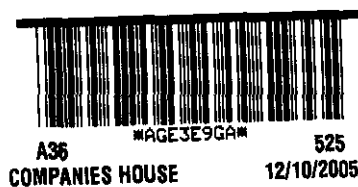


**MERCER HUMAN RESOURCE  
CONSULTING LIMITED**

**Report and Financial Statements**

**31 December 2004**



# MERCER HUMAN RESOURCE CONSULTING LIMITED

## REPORT AND FINANCIAL STATEMENTS 2004

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**REPORT AND FINANCIAL STATEMENTS 2004**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

R W Carr  
D C Davis  
A Gregory  
A M Hunter  
A J Kirton  
D L McCaw  
C D Nelson  
W S O'Regan (Chairman)  
S J Pearse  
P M Sanchez  
A Sethi  
J H Standen  
M J Tyler  
J R Wetenhall

**SECRETARY**

A Sethi

**REGISTERED OFFICE**

Telford House  
14 Tothill Street  
London  
SW1H 9NB

**BANKERS**

The Royal Bank of Scotland plc

**SOLICITORS**

Slaughter & May

**AUDITORS**

Deloitte & Touche LLP  
London

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE PROSPECTS**

The principal activities of the company are to provide actuarial, human resource, financial, and management consultancy advice together with related services.

Group results are not presented for the year ended 2004 as the UK parent company, Marsh & McLennan Companies UK Limited, will show consolidated results for the UK group. Accordingly these financial statements reflect the financial position and results for the company alone.

The company continued to enjoy good levels of activity, although profits were adversely affected by restructuring costs, impairment of software and an increase in onerous lease provisions. Future prospects remain encouraging.

The company is regulated by the Financial Services Authority (FSA).

### **RESULTS AND DIVIDENDS**

The company reported a profit for the financial year after taxation of £5,624,000 (2003 - £15,649,000). Interim dividends of £3,649,000 were declared and paid on the ordinary shares (2003 - £23,841,000). The directors do not recommend the payment of a final dividend (2003 - £nil). No dividends were received from subsidiary companies (2003 - £nil).

### **POST BALANCE SHEET EVENT**

In April 2005, the Directors revised their office property strategy in London. As a result the company is now planning to assign or sublease a new building which it had previously planned to occupy. After taking professional advice, the Directors estimate the resultant additional onerous lease obligations, for which a provision has been made in April 2005, to be approximately £18m.

### **INVESTMENT IN SUBSIDIARY UNDERTAKINGS**

During the year the company acquired the entire share capital of Summit Management Company Limited at a cost of £498,000.

### **SHARE CAPITAL**

On 22 December 2004, 20,000,000 Ordinary shares of £1 were issued and fully paid at par.

### **PENSION TRANSFERS AND OPT-OUT BUSINESS**

During the year the company settled its remaining obligations under Pension Transfers and Opt-outs with payments of £875,000 being made and £17,615,000 being received from insurers principally via the ultimate parent company. A further £649,000 is expected to be recovered.

In addition, on 16 July 1999 and 17 October 2000 Mercer Human Resource Consulting 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. £145,000 became payable under the indemnities in 2004 (2003 - £nil). No further amounts are expected to become payable in the future.

Details of the amounts recorded are set out in note 19.

**DIRECTORS' REPORT (continued)**

**INVESTOR IN PEOPLE**

Mercer Human Resource Consulting Limited 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 12 November 2003.

**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.

**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 £83,186 (2003 - £78,828).

**DIRECTORS AND THEIR INTERESTS**

The directors of the company during the year ended 31 December 2004, all of whom were directors throughout the year except as noted below, were:

D R Barford	(resigned 31 December 2004)
R W Carr	
P D Couchman	(resigned 29 July 2004)
D C Davis	
P E Felton	(resigned 31 December 2004)
T A Ferris	(resigned 31 December 2004)
V Fetter	(resigned 31 December 2004)
A Gregory	
A M Hunter	
D G Johnson	(resigned 31 December 2004)
A J Kirton	
A L Marchlewski	(resigned 31 December 2004)
D L McCaw	
C D Nelson	
W S O'Regan	(appointed 15 October 2004) Chairman
S J Pearse	(appointed 12 January 2004)
B K Rigby	(resigned 31 March 2004)
P M Sanchez	
A Sethi	(appointed 31 December 2004)
J H Standen	
M J Tyler	
J R Wetenhall	


**DIRECTORS' REPORT (continued)**

None of the directors had any beneficial interests in the shares of the company or any group company incorporated within the United Kingdom at any time during the year ended 31 December 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 & Touche LLP are deemed to continue in office as auditors of the company.

