

Mercer Investments (Australia) Limited

ABN 66 008 612 397

FINANCIAL REPORT

for the financial year ended 31 December 2014

Mercer Investments (Australia) Limited

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Mercer Investments (Australia) Limited

Directors' report

The directors of Mercer Investments (Australia) Limited ("the Company") submit herewith the financial report of the Company for the financial year ended 31 December 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

David John Anderson
Melissa Babbage (appointed 1 July 2014)
Brian Garfield Bengier
Ross Gregory Butler
Simon Michael Eagleton
Stephen Graeme Mather (resigned 30 June 2014)
Jan Margaret Swinhoe (appointed 1 July 2014)

The above named directors held office during and since the end of the financial year unless otherwise stated.

Principal activities

The Company's principal activities in the course of the financial year were to conduct Mercer's investment consulting and asset management delegated solutions activities. The Company acts as the responsible entity of various managed investment schemes, known as the Mercer Multi Manager Funds ("MMFs") and Mercer Investment Funds ("MIFs"). In addition, the Company is the trustee of a pooled superannuation trust, Mercer Super Investment Trust ("MSIT"), and the Mercer Portfolio Service Investment Plan ("MPSIP"). The Company holds an Australian Prudential Regulation Authority (APRA) RSE license and an Australian Financial Services License (AFSL) with limited authorisation.

Review of operations

During the financial year, the Company reported a profit of \$22,376,000 (2013: \$21,861,000), with revenue of \$128,023,000 (2013: \$119,276,000).

Changes in the state of affairs

There was no significant change in the state of affairs of the Company during the financial year.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Mercer Investments (Australia) Limited

Directors' report (cont)

Dividends

In respect of the financial year ended 31 December 2014, the following dividend was declared and paid:

- fully franked dividends totalling \$14,800,000 were declared and paid on 3 October 2014

In respect of the financial year ended 31 December 2013, the following dividends were declared and paid:

- fully franked dividends totalling \$11,460,000 were declared and paid on 4 December 2013, and
- fully franked dividends totalling \$8,000,000 were declared and paid on 27 March 2013.

Share options

No share options have been issued to the directors during the financial period (2013: nil).

Indemnification of officers and auditors

During the financial year, Mercer (Australia) Pty Ltd, the parent company of the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretaries and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. In addition, the directors and company secretaries have each received an indemnity for the Company in respect of their role as an officer of the Company.

The Company has not otherwise, during or since the end of the financial period, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

Auditor's independence declaration


The auditor's independence declaration is included on page 4 of the financial report.

Rounding off of amounts


The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



SIMON MICHAEL EAGLETON
Director
20 March 2015



David John Anderson
Director
20 March 2015

20 March 2015

The Board of Directors
Mercer Investments (Australia) Limited
727 Collins St
DOCKLANDS VIC 3008

Dear Board Members

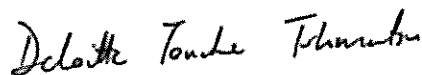
Mercer Investments (Australia) Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mercer Investments (Australia) Limited.

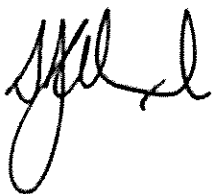
As lead audit partner for the audit of the financial statements of Mercer Investments (Australia) Limited for the financial year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Stuart Alexander
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Mercer Investments (Australia) Limited

We have audited the accompanying financial report of Mercer Investments (Australia) Limited, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 7 to 31.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mercer Investments (Australia) Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Mercer Investments (Australia) Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2014 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Stuart Alexander
Partner
Chartered Accountants
Sydney, 20 March 2015

Mercer Investments (Australia) Limited

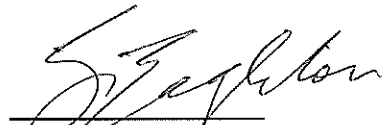
Directors' declaration

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and
- (c) in the directors' opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 2 to the financial statements.

Signed in accordance with a resolution of directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



SIMON MICHAEL EAGLETON
Director
20 March 2015



David John Anderson
Director
20 March 2015

Mercer Investments (Australia) Limited
Statement of Profit or Loss and Other
Comprehensive Income
for the financial year ended 31 December 2014

	Notes	2014 \$000	2013 \$000
Revenue from services	3	127,359	118,751
Other income	3	664	525
Total revenue		128,023	119,276
Cost of services - investment management and custody fees		(60,697)	(54,085)
Management fees charged by parent entity	12	(34,936)	(33,579)
Other operating costs		(453)	(382)
Profit before income tax expense		31,937	31,230
Income tax expense	5 (a)	(9,561)	(9,369)
Profit for the year	4	22,376	21,861
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year attributable to owner of the Company		22,376	21,861

Notes to the financial statements are included on pages 12 to 31.

