

NERA UK Limited

Report and Financial Statements

31 December 2003

Company Registration No. 3974527

NERA

Economic Consulting



NERA Economic Consulting
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Contents

Directors' Report	1
Statement of Directors' Responsibilities	2
Independent Auditors' Report to the Members of NERA UK Limited	3
Profit and Loss Account	5
Balance Sheet	6
Notes to the Accounts	7

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Activities

The principal activity of the company is to provide economic consulting services.

Review of developments and future prospects

The company continues to enjoy good levels of activity and future prospects remain encouraging.

Dividends

A dividend of £nil (2002 - £226,087) was paid during the year and a retained profit of £486,222 (2002 - £169,056) was transferred to reserves.

Directors and their interests

The directors of the company throughout the year and subsequently are:

J W Rhys	Retired 31 December 2004
D C Bucco	(US citizen)
R T Rapp	(US citizen)
J S Dodgson	
I S Jones	Retired 30 September 2003
W R Baker	
D W Colenutt	Appointed 1 January 2004

None of the directors had any beneficial interests in the shares of the company or any other UK group companies at any time during the year.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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



Director
15 Stratford Place
London
W1C 1BE

21 February 2005

Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

Independent Auditors' Report to the Members of NERA UK Limited

We have audited the financial statements of Nera UK Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

25 February 2005

Profit and Loss Account

Year ended 31st December 2003

	Note	2003 £	2002 £
Turnover	2	14,342,874	12,246,463
Cost of sales		<u>(8,191,603)</u>	<u>(7,028,820)</u>
Gross profit		6,151,271	5,217,643
Administrative expenses		<u>(5,482,080)</u>	<u>(4,718,240)</u>
Operating profit	4	669,191	499,403
Other interest receivable and similar income	5	34,153	33,095
Interest payable and similar charges	6	<u>(8,655)</u>	<u>(11,051)</u>
Profit on ordinary activities before taxation		694,689	521,447
Tax on profit on ordinary activities	7	<u>(208,467)</u>	<u>(126,304)</u>
Profit on ordinary activities after taxation		486,222	395,143
Equity dividends	8	<u>-</u>	<u>(226,087)</u>
Retained profit for the financial year		486,222	169,056
Profit and loss account brought forward		<u>647,655</u>	<u>478,599</u>
Profit and loss account carried forward		<u>1,133,877</u>	<u>647,655</u>

All activities relate to continuing operations.

There are no recognised gains or losses for the current financial year and preceding financial year other than as stated in the profit and loss account.

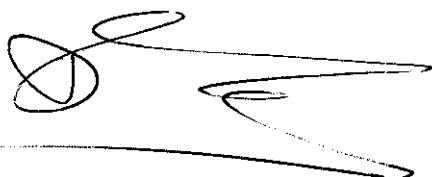
Balance Sheet

31 December 2003

	Note	2003 £	2002 £
Fixed assets			
Tangible assets	9	<u>752,603</u>	<u>529,287</u>
Current assets			
Debtors: amounts falling due within one year	10	5,555,757	5,520,243
Debtors: amounts falling due after more than one year	11	264,000	176,201
Cash at bank and in hand		<u>740,855</u>	<u>1,220,033</u>
		6,560,612	6,916,477
Creditors: amounts falling due within one year	12	<u>(5,896,812)</u>	<u>(6,495,277)</u>
Net current assets		663,802	421,200
Total assets less current liabilities		1,416,403	950,487
Creditors: amounts falling due after more than one year	13	<u>(41,378)</u>	<u>(61,684)</u>
		<u>1,375,025</u>	<u>888,803</u>
Capital and reserves			
Called up share capital	14	100	100
Share premium account		241,048	241,048
Profit and loss account		<u>1,133,877</u>	<u>647,655</u>
Equity shareholders' funds	15	<u>1,375,025</u>	<u>888,803</u>

These financial statements were approved by the Board of Directors on 21 February 2005.

Signed on behalf of the Board of Directors



Director

Notes to the Accounts

Year ended 31 December 2003

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below and have been applied consistently in both periods.

Accounting convention

The financial statements are prepared under the historical cost convention.

Turnover

Turnover comprises the total of fees earned in the financial year. Fee income is recognised in the profit and loss account on the basis of hours charged and any uninvoiced amounts are shown as unbilled debtors, net of any provisions for amounts considered to be unbillable.

Tangible fixed assets

Tangible fixed assets are shown at original historical cost net of depreciation. Depreciation is provided on a straight-line basis over their estimated useful lives, as follows:

Leasehold improvements	Over the shorter of remaining life of the lease or 10 years
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Furniture and equipment	3 to 10 years
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Taxation

Current tax, including United Kingdom 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 substantially 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 current 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.

Leasing commitments

Rentals paid under operating leases are charged as incurred.

