

**Company Registration No. 984275**

**Mercer Limited**

**Report and Financial Statements**

**31 December 2013**



# **Mercer Limited**

## **Report and financial statements 2013**

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# **Mercer Limited**

## **Report and financial statements 2013**

### **Officers and professional advisers**

#### **Directors**

J V Barker  
F S Dunsire  
P E Middleton  
S E Martin  
M A Ferland  
W S O'Regan  
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  
Citibank N. A

#### **Solicitors**

Slaughter & May

#### **Auditor**

Deloitte LLP  
Chartered Accountants  
London

# **Mercer Limited**

## **Strategic report**

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

### **Business review and principal activities**

The principal activities of the company are to provide consulting, administration and investment services, including the design, governance and management of retirement and health plans, talent, reward and investment solutions. The company is regulated by the Financial Conduct Authority (FCA).

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

As shown in the company's profit and loss account on page 8, turnover rose by 4.7 percent (2012 - rose by 4.7 percent), driven by consulting opportunities and the development of innovative solutions, primarily relating to clients' pension arrangements. Operating profit margin decreased from 25.2 percent to 21.3 percent, reflecting the rise in the cost of pension benefits. 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 £68,185,000 (2012 - £69,996,000). No interim dividend was paid on the ordinary shares (2012 - £nil). The directors do not recommend the payment of a final dividend (2012 - £nil). No dividends were received from subsidiary companies (2012 - £nil).

As shown on the balance sheet on page 10, net assets have reduced by 12.35 percent (2012 – increased by 47.3 percent). Resulting from the decision to de-recognise the pension surplus as the company does not expect to obtain any future economic benefit through reduced contributions. The surplus cap under FRS 17 restricts the recognition of a defined benefit scheme surplus as an asset to the amount that the employer is able to recover either through reduced contributions in the future, or through refunds from the scheme agreed at the balance sheet date.

### **Financial risk management**

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

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

The company has a strong liquid asset position of £364m cash and is not reliant on funding from third parties. As a consequence, the directors believe that the company is well placed to manage its business risks successfully. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### **Employee consultation**

The company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

### **Disabled employees**

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

# **Mercer Limited**

## **Strategic report**

### **Payments for charitable purposes**

Donations to charitable organisations in the United Kingdom totalled £49,472 (2012 - £46,008).



M F Brindley  
Secretary

16 April 2014

# Mercer Limited

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2013.

### Investor in people

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

### Directors

The directors of the company during the year ended 31 December 2013, all of whom were directors throughout the year except as noted below, were:

|                 |                         |
|-----------------|-------------------------|
| J V Barker      |                         |
| G L A Beneplanc | Resigned 15 March 2013  |
| F S Dunsire     |                         |
| M A Ferland     | Appointed 6 August 2013 |
| P E Middleton   |                         |
| S E Martin      | Appointed 6 August 2013 |
| M R Moorton     | Resigned 12 July 2013   |
| W S O'Regan     |                         |
| D N Williams    |                         |

Each of the directors at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. the director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The company has inserted a clause in the Articles of Association to indemnify directors, officers or FCA approved persons of the company against losses or liabilities sustained in the execution of their duties of office, subject to certain exclusions. The indemnity is a qualifying third party indemnity provision under S.309A and B of the Companies (Audit, Investigating and Community Enterprise) Act 2004.

### Auditor

Deloitte LLP were the company's auditor during the year and have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting

This report was approved by the board of directors on 16 April 2014 and signed on its behalf by:



M F Brindley  
Secretary

16 April 2014

# **Mercer Limited**

## **Statement of directors' responsibilities**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Mercer Limited**

We have audited the financial statements of Mercer Limited for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statement**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



## **Independent auditor's report to the members of Mercer Limited (continued)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



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

16 April 2014

# Mercer Limited

## Profit and loss account Year ended 31 December 2013

|   | Notes | 2013<br>£'000 | 2012<br>£'000 |
|---|-------|---------------|---------------|
| <b>TURNOVER</b>   | 1, 2  | 363,009       | 346,740       |
| Administrative expenses   |       | (285,694)     | (259,331)     |
| <b>OPERATING PROFIT</b>   |       | 77,315        | 87,409        |
| Interest receivable and similar income  | 3     | 770           | 979           |
| Interest payable and similar charges  | 4     | (1,655)       | (1,887)       |
| Other finance income  | 5     | 11,893        | 5,490         |
| <b>PROFIT ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b>                      | 6     | 88,323        | 91,991        |
| Tax on profit on ordinary activities  | 8     | (20,138)      | (21,995)      |
| <b>RETAINED PROFIT FOR THE<br/>FINANCIAL YEAR TRANSFERRED<br/>TO RESERVES</b> | 19    | 68,185        | 69,996        |

Turnover and operating profit derive solely from continuing operations.

# Mercer Limited

## Statement of total recognised gains and losses Year ended 31 December 2013

|  | Notes | £'000     | 2013<br>£'000   | £'000    | 2012<br>£'000  |
|--|-------|-----------|-----------------|----------|----------------|
| Profit for the financial year                                      |       |           | 68,185          |          | 69,996         |
| Actuarial gain in respect of pension scheme                        | 22    | 33,700    |                 | 78,038   |                |
| Actuarial gain/(loss) in respect of other retirement benefits      | 23    | 2,838     |                 | (1,878)  |                |
| Pension scheme surplus cap   | 22    | (191,638) |                 | -        |                |
| Deferred tax relating to post retirement benefits                  | 19    | 35,195    |                 | (18,659) |                |
| (Loss)/gain on retirement benefits liability/asset net of taxation | 19    |           | (119,905)       |          | 57,501         |
| <b>TOTAL GAINS AND LOSSES RECOGNISED</b>                           |       |           | <b>(51,720)</b> |          | <b>127,497</b> |

## Reconciliation of movements in shareholders' funds Year ended 31 December 2013

|   | Notes | 2013<br>£'000   | 2012<br>£'000  |
|---|-------|-----------------|----------------|
| Profit on ordinary activities after taxation            |       | 68,185          | 69,996         |
| (Loss)/ gain relating to retirement benefits            | 19    | (119,905)       | 57,501         |
| Capital contribution in respect of share based payments | 19    | 1,711           | 2,560          |
| <b>NET CHANGE TO SHAREHOLDERS' FUNDS</b>                |       | <b>(50,009)</b> | <b>130,057</b> |
| <b>OPENING SHAREHOLDERS' FUNDS</b>                      |       | <b>404,903</b>  | <b>274,846</b> |
| <b>CLOSING SHAREHOLDERS' FUNDS</b>                      |       | <b>354,894</b>  | <b>404,903</b> |

