

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**Report and Financial Statements**

**31 December 2007**

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# **MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

## **REPORT AND FINANCIAL STATEMENTS 2007**

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**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**REPORT AND FINANCIAL STATEMENTS 2007**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

D Heyward  
A K Whalley  
D N Williams

**SECRETARY**

M F Brindley

**REGISTERED OFFICE**

1 Tower Place West  
Tower Place  
London  
EC3R 5BU

**BANKERS**

The Royal Bank of Scotland plc  
ABN Amro  
Citibank

**SOLICITORS**

Slaughter & May

**AUDITORS**

Deloitte & Touche LLP  
London

# **MERCER LIMITED Formerly Mercer Human Resource Consulting Limited)**

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

### **BUSINESS REVIEW AND PRINCIPAL ACTIVITIES**

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

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

As shown in the company's profit and loss account on page 8, turnover grew by 2.5 (2006 - 15.5) per cent, driven by strong customer demand arising out of the challenging pensions and employee compensation market. Operating profit margin also improved from 17.6 per cent to 21.4 per cent due to increased turnover and cost control. The directors consider utilisation, recovery and working capital statistics to be commercially sensitive so have not disclosed them in this report.

The company reported retained profit for the financial year after taxation of £61,629,000 (2006 - £46,104,000). There were no interim dividends declared or paid on the ordinary shares (2006 - £nil). The directors have recommended the payment of a final dividend of £25,000,000 (2006 - £nil). No dividends were received from subsidiary companies (2006 - £nil).

As shown on the balance sheet on page 10, net assets have increased by 62.1 (2006 - 68.3) per cent. This was primarily driven by a reduction in the company's pension liability as outlined in note 23, and strong profits for the year.

### **CHANGE OF COMPANY NAME**

On 12 September 2007 the company changed its name to Mercer Limited.

### **CHANGE OF OWNERSHIP**

On 22 October 2007, the immediate parent company, Marsh & McLennan Companies UK Limited, transferred its entire shareholding in the company to MMC UK Group Limited.

### **TRANSFER OF SHAREHOLDINGS**

On 27 July 2007, the company sold its shareholdings in Delta Organization & Leadership Limited and Oliver Wyman Consulting Limited to MMC International Limited.

### **FINANCIAL RISK MANAGEMENT**

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

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

### **INVESTOR IN PEOPLE**

The company received the "Investor in People" (IIP) award in July 1997. IIP is the national standard which ensures that the training and development of employees is linked directly to business goals. The company has maintained this standard, attaining re-accreditation on 9 November 2006.

# **MERCER LIMITED Formerly Mercer Human Resource Consulting Limited)**

## **DIRECTORS' REPORT**

### **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 £76,850 (2006 - £25,759).

### **DIRECTORS AND THEIR INTERESTS**

The directors of the company during the year ended 31 December 2007, all of whom were directors throughout the year except as noted below, were

A J Kirton	Resigned 31 December 2007
C D Nelson	Resigned 31 December 2007
F T Oldham	Resigned 31 December 2007
S J Pearce	Resigned 31 December 2007
W S O'Regan	Resigned 31 December 2007
A K Whalley	Chairman
D N Williams	Appointed 15 June 2007

Since the year end, Mr D Heyward was appointed as a director of the company with effect from 17 March 2008.

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 2007.

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.

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**MERCER LIMITED Formerly Mercer Human Resource Consulting Limited)**

**DIRECTORS' REPORT**

This report was approved by the board of directors on 28<sup>th</sup> April 2008 and signed on its behalf by

A handwritten signature in black ink, appearing to read 'M F Brindley', written in a cursive style.

M F Brindley  
Secretary

28<sup>th</sup> April 2008

## **MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

We have audited the financial statements of Mercer Limited (Formerly Mercer Human Resource Consulting Limited) for the year ended 31 December 2007 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 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.