Approved by the Board of Directors  
and signed on behalf of the Board



Secretary

29 April 2005

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which 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 The 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 HUMAN RESOURCE CONSULTING LIMITED**

We have audited the financial statements of Mercer Human Resource Consulting Limited for the year ended 31 December 2004 which comprise the profit and loss account, the reconciliation of movements in shareholders' funds, the balance sheet and the related notes 1 to 24. 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**

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company 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.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom auditing standards 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 judgements 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with The Companies Act 1985.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London

*29 April 2005*



# MERCER HUMAN RESOURCE CONSULTING LIMITED

## PROFIT AND LOSS ACCOUNT Year ended 31 December 2004

	Note	2004 £'000	2003 £'000
<b>TURNOVER</b>	2	276,602	286,318
Administrative expenses		(268,955)	(258,963)
<b>OPERATING PROFIT</b>		7,647	27,355
Profit on disposal of associated undertaking		-	162
Interest receivable and similar income	3	3,802	1,999
Interest payable and similar charges	4	(2,575)	(2,720)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2, 5	8,874	26,796
Tax on profit on ordinary activities	7	(3,250)	(11,147)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		5,624	15,649
Dividends paid	8	(3,649)	(23,841)
<b>RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO/(FROM) RESERVES</b>	17	1,975	(8,192)

Turnover and operating profit derive solely from continuing operations.

The company had no recognised gains or losses other than those reflected in the above profit and loss account for the current and the prior year. Accordingly, a statement of total recognised gains and losses has not been prepared.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS Year ended 31 December 2004

	2004 £'000	2003 £'000
Profit for the financial year	5,624	15,649
Dividends paid	(3,649)	(23,841)
Issue of shares (note 16)	20,000	28,400
Net addition to shareholders' funds	21,975	20,208
Opening shareholders' funds	173,976	153,768
Closing shareholders' funds	195,951	173,976

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## BALANCE SHEET 31 December 2004

	Note	£'000	2004 £'000	2003 £'000
<b>FIXED ASSETS</b>				
Tangible assets	9		33,645	42,281
Investments	10		1,099	601
			<u>34,744</u>	<u>42,882</u>
<b>CURRENT ASSETS</b>				
Debtors	11	152,131		128,776
Debtors due after more than one year	12	97,124		57,368
Cash at bank and in hand		49,196		58,584
			<u>298,451</u>	<u>244,728</u>
<b>CREDITORS: amounts falling due within one year</b>	13		<u>(46,905)</u>	<u>(36,266)</u>
<b>NET CURRENT ASSETS</b>			<u>251,546</u>	<u>208,462</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			286,290	251,344
<b>CREDITORS: amounts falling due after more than one year</b>	14		(29,000)	(61,000)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15		<u>(61,339)</u>	<u>(16,368)</u>
	2		<u>195,951</u>	<u>173,976</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	16		174,400	154,400
Other reserves	17		892	892
Profit and loss account	17		20,659	18,684
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			<u>195,951</u>	<u>173,976</u>

These financial statements were approved by the Board of Directors on 29 April 2005  
Signed on behalf of the Board of Directors

W S O'REGAN

Director

A SETHI

Director

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards. The accounting policies adopted by the directors and applied consistently throughout the period and the prior period, are summarised below.

**Basis of accounting**

The accounts are prepared under the historical cost convention.

**Basis of preparation**

These financial statements reflect the financial position and results for the company alone. Consolidated financial statements are not presented as the company is a wholly owned subsidiary of another UK company, Marsh & McLennan Companies UK Limited, which itself prepares consolidated accounts.

**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 chargeable hours and any uninvoiced amounts are shown as unbilled debtors, net of any provisions for amounts considered to be unbillable.

**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
Capitalised software development	3 years
Motor vehicles	4 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**

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Rentals paid under operating leases are charged on a straight line basis as incurred.

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 1. ACCOUNTING POLICIES (continued)

#### 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 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

It is the general policy of the company to provide for pension liabilities by payments to independent trusts. Internal actuarial valuations are carried out at intervals of not greater than three years. The regular cost charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from regular costs are allocated to the profit and loss account on a prudent basis over a period not exceeding the employees' average remaining service lives.