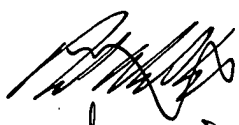
# Mercer Limited

## Balance sheet 31 December 2013

|  | Notes | £'000          | 2013<br>£'000   | 2012<br>£'000   |
|--|-------|----------------|-----------------|-----------------|
| <b>FIXED ASSETS</b>  |       |                |                 |                 |
| Intangible assets  | 9     |                | 1,385           | 1,690           |
| Tangible assets  | 10    |                | 11,348          | 11,064          |
| Investments  | 11    |                | 600             | 600             |
|  |       |                | <u>13,333</u>   | <u>13,354</u>   |
| <b>CURRENT ASSETS</b>  |       |                |                 |                 |
| Debtors  | 12    | 128,800        |                 | 141,175         |
| Debtors due after more than one year                                   | 13    | 54,095         |                 | 62,707          |
| Cash at bank and in hand   |       | <u>363,994</u> |                 | <u>312,652</u>  |
|  |       |                | 546,889         | 516,534         |
| <b>CREDITORS: amounts falling due within one year</b>                  | 15    |                | <u>(97,201)</u> | <u>(72,416)</u> |
| <b>NET CURRENT ASSETS</b>  |       |                | <u>449,688</u>  | <u>444,118</u>  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                           |       |                | 463,021         | 457,472         |
| <b>CREDITORS: amounts falling due after more than one year</b>         | 16    |                | <u>(19,000)</u> | <u>(19,000)</u> |
| <b>PROVISIONS FOR LIABILITIES</b>                                      | 17    |                | <u>(71,831)</u> | <u>(83,762)</u> |
| <b>NET ASSETS EXCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES</b> |       |                | 372,190         | 354,710         |
| Pension (liability) / asset  | 22    |                | <u>(1,200)</u>  | <u>67,250</u>   |
| Other retirement benefits liability                                    | 23    |                | <u>(16,096)</u> | <u>(17,057)</u> |
| <b>NET ASSETS INCLUDING RETIREMENT BENEFITS ASSETS AND LIABILITIES</b> |       |                | <u>354,894</u>  | <u>404,903</u>  |
| <b>CAPITAL AND RESERVES</b>  |       |                |                 |                 |
| Called up share capital  | 18    |                | 224,400         | 224,400         |
| Other reserves   | 19    |                | 23,508          | 21,797          |
| Profit and loss account  | 19    |                | <u>106,986</u>  | <u>158,706</u>  |
| <b>TOTAL SHAREHOLDERS' FUNDS</b>                                       |       |                | <u>354,894</u>  | <u>404,903</u>  |

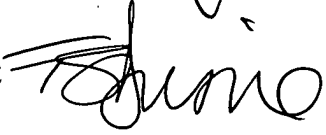
These financial statements of Mercer Limited, registered number 984275, were approved by the Board of Directors on 16 April 2014.

D N WILLIAMS



Director

F S DUNSIRE



Director

# **Mercer Limited**

## **Notes to the financial statements** **Year ended 31 December 2013**

### **1. ACCOUNTING POLICIES**

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

#### **Basis of accounting**

The accounts are prepared under the historical cost convention.

#### **Basis of preparation**

The company is a wholly owned subsidiary of Marsh & McLennan Companies, Inc., its ultimate parent undertaking, incorporated in the State of Delaware, USA. The company is exempt under section 401 of the Companies Act 2006 from preparing group financial statements for the company and its subsidiaries, section 401 covers exemptions for companies including non-EEA group accounts. The largest and smallest group into which the company's results are consolidated is that headed by Marsh & McLennan Companies, Inc. Accordingly these financial statements present information about this company as an individual undertaking and not as a group and the company is not obliged to produce a cash flow statement.

The company has also taken advantage of the exemption available under FRS8 "Related Party Disclosures" not to disclose transactions between entities where 90% or more of those voting rights are controlled within the group.

The company's financial and liquidity position are described in the Directors' report. Accordingly, the accounts have been prepared on the going concern basis.

#### **Turnover**

Turnover comprises the total of fees and commissions earned in the financial year. These are considered to represent one class of business by the directors. Fee income is recognised from the supply of services and represents the value of services provided under contracts to the extent there is a right to consideration due. Fee income is recognised in the profit and loss account on the basis of either chargeable hours or evenly over the duration of the contract for straight line fixed fee clients. Any un invoiced amounts are shown as unbilled debtors, net of any provisions for amounts considered to be unbillable. Commission is recognised on a cash receipts basis.

#### **Intangible fixed assets**

Goodwill arising on acquisition of a business is capitalised and amortised over the business' estimated useful economic life.

The Healthcare business previously carried on by Marsh UK Limited is fully amortised.

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

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 1. ACCOUNTING POLICIES (continued)

#### Tangible fixed assets

Tangible fixed assets are shown at original historical cost less accumulated depreciation and any provision for impairment. Freehold land is not depreciated. Depreciation is provided on a straight-line basis over their estimated useful lives, as follows:

|                         |  |
|-------------------------|--|
| Freehold buildings      | 40 years   |
| Leasehold improvements  | over the remaining life of the lease, limited to a period not exceeding 10 years |
| Furniture and equipment | 3 to 10 years  |
| IT equipment            | 3 to 5 years   |

#### Fixed asset investments

Investments are shown at cost less any provision for impairment. Income is included in the accounts of the year in which it is receivable.

#### Leasing commitments

Rentals paid under operating leases are charged on a straight-line basis over the lease term, even if payments are not made on such a basis.

#### Taxation

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

#### Deferred taxation

In accordance with FRS 19, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of investment properties where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

#### Pension costs

The company 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 current and retired UK members who started their services with the company on or prior to 1 December 1988 and completed five years of service with the company at retirement.

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 1. ACCOUNTING POLICIES (continued)

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

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

The difference between the market values of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet net of deferred tax. The asset figure disclosed reflects the fair value of assets (i.e. bid value where available) plus the amount held in the Trustee's bank account at the balance sheet date. The liabilities of the Fund are measured using the projected unit method.

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

The MMC UK Pension Fund is a Trust based scheme, hence the assets are held separately from the Employer. Allowance has been made in the pension disclosure for unapproved unfunded pension benefits that cannot be provided through the MMC UK Pension Fund.

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

The pension scheme surplus is included on the Company's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent they are recoverable through reduced contributions in the future or through refunds from the scheme. In accordance with FRS17, recoverability through reduced contributions is assessed based on the FRS17 cost of future benefit accrual which could be offset by the surplus. At 31 December 2013, the Company determined that it no longer expects the pension scheme surplus to be recoverable under FRS17.

#### Foreign exchange

All foreign currency monetary assets and liabilities are recorded at the rate of exchange prevailing at the date of the balance sheet. Transactions in foreign currencies are recorded at the dates of the transactions. Translation gains or losses arising during the year are included in the profit and loss account.

#### Investors' compensation scheme levies

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

#### Share-based payment

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

The company's ultimate parent company, Marsh & McLennan Companies, Inc., maintains multiple equity-settled share-based payment arrangements in the UK, under which employees are awarded grants of Stock Options, Save As You Earn (SAYE) awards, Stock Awards and Share Purchase Plans.

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.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 1. ACCOUNTING POLICIES (continued).

Fair value is measured using the Black-Scholes pricing model (no market based triggering event). The expected life used in the model is estimated using the contractual term of the option and the effects of employees' expected exercise and post-vesting employment termination behaviour.

Share awards are measured at the fair value at grant, and this expense is recognised over the vesting period of three years.