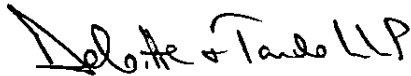


**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited) (continued)**

**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 2007 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**  
Chartered Accountants and Registered Auditors  
London

28 April 2008

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)****PROFIT AND LOSS ACCOUNT****Year ended 31 December 2007**

	Notes	2007 £'000	2006 £'000
<b>TURNOVER</b>	1, 2	325,952	317,896
Administrative expenses		(256,065)	(262,068)
<b>OPERATING PROFIT</b>		69,887	55,828
Interest receivable and similar income	3	16,083	8,994
Interest payable and similar charges	4	(1,706)	(1,654)
Other finance income	5	6,666	2,237
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	90,930	65,405
Tax on profit on ordinary activities	8	(29,301)	(19,301)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		61,629	46,104
<b>RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES</b>	19	61,629	46,104

Turnover and operating profit derive solely from continuing operations

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES****Year ended 31 December 2007**

	Notes	2007 £'000	2006 £'000
Profit for the financial year		61,629	46,104
Actuarial gain in respect of pension scheme	23	95,100	52,700
Actuarial loss in respect of other retirement benefits	24	(2,122)	(193)
Deferred tax relating to actuarial gains and losses		(26,035)	(15,654)
Actuarial gain on retirement benefits asset/liability net of taxation	19	66,943	36,853
<b>TOTAL GAINS AND LOSSES RELATING TO THE YEAR</b>		<b>128,572</b>	<b>82,957</b>
<b>PRIOR YEAR ADJUSTMENT</b>		<b>-</b>	<b>(3,764)</b>
<b>TOTAL GAINS AND LOSSES RECOGNISED</b>		<b>128,572</b>	<b>79,193</b>

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS****Year ended 31 December 2007**

	Notes	2007 £'000	2006 £'000
Profit on ordinary activities after taxation		61,629	46,104
Actuarial gain relating to retirement benefits	19	66,943	36,853
Capital contribution in respect of share based payments	19	1,340	1,910
<b>NET CHANGE TO SHAREHOLDERS' FUNDS</b>		<b>129,912</b>	<b>84,867</b>
<b>OPENING SHAREHOLDERS' FUNDS</b>		<b>209,083</b>	<b>124,216</b>
<b>CLOSING SHAREHOLDERS' FUNDS</b>		<b>338,995</b>	<b>209,083</b>

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)****BALANCE SHEET****31 December 2007**

	Notes	£'000	2007 £'000	2006 £'000
<b>FIXED ASSETS</b>				
Intangible assets	9		450	600
Tangible assets	10		20,871	19,657
Investments	11		1,405	2,486
			<u>22,726</u>	<u>22,743</u>
<b>CURRENT ASSETS</b>				
Debtors	12	141,183		276,083
Debtors due after more than one year	13	65,588		58,878
Cash at bank and in hand		<u>259,712</u>	<u>466,483</u>	<u>42,879</u>
				377,840
<b>CREDITORS' amounts falling due within one year</b>	15		<u>(84,964)</u>	<u>(58,505)</u>
<b>NET CURRENT ASSETS</b>			<u>381,519</u>	<u>319,335</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			404,245	342,078
<b>CREDITORS. amounts falling due after more than one year</b>	16		(20,068)	(19,489)
<b>PROVISIONS FOR LIABILITIES</b>	17		<u>(68,449)</u>	<u>(60,487)</u>
<b>NET ASSETS EXCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES</b>			315,728	262,102
Pension asset/(liability)	23		32,831	(42,350)
Other retirement benefits liability	24		<u>(9,564)</u>	<u>(10,669)</u>
<b>NET ASSETS INCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES</b>			<u>338,995</u>	<u>209,083</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	18		224,400	224,400
Other reserves	19		7,389	6,049
Profit and loss account	19,20		<u>107,206</u>	<u>(21,366)</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			<u>338,995</u>	<u>209,083</u>

These financial statements were approved by the Board of Directors on 28<sup>th</sup> April 2008 and signed on its behalf by

  
D N WILLIAMS

Director

  
A K WHALLEY

Director

## **MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

### **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

#### **1. ACCOUNTING POLICIES**

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

##### **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 uninviced 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

##### **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.

## **MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

### **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

#### **1. ACCOUNTING POLICIES (continued)**

##### **Taxation**

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

##### **Deferred taxation**

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

##### **Pension costs**

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

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

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

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

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

The difference between the market values of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax.

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

The company has early adopted the new FRS17 disclosures.

