AON CORP
Form 10-K
March 01, 2007

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 1-7933

Aon Corporation

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	**36-3051915** (I.R.S. Employer Identification No.)
200 E. RANDOLPH STREET CHICAGO, ILLINOIS (Address of Principal Executive Offices)	**60601** (Zip Code)

(312) 381-1000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES o NO ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý   Accelerated filer o   Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $10,284,615,161 based on the closing sales price as reported on the New York Stock Exchange Composite Transaction Listing.

Number of shares of common stock outstanding as of January 31, 2007 was 298,375,565.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Aon Corporation's Proxy Statement for the 2007 Annual Meeting of Stockholders to be held on May 18, 2007 are incorporated by reference in this Form 10-K in response to Part III, Items 10, 11, 12, 13 and 14.

Explanatory Note Regarding Restatement Related to Stock Option Expense ("Explanatory Note.")

In accordance with guidance provided by the Staff of the Securities and Exchange Commission ("SEC") in January 2007, Aon Corporation ("Aon" or the "Company") is restating in this Annual Report on Form 10-K, its consolidated prior year financial statements arising from errors made in the measurement of equity compensation.

On February 8, 2007, the Company announced that incorrect measurement dates for certain stock options granted in 2000 and in certain years prior appeared to have been used for financial accounting purposes. The Company also announced that the Audit Committee of the Board of Directors had commenced a comprehensive review of option grant date practices and related accounting issues. That review has been substantially completed, and any further review is not expected to have a material effect.

As a result of this review, compensation expense for 2006 and 2005 was increased by $2 million and $3 million, respectively. Such amounts increase the compensation expense disclosed in our 2006 earnings release as furnished on Form 8-K on February 9, 2007. **As such, this filing, which includes the revised expense amounts, should be relied upon rather than the prior filing. Similarly, previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q have not been, and will not be, amended, and therefore should not be relied upon. We have concluded that the impact of corrected compensation expense is not material to any reporting period; however, the aggregate cumulative impact for the 1994 to 2005 period is considered sufficiently material to warrant restatement.**

Note 2, beginning on page 82 to our audited financial statements, reconciles previously filed annual financial information to the restated financial information on a line-by-line basis for the periods presented in the audited financial statements. All schedules and footnotes impacted indicate the restated amounts under the caption "Restated."

This Form also reflects:

- the restatement of "Selected Financial Data" in Item 6 for the years ended December 31, 2005, 2004, 2003 and 2002.
- Management's Discussion and Analysis based on the restated annual and quarterly financial information.
- restated quarterly financial data for 2005 to record the impact of these adjustments.
- restatement of certain notes to the audited financial statements.

Audit Committee Review

On February 9, 2007 the Audit Committee engaged a national law firm, which engaged a national public accounting firm (together, the "Audit Committee Team"), to perform an analysis of the Company's stock grant practices and related accounting for 1994 through 2006. The Audit Committee Team reviewed the available facts and circumstances surrounding stock option grants made during 1994-2006 within the review's scope. The Audit Committee Team spent thousands of person-hours searching more than one million physical and electronic documents and interviewed approximately 35 current and former directors, officers, employees, and advisors. Based upon this review, the Audit Committee Team, management and the Audit Committee determined that the Company's procedures relating to option grants caused incorrect measurement dates to be used for accounting purposes. The Audit Committee found that the practice of "delegated grants," as well as grants involving administrative errors, led to unrecognized compensation expense during the relevant period.

Based on its review, the Audit Committee found no misconduct by current or former management or directors. The review did reveal a limited number of instances in which options were granted as of a prior date, for example, to honor employment or other previously made contractual commitments. In these cases, however, no evidence was found that the selection of grant dates was motivated by pricing considerations.

Delegated Grants and Administrative Errors

Delegated Grants. Prior to 2001, the Organization and Compensation Committee of the Board of Directors authorized block grants of stock options that were to be allocated to the Company's operating units, and then further allocated to particular individuals. The final authority to award individual option awards to employees was delegated by the Committee to the Company's Chief Executive Officer, subject to the overall parameters set by the Committee. Concurrent with the authorization of the block grant, the Committee established a grant date, using either the date of the Committee meeting or by designating a specified future date. For purposes of establishing measurement dates for accounting purposes, the practice of using the grant date set by the Committee rather than the later dates at which the recipients and the number of options each recipient would receive was determined, resulted in incorrect measurement dates and, therefore, financial statement errors. The vast majority of option grants with incorrect measurement dates resulted from this practice of delegated grants.

Administrative Errors. Other accounting errors occurred when, for example, during the awarding process, oral communication of certain stock option grants occurred in connection with employment agreements or other circumstances, but documents evidencing the required approval were not processed until later. For purposes of establishing measurement dates for accounting purposes, the practice of using the communication date rather then the later date at which the required approval was documented resulted in incorrect measurement dates and, therefore, financial statement errors.

