

**Aon Hewitt Limited**

**Company Number 4396810**

**Annual Report - 31 December 2017**

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**Aon Hewitt Limited**  
**Corporate directory**  
**31 December 2017**

**Directors**

M K Clare  
A D Cox  
S D Philp (Appointed 9 February 2017)  
W G Durston (Resigned 21 November 2017)  
R Ingle

**Company secretary**

CoSec 2000 Limited

**Registered office**

The Aon Centre, The Leadenhall Building  
122 Leadenhall Street  
London  
EC3V 4AN  
United Kingdom

**Auditor**

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY  
United Kingdom

**Aon Hewitt Limited**  
**Strategic report**  
**31 December 2017**

The directors present their Strategic report on Aon Hewitt Limited (the "Company") for the year ended 31 December 2017.

The Company is a limited liability company incorporated in the United Kingdom ("UK") under the UK Companies Act 2006 ('the Companies Act') and registered in England and Wales. The address of the registered office is given on the Corporate directory on page 2.

These financial statements are presented in pounds sterling as that is the currency of the primary economic environment in which the Company operates.

The Company reports under Financial Reporting Standard ("FRS") 101, and has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Financial Reporting Council ("FRC") that are mandatory for the current reporting period.

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements under Section 400 of the Companies Act, because it is included in the consolidated financial statements of Aon plc ("the Group"). The Group financial statements of are available to the public and can be obtained as set out in note 41 'Controlling Party'.

**Principal activities**

The principal activity of the Company is the provision of human resource and employee benefits consulting services.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

**Review of operations**

The Company's key financial and other performance indicators during the year were as follows:

	2017 £'000	2016 £'000	Change £'000	Change %
Revenue	317,551	328,391	(10,840)	(3%)
Staff costs	(169,527)	(169,183)	(344)	-
Administrative expenses	(146,592)	(110,010)	(36,582)	33%
Other gains and losses	24,580	5,371	19,209	358%

**Revenue** - The Company's revenue in the year decreased by £10,840k (3%) in comparison to 2016. The decrease in 2017 is due to the sale on 1 May 2017 of the human resources business process outsourcing ("BPO") business to The Blackstone Group L.P (the "Buyer").

**Administrative expenses** - The Company's administrative expenses increased by £36,582k (33%) in comparison to 2016 and is mainly due to a change in group cost recharges, restructuring costs and an increase in the errors and omission provision.

**Other gains and losses** - Cash proceeds of £28,600k were received for the sale of the BPO business in the UK resulting in a gain on sale of £13,667k. In addition, other gains and losses includes £10,913k for amounts recoverable under the Company's errors and omissions insurance policy.

	2017 £'000	2016 £'000
Shareholder's funds	344,347	336,743
Net current assets	162,707	105,661

The average number of employees during the year were: 1,966      2,034

No dividend was paid in 2017. On 11 November 2016 the Company paid a dividend of £140,361k to Aon Benfield Limited, the Company's immediate parent undertaking. The directors are satisfied with the position of the Company at the year end and are confident that trading will remain strong in the forthcoming year.

### **Principal risks and uncertainties**

The risk factors set forth below reflect material risks associated with the business and contain forward-looking statements as discussed in the 'Likely future developments' section below. Readers should consider them in addition to the other information contained in this report as our business, financial condition or results of operations could be adversely affected if any of these risks were to actually occur.

The following are material risks related to our businesses specifically and the industries in which we operate generally that could adversely affect our business, financial condition and results of operations and cause our actual results to differ materially from those included in the forward-looking statements in this document and elsewhere.

#### ***Legal and Regulatory risks***

*Our businesses are subject to extensive governmental regulation, which could reduce our profitability, limit our growth, or increase competition.*

Our businesses are subject to extensive legal and regulatory oversight, including the Companies Act and the rules and regulations promulgated by the FCA, and a variety of other laws, rules and regulations addressing, among other things, licensing, data privacy and protection, trade restriction and export controls, anti-money laundering, wage-and-hour standards, employment and labour relations, anti-competition, anti-corruption, currency, reserves and government contracting. This legal and regulatory oversight could reduce our profitability or limit our growth by: increasing the costs of legal and regulatory compliance; limiting or restricting the products or services we sell, the markets we serve or enter, the methods by which we sell our products and services, the prices we can charge for our services, or the form of compensation we can accept from our clients, carriers and third parties; or by subjecting our businesses to the possibility of legal and regulatory actions or proceedings.

The nature of our operations increases the complexity and cost of compliance with laws and regulations adding to our cost of doing business. In addition, many of these laws and regulations may have differing or conflicting legal standards across jurisdictions, increasing the complexity and cost of compliance.

In addition to the complexity of the laws and regulations themselves, the development of new laws and regulations or changes in application or interpretation of current laws and regulations also increases our legal and regulatory compliance complexity. Additionally, our acquisitions of new businesses and our continued operational changes and entry into new jurisdictions and new service offerings increases our legal and regulatory compliance complexity, as well as the type of governmental oversight to which we may be subject. Changes in laws and regulations could mandate significant and costly changes to the way we implement our services and solutions, could impose additional license requirements or costs to our operations and services, or even cause us to cease offering certain services or solutions. Furthermore, as we enter new jurisdictions or businesses and further develop and expand our services, we may become subject to additional types of laws and policies and governmental oversight and supervision, such as those applicable to the financial lending or other service institutions.

New regulatory or industry developments could result in changes that adversely affect us. These developments include:

- changes in our business compensation model as a result of regulatory actions or changes;
- changes in regulations relating to health and welfare plans, defined contribution, and defined benefit plans, and investment consulting and asset management;
- additional regulations promulgated by the FCA, or other regulatory bodies in jurisdictions in which we operate;
- additional requirements respecting data privacy, data security, and data usage in jurisdictions in which we operate that may increase our costs of compliance and potentially reduce the manner in which data can be used by us to develop or further our product offerings.

Changes in the regulatory scheme, or even changes in how existing regulations are interpreted, could have an adverse impact on our results of operations by limiting revenue streams or increasing costs of compliance. For instance, The General Data Protection Regulation (the "GDPR"), effective in May 2018, creates a range of new compliance obligations, increases financial penalties for non-compliance, and extends the scope of the European Union data protection law to all companies processing data of European Union residents, wherever the company's location. Complying with the GDPR will cause us to incur substantial operational costs and may require us to change our business practices.

In addition, our businesses and operations are subject to heightened regulatory oversight and scrutiny, which may lead to additional regulatory investigations, increased government involvement, or enforcement actions. For instance, increased scrutiny by competition authorities may increase our costs of doing business or force us to change the way we conduct business or refrain from or otherwise alter the way we engage in certain activities. Additionally, we operate in many different business lines and if we fail to control possible resulting conflicts of interest, we could be subject to civil litigation, fines, penalties or criminal sanctions and could be prohibited from participating in one or more lines of business. As regulators and other government agencies continue to examine our operations, there is no assurance that consent orders or other enforcement actions will not be issued by them in the future. These and other initiatives from government officials may subject us to judgements, settlements, fines or penalties, or cause us to be required to restructure or divest operations and activities, all of which could lead to reputational issues, higher operational costs, business disruption, or loss, thereby adversely affecting our business, financial condition, or operating results.

***Competition risk***

*We face significant competitive pressures.*

Our competitors may have greater financial, technical and marketing resources, larger customer bases, greater name recognition, more comprehensive products, stronger presence in certain geographies, or more established relationships with their customers and suppliers than we have. In addition, new competitors, alliances among competitors, or mergers of competitors could emerge and gain significant market share, and some of our competitors may have or may develop a lower cost structure, adopt more aggressive pricing policies, or provide services that gain greater market acceptance than the services that we offer or develop. Competitors may be able to respond to the need for technological changes and innovate faster, or price their services more aggressively. They may also compete for skilled professionals, finance acquisitions, fund internal growth, and compete for market share more effectively than we do. If we fail to respond successfully to the competition we face, our financial condition or results of operations might be adversely affected.

*If our clients or third parties are not satisfied with our services, we may face additional cost, loss of profit opportunities, damage to our reputation, or legal liability.*

We depend, to a large extent, on our relationships with our clients and our reputation for high-quality advice and solutions. If a client is not satisfied with our services, it could cause us to incur additional costs and impair profitability. Many of our clients are businesses that band together in industry groups or trade associations and actively share information among themselves about the quality of service they receive from their vendors. Accordingly, poor service to one client may negatively impact our relationships with multiple other clients. Moreover, if we fail to meet our contractual obligations, we could be subject to legal liability or loss of client relationships.

The nature of much of our work involves assumptions and estimates concerning future events, the actual outcome of which we cannot know with certainty in advance. In our investment consulting business, we may be measured based on our track record regarding judgements and advice on investments that are susceptible to influences unknown at the time the advice was given. In addition, we could make computational, software programming, or data entry or management errors. A client may claim it suffered losses due to reliance on our consulting advice, which poses risks of liability exposure and costs of defence and increased insurance premiums. In addition, claims arising from our professional services may produce publicity that could hurt our reputation and business and adversely affect our ability to secure new business.

*Damage to our reputation could have a material adverse effect on our business.*

Our reputation is a key asset of the Company. We advise our clients on and provide services related to a wide range of subjects and our ability to attract and retain clients is highly dependent upon the external perceptions of our level of service, trustworthiness, business practices, financial condition, and other subjective qualities. Negative perceptions or publicity regarding these matters or others could erode trust and confidence and damage our reputation among existing and potential clients, which could make it difficult for us to attract new clients and maintain existing ones. Negative public opinion could also result from actual or alleged conduct by us or those currently or formerly associated with us in any number of activities or circumstances, the use and protection of data and systems, satisfaction of client expectations, and regulatory compliance. This damage to our reputation could affect the confidence of our clients, rating agencies, regulators, stockholders, and third parties in transactions that are important to our business adversely affecting on our business, financial condition, and operating results.

***Intellectual property rights and risks***

*Failure to protect our intellectual property rights, or allegations that we have infringed on the intellectual property rights of others, could harm our reputation, ability to compete effectively, and financial condition.*

To protect our intellectual property rights, we rely on a combination of trademark laws, copyright laws, patent laws, trade secret protection, confidentiality agreements, and other contractual arrangements with our affiliates, employees, clients, strategic partners, and others. However, the protective steps that we take may be inadequate to deter misappropriation of our proprietary information. In addition, we may be unable to detect the unauthorised use of, or take appropriate steps to enforce, our intellectual property rights. Further, effective trademark, copyright, patent, and trade secret protection may not be available in every country in which we offer our services or competitors may develop products similar to our products that do not conflict with our related intellectual property rights. Failure to protect our intellectual property adequately could harm our reputation and affect our ability to compete effectively.

In addition, to protect or enforce our intellectual property rights, we may initiate litigation against third parties, such as infringement suits or interference proceedings. Third parties may assert intellectual property rights claims against us, which may be costly to defend, could require the payment of damages and could limit our ability to use or offer certain technologies, products or other intellectual property. Any intellectual property claims, with or without merit, could be expensive, take significant time and divert management's attention from other business concerns. Successful challenges against us could require us to modify or discontinue our use of technology or business processes where such use is found to infringe or violate the rights of others, or require us to purchase licenses from third parties, any of which could adversely affect our business, financial condition and operating results.