Any difference between amounts charged in the profit and loss account and paid to the pension fund is shown in the balance sheet as a liability or asset.

As there is currently no requirement to adopt fully the requirements of FRS 17, Retirement Benefits, the company continues to provide the transitional disclosures required by FRS 17.

#### Post-retirement medical benefits

The company provides post-retirement medical benefits to certain employees through an unfunded non-contributory defined benefit scheme. Amounts are charged to the profit and loss so as to spread these costs over employees' working lives with the company. The charge for post retirement medical benefits is calculated on an accruals basis in accordance with UITF Abstract No. 6. The unfunded post-retirement medical benefit liability is included within provisions for liabilities and charges in the balance sheet.

As there is currently no requirement to adopt fully the requirements of FRS 17, Retirement Benefits, the company continues to provide the transitional disclosures required by FRS 17.

#### 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.

#### 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.

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 £'000	2003 £'000
Other interest receivable	3,802	1,999

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
Interest payable under finance leases and hire purchase contracts	5	42
Interest payable on subordinated loans (note 14)	2,462	2,678
Other interest payable	108	-
	<u>2,575</u>	<u>2,720</u>

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £'000	2003 £'000
<b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b>		
Own work capitalised	-	(209)
Depreciation and amounts written off tangible fixed assets		
Owned	7,803	8,312
Held under finance leases	141	295
Loss on disposals of fixed assets	679	35
Impairment of software	2,761	-
Profit on disposal of associated undertaking	-	(162)
Rentals under operating leases		
Land and Buildings	9,584	9,065
Other operating leases	3,434	5,481
Sublet rental income	(85)	(83)
Auditors' remuneration - audit fees	305	246
- other services	43	85
Onerous lease provision (note 15)	8,274	1,850
Restructuring costs	<u>9,469</u>	<u>-</u>

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 6. STAFF COSTS

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

	2004 £'000	2003 £'000
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	142,759	141,498
Social security costs	12,518	12,769
Other pension costs	26,630	25,949
	<u>181,907</u>	<u>180,216</u>

The above does not include employee related restructuring costs (see note 5)

The average monthly number of persons employed by the company during the year was as follows:

	2004 Number	2003 Number
Consulting	2,133	2,745
Non-consulting	1,020	659
	<u>3,153</u>	<u>3,404</u>

Directors' remuneration was paid in respect of directors of the company as follows:

	2004 £'000	2003 £'000
Emoluments	5,087	5,227
Compensation for loss of office	1,202	-
	<u>Number</u>	<u>Number</u>

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

<u>17</u>	<u>18</u>
-----------	-----------

The directors' remuneration shown above (excluding pensions and pension contributions) included:

	2004 £'000	2003 £'000
Highest paid director	<u>673</u>	<u>710</u>

At 31 December 2004 the amount of the highest paid director's accrued annual pension was £130,346 (2003 - £121,800).

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

#### Analysis of charge for the year

	2004		2003	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profit for the year	2,221		3,099	
Adjustment in respect of prior years	(1,137)		(3,760)	
Total current tax charge/(credit)		1,084		(661)
Deferred tax:				
Timing differences, origination and reversal	2,356		7,232	
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(190)		4,576	
Total deferred tax charge		2,166		11,808
Tax charge on profit on ordinary activities		3,250		11,147

#### Factors affecting current tax charge/(credit) for the year

	2004	2003
	£'000	£'000
Profit on ordinary activities before taxation	8,874	26,796
UK corporation tax at 30% (2003 – 30%)	2,662	8,039
Effects of:		
Expenses not deductible for tax purposes	1,916	2,079
Utilisation of tax losses	(368)	(5,835)
Group relief surrendered without consideration	-	212
Timing differences, origination and reversal	(2,101)	(6)
Capital allowances	112	(1,390)
Adjustment in respect of prior years	(1,137)	(3,760)
	1,084	(661)

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

### 8. DIVIDENDS PAID

	2004	2003
	£'000	£'000
Interim dividends paid:		
19 February 2003 (8.00p per share)	-	10,082
19 May 2003 (7.19p per share)	-	9,061
18 August 2003 (3.73p per share)	-	4,698
24 May 2004 (2.37p per share)	3,649	-
	3,649	23,841