Pension costs

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

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

Foreign exchange

Transactions in foreign currencies are recorded at the rates ruling at the dates of the transactions. All foreign currency assets and liabilities at the balance sheet date are translated at the rates ruling at that date. Translation gains or losses arising during the year are included in the profit and loss account.

2. Turnover

The turnover and pre-tax profit, all of which arises in the United Kingdom, is attributable to one activity, the provision of economic consultancy services.

	2003 £	2002 £
With third parties	13,566,197	11,840,724
Within the group	<u>776,677</u>	<u>405,739</u>
	<u>14,342,874</u>	<u>12,246,463</u>

3. Information regarding directors and employees

	2003 £	2002 £
Directors' remuneration		
Emoluments	755,443	688,079
Pensions and other retirement benefits	84,241	11,660
	<u>839,684</u>	<u>699,739</u>

Retirement benefits accrued to 4 directors under the defined benefit scheme and nil directors under the money purchase scheme.

The highest paid director was W R Baker whose total emoluments paid in 2003 were £329,072 (2002 – J W Rhys £191,968).

	2003 No.	2002 No.
Average number of persons employed		
Consultancy	62	58
Administration	18	18
	<u>80</u>	<u>76</u>

	£	£
Staff costs during the year (including directors)		
Wages and salaries	6,752,987	5,789,123
Social security costs	724,888	538,734
Pension costs	693,037	570,489
	<u>8,170,912</u>	<u>6,898,346</u>

4. Operating profit

	2003 £	2002 £
Operating profit is after charging		
Depreciation and amortisation		
Owned assets	157,550	151,249
Leased assets	19,958	19,958
Rentals under operating leases		
Other operating leases	978,063	932,796
Auditors' remuneration		
Audit fees	48,600	35,000
Other services	<u>15,765</u>	<u>20,000</u>

5. Other interest receivable and similar income

	2003 £	2002 £
Bank interest	<u>34,153</u>	<u>33,095</u>

6. Interest payable and similar charges

	2003 £	2002 £
Finance leases	<u>8,655</u>	<u>11,051</u>

7. Tax on profit on ordinary activities

	2003 £	2002 £
United Kingdom corporation tax at 30% based on the profit for the year	184,523	207,822
UK relief for overseas tax	(36,252)	(39,788)
	<u>148,271</u>	<u>168,034</u>
Overseas tax	36,252	39,788
Deferred tax	45,392	(72,931)
	<u>229,915</u>	<u>134,891</u>
Adjustment in respect of prior years - corporation tax	(18,376)	-
Adjustment in respect of prior years – deferred tax	(3,072)	(8,587)
	<u>208,467</u>	<u>126,304</u>

The tax assessed for the period is higher/lower than that resulting from applying the standard rate of corporation tax in the UK 30% (2002 – 30%). The differences are explained by:

	2003 %	2002 %
Standard rate for the period as a percentage of profits	30.00	30.00
Effects of:		
Expenses not deductible for tax purposes	3.10	8.85
Capital allowances in excess of depreciation	(1.67)	(2.42)
Other deferred tax movements	(4.87)	3.42
Prior year	(2.65)	(1.65)
Current tax rate for period as a percentage of profits	<u>23.91</u>	<u>38.20</u>

Movement on deferred taxation balance in the period

	2003 £	2002 £
Opening balance	72,931	-
(Charge)/Credit to the profit and loss account	(42,320)	72,931
Closing balance	<u>30,611</u>	<u>72,931</u>
Analysis of deferred tax balance		
Capital allowances in excess of depreciation	26,991	35,486
Other timing differences	3,620	37,455
	<u>30,611</u>	<u>72,931</u>

8. Dividends

	2003 £	2002 £
Final, proposed - £nil per ordinary share (2002 - £2,260.87)	-	226,087

9. Tangible fixed assets

	Short-term leasehold improvements £	Furniture and equipment £	Total £
Cost			
As at 1 January 2003	678,085	1,168,184	1,846,269
Additions	166,350	234,474	400,824
Disposals	(18,822)	(677,032)	(695,854)
At 31 December 2003	825,613	725,626	1,551,239
Accumulated depreciation			
As at 1 January 2003	(408,522)	(908,460)	(1,316,982)
Charge for the year	(60,383)	(117,125)	(177,508)
Disposals	18,822	677,032	695,854
At 31 December 2003	(450,083)	(348,553)	(798,636)
Net book value			
At 31 December 2003	375,530	377,073	752,603
At 31 December 2002	269,563	259,724	529,287

Included in tangible fixed assets are assets held under finance leases with a cost of £99,789 (2002 - £99,789) and accumulated depreciation of £73,179 (2002 - £53,221).

