producing an effective rate of 28.5% for the year to December 2008. Deferred tax balances have been set up at 31 December 2008 at 28%.

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Trade creditors	209	528
Amounts owed to group companies:		
Parent and fellow subsidiary undertakings	5,686	8,312
Subsidiary undertakings	640	654
Amounts due to other group undertakings in respect of taxation	42,784	25,019
Other creditors:		
VAT payable	7,874	13,037
Social security and PAYE	7,310	6,952
Accruals and deferred income	29,917	30,462
	94,420	84,964

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

	2008 £'000	2007 £'000
Amounts owed to group companies:		
Parent and fellow subsidiary undertakings	1,575	1,068
Subordinated loans	19,000	19,000
	20,575	20,068

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 2008 £'000	Increase in provision £'000	Reductions in provision £'000	Unwinding of discount £'000	Utilisation £000	At 31 December 2008 £'000
Onerous lease commitments	15,224	5,957	(440)	(68)	(5,050)	15,623
Professional indemnity claims	53,160	9,967	(11,840)	-	(8,325)	42,962
Restructuring costs	65	4,009	-	-	(564)	3,510
	68,449	19,933	(12,280)	(68)	(13,939)	62,095

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 the provision has been amended accordingly.

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 £40,539,000 (2007 - £53,160,000) 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 2008.

18. CALLED UP SHARE CAPITAL

	2008		2007	
	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

NOTES TO THE ACCOUNTS
Year ended 31 December 2008

19. MOVEMENT ON RESERVES

	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

A final dividend for the year ended 2007 of £25,000,000 and an interim dividend for the year ended 2008 of £55,300,000 was paid during the year.

19. MOVEMENT ON RESERVES (continued)

	Notes	Share capital £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
As at 1 January 2007		224,400	6,049	(21,366)	209,083
Actuarial gain in respect of pension scheme	23	-	-	95,100	95,100
Actuarial loss in respect of post retirement medical benefits	24	-	-	(2,122)	(2,122)
Deferred tax relating to actuarial gains and losses		-	-	(26,035)	(26,035)
Actuarial gain on pensions liability net of taxation		-	-	66,943	66,943
Capital contributions in respect of share based payments		-	1,340	-	1,340
Profit for the financial year		-	-	61,629	61,629
Net addition to shareholders' funds		-	1,340	128,572	129,912
As at 31 December 2007		224,400	7,389	107,206	338,995

20. PROFIT AND LOSS RESERVE

	2008 £'000	2007 £'000
Profit and loss reserve excluding retirement benefits liability	45,923	83,939
Pension (liability)/asset	(1,585)	32,831
Other retirement benefits liability	(8,671)	(9,564)
Profit and loss reserve	35,667	107,206

21. GUARANTEES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Operating lease commitments

As at 31 December 2008, the company was committed to making the following payments during the next year in respect of operating leases:

	2008		2007	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire:				
Within one year	465	326	-	295
Within two to five years	2,906	19	2,188	419
After five years	10,470	-	10,647	-
	13,841	345	12,835	714

The company has a commitment to pay a lease on a property into which the company had intended to move, but which the company did not occupy. The company has an obligation to pay rentals on the lease, which expires in 2028, and against which the company receives sublet rental income. Expected future net costs associated with the property have been provided for within the onerous lease provision (see note 17). During the next year the company is committed to paying £1,574,100, net of sub-let income, in respect of this lease.

Contingent liabilities

The company has contingent liabilities as security in respect of property leases as follows:

(a) subsidiary undertaking in respect of a lease with three months remaining with a current annual rental of £1,292,500; and

(b) fellow subsidiary undertaking in respect of a lease with less than two years remaining with a current annual rental of £825,000.

The Company participates in cash pooling arrangements with Citibank. 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 at any point in time. The other members of the pooling arrangements are companies owned by Marsh & McLennan Companies, Inc.

22. PENSION TRANSFERS AND OPT-OUT BUSINESS

Mercer Limited

During 2004 the company settled its remaining obligations under Pension Transfers and Opt-outs. The Review was disbanded and final agreement reached with insurers on the outstanding insurance recoveries.

Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited

On 16 July 1999 and 17 October 2000 Mercer Limited 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. Amounts of £56,000 became payable under the indemnities in 2008 (2007 - £93,000 receivable). No further amounts are expected to become payable in the future.

23. PENSION SCHEME

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 December 2007 and updated to 31 December 2008 by a qualified actuary (who is employed within the MMC group). The service cost has been calculated using the Projected Unit Method.