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 9. TANGIBLE FIXED ASSETS

The movements in the year were as follows:	Land and buildings £'000	Leasehold improve- ments £'000	Furniture and equipment £'000	IT equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2004	8,596	29,777	17,590	29,108	252	85,323
Additions	-	1,797	3	1,488	-	3,288
Disposals	-	(472)	(397)	(809)	(202)	(1,880)
At 31 December 2004	8,596	31,102	17,196	29,787	50	86,731
Depreciation						
At 1 January 2004	1,360	14,768	9,986	16,692	236	43,042
Charge for year	165	2,996	2,221	2,551	11	7,944
Impairment	-	-	-	2,761	-	2,761
Disposals	-	(185)	(170)	(109)	(197)	(661)
At 31 December 2004	1,525	17,579	12,037	21,895	50	53,086
Net book value						
At 31 December 2004	7,071	13,523	5,159	7,892	-	33,645
At 31 December 2003	7,236	15,009	7,604	12,416	16	42,281

The net book value of the company's IT equipment includes £nil (2003 - £141,000) in respect of assets held under finance leases. Included in land and buildings is land valued at £2,013,000 (2003 - £2,013,000) which is not subject to depreciation.



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**10. FIXED ASSET INVESTMENTS**

Investment in subsidiary undertakings	2004 £'000	2003 £'000
Cost and net book value		
At 1 January	601	101
Additions	498	500
At 31 December	1,099	601

During 2004 the company acquired the entire share capital of Summit Management Company Limited for a consideration of £498,000.

**Subsidiary undertakings**

The company's principal subsidiary undertakings as at 31 December 2004, all of which represent 100% ownership of ordinary shares, were:

Principal subsidiary undertakings	Country of registration or incorporation	Country of operation	Principal activity
Mercer Management Consulting Limited	England and Wales	United Kingdom	Management consulting services
Mercer Trustees Limited	England and Wales	United Kingdom	Trustees
William M. Mercer (Isle of Man) Limited	Isle of Man	Isle of Man	Pension scheme consultancy and actuarial services
Pension Trustees Limited	England and Wales	United Kingdom	Trustee for Mercer Human Resource Consulting Limited Pension and Life Assurance Plan
PFT Limited	England and Wales	United Kingdom	Trustee of funds held for pension scheme administration
Southampton Place Trustee Company Limited	England and Wales	United Kingdom	Trustee for client pension schemes
Sedgwick Noble Lowndes Group Limited	England and Wales	United Kingdom	Holding company for other subsidiary undertakings
Mercer Delta Consulting Limited	England and Wales	United Kingdom	Organisational Consulting
Summit Management Company Limited	England and Wales	United Kingdom	Human Resource Management
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)
William M. Mercer Fraser Limited	England and Wales	United Kingdom	Dormant Company
William M. Mercer Limited	England and Wales	United Kingdom	Dormant Company

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 11. DEBTORS

	2004 £'000	2003 £'000
Billed debtors	44,578	42,054
Unbilled debtors	19,916	22,668
Amounts owed by group companies:		
Subsidiary undertakings	9,145	15,885
Parent and fellow subsidiary undertakings	58,870	19,703
Corporation tax	2,310	890
Other debtors	9,508	6,956
Prepaid pension contributions	-	10,522
Other prepayments and accrued income	7,804	10,098
	<u>152,131</u>	<u>128,776</u>

### 12. DEBTORS DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Amount owed by fellow subsidiary	4,732	5,055
Deferred taxation (note 15)	-	1,949
Pension transfer review insurance claims (note 19)	649	19,674
Professional indemnity insurance claims (note 15)	36,000	-
Prepaid pension contributions	54,292	30,690
Other prepayments and accrued income	1,451	-
	<u>97,124</u>	<u>57,368</u>

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Obligations under finance leases and hire purchase contracts (note 18)	-	78
Trade creditors	475	638
Amounts owed to group companies:		
Parent and fellow subsidiary undertakings	1,432	768
Subsidiary undertakings	171	684
Other creditors:		
VAT payable	3,019	2,623
Social security and PAYE	6,176	6,482
Pension transfers and opt-outs (note 19)	-	535
Accruals and deferred income	35,632	24,458
	<u>46,905</u>	<u>36,266</u>

### 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Amounts owed to group companies:		
Subordinated loans (see below)	29,000	61,000
	<u>29,000</u>	<u>61,000</u>

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.