The company also provides employees with the ability to purchase Marsh & McLennan Companies, Inc.'s ordinary shares at 95% of the current market value. The company records an expense on the date the shares are purchased.

#### Cash flow statement

The company has taken advantage of the exemption granted by paragraph 5(a) of Financial Reporting Standard 1 (Revised 1996), not to prepare a cash flow statement.

### 2. SEGMENTAL ANALYSIS

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

### 3. INTEREST RECEIVABLE AND SIMILAR INCOME

|                     | 2013<br>£'000 | 2012<br>£'000 |
|---------------------|---------------|---------------|
| Interest receivable | 770           | 979           |
|                     | <u>770</u>    | <u>979</u>    |

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

|  | 2013<br>£'000 | 2012<br>£'000 |
|--|---------------|---------------|
| Interest payable on subordinated loans (note 16) | 164           | 253           |
| Unwinding of discount on provisions (note 17)    | 1,491         | 1,634         |
|  | <u>1,655</u>  | <u>1,887</u>  |

### 5. OTHER FINANCE INCOME

|  | 2013<br>£'000 | 2012<br>£'000 |
|--|---------------|---------------|
| Net finance income relating to pension scheme                              | 12,900        | 6,400         |
| Net finance charges relating to post retirement medical benefits (note 23) | (1,007)       | (910)         |
|  | <u>11,893</u> | <u>5,490</u>  |



# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

|  | 2013<br>£'000     | 2012<br>£'000     |
|--|-------------------|-------------------|
| <b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b> |                   |                   |
| Depreciation and amounts written off tangible fixed assets                                 |                   |                   |
| Owned  | 3,072             | 3,667             |
| Amortisation of intangible fixed assets  | 305               | 204               |
| Loss on disposal of fixed assets   | 115               | 938               |
| Rentals under operating leases   |                   |                   |
| Land and Buildings   | 5,024             | 5,367             |
| Other operating leases   | 752               | 926               |
| Sublet rental income   | (867)             | (884)             |
| Auditor's remuneration   | 329               | 320               |
| - audit fees   |                   |                   |
| - other services for taxation  | -                 | 10                |
| Increase in onerous lease provision (note 17)  | 356               | 7,185             |
| Increase/(decrease) in dilapidation provision (note 17)                                    | 436               | (109)             |
| Restructuring costs  | 605               | 3,022             |
|  | <u>          </u> | <u>          </u> |

### 7. STAFF COSTS

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

|  | 2013<br>£'000     | 2012<br>£'000     |
|--|-------------------|-------------------|
| <b>Employee costs during the year amounted to:</b> |                   |                   |
| Wages and salaries                                 | 163,238           | 159,369           |
| Social security costs                              | 17,439            | 17,296            |
| Other pension costs                                | 22,845            | 11,358            |
|  | <u>          </u> | <u>          </u> |
|  | 203,552           | 188,023           |
|  | <u>          </u> | <u>          </u> |

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

The company incurred costs of £331,000 (2012 - £287,000) paid to certain former employees relating to post retirement medical benefits (see note 23) included above.

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

|                | 2013<br>Number    | 2012<br>Number    |
|----------------|-------------------|-------------------|
| Consulting     | 1,856             | 1,867             |
| Non-consulting | 603               | 782               |
|                | <u>          </u> | <u>          </u> |
|                | 2,459             | 2,649             |
|                | <u>          </u> | <u>          </u> |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 7. STAFF COSTS (continued)

|   | 2013<br>£'000     | 2012<br>£'000     |
|---|-------------------|-------------------|
| <b>Directors' remuneration was paid in respect of directors of the company as follows:</b>              |                   |                   |
| Emoluments  | 2,322             | 1,319             |
| Amounts receivable (other than shares and share options) under long-term incentive schemes              | 167               | 51                |
| Compensation for loss of office   | -                 | 161               |
|   | <u>          </u> | <u>          </u> |
| <b>The number of directors who:</b>   | <b>Number</b>     | <b>Number</b>     |
| Accrued benefits under a defined benefit pension schemes:   | 6                 | 5                 |
| Had awards receivable in the form of shares under a long-term incentive scheme:                         | 2                 | 2                 |
|   | <u>          </u> | <u>          </u> |
| <b>The directors' remuneration shown above (excluding pensions and pension contributions) included:</b> | <b>£'000</b>      | <b>£'000</b>      |
| Highest paid director   | 1,122             | 708               |
|   | <u>          </u> | <u>          </u> |

At 31 December 2013 the amount of the highest paid director's accrued annual pension was £59,930 (2012 - £57,279).

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

Money and net value of other assets (other than shares and share options) paid to or receivable by the highest paid director under long-term incentive schemes was £84,801 (2012 - £201,495).

Certain directors of the company are also directors of other companies within the Marsh & McLennan Companies group and their emoluments are paid in respect of services to those companies. Accordingly, their emoluments have been excluded from the above amounts, but are disclosed in the accounts of the relevant companies within the group.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

#### Analysis of charge for the year

|   | 2013<br>£'000     | £'000             | 2012<br>£'000     | £'000             |
|---|-------------------|-------------------|-------------------|-------------------|
| Current tax:  |                   |                   |                   |                   |
| UK corporation tax on profit for the year   | 3,029             |                   | 5,645             |                   |
| Adjustment in respect of prior years  | (558)             |                   | (560)             |                   |
|   | <u>          </u> |                   | <u>          </u> |                   |
| Total current tax charge  |                   | 2,471             |                   | 5,085             |
| Deferred tax:   |                   |                   |                   |                   |
| Timing differences, origination and reversal  | 16,854            |                   | 16,973            |                   |
| Impact of change in tax rate  | 739               |                   | 46                |                   |
| Adjustments to the estimated recoverable amounts of deferred tax assets arising in previous periods | 74                |                   | (109)             |                   |
|   | <u>          </u> |                   | <u>          </u> |                   |
| Total deferred tax charge   |                   | 17,667            |                   | 16,910            |
|   |                   | <u>          </u> |                   | <u>          </u> |
| Tax charge on profit on ordinary activities   |                   | 20,138            |                   | 21,995            |
|   |                   | <u>          </u> |                   | <u>          </u> |

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

The tax assessed for the period is lower than that resulting from applying the standard rate of corporation tax in the UK: 2013 - 23.25% (2012- 24.5%)

The differences are explained below:

|   | 2013<br>£'000     | 2012<br>£'000     |
|---|-------------------|-------------------|
| Profit on ordinary activities before taxation     | 88,323            | 91,991            |
|   | <u>          </u> | <u>          </u> |
| UK corporation tax at 23.25% (2012 – 24.5%)       | 20,535            | 22,538            |
| Effects of:                                       |                   |                   |
| Expenses not deductible for tax purposes          | (563)             | 83                |
| Goodwill  | 71                | 50                |
| Timing differences, origination and reversal      | (551)             | (398)             |
| Capital allowances                                | (584)             | 678               |
| Adjustment in respect of prior years              | (559)             | (560)             |
| Movement in pensions and post retirement benefits | (15,878)          | (17,306)          |
|   | <u>          </u> | <u>          </u> |
|   | 2,471             | 5,085             |
|   | <u>          </u> | <u>          </u> |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The adjustment in respect of prior year relates to group relief for nil consideration with a fellow group company, revised expenses not deductible for tax purposes and the impact of an adjustment to capital allowances claims and short-term timing differences.