***Business risks***

*The profitability of our consulting engagements with clients may not meet our expectations due to unexpected costs, cost overruns, early contract terminations, unrealised assumptions used in our contract bidding process or the inability to maintain our prices.*

Our profitability with respect to consulting engagements is highly dependent upon our ability to control our costs and improve our efficiency. As we adapt to changes in our business, adapt to the regulatory environment, enter into new engagements, acquire additional businesses, and take on new employees in new locations, we may not be able to manage our large, diverse and changing workforce, control our costs, or improve our efficiency.

Our profit margin, and therefore our profitability, is largely a function of the rates we are able to charge for our services and the staffing costs for our personnel. Accordingly, if we are not able to maintain the rates we charge for our services or appropriately manage the staffing costs of our personnel, we may not be able to sustain our profit margin and our profitability will suffer. The prices we are able to charge for our services are affected by a number of factors, including competitive factors, cost of living adjustment provisions, the extent of ongoing clients' perception of our ability to add value through our services, and general economic conditions. If we cannot drive suitable cost efficiencies, our profit margins will suffer. Our cost efficiencies may be impacted by factors such as our ability to transition consultants from completed projects to new assignments, our ability to secure new consulting engagements, our ability to forecast demand for consulting services (and, consequently, appropriately manage the size and location of our workforce), employee attrition, and the need to devote time and resources to training and professional and business development.

**Operational risks**

*The economic and political conditions of the countries and regions in which we operate could have an adverse impact on our business, financial condition, operating results, liquidity, and prospects for growth.*

The UK's withdrawal from the European Union ("Brexit") has created uncertainty about the future relationship between the UK and the European Union as they negotiate the terms of the withdrawal. As the UK and European Union negotiate these terms, we are uncertain about the agreements they will reach on topics such as financial laws and regulations, tax and free trade agreements, immigration laws, and employment laws. Our publicly traded parent is incorporated in the UK and we have significant operations and a substantial workforce therein and therefore enjoy certain benefits based on the UK's membership in the European Union. The lack of clarity about Brexit and the future UK laws and regulations creates uncertainty for us as the outcome of these negotiations may affect our business and operations. Additionally, there is also a risk that other countries may decide to leave the European Union. The uncertainty surrounding Brexit not only potentially affects our business in the UK and the European Union, but may have a material adverse effect on global economic conditions and the stability of global financial markets, which in turn could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to various risks and uncertainties in connection with the sale of our HR Business Process Outsourcing business.*

On 9 February 2017, we entered into a Purchase Agreement with Tempo Acquisition, LLC to sell our BPO business to the Buyer, an entity controlled by affiliates of The Blackstone Group L.P. On 1 May 2017, the transaction was completed and the Buyer purchased all of the related assets and certain liabilities, for a total purchase price of £28,600k in cash paid at closing, subject to customary adjustments set forth in the Purchase Agreement.

We are party to a transition services agreement with the Buyer under which we provide certain services to the Buyer and the Buyer provides certain systems or services to us. There are risks associated with this transition services agreement, particularly as we transition off of the Buyer's systems and services and initiate our own new systems and processes, which could adversely affect our business and financial performance.

Furthermore, we have entered into ongoing commercial arrangements with the Buyer. If we do not realise the intended benefits of these arrangements, it could affect our financial performance or adversely affect our relationship with clients, partners, colleagues and other third parties. Additionally, if the Buyer does not deliver the level of service to which our clients and partners are accustomed, it could adversely affect our relationships with such third parties.

*Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.*

Our operations are dependent upon our ability to protect our personnel, offices and technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breaches, power loss, telecommunications failure, or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of existing, new or upgraded computer systems, telecommunications, and other related systems and operations. In events like these, while our operational size, the multiple locations from which we operate, and our existing back-up systems provide us with some degree of flexibility, we still can experience near-term operational challenges with regard to particular areas of our operations. We could potentially lose access to key executives, personnel, or client data or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster recovery scenario. A disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships, or legal liability.



*We rely on third parties to perform key functions of our business operations enabling our provision of services to our clients. These third parties may act in ways that could harm our business.*

We rely on third parties, and in some cases subcontractors, to provide services, data, and information such as technology, information security, funds transfers, data processing, and administration and support functions that are critical to the operations of our business. These third parties include data providers, plan trustees, payroll service providers, benefits administrators, software and system vendors, health plan providers, investment managers and providers of human resource, among others. As we do not fully control the actions of these third parties, we are subject to the risk that their decisions, actions, or inactions may adversely impact us and replacing these service providers could create significant delay and expense. A failure by third parties to comply with service level agreements or regulatory or legal requirements, in a high quality and timely manner, particularly during periods of our peak demand for their services, could result in economic and reputational harm to us. In addition, these third parties face their own technology, operating, business, and economic risks, and any significant failures by them, including the improper use or disclosure of our confidential client, employee, or company information, could cause harm to our reputation. An interruption in or the cessation of service by any service provider as a result of systems failures, capacity constraints, financial difficulties, or for any other reason could disrupt our operations, impact our ability to offer certain products and services, and result in contractual or regulatory penalties, liability claims from clients and/or employees, damage to our reputation, and harm to our business.

*In connection with the implementation of our corporate strategies, we face risks associated with the acquisition or disposition of businesses, the entry into new lines of business, the integration of acquired businesses, and the growth and development of these businesses.*

In pursuing our corporate strategy, we often acquire other businesses or dispose of or exit businesses we currently own. The success of this strategy is dependent upon our ability to identify appropriate acquisition and disposition targets, negotiate transactions on favourable terms, complete transactions and, in the case of acquisitions, successfully integrate them into our existing businesses. If a proposed transaction is not completed, the time and resources spent pursuing it could adversely result in missed opportunities to locate and acquire other businesses. If acquisitions are made, there can be no assurance that we will realise the anticipated benefits of such acquisitions, including, but not limited to, revenue growth, operational efficiencies, or expected synergies. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overhead related to the divested assets.

From time to time, either through acquisitions or internal development, we enter new lines of business or offer new products and services within existing lines of business. These new lines of business or new products and services present the Company with additional risks, particularly in instances where the markets are not fully developed. Such risks include the investment of significant time and resources; the possibility that these efforts will be not be successful; the possibility that the marketplace does not accept our products or services or that we are unable to retain clients that adopt our new products or services; and the risk of additional liabilities associated with these efforts. In addition, many of the businesses that we acquire and develop will likely have significantly smaller scales of operations prior to the implementation of our growth strategy. If we are not able to manage the growing complexity of these businesses, including improving, refining, or revising our systems and operational practices, and enlarging the scale and scope of the businesses, our business may be adversely affected. Other risks include developing knowledge of and experience in the new business, integrating the acquired business into our systems and culture, recruiting professionals, and developing and capitalising on new relationships with experienced market participants. External factors, such as compliance with new or revised regulations, competitive alternatives, and shifting market preferences may also impact the successful implementation of a new line of business. Failure to manage these risks in the acquisition or development of new businesses could materially and adversely affect our business, results of operations, and financial condition.

***Information technology system and network risks***

*We rely on complex information technology systems and networks to operate our business. Any significant system or network disruption due to a breach in the security of our information technology systems could have a negative impact on our reputation, operations, sales and operating results.*

We rely on the efficient, uninterrupted, and secure operation of complex information technology systems and networks, some of which are within the Company and some of which are outsourced to third parties. All information technology systems are potentially vulnerable to damage or interruption from a variety of sources, including but not limited to cyber-attacks, computer viruses, security breaches, unauthorised access or improper actions by insiders or employees. We are at risk of attack by a growing list of adversaries through increasingly sophisticated methods of attack. Because the techniques used to obtain unauthorised access or sabotage systems change frequently, we may be unable to anticipate these techniques or implement adequate preventative measures. We regularly experience attacks to our systems and networks and have from time to time experienced cyber security breaches, such as computer viruses, unauthorised parties gaining access to our information technology systems, and similar incidents, which to date have not had a material impact on our business. If we are unable to efficiently and effectively maintain and upgrade our system safeguards, we may incur unexpected costs and certain of our systems may become more vulnerable to unauthorised access. While we select our third party vendors carefully, problems with the information technology systems of those vendors, including breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks, and security breaches at a vendor could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business. These types of incidents affecting us or our third-party vendors could result in intellectual property or other confidential information being lost or stolen, including client, employee, or company data. In addition, we may not be able to detect breaches in our information technology systems or assess the severity or impact of a breach in a timely manner.

We have implemented various measures to manage our risks related to system and network security and disruptions, but a security breach or a significant and extended disruption in the functioning of our information technology systems could damage our reputation and cause us to lose clients, adversely impact our operations, sales and operating results, and require us to incur significant expense to address and re-mediate or otherwise resolve such issues. Additionally, in order to maintain the level of security, service, and reliability that our clients require, we may be required to make significant additional investments in our information technology system.

***Recoverability of long term assets and intercompany balances***

The risks facing the Company are the recoverability of its investments in subsidiary undertakings and intercompany balances. These risks are managed both globally and locally by the Group's finance team. The Company carries out regular reviews of the recoverability of its investments in subsidiary undertakings and intercompany balances. The directors are satisfied that the carrying values of investments are recoverable and that obligations under the intercompany balances will be met in full.

***Accounting estimates and assumptions***

We are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgements that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions including, but not limited to, those relating to revenue recognition, restructuring, pensions, recoverability of assets including customer receivables, valuation of goodwill and intangibles, contingencies, share-based payments, and income taxes. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. These assumptions and estimates involve the exercise of judgement and discretion, which may evolve over time in light of operational experience, regulatory direction, developments in accounting principles, and other factors. Actual results could differ from these estimates, or changes in assumptions, estimates, policies, or developments in the business may change our initial estimates, which could materially affect the Statements of profit and loss and comprehensive income, Statement of financial position, and Statement of changes in equity.

**Goodwill or other non-current asset impairment charges**

We review our non-current assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is assessed for impairment at least annually. Factors that may be considered in assessing whether goodwill or other non-current assets may not be recoverable include a decline in our share price or market capitalisation, reduced estimates of future cash flows and slower growth rates in our industry. We may experience unforeseen circumstances that adversely affect the value of our goodwill or other non-current assets and trigger an evaluation of the recoverability of the recorded goodwill and other non-current intangible assets. Future goodwill or other non-current asset impairment charges could materially impact our financial statements.

**People risks**

*Our success depends on our ability to retain and attract experienced and qualified personnel, including our senior management team and other professional personnel.*

We depend, in material part, upon the members of our senior management team who possess extensive knowledge and a deep understanding of our business and our strategy, as well as the colleagues who are critical to developing and retaining client relationships. The unexpected loss of services of any of these senior leaders could have a disruptive effect adversely impacting our ability to manage our business effectively and execute our business strategy. Competition for experienced professional personnel is intense, and we are constantly working to retain and attract these professionals. If we cannot successfully do so, our business, operating results and financial condition could be adversely affected. While we have plans for key management succession and long-term compensation plans designed to retain our senior management team and critical colleagues, if our succession plans and retention programs do not operate effectively, our business could be adversely affected.

**Pension scheme risks**

*Our pension obligations and value of our pension assets could adversely affect our shareholders' equity, net income, cash flow and liquidity.*

To the extent that the pension obligations associated with our pension plans continue to exceed the fair value of the assets supporting those obligations, our financial position and results of operations may be adversely affected. In particular, lower interest rates and investment returns could result in the present value of plan liabilities increasing at a greater rate than the value of plan assets, resulting in higher unfunded positions in our pension plans. In addition, the periodic revision of pension assumptions or variances of actual results from our assumptions can materially change the present value of expected future benefits, and therefore the funded status of the plans and resulting net periodic pension expense. As a result, we may experience future changes in the funded status of our plans that could require us to make additional cash contributions beyond those that have been estimated and which could adversely affect shareholders' equity, net income, cash flow and liquidity.

