Company Registration No. 984275

# MERCER HUMAN RESOURCE CONSULTING LIMITED

## Report and Financial Statements

31 December 2006

# REPORT AND FINANCIAL STATEMENTS 2006

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## REPORT AND FINANCIAL STATEMENTS 2006

## OFFICERS AND PROFESSIONAL ADVISERS

**DIRECTORS**

A J Kirton
C D Nelson
F T Oldham
W S O'Regan (Chairman)
S J Pearse
A K Whalley

**SECRETARY**

M F Brindley

**REGISTERED OFFICE**

Tower Place West
1 Tower Place
London
EC3R 5BU

**BANKERS**

The Royal Bank of Scotland plc
ABN Amro

**SOLICITORS**

Slaughter & May

**AUDITORS**

Deloitte & Touche LLP
London

## DIRECTORS' REPORT

The dırectors present theır annual report and the audıted financıal statements for the year ended 31 December 2006

### BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

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

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

As shown ın the company's profit and loss account on page 7, turnover grew by 15 5 per cent, drıven by strong customer demand arısıng out of pensıons legıslatıon changes Operatıng profit margın also ımproved from 6 7 per cent to 17 6 per cent due to ıncreased turnover and cost control The dırectors consıder utılısatıon, recovery and workıng capıtal statıstıcs to be commercıally sensıtıve so have not dısclosed them ın thıs report

The company reported retaıned profit for the fınancıal year after taxatıon of £46,104,000 (2005 - £9,082,000) There were no ınterım dıvıdends declared or paıd on the ordınary shares (2005 - £nıl) The dırectors do not recommend the payment of a final dıvıdend (2005 - £nıl) No dıvıdends were receıved from subsıdıary companıes (2005 - £nıl)

As shown on the balance sheet on page 9, net assets have ıncreased by 68 3 per cent Thıs was prımarıly drıven by a reductıon ın the company's pensıon lıabılıty as outlıned ın note 23, and strong profits for the year

### FINANCIAL RISK MANAGEMENT

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

### INVESTOR IN PEOPLE

The company receıved the "Investor ın People" (IIP) award ın July 1997 IIP ıs the natıonal standard whıch ensures that the traınıng and development of employees ıs lınked dırectly to busıness goals The company has maıntaıned thıs standard, attaınıng re-accredıtatıon on 9 November 2006

### DISABLED EMPLOYEES

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

### EMPLOYEE CONSULTATION

The company places consıderable value on the ınvolvement of ıts employees and has contınued ıts practıce of keepıng them ınformed on matters affectıng them as employees and on the varıous factors affectıng the performance of the company

### PAYMENTS FOR CHARITABLE PURPOSES

Donatıons to charıtable organısatıons ın the Unıted Kıngdom totalled £25,759 (2005 - £41,320)

## DIRECTORS' REPORT (continued)

### DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 31 December 2006, all of whom were directors throughout the year except as noted below, were

| | | |
|---|---|---|
| D C Davis | Resigned 31 March 2006 | |
| A Gregory | Resigned 31 March 2006 | |
| A J Kirton | | |
| C D Nelson | | |
| F T Oldham | | |
| W Rayner | Resigned 31 December 2006 | |
| W S O'Regan | Chairman | |
| S J Pearse | | |
| A Sethi | Resigned 20 December 2006 | |
| J H Standen | Resigned 10 October 2006 | |
| M J Tyler | Resigned 31 May 2006 | |
| A K Whalley | Appointed 25 September 2006 | |
| M F Brindley | Appointed 20 December 2006 | Secretary |

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 2006

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

### 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

This report was approved by the board of directors on 4 May 2007 and signed on its behalf by

M F Brindley
Secretary

4 May 2007

## 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, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCER HUMAN RESOURCE CONSULTING LIMITED

We have audited the financial statements of Mercer Human Resource Consulting Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds, the statement of total recognised gains and losses and the related notes 1 to 28 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 annual report and 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 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 HUMAN RESOURCE CONSULTING 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 2006 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 & Touche LLP

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London

4 May 2007

## PROFIT AND LOSS ACCOUNT
### Year ended 31 December 2006

| | Notes | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|---|
| **TURNOVER** | 1, 2 | 317,896 | 275,131 |
| Administrative expenses | | (262,068) | (256,590) |
| **OPERATING PROFIT** | | 55,828 | 18,541 |
| Interest receivable and similar income | 3 | 8,994 | 6,721 |
| Interest payable and similar charges | 4 | (1,654) | (3,203) |
| Other finance income/(charges) | 5 | 2,237 | (370) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | 6 | 65,405 | 21,689 |
| Tax on profit on ordinary activities | 8 | (19,301) | (12,607) |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | | 46,104 | 9,082 |
| **RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES** | 19 | 46,104 | 9,082 |