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

##### **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.

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 1. ACCOUNTING POLICIES (continued)

#### Investors' compensation scheme levies

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

#### Share-based payment

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

The company 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

	2007 £'000	2006 £'000
Other interest receivable	16,083	8,994





# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 7. STAFF COSTS

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

	2007 £'000	2006 £'000
<b>Employee costs during the year amounted to:</b>		
Wages and salaries	155,230	145,323
Social security costs	13,995	13,245
Other pension costs	19,009	19,606
	<u>188,234</u>	<u>178,174</u>

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

The company incurred costs of £231,000 (2006 - £240,000) paid to certain former employees relating to post retirement medical benefits (see note 24) included above

<b>The average monthly number of persons employed by the company during the year was as follows:</b>	2007 Number	2006 Number
Consulting	2,280	2,199
Non-consulting	751	861
	<u>3,031</u>	<u>3,060</u>

<b>Directors' remuneration was paid in respect of directors of the company as follows:</b>	2007 £'000	2006 £'000
Emoluments	2,339	2,671
Amounts receivable (other than shares and share options) under long-term incentive schemes	277	133
	<u>Number</u>	<u>Number</u>

<b>The number of directors accruing benefits under defined benefit pension schemes was</b>	<u>7</u>	<u>10</u>
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<b>The directors' remuneration shown above (excluding pensions and pension contributions) included:</b>	2007 £'000	2006 £'000
Highest paid director	<u>634</u>	<u>441</u>

At 31 December 2007 the amount of the highest paid director's accrued annual pension was £20,155 (2006 - £12,833)

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 £81,876 (2006 - £27,013)

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 8 TAX ON PROFIT ON ORDINARY ACTIVITIES

#### Analysis of charge for the year

	2007		2006	
	£'000	£'000	£'000	£'000
Current tax				
UK corporation tax on profit for the year	26,284		19,698	
Adjustment in respect of prior years	2,085		(1,690)	
Total current tax charge		28,369		18,008
Deferred tax				
Timing differences, origination and reversal	1,961		24	
Impact of change in tax rate	1,485			
Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods	(2,514)		1,269	
Total deferred tax charge		932		1,293
Tax charge on profit on ordinary activities		29,301		19,301

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

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	90,930	65,405
UK corporation tax at 30% (2006 – 30%)	27,279	19,622
Effects of		
Expenses not deductible for tax purposes	533	1,191
UK to UK transfer pricing adjustment	27	(1,115)
Utilisation of tax losses	-	(548)
Timing differences, origination and reversal	(2,412)	227
Capital allowances	853	321
Adjustment in respect of prior years	2,085	(1,690)
Overseas taxes	4	-
	28,369	18,008

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

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2007

### 9. INTANGIBLE FIXED ASSETS

	<b>£'000</b>
<b>Cost</b>	
At 1 January 2007 and 31 December 2007	750
<b>Amortisation</b>	
At 1 January 2007	150
Charge for the year	150
At 31 December 2007	300
<b>Net book value</b>	
At 31 December 2007	450
At 31 December 2006	600

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 improve- ments £'000	Furniture and equipment £'000	IT equipment £'000	Assets under construction £'000	Total £'000
<b>Cost</b>						
At 1 January 2007	8,596	16,023	10,421	25,315	641	60,996
Additions	-	-	20	4,113	884	5,017
Disposals	-	(2,542)	(2,091)	(2,745)	-	(7,378)
At 31 December 2007	8,596	13,481	8,350	26,683	1,525	58,635
<b>Depreciation</b>						
At 1 January 2007	1,855	9,786	7,566	22,132	-	41,339
Charge for year	164	1,436	774	1,429	-	3,803
Disposals	-	(2,542)	(2,091)	(2,745)	-	(7,378)
At 31 December 2007	2,019	8,680	6,249	20,816	-	37,764
<b>Net book value</b>						
At 31 December 2007	6,577	4,801	2,101	5,867	1,525	20,871
At 31 December 2006	6,741	6,237	2,855	3,183	641	19,657

Included in land and buildings is land held at cost of £2,013,000 (2006 - £2,013,000) which is not subject to depreciation