The rate of corporation tax reduced from 24% to 23% on 1 April 2013. Further reductions in the tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

### 9. INTANGIBLE FIXED ASSETS

|                                    | <b>Goodwill<br/>£'000</b> |
|------------------------------------|---------------------------|
| <b>Cost</b>                        |                           |
| At 1 January 2013                  | 2,738                     |
| Acquired from subsidiary (note 25) | -                         |
|                                    | <hr/>                     |
| At 31 December 2013                | 2,738                     |
|                                    | <hr/>                     |
| <b>Amortisation</b>                |                           |
| At 1 January 2013                  | 1,048                     |
| Charge for the year                | 305                       |
|                                    | <hr/>                     |
| At 31 December 2013                | 1,353                     |
|                                    | <hr/>                     |
| <b>Net book value</b>              |                           |
| At 31 December 2013                | 1,385                     |
|                                    | <hr/>                     |
| At 31 December 2012                | 1,690                     |
|                                    | <hr/>                     |

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 10. TANGIBLE FIXED ASSETS

| The movements in the year were as follows: | Land and buildings<br>£'000 | Leasehold improvements<br>£'000 | Furniture and equipment<br>£'000 | IT equipment and software<br>£'000 | Assets under construction<br>£'000 | Total<br>£'000 |
|--|-----------------------------|---------------------------------|----------------------------------|------------------------------------|------------------------------------|----------------|
| Cost                                       |                             |                                 |                                  |                                    |                                    |                |
| At 1 January 2013                          | 8,596                       | 1,634                           | 1,175                            | 16,858                             | 1,609                              | 29,872         |
| Additions                                  | -                           | 7                               | -                                | 1,150                              | 2,314                              | 3,471          |
| Disposals                                  | -                           | (2,092)                         | (145)                            | (1,868)                            | -                                  | (4,105)        |
| Reclassification                           | -                           | 730                             | -                                | 2,220                              | (2,950)                            | -              |
| At 31 December 2013                        | <u>8,596</u>                | <u>279</u>                      | <u>1,030</u>                     | <u>18,360</u>                      | <u>973</u>                         | <u>29,238</u>  |
| Depreciation                               |                             |                                 |                                  |                                    |                                    |                |
| At 1 January 2013                          | 2,843                       | 1,535                           | 1,026                            | 13,404                             | -                                  | 18,808         |
| Charge for year                            | 164                         | 61                              | 58                               | 2,789                              | -                                  | 3,072          |
| Disposals                                  | -                           | (2,092)                         | (145)                            | (1,753)                            | -                                  | (3,990)        |
| Reclassification                           | -                           | 691                             | -                                | (691)                              | -                                  | -              |
| At 31 December 2013                        | <u>3,007</u>                | <u>195</u>                      | <u>939</u>                       | <u>13,749</u>                      | <u>-</u>                           | <u>17,890</u>  |
| Net book value                             |                             |                                 |                                  |                                    |                                    |                |
| At 31 December 2013                        | <u>5,589</u>                | <u>84</u>                       | <u>91</u>                        | <u>4,611</u>                       | <u>973</u>                         | <u>11,348</u>  |
| At 31 December 2012                        | <u>5,753</u>                | <u>99</u>                       | <u>149</u>                       | <u>3,454</u>                       | <u>1,609</u>                       | <u>11,064</u>  |

Included in land and buildings is land held at cost of £2,013,000 (2012 - £2,013,000) which is not subject to depreciation.

### 11. FIXED ASSET INVESTMENTS

| Investment in subsidiary undertakings | 2013<br>£'000 | 2012<br>£'000 |
|---------------------------------------|---------------|---------------|
| Cost and net book value               |               |               |
| At 1 January and at 31 December       | <u>600</u>    | <u>600</u>    |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 11. FIXED ASSET INVESTMENTS (continued)

#### Subsidiary undertakings

The company's principal subsidiary undertakings as at 31 December 2013, all of which represent 100% ownership of ordinary shares, were:

| Principal subsidiary undertakings         | Country of registration or incorporation | Country of operation | Principal activity   |
|---|--|----------------------|--|
| Mercer Trustees Limited                   | England and Wales                        | United Kingdom       | Trustee Company (Dormant)  |
| Pension Trustees Limited                  | England and Wales                        | United Kingdom       | Trustee Company (Dormant)  |
| PFT Limited                               | England and Wales                        | United Kingdom       | Provision of Pension Payroll Services for Pension Schemes administered by Mercer Limited (Dormant) |
| Sedgwick Noble Lowndes Group Limited      | England and Wales                        | United Kingdom       | Holding company for other subsidiary undertakings  |
| English Pension Trustees Limited          | England and Wales                        | United Kingdom       | Trustee Company (Dormant)  |
| Sedgwick Trustees Limited                 | England and Wales                        | United Kingdom       | Trustee Company (Dormant)  |
| Settlement Trustees Limited               | England and Wales                        | United Kingdom       | Trustee Company (Dormant)  |
| Organization Resources Counselors Limited | England and Wales                        | United Kingdom       | Dormant Company  |

### 12. DEBTORS

|   | 2013<br>£'000  | 2012<br>£'000  |
|---|----------------|----------------|
| Billed debtors  | 62,012         | 62,756         |
| Unbilled debtors  | 31,739         | 31,284         |
| Amounts owed by group companies:                              |                |                |
| Subsidiary undertakings                                       | 4,853          | 4,967          |
| Parent and fellow subsidiary undertakings                     | 23,367         | 28,886         |
| Amounts due from other group companies in respect of taxation | 2,867          | 2,739          |
| Other debtors   | 3,242          | 3,163          |
| Other prepayments and accrued income                          | 720            | 7,380          |
|   | <u>128,800</u> | <u>141,175</u> |

Included within amounts owed by parent and fellow subsidiary undertakings is £1,877,627 (2012 - £7,725,087) in respect of professional indemnity insurance claims.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

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

|   | Notes | 2013<br>£'000 | 2012<br>£'000 |
|---|-------|---------------|---------------|
| Deferred taxation                       |       | 4,076         | 6,380         |
| Professional indemnity insurance claims | 17    | 46,386        | 54,054        |
| Other prepayments and accrued income    |       | 3,633         | 2,273         |
|   |       | <u>54,095</u> | <u>62,707</u> |

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

### 14. DEFERRED TAXATION

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

|  | 2013<br>£'000 | 2012<br>£'000 |
|--|---------------|---------------|
| <b>Movements on the deferred taxation account were as follows:</b> |               |               |
| At 1 January   | 5,737         | 9,987         |
| Charged to profit and loss account in current year                 | (16,855)      | (16,973)      |
| Prior year adjustment  | (74)          | 109           |
| Impact of change in tax rate                                       | (739)         | (46)          |
| Movement in net pension and post-retirement liability              | 16,006        | 12,660        |
|  | <u>4,075</u>  | <u>5,737</u>  |
| At 31 December   | 4,075         | 5,737         |
| <b>Analysis of deferred tax balance:</b>                           |               |               |
|  | 2013<br>£'000 | 2012<br>£'000 |
| Accelerated capital allowances                                     | 3,147         | 4,154         |
| Short-term timing differences                                      | 928           | 1,583         |
|  | <u>4,075</u>  | <u>5,737</u>  |

Deferred timing differences have been provided for at tax rates substantively enacted at the balance sheet date which will apply when the timing differences are expected to reverse. The tax rates substantively enacted at the balance sheet date are 23%, 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015). No further tax rate changes have been announced.