Turnover and operating profit derive solely from continuing operations

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
**Year ended 31 December 2006**

| | Notes | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|---|
| Profit for the financial year | | 46,104 | 9,082 |
| Actuarial gain/(loss) in respect of pension scheme | 23 | 52,700 | (20,500) |
| Actuarial loss in respect of other retirement benefits | 24 | (193) | (498) |
| Deferred tax relating to actuarial gains and losses | | (15,654) | 6,286 |
| Actuarial gain/(loss) on pensions liability net of taxation | 19 | 36,853 | (14,712) |
| **TOTAL GAINS AND LOSSES RELATING TO THE YEAR** | | **82,957** | **(5,630)** |
| **PRIOR YEAR ADJUSTMENT** | 26 | **(3,764)** | |
| **TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT AND FINANCIAL STATEMENTS** | | **79,193** | |

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
**Year ended 31 December 2006**

| | Notes | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|---|
| Profit on ordinary activities after taxation | | 46,104 | 9,082 |
| Actuarial gain/(loss) relating to retirement benefits | 19 | 36,853 | (14,712) |
| Issue of shares | 18 | - | 50,000 |
| Capital contribution in respect of share based payments | 19 | 1,910 | 1,680 |
| **NET CHANGE TO SHAREHOLDERS' FUNDS** | | **84,867** | **46,050** |
| **OPENING SHAREHOLDERS' FUNDS AS PREVIOUSLY STATED** | | **124,216** | **78,392** |
| Prior year adjustment | 26 | - | (226) |
| **OPENING SHAREHOLDERS' FUNDS AS RESTATED** | | **124,216** | **78,166** |
| **CLOSING SHAREHOLDERS' FUNDS** | | **209,083** | **124,216** |

# BALANCE SHEET
## 31 December 2006

| | Notes | £'000 | 2006 £'000 | £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|---|---|---|
| **FIXED ASSETS** | | | | | |
| Intangible assets | 9 | | 600 | | - |
| Tangible assets | 10 | | 19,657 | | 25,342 |
| Investments | 11 | | 2,486 | | 2,179 |
| | | | 22,743 | | 27,521 |
| **CURRENT ASSETS** | | | | | |
| Debtors | 12 | 276,083 | | 250,938 | |
| Debtors due after more than one year | 13 | 58,878 | | 54,133 | |
| Cash at bank and in hand | | 42,879 | | 21,752 | |
| | | | 377,840 | | 326,823 |
| **CREDITORS: amounts falling due within one year** | 15 | | (58,505) | | (51,207) |
| **NET CURRENT ASSETS** | | | 319,335 | | 275,616 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | | 342,078 | | 303,137 |
| **CREDITORS: amounts falling due after more than one year** | 16 | | (19,489) | | (20,053) |
| **PROVISIONS FOR LIABILITIES** | 17 | | (60,487) | | (68,301) |
| **NET ASSETS EXCLUDING RETIREMENT BENEFITS LIABILITIES** | | | 262,102 | | 214,783 |
| Pension liability | 23 | | (42,350) | | (80,360) |
| Other retirement benefits liability | 24 | | (10,669) | | (10,207) |
| **NET ASSETS INCLUDING RETIREMENT BENEFITS LIABILITIES** | | | 209,083 | | 124,216 |
| **CAPITAL AND RESERVES** | | | | | |
| Called up share capital | 18 | | 224,400 | | 224,400 |
| Other reserves | 19 | | 6,049 | | 4,139 |
| Profit and loss account | 19,20 | | (21,366) | | (104 323) |
| **TOTAL EQUITY SHAREHOLDERS' FUNDS** | | | 209,083 | | 124,216 |

These financial statements were approved by the Board of Directors on 4 May 2007 and signed on its behalf by

W S O REGAN Director

A K WHALLEY Director AK Whalley

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 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 summarised below, have been applied consistently throughout the period and the prior period, with the exception of FRS20 'Share-based Payment', which has been implemented in the year (see note 25)

**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

**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

**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 |
| Capitalised software development | 3 to 10 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**

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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 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 less than 30 years old and who have completed less than two years' service

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 Marsh & McLennan Companies UK Ltd 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

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

**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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 1. ACCOUNTING POLICIES (continued)

**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 has also adopted Urgent Issues Task Force Abstract 44 *Group and Treasury Share Transactions* ("UITF 44")

The company's parent company, MMC, maintains multiple equity settled share-based payment arrangements in the UK, under which employees are awarded grants of Stock Options and Save As You Earn (SAYE) awards, 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