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2007

### 11. FIXED ASSET INVESTMENTS

Investment in subsidiary undertakings	2007 £'000	2006 £'000
Cost and net book value		
At 1 January	2,486	2,179
Additions	-	307
Disposals	(1,081)	-
At 31 December	<u>1,405</u>	<u>2,486</u>

During 2007 Mercer Limited's 100% ownership of the ordinary shares of Delta Organization & Leadership Limited (formerly Mercer Delta Consulting Limited) and Oliver Wyman Consulting Limited (formerly Mercer Management Consulting Limited) were transferred to MMC International Limited (Formerly Marsh International Limited)

#### Subsidiary undertakings

The company's principal subsidiary undertakings as at 31 December 2007, all of which represent 100% ownership of ordinary shares, were

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

Southampton Place Trustee Company Limited and MPA (International) Limited were dissolved on 4 September 2007

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

**12. DEBTORS**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Billed debtors	65,218	59,535
Unbilled debtors	34,217	23,991
Amounts owed by group companies		
Subsidiary undertakings	5,578	5,409
Parent and fellow subsidiary undertakings	19,567	176,196
Amounts due from other group companies in respect of taxation	3,421	3,340
Corporation tax	5,893	-
Other debtors	2,653	1,499
Other prepayments and accrued income	4,636	6,113
	<u>141,183</u>	<u>276,083</u>

Included within Amounts owed by parent and fellow subsidiary undertakings is £6,617,000 (2006 - £4,044,000) in respect of professional indemnity insurance claims

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

	<b>Notes</b>	<b>2007</b>	<b>2006</b>
		<b>£'000</b>	<b>£'000</b>
Amount owed by fellow subsidiary		4,732	4,732
Deferred taxation	14	3,813	5,514
Professional indemnity insurance claims	17	53,160	46,300
Other prepayments and accrued income		3,883	2,332
		<u>65,588</u>	<u>58,878</u>

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

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2007

### 14 DEFERRED TAXATION

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

	2007 £'000	2006 £'000
<b>Provided</b>		
<b>Movements on the deferred taxation account were as follows</b>		
At 1 January	5,514	10,332
Charged to profit and loss account in current year	(1,961)	(24)
Prior year adjustment	2,514	(1,269)
Impact of change in tax rate	(1,486)	-
Transfer to statement of total recognised gains and losses	(1,875)	(4,005)
Movement in net post-retirement liability	1,107	480
At 31 December	<u>3,813</u>	<u>5,514</u>

#### Analysis of deferred tax balance

	2007 £'000	2006 £'000
Accelerated capital allowances	2,585	1,786
Short-term timing differences	1,228	1,853
Pension and post-retirement benefit obligations	-	1,875
	<u>3,813</u>	<u>5,514</u>

The transfer to the 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 £1,875,000 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%. This will reduce to 28% with effect from 1 April 2008. Deferred tax has been set up at 31 December 2007 at the new rate of 28%.

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

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

	2007 £'000	2006 £'000
Trade creditors	528	67
Amounts owed to group companies		
Parent and fellow subsidiary undertakings	8,312	14,282
Subsidiary undertakings	654	171
Amounts due to other group undertakings in respect of taxation	25,019	440
Corporation tax	-	1,676
Other creditors		
VAT payable	13,037	11,036
Social security and PAYE	6,952	6,571
Accruals and deferred income	30,462	24,262
	<u>84,964</u>	<u>58,505</u>

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 15 July 2008.

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

	2007 £'000	2006 £'000
Amounts owed to group companies		
Parent and fellow subsidiary undertakings	1,068	489
Subordinated loans	19,000	19,000
	<u>20,068</u>	<u>19,489</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.

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 17. PROVISIONS FOR LIABILITIES

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

	At 1 January 2007 £'000	Increase in provision £'000	Reductions in provision £'000	Utilisation £000	At 31 December 2007 £'000
Onerous lease commitments	13,331	9,799	(4,734)	(3,172)	15,224
Professional indemnity claims	46,300	24,446	(5,610)	(11,976)	53,160
Restructuring costs	856	487	(81)	(1,197)	65
	<u>60,487</u>	<u>34,732</u>	<u>(10,425)</u>	<u>(16,345)</u>	<u>68,449</u>

The provision for onerous lease commitments represents rental and other commitments on leased properties less anticipated sublet rental income

The company is subject to a number of professional indemnity claims in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions (known as E&O's) in connection with the performance of professional services. E&O's 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 £53,160,000 (2006 - £46,300,000) have been recognised within debtors due after more than one year (see note 13).