Mercer Investments (Australia) Limited

Statement of Financial Position as at 31 December 2014

	Notes	2014 \$000	2013 \$000
<i>Current Assets</i>			
Cash and cash equivalents	14	29,977	18,394
Trade and other receivables	8	14,137	19,276
<i>Total Current Assets</i>		44,114	37,670
<i>Total Assets</i>		44,114	37,670
<i>Current Liabilities</i>			
Income tax payable to related party	5 (b)	3,322	3,906
Trade and other payables	9	14,875	15,501
<i>Total Current Liabilities</i>		18,197	19,407
<i>Non-Current Liabilities</i>			
Deferred Tax Liabilities	5 (c)	192	114
<i>Total Non-Current Liabilities</i>		192	114
<i>Total Liabilities</i>		18,389	19,521
<i>Net Assets</i>		25,725	18,149
<i>Equity</i>			
Issued capital	10	5,166	5,166
Retained profits		20,559	12,983
<i>Total Equity</i>		25,725	18,149

Notes to the financial statements are included on pages 12 to 31.

Mercer Investments (Australia) Limited
Statement of Changes in Equity
for the financial year ended 31 December 2014

	Notes	Share Capital \$000	Retained Profits \$000	Total \$000
Balance at 1 January 2013		5,166	10,582	15,748
Profit for the year		-	21,861	21,861
Other comprehensive income		-	-	-
Total comprehensive income		-	21,861	21,861
Dividends paid		-	(19,460)	(19,460)
Balance at 31 December 2013	10 & 11	5,166	12,983	18,149
Balance at 1 January 2014		5,166	12,983	18,149
Profit for the year		-	22,376	22,376
Other comprehensive income		-	-	-
Total comprehensive income		-	22,376	22,376
Dividends paid		-	(14,800)	(14,800)
Balance at 31 December 2014	10 & 11	5,166	20,559	25,725

Notes to the financial statements are included on pages 12 to 31.

Mercer Investments (Australia) Limited
Statement of Cash Flows
for the financial year ended 31 December 2014

	<u>Notes</u>	<u>2014</u> <u>\$000</u>	<u>2013</u> <u>\$000</u>
<i>Cash Flows from Operating Activities</i>			
Receipts from customers		58,932	60,239
Receipts from related entities		36,351	20,009
Payments to suppliers and customers		(59,498)	(52,161)
Interest received		664	525
Tax paid		(10,066)	(9,266)
Net cash generated from operating activities	14	<u>26,383</u>	<u>19,346</u>
<i>Cash Flows from Financing Activities</i>			
Dividend paid		(14,800)	(19,460)
Net cash used in financing activities		<u>(14,800)</u>	<u>(19,460)</u>
<i>Net Increase/(Decrease) In Cash and Cash Equivalents</i>		11,583	(114)
<i>Cash and Cash Equivalents At The Beginning Of The Financial Year</i>		<u>18,394</u>	<u>18,508</u>
<i>Cash and Cash Equivalents At The End Of The Financial Year</i>	14	<u>29,977</u>	<u>18,394</u>

Notes to the financial statements are included on pages 12 to 31.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

1. General information

Mercer Investments (Australia) Limited ("the Company") is a limited public company, incorporated and operating in Australia. The registered office and principal place of business of the Company is Level 15, 727 Collins Street, Melbourne, Victoria 3008.

2. Summary of accounting policies

Application of new and revised Accounting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2014.

The following new and revised Standards and Interpretations have been adopted in these financial statements:

Standards affecting presentation and disclosure

- AASB 2011-4 'Amendments to Australian Accounting Standards to remove Individual Key Management Personnel Disclosure Requirements (2011).'