Our pension plans are significant, and therefore our pension contributions and expense are sensitive to various market and demographic factors. These factors include equity and bond market returns, fair value of pension assets, the assumed interest rates we use to discount our pension liabilities, foreign exchange rates, rates of inflation, mortality assumptions, potential regulatory and legal changes and counterparty exposure from various investments and derivative contracts, including annuities. Variations in any of these factors could cause significant changes to our financial position and results of operations from year to year. In addition, contributions are generally based on statutory requirements and local funding practices, which may differ from measurements under IFRS.

**Errors and omissions ("E&O") claims exposure risks**

*We are subject to errors and omissions claims against us as well as other contingencies and legal proceedings, some of which, if determined unfavourably to us, could have a material adverse effect on the financial condition or results of operations of a business line or the Company as a whole.*

We assist our clients with providing actuarial services and investment consulting; E&O claims against us may allege our potential liability for damages arising from these services. It is not always possible to prevent and detect errors and omissions, and the precautions we take may not be effective in all cases. In addition, we are subject to other types of claims, litigation and proceedings in the ordinary course of business, which along with E&O claims, may seek damages, including punitive damages, in amounts that could, if awarded, have a material adverse impact on the Company's financial position, earnings, and cash flows. In addition to potential liability for monetary damages, such claims or outcomes could harm our reputation or divert management resources away from operating our business.

The Group has historically purchased, and intend to continue to purchase, insurance to cover E&O claims and other insurance to provide protection against certain losses that arise in such matters. However, the Group has exhausted or materially depleted our coverage under some of the policies that protect us for certain years and, consequently, are self-insured or materially self-insured for some historical claims. Accruals for these exposures, and related insurance receivables, when applicable, have been provided by the Company to the extent that losses are deemed probable and are reasonably estimable. These accruals and receivables are adjusted from time to time as developments warrant, and may also be adversely affected by disputes we may have with our insurers over coverage. Amounts related to settlement provisions are recorded in Administrative expenses in the Statements of profit and loss and other comprehensive Income.

In addition, we provide a variety of guarantees and indemnifications to our customers and others. The maximum potential amount of future payments represents the notional amounts that could become payable under the guarantees and indemnifications if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or other methods. Any anticipated payment amounts under guarantees and indemnifications that are deemed to be probable and reasonably estimable are included in our financial statements. These amounts may not represent actual future payments, if any, for these guarantees and indemnifications.

The ultimate outcome of these claims, lawsuits, proceedings, guarantees and indemnifications cannot be ascertained, and liabilities in indeterminate amounts may be imposed on us. It is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by an unfavourable resolution of these matters. The Group's legal, risk and compliance departments support the business in mitigating E&O risk by ensuring that colleagues fully understand the relevant operational controls and policies, and are trained in E&O avoidance.

**Financial risk management**

**Objectives and policies**

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 for the Company are currency risk, credit risk and liquidity/cash flow risk. The directors review operations and transactions on an ongoing basis to ensure that any such exposure is managed to minimise any potential risk arising.

**Exposure to foreign currency risk**

The Company is exposed to foreign exchange risk when it earns revenues, pays expenses, or enters into monetary intercompany transfers or other transactions denominated in a currency that differs from its functional currency. The most significant currencies to which the Company is exposed are the US Dollar, Euro and the Polish Zloty. The Company had no material currency exposure as at 31 December 2017.

**Exposure to credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of financial position and Notes to the financial statements.

The Company's and the Group's policies are aimed at minimising such losses. An allowance for impairment is made where there is an identified loss event which, based on previous experience, provides evidence of a reduction in the recoverability of the cash flows.

The primary area where the Company is exposed to credit risk is amounts due from clients.

The Company's principal financial assets are trade debtors and amounts owed by group undertakings. Details of the Company's debtors are disclosed in the "Trade and other receivables" note 13.

With the exception of the cash pooling arrangement as detailed in the "Guarantees" note 39, the Company has no significant concentration of credit risk outside of the Group, with exposure spread over a large number of counterparties and customers.

#### ***Exposure to liquidity and cash flow risk***

Liquidity and cash flow risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company meets its day to day working capital requirements through operating cash flows, existing cash resources and ultimately if required by access to the Group cash pool. Liquidity is managed centrally by Aon Corporate Treasury on a global basis to ensure there is sufficient available unutilised capacity on its committed borrowing facilities.

#### **The Aon Group**

The Company is an indirect subsidiary of Aon plc, a company listed on the New York Stock Exchange which had net assets of circa. US \$4.6 billion (2016: US \$5.7 billion) as disclosed in its audited financial statements for the year ended 31 December 2017 and had an S&P rating of A-/Stable. The Company benefits from Aon plc and certain fellow Group undertakings for services provided in a wide range of areas including Group credit facilities detailed in note 39 of the financial statements, Group capital injections, and other head office services. The Company continues to benefit from the Group's support and the directors expect this support to continue for the foreseeable future. Availability of this support provides additional mitigation to many of the Company's principle risks.

#### **Likely future developments**

The Company maintains its market leading position in its sector, providing a broad range of products. Coupled with the fact that its relationships with clients are generally of a long-term nature, this provides the directors with confidence that the Company is well positioned to navigate the ongoing pressures of the economic climate. The Company maintains its focus on executing a strategy around:

**Distinctive Client Value:** while each of our clients is unique, they fundamentally expect the same things from Aon: partnership, expertise, innovation, excellence, and results. The Aon Client Promise defines the way we work together with our clients, what clients can expect from us, and the value we will deliver;

**Operational Excellence:** differentiate Aon from the competition through operational excellence, risk awareness and client service; and

**Unmatched Talent:** by having the best talent that builds intellectual capital and drives both thought leadership and execution.

To ensure the successful delivery of the above strategy, the Company has developed strong data and analytical capabilities to ensure it can provide fact-based insight and intelligence to support its clients in their risk management programmes.

It is not anticipated that there will be any material changes in the activity of the Company in the foreseeable future.

**Aon Hewitt Limited**  
**Directors' report**  
**31 December 2017**

The directors present their report, together with the financial statements, on the Company for the year ended 31 December 2017.

**Results**

The results for the year and the Company's financial position at the end of the year are shown in the attached financial statements.

**Political donations**

No political donations were made during the year.

**Dividends**

Dividends paid during the financial year were as follows:

	2017 £'000	2016 £'000
No interim dividend was paid during the year ending 31 December 2017 (2016: £140,361k), to Aon Benfield Limited, the Company's parent.	-	140,361

**Likely future developments**

Information on likely future developments of the Company are disclosed in the Strategic report.

**Principal risks and uncertainties**

Information on principal risks and uncertainties of the Company are disclosed in the Strategic report.

**Financial risk management**

Information on the Company's financial risk management is disclosed in the Strategic report.

**Employee involvement**

The Company's policies and practices keep employees informed on matters relevant to them as employees through regular updates of its internal employee website. The Company continues to take into account the needs of its employees when agreeing to policies which affect them. During the year the Company continued its training and development scheme covering technical, personal and management development programs. Additionally, employees are encouraged to gain professional qualifications with the active support of the Company.

**Diversity at Aon**

In order to foster diversity within the UK workforce the Company has continued the successful running of its Aon UK Diversity Council. The Council's mission is to champion initiatives throughout the Company by raising awareness of the value of having a diverse workforce and the value of inclusion. Its aim is to create an environment where every employee feels valued, and where their talents are fully utilised. The Council's membership consists of representatives of relevant diversity groups across Aon's businesses in the UK as well as representatives of Aon's senior management and Human Resources department. For the purpose of this initiative, diversity groups are made up of Aon's employees who help the Company to identify and understand the diversity issues facing its workforce, these include: Multicultural Group; Women's International Network; Disability Group; Parent and Carers Group; Age Group; and Aon Pride Alliance. Aon's diversity initiative has several objectives, including encouraging an environment where everyone feels valued and free to be open about their diversity and to widen our talent pool to be seen as an employer of choice by people from all backgrounds.

All employees, regardless of any background, ethnic origin or disability are offered development and promotion opportunities in line with Aon's unmatched talent agenda.

**Disabled employees**

The Company gives full and fair consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company's policy where practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion as appropriate.

**Going concern**

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives and exposures to credit, liquidity and cash flow risk are described in the Strategic Report.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Company is expected to continue to generate positive cash flows for the foreseeable future. The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow Group undertakings.

The directors of the Company are not aware of or have any reason to believe in regard to the Company's ultimate parent entity Aon plc that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern or its ability to continue with the current banking arrangements.

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 financial statements.

The directors have prepared a going concern assessment for Aon Hewitt Limited for the financial period to April 2019 (reflecting a one-year projection from the date of the signing of the 2017 statutory accounts in April 2018).

**Events after the reporting period date**

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**Disclosure of information to the auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information required in connection with the auditor's report, of which the auditor is unaware. Each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**Auditor**

Ernst & Young LLP are deemed to be reappointed as the Company's auditor in accordance with section 487 of the Companies Act 2006.

**Indemnity of directors**


The Group has in place qualifying third party indemnity provisions for the benefit of the Company's directors which were in place during the year and remain in force at the date of this report.

**Directors**

The current directors and all directors who served during the year and to the date of this report are shown on page 2.

This report is made in accordance with a resolution of directors.

For and on behalf of the Board of Directors



S D Philp  
Director (Company Registration Number 4396810)



April 2018

**Aon Hewitt Limited**  
**Directors' responsibilities statement**  
**31 December 2017**

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable UK 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 UK GAAP (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 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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.



## **Opinion**

We have audited the financial statements of Aon Hewitt Limited for the year ended 31 December 2017 which comprise the Statement of profit or loss and other comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 41, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 101 including "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 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.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

## **Use of our report**

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.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

## **Responsibilities of directors**

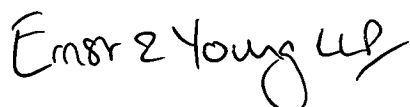
As explained more fully in the directors' responsibilities statement on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

A handwritten signature in black ink, appearing to read "Ernst & Young LLP".