On 13 July 2001 a subordinated loan was advanced by a fellow subsidiary company in the amount of £10,000,000. This loan attracts interest at LIBOR plus 0.25% per annum, payable annually, and is repayable on 13 July 2006.

On 19 December 2002 a subordinated loan was advanced by the immediate parent company, Marsh & McLennan Companies UK Limited, in the amount of £32,000,000. This loan together with accrued interest was paid in full on 22 September 2004.

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 15. PROVISIONS FOR LIABILITIES AND CHARGES

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

	At 1 January 2004 £'000	Increase in provision £'000	Utilisation £000	At 31 December 2004 £'000
Deferred taxation	-	217	-	217
Post retirement medical benefits (note 21)	6,635	1,264	(271)	7,628
Onerous lease commitments	9,733	8,274	(513)	17,494
Professional indemnity claims	-	36,000	-	36,000
	<u>16,368</u>	<u>45,755</u>	<u>(784)</u>	<u>61,339</u>

The provision for professional indemnity claims represents the potential liability which may become payable in respect of actual or threatened litigation and claims arising in the normal course of business. Under the terms of the insurance policies the company has in place the directors are virtually certain that any liabilities which may arise from such litigation and claims will be met in full by the insurance coverage in place. Accordingly, insurance recoveries of £36,000,000 have been recognised within debtors due after more than one year (see note 12).

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

	Recognised	
	2004 £'000	2003 £'000
Deferred capital allowances	(1,607)	(1,672)
Unutilised tax losses carried forward	-	-
Timing differences in respect of contributions to pension scheme	3,639	424
Timing differences in respect of pension transfers and opt-outs	(315)	654
Other timing differences	<u>(1,500)</u>	<u>(1,355)</u>
	<u>217</u>	<u>(1,949)</u>

The provision for onerous lease commitments represents rental and other commitments on leased properties less anticipated sublet rental income and is payable over eleven years.

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS Year ended 31 December 2004

### 16. CALLED UP SHARE CAPITAL

	2004		2003	
	Number	£'000	Number	£'000
Authorised Ordinary shares of £1 each	228,400,000	228,400	228,400,000	228,400
Allotted, called up and fully paid Ordinary shares of £1 each	174,400,000	174,400	154,400,000	154,400

On 22 December 2004, 20,000,000 Ordinary shares of £1 were issued and fully paid at par.

### 17. MOVEMENT ON RESERVES

	Other reserves £'000	Profit and loss account £'000	Total £'000
Balance at 1 January 2004	892	18,684	19,576
Profit retained for year	-	1,975	1,975
Balance at 31 December 2004	892	20,659	21,551

### 18. GUARANTEES, CONTINGENT LAIBILITIES AND OTHER FINANCIAL COMMITMENTS

#### Capital commitments

	2004 £'000	2003 £'000
Capital commitments contracted for but not provided	212	29

#### Operating lease commitments

As at 31 December 2004, the company was committed to making the following payments during the next year in respect of operating leases:

	2004		2003	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Leases which expire:</b>				
Within one year	1,229	1,849	481	639
Within two to five years	705	1,557	1,958	2,041
After five years	13,105	1	7,540	8
	15,039	3,407	9,979	2,688

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## NOTES TO THE ACCOUNTS

Year ended 31 December 2004

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

#### 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 four years remaining with a current annual rental of £1,292,500; and
- (b) fellow subsidiary undertaking in respect of a lease with ten years remaining with a current annual rental of £825,000.

#### Finance lease obligations

	2004 £'000	2003 £'000
Minimum lease payments payable		
Within one year	-	78
Within two to five years	-	-
	<hr/>	<hr/>
		78
Finance charges allocated to future periods	-	(5)
	<hr/>	<hr/>
	-	73
	<hr/>	<hr/>
Due within one year	-	73
Due after more than one year	-	-
	<hr/>	<hr/>
	-	73
	<hr/>	<hr/>

Obligations under finance leases and hire purchase contracts are secured by related assets.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**19. PENSION TRANSFERS AND OPT-OUT BUSINESS**

**Mercer Human Resource Consulting Limited**

During the year the company settled its remaining obligations under Pension Transfers and Opt-outs with payments of £875,000 being made and £17,615,000 being received from insurers principally via the ultimate parent company. A further £649,000 is expected to be recovered.