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Other interest receivable | 8,994 | 6,721 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Interest payable on subordinated loans (note 16) | 1,150 | 1,424 |
| Other interest payable | 504 | 1,779 |
| | 1,654 | 3,203 |

### 5. OTHER FINANCE INCOME / (CHARGES)

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Net finance income relating to pension scheme (note 23) | 2,700 | 100 |
| Net finance charges relating to post retirement medical benefits (note 24) | (463) | (470) |
| Net finance income/(charges) relating to retirement benefits | 2,237 | (370) |

### 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Profit on ordinary activities before taxation is stated after charging/(crediting):** | | |
| Depreciation and amounts written off tangible fixed assets | | |
| Owned | 7,235 | 5,837 |
| Amortisation of intangible fixed assets | 150 | - |
| Gain on disposals of fixed assets | - | (7) |
| Rentals under operating leases | | |
| Land and Buildings | 5,544 | 8,883 |
| Other operating leases | 3,578 | 2,314 |
| Sublet rental income | (769) | (436) |
| Auditors' remuneration - audit fees | 326 | 314 |
| - other services | 19 | 53 |
| Onerous lease provision (note 17) | (661) | 19,872 |
| Restructuring costs | 2,542 | 74 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 7. STAFF COSTS

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

| | 2006 £'000 | 2005 £'000 Restated |
|---|---|---|
| **Employee costs during the year amounted to:** | | |
| Wages and salaries | 145,323 | 134,258 |
| Social security costs | 13,245 | 11,967 |
| Other pension costs | 19,606 | 19,440 |
| | 178,174 | 165,665 |

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

The company has also incurred costs of £240,000 (2005 - £244,000) paid to certain former employees relating to post retirement medical benefits (see note 24) which are not included above

| **The average monthly number of persons employed by the company during the year was as follows:** | 2006 Number | 2005 Number |
|---|---|---|
| Consulting | 2,199 | 2,025 |
| Non-consulting | 861 | 807 |
| | 3,060 | 2,832 |

| **Directors' remuneration was paid in respect of directors of the company as follows:** | 2006 £'000 | 2005 £'000 Restated |
|---|---|---|
| Emoluments | 2,671 | 3,748 |
| Amounts receivable (other than shares and share options) under long-term incentive schemes | 133 | 66 |
| Compensation for loss of office | - | 124 |
| | **Number** | **Number** |
| The number of directors accruing benefits under defined benefit pension schemes was | 10 | 16 |

| **The directors' remuneration shown above (excluding pensions and pension contributions) included:** | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Highest paid director | 441 | 484 |

At 31 December 2006 the amount of the highest paid director's accrued annual pension was £12,833 (2005 - £6,631)

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 £27,013 (2005 - £11,250)

Certain directors are also remunerated by other group companies

## NOTES TO THE ACCOUNTS
**Year ended 31 December 2006**

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

**Analysis of charge for the year**

| | 2006 | | 2005 Restated (note 26) | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Current tax | | | | |
| UK corporation tax on profit for the year | 19,698 | | 7,257 | |
| Adjustment in respect of prior years | (1,690) | | 118 | |
| Total current tax charge | | 18,008 | | 7,375 |
| Deferred tax | | | | |
| Timing differences, origination and reversal | 24 | | 5,320 | |
| Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods | 1,269 | | (88) | |
| Total deferred tax charge | | 1,293 | | 5,232 |
| Tax charge on profit on ordinary activities | | 19,301 | | 12,607 |

**Factors affecting current tax charge for the year**

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| Profit on ordinary activities before taxation | 65,405 | 21,689 |
| UK corporation tax at 30% (2005 – 30%) | 19,622 | 6,507 |
| Effects of | | |
| Expenses not deductible for tax purposes | 1,191 | 5,565 |
| UK to UK transfer pricing adjustment | (1,115) | - |
| Utilisation of tax losses | (548) | - |
| Timing differences, origination and reversal | 227 | (5,844) |
| Capital allowances | 321 | 1,029 |
| Adjustment in respect of prior years | (1,690) | 118 |
| | 18,008 | 7,375 |

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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 9. INTANGIBLE FIXED ASSETS

| | £'000 |
|---|---|
| **Cost** | |
| At 1 January 2006 | - |
| Additions | 750 |
| At 31 December 2006 | 750 |
| **Amortisation** | |
| At 1 January 2006 | - |
| Charge for the year | 150 |
| At 31 December 2006 | 150 |
| **Net book value** | |
| At 31 December 2006 | 600 |
| At 31 December 2005 | - |