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

Standards and Interpretations with no effect to the reported results or financial position

The adoption of the following Standards and Interpretations has not had any significant impact in the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements. However, the impact of this adoption has been to expand the disclosures provided in these financial statements:

- AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial assets and Financial Liabilities'
- AASB 2013-3 'Amendments to AASB 136- Recoverable Amount Disclosures to Non-Financial Assets'
- AASB 2013-9 'Amendments to Australian Accounting Standards- Conceptual Framework, Materiality and Financial Instruments'
- AASB 1031 'Materiality' (2013)

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standards/Interpretations	Application date of Standards/ Interpretations	Application date for Company
AASB 9 'Financial Instruments' and the relevant amending standards'	<i>1 January 2018</i>	<i>1 January 2018</i>
AASB 15 'Revenue from Contracts with Customers'	<i>1 January 2017</i>	<i>1 January 2017</i>
AASB 2014-1 'Amendments to Australian Accounting Standards' – Part E: 'Financial Instruments'	<i>1 January 2015</i>	<i>1 January 2015</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company, but will change the disclosures presently made. The Company does not intend to adopt any of these pronouncements before their effective date.

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

For the purpose of preparing the financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 20 March 2015.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Goods and Service Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding tax or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue is recognised at the contractual rates as labour hours are incurred up to the contracted amount.

Revenue from investment management services and as responsible entity for investment management schemes is recognised by reference to the percentage of funds under management as disclosed in the product disclosure statements and agreements.

Interest Income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

(c) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

(c) Income tax (cont)

Current and deferred tax for the period

Current and deferred tax are recognised in the profit or loss, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the current and deferred tax are also recognised directly to equity or in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The Company is part of a tax-consolidated group under Australian taxation law. Marsh Mercer Holdings (Australia) Pty Ltd ("MMHAPL") is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by MMHAPL (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 5 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(d) Cash and cash equivalents

Cash comprises cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

(e) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method less impairment. Work in progress is stated at estimated realisable value, after providing for non-recoverable amounts. Work in progress represents unbilled revenue.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

(e) Financial assets (cont)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in other comprehensive income.

(f) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities, including borrowings, trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(g) Trade and other payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

(h) Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

2. Summary of accounting policies (cont)

(h) Impairment of assets (cont)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described throughout note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

As outlined in note 2(b) revenue is recognised by reference to the stage of completion of the contract. The directors will consider the time and effort spent in relation to the contract, and compare against work budgets to determine whether the revenue to be recognised is appropriate in the current period. The directors will consider the detailed criteria for the recognition of revenue as set out in Company policy and reference to AASB 118 'Revenue'.

Allowance for doubtful debt

An allowance for doubtful trade receivable is made to cover probable and reasonably estimable losses. Estimate of the allowance for doubtful accounts considers a number of factors, including collection experience, aging of the trade receivables and other qualitative considerations.

Mercer Investments (Australia) Limited
Notes to the financial statements
for the financial year ended 31 December 2014

3. Revenue

An analysis of the Company's revenue for the year, from continuing operations, is as follows:

	2014 \$000	2013 \$000
Revenue from services		
Rendering of services	55,754	56,899
Fees from related entities	71,605	61,852
	<u>127,359</u>	<u>118,751</u>
Other income		
Interest income - bank deposits	664	525
Total revenue	<u>128,023</u>	<u>119,276</u>

4. Profit for the year

Profit for the year has been arrived at after charging/(crediting) the following:

	2014 \$000	2013 \$000
<i>(a) Impairment losses on financial assets</i>		
Net bad and doubtful debts expense/(credit)	(2)	(12)

Mercer Investments (Australia) Limited
Notes to the financial statements
for the financial year ended 31 December 2014

5. Income Tax

	<u>2014</u>	<u>2013</u>
	<u>\$000</u>	<u>\$000</u>
<i>(a) Income tax recognised in profit or loss</i>		
Tax expense comprises:		
Current tax expense	9,501	9,214
Overprovision of tax in prior year	(20)	-
Deferred tax expense relating to the origination and reversal of temporary differences	80	155
Total tax expense attributable to continuing operations	<u>9,561</u>	<u>9,369</u>
 <i>The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:</i>		
Profit from continuing operations	<u>31,937</u>	<u>31,230</u>
Income tax expense calculated at 30%	9,581	9,369
Overprovision of tax in prior year	(20)	-
Income tax expense attributable to ordinary activities	<u>9,561</u>	<u>9,369</u>
 <i>(b) Current income tax liabilities - payable to related party</i>		
Income tax payable attributable to an entity within a tax-consolidation group	<u>(3,322)</u>	<u>(3,906)</u>
 <i>(c) Deferred tax balances</i>		
Deferred tax assets comprise:		
Temporary differences	<u>152</u>	<u>123</u>
Deferred tax liabilities comprise:		
Temporary differences	<u>(344)</u>	<u>(237)</u>
Net balance	<u>(192)</u>	<u>(114)</u>