Michael Purrington (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date: 23 APRIL 2018

**Aon Hewitt Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 31 December 2017**

	<b>Note</b>	<b>2017 £'000</b>	<b>2016 £'000</b>
<b>Revenue</b>	3	317,551	328,391
<b>Expenses</b>			
Staff costs	4	(169,527)	(169,183)
Administrative expenses	7	<u>(146,592)</u>	<u>(110,010)</u>
<b>Operating profit</b>		1,432	49,198
Interest receivable and similar income	9	3,084	4,205
Interest payable and similar charges	10	-	(135)
Other gains and losses	11	<u>24,580</u>	<u>5,371</u>
<b>Profit before income tax charge</b>		29,096	58,639
Income tax charge	12	<u>(5,204)</u>	<u>(10,773)</u>
<b>Profit after income tax charge for the year attributable to the owners of Aon Hewitt Limited</b>	36	23,892	47,866
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Actuarial loss on defined benefit plans		(17,178)	(44,355)
Actuarial gain on defined benefit plans		4,262	57,934
Deferred tax in relation to actuarial gains and losses		<u>2,192</u>	<u>(1,929)</u>
Other comprehensive income for the year, net of tax		<u>(10,724)</u>	<u>11,650</u>
<b>Total comprehensive income for the year attributable to the owners of Aon Hewitt Limited</b>		<u>13,168</u>	<u>59,516</u>

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Aon Hewitt Limited**  
**Statement of financial position**  
**As at 31 December 2017**

	Note	2017 £'000	2016 £'000
<b>Assets</b>			
<b>Current assets</b>			
Trade and other receivables	13	90,633	84,024
Income tax receivable	14	95	-
Cash and cash equivalents	15	159,143	101,622
Total current assets		<u>249,871</u>	<u>185,646</u>
<b>Non-current assets</b>			
Intangibles	17	144,547	162,775
Tangible fixed assets	18	1,246	2,020
Investments in subsidiaries	19	6,556	6,556
Investments in associates	20	3	-
Other receivables	21	164	2,821
Deferred tax asset	29	1,305	338
Pension assets	30	82,659	93,731
Total non-current assets		<u>236,480</u>	<u>268,241</u>
<b>Total assets</b>		<u>486,351</u>	<u>453,887</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	22	74,292	65,800
Deferred revenue - due within one year	23	3,486	5,315
Income tax	24	4,012	7,962
Provisions	25	5,374	908
Total current liabilities		<u>87,164</u>	<u>79,985</u>
<b>Non-current liabilities</b>			
Deferred revenue - due after one year	27	153	3,906
Other payables	26	1,174	587
Provisions	28	53,068	31,872
Pension liability	31	445	794
Total non-current liabilities		<u>54,840</u>	<u>37,159</u>
<b>Total liabilities</b>		<u>142,004</u>	<u>117,144</u>
<b>Net assets</b>		<u>344,347</u>	<u>336,743</u>
<b>Equity</b>			
Share capital	33	245,964	245,964
Capital contribution reserve	34	8,471	8,471
Pension reserve	35	31,774	42,498
Retained profits	36	58,138	39,810
<b>Total equity</b>		<u>344,347</u>	<u>336,743</u>



S D Philp  
Director

22nd April 2018

**Aon Hewitt Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2017**

	Share Capital £'000	Share- based payments reserve £'000	Pension reserve £'000	Capital contribution reserve £'000	Retained profits £'000	Total equity £'000
Balance at 1 January 2016	245,964	6,083	30,848	8,471	132,866	424,232
Profit after income tax charge for the year	-	-	-	-	47,866	47,866
Other comprehensive income for the year, net of tax	-	-	11,650	-	-	11,650
Total comprehensive income for the year	-	-	11,650	-	47,866	59,516
<i>Transactions with shareholders in their capacity as owners:</i>						
Share-based payments (note 32)	-	7,365	-	-	-	7,365
Aon plc recharge for the year in respect of share-based payments	-	(15,107)	-	-	-	(15,107)
Tax in relation to share-based payments expense	-	1,098	-	-	-	1,098
Amount in excess of SBP reserve recognised in Retained Profits	-	561	-	-	(561)	-
Dividends paid (note 37)	-	-	-	-	(140,361)	(140,361)
Balance at 31 December 2016	245,964	-	42,498	8,471	39,810	336,743

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Aon Hewitt Limited**  
**Statement of changes in equity**  
**For the year ended 31 December 2017**

	Share Capital £'000	Shared- based payments reserve £'000	Pension reserve £'000	Capital contribution reserve £'000	Retained profits £'000	Total equity £'000
Balance at 1 January 2017	245,964	-	42,498	8,471	39,810	336,743
Profit after income tax charge for the year	-	-	-	-	23,892	23,892
Other comprehensive income for the year, net of tax	-	-	(10,724)	-	-	(10,724)
Total comprehensive income for the year	-	-	(10,724)	-	23,892	13,168
<i>Transactions with shareholders in their capacity as owners:</i>						
Share-based payments (note 32)	-	7,138	-	-	-	7,138
Aon plc recharge for the year in respect of share-based payments	-	(12,797)	-	-	-	(12,797)
Tax in relation to share-based payments expense	-	95	-	-	-	95
Amount in excess of SBP reserve recognised in Retained Profits	-	5,564	-	-	(5,564)	-
Balance at 31 December 2017	245,964	-	31,774	8,471	58,138	344,347

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

## **1. Significant accounting policies**

The significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### **Basis of preparation**

The Company meets the definition of a qualifying entity under FRS 100 issued by the FRC. The financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC.

The Company has used a true and fair view override in respect of the non amortisation of goodwill (see note 17).

Amounts in these financial statements have been rounded off to the nearest thousand pounds, or in certain cases, the nearest pound.

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments. Also, the presentation of certain prior year amounts have been amended to match current year presentation.

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The financial statements have been prepared on a going concern basis. The directors have considered the appropriateness of the going concern basis in the Directors' report on page 15.

As permitted by FRS 101, the Company has taken advantage of all of the disclosure exemptions available under this standard where applicable to the Company, except for those mentioned below. Where relevant, equivalent disclosures have been given in the Group financial statements. The Group financial statements are available to the public and can be obtained as set out in note 41.

The following exemptions was not taken:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (ii) paragraph 118(e) of IAS 38 Intangible Assets.

The Company adopted the relevant presentation requirements of IAS 1 (Presentation of Financial Statements) formats for the Statement of financial position and the Statement of profit or loss and other comprehensive income in accordance with Schedule 1 to the Regulations, as amended by Statutory Instrument 2015/980, which permits a company a choice of adapted or statutory formats. The Company chose IAS 1 presentation format to be aligned with the financial statements of Aon plc.

### **Basis of consolidation**

The Company has taken advantage of the exemption from preparation of consolidated financial statements under Section 400 of the Companies Act 2006 as its results are included in the financial statements of Aon plc.

The Group financial statements are available to the public and can be obtained as set out in note 41.



## **1. Significant accounting policies (continued)**

### **Revenue**

Revenues consist primarily of fees paid by clients for consulting advice and outsourcing contracts. Fees paid by clients for consulting services are typically charged on an hourly, project or fixed-fee basis. Revenues from time- and materials or cost-plus arrangements are recognised as services are performed, assuming all four criteria to recognise revenue have been met.

The Company considers revenues to be earned and realised or realisable when all of the following four conditions are met:

- (1) persuasive evidence of an arrangement exists,
- (2) the arrangement fee is fixed or determinable,
- (3) delivery or performance has occurred, and
- (4) collectability is reasonably assured.

Revenues from fixed-fee contracts are provided typically using a straight line method or at the completion of a project based on facts and circumstances of the client arrangement.

The Company's outsourcing contracts typically have three-to-five year terms for both benefits services and BPO services. The Company recognises revenues as services are performed, assuming all criteria to recognise revenue have been met. The Company may also receive implementation fees from clients either up-front or over the ongoing services period as a component of the fee per participant. Lump sum implementation fees received from a client are typically deferred and recognised ratably over the ongoing contract service period. If a client terminates an outsourcing service arrangement prior to the end of the contract, a loss on the contract may be recorded, if necessary, and any remaining deferred implementation revenues would typically be recognised over the remaining service period through the termination date.

In connection with the Company's long-term outsourcing service agreements, highly customised implementation efforts are often necessary to set up clients and their human resource or benefit programs on the Company's systems and operating processes. Qualifying costs of implementation incurred prior to the services commencing are generally deferred and amortised over the period that the related ongoing services revenue is recognised. Deferred costs are assessed for recoverability on a periodic basis to the extent the deferred cost exceeds related deferred revenue.

### **Other revenue**

Other revenue relates to transactions that are incidental to the main revenue-generating activities and includes management fees attributable to the provision of services to other Group entities. Management fees attributable to the provision of services to other Group entities are recognised when services are received or when the right to receive payment is established.

### **Foreign currencies**

The financial statements presentational currency is pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

Transactions in currencies other than the Company's functional currency are recognised at the rates of exchange at the date of the transactions. At each reporting period date, monetary assets and liabilities that are denominated in non-functional currencies are retranslated at the rate ruling at the reporting period date. Non-monetary items remain at the rates of exchange at the date of the transaction.

Exchange gains or losses arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the statement of profit or loss.

### **Interest receivable and similar income**

Interest receivable and similar income is recognised as interest accrues using the effective interest method.

### **Interest payable and similar charges**

Interest payable and similar charges are recognised as interest accrues using the effective interest method.

## **1. Significant accounting policies (continued)**

The effective interest method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial liability to the net carrying amount of the financial liability.

### **Taxation**

#### **Current tax**

The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting period date.

#### **Deferred tax**

Deferred tax is provided on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the liability method. A deferred tax asset or liability arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that at the time of the transaction, affects neither the accounting nor taxable profits, is not recognised. In addition, no deferred tax liability is recognised on the initial recognition of goodwill.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting period date.

Deferred tax is charged or credited to the statement of other comprehensive income, for items that are charged or credited directly in the statement of other comprehensive income.

Deferred tax assets and liabilities 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.

Deferred tax is provided on temporary differences on investments in subsidiaries, except where the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

#### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

#### **Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

## **1. Significant accounting policies (continued)**

### **Cash and cash equivalents**

Cash and cash equivalents include cash balances. Their estimated fair value approximates their carrying values.

### **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 365 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance 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. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Work in progress represents revenue that has been earned but not yet billed to a client. Other receivables are recognised at amortised cost, less any provision for impairment.

### **Investments in subsidiaries and associates**

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. The carrying value of investments in group undertakings is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Associates are entities over which the Company has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Investments in associates are accounted for at cost less, where appropriate, provisions for impairment.

Dividends received or receivable from subsidiaries and associates are recognised as income as and when they are received or receivable, and are recorded in other gains and losses within the Statement of profit or loss.

### **Other financial assets and liabilities**

Other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Other financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

All other financial liabilities held by the Company are measured at amortised cost. The Company's financial liabilities included within this category under IAS 39 include balances classified as current and non-current liabilities on the Statement of financial position.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised or impaired.

## **1. Significant accounting policies (continued)**

### ***Impairment of financial assets***

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost 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. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to the statement of profit or loss.

### **Tangible fixed assets**

Fixtures and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis so as to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Fixture and fittings	Between three and ten years
Computer equipment	Between four and seven years

The residual values, useful lives and depreciation methods are reviewed and adjusted at each reporting date, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### **Intangible assets**

Intangible assets include customer related and contract based assets representing primarily client relationships and non-compete covenants, tradenames, marketing and technology related, and software assets. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period. Interim impairment testing may be performed when events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable.

### ***Goodwill***

Goodwill arises on the acquisition of a business and represents the excess of fair value of the consideration paid for a book of business over the aggregate fair value of the identifiable assets and liabilities required. Goodwill is considered to have an indefinite life and is therefore not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to the Statement of profit or loss and are not subsequently reversed.

The Company has used a true and fair view override in respect of the non amortisation of goodwill as permitted by paragraph 10(2) of Schedule 1 of the Regulations to overcome the prohibition in paragraph 22 of Schedule 1 of the Regulations.

### ***Customer contracts***

Customer contracts acquired in a business combination are amortised on a systematic basis over the period of their expected benefit, being their finite life ranging from five to twelve years.

**1. Significant accounting policies (continued)**

**Software**

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit (lesser of the life of an associated license or four to seven years).