Intangible fixed assets represents the Healthcare business previously carried on by 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 2006 | 8,596 | 15,961 | 10,419 | 30,528 | - | 65,504 |
| Additions | - | 128 | 2 | 1,178 | 641 | 1,949 |
| Disposals | - | - | - | (6,457) | - | (6,457) |
| Reclassification | - | (66) | - | 66 | - | - |
| At 31 December 2006 | 8,596 | 16,023 | 10,421 | 25,315 | 641 | 60,996 |
| Depreciation | | | | | | |
| At 1 January 2006 | 1,690 | 8,297 | 6,759 | 23,416 | - | 40,162 |
| Charge for year | 165 | 1,518 | 807 | 4 745 | - | 7,235 |
| Disposals | - | - | - | (6,058) | - | (6,058) |
| Reclassification | - | (29) | - | 29 | - | - |
| At 31 December 2006 | 1,855 | 9,786 | 7,566 | 22,132 | - | 41 339 |
| Net book value | | | | | | |
| At 31 December 2006 | 6,741 | 6,237 | 2,855 | 3,183 | 641 | 19,657 |
| At 31 December 2005 | 6,906 | 7,664 | 3,660 | 7,112 | - | 25,342 |

Included in land and buildings is land held at cost of £2,013,000 (2005 - £2,013,000) which is not subject to depreciation

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 11. FIXED ASSET INVESTMENTS

| Investment in subsidiary undertakings | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Cost and net book value | | |
| At 1 January | 2,179 | 1,099 |
| Additions | 307 | 1,080 |
| At 31 December | 2,486 | 2,179 |

During 2006 the company paid a contingent consideration of £307,000 with respect to the purchase in 2004 of Summit Management Company Limited

**Subsidiary undertakings**

The company's principal subsidiary undertakings as at 31 December 2006, 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 | 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 |
| Southampton Place Trustee Company Limited | England and Wales | United Kingdom | Trustee Company (Dormant) |
| 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 | Dormant 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 |

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 12. DEBTORS

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Billed debtors | 59,535 | 48,851 |
| Unbilled debtors | 23,991 | 22,485 |
| Amounts owed by group companies | | |
| Subsidiary undertakings | 5,409 | 12,659 |
| Parent and fellow subsidiary undertakings | 176,196 | 158,026 |
| Amounts due from other group companies in respect of taxation | 3,340 | 2,168 |
| Corporation tax | - | 2,759 |
| Other debtors | 1,499 | 918 |
| Other prepayments and accrued income | 6,113 | 3,072 |
| | 276,083 | 250,938 |

Included within Amounts owed by parent and fellow subsidiary undertakings is £4,044,000 (2005 - £6,038,000) in respect of professional indemnity insurance claims

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

| | Notes | 2006<br>£'000 | 2005<br>£'000<br>Restated<br>(note 26) |
|---|---|---|---|
| Amount owed by fellow subsidiary | | 4,732 | 4,732 |
| Deferred taxation | 14 | 5,514 | 10,332 |
| Professional indemnity insurance claims | 17 | 46,300 | 37,500 |
| Other prepayments and accrued income | | 2,332 | 1,569 |
| | | 58,878 | 54,133 |

Amounts receivable in respect of pension transfer review insurance claims and professional indemnity insurance claims are receivable from other group undertakings

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 14. DEFERRED TAXATION

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

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| **Provided** | | |
| **Movements on the deferred taxation account were as follows:** | | |
| At 1 January | 10,332 | 16,178 |
| Charged to profit and loss account in current year | (24) | (5,320) |
| Prior year adjustment | (1,269) | 88 |
| Transfer to statement of total recognised gains and losses | (4,005) | (6,780) |
| Movement in net post-retirement liability | 480 | 6,166 |
| At 31 December | 5,514 | 10,332 |

**Analysis of deferred tax balance.**

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| Accelerated capital allowances | 1,786 | 2,634 |
| Short-term timing differences | 1,853 | 1,818 |
| Pension and post-retirement benefit obligations | 1,875 | 5,880 |
| | 5,514 | 10,332 |

The transfer to statement of total recognised gains and losses is the current year reversal of the tax relief for pension contributions made to cover an actuarial loss in the pension fund Corporation tax relief for these payments is being spread over a number of years and the above £4,005,000, together with an equal and opposite movement for current tax is included in the statement of total recognised gains and losses

The current rate of Corporation Tax is 30% Proposals put forward will reduce this rate to 28% with effect from 1 April 2008 Had this rate been in force at the balance sheet date the total deferred tax balances would have been £5,147,000 made up as follows

| | |
|---|---|
| Accelerated Capital Allowances | £1,667,000 |
| Short Term Timing Differences | £1,730,000 |
| Pension and Post Retirement obligations | £1,750,000 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 15. CREDITORS. AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| Trade creditors | 67 | 186 |
| Amounts owed to group companies | | |
| Parent and fellow subsidiary undertakings | 14,282 | 19,072 |
| Subsidiary undertakings | 171 | 171 |
| Amounts due to other group undertakings in respect of taxation | 440 | 477 |
| Corporation tax | 1,676 | - |
| Other creditors | | |
| VAT payable | 11,036 | 3,222 |
| Social security and PAYE | 6,571 | 6,142 |
| Accruals and deferred income | 24,262 | 21,937 |
| | 58,505 | 51,207 |