A deferred tax asset of £837,635 (2012: £1,059,756) representing losses from the Leadership Development business which transferred from Oliver Wyman Limited has not been recognised due to the uncertainty of when the asset will be realised.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

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

|  | 2013<br>£'000 | 2012<br>£'000 |
|--|---------------|---------------|
| Trade creditors  | 1,725         | 1,198         |
| Amounts owed to group companies:                               |               |               |
| Parent and fellow subsidiary undertakings                      | 23,335        | 7,454         |
| Subsidiary undertakings  | 3,089         | 3,148         |
| Amounts due to other group undertakings in respect of taxation | 8,839         | 6,300         |
| Deferred tax   | -             | 643           |
| Other creditors:   |               |               |
| VAT payable  | 10,552        | 10,118        |
| Social security and PAYE                                       | 8,469         | 8,448         |
| Accruals and deferred income                                   | 41,192        | 35,107        |
|  | <u>97,201</u> | <u>72,416</u> |

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

|                    | 2013<br>£'000 | 2012<br>£'000 |
|--------------------|---------------|---------------|
| Subordinated loans | <u>19,000</u> | <u>19,000</u> |

As part of the acquisition of the business of Sedgwick Noble Lowndes Limited, on 16 July 1999, the company assumed the rights and obligations relating to a subordinated loan advanced to Sedgwick Noble Lowndes Limited, by its immediate holding company on 20 January 1999 in the amount of £19,000,000. This loan attracts interest at LIBOR plus 0.25% per annum, payable half-yearly, and is repayable two years from the date on which notice of repayment is given.



# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 17. PROVISIONS FOR LIABILITIES

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

|                               | At 1<br>January<br>2013<br>£'000 | Increase in<br>provision<br>£'000 | Reductions<br>in<br>provision<br>£'000 | Unwinding<br>of discount<br>£'000 | Utilisation<br>£000 | At 31<br>December<br>2013<br>£'000 |
|-------------------------------|----------------------------------|-----------------------------------|--|-----------------------------------|---------------------|------------------------------------|
| Onerous lease commitments     | 23,220                           | 3                                 | (1,019)                                | 1,372                             | (3,576)             | 20,000                             |
| Professional indemnity claims | 55,808                           | 20,763                            | (11,265)                               | -                                 | (17,168)            | 48,138                             |
| Dilapidations                 | 2,970                            | 317                               | -                                      | 119                               | -                   | 3,406                              |
| Restructuring costs           | 1,764                            | 622                               | (182)                                  | -                                 | (1,917)             | 287                                |
|                               | <u>83,762</u>                    | <u>21,705</u>                     | <u>(12,466)</u>                        | <u>1,491</u>                      | <u>(22,661)</u>     | <u>71,831</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 contractual fixed rent increase for one property until 2020 when rent will move to an open market rate. Given the current economic climate and depressed rental income market, sub-let rental income is unlikely to increase in line with the contractual obligations of the company and this has been reflected in the provision. The provision for one other property was increased as, since no sub-let tenant had yet been found, the assumptions regarding sub-let rental income were revised.

The company is subject to a number of professional indemnity claims in the ordinary course of business. Such claims and lawsuits consist principally of alleged errors and omissions in connection with the performance of professional services. The company utilises internal actuarial and other estimates, and case level reviews by inside and outside counsel, to establish the potential liability. Such liabilities are recorded or provided as appropriate when a reliable estimate can be made of any obligation.

The company participates in an insurance programme which ensures that, as far as possible, liabilities which may arise from such litigation and claims will be met in full. However, in respect of claims that may be settled in respect of the 2001 and 2002 policy years, it is uncertain that these will be recoverable and therefore these claims have been provided for in full without a corresponding insurance receivable. Accordingly, insurance recoveries (representing receivables from other group companies) of £46,386,000 (2012 - £54,054,000) have been recognised within debtors due after more than one year (see note 13).

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

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 18. CALLED UP SHARE CAPITAL

|                          | 2013        |         | 2012        |         |
|--------------------------|-------------|---------|-------------|---------|
|                          | Number      | £'000   | Number      | £'000   |
| Issued shares of £1 each | 224,400,000 | 224,400 | 224,400,000 | 224,400 |

### 19. MOVEMENT ON RESERVES

|   | Notes | Share capital<br>£'000 | Other reserves<br>£'000 | Profit and loss<br>account<br>£'000 | Total<br>£'000 |
|---|-------|------------------------|-------------------------|-------------------------------------|----------------|
| As at 1 January 2013  |       | 224,400                | 21,797                  | 158,706                             | 404,903        |
| Actuarial gain in respect of pension scheme                   | 22    | -                      | -                       | 33,700                              | 33,700         |
| Actuarial gain in respect of post retirement medical benefits | 23    | -                      | -                       | 2,838                               | 2,838          |
| Pension scheme surplus cap                                    | 22    | -                      | -                       | (191,638)                           | (191,638)      |
| Deferred tax relating to post retirement benefits             |       | -                      | -                       | 35,195                              | (9,361)        |
| Loss on pensions asset net of taxation                        |       | -                      | -                       | (119,905)                           | (119,905)      |
| Capital contributions in respect of share-based payments      |       | -                      | 1,711                   | -                                   | 1,711          |
| Profit for the financial year                                 |       | -                      | -                       | 68,185                              | 68,185         |
| Net addition to shareholders' funds                           |       | -                      | 1,711                   | (51,720)                            | (50,009)       |
| As at 31 December 2013  |       | 224,400                | 23,508                  | 106,986                             | 354,894        |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 19. MOVEMENT ON RESERVES (continued)

|  |    | Share<br>capital<br>£'000 | Other<br>reserves<br>£'000 | Profit<br>and loss<br>account<br>£'000 | Total<br>£'000 |
|--|----|---------------------------|----------------------------|--|----------------|
| As at 1 January 2012   |    | 224,400                   | 19,237                     | 31,209                                 | 274,846        |
| Actuarial gain in respect of pension scheme                      | 22 | -                         | -                          | 78,038                                 | 78,038         |
| Actuarial loss in respect of post retirement<br>medical benefits | 23 | -                         | -                          | (1,878)                                | (1,878)        |
| Deferred tax relating to actuarial gains and<br>losses           |    | -                         | -                          | (18,659)                               | (18,659)       |
| Actuarial gain on pensions liability net of<br>taxation          |    | -                         | -                          | 57,501                                 | 57,501         |
| Capital contributions in respect of share-<br>based payments     |    | -                         | 2,560                      | -                                      | 2,560          |
| Profit for the financial year                                    |    | -                         | -                          | 69,996                                 | 69,996         |
| Net addition to shareholders' funds                              |    | -                         | 2,560                      | 127,497                                | 130,057        |
| As at 31 December 2012   |    | 224,400                   | 21,797                     | 158,706                                | 404,903        |