The gross provision and associated insurance recoveries in respect of pension transfers and opt-outs are set out below:

	At 1 January 2004 £'000	Movement £'000	At 31 December 2004 £'000
<b>Pension transfers and Opt-out provisions (note 13)</b>			
Gross	57,710	(1,410)	56,300
Utilisation	(57,175)	875	(56,300)
Net	535	(535)	-
<b>Associated insurance recovery (note 12)</b>			
Gross	(57,710)	1,410	(56,300)
Received	38,036	17,615	55,651
Net	(19,674)	19,025	(649)
Net asset	(19,139)	18,490	(649)

**Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited**

On 16 July 1999 and 17 October 2000 Mercer Human Resource Consulting 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. £145,000 became payable under the indemnities in 2004 (2003 - £nil). No further amounts are expected to become payable in the future.

**20. PENSION SCHEME**

The company has continued to account for pensions in accordance with SSAP 24 and the disclosures given in part (i) below are those required by that standard. Financial Reporting Standard 17, Retirement Benefits, was issued in November 2000 but it will not be mandatory for the company to comply fully with its requirements until the end of the financial year 2005. Additional disclosures are, however, required in the interim and these are set out in part (ii) to this note.

**(i) Regular pension costs SSAP 24**

On 1 April 2000 the Mercer Human Resource Consulting Limited pension scheme was transferred to the MMC UK Pension Fund (formerly the Marsh Mercer Pension Fund), which is operated by Marsh & McLennan Companies UK Limited. There are separate sections relating to historical Mercer and Sedgwick employees.

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**20. PENSION SCHEME (continued)**

The company's principal pension scheme provides retirement pension benefits based on years of service and final pensionable pay. The assets of the scheme are held separately from those of the group. Pension costs are charged to the profit and loss account so as to spread these costs over employees' working lives with the company. The pension costs are determined by an actuary, employed by the group, using the projected unit method.

The most recent formal actuarial valuation was at 1 January 2004 and this has formed the basis on which the company has accounted for pensions for 2004. The assumptions which have the most significant effect on the results are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

Assumptions	At 1 January 2004	At 1 January 2003
Rate of investment returns	6.25%	6.5%
Rate of increase in salaries	4.0%	4.0%
Rate of increase in pensions	2.5%	2.25%

The next formal valuation will take place at 1 January 2007.

The pension charge for this scheme for the year ended 31 December 2004 was £26,008,000 (2003 - £25,320,000). This charge includes £15,400,000 (2003 - £13,470,000) in respect of the amortisation of experience deficit as estimated at 1 January 2004 that is being discharged over 15 years, the average remaining working lives of employees.

The actuarial valuations showed that the market value of the scheme's assets was £444,900,000 at 1 January 2004 and that the value of those assets represented 86% of the value of benefits that had accrued to members, after allowing for expected future increases in salaries and pensions.

On the advice of the actuary, regular company contributions of £15,300,000 (2003 - £7,300,000) together with expenses were paid to the scheme during the year at the rate of 20.9% of pensionable salaries for the Sedgwick section and 18.6% for the Mercer section from the start of the year until 1 April 2004, when the rate reduced to 18.9% of pensionable salaries for the Sedgwick section and 16.6% for the Mercer section. Employee contributions were increased by 2% of pensionable salaries from 1 April 2004. Additional one-off lump sum payments of £15,000,000 and £10,000,000 were paid in December 2004 in respect of the Mercer section. The Trustee has confirmed with the scheme actuary that, subject to future review (in particular with regard to the market value of the scheme's assets) the contribution rate for the Sedgwick section should be increased to 20.2% plus additional lump sum payments of £8,500,000 and the contribution rate for the Mercer section should be increased to 18.1% with effect from 1 January 2005. Employees can pay additional contributions in return for additional benefits from the Fund.

The balance sheet prepayment is £54,292,000 at 31 December 2004 (2003 - £41,212,000) (notes 11 and 12).

In addition, the company operates a defined contribution section for employees who are less than 30 years old and who have completed less than two years' service. Contributions to this section, which are charged to the profit and loss account as incurred, amounted to £622,000 (2003 - £629,000).