On 13 July 2001 a subordinated loan of £10,000,000 was advanced by a fellow subsidiary company This loan attracts interest at LIBOR plus 0 25% per annum, payable annually, and is repayable on 14 December 2007

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

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| Amounts owed to group companies | | |
| Parent and fellow subsidiary undertakings | 489 | 1,053 |
| Subordinated loans | 19,000 | 19,000 |
| | 19,489 | 20,053 |

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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 17. PROVISIONS FOR LIABILITIES

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

| | At 1 January 2006 £'000 | Increase in provision £'000 | Reductions in provision £'000 | Utilisation £000 | At 31 December 2006 £'000 |
|---|---|---|---|---|---|
| Onerous lease commitments | 30,801 | 3,674 | (4,335) | (16,809) | 13,331 |
| Professional indemnity claims | 37,500 | 17,406 | (4,307) | (4,299) | 46,300 |
| Restructuring costs | - | 2,542 | - | (1,686) | 856 |
| | 68,301 | 23,622 | (8,642) | (22,794) | 60,487 |

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

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&Os) in connection with the performance of professional services E&Os are also identified from internal reviews of client files Often, when such cases arise, we have a statutory duty to disclose the relevant issues to our clients 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 disclosed or provided as appropriate when a reliable estimate can be made of any obligation

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 £46,300,000 (2005 - £37,500,000) 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, which was performed during the year

### 18. CALLED UP SHARE CAPITAL

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | 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 |

On 2 June 2005, the Company increased its authorised share capital by 71 6m to 300m and 50m Ordinary shares of £1 were issued and fully paid at par

## NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 19. MOVEMENT ON RESERVES

| | Notes | Share capital | Other reserves | Profit and loss account | Total |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| As at 1 January 2006 as previously stated | | 224,400 | 892 | (100,559) | 124,733 |
| Prior year adjustment | 26 | - | 3,247 | (3,764) | (517) |
| As at 1 January 2006 as restated | | 224,400 | 4,139 | (104,323) | 124,216 |
| Actuarial gain in respect of pension scheme | 23 | - | - | 52,700 | 52,700 |
| Actuarial loss in respect of post retirement medical benefits | 24 | - | - | (193) | (193) |
| Deferred tax relating to actuarial gains and losses | | - | - | (15,654) | (15,654) |
| Actuarial gain on pensions liability net of taxation | | - | - | 36,853 | 36,853 |
| Capital contributions in respect of share based payments | | - | 1,910 | - | 1,910 |
| Profit for the financial year | | - | - | 46,104 | 46,104 |
| Net addition to shareholders' funds | | - | 1,910 | 82,957 | 84,867 |
| As at 31 December 2006 | | 224,400 | 6,049 | (21,366) | 209,083 |

| | Notes | Share capital | Other reserves | Profit and loss reserve | Total |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| As at 1 January 2005 as previously stated | | 174,400 | 892 | (96,900) | 78,392 |
| Prior year adjustment | 26 | - | 1,567 | (1,793) | (226) |
| As at 1 January 2005 as restated | | 174,400 | 2,459 | (98,693) | 78,166 |
| Actuarial loss in respect of pension scheme | 23 | - | - | (20,500) | (20,500) |
| Actuarial loss in respect of post retirement medical benefits | 24 | - | - | (498) | (498) |
| Deferred tax relating to actuarial losses | | - | - | 6,286 | 6,286 |
| Actuarial loss on pensions liability net of taxation | | - | - | (14,712) | (14,712) |
| Issue of shares | 18 | 50,000 | - | - | 50,000 |
| Capital contributions in respect of share based payments | | - | 1,680 | - | 1,680 |
| Profit for the financial year | | - | - | 9,082 | 9,082 |
| Net addition to shareholders' funds | | 50,000 | 1,680 | (5,630) | 46,050 |
| As at 31 December 2005 | | 224,400 | 4,139 | (104,323) | 124,216 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 20. PROFIT AND LOSS RESERVE

| | 2006 £'000 | 2005 £'000 Restated (note 26) |
|---|---|---|
| Profit and loss reserve excluding retirement benefits liability | 31,683 | (13,756) |
| Pension liability | (42,350) | (80,360) |
| Other retirement benefits liability | (10,699) | (10,207) |
| Profit and loss reserve | (21,366) | (104,323) |