The provision for restructuring costs represents an obligation to pay redundancy costs following a group-wide efficiency review in 2006.

### 18. CALLED UP SHARE CAPITAL

	2007		2006	
	Number	£'000	Number	£'000
Authorised Ordinary shares of £1 each	<u>300,000,000</u>	<u>300,000</u>	<u>300,000,000</u>	<u>300,000</u>
Allotted, called up and fully paid Ordinary shares of £1 each	<u>224,400,000</u>	<u>224,400</u>	<u>224,400,000</u>	<u>224,400</u>



**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

**19. MOVEMENT ON RESERVES**

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

	Notes	Share capital	Other reserves	Profit and loss reserve	Total
		£'000	£'000	£'000	£'000
As at 1 January 2006 as previously stated		224,400	892	(100,559)	124,733
Prior year adjustment		-	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

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS Year ended 31 December 2007

### 20. PROFIT AND LOSS RESERVE

	2007 £'000	2006 £'000
Profit and loss reserve excluding retirement benefits liability	83,939	31,683
Pension asset/ (liability)	32,831	(42,350)
Other retirement benefits liability	(9,564)	(10,699)
Profit and loss reserve	<u>107,206</u>	<u>(21,366)</u>

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

#### Operating lease commitments

As at 31 December 2007, the company was committed to making the following payments during the next year in respect of operating leases

	2007		2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Leases which expire:</b>				
Within one year	-	295	-	1,131
Within two to five years	2,188	419	1,814	1,136
After five years	10,647	-	10,302	-
	<u>12,835</u>	<u>714</u>	<u>12,116</u>	<u>2,267</u>

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 the company did not occupy. The company has an obligation to pay rentals on the lease, which expires in 2028, and against which the company receives sublet rental income. Expected future net costs associated with the property have been provided for within the Onerous lease provision (see note 17). During the next year the company is committed to paying £1,629,300, net of sub-let income, in respect of this lease.

#### Contingent liabilities

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

- subsidiary undertaking in respect of a lease with less than one year remaining with a current annual rental of £1,292,500, and
- fellow subsidiary undertaking in respect of a lease with less than two years remaining with a current annual rental of £825,000

## MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

### NOTES TO THE ACCOUNTS

Year ended 31 December 2007

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

##### **Mercer Limited**

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

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

On 16 July 1999 and 17 October 2000 Mercer Limited indemnified Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively against any costs, expenses and liabilities (including any fines) incurred and to be incurred in respect of the management, administration and/or settlement of mis-selling claims and mis-selling liabilities to the extent that they exceed the provision (net of estimated insurance recoveries) of £83,200,000 and £14,600,000 recorded in the books of Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively at the date the indemnities were given. Amounts of £93,000 became receivable under the indemnities in 2007 (2006 - £233,000 payable). No further amounts are expected to become payable in the future.

#### 23. PENSION SCHEME

The group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 December 2006 and updated to 31 December 2007 by a qualified actuary (who is employed within the MMC group). The service cost has been calculated using the Projected Unit Method.

	2007 £m	2006 £m
<b>Components of pension cost</b>		
Current service cost	18.0	18.7
Interest cost	36.8	33.7
Expected return on plan assets	(44.0)	(36.4)
Past service cost	-	0.1
Total pension cost recognised in the profit and loss account	<u>10.8</u>	<u>16.1</u>
Actuarial gains immediately recognised	<u>(95.1)</u>	<u>(52.7)</u>
Total pension cost recognised in the Statement of total recognised gains and losses	<u>(95.1)</u>	<u>(52.7)</u>
Cumulative amount of actuarial (gains)/losses immediately recognised	<u>55.2</u>	<u>150.3</u>