	2008 £m	2007 £m
Components of pension cost		
Current service cost	21.1	18.0
Interest cost	40.0	36.8
Expected return on plan assets	(50.9)	(44.0)
Past service cost	0.5	-
Total pension cost recognised in the profit and loss account	10.7	10.8
Actuarial losses/(gains) immediately recognised	73.7	(95.1)
Total pension cost recognised in the statement of total recognised gains and losses	73.7	(95.1)
Cumulative amount of actuarial (gains)/ losses immediately recognised	128.9	55.2

23. PENSION SCHEME (continued)

	2008 £m	2007 £m
Amounts recognised in the balance sheet		
Fair value of plan assets	635.5	717.2
Present value of funded obligations	(632.3)	(669.3)
	3.2	47.9
Present value of unfunded obligations	(5.3)	(2.3)
	(2.1)	45.6
Related deferred tax (liability)/ asset	0.6	(12.8)
Net amount recognised	(1.5)	32.8
Amounts recognised as:		
Assets	457.6	502.0
Liabilities	(459.1)	(469.2)
Net amount recognised	(1.5)	32.8

	2008 £m	2007 £m
Change in benefit obligation		
Benefit obligation at 1 January	671.6	721.2
Current service cost	21.1	18.0
Interest cost	40.0	36.8
Plan participants' contributions	1.3	3.3
Past service costs	0.5	-
Actuarial gains	(78.4)	(88.8)
Benefits paid	(18.5)	(18.9)
Benefit obligation at 31 December	637.6	671.6

23. PENSION SCHEME (continued)

	2008 £m	2007 £m
Analysis of defined benefit obligation		
Plans that are wholly or partly funded	632.3	669.3
Plans that are wholly unfunded	5.3	2.3
Total	637.6	671.6

	2008 £m	2007 £m
Change in plan assets		
Fair value of plan assets at 1 January	717.2	660.7
Expected return on plan assets	50.9	44.0
Actuarial (losses)/gains	(152.1)	6.3
Employer contributions	36.6	21.8
Member contributions	1.3	3.3
Benefits paid	(18.5)	(18.9)
Fair value of plan assets at 31 December	635.4	717.2

Funded status	(1.5)	32.8
Net amount recognised	(1.5)	32.8

The actuarial valuation as at 31 December 2008 showed deterioration from a surplus of £32.8m to a deficit of £1.5m.

23. PENSION SCHEME (continued)

	2008	2007
Fund assets		

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

	2008	2007
Equities	54.2%	58.1%
Government Bonds	17.3%	17.4%
Corporate Bonds	21.2%	17.4%
Property	5.7%	3.3%
Insured	0.3%	0.3%
Cash	1.3%	3.5%
	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 7.00% assumption for the 2008 expense and 6.40% for the 2009 expense.

	2008 £m	2007 £m
Actual return on plan assets	(101.2)	50.3

	2008	2007
Weighted average assumptions used to determine benefit obligations at:		
Discount rate	6.40%	5.80%
Rate of compensation increase	4.00%	4.00%
Rate of pension increases in deferment (5% LPI)	3.00%	3.20%
Weighted average assumptions used to determine net pension cost for year ended:		
Discount rate	5.80%	5.10%
Expected long-term return on plan assets	7.00%	6.62%
Rate of compensation increase	4.00%	4.00%
Rate of pension increases in deferment (5% LPI)	3.20%	3.00%
Rate of pension increases in payment (2.5% LPI)	2.30%	2.30%

23. PENSION SCHEME (continued)

	2008		2007	
	Male	**Female**	**Male**	**Female**
Weighted average life expectancy for mortality tables used to determine benefit obligations at:				
Member age 65 (current life expectancy)	21.1	24.0	21.0	23.9
Member age 45 (life expectancy at age 65)	22.2	25.0	22.1	24.9

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.

	2008 £m	**2007 £m**	**2006 £m**	**2005 £m**	**2004 £m**
Five year history					
Fair value of plan assets at end of year	635.5	717.2	660.7	600.0	500.2
Benefit obligation at end of year	(637.6)	(671.6)	(721.2)	(714.8)	(612.5)
	(2.1)	45.6	(60.5)	(114.8)	(112.3)
Related deferred tax (liability)/ asset	0.6	(12.8)	18.2	34.4	33.7
Surplus/ (deficit)	(1.5)	32.8	(42.3)	(80.4)	(78.6)

	2008	**2007**	**2006**	**2005**	**2004**
Difference between expected and actual return on scheme assets:					
Amount (£m)	(152.1)	6.3	19.6	43.6	(8.8)
Percentage of scheme assets	(24)%	1%	3%	7%	(2%)
Experience gains and losses on scheme liabilities					
Amount (£m)	8.9	2.4	12.0	18.5	(39.7)
Percentage of scheme liabilities	1%	0%	2%	3%	(6%)

23. PENSION SCHEME (continued)

Contributions

During 2008 the Employer made regular contributions of 14.1% of pensionable salary plus shortfall correction contributions of £3,053,000 in respect members of the Mercer Section of the Fund and 20.6% of pensionable salary plus shortfall correction contributions of £14,958,000 in respect members of the Sedgwick Section of the Fund.

The Employer regular contribution expected to be payable during 2009 is 14.1% and 20.6% of pensionable salary for members of the Mercer section and Sedgwick section of the Fund respectively. Additional contributions to correct the funding shortfall are expected from Mercer Ltd during 2009 of £3,164,000 for the Mercer section and £15,407,000 for the Sedgwick section. Furthermore, a special contribution of £50,000,000 was paid in January 2009 (£25,000,000 to each of the Mercer section and Sedgwick section) and £20,000,000 is payable in May 2009 to the Sedgwick section.