The block grant process for awarding options was substantially corrected after 2000. In addition, the Company has enhanced its internal controls over the stock option granting process and the determination of measurement dates. The Audit Committee Team examined grants made after 2000 and found only inconsequential accounting adjustments.

Cumulative Impact

Expense relating to options is amortized over the vesting period. As a result, the errors identified affected expense from 1994 to 2006. The cumulative impact of the delegated grants and other administrative delays from 1994 to 2006 amounted to $66 million, pretax.

The tax consequences of the incorrect measurement dates have also been computed and attributed to the years in which the errors arose.

Restatements Based on Additional Non-Cash Stock-Based Expense

As a result of the findings of the Audit Committee Team, the Company has recorded additional non-cash stock-based compensation expense and related tax effects with regard to past stock option grants, and the Company is restating that impact.

Options granted subsequent to January 1, 1994 were remeasured on a grant-by-grant basis. The additional compensation expense caused by the remeasured grants is reflected in the periods covered by the restatement.

Incremental Impact

Consistent with the accounting literature and SEC guidance, the grants during the relevant period were organized into categories based on grant type and process by which the grant date was determined. The Audit Committee Team analyzed the evidence related to each category of grants including, but not limited to, electronic and physical documents, document metadata, and interviews. Based on the relevant facts and circumstances, the Company applied the appropriate accounting standards to the best available evidence to determine, for every grant within each category, the proper measurement date. If the measurement date is not the originally assigned grant date, accounting adjustments were made as required, resulting in additional stock-based compensation expense and related tax effects.

The incremental impact from recognizing stock compensation expense is as follows (in millions):

Years ended December 31	Pretax Expense	After tax Expense
1994	$	$
1995		
1996		
1997	1	1
1998	2	1
1999	2	1
2000	8	5
2001	15	10
2002	15	10
2003	14	9
	57	37
2004	4	3
2005	3	2
2006	2	1
Total	$ 66	$ 43

All options granted in prior years were evaluated and, with respect to approximately 85% of the grants, revised measurement dates were derived based upon contemporaneous written evidence of approval. For the remainder, system entry date information was used to determine the measurement date. Absent better approval date information, the system entry date represented the latest date when the terms of the options to individual recipients were known with finality and provided a reasonable and reliable measurement date. Of the cumulative $43 million adjustment, approximately $7 million was attributable to use of the system entry date. Although the system entry date may have been subsequent to the actual approval date for some grants, based on the assessment of the processes in place and a sensitivity analysis of the potential price variance, the impact of any alternative revised measurement dates would be immaterial, cumulatively or in any restated period.

Refer to Note 2 to the audited financial statements, "Restatement of Consolidated Financial Statements", for the full impact of the restated periods on the financial statements and related footnotes in this document and previous periodic filings.

PART I

Item 1. Business.

OVERVIEW

Aon Corporation ("Aon") serves its clients through three operating segments via its various subsidiaries worldwide:

Risk and Insurance Brokerage Services acts as an advisor and insurance broker, helping clients manage their risks, as well as negotiating and placing insurance risk with insurance carriers through our global distribution network.

Consulting provides advice and services to clients for employee benefits, compensation, management consulting, communications, human resource outsourcing, strategic human resource consulting, and financial advisory and litigation consulting.

Insurance Underwriting provides specialty insurance products, including accident, health and life insurance. We have ceased writing property and casualty business and have placed our remaining lines of business into runoff.

Our clients include corporations and businesses, insurance companies, professional organizations, independent agents and brokers, governments, and other entities. We also serve individuals through personal lines, affinity groups, and certain specialty operations.

Incorporated in 1979, Aon is the parent corporation of long-established and more recently acquired companies. Aon has approximately 43,100 employees and does business in more than 120 countries and sovereignties.

SEGMENT OPERATIONS

Risk and Insurance Brokerage Services

The Risk and Insurance Brokerage Services segment generated approximately 63% of our total operating segment revenues in 2006. This is the largest of our operating segments, with approximately 28,900 employees worldwide. Risk and Insurance Brokerage and related services are provided by certain indirect subsidiaries, including Aon Risk Services Companies, Inc.; Aon Holdings International bv; Aon Re Global, Inc.; Aon Limited (U.K.); and Cananwill, Inc.

Subsegments

We measure our revenues in this segment using the following subsegments:

Risk Management and Insurance Brokerage encompasses our retail brokerage services, affinity products, managing general underwriting, placement, and captive management services and premium finance services for small, mid-sized, and large companies, including Fortune 500 corporations. The Americas' operations provide products and services to clients in North, Central and South America, the Caribbean, and Bermuda. Our United Kingdom; Europe, Middle East & Africa; and Asia Pacific operations offer similar products and services to clients throughout the rest of the world. Risk management services also include risk identification and assessment, safety engineering, claims and loss cost management, and program administration.