**Impairment of tangible and intangible assets**

At each reporting period date, the Company reviews the carrying amounts of its tangible and intangible assets with a finite life 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 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 ("CGU") to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, a revenue market multiple valuation was used based on the average enterprise value for the 3 years between 2016 actual and 2017 and 2018 forecasted revenues. Based on this method, management determined a range of valuations that was used to calculate value in use.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 (or CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

For the tangible asset impairment review, the recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or CGU to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a CGU.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the Statement of profit and loss and other comprehensive income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which remain unpaid at the reporting date. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 60 days of recognition.

**1. Significant accounting policies (continued)**

**Value-Added Tax ("VAT") and other similar taxes**

Revenues, expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the Statement of financial position.

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

**Provisions**

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of a past event, it is probable the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

**Employee benefits**

**Pension obligations**

The Company operates a pension scheme for its employees with both defined benefit and defined contribution sections. In addition, there is a second scheme which operates some defined benefit investment. The assets of the schemes are held separately from those of the Company.

The Company has ceased crediting future benefits relating to salary and service for its plans to the extent statutorily permitted. The Company records net period cost or benefit relating to its pension and other post-retirement benefit plans based on calculations that include various actuarial assumptions, including discount rates, inflation rates, mortality rates, compensation increases, and turnover rates. The Company reviews its actuarial assumptions on an annual basis and modifies these assumptions based on current rates and trends.

During the year, the Company was the legal employer for two fellow group companies, Aon Consulting Limited and Hewitt Risk Management Services Limited. Aon UK Limited, a fellow group company, and Aon Hewitt Limited operate several pension schemes in the United Kingdom, both defined contribution and defined benefit in nature, of which the Company's employees are members. The assets of all schemes, excluding the Group Personal Pension Plan Scheme which is a defined contribution scheme, are held in separate trustee administered funds.

**1. Significant accounting policies (continued)**

The funding of the defined benefit schemes of certain employees is borne by Aon UK Limited and a proportion is recharged to the Company. Contributions to defined contribution schemes of certain employees are recharged to the Company from Aon UK Limited and charged to the Statement of profit or loss and other comprehensive income on an accruals basis. Other contributions to defined contribution schemes are charged to the Statement of profit or loss and other comprehensive income as they become payable in accordance with the rules of the scheme. The costs include administration and advice fees for every employee working for the Company. The Company also operates a defined contribution scheme. Contributions to defined contribution schemes are charged in the Statement of profit or loss and other comprehensive income on an accruals basis. Pension costs are recharged to other UK group companies where applicable.

Where the Company's pension schemes are in surplus under on the IAS 19 basis, this surplus has been recognised on the Statement of financial position and are included only to the extent that they are recoverable through reduced contributions in the future or through refunds from the plans taking into consideration any minimum funding requirements that apply to the applicable plans.

A liability or asset in respect of defined benefit plans is recognised in the Statement of financial position, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised, in the period in which they occur, in other comprehensive income.

Past service costs are recognised immediately in the Statement of profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time ('the vesting period'). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

***Share-based payments***

Directors and certain senior employees of the Company receive an element of remuneration in the form of share-based payments, whereby the participants effectively render their services in consideration for shares and/or options over shares in Aon plc, the Company's ultimate parent company.

Share-based payments to employees include grants of employee share options, restricted shares and restricted share units ("RSUs"), performance share awards ("PSAs") as well as employee share purchases related to the Employee Share Purchase Plan. Share-based compensation expense is measured based on estimated grant date fair value and recognised together with a corresponding increase in retained earnings in equity over the requisite service period for awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant based on actual experience to date and estimates are revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Such transactions are accounted for as equity-settled share based payment arrangements. Equity settled share based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date.

Fair value is independently determined using the Binomial pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

## **1. Significant accounting policies (continued)**

The fair value of equity-settled transactions determined at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, at a minimum an expense is recognised as if the modification had not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Save as you earn ("SAYE") share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

On exercise or release of SAYE share options/awards the Company is obliged to pay Aon plc the difference between the grant price and share price at the date of vesting for the Aon plc shares issued to the participants.

### **Issued capital**

Ordinary shares are classified as equity.

### **Dividends**

Dividends are recognised when declared and paid during the financial year and no longer at the discretion of the Company.

## **2. Critical accounting judgements, estimates and assumptions**

In the application of the Company's accounting policies, which are described in note 1, management are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. 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 revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions that pose significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the foreseeable future are discussed below.

### ***Share-based payment transactions***

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the profit or loss and equity.



## **2. Critical accounting judgements, estimates and assumptions (continued)**

### ***Pensions***

The costs associated with defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuations, the underlying assumptions and long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management consider the interest rates of sterling corporate bonds with at least AA rating with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables. Future salary and pension increases are based on expected future inflation rates.

### ***Revenue***

As discussed in note 1, revenue is earned under fixed fee contracts and is recognised as the contract activity progresses to reflect the Company's partial performance of its contractual obligations or based on a time and materials basis. In determining the amount of revenue and work in progress to be recognised in respect of ongoing services, it is necessary to estimate their stage of completion, the remaining time and costs to be incurred and the amounts that will be paid for the services provided. These judgements are made on a contract by contract basis and a different assessment of any of these factors would result in a change to the amount of revenue recognised.

### ***Provisions***

As a normal consequence of the Company's operations, a number of provisions are made which are based on estimates. One of these provisions relates to claims affecting professional negligence which have been made against the Company. The provision for E&O claims is based on the current best estimate of the total amount of those claims which are considered more likely than not to crystallise, in accordance with extensive advice provided by the Company's legal team.

### ***Goodwill and other intangible assets***

The Company tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated revenue multiples as described in the accounting policy in note 1.

## **3. Revenue**

An analysis of the Company's revenue is as follows:

	2017 £'000	2016 £'000
<i>Turnover</i>		
Fees	298,832	308,973
<i>Other revenue</i>		
Management fees	18,719	19,418
Revenue	317,551	328,391

### **3. Revenue (continued)**

#### ***Revenue Geographical Analysis***

The table below analyses revenue by the location of the client from whom the business is derived.

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
United Kingdom	274,572	279,617
Europe	17,971	23,437
North America	5,481	4,459
Rest of the World	808	1,460
	<b>298,832</b>	<b>308,973</b>

### **4. Staff costs**

Salaries include base salary, overtime and performance related payments in respect of all staff including directors.

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Salaries	107,219	108,713
Pension	9,506	9,364
Share-based payments expense	7,146	7,425
Bonuses, incentives and benefits	28,098	25,577
Social security cost	17,558	18,104
	<b>169,527</b>	<b>169,183</b>

Certain employees legally employed by the Company provide services to fellow group undertakings. The related staff costs of these employees have been excluded from the costs shown above as they are cross-charged to the respective fellow group undertakings. The costs shown above include the employment cost where recharges are done for the services rendered for Hewitt Risk Management Services Limited. These costs are included net of recharges within administrative expenses in the Statement of profit or loss and other comprehensive income.

Additionally, the Company receives services rendered to it by employees who are legally employed by fellow group undertakings. The remuneration paid to these employees is included within staff costs noted above, as these costs are cross-charged to the Company.

### **5. Average number of employees**

The average number of staff (including directors) employed by the Company during the year was:

	<b>2017</b>	<b>2016</b>
Consulting	<b>1,966</b>	<b>2,034</b>

## 6. Directors' remuneration

	2017 £'000	2016 £'000
<b>Directors' remuneration</b>		
Aggregate remuneration in respect of qualifying services	1,629	1,747
Amount of gains made by directors on exercise of shares/ share options	2,770	2,890
Aggregate of company contributions paid in respect of money purchase schemes	28	35
<b>Total</b>	<b>4,427</b>	<b>4,672</b>

The aggregate emoluments in respect of qualifying services paid to directors or past directors as compensation for loss of office during the year was £Nil (2016: £Nil).

	2017	2016
<b>The number of directors who:</b>		
Received shares in respect of qualifying services under a long term incentive scheme	5	5
Exercised options over shares in the parent company	5	5
Are accruing benefits under money purchase schemes	2	3

	2017 £'000	2016 £'000
<b>Remuneration of the highest paid director:</b>		
Emoluments	1,748	2,013

The highest paid director exercised share options of 13,781 shares at an average price \$117.91 in the year and had received 4,776 shares at an average price \$118.54 under long-term incentive schemes in 2017.

The directors have chosen to present the total emoluments received for services as directors of the Company and services to other companies in the Group. Emoluments are paid by the director's employing company within the Group. The directors do not believe that it is practicable to apportion these amounts between their services as directors of the company and their services to other group companies. Where appropriate remuneration costs are subsequently recharged under group reallocations to the Company. The comparative amounts have been presented on the same basis as the current year.

## 7. Administrative expenses

Operating profit is stated after charging items disclosed in the administrative expenses note below:

	2017 £'000	2016 £'000
Net foreign exchange losses/(gains)	296	(1,168)
Depreciation of tangible fixed assets	668	867
Losses on disposal of tangible fixed assets	41	3
Amortisation of intangible assets	859	1,396
Impairment charge	3,114	-
Audit remuneration	175	201
Other administrative expenses	141,225	107,963
Rental costs under operating leases	2	10
Impairment loss recognised on receivables	212	738
	<b>146,592</b>	<b>110,010</b>

**8. Auditor's remuneration**

During the financial year the following fees were paid or payable for services provided by Ernst & Young LLP, the auditor of the Company, and its associates:

	<b>2017 £'000</b>	<b>2016 £'000</b>
<i>Audit services</i>		
Audit of the financial statements	169	198
<i>Other services</i>		
Other assurance services	6	3
	<u>175</u>	<u>201</u>

**9. Interest receivable and similar income**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Bank interest receivable	805	1,435
Net finance income on pension schemes	2,279	2,770
	<u>3,084</u>	<u>4,205</u>

**10. Interest payable and similar charges**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Other interest payable	-	135

**11. Other gains and losses**

	<b>2017 £'000</b>	<b>2016 £'000</b>
Profit on disposal of investments	-	371
Return on investments	-	5,000
Other non operating income	10,913	-
Profit on disposal of operation	13,667	-
	<u>24,580</u>	<u>5,371</u>

Other non operating income of £10,913k (2016:£Nil) relates to amounts recoverable under the Company's E&O insurance policy.

On 9 February 2017, Aon plc entered into a Purchase Agreement with Tempo Acquisition, LLC to sell the BPO business to the Buyer, an entity controlled by affiliates of The Blackstone Group L.P. On 1 May 2017, the transaction was completed and the Buyer purchased certain of the Company's BPO related assets, for a total purchase price of £28,600k resulting in a £13,667k profit on disposal of the operation.

No other gains or losses have been recognised in respect of loans and receivables. No gains or losses have been recognised on financial liabilities measured at amortised cost.