### 21. GUARANTEES, CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

**Operating lease commitments**

As at 31 December 2006, the company was committed to making the following payments during the next year in respect of operating leases

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| **Leases which expire:** | | | | |
| Within one year | - | 1,131 | 131 | 2,307 |
| Within two to five years | 1,814 | 1,136 | 1,273 | 1,833 |
| After five years | 10,302 | - | 10,661 | - |
| | 12,116 | 2,267 | 12,065 | 4,140 |

In addition to the leases above, the company has a commitment to pay a lease on Tower Bridge House, a property into which the company had intended to move, but which did not become occupied by the company The company has an obligation to pay rentals on the lease, which expires in 2028, and against which the company expects to receive sublet rental income from 2007 onwards, following a rent free period 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 £2,269,900 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 two years remaining with a current annual rental of £1,292,500, and

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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 22. PENSION TRANSFERS AND OPT-OUT BUSINESS

**Mercer Human Resource Consulting 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 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 Amounts of £233,000 became payable under the indemnities in 2006 (2005 - £403,000) No further amounts are expected to become payable in the future

### 23. PENSION SCHEME

The group operates a defined benefits pension scheme in the UK

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

A full actuarial valuation was carried out at 31 December 2003 and updated to 31 December 2006 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 2006** | **31 December 2005** | **31 December 2004** |
|---|---|---|---|
| Rate of increase in salaries | 4 00% | 4 00% | 4 00% |
| Rate of increase of pensions in payment | 3 00% | 2 75% | 2 75% |
| Rate of increase in pensions in deferment | 3 00% | 2 75% | 2 75% |
| Discount rate for scheme liabilities | 5 10% | 4 70% | 5 30% |
| Inflation assumption | 3 00% | 2 75% | 2 75% |

The discount rate has risen from 4 7% p a to 5 1% p a due to a corresponding rise in long dated sterling AA corporate bond yields over 2006 This higher discount rate leads to a significant decrease of £21 1m in the present value of liabilities at 31 December 2006, which is shown in the STRGL as arising due to a change in assumptions

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 23. PENSION SCHEME (continued)

The value of the assets in the scheme, the long term expected rate of return on each class of asset and the value of the scheme's liabilities assessed using the assumptions described above, are shown below

| | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|
| | Long-term rate of return | Value £'000 | Long-term rate of return | Value £'000 | Long-term rate of return | Value £'000 |
| Equities | 7 6% | 408,500 | 7 1% | 349,300 | 7 5% | 283,400 |
| Government bonds | 4 6% | 113,900 | 4 1% | 119,400 | 4 5% | 70,400 |
| Corporate bonds | 5 1% | 114,100 | 4 7% | 109,700 | 5 3% | 126,700 |
| Property | 7 6% | 17,400 | 7 1% | 14,600 | 7 5% | 11,900 |
| Cash | 5 0% | 6,800 | 4 5% | 7,000 | 4 8% | 7,800 |
| Actuarial value of assets | | 660,700 | | 600,000 | | 500,200 |
| Actuarial value of liabilities | | (721,200) | | (714,800) | | (612,500) |
| Scheme deficit | | (60,500) | | (114,800) | | (112,300) |
| Related deferred tax asset | | 18,150 | | 34,440 | | 33,690 |
| | | (42,350) | | (80,360) | | (78,610) |

The current rate of Corporation Tax is 30% Proposals put forward will reduce this rate to 28% with effect from 1 April 2008 Had this rate been in force at the balance sheet date the deferred tax balance for the pension scheme deficit at 31 December 2006 would have been £16,940,000

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 23. PENSION SCHEME (continued)

The yield assumption is based on AA rated corporate bond yields at the calculation date The assumptions for price inflation, and hence pension increases and salary growth, are derived from the relationship between the yields on fixed interest gilts and index-linked gilts at the calculation date

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Analysis of amounts charged to operating profit** | | |
| Current service cost | 18,700 | 17,300 |
| Past service cost | 100 | 1,500 |
| Total included within operating profit | 18,800 | 18,800 |
| **Analysis of amount credited to net finance charges** | | |
| Expected return on scheme assets | 36,400 | 32,700 |
| Interest on scheme liabilities | (33,700) | (32,600) |
| Net finance income | 2,700 | 100 |
| **Analysis of the actuarial gain/(loss) in the Statement of total recognised gains and losses** | | |
| Actual return less expected return on scheme assets | 19,600 | 43,600 |
| Experience gains and losses arising on scheme liabilities | 12,000 | 18,500 |
| Effects of changes in assumptions underlying the present value of scheme liabilities | 21,100 | (82,600) |
| Actuarial gain/(loss) | 52,700 | (20,500) |