**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**20. PENSION SCHEME (continued)**

**(ii) FRS 17 disclosures**

The actuarial valuation referred to above was updated to 31 December 2004 by a qualified actuary. The FRS 17 assumptions differ from those used for SSAP 24 purposes predominantly due to the mandatory use of a corporate bond discount rate in pricing the liabilities. For SSAP 24 purposes, the liabilities are priced with reference to assumed investment returns on the scheme assets which are, in the main, equity investments. The major assumptions used under the projected unit method were:

Assumptions	At 31 December 2004	At 31 December 2003	At 31 December 2002
Rate of increase in salaries	4.0%	4.0%	4.0%
Rate of increase in pensions in payment	2.8%	2.5%	2.25%
Discount rate	5.3%	5.4%	5.6%
Inflation	2.8%	2.5%	2.25%

The assets in the scheme and the expected long-term rates of return at 31 December 2004 were:

	2004		2003		2002	
	Long-term rate of return	Value £'000	Long-term rate of return	Value £'000	Long-term rate of return	Value £'000
Equities	7.5%	283,400	7.75%	263,800	7.5%	205,700
Bonds	5.0%	197,100	5.1%	174,200	5.1%	127,700
Cash and other assets	6.4%	19,700	7.1%	6,900	4.0%	7,300
Actuarial value of assets		500,200		444,900		340,700
Actuarial value of liabilities		(612,500)		(483,900)		(427,700)
Scheme deficit		(112,300)		(39,000)		(87,000)
Related deferred tax asset		33,690		11,700		26,100
		<u>(78,610)</u>		<u>(27,300)</u>		<u>(60,900)</u>

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**20. PENSION SCHEME (continued)**

Had the company adopted FRS 17 early, net assets and profit and loss reserves would have been stated as follows:

	2004 £'000	2003 £'000
Net assets excluding pension liability and additional post-retirement medical benefit liability	195,951	173,976
Deduct SSAP 24 pension asset (net of deferred tax)	(50,653)	(41,212)
Add FRS 17 pension liability	(78,610)	(27,300)
Additional post-retirement medical benefit liability (note 21)	(958)	(2,118)
	<u>65,730</u>	<u>103,346</u>
Profit and loss reserve excluding pension deficit and additional post-retirement medical benefit liability	20,659	18,684
Deduct SSAP 24 pension asset (net of deferred tax)	(50,653)	(41,212)
Add FRS 17 pension deficit	(78,610)	(27,300)
Additional post-retirement medical benefit liability (note 21)	(958)	(2,118)
	<u>(109,562)</u>	<u>(51,946)</u>
Profit and loss reserve including pension deficit and additional post-retirement medical benefit liability	<u>(109,562)</u>	<u>(51,946)</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2004**

**20. PENSION SCHEME (continued)**

The following amounts would have been recognised in the performance statements in the year to 31 December 2004 under the requirements of FRS 17:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating profit</b>		
Current service cost	14,300	13,900
Curtailment cost	(3,000)	-
Past service cost	800	400
	<u>12,100</u>	<u>14,300</u>
<b>Other finance income</b>		
Expected return on scheme assets	30,200	23,300
Interest on scheme liabilities	(26,400)	(24,100)
	<u>3,800</u>	<u>(800)</u>
<b>Statement of total recognised gains and losses</b>		
Actual return less expected return on scheme assets	(8,800)	52,800
Experience (losses)/gains arising on scheme liabilities	(39,700)	6,500
Effects of changes in assumptions underlying the present value of scheme liabilities	(56,800)	(31,900)
	<u>(105,300)</u>	<u>27,400</u>
Actuarial (loss)/gain		

The effects of changes in assumptions underlying the present value of scheme liabilities includes the adverse effect of revisions to the mortality assumption in light of recent national surveys which have indicated that mortality has improved at faster rates than those previously anticipated.

The movements in the scheme deficit during the year were as follows:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Deficit in the scheme at 1 January	39,000	87,000
Current service cost	14,300	13,900
Contributions	(40,300)	(35,700)
Past service cost	800	400
Curtailment cost	(3,000)	-
Net finance (income)/expense	(3,800)	800
Actuarial loss/(gain)	105,300	(27,400)
	<u>112,300</u>	<u>39,000</u>
Deficit in the scheme at 31 December		

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**20. PENSION SCHEME (continued)**

History of experience gains and losses	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on scheme assets:			
Amount	(8,800)	52,800	(83,600)
Percentage of scheme assets	(2)%	12%	(25)%
Experience (losses)/gains on scheme liabilities:			
Amount	(39,700)	6,500	35,400
Percentage of the present value of the scheme liabilities	(6)%	1%	8%
Total amount recognised in statement of total recognised gains and losses:			
Amount	(105,300)	27,400	(104,600)
Percentage of the present value of the scheme liabilities	(17)%	6%	(25)%

**21. 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 dependants. 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, 248 pensioners receive these benefits and 253 employees are entitled to receive them should they reach retirement with the company.