**12. Income tax charge**

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<i>Income tax charge</i>		
Current tax	4,440	9,136
Deferred tax - origination and reversal of temporary differences	954	1,363
Adjustment recognised for prior periods	(220)	70
Foreign tax	100	105
Impact of change in tax rates	(70)	99
	<u>5,204</u>	<u>10,773</u>
Aggregate income tax charge		

*Numerical reconciliation of income tax charge and tax at the statutory rate*

The tax charge in the Statement of profit or loss for both years is lower than that calculated at the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are reconciled below:

Profit before income tax charge	<u>29,096</u>	<u>58,639</u>
Tax at the statutory tax rate of 19.25% (2016: 20%)	5,601	11,728
Adjustment recognised for prior periods	(220)	70
Expenses not deductible for tax purposes	102	(47)
Transfer pricing adjustments	(138)	(177)
(Gain) on disposal of business	(225)	-
Other	165	127
Foreign tax	100	105
Impact of change in tax rates	(70)	99
Income not taxable	<u>(111)</u>	<u>(1,132)</u>
Income tax charge	<u>5,204</u>	<u>10,773</u>

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
<i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (note 29)	<u>(1,859)</u>	<u>1,978</u>
Current tax	<u>(428)</u>	<u>(1,148)</u>
Total	<u>(2,287)</u>	<u>830</u>

From 1 April 2017 the UK Government introduced further reductions to the headline corporation tax rate to 19%, and legislation was introduced in the Finance Act 2016 to reduce the corporation tax rate further for the year starting 1 April 2020 to 17%.

Any deferred tax expected to reverse has been re-measured using the above rates.

**12. Income tax charge (continued)**

	2017 £'000	2016 £'000
<i>Deferred tax in the Statement of profit or loss:</i>		
Decelerated/accelerated capital allowances	(77)	(172)
General provision	(294)	(207)
Pension plans and other post-employment benefits	421	568
Trading losses	202	740
Share based payments	702	434
	<hr/>	<hr/>
Total deferred tax movement	954	1,363

**13. Current assets - Trade and other receivables**

	2017 £'000	2016 £'000
Trade receivables	49,012	44,929
Less: Provision for impairment of receivables	(623)	(495)
	<hr/>	<hr/>
	48,389	44,434
	<hr/>	<hr/>
Prepayments and accrued income	705	647
Other receivables	11,141	233
Work in progress	24,875	25,755
Deferred project costs	157	895
Amounts owed by group undertakings	4,503	7,691
Amounts owed by subsidiary undertakings	863	4,357
Amounts owed by parent undertaking	-	12
	<hr/>	<hr/>
	90,633	84,024

Other receivables balances as at 31 December 2017 includes £10,913k of E&O recoverable (note 11).

The amounts owed by group undertakings are not interest bearing and are due to be received within the next 12 months.

**14. Current assets - Income tax receivable**

	2017 £'000	2016 £'000
Income tax receivable	95	-
	<hr/>	<hr/>

**15. Current assets - Cash and cash equivalents**

	2017 £'000	2016 £'000
Cash and cash equivalents	159,143	101,622
	<hr/>	<hr/>

**16. Current assets - Assets held for distribution**

The major classes of assets comprising the operations classified as held for distribution are as follows:

NBS Nominees Limited is targeted for dissolution in 2018, £2 (2016:£2) recognised as asset held for distribution.

**17. Non-current assets - Intangibles**

	2017 £'000	2016 £'000
Goodwill - at cost	143,296	158,925
Customer contracts - at cost	658	5,533
Less: Accumulated amortisation	(345)	(3,123)
	313	2,410
Software - at cost	11,730	11,753
Less: Accumulated amortisation	(10,792)	(10,313)
	938	1,440
	144,547	162,775

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Goodwill £'000	Customer contracts £'000	Software £'000	Total £'000
Balance at 1 January 2016	158,925	3,172	2,075	164,172
Amortisation expense	-	(762)	(635)	(1,397)
Balance at 31 December 2016	158,925	2,410	1,440	162,775
Disposals	(14,256)	-	-	(14,256)
Impairment of assets	(1,373)	(1,740)	-	(3,113)
Amortisation expense	-	(357)	(502)	(859)
Balance at 31 December 2017	143,296	313	938	144,547

Goodwill is not amortised but is tested annually for impairment as required by IFRS 3. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. Had the Company amortised goodwill, a period of 10 years would have been chosen as the useful life from date of acquisition and consequently the profit before tax for the year would have been £17,917k lower as a result.

On 1 May 2017 the sale of the BPO business resulted in disposal of goodwill of £14,256k. Further to the transaction the Company announced its intention to focus on providing integrated pension administration services to our consulting clients, the Company has entered into a sub-contracting arrangement in relation to the public sector benefits administration contracts. This resulted in an impairment of the associated goodwill (£1,373k) and customer contracts (£1,741k).

During 2017, the Company conducted an impairment review of all material goodwill and intangible assets and no other impairments were required.

The recoverable amount of a cash generated unit ("CGU") is determined based on value-in-use calculations as described in note 1.

**17. Non-current assets - Intangibles (continued)**

The key assumptions used for value-in-use calculations for each CGU with significant goodwill in comparison to the Company's total are shown below:

Multiple as at	Revenue	Consulting
31 December 2016	Actual	2.40
31 December 2017	Forecasted	2.15
31 December 2018	Forecasted	2.05

**18. Non-current assets - Tangible fixed assets**

	2017 £'000	2016 £'000
Fixtures and fittings - at cost	1,953	1,967
Less: Accumulated depreciation	(1,907)	(1,900)
	<u>46</u>	<u>67</u>
Computer equipment - at cost	2,788	3,870
Less: Accumulated depreciation	(1,588)	(1,917)
	<u>1,200</u>	<u>1,953</u>
	<u>1,246</u>	<u>2,020</u>

**Reconciliations**

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Balance at 1 January 2016	88	2,154	2,242
Additions	36	609	645
Impairment of assets	-	(1)	(1)
Depreciation expense	(57)	(809)	(866)
Balance at 31 December 2016	67	1,953	2,020
Additions	2	549	551
Disposals	(17)	(640)	(657)
Depreciation expense	(6)	(662)	(668)
Balance at 31 December 2017	<u>46</u>	<u>1,200</u>	<u>1,246</u>

**19. Non-current assets - Investments in subsidiaries**

	2017 £'000	2016 £'000
Investments in subsidiaries	<u>6,556</u>	<u>6,556</u>



**19. Non-current assets - Investments in subsidiaries (continued)**

The direct subsidiary undertakings of the Company as at 31 December 2017 are detailed below:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Holding</b>	<b>Proportion held %</b>
Bacon & Woodrow Partnership Limited	The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN, UK	Ordinary shares	100.00%
Aon Hewitt (Ireland) Limited	5th Floor, Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ordinary shares	100.00%
Hewitt Risk Management Services Limited	The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN, UK	Ordinary shares	100.00%
Aon Hewitt Management Company Limited	Metropolitan Building, James Joyce Street, Dublin 1, Ireland	Ordinary shares	100.00%
NBS Nominees Limited (note 16)	The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN, UK	Ordinary shares	100.00%
The Aon MasterTrustee Limited	The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN, UK	Ordinary shares	100.00%

The directors are of the opinion that were the Company's investments in subsidiary undertakings to be realised, they would raise an amount equal to or in excess of their book values.

The indirect subsidiary undertakings investment holdings of the Company as at 31 December 2017 are detailed below:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Holding</b>	<b>Proportion held %</b>
Bacon & Woodrow Partnerships (Ireland) Ltd	Metropolitan Building, James Joyce Street, Dublin 1, Ireland	Ordinary shares	100.00%
Becketts (Trustee) Limited	Metropolitan Building, James Joyce Street, Dublin 1, Ireland	Ordinary shares	100.00%
Delaney Bacon & Woodrow Partnership	Metropolitan Building, James Joyce Street, Dublin 1, Ireland	Ordinary shares	100.00%
The Aon Ireland MasterTrustee Limited	5 <sup>th</sup> floor, Block D, Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ordinary shares	100.00%

	<b>2017 £'000</b>	<b>2016 £'000</b>
Opening balance	6,556	6,255
Additions of a subsidiary undertaking	-	301
Net book value	<u>6,556</u>	<u>6,556</u>

**19. Non-current assets - Investments in subsidiaries (continued)**

On 3 April 2017, Aon Kloud Limited and Bacon & Woodrow Limited were dissolved.

NBS Nominees Limited is targeted for dissolution in 2018 (note 16).

**20. Non-current assets - Investments in associates**

	2017 £'000	2016 £'000
Investment in associates	3	-

The direct and indirect associates undertakings of the Company as at 31 December 2017 are detailed below:

Name		Principal place of business / Country of incorporation	Proportion held %
Aon Hewitt Danismanlik AS	Direct	Feneryolu Mah. Bagdat Cad. No: 155/14, 34724, Kadikoy, Istanbul, Turkey	35.00%
Aon Hewitt Limited	Indirect	4th floor Dias Pier, Le Caudan Waterfront, Port Louis, Mauritius	33.33%
Aon Hewitt S.A.	Indirect	2 Mesogion St, 115 27 Athens, Greece	35.00%
Aon Hewitt (Cyprus) Limited	Indirect	8 Kennedy Ave, 1087 Nicosia Cyprus, Cyprus	35.00%

All the investments held above are held in ordinary shares.

**21. Non-current assets - Other receivables**

	2017 £'000	2016 £'000
Deferred project costs	164	2,821

**22. Current liabilities - Trade and other payables**

	2017 £'000	2016 £'000
Trade payables	1,941	3,322
Accruals	16,735	16,963
Deferred consideration	-	1,500
Amounts owed to group undertakings	34,017	17,029
Amounts owed to subsidiary undertakings	218	-
Amounts owed to parent undertaking	1,693	5,876
Other taxes and social security payables	19,688	21,110
	<u>74,292</u>	<u>65,800</u>

**23. Current liabilities - Deferred revenue - due within one year**

	2017 £'000	2016 £'000
Deferred revenue	3,486	5,315

**24. Current liabilities - Income tax**

	2017 £'000	2016 £'000
Group relief payable	4,012	7,962

**25. Current liabilities - Provisions**

	2017 £'000	2016 £'000
Restructuring provision	5,374	620
Other provisions	-	288
	5,374	908

***Restructuring provisions***

In 2017, Aon plc initiated a global restructuring plan, the provision represents the estimated costs to sell or terminate a line of business, close or relocate a business location, change the management structure or other fundamental reorganisations that has a material effect on the Company. The provision is recognised once the detailed restructuring plan has been drawn up by management and communicated to the public and those affected by the plans.

***Movements in provisions***

Movements in each class of provision during the current financial year are set out below:

	Restructuring provision £'000	Onerous Contracts provision £'000
<b>2017</b>		
Carrying amount at the start of the year	620	288
Additional provisions recognised	8,262	-
Released in the year	(66)	-
Utilised in the year	(3,442)	(288)
Carrying amount at the end of the year	5,374	-

**26. Non-current liabilities - Other payables**

	2017 £'000	2016 £'000
Accruals	1,032	516
Other taxes and social security payable	142	71
	1,174	587

**27. Non-current liabilities - Deferred revenue - due after one year**

	2017 £'000	2016 £'000
Deferred revenue	153	3,906

**28. Non-current liabilities - Provisions**

	2017 £'000	2016 £'000
E&O and other litigation provision	52,682	31,447
Other provisions	386	425
	<u>53,068</u>	<u>31,872</u>

***Errors and omissions provision***

As a normal consequence of the Company's operations, a number of claims alleging professional negligence have been made against the Company. Provision has been made in these financial statements based on the directors' current best estimate of the total amount of those claims which are considered more likely than not to crystallise.

IAS 37 requires the Company to record provisions that are probable gross of any related recovery, any such recovery being included within debtors and only when the recovery is deemed virtually certain.