Movement in scheme deficit during the year

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Deficit in the scheme at 1 January | 114,800 | 112,300 |
| Current service cost | 18,700 | 17,300 |
| Contributions | (17,700) | (36,700) |
| Past service cost | 100 | 1,500 |
| Net finance income | (2,700) | (100) |
| Actuarial (gain)/loss | (52,700) | 20,500 |
| Deficit in the scheme at 31 December | 60,500 | 114,800 |

The actuarial valuation at 31 December 2006 showed a decrease in deficit from £114,800,000 to £60,500,000 Regular employer contributions were made in 2006 of 20 1% and 23 2% of pensionable pay for members of the Mercer and Sedgwick sections of the fund respectively It has been agreed with the Trustee that Employer contributions will increase from 1 January 2007 to 23 6% and 26 5% of pensionable pay for members of the Mercer and Sedgwick sections of the fund respectively

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 23. PENSION SCHEME (continued)

| History of experience gains and losses | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Difference between the expected and actual return on scheme assets | | | | |
| Amount (£'000) | 19,600 | 43,600 | (8,800) | 52,800 |
| Percentage of scheme assets | 3% | 7% | (2)% | 12% |
| Experience gains/(losses) on scheme liabilities | | | | |
| Amount (£'000) | 12,000 | 18,500 | (39,700) | 6,500 |
| Percentage of the present value of the scheme liabilities | 2% | 3% | (6)% | 1% |
| Total actuarial gain/(loss) recognised in statement of total recognised gains and losses | | | | |
| Amount (£'000) | 52,700 | (20,500) | (105,300) | 27,400 |
| Percentage of the present value of the scheme liabilities | 7% | (3)% | (17)% | 6% |

The group also operates a defined contribution scheme 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 £806,000 (2005 - £640,000)

### 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, 267 pensioners receive these benefits and 207 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 2006 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 2006 | 31 December 2005 | 31 December 2004 |
|---|---|---|---|
| Gross interest rate | 5 1% | 4 70% | 5 30% |
| Medical cost trend rate for one year | 4 5% | 5 00% | 5 50% |
| Medical cost trend rate after one year | 4 0% | 4 00% | 4 00% |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 24. POST RETIREMENT MEDICAL BENEFITS (continued)

The following amounts have been recognised in the performance statements in the year to 31 December 2006 in respect of post retirement medical benefits under the requirements of FRS 17

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Analysis of amounts charged to operating profit** | | |
| Current service cost | 240 | 244 |
| Total included within operating profit | 240 | 244 |
| **Analysis of amount charged to other finance costs** | | |
| Interest on scheme liabilities | 463 | 470 |
| Net finance cost | 463 | 470 |
| **Analysis of the actuarial loss in the Statement of total recognised gains and losses** | | |
| Experience gains and losses arising on scheme liabilities | 141 | (540) |
| Effects of changes in assumptions underlying the present value of scheme liabilities | (334) | 42 |
| Actuarial loss | (193) | (498) |

Movement in scheme liability during the year

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Liability in the scheme at 1 January | 9,993 | 8,996 |
| Current service cost | 240 | 244 |
| Payments | (278) | (215) |
| Interest on scheme liabilities | 463 | 470 |
| Actuarial loss | 193 | 498 |
| Liability in the scheme at 31 December | 10,611 | 9,993 |
| Related deferred tax asset | 58 | 214 |
| Net liability in the scheme at 31 December | 10,669 | 10,207 |

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 24. POST RETIREMENT MEDICAL BENEFITS (continued)

| History of experience gains and losses | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|
| Experience gains/(losses) on scheme liabilities | | | | |
| Amount (£'000) | 141 | (540) | 1,815 | 2,257 |
| Percentage of the present value of the scheme liabilities | 1% | (5)% | 20% | 23% |
| Total actuarial (loss)/gain recognised in statement of total recognised gains and losses | | | | |
| Amount (£'000) | (193) | (498) | 1,210 | 573 |
| Percentage of the present value of the scheme liabilities | (2)% | (5)% | 13% | 6% |

### 25. SHARE BASED PAYMENTS

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

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

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

Share Purchase Plan costs were accrued in the year of grant

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

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

**Non-Qualified Stock Options**

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

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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 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

| | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| Weighted average share price | $28 98 | $27 86 | $46 14 | $43 11 | $55 78 |
| Weighted average exercise price | $28 98 | $27 86 | $46 14 | $43 11 | $55 78 |
| Expected volatility | 29 0% | 23 5% | 19 6% | 21 0% | 33 2% |
| Expected life | 2-5 years | 2-5 years | 2-5 years | 2-5 years | 2-5 years |
| Risk-free rate | 5 0% | 3 9% | 2 78% | 2 75% | 5 0% |
| Expected dividends | 2 3% | 2 3% | 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 10 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 10 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