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

**23 PENSION SCHEME (continued)**

	<b>2007 £m</b>	<b>2006 £m</b>
<b>Amounts recognised in the balance sheet</b>		
Fair value of plan assets	717.2	660.7
Present value of funded obligations	(669.3)	(718.3)
	<u>47.9</u>	<u>(57.6)</u>
Present value of unfunded obligations	(2.3)	(2.9)
	<u>45.6</u>	<u>(60.5)</u>
Related deferred tax (liability)/asset	(12.8)	18.2
Net amount recognised	<u>32.8</u>	<u>(42.3)</u>
<b>Amounts recognised as</b>		
Assets	502.0	462.5
Liabilities	(469.2)	(504.8)
Net amount recognised	<u>32.8</u>	<u>(42.3)</u>

	<b>2007 £m</b>	<b>2006 £m</b>
<b>Change in benefit obligation</b>		
Benefit obligation at 1 January	721.2	714.8
Current service cost	18.0	18.7
Interest cost	36.8	33.7
Plan participants' contributions	3.3	5.8
Past service costs	-	0.1
Actuarial gains	(88.8)	(33.1)
Benefits paid	(18.9)	(18.8)
Benefit obligation at 31 December	<u>671.6</u>	<u>721.2</u>

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)****NOTES TO THE ACCOUNTS****Year ended 31 December 2007****23. PENSION SCHEME (continued)**

	<b>2007 £m</b>	<b>2006 £m</b>
<b>Analysis of defined benefit obligation</b>		
Plans that are wholly or partly funded	669 3	718 3
Plans that are wholly unfunded	2 3	2 9
	<u>671 6</u>	<u>721 2</u>
Total	<u>671 6</u>	<u>721 2</u>
	<b>2007 £m</b>	<b>2006 £m</b>
<b>Change in plan assets</b>		
Fair value of plan assets at 1 January	660 7	600 0
Expected return on plan assets	44 0	36 4
Actuarial gains	6 3	19 6
Employer contributions	21 8	17 7
Member contributions	3 3	5 8
Benefits paid	(18 9)	(18 8)
	<u>717 2</u>	<u>660 7</u>
Fair value of plan assets at 31 December	<u>717 2</u>	<u>660 7</u>
Funded status	<u>32 8</u>	<u>(42 3)</u>
Net amount recognised	<u>32 8</u>	<u>(42 3)</u>

The actuarial valuation as at 31 December 2007 showed an improvement from a deficit of £42 3million to a surplus of £32 8m

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 23. PENSION SCHEME (continued)

	2007	2006
<b>Fund assets</b>		
The weighted-average asset allocations at the year end were as follows		
Equities	58.1%	61.8%
Government Bonds	17.4%	17.3%
Corporate Bonds	17.4%	17.3%
Property	3.3%	2.6%
Insured	0.3%	-
Cash	3.5%	1.0%
	<u>100.0%</u>	<u>100.0%</u>

To develop the expected long-term rate of return on assets assumption, the Employer considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.62% assumption for the 2007 expense and 7.18% for the 2008 expense.

	2007 £m	2006 £m
Actual return on plan assets	50.3	56.0
<b>Weighted average assumptions used to determine benefit obligations at:</b>	<b>2007</b>	<b>2006</b>
Discount rate	5.80%	5.10%
Rate of compensation increase	4.00%	4.00%
<b>Weighted average assumptions used to determine net pension cost for year ended:</b>		
Discount rate	5.10%	4.70%
Expected long-term return on plan assets	6.62%	6.15%
Rate of compensation increase	4.00%	4.00%

**MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

**NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

**23. PENSION SCHEME (continued)**

	2007		2006	
	Male	Female	Male	Female
<b>Weighted average life expectancy for mortality tables used to determine benefit obligations at:</b>				
Member age 65 (current life expectancy)	21 0	23 9	21 0	23 8
Member age 45 (life expectancy at age 65)	22 1	24 9	22 1	24 9

If future life expectancy for all members were to increase by a further one year then this would increase the liabilities for FRS17 purposes by about 2.7%. A change in the life expectancy assumption at the year end balance sheet date also leads to an increase in the following year's pensions charge to the profit and loss account