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

#### Operating lease commitments

As at 31 December 2013, the company was committed to making the following payments during the next year in respect of operating leases:

|                             | 2013                           |                | 2012                           |                |
|-----------------------------|--------------------------------|----------------|--------------------------------|----------------|
|                             | Land and<br>buildings<br>£'000 | Other<br>£'000 | Land and<br>buildings<br>£'000 | Other<br>£'000 |
| <b>Leases which expire:</b> |                                |                |                                |                |
| Within one year             | 1,757                          | -              | 523                            | 366            |
| Within two to five years    | 8,403                          | -              | 3,081                          | -              |
| After five years            | 2,894                          | -              | 8,955                          | -              |
|                             | 13,054                         | -              | 12,559                         | 366            |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

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

#### Contingent liabilities

The company has a contingent liability in the form of security provided to a fellow subsidiary undertaking lease with less than two years remaining and a current annual rental of £825,000.

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

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

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

On 16 July 1999 and 17 October 2000 the company indemnified Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively against any costs, expenses and liabilities (including any fines) incurred and to be incurred in respect of the management, administration and/or settlement of mis-selling claims and mis-selling liabilities to the extent that they exceed the provision (net of estimated insurance recoveries) of £83,200,000 and £14,600,000 recorded in the books of Sedgwick Noble Lowndes Limited and Sedgwick Financial Services Limited respectively at the date the indemnities were given: £nil became payable under the indemnities in 2013 (2012 - £62,400). No further amounts are expected to become payable in the future.

### 22. PENSION SCHEME

The group operates a defined benefit scheme in the UK. An actuarial valuation was carried out at 31 December 2012 and updated to 31 December 2013 by a qualified actuary (who is employed within the Marsh & McLennan Companies group). The service cost and liability have been calculated using the Projected Unit Method.

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

|   | 2013<br>£m | 2012<br>£m |
|---|------------|------------|
| <b>Components of pension cost</b>   |            |            |
| Current service cost  | 23.3       | 26.6       |
| Interest cost   | 45.7       | 47.3       |
| Expected return on plan assets  | (58.6)     | (53.7)     |
| Past service cost   | -          | (17.0)     |
| Total pension cost recognised in the profit and loss account                        | 10.4       | 3.2        |
| Actuarial gains immediately recognised  | (33.7)     | (78.0)     |
| Effect of surplus cap   | 191.7      | -          |
| Total pension cost recognised in the statement of total recognised gains and losses | 158.0      | (78.0)     |
| Cumulative amount of actuarial losses immediately recognised                        | 210.4      | 244.1      |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 22. PENSION SCHEME (Continued)

|  | 2013<br>£m | 2012<br>£m |
|--|------------|------------|
| <b>Amounts recognised in the balance sheet</b> |            |            |
| Fair value of plan assets                      | 1,265.7    | 1,114.5    |
| Present value of funded obligations            | (1,074.0)  | (1,023.0)  |
|  | 191.7      | 91.5       |
| Present value of unfunded obligations          | (1.5)      | (4.1)      |
|  | 190.2      | 87.4       |
| Related deferred tax liability                 | (38.0)     | (20.1)     |
| Net amount recognised prior to surplus cap     | 152.2      | 67.3       |
| <b>Change in benefit obligation</b>            |            |            |
| Benefit obligation at 1 January                | 1,027.1    | 1,009.1    |
| Current service cost                           | 23.3       | 26.6       |
| Interest cost                                  | 45.7       | 47.3       |
| Plan participants' contributions               | 0.3        | 0.5        |
| Past service credit                            | -          | (17.0)     |
| Actuarial losses/(gains)                       | 9.7        | (10.7)     |
| Business combinations                          | -          | 0.9        |
| Benefits paid                                  | (30.6)     | (29.6)     |
| Benefit obligation at 31 December              | 1,075.5    | 1,027.1    |
| <b>Analysis of defined benefit obligation</b>  |            |            |
| Plans that are wholly or partly funded         | 1,074.0    | 1,023.0    |
| Plans that are wholly unfunded                 | 1.5        | 4.1        |
| Total  | 1,075.5    | 1,027.1    |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 22. PENSION SCHEME (continued)

|  | 2013<br>£m     | 2012<br>£m     |
|--|----------------|----------------|
| <b>Change in plan assets</b>             |                |                |
| Fair value of plan assets at 1 January   | 1,114.5        | 963.4          |
| Expected return on plan assets           | 58.6           | 53.7           |
| Actuarial gains                          | 43.4           | 67.3           |
| Business combinations                    | -              | 1.0            |
| Employer contributions                   | 79.5           | 58.2           |
| Member contributions                     | 0.3            | 0.5            |
| Benefits paid                            | (30.6)         | (29.6)         |
|  | <u>1,265.7</u> | <u>1,114.5</u> |
| Fair value of plan assets at 31 December |                |                |
|  | <u>1,265.7</u> | <u>1,114.5</u> |
| <br>Funded status                        | <br>190.2      | <br>67.3       |
| Effect of surplus cap                    | (191.7)        | -              |
| Related deferred tax asset               | 0.2            | -              |
|  | <u>(1.3)</u>   | <u>67.3</u>    |
| Net amount recognised                    |                |                |

|   | 2013          | 2012          |
|---|---------------|---------------|
| <b>Fund assets</b>  |               |               |
| The weighted-average asset allocations at the year end were as follows: |               |               |
| Equities  | 46.6%         | 50.8%         |
| Government Bonds  | 17.7%         | 20.1%         |
| Corporate Bonds   | 23.9%         | 21.1%         |
| Property  | 4.6%          | 5.4%          |
| Insured   | 0.1%          | 0.2%          |
| Cash  | 7.1%          | 2.4%          |
|   | <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 5.3% assumption for the 2013 expense and 5.4% for the 2014 expense.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 22. PENSION SCHEME (continued)

|  | 2013<br>£m  | 2012<br>£m    |             |               |
|--|-------------|---------------|-------------|---------------|
| Actual return on plan assets   | 101.9       | 121.0         |             |               |
| <b>Weighted average assumptions used to determine benefit obligations at:</b>                          | <b>2013</b> | <b>2012</b>   |             |               |
| Discount rate  | 4.65%       | 4.46%         |             |               |
| Rate of compensation increase  | 3.05%       | 2.65%         |             |               |
| Rate of pension increases in deferment   | 2.30%       | 2.10%         |             |               |
| Inflation rate (RPI)   | 3.30%       | -             |             |               |
| Inflation rate (CPI)   | 2.30%       | -             |             |               |
| <b>Weighted average assumptions used to determine net pension cost for year ended:</b>                 | <b>2013</b> | <b>2012</b>   |             |               |
| Discount rate  | 4.46%       | 4.70%         |             |               |
| Expected long-term return on plan assets   | 5.39%       | 5.40%         |             |               |
| Rate of compensation increase  | 2.65%       | 4.00%         |             |               |
| Rate of pension increases in deferment (5% LPI)  | -           | 2.20%         |             |               |
| Rate of pension increases in payment (2.5% LPI)  | -           | 2.10%         |             |               |
|  | <b>2013</b> | <b>2012</b>   |             |               |
|  | <b>Male</b> | <b>Female</b> | <b>Male</b> | <b>Female</b> |
| <b>Weighted average life expectancy for mortality tables used to determine benefit obligations at:</b> |             |               |             |               |
| Member age 65 (current life expectancy)  | 23.3        | 25.2          | 23.3        | 25.1          |
| Member age 45 (life expectancy at age 65)  | 24.9        | 27.1          | 25.0        | 27.0          |