Certain other Errors and Omissions claims meet the IAS 37 definition of contingent liabilities. In accordance with IAS 37, these claims have not been included in the financial position as the directors do not believe that it is practicable to estimate the quantum of the potential outcome of these claims. The directors believe that there are valid defences to all claims that have been made with respect to these activities and the Company is vigorously defending all pending actions. The directors do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the Company's operations or financial position.

As allowed by IAS 37, further disclosure has not been given as it may seriously prejudice the outcome of any legal proceedings. In the interest of not prejudicing the outcome of any single case, the Company has not split the provision between current and non-current as required by IAS 1.

***Other provisions***

Provision has been made for annuities payable to one former partner of Bacon & Woodrow Limited. The provision is calculated by a qualified actuary.

***Movements in provisions***

Movements in each class of provisions during the current financial year are set out below:

	E&O provisions £'000	Other provisions £'000
<b>2017</b>		
Carrying amount at the start of the year	31,447	425
Additional provisions recognised	24,673	-
Released in the year	-	(39)
Utilised in the year	<u>(3,438)</u>	<u>-</u>
Carrying amount at the end of the year	<u>52,682</u>	<u>386</u>

**29. Non-current assets - Deferred tax asset**

	2017 £'000	2016 £'000
<i>Deferred tax asset comprises of:</i>		
Decelerated capital allowances	7,569	7,197
General provisions	183	90
Pension plans and other post-employment benefits	365	163
Trading losses	4,161	4,292
Share-based payments	3,004	4,395
Pension provision	(13,977)	(15,799)
Deferred tax asset	<u>1,305</u>	<u>338</u>
<i>Movements:</i>		
Opening balance	338	3,092
Charged to profit or loss (note 12)	(954)	(1,363)
Credited/(charged) to equity (note 12)	1,859	(1,978)
Impact of change in tax rates to the Statement of profit or loss	70	(99)
Adjustment recognised for prior periods	230	(16)
Impact of foreign exchange	(238)	702
Closing balance	<u>1,305</u>	<u>338</u>

The Company has £23,472,039 (2016: £24,522,039) of tax trading losses carried forward at 31 December 2017. From 1 April 2017 the UK Government introduced changes to the loss utilisation rules, with a restriction on annual offset of brought forward losses against profits arising on or after 1 April 2017 to 50%. Greater flexibility has also been introduced with losses arising on or after 1 April 2017 to be offset against profits from other group companies, and other income types.

Based on current profit projections, the directors consider that it is more likely than not that sufficient profit will arise in the foreseeable future against which the asset can reverse.

**30. Non-current assets - Pension assets**

***Pension schemes***

The Company operates a number of pension schemes in the UK. The following schemes have defined benefit sections that are in surplus at 31 December 2017:

- The Hewitt Pension Fund section ("HPF") of the Aon Retirement Plan ("ARP")
- The Hewitt Associates Pension and Life Assurance Plan section ("HAPLAP") of the ARP

Defined benefit pension schemes define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligation ("DBO") includes benefits for current employees, former employees and current pensioners.

The HPF and HAPLAP schemes are closed to new entrants and future accrual, although the final salary section of the HPF has pension benefits linked to future salary growth. The HPF also has a defined contribution section, which is closed to new entrants and closed to future contributions. HAPLAP operates primarily on a defined contribution basis but one fund provides guarantees which are defined benefit in nature.

The defined benefit sections of the HPF and HAPLAP schemes are funded, with scheme assets held under trust separate from the Company. The last completed funding valuation was carried out with an effective date of 31 March 2016. The 31 December 2017 DBOs in the IAS 19 disclosures have been based on the membership data of the 2016 valuation. The present value of the DBOs is determined using the projected unit method.

During the financial year ending 31 December 2016 the Aon Hewitt section of the Coal Plan moved from 'in surplus' to 'in deficit' as noted in the DBO reconciliation.

**30. Non-current assets - Pension assets (continued)**

**Statement of financial position amounts**

The amounts recognised in the statement of financial position are determined as follows:

	2017 £'000	2016 £'000
Present value of the defined benefit obligation	(187,657)	(184,565)
Fair value of defined benefit plan assets	270,316	278,296
Net asset in the statement of financial position	82,659	93,731

Where the Company's pension schemes are in surplus on the IAS 19 basis, this surplus has been recognised on the statement of financial position on the basis that the Company has an unconditional right to a refund assuming the gradual settlement of the plan liabilities over time until all members have left the scheme.

**Categories of plan assets**

The major categories of plan assets are as follows:

	2017 £'000	2016 £'000
Cash and cash equivalents	2,065	1,349
Equity instruments	4,028	21,063
Debt instruments	1,280	10,876
Property	6,042	10,451
Derivatives	8,997	19,035
Investment Funds	205,263	172,409
Annuities	39,623	40,545
Other	3,018	2,568
	270,316	278,296
	2017 %	2016 %
Cash and cash equivalents	0.8%	0.5%
Equity instruments	1.5%	7.6%
Debt instruments	0.5%	3.9%
Property	2.2%	3.8%
Derivatives	3.3%	6.8%
Investment Funds	75.9%	61.9%
Annuities	14.7%	14.6%
Other	1.1%	0.9%

The trustees of each scheme are responsible for setting an investment strategy appropriate to that scheme after consulting the Company.

**30. Non-current assets - Pension assets (continued)**

***Reconciliations***

	<b>2017 £'000</b>	<b>2016 £'000</b>
Reconciliation of the present value of the fully funded defined benefit obligation:		
Balance at the beginning of the year	184,565	146,878
Current service cost	-	282
Interest cost	4,460	5,266
Benefits paid	(3,600)	(4,615)
Actuarial (gains) and losses arising from changes in demographic assumptions	(3,643)	550
Actuarial (gains) and losses arising from changes in financial assumptions	5,651	43,331
Actuarial (gains) and losses arising from experience over the year	224	(4,659)
Transfer of schemes moving from 'in surplus' to 'in deficit' (see note 31)	-	(2,468)
	<u>187,657</u>	<u>184,565</u>
Balance at the end of the year		
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	278,296	223,294
Return on plan assets	(11,105)	53,047
Benefits paid	(4,312)	(5,046)
Employer contributions	708	954
Transfer of schemes moving from 'in surplus' to 'in deficit' (see note 31)	-	(1,991)
Interest income	6,729	8,038
	<u>270,316</u>	<u>278,296</u>
Balance at the end of the year		

***Amounts recognised in the statement of profit or loss and other comprehensive income***

The amounts recognised in the statement of profit or loss and other comprehensive income are as follows:

	<b>2017 £'000</b>	<b>2016 £'000</b>
Current service cost	-	282
Administration cost	711	431
Interest income	(2,269)	(2,772)
Total amount recognised in profit or loss	<u>(1,558)</u>	<u>(2,059)</u>
Return on plan assets	11,105	(53,047)
Actuarial (gains) and losses arising from changes in demographic assumptions	(3,643)	550
Actuarial (gains) and losses arising from changes in financial assumptions	5,651	43,331
Actuarial (gains) and losses arising from experience over the year	224	(4,659)
Total amount recognised in other comprehensive income	<u>13,337</u>	<u>(13,825)</u>

Benefit paid in the fair value of plan assets includes administration expenses related to non-asset management.

### **30. Non-current assets - Pension assets (continued)**

#### **Significant actuarial assumptions**

The significant actuarial assumptions used (expressed as weighted averages) were as follows:

- Average DBO discount rate: 2.63% (2016: 2.77%)
- Buy in policy discount rate: 2017 HPF rate is 2.58% (2016 HPF rate is 2.65%)
- Average discount rate used in 2017 net interest cost: 2.42% (2016: 3.60%)
- RPI inflation: 3.20% (2016: 3.20%)
- CPI inflation: 2.10% (2016: 2.10%)

The principal assumptions shown above are the same across all schemes for 2017. The Company has considered the full yield curve when deriving the financial assumptions and each future projected benefit cash flow has been discounted at the spot rate appropriate for that year. For the purpose of this disclosure, the discount rates quoted above are the single equivalent rates which provide the same result as applying the full yield curve.

#### *Mortality assumptions*

Where available, base tables are based on mortality analysis from the Aon Hewitt Longevity Model ("AHLM"), adjusting the S2PXA Light tables to take into account the AHLM best estimate analysis. Where AHLM analysis is not available, an assumption of 100% of the S1PXA table has been used. Allowance has been made for future improvements in line with Core CMI 2016 projection methodology with a 1.00% p.a. long term rate of improvements. At 31 December 2016, future improvements were based on CMI 2016\_proposed 2015 projection methodology and a long-term improvement rate of 1.25% p.a.

#### *Sensitivity analysis of the principal assumptions used to measure scheme liabilities*

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

The following sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. The retirement benefit obligation would increase/decrease by about 12% if the discount rate decreased/increased by 0.5% with all other assumptions remaining constant. It will also increase/decrease by about 10% if rate of inflation increased/decreased by 0.5% with all other assumptions remaining constant. It will also increase by about 4% if beneficiaries live one more year from retirement with all other assumptions remaining constant.

The Company estimates the duration of schemes' liabilities on average is approximately 25 years (2016: 24 years).



### **30. Non-current assets - Pension assets (continued)**

#### ***Risk exposure***

The Scheme exposes the Company to a number of risks, the most significant of which are:

**Asset Volatility** – the liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme's holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long term objectives.

**Changes in bond yields** – a decrease in corporate bond yields will increase the value placed on the schemes' liabilities for accounting purposes, although this will be partially offset by an increase in the value of the schemes' bond holdings.

**Inflation risk** – a significant proportion of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the scheme assets are linked to inflation.

**Life expectancy** – the majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The Company and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the pension scheme by investing in assets such as swaps which perform in line with the liabilities of the schemes so as to protect against inflation being higher than expected.

The Trustees insure certain benefits payable on death before retirement.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension ("GMP"). The UK Government intends to implement legislation which could result in an increase in the value of GMPs. This would increase the DBOs of the schemes. At this stage, it is not possible to quantify the impact of this potential change.

#### ***Relationship between the Company and the trustees (managers) of the defined benefit schemes***

The pension assets are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. The trustees of the schemes are required to act in the best interests of the schemes' beneficiaries. The appointment of trustees to the schemes is determined by the schemes' trust documentation.

#### ***Future funding obligations in relation to defined benefit schemes***

Following the most recent triennial actuarial valuations, the Company's ordinary contributions were agreed with the trustees of each scheme.

During the year the Company made contributions of £1,020k across all the schemes sponsored by the Company. As at 31 December 2017, the Company's best estimate of contributions to be made to all the schemes during 2018 is £928k.

### **31. Non-current liabilities - Pension liability**

#### ***Pension schemes***

In addition to the pension schemes disclosed in note 30, the Company has the following schemes that are in deficit at 31 December 2017:

- Babcock Scheme
- Aon Hewitt sections of the Industry Wide Coal Staff Superannuation Scheme ("Coal")

### **31. Non-current liabilities - Pension liability (continued)**

Defined benefit pension schemes define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit obligation ("DBO") includes benefits for current employees, former employees and current pensioners. The schemes are closed to new entrants but open to future accrual of benefits.

These schemes are funded, with scheme assets held under trust separate from the Company. The last completed funding valuation for Babcock was carried out with effective date of 31 December 2013. The last funding valuation was carried out for Coal with an effective date of 31 December 2015. The 31 December 2017 DBOs in the IAS 19 disclosures have been based on the membership data from these valuations. The present value of the DBOs is determined using the projected unit method.