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
<b>Five year history</b>					
Fair value of plan assets at end of year	717.2	660.7	600.0	500.2	444.8
Benefit obligation at end of year	(671.6)	(721.2)	(714.8)	(612.5)	(483.9)
	<u>45.6</u>	<u>(60.5)</u>	<u>(114.8)</u>	<u>(112.3)</u>	<u>(39.1)</u>
Related deferred tax (liability)/asset	(12.8)	18.2	34.4	33.7	11.7
	<u>32.8</u>	<u>(42.3)</u>	<u>(80.4)</u>	<u>(78.6)</u>	<u>(27.4)</u>
Surplus/(deficit)	<u>32.8</u>	<u>(42.3)</u>	<u>(80.4)</u>	<u>(78.6)</u>	<u>(27.4)</u>

	2007	2006	2005	2004	2003
<b>Difference between expected and actual return on scheme assets</b>					
Amount (£m)	6.3	19.6	43.6	(8.8)	52.8
Percentage of scheme assets	1%	3%	7%	(2%)	12%
<b>Experience gains and losses on scheme liabilities</b>					
Amount (£m)	2.4	12.0	18.5	(39.7)	6.5
Percentage of scheme liabilities	0%	2%	3%	(6%)	1%

## MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

### NOTES TO THE ACCOUNTS

Year ended 31 December 2007

#### 23. PENSION SCHEME (continued)

##### Contributions

During 2007 the Employer contributed 23.6% of pensionable salary for members of the Mercer section of the Fund and 26.5% of pensionable salary for members of the Sedgwick section of the Fund. Following completion of the funding valuation as at 31 December 2006, the Employer regular contribution expected to be payable during 2008 is 14.1% and 20.6% of pensionable salary for members of the Mercer section and Sedgwick section of the Fund respectively. Additional contributions to correct the funding shortfall are expected from Mercer Ltd during 2008 of £3,054,828 for the Mercer section and £14,958,000 for the Sedgwick section.

##### Defined contribution scheme

The group also operates a defined contribution scheme for employees who are not eligible or choose not to join the defined benefit scheme. Contributions to this section, which are charged to the profit and loss account as incurred, amounted to £1,009,000 (2006 - £806,000).

#### 24. POST RETIREMENT MEDICAL BENEFITS

The Company operates an unfunded non-contributory scheme for medical benefits. As part of this scheme, defined medical benefits are provided to retired UK members who started their services with the Company on or prior to 1 December 1988 and completed five years of service with the Company at retirement. The costs of private medical care are subsidised for these pensioners. One group of pensioners receive a fixed subsidy of £250 regardless of marital status while the remainder and current eligible employees are entitled to fully insured benefits in retirement for themselves, their spouses and eligible dependents. On a pensioner's death the benefit ceases for the widow or widower at the end of the scheme year in which death occurs. Currently, 276 pensioners receive these benefits and 191 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 2007 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 2007	31 December 2006	31 December 2005
Gross interest rate	5.8%	5.1%	4.70%
Medical cost trend rate for one year	6.5%	4.5%	5.00%
Medical cost trend rate after one year	5.5%	4.0%	4.00%



# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

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

The following amounts have been recognised in the performance statements in the year to 31 December 2007 in respect of post retirement medical benefits under the requirements of FRS 17

	2007 £'000	2006 £'000
<b>Analysis of amounts charged to operating profit</b>		
Current service cost	231	240
Total included within operating profit	231	240
<b>Analysis of amount charged to other finance costs</b>		
Interest on scheme liabilities	534	463
Net finance cost	534	463
<b>Analysis of the actuarial loss in the Statement of total recognised gains and losses</b>		
Experience gains and losses arising on scheme liabilities	63	141
Effects of changes in assumptions underlying the present value of scheme liabilities	(2,185)	(334)
Actuarial loss	(2,122)	(193)
<b>Movement in scheme liability during the year</b>		
	2007 £'000	2006 £'000
Liability in the scheme at 1 January	10,611	9,993
Current service cost	231	240
Payments	(214)	(278)
Interest on scheme liabilities	534	463
Actuarial loss	2,122	193
Liability in the scheme at 31 December	13,284	10,611
Related deferred tax asset	(3,720)	58
Net liability in the scheme at 31 December	9,564	10,669

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

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

	2007	2006	2005	2004
<b>History of experience gains and losses</b>				
Experience gains/(losses) on scheme liabilities				
Amount (£'000)	63	141	(540)	1,815
Percentage of the present value of the scheme liabilities	0%	1%	(5)%	20%
Total actuarial (loss)/gain recognised in statement of total recognised gains and losses				
Amount (£'000)	(2,122)	(193)	(498)	1,210
Percentage of the present value of the scheme liabilities	(16)%	(2)%	(5)%	13%

### 25. SHARE BASED PAYMENTS

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

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

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

Share Purchase Plan costs were accrued in the year of grant.