If future life expectancy for all members were to increase by a further one year then this would increase the liabilities for FRS17 purposes by about 3%. A change in the life expectancy assumption at the year end balance sheet date also leads to an increase in the following year's pensions charge to the profit and loss.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 22. PENSION SCHEME (continued)

|  | 2013<br>£m  | 2012<br>£m  | 2011<br>£m  | 2010<br>£m  | 2009<br>£m  |
|--|-------------|-------------|-------------|-------------|-------------|
| <b>Five year history</b>   |             |             |             |             |             |
| Fair value of plan assets at end of year                           | 1,265.7     | 1,114.5     | 963.4       | 920.7       | 807.1       |
| Benefit obligation at end of year                                  | (1,075.5)   | (1,027.1)   | (1,009.1)   | (883.6)     | (803.4)     |
|  | 190.2       | 87.4        | (45.7)      | 37.1        | 3.7         |
| Related deferred tax (liability)/asset                             | (38.0)      | (20.1)      | 11.4        | (10.0)      | (1.0)       |
| Surplus/(deficit)  | 152.2       | 67.3        | (34.3)      | 27.1        | 2.7         |
|  | <b>2013</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2009</b> |
| Difference between expected and actual<br>return on scheme assets: |             |             |             |             |             |
| Amount (£m)  | 43.4        | 67.3        | (34.7)      | 42.7        | 46.0        |
| Percentage of scheme assets  | 3%          | 6%          | (4)%        | 5%          | 6%          |
| Experience gains and losses on scheme<br>liabilities               |             |             |             |             |             |
| Amount (£m)  | (18.9)      | 10.8        | (7.5)       | 4.5         | 0.9         |
| Percentage of scheme liabilities                                   | (2)%        | 1%          | (1)%        | 1%          | 0%          |

### Contributions

During 2013 the company made regular contributions of 14.7% of pensionable salary plus scheduled shortfall correction contributions of £4.8m in respect of members of the Mercer section and 17.0% of pensionable salary plus scheduled shortfall correction contributions of £17.3m in respect of members of the Sedgwick section. Additionally, in March 2013, the company made contributions of £35.8 million to pre-fund all of the 2014 deficit contributions and a portion of subsequent deficit contributions.

The company expects to pay contributions of £18.3m during 2014.

### Defined contribution scheme

The group also operates a defined contribution scheme for employees who are not eligible or choose not join the defined benefit scheme. Contributions to this section, which are charged to the profit and loss account as incurred, amounted to £751,000 (2012 - £718,000).



# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 23. POST RETIREMENT MEDICAL BENEFITS

The company operates an unfunded non-contributory scheme for medical benefits. As part of this scheme, defined medical benefits are provided to retired UK members who started their services with the company on or prior to 1 December 1988 and had completed five years of service with the company at retirement. The costs of private medical care are subsidised for these pensioners. One group of pensioners receive a fixed subsidy of £250 regardless of marital status while the remainder and current eligible employees are entitled to fully insured benefits in retirement for themselves, their spouses and eligible dependents. On a pensioner's death the benefit ceases for the widow or widower at the end of the scheme year in which death occurs. Currently, 285 pensioners receive these benefits and 89 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 2013 by a qualified actuary (who is employed within the Marsh & McLennan Companies group). The method used was the projected unit method. The major assumptions used for the actuarial valuation were (in nominal terms):

| Assumptions                            | 31<br>December<br>2013 | 31<br>December<br>2012 | 31<br>December<br>2011 | 31<br>December<br>2010 | 31<br>December<br>2009 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Gross interest rate                    | 4.7%                   | 4.3%                   | 4.7%                   | 5.7%                   | 5.7%                   |
| Medical cost trend rate for one year   | 10.5%                  | 6.1%                   | 5.2%                   | 6.0%                   | 4.5%                   |
| Medical cost trend rate after one year | 5.5%                   | 6.1%                   | 5.2%                   | 6.0%                   | 4.5%                   |

The following amounts have been recognised in the performance statements in the year to 31 December 2013 in respect of post retirement medical benefits under the requirements of FRS 17:

|  | 2013<br>£'000 | 2012<br>£'000  |
|--|---------------|----------------|
| <b>Analysis of amounts charged to operating profit</b>   |               |                |
| Current service cost   | 331           | 287            |
| Total included within operating profit   | <u>331</u>    | <u>287</u>     |
| <b>Analysis of amount charged to other finance costs</b>   |               |                |
| Interest on scheme liabilities   | <u>1,007</u>  | <u>910</u>     |
| Net finance cost   | <u>1,007</u>  | <u>910</u>     |
| <b>Analysis of the actuarial gain / (loss) in the statement of total recognised gains and losses</b> |               |                |
| Experience gains and losses arising on scheme liabilities  | 1,586         | (63)           |
| Effects of changes in assumptions underlying the present value of scheme liabilities                 | <u>1,252</u>  | <u>(1,815)</u> |
| Actuarial gain / (loss)  | <u>2,838</u>  | <u>(1,878)</u> |

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

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

Movement in scheme liability during the year:

|  | 2013<br>£'000 | 2012<br>£'000 |
|--|---------------|---------------|
| Liability in the scheme at 1 January       | 22,151        | 19,601        |
| Current service cost                       | 331           | 287           |
| Payments                                   | (532)         | (525)         |
| Interest on scheme liabilities             | 1,007         | 910           |
| Actuarial (gain)/loss                      | (2,838)       | 1,878         |
| Liability in the scheme at 31 December     | 20,119        | 22,151        |
| Related deferred tax asset                 | (4,023)       | (5,094)       |
| Net liability in the scheme at 31 December | 16,096        | 17,057        |

|   | 2013  | 2012    | 2011    | 2010    | 2009  |
|---|-------|---------|---------|---------|-------|
| <b>History of experience gains and losses</b>   |       |         |         |         |       |
| Experience gains/(losses) on scheme liabilities:  |       |         |         |         |       |
| Amount (£'000)  | 1,586 | (63)    | 348     | (31)    | 1,340 |
| Percentage of the present value of the scheme liabilities                                 | 8%    | 0%      | 2%      | 0%      | 13%   |
| Total actuarial gain/(loss) recognised in statement of total recognised gains and losses: |       |         |         |         |       |
| Amount (£'000)  | 2,838 | (1,878) | (5,738) | (2,920) | 2,672 |
| Percentage of the present value of the scheme liabilities                                 | 14%   | (8)%    | (29)%   | (22)%   | 26%   |

### 24. SHARE-BASED PAYMENTS

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

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

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 24. SHARE-BASED PAYMENTS (continued)

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

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

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

#### Non-Qualified Stock Options

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

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

For both types of grant, the cost associated with each tranche of awards under each grant is spread over the appropriate vesting period. Stock options are forfeited if the employee leaves the company before the options vest. The vesting schedule is accelerated for retiree-eligible individuals should they retire before the options have vested in full.