Mercer Investments (Australia) Limited
Notes to the financial statements
for the financial year ended 31 December 2014

5. Income Tax (cont)

Taxable and deductible temporary differences arise from the following:

	Opening Balance	Transferred from parent entity	Charged to income	Closing Balance
	\$000	\$000	\$000	\$000
2014				
Gross deferred tax assets:				
Provisions	123	-	29	152
Allowance for doubtful debts	-	-	-	-
Other	-	-	-	-
	123	-	29	152
Gross deferred tax liabilities:				
Work in progress	(237)	-	(107)	(344)
Other	-	-	-	-
	(237)	-	(107)	(344)
Attributable to continuing operations	(114)	-	(78)	(192)
2013				
Gross deferred tax assets:				
Provisions	141	-	(18)	123
Allowance for doubtful debts	4	-	(4)	-
Other	5	-	(5)	-
	150	-	(27)	123
Gross deferred tax liabilities:				
Work in progress	(110)	-	(127)	(237)
Other	-	-	-	-
	(110)	-	(127)	(237)
Attributable to continuing operations	40	-	(154)	(114)

The Company is part of a tax-consolidated group and accordingly, does not pay tax or have franking credits in its own right.

Relevance of tax consolidation to the Company

The Company and its related wholly owned Australian resident entities formed a tax-consolidated group with effect from 1 January 2003 and were therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is MMHAPL.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

5. Income Tax (cont)

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group, with effect from 1 January 2003, have entered into a tax funding arrangement and a tax-sharing agreement with the head entity, with the exception of the Chronos Insurance Broker Pty Ltd and the ACN 102 322 574 Pty Ltd groups of companies. A deed of accession was signed on 28 April 2005 making them party to the existing tax sharing agreement with effect from 10 April 2004. Under the terms of the tax funding arrangement, MMHAPL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

6. Key Management Personnel Compensation

The directors of the Company during the financial year were:

David John Anderson
 Melissa Babbage (Appointed 1 July 2014)
 Brian Garfield Bengier
 Ross Gregory Butler
 Simon Michael Eagleton
 Stephen Graeme Mather (Resigned 30 June 2014)
 Jan Margaret Swinhoe (Appointed 1 July 2014)

The aggregate compensation made to key management personnel of the Company which is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, is set out below:

	2014	2013
	\$	\$
Short term employee benefits	2,477,121	2,594,850
Mandatory superannuation guarantee payments	96,512	96,262
Share based payments*	54,373	232,329
	2,628,006	2,923,440

* Compensation includes the market value of options issued under the Marsh & McLennan Companies, Inc option plan in each year spread over a four year vesting period. The above compensation is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, and full details of the option based compensation paid are included in the accounts of Mercer (Australia) Pty Ltd.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

7. Remuneration of Auditors

The audit expense for the Company for the financial year is \$57,620 (2013: \$55,650). It is paid by the parent entity, and is not recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income. The auditor of the Company is Deloitte Touche Tohmatsu.

8. Trade and Other Receivables

	2014	2013
	\$000	\$000
<u>Current</u>		
Trade receivables	3,250	4,062
Sundry receivables	2,121	1,852
Allowance for doubtful debts	-	(2)
	5,371	5,912
Work in progress	8,515	5,378
Receivables from related parties ^(a)	251	7,986
	14,137	19,276

(a) There are no fixed terms of repayment and all balances are interest free.

The average credit period on sales is 7 days from date of invoice. Generally no interest is charged on outstanding balances. The Company provides for trade receivables up to 720 days in age by reference to past default experience. Amounts outstanding for in excess of 720 days are fully provided for.

Included in the Company's trade receivables balance are debtors with a carrying amount of \$3,241,000 (2013: \$4,040,000) which are past due at the reporting date for which the Company has not impaired as there has not been a significant change in credit quality and the Company believes that the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 26 days (2013: 36 days).

	2014	2013
	\$000	\$000
<u>Movement in the allowance for doubtful debts</u>		
Balance at the beginning of the period	2	14
Allowance recognised in profit or loss	(2)	(12)
Balance at the end of the period	-	2

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

8. Trade and Other Receivables (cont)

In determining the recoverability of a trade receivable the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

The Company has not taken any specific provisions against any particular debtor, in excess of the age based provisions noted above.