Over the financial year to 31 December 2016 the Aon Hewitt section of the Coal Plan moved from 'in surplus' to 'in deficit' as noted in the DBO reconciliation.

#### ***Statement of financial position amounts***

The amounts recognised in the statement of financial position are determined as follows:

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Present value of the defined benefit obligation	6,719	3,830
Fair value of defined benefit plan assets	<u>(6,274)</u>	<u>(3,036)</u>
Net liability in the statement of financial position	<u>445</u>	<u>794</u>

#### ***Categories of plan assets***

The major categories of plan assets are as follows:

	<b>2017</b> <b>£'000</b>	<b>2016</b> <b>£'000</b>
Cash and cash equivalents	9	16
Equity instruments	782	1,523
Debt instruments	3,100	1,275
Property	267	102
Investment funds	1,401	-
Other assets	<u>715</u>	<u>120</u>
	<u>6,274</u>	<u>3,036</u>

	<b>2017</b> <b>%</b>	<b>2016</b> <b>%</b>
Cash and cash equivalents	0.2%	0.5%
Equity instruments	12.5%	50.2%
Debt instruments	49.4%	42.0%
Property	4.3%	3.4%
Investment funds	22.3%	-
Other assets	11.3%	3.9%

The trustees of each scheme are responsible for setting an investment strategy appropriate to that scheme after consulting the Company.

### 31. Non-current liabilities - Pension liability (continued)

#### Reconciliations

	2017 £'000	2016 £'000
Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	3,830	756
Current service cost	585	159
Interest cost	93	27
Past service cost	(195)	-
Benefits paid	(56)	(25)
Employee contributions	8	20
Transfer in of members from Aon UK section of Coal (2016: schemes moving from 'in surplus' to 'in deficit' - see note 30)	2,329	2,468
Actuarial (gains) and losses arising from changes in demographic assumptions	(119)	(49)
Actuarial (gains) and losses arising from changes in financial assumptions	198	468
Actuarial (gains) and losses arising from experience over the year	46	6
Balance at the end of the year	6,719	3,830
Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	3,036	746
Return on plan assets	289	179
Benefits paid	(62)	(58)
Employee contributions	8	20
Employer contributions	313	131
Transfer-in of members from Aon UK section of Coal (2016: Transfer of schemes moving from 'in surplus' to 'in deficit' - see note 30)	2,587	1,991
Interest income	103	27
Balance at the end of the year	6,274	3,036

#### Amounts recognised in the statement of profit or loss and other comprehensive income

The amounts recognised in the statement of profit or loss and other comprehensive income are as follows:

	2017 £'000	2016 £'000
Current service cost	585	159
Interest cost	(10)	-
Administration cost	7	33
Past service costs	(195)	-
Total amount recognised in profit or loss	387	192
Return on plan assets	(289)	(179)
Actuarial (gains) and losses arising from changes in demographic assumptions	(119)	(49)
Actuarial (gains) and losses arising from changes in financial assumptions	198	468
Actuarial (gains) and losses arising from experience over the year	(213)	6
Total amount recognised in other comprehensive income	(423)	246

### **31. Non-current liabilities - Pension liability (continued)**

Past service costs relates to the transfer of Babcock contracts, ceasing the link to future salary increases.

Actuarial gains and losses arising from experiences over the year includes a gain of £258,000 from transfer-outs of members from Aon UK sponsored section of Coal.

Benefit paid in the fair value of plan assets includes administration expenses related to non-asset management.

#### ***Significant actuarial assumptions***

See note 30.

#### ***Mortality assumptions***

See note 30.

#### ***Sensitivity analysis of the principal assumptions used to measure scheme liabilities***

See note 30.

#### ***Risk exposure***

See note 30.

#### ***Relationship between the Company and the trustees (managers) of the defined benefit schemes***

See note 30.

#### ***Future funding obligations in relation to defined benefit schemes***

See note 30.

### **32. Share-based payments**

Aon plc, the Company's ultimate parent company, has established various share based payment schemes for directors and employees of the Company.

There are various share based payment schemes for directors and employees of the Company. Since 2 April 2012, share based payments are now satisfied through Aon plc shares following the Group reorganisation which resulted in Aon plc replacing Aon Corporation as the listed ultimate parent company. All schemes are equity settled.

#### ***Leadership Performance Plans ("LPPs")***

The Leadership Performance Plan (LPP) is intended to reward senior executives for meeting or exceeding corporate-wide performance goals as measured by Earnings Per Share of the parent company. Vesting is contingent upon meeting various individual, divisional or company-wide performance goals, including revenue generation or growth in revenue, pre-tax income or earnings per share over a three year period. The performance conditions are not considered in the determination of the grant date fair value for these awards; it is based upon the market price of an Aon plc ordinary share at grant date.

The share-based compensation expense is recognised over the performance period based on management's estimate of the number of units expected to vest. It is adjusted to reflect actual numbers of shares issued at the end of the programme. The actual issue of shares may range from 0-200% of the target LPPs granted, based on the terms and level of achievement of these terms.

## **32. Share-based payments (continued)**

Weighted average fair value per share at grant date for the 2017 plan was £85.49; 2016 plan: £74.85; 2015 plan: £71.34. The number of LPPs granted for the 2017 plan was 7,596; 2016 plan: 8,177; 2015 plan: 19,968. The number of LPPs that would be issued based on current performance levels for the 2017 plan are 13,293; 2016 plan: 9,779; 2015 plan: 17,252.

### **Stock Options**

Options to purchase shares in the ultimate parent company are generally granted at 100% of market value on the date of grant. Generally, employees are required to complete two continuous years of service before the options begin to vest in increments until the completion of a four year period of continuous employment. However, beginning in 2004 a significant number of options were granted that required five continuous years of service before all options would vest. For all grants made prior to an amendment to the former stock option plan in 2000, employees were required to complete three continuous years of service before the options began to vest in increments until the completion of a six year period of continuous employment. The maximum contractual term on stock options is generally ten years from the date of grant.

The method of valuation for stock options and awards was the lattice-binomial option pricing model. Stock options are no longer granted.

The number of options outstanding as at 31 December 2017 was Nil (2016: 914).

### **Sharesave scheme**

The Aon UK Sharesave scheme was made available to all employees in the United Kingdom in 2013, 2014, 2015 2016 and 2017. Under the scheme, a specified amount is deducted from the participating employee's monthly salary for deposit into a savings account for a three year term. Participants are granted options at the beginning of the saving period to purchase the ultimate parent company shares at a price equal to 85% of the market value at the beginning of the saving period by utilising the accumulated amounts in their account. Vesting is contingent on continued employment.

The sharesave option grant price for the 2017 plan was £96.49; 2016 plan: £71.03; 2015 plan: £50.72; 2014 plan: £45.85; 2013 plan: £40.03. As at 31 December 2017, the outstanding sharesave options had a weighted average remaining contractual life of 1.92 years (2016: 1.92 years). As at 31 December 2017, sharesave options outstanding for the 2017 plan were 18,405 (2016: NIL); 2016 plan: 46,678 (2016: 52,136); 2015 plan: 19,441 (2016: 23,639); 2014 plan: 2,259 (2016: 14,001); 2013 plan: NIL (2016: 13,466). The aggregate of estimated fair value of these sharesave options outstanding was £7,255k (2016: £7,103k).

### **Restricted Stock Units ("RSUs")**

Stock awards, in the form of RSUs, were granted to certain directors and key employees of the Company. Prior to 2006, all RSUs granted to employees were service-based. Since 2006, certain performance-based RSUs were granted to senior executives and key employees, whose vesting is contingent upon meeting various individual, divisional or company-wide performance goals, including revenue generation or growth in revenue, pre-tax income or earnings per share over a one to five year period.

The weighted average share price for RSUs outstanding as at 31 December 2017 was £79.58 (2016: £65.23). The weighted average remaining contractual life of the outstanding RSUs as at 31 December 2017 was 1.52 years (2016: 1.45 years). In 2017, the number of RSUs granted was 66,071 (2016: 91,675). The number of RSUs outstanding as at 31 December 2017 was 191,077 (2016: 242,681). The aggregate estimated fair value of these outstanding RSUs was £15,206k (2016: £15,829k).

The share-based compensation cost for all schemes during the year to 31 December 2017 was £7,138k (2016: £7,365k).

**32. Share-based payments (continued)**

	2017 £'000	2016 £'000
<b>Share-based compensation cost</b>		
Leadership Performance Plans (LPPs)	1,280	1,363
Aon UK Sharesave scheme	604	675
Restricted Stock Units (RSUs)	5,254	5,327
	<u>7,138</u>	<u>7,365</u>
At 31 December		

**33. Equity - Share capital**

	2017 Shares	2016 Shares	2017 £'000	2016 £'000
Ordinary shares of £1.00 each	245,964,017	245,964,017	245,964	245,964

All shares are allotted, issued and fully paid. The Company has one class of ordinary shares.

**34. Equity - Capital contribution reserve**

	2017 £'000	2016 £'000
Capital contribution reserve	8,471	8,471

Capital Contribution reserve represents a gift received in the form of a contribution from the Company's parent entity.

**35. Equity - Reserves**

	2017 £'000	2016 £'000
Pension reserve	31,774	42,498

***Pension reserve***

The reserve is used to recognise the actuarial gains and losses on the retirement benefit obligation that are recognised outside of the Statement of profit or loss and other comprehensive income.

**36. Equity - Retained profits**

	2017 £'000	2016 £'000
Retained profits at the beginning of the financial year	39,810	132,866
Profit after income tax charge for the year	23,892	47,866
Dividends paid (note 37)	-	(140,361)
Amount in excess of SBP reserve recognised in Retained Profits	(5,564)	(561)
	<u>58,138</u>	<u>39,810</u>
Retained profits at the end of the financial year		

**37. Equity - Dividends paid**

Dividends paid during the financial year were as follows:

	2017 £'000	2016 £'000
No interim dividend was paid during the year ending 31 December 2017 (2016: £140,361k), to Aon Benfield Limited, the Company's parent.	-	140,361

**38. Operating lease commitments**

At 31 December 2017, the Company was committed to make the following payments under non-cancellable operating lease agreements in respect of land and buildings:

	2017 £'000	2016 £'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	2

**39. Guarantees**

The Company maintains multi-currency cash pools with third-party banks in which various Aon entities participate. As part of Aon plc's global banking arrangements, individual Aon entities are permitted to overdraw on their individual accounts provided the overall balance does not fall below zero. Under the terms of the cash pool arrangements, participants, such as the Company whose cash at bank balances at 31 December 2017 include cash pool deposits of £156,431k (2016: £100,209k), can become liable for any insolvent borrower's debt (limited to the level of the depositor's own credit balances with individual third party banks) via the pledge and set-off clauses in the arrangements. In such circumstances, Aon plc is contractually bound to indemnify the depositor for the amount paid by them to third party banks under the pledge and set-off arrangement.

**40. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**41. Controlling party**

At the end of the reporting period date the Company's immediate parent undertaking was Aon Benfield Limited, a company incorporated in the United Kingdom and registered in England & Wales.

The ultimate parent undertaking and controlling party is Aon plc, a company incorporated in the United Kingdom and registered in England and Wales.

The parent undertaking of the group which contains the Company, and for which group financial statements are prepared, is Aon plc, a company incorporated in the United Kingdom and registered in England and Wales.

Copies of the group financial statements of Aon plc are available from Companies House, Crown Way, Cardiff, CF14 3UZ and also from the Company Secretary, The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AN.