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

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

#### Non-Qualified Stock Options

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

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

## MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

### NOTES TO THE ACCOUNTS

Year ended 31 December 2007

#### 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:

	2007	2006	2005	2004	2003
Weighted average share price	-	\$28.98	\$27.86	\$46.14	\$43.11
Weighted average exercise price	-	\$28.98	\$27.86	\$46.14	\$43.11
Expected volatility	-	29.0%	23.5%	19.6%	21.0%
Expected life	-	2-5 years	2-5 years	2-5 years	2-5 years
Risk-free rate	-	5.0%	3.9%	2.78%	2.75%
Expected dividends	-	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.

All stock options in 2007 were granted with a market condition.

##### *Options granted with a market-based triggering event*

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

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 25. SHARE BASED PAYMENTS (continued)

The assumptions used in the binomial option pricing valuation model for options granted during 2006 and 2007 are as follows

	2007	2006
Risk-free interest rate	4.7%-5.0%	4.7%-5.3%
Expected life (in years)	5.2 - 7.1	5.0 - 7.1
Expected volatility	27.8%	29.0%
Expected dividends	2.6%	2.3%

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

	2007		2006	
	Number of share options	Weighted average exercise price (US\$)	Number of share options	Weighted average exercise price (US\$)
Outstanding at beginning of period	2,756,822	35.90	2,521,999	36.43
Granted during the period	133,625	29.60	370,600	30.20
Forfeited/expired during the period	152,930	40.20	69,905	39.66
Cancelled or exchanged during the period	-	-	-	-
Exercised during the period	65,626	20.64	65,872	20.27
Outstanding at the end of the period	2,671,891	35.71	2,756,822	35.90
Exercisable at the end of the period	1,805,398	38.35	1,481,801	41.53

The options outstanding at 31 December 2007 had a weighted average exercise price of \$35.71, and a weighted average remaining contractual life of 3.95 years. In 2007, options were granted on 12 February (2006 - 15 March and 17 May). The aggregate of the estimated fair values of the options granted at that date was US\$1,100,000 (2006 - \$3,200,000).

The company recognised total expenses of £1,126,000 and £1,333,000 in relation to all non-qualified stock options in 2007 and 2006 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.

# MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)

## NOTES TO THE ACCOUNTS

Year ended 31 December 2007

### 25 SHARE BASED PAYMENTS (continued)

	2007		2006	
	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	80,522	38 02	93,074	43 80
Granted during the period	214,274	28 91	42,971	30 14
Forfeited during the period	6,105	30 79	4,056	35 47
Vested during period	34,712	48 10	51,467	42 29
Outstanding at the end of the period	253,979	29 09	80,522	38 02

The company recognised total expenses of £709,000 and £702,000 in relation to stock awards in 2007 and 2006 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 £594,108 was expensed during 2007 (2006 - £694,035) in relation to 3 and 5 year schemes commencing during the years 2002 to 2007.

#### 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 52,801 ordinary shares in 2007 (2006 - 78,441), at a weighted average share price of £14.69 (2006 - £16.22). The discount of £38,943 (2006 - £64,024) is recognised in full when the shares are purchased.

## **MERCER LIMITED (Formerly Mercer Human Resource Consulting Limited)**

### **NOTES TO THE ACCOUNTS**

**Year ended 31 December 2007**

#### **26. POST BALANCE SHEET EVENTS**

On 25 April 2008 the directors declared and authorised a dividend payment of £25,000,000 equal to 11 pence per share. It is anticipated payment will be made in July 2008. In accordance with FRS 21 no liability has been recorded at the balance sheet date.

#### **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

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

The largest and smallest group in which the financial statements of Mercer Limited are consolidated is that headed by Marsh & McLennan Companies, Inc.

#### **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.