	2014 \$000	2013 \$000
<u>Aging past due and not impaired</u>		
0-120 days	3,241	4,040
<u>Aging past due and impaired</u>		
121-180 days	9	2
181-270 days	-	20
271-360 days	-	-
361-720 days	-	-
721+ days	-	-
	9	22

	2014 \$000	2013 \$000
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9. Trade and Other Payables

Current

Trade payables ^(a)	11,117	9,413
Payables to related parties ^(b)	2,522	5,059
Goods and Services Tax (GST) payable	730	616
Deferred revenue	506	413
	14,875	15,501

^(a) Trade payables operate on a variety of credit arrangements, the most common being settlement within 30 days from date of invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

^(b) There are no fixed terms of repayment and all balances are interest free.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

10. Issued Capital

	2014 \$000	2013 \$000
843,000 fully paid ordinary shares (2013: 843,000)	5,100	5,100
66,000 fully paid preference shares (2013: 66,000)	66	66
	<u>5,166</u>	<u>5,166</u>

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Fully paid preference shares carry one vote per share and can vote at a general meeting of the company in certain circumstances as set out in the constitution of the company. These shares carry the right to dividends.

There were no movements of ordinary shares or preference shares for the financial years presented.

11. Operational Risk Reserve

	2014 \$000	2013 \$000
Operational Risk Reserve	1,200	1,000

The Operational Risk Reserve represents the financial resources required to meet the Company's Operational Risk Financial Requirement ("ORFR") to provide protection to members of the superannuation funds for which the Company is the Trustee. The Company may only use the reserve to rectify a loss to members, or the deprivation of a gain caused by an operational risk event.

The reserve amount has been allocated from retained profits (2014: \$1,200,000; 2013: \$1,000,000). This was determined and approved by the Board in accordance with the ORFR Strategy document on 24 June 2013, and remain unchanged for 2014. There had been no uses of the Operational Risk Reserve during the year.

12. Related Party Disclosures

(a) Key Management Personnel Compensation and Retirement Benefits

Details of key management personnel compensation and retirement benefits are disclosed in note 6 to the financial statements.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

12. Related Party Disclosures (cont)

(b) Parent Entities

The parent entity of the Company is Mercer (Australia) Pty Ltd.

The ultimate Australian parent entity is Marsh Mercer Holdings (Australia) Pty Ltd.

The ultimate parent entity in the wholly-owned group is Marsh & McLennan Companies Inc. which is incorporated in Delaware, United States of America.

(c) Transactions within the Wholly-Owned Group

The wholly-owned group includes:

- the ultimate parent entity in the wholly-owned group;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group.

The parent entity, Mercer (Australia) Pty Ltd provided resources and performed certain administrative services for the Company under the Master Resource agreement, for which a fee of \$34,936,000 (2013: \$33,580,000) was charged and paid, being an appropriate allocation of costs incurred by relevant administrative departments.

Amounts receivable from and payable to entities within the wholly-owned group are disclosed in notes 8 and 9 to the financial statements.

Income tax paid and payable by Mercer (Australia) Pty Ltd on behalf of the Company was a total of \$9,501,000 (2013: \$9,214,000).

The Company received fees for asset management services of \$71,605,000 (2013: \$61,852,000) from Mercer Superannuation (Australia) Limited, a related party within the wholly-owned group.

The Company paid fees for investment advice related services of \$293,000 (2013: \$322,000) to Mercer Financial Advice (Australia) Pty Ltd, a related party within the wholly-owned group.

During the year, the Company paid a dividend of \$14,800,000 (2013: \$11,460,000) to its parent entity, Mercer (Australia) Pty Ltd.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

13. Contingent Liabilities

There may be outstanding Error and Omission claims and possible claims against the Company as at 31 December 2014, the aggregate amount of which cannot be readily quantified. Appropriate advice is obtained from management and, where applicable, legal advice may also be obtained. In light of such advice, a contingent liability may be made for any such claims as may be deemed necessary in accordance with applicable accounting standards. When considering what contingent liability is required, the Company's professional indemnity insurance is taken into account as the majority of claims are covered by this policy.

Should there be any claims being presented against the Company, these claims will be managed by the parent entity, Mercer (Australia) Pty Ltd on the Company's behalf.

As at 31 December 2014, the directors are unaware of any claims not covered by the Company's professional indemnity insurance (2013: nil).