*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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 25. SHARE BASED PAYMENTS (continued)

The assumptions used in the binomial option pricing valuation model for options granted during 2005 and 2006 are as follows

| | 2006 | 2005 | |
|---|---|---|---|
| | | Post 30/6/05 | Pre 01/7/05 |
| Risk-free interest rate | 4 7%-5 3% | 4 0%-4 1% | 4 1%-4 5% |
| Expected life (in years) | 5 0 – 7 1 | 5 2 – 6 5 | 6 7 – 6 8 |
| Expected volatility | 29 0% | 29 0% | 17 9% |
| Expected dividends | 2 3% | 2 3% | 2 2% |

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

| | | 2006 | | 2005 |
|---|---|---|---|---|
| | Number of share options | Weighted average exercise price (US$) | Number of share options | Weighted average exercise price (US$) |
| Outstanding at beginning of period | 2,521,999 | 36 43 | 2,911,230 | 43 38 |
| Granted during the period | 370,600 | 30 20 | 927,510 | 28 96 |
| Forfeited/expired during the period | 69,905 | 39 66 | 42,659 | 38 63 |
| Cancelled or exchanged during the period | - | - | 1,255,250 | 47 23 |
| Exercised during the period | 65,872 | 20 27 | 18,832 | 17 18 |
| Outstanding at the end of the period | 2,756,822 | 35 90 | 2,521,999 | 36 43 |
| Exercisable at the end of the period | 1,481,801 | 41 53 | 1,481,801 | 40 68 |

The options outstanding at 31 December 2006 had a weighted average exercise price of $35 90, and a weighted average remaining contractual life of 5 1 years In 2006, options were granted on 15 March and 17 May The aggregate of the estimated fair values of the options granted at that date was US$3,200,000

The company recognised total expenses of £1,333,000 and £884,000 in relation to all non-qualified stock options in 2006 and 2005 respectively

**Share Awards**

Share Awards - 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

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 25 SHARE BASED PAYMENTS (continued)

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | 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 | 93,074 | 43 80 | 136,777 | 46 64 |
| Granted during the period | 42,971 | 30 14 | 5,221 | 28 74 |
| Forfeited during the period | 4,056 | 35 47 | 2,271 | 44 78 |
| Vested during period | 51,467 | 42 29 | 46,653 | 51 28 |
| Outstanding at the end of the period | 80,522 | 38 02 | 93,074 | 43 80 |

The company recognised total expenses of £702,000 and £1,208,000 in relation to stock awards in 2006 and 2005 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 3 or 5 year vesting period Options must be exercised within 6 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 3 or 5 years based on the terms of the plan The cost is recognised over the appropriate vesting period

Under this scheme £694,035 was expensed during 2006 (2005 - £581,780) in relation to 3 and 5 year schemes commencing during the years 2001 to 2006

**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 78,441 ordinary shares in 2006 (2005 - 270,497), at a weighted average share price of £16 22 (2005 - £16 47) The discount of £64,024 (2005 - £667,463) is recognised in full when the shares are purchased

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 26. PRIOR YEAR ADJUSTMENT

The company policy for accounting for Share Based Payments has changed during the year to accord with Financial Reporting Standard 20 *Share Based Payments* ("FRS 20") The comparative figures in the primary statements and notes have been restated to reflect the requirements of FRS 20

The effects of these changes in accounting policy are summarised below

| | 2005 £'000 |
|---|---|
| **Profit and loss account** | |
| Increase in administrative expenses | 2,095 |
| Decrease in tax on profit on ordinary activities | (124) |
| Decrease in profit for the financial year | (1,971) |
| **Balance sheet** | |
| Decrease in amounts owed to Group Companies due within one year | 316 |
| Increase in amounts owed to Group Companies due after more than one year | (1,053) |
| Increase in deferred tax asset | 220 |
| Decrease in net assets | (517) |
| Decrease in retained earnings as at 31 December 2005 | (3,764) |
| Increase in other reserves as at 31 December 2005 | 3,247 |
| Decrease in equity shareholders' funds as at 31 December 2005 | (517) |
| Decrease in opening retained earnings | (1,793) |
| Increase in opening other reserves | 1,567 |
| Decrease in opening equity shareholders' funds as at 1 January 2005 | (226) |

### 27. ULTIMATE PARENT UNDERTAKING

The ultimate parent company and controlling entity 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 largest and smallest group in which the financial statements of Mercer Human Resource Consulting Limited are consolidated is that headed by Marsh & McLennan Companies, Inc

# NOTES TO THE ACCOUNTS
## Year ended 31 December 2006

### 28. 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