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 £956,000 (2007 - £1,009,000).

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, 276 pensioners receive these benefits and 187 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 2008 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 2008**	**31 December 2007**	**31 December 2006**	**31 December 2005**
Gross interest rate	6.4%	5.8%	5.1%	4.70%
Medical cost trend rate for one year	7.0%	6.5%	4.5%	5.00%
Medical cost trend rate after one year	6.0%	5.5%	4.0%	4.00%

24. POST RETIREMENT MEDICAL BENEFITS (continued)

The following amounts have been recognised in the performance statements in the year to 31 December 2008 in respect of post retirement medical benefits under the requirements of FRS 17:

	2008 £'000	2007 £'000
Analysis of amounts charged to operating profit		
Current service cost	285	231
Total included within operating profit	285	231
Analysis of amount charged to other finance costs		
Interest on scheme liabilities	760	534
Net finance cost	760	534
Analysis of the actuarial loss in the Statement of total recognised gains and losses		
Experience gains and losses arising on scheme liabilities	(148)	63
Effects of changes in assumptions underlying the present value of scheme liabilities	2,123	(2,185)
Actuarial gain/(loss)	1,975	(2,122)

Movement in scheme liability during the year:

	2008 £'000	2007 £'000
Liability in the scheme at 1 January	13,284	10,611
Current service cost	285	231
Payments	(311)	(214)
Interest on scheme liabilities	760	534
Actuarial (gain)/loss	(1,975)	2,122
Liability in the scheme at 31 December	12,043	13,284
Related deferred tax asset	(3,372)	(3,720)
Net liability in the scheme at 31 December	8,671	9,564

24. POST RETIREMENT MEDICAL BENEFITS (continued)

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

25. SHARE BASED PAYMENTS

Mercer Limited's 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 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 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 MMC'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.

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:

	2008	**2007**	**2006**	**2005**	**2004**
Weighted average share price	-	-	\$28.98	\$27.86	\$46.14
Weighted average exercise price	-	-	\$28.98	\$27.86	\$46.14
Expected volatility	-	-	29.0%	23.5%	19.6%
Expected life	-	-	2-5 years	2-5 years	2-5 years
Risk-free rate	-	-	5.0%	3.9%	2.78%
Expected dividends	-	-	2.3%	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. All stock options in 2007 were granted with a market condition.

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.

25. SHARE BASED PAYMENTS (continued)

The assumptions used in the binomial option pricing valuation model for options granted during 2007 and 2008 are as follows:

	2008	2007
Risk-free interest rate	-	4.7%-5.0%
Expected life (in years)	-	5.2 – 7.1
Expected volatility	-	27.8%
Expected dividends	-	2.6%

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

	2008		2007	
	Number of share options	Weighted average exercise price (US$)	Number of share options	Weighted average exercise price (US$)
Outstanding at beginning of period	2,671,891	35.71	2,756,822	35.90
Granted during the period	-	-	133,625	29.60
Forfeited/expired during the period	289,777	31.21	152,930	40.20
Cancelled or exchanged during the period	-	-	-	-
Exercised during the period	51,868	27.86	65,626	20.64
Outstanding at the end of the period	2,330,246	36.44	2,671,891	35.71
Exercisable at the end of the period	1,515,986	39.78	1,805,398	38.35

The options outstanding at 31 December 2008 had a weighted average exercise price of $36.44 (2007 - $35.71), and a weighted average remaining contractual life of 3.31 years (2007 - 3.95 years). No options were granted in 2008 (2007 – options granted on 12 February). The aggregate of the estimated fair values of the options granted in 2007 was $1,100,000.

The company recognised total expenses of £558,000 and £1,126,000 in relation to all non-qualified stock options in 2008 and 2007 respectively.

Share Awards

Share Awards - restricted stock units, performance based restricted stock units, deferred stock units and stock bonus units of MMC's common stock - may be awarded under MMC'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.

25. SHARE BASED PAYMENTS (continued)

	2008		2007	
	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	253,979	29.09	80,522	38.02
Granted during the period	175,828	26.28	214,274	28.91
Forfeited during the period	767	29.80	6,105	30.79
Vested during period	38,301	29.64	34,712	48.10
Outstanding at the end of the period	390,739	27.77	253,979	29.09

The company recognised total expenses of £2,373,000 and £709,000 in relation to stock awards in 2008 and 2007 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 £459,809 was expensed during 2008 (2007 - £594,108) in relation to three and five year schemes commencing during the years 2003 to 2008.

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 45,386 ordinary shares in 2008 (2007 - 52,801), at a weighted average share price of £12.77 (2007 - £14.69). The discount of £30,116 (2007 - £38,943) is recognised in full when the shares are purchased.

26. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is MMC UK Group Limited, 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

27. 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.