14. Notes to the Statement of Cash Flows

	2014 \$000	2013 \$000
<i>Reconciliation of profit for the year to net cash generated from operating activities</i>		
Profit for the year	22,376	21,861
Increase/(decrease) in tax related balances	(506)	103
(Increase)/decrease in assets:		
Trade and other receivables	(2,593)	(2,294)
Other assets	-	27
Related parties receivables	7,734	(3,884)
Increase/(decrease) in liabilities		
Trade and other payables	1,703	2,016
Deferred revenue	93	(58)
Related parties payables	(2,424)	1,575
Net cash generated from operating activities	26,383	19,346
<i>Reconciliation of cash and cash equivalents</i>		
Cash at bank	29,977	18,394

15. Trusts for which the Company is a Trustee

During the year ended 31 December 2014, the Company is the trustee/responsible entity for the following superannuation funds/managed investment schemes:

- Mercer Super Investment Trust
- Mercer Multi-Manager Funds
- Mercer Investment Funds
- Mercer Portfolio Service Investment Plan

The directors believe there are sufficient assets in each of the trusts to cover their respective liabilities.

Mercer Investments (Australia) Limited

Notes to the financial statements

for the financial year ended 31 December 2014

16. Financial Instruments

(a) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the parent entity, comprising issued capital and retained profits as disclosed in the statement of changes in equity. The Company's dividend levels are driven by the cash flow requirements of the ultimate parent, but take into account directors considerations regarding cash flow requirements of the Company at the time.

APRA guidelines require a minimum of \$5,000,000 of net tangibles assets to be maintained at all times. The Company has met the minimum capital requirements during the financial year.

The Company's capital requirements are managed under the Capital Adequacy policy dated 17 October 2011.

(b) Operational Risk Financial Requirement

The Operational Risk Financial Requirement ("ORFR") is the target amount of financial resource that the Trustee has determined is necessary to respond to any losses arising from operational risks.

The purpose of the ORFR is to provide protection to members in the event of an operational risk event occurring.

The Company, as Trustees to the superannuation funds listed in Note 15, has determined that the ORFR (whether via capital or via an Operational Risk Reserve which is levied from members' fund) will be separately identifiable within an account and invested in a risk-free asset class, namely 100% in cash investments or local cash equivalents. The overall strategy is set out in the Company's Operational Risk Financial Requirement Strategy approved by the Board on 24 June 2013.

(c) Financial Risk Management Objectives

The Corporate Treasury function of Mercer (Australia) Pty Ltd ("Mercer"), the direct parent entity, provides services to the business, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the Company.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Mercer's policies as approved by its board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Company's activities expose it to minor financial risks of changes in foreign currency exchange rates. The Company has elected not to manage its exposure to this foreign currency risk.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

16. Financial Instruments (cont)

(d) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(e) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash and short term deposits, receivables, payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

(f) Liquidity and Interest Risk Tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Notes	Weighted average effective rate %	Less than 1 month \$000	1 – 3 months \$000	Total \$000
2014					
Financial assets					
Cash and cash equivalents	14	2.40	29,977	-	29,977
Trade and other receivables	8		13,886	-	13,886
Related party receivables	8		251	-	251
			<u>44,114</u>	<u>-</u>	<u>44,114</u>
Financial liabilities					
Inter-company tax payable	5 (b)		-	3,322	3,322
Trade and other payables	9		12,353	-	12,353
Related party payables	9		2,522	-	2,522
			<u>14,875</u>	<u>3,322</u>	<u>18,197</u>
2013					
Financial assets					
Cash and cash equivalents	14	2.63	18,394	-	18,394
Trade and other receivables	8		11,290	-	11,290
Related party receivables	8		7,986	-	7,986
			<u>37,670</u>	<u>-</u>	<u>37,670</u>
Financial liabilities					
Inter-company tax payable	5 (b)		-	3,906	3,906
Trade and other payables	9		10,442	-	10,442
Related party payables	9		5,059	-	5,059
			<u>15,501</u>	<u>3,906</u>	<u>19,407</u>

All amounts are current assets/liabilities and relate to continuing operations.

Mercer Investments (Australia) Limited

Notes to the financial statements for the financial year ended 31 December 2014

16. Financial Instruments (cont)

(g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, other than holding all of its cash balances with one bank.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(h) Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Company's cash assets at the end of the reporting period. If interest rates had been 50 basis points higher/lower and all other variables held constant, the impact on interest income would be:

	2014 \$000	2013 \$000
Profit	±150	±92

(i) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate funding level in banking facilities by continuously monitoring forecast, actual cash flows and matching the maturity profiles of financial assets and liabilities.

17. Events after the Reporting Period

There are no matters arising subsequent to the reporting date which may materially affect the financial performance or state of affairs of the Company.