10. Debtors: amounts falling due within one year

	2003 £	2002 £
Billed debtors	2,359,778	2,508,844
Unbilled debtors	<u>2,239,904</u>	<u>1,990,382</u>
Trade debtors	4,599,682	4,499,226
Amounts owed by group undertakings		
Immediate parent and fellow subsidiary undertakings	163,117	74,979
Other debtors	43,725	44,021
Corporation tax	50,000	41,665
Deferred tax (see note 7)	30,611	72,930
Foreign tax recoverable	160,983	383,802
Prepayments and accrued income	<u>507,639</u>	<u>403,620</u>
	<u>5,555,757</u>	<u>5,520,243</u>

11. Debtors: amounts falling due after more than one year

	2003 £	2002 £
Other debtors	<u>264,000</u>	<u>176,201</u>

12. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	446,850	272,110
Amounts owned to group undertakings		
Immediate parent and fellow subsidiary undertakings	2,045,459	3,227,509
Group relief	423,577	217,215
Other taxation and social security	367,931	325,254
SSAP 24 Pension Liability	448,000	448,000
Other creditors	1,841,490	1,657,662
Accruals and deferred income	<u>323,505</u>	<u>347,527</u>
	<u>5,896,812</u>	<u>6,495,277</u>

13. Creditors: amounts falling due after more than one year

	2003 £	2002 £
Amounts payable under finance leases	6,160	29,372
Taxation and social security	35,218	32,312
	<u>41,378</u>	<u>61,684</u>

14. Called up share capital

	2003 £	2002 £
Authorised, allotted, called up and fully paid: 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

15. Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Profit for the financial year	486,222	395,143
Dividend	-	(226,087)
Net additions to shareholders' funds	486,222	169,056
Opening shareholders' funds	888,803	719,747
Closing shareholders' funds	<u>1,375,025</u>	<u>888,803</u>

16. Operating lease commitments

At 31 December 2003 the company was committed to make the following payments during the next year in respect of operating leases.

	2003 Land and buildings £	2002 Land and buildings £
Leases which expire:		
Within one year	74,000	22,000
Within two to five years	-	-
After five years	872,000	825,000
	<u>946,000</u>	<u>847,000</u>

17. Pension commitments

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

(i) Regular pension costs SSAP 24

The company employees are members of a funded defined benefit pension scheme operated by Mercer Human Resource Consulting Limited. On 1 April 2000, the scheme was transferred to the Marsh Mercer Pension Fund, which is operated by Marsh & McLennan Companies UK Limited.

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

The most recent formal actuarial valuation was at 1 January 2001. An additional interim valuation was carried out in 2003 to determine the level of cash funding required for 2004 and subsequent years and this has formed the basis on which the company has accounted for pensions for 2003. The assumptions which have the most significant effect on the results are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

Assumptions	At 1 January 2003	At 1 January 2002
Rate of investment returns	6.5%	7.0%
Rate of increase in salaries	4.0%	4.5%
Rate of increase in pensions	2.25%	2.75%

The next formal actuarial valuation will take place at 1 January 2004.

The pension charge for this scheme for the year ended 31 December 2003 was £661,505 (2002 - £551,721).

The actuarial valuations showed that the market value of the scheme's assets represented 89% at 1 January 2002 and 84% at 1 January 2003 of the value of benefits that had accrued to members, after allowing for expected future increases in salaries and pensions.

17. Pension commitments (continued)**(i) Regular pension costs SSAP 24 (continued)**

On the advice of the actuary regular company contributions of £661,505 (2002 - £551,721) together with expenses were paid to the scheme during the year. The Trustee has confirmed with the scheme actuary that, subject to future review (in particular with regard to the market value of the scheme's assets) the contribution rate for the Mercer section should be increased to 18.6% with effect from 1 January 2004.

In addition, the company operates a defined contribution scheme for employees who are less than 30 years old and who have completed less than 2 years service. Contributions to this scheme, which are charged to the profit and loss account as incurred, amounted to £31,532 (2002 - £18,769).

(ii) FRS 17 Retirement Benefits

A funding update was carried out at 31 May 2003 and updated by a qualified actuary to 31 December 2003. The major assumptions used by the actuary were:

	At year-end 31/12/2003	At year-end 31/12/2002	At year-end 31/12/2001
Valuation method	Projected unit	Projected unit	Projected unit
Discount rate	5.40%	5.60%	5.80%
Rate of increase in salaries	4.00%	4.00%	4.00%
Inflation assumption	2.50%	2.25%	2.50%
Rate of increase of deferred pensions	2.50%	2.25%	2.50%
Rate of increase of pensions in payment increases (5% LPI increases)	2.50%	2.25%	2.50%

17. Pension commitments (continued)**(ii) FRS 17 Retirement benefits (continued)**

The assets in the Fund and the expected long term rates of return were:

	Expected long term rate of return at 31/12/2003	Value at 31/12/2003 £'000	Expected long term rate of return at 31/12/2002	Value at 31/12/2002 £'000	Expected long term rate of return at 31/12/2001	Value at 31/12/2001 £'000
Equities	7.75%	5,639	7.50%	5,048	8.00%	4,060
Government bonds	4.75%	950	4.50%	531	5.00%	590
Non-government bonds	5.40%	1,486	5.60%	569	5.80%	630
Property	7.75%	84	7.50%	129		
Cash	3.75%	4	4.00%	195	4.00%	425
Total market value of assets		<u>8,163</u>		<u>6,472</u>		<u>5,705</u>

The following amounts at 31 December 2003, 2002 and 2001 were measured in accordance with the requirements of FRS 17.

	2003 £'000	2002 £'000	2001 £'000
Total market value of assets	8,163	6,472	5,705
Actuarial value of defined benefit liabilities	<u>(10,609)</u>	<u>(9,517)</u>	<u>(7,875)</u>
Recoverable surplus/(deficit) in the Fund	(2,446)	(3,045)	(2,170)
Related deferred tax asset/(liability)	734	914	651
Net pension asset/(liability)	<u>(1,712)</u>	<u>(2,131)</u>	<u>(1,519)</u>

17. Pension commitments (continued)**(ii) FRS 17 Retirement benefits (continued)**

If FRS 17 had been adopted in the financial statements. The net assets and profit and loss reserve at 31 December 2003 and 31 December 2002 would have been as follows:

	2003 £'000	2002 £'000
Net assets		
Net assets excluding pension liability	1,828	1,341
Pension liability	<u>(1,712)</u>	<u>(2,131)</u>
Net assets including pension liability	<u>116</u>	<u>(790)</u>
Profit and loss reserve		
Profit and loss reserve excluding pension reserve	1,586	1,101
Pension reserve	<u>(1,712)</u>	<u>(2,131)</u>
Profit and loss reserve including pension reserve	<u>(126)</u>	<u>(1,030)</u>

The following amounts would have been recognised in the performance statements in the year to 31 December 2003 and 31 December 2002 under the requirements of FRS 17:

	2003 £'000	2002 £'000
Operating profit		
Current service cost	599	716
Past service cost	<u>-</u>	<u>-</u>
Total operating charge	<u>599</u>	<u>716</u>

17. Pension commitments (continued)**(ii) FRS 17 Retirement benefits (continued)**

	2003 £'000	2002 £'000
Other finance income		
Expected return on pension fund assets	492	434
Interest on pension fund assets	<u>(551)</u>	<u>(477)</u>
Net return	<u>(59)</u>	<u>(43)</u>
Statement of total recognised gains and losses		
Actual return less expected return on pension fund assets	56	(392)
Experience gains and losses arising on the fund liabilities	1,058	1,276
Changes in assumptions underlying the present value of the fund liabilities	<u>(948)</u>	<u>(1,739)</u>
Actuarial gain/(loss) recognised	<u>166</u>	<u>(855)</u>
Movement in deficit during the year		
Deficit in fund at the beginning of the year	(3,045)	(2,171)
Movement in year		
Current service costs	(599)	(716)
Contributions	1,091	741
Past service costs	-	-
Net return on assets	(59)	(43)
Actuarial (loss)	<u>166</u>	<u>(856)</u>
Deficit in fund at end of the year	<u>(2,446)</u>	<u>(3,045)</u>

Details of experience gains and losses for the year to 31 December 2003 and 31 December 2002.

	2003 £'000	2002 £'000
Difference between the expected and actual return on the Fund assets		
Amount	56	(392)
Percentage of Fund assets	1%	-6%
Experience gains and (losses) on Fund liabilities		
Amount	1,058	1,276
Percentage of the present value of the Fund liabilities	10%	13%
Total amount recognised in the statement of total recognised gains and (losses)		
Amount	166	(856)
Percentage of the present value of the Fund liabilities	2%	-9%

18. Ultimate parent undertaking and controlling party

The company is a member of two groups. The largest group, of which the ultimate parent undertaking and controlling entity is Marsh & McLennan Companies Inc., is incorporated in the State of Delaware, USA. The smallest group is headed by National Economic Research Associates (California), Inc., incorporated in the State of California, USA. The company has taken advantage of the exemption granted by paragraph 3c of FRS 8 "Related Party Disclosures" not to disclose transactions with National Economic Research Associates (California), Inc. and Marsh & McLennan Companies, Inc. who are related parties. The accounts of Marsh & McLennan Companies, Inc. are available to the public and may be obtained from:

Corporate Department
Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York
New York 10036 USA

19. 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.

NERA

Economic Consulting

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Marsh & McLennan Companies