The company has continued to account for post-retirement medical benefits in accordance with UITF Abstract No. 6 and the disclosures given in part (i) below are those required by that abstract. Financial Reporting Standard 17, Retirement Benefits was issued in November 2000 but it will not be mandatory for the company to comply fully with its requirements until the end of the financial year 2005. Additional disclosures are, however, required in the interim and these are set out in part (ii) to this note.

**(i) UITF Abstract No. 6**

The last actuarial valuation of the accrued liability and annual charge in respect of post-retirement medical benefits was carried out as at 31 December 2003. The method used was the projected unit method. On the basis of a gross interest rate of 5.3% per annum and a medical cost trend rate of 5.5% per annum for one year reducing to 4.0% over a further three years and remaining at 4.0% per annum thereafter, the accrued liability as at 31 December 2004 was £7,628,000 (2003 - £6,635,000).

The next full actuarial valuation will be carried out in 2005, as at 31 December 2004.

**(ii) FRS 17 disclosures**

An update was carried out at 31 December 2004 by a qualified actuary. On the basis of a gross interest rate of 5.3% per annum and a medical cost trend rate of 5.5% per annum for one year reducing to 4.0% over a further three years and remaining at 4.0% per annum thereafter, the accrued liability as at 31 December 2004 was £8,996,000 (2003 - £9,661,000).

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 2004**

**21. POST-RETIREMENT MEDICAL BENEFITS (continued)**

Had the company adopted FRS 17 early, the additional post-retirement medical benefit liability would have been as follows:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Actuarial value of liabilities	(8,996)	(9,661)
Amount provided	<u>7,628</u>	<u>6,635</u>
Unrecognised deficit	(1,368)	(3,026)
Related deferred tax asset	<u>410</u>	<u>908</u>
	<u>(958)</u>	<u>(2,118)</u>

The following amounts would have been recognised in the performance statements in the year to 31 December 2004 in respect of post-retirement medical benefits under the requirements of FRS 17:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
<b>Operating profit</b>		
Current service cost	<u>285</u>	<u>295</u>
<b>Other finance costs</b>		
Interest on scheme liabilities	<u>514</u>	<u>532</u>
<b>Statement of total recognised gains and losses</b>		
Experience gains arising on scheme liabilities	1,815	2,257
Effects of changes in assumptions underlying the present value of scheme liabilities	<u>(605)</u>	<u>(1,684)</u>
Actuarial gain	<u>1,210</u>	<u>573</u>

The movements in the scheme liabilities during the year were as follows:

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Scheme liabilities at 1 January	(9,661)	(9,657)
Current service cost	(285)	(295)
Payments	254	250
Interest on scheme liabilities	(514)	(532)
Actuarial gain	<u>1,210</u>	<u>573</u>
Scheme liabilities at 31 December	<u>(8,996)</u>	<u>(9,661)</u>

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2004**

**22. ULTIMATE PARENT UNDERTAKING**

The ultimate parent company and controlling entity, in whose consolidated accounts the financial statements of Mercer Human Resource Consulting Limited are included, is Marsh & McLennan Companies, Inc., incorporated in the State of Delaware, USA. The accounts of Marsh & McLennan Companies, Inc., are available to the public and may be obtained from:

Corporate Development  
Marsh & McLennan Companies, Inc.,  
1166 Avenue of the Americas  
New York  
NY 10036 - 2708

The smallest group in which the financial statements of Mercer Human Resource Consulting Limited are consolidated is that headed by Marsh & McLennan Companies UK Limited, registered in England and Wales. The consolidated accounts of Marsh & McLennan Companies UK Limited are available to the public and may be obtained from:

Registrar of Companies  
Companies House  
3 Crown Way  
Maindy  
Cardiff CF14 3UZ

**23. 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.

**24. POST BALANCE SHEET EVENT**

In April 2005, the Directors revised their office property strategy in London. As a result the company is now planning to assign or sublease a new building which it had previously planned to occupy. After taking professional advice, the Directors estimate the resultant additional onerous lease obligations, for which a provision has been made in April 2005, to be approximately £18m.