Effective 1 July 2005, employees were given the opportunity to exchange certain deeply underwater options for new options with an estimated fair value equal to 90% of the value of the options surrendered in exchange. The new options were unvested when granted, and vest on the later of the second anniversary of the grant date of the new options and the original vesting date of the previous options.

#### *Options granted without a market-based triggering event*

The estimated fair value of options is calculated using the Black-Scholes option pricing valuation model.

The inputs into the Black-Scholes option pricing model are as follows, in United States dollars:

|                                 | 2013      | 2012      | 2011       | 2010       | 2009 |
|---------------------------------|-----------|-----------|------------|------------|------|
| Weighted average share price    | \$36.49   | \$31.88   | \$30.60    | \$22.71    | -    |
| Weighted average exercise price | \$36.49   | \$31.88   | \$30.60    | \$22.71    | -    |
| Expected volatility             | 23.8%     | 26.2%     | 25.4%      | 27.6%      | -    |
| Expected life                   | 6.0 years | 6.5 years | 6.75 years | 6.75 years | -    |
| Risk-free rate                  | 1.09%     | 1.27%     | 2.9%       | 3.15%      | -    |
| Expected dividends              | 2.52%     | 2.76%     | 2.75%      | 3.52%      | -    |

The risk free interest rate assumption is based on the yield on US Treasury zero-coupon issues with a term equal to the expected life of the option, as of the grant date.

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 24. SHARE-BASED PAYMENTS (continued)

Expected volatility prior to 1 July 2005 was calculated based on historical volatility for a period equal to the stock option's expected life, calculated on a monthly basis. Subsequent to 1 July 2005 a blended volatility rate was used based on the following: volatility derived from daily closing price observations for the ten year period ended on the valuation date; implied volatility derived from traded options for the period one week before and one week after the valuation date; average volatility for the ten year periods ended on 15 anniversaries prior to the valuation date, using daily closing price observations. This is consistent with the methodology adopted by the Marsh & McLennan Companies group.

The expected life used in the model is estimated using the contractual term of the option and the effects of employees' expected exercise and post-vesting employment termination behaviour.

The expected dividend yield is based on expected dividends for the expected term of the stock options.

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

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

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

|                                      | 2013                       |   | 2012                       |   |
|--------------------------------------|----------------------------|---|----------------------------|---|
|                                      | Number of<br>share options | Weighted<br>average<br>exercise price<br>(US\$) | Number of<br>share options | Weighted<br>average<br>exercise price<br>(US\$) |
| Outstanding at beginning of period   | 827,137                    | 29.57   | 950,277                    | 29.48   |
| Granted during the period            | 22,178                     | 36.50   | 21,938                     | 31.89   |
| Forfeited/expired during the period  | (10,450)                   | 29.82   | (19,152)                   | 33.09   |
| Exercised during the period          | (527,830)                  | 29.95   | (125,926)                  | 28.74   |
| Outstanding at the end of the period | 311,035                    | 29.42   | 827,137                    | 29.57   |
| Exercisable at the end of the period | 248,739                    | 28.93   | 491,261                    | 29.28   |

The options outstanding at 31 December 2013 had a weighted average exercise price of \$29.42 (2012 - \$29.57), and a weighted average remaining contractual life of 3.96 years (2012 - 2.96 years). The number of options granted in 2013 was 22,178 (2012 - 21,938).

The company recognised total expenses of £81,500 and £80,000 in relation to all non-qualified stock options in 2013 and 2012 respectively.

#### **Share Awards**

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

# Mercer Limited

## Notes to the financial statements Year ended 31 December 2013

### 24. SHARE-BASED PAYMENTS (continued)

|                                      | 2013             |   | 2012             |   |
|--------------------------------------|------------------|---|------------------|---|
|                                      | 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   | 250,660          | 29.21   | 395,503          | 25.26   |
| Granted during the period            | 30,902           | 36.50   | 90,932           | 31.89   |
| Forfeited during the period          | (7,994)          | 32.03   | (27,319)         | 26.68   |
| Vested during period                 | (130,593)        | 27.55   | (208,456)        | 23.22   |
| Outstanding at the end of the period | 142,975          | 32.14   | 250,660          | 29.20   |

The company recognised total expenses of £1,452,000 and £2,290,000 in relation to stock awards in 2013 and 2012 respectively.

#### SAYE Awards

SAYE plans are UK Treasury sponsored schemes that run each year from 1 October. Members are granted options at a discounted rate based on the market value at that date, with either a three or five year vesting period. Options must be exercised within six months of vesting, otherwise they will lapse. No performance conditions apply.

These options are valued using the Black-Scholes method, as stated above for stock options. The expected life is valued at three or five years based on the terms of the plan. The cost is recognised over the appropriate vesting period.

Under this scheme £159,882 was expensed during 2013 (2012 - £173,404) in relation to three and five year schemes commencing during the years 2005 to 2013.

#### Other share-based payment plans

The employee share purchase plan is operated in the UK, and is open to almost all the employees in the UK. Employees pay monthly contributions and have the opportunity at every quarter end to purchase Marsh & McLennan Companies, Inc. common stock at 95% of market value. This discount applied from October 2005. Previous to this, employees purchased stock at 85% of market value. Under this scheme, employees purchased 13,641 ordinary shares in 2013 (2012 - 15,859), at a weighted average share price of £23.63 (2012 - £19.57). The discount of £17,117 (2012 - £16,330) is recognised in full when the shares are purchased.

## **Mercer Limited**

### **Notes to the financial statements Year ended 31 December 2013**

#### **25. ACQUISITION OF SUBSIDIARY TRADE AND ASSETS**

On 1 February 2013 the company acquired the trade assets and liabilities of Mercer Employee Benefits Limited.

The net assets transferred and the consideration paid, is summarised as follows:

|                                 | <b>£'000</b> |
|---------------------------------|--------------|
| <b>Current assets</b>           |              |
| Billed debtors                  | 1,404        |
| Unbilled debtors                | 268          |
| Deferred tax asset              | 127          |
| Other Debtors                   | 168          |
|                                 | <hr/>        |
| <b>Total assets</b>             | <b>1,967</b> |
|                                 | <hr/>        |
| <b>Creditors</b>                |              |
| Deferred Income                 | (101)        |
|                                 | <hr/>        |
| <b>Total liabilities</b>        | <b>(101)</b> |
|                                 | <hr/>        |
| <b>Net Assets at book value</b> | <b>1,866</b> |
|                                 | <hr/> <hr/>  |

#### **27. ULTIMATE PARENT UNDERTAKING**

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

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

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

#### **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.