Retail brokerage has practice areas to deliver specialized advice and services in such industries as entertainment, media, financial institutions, marine, aviation, construction, healthcare and energy, among others.

As a retail broker, we generally serve as an advisor to corporate clients and can arrange a wide spectrum of risk management solutions, including property, general liability, professional and directors' and officers' liability, workers' compensation, and other exposures. We also provide affinity products for professional liability, life, disability income and personal lines for individuals, associations, and businesses.

Our managing general underwriting units offer a wide range of insurance products and programs which clients can access either directly, or through the Aon Specialty Product Network (ASPN), which we developed as a single-point-of-contact for agent and broker clients who need specialty insurance solutions for their customers.

We are also a major provider in managing captive insurance companies that enable our clients to manage risks that would be cost prohibitive or unavailable in traditional insurance markets.

Reinsurance Brokerage and Related Services offers sophisticated advisory services in program design and claim recoveries that enhance the risk/return characteristics of insurance policy portfolios, improve capital utilization, and evaluate and mitigate catastrophic loss exposures worldwide. An insurance or reinsurance company may seek reinsurance or other risk-transfer financing on all or a portion of the risks it insures. Our reinsurance brokerage services use dynamic financial analysis and capital market alternatives, such as transferring catastrophe risk through securitization.

Aon Re Global, Inc., its subsidiaries, and its affiliates provide reinsurance services to insurance and reinsurance companies and other risk assumption entities by acting as brokers or intermediaries on all classes of reinsurance. While our reinsurance activities are principally focused on property and casualty lines, these activities also include specialty lines such as professional liability, medical malpractice, accident, life and health. Services include advice, placement of reinsurance and alternative risk transfer financing with capital markets, and related services such as actuarial, financial and regulatory consulting, portfolio analysis, catastrophe modeling, and claims services.

Compensation for Services

We generate revenues through commissions, fees from clients, and compensation from insurance and reinsurance companies for services we provide to them.

Commission rates and fees vary depending upon several factors, which may include the amount of premium, the type of insurance or reinsurance coverage provided, the particular services provided to an insurer or reinsurer, and the capacity in which the Aon entity acts. We also receive investment income on funds held on behalf of clients and insurance carriers.

Competitive Conditions

We believe we are the largest insurance broker worldwide based on pure brokerage operations. The risk and insurance brokerage services business is highly competitive, and we compete with two other global brokers in addition to numerous specialist, regional and local firms in almost every area of our business; insurance and reinsurance companies that market and service their insurance products without the assistance of brokers or agents; and with other businesses, including commercial and investment banks, accounting firms, and consultants that provide risk-related services and products.

Consulting

The Consulting segment generated approximately 14% of our total operating segment revenues in 2006. This segment has approximately 6,200 employees worldwide with operations in the U.S., Canada, Europe, the Pacific region, and South Africa. Based on total revenues, we believe we are the world's third largest employee benefit consultant and the second largest in the U.S.

Subsegments

Through our Aon Consulting Worldwide, Inc. subsidiary ("Aon Consulting"), we provide a broad range of consulting services in two subsegments (Consulting Services and Outsourcing) that operate in seven practice areas:

Employee Benefits advises clients about structuring, funding, and administering employee benefit programs, which attract, retain, and motivate employees. Benefits consulting includes health and welfare, retirement, executive benefits, absence management, compliance, employee commitment, investment advisory, and elective benefits services.

Compensation focuses on designing salary, bonus, commission, stock option and other pay structures, with special expertise in the financial services and technology industries.

Management Consulting assists clients in process improvement and design; leadership, organization and human capital development; and change management.

Communications advises clients on how to communicate initiatives that support their corporate vision.

Strategic Human Resource Consulting advises complex global organizations on talent, change, and organization effectiveness issues, including assessment, selection performance management, succession planning, organization design, and related people-management programs.

Financial Advisory and Litigation Consulting provides consulting services including financial statement and white collar investigations, securities litigation, financial due diligence, financial valuation services, and other related specialties.

Human Resource Outsourcing offers employment processing, performance improvement, benefits administration, and other employment-related services.

Aon Consulting works to maximize the value of clients' human resources spending, increase employee productivity, and improve employee performance. Our approach addresses a trend toward more diverse workforces (demographics, nationalities, cultures and work/lifestyle preferences) that require more choices and flexibility among employers with benefit options suited to individual needs.

Our consulting professionals and their clients also identify options in human resource outsourcing and process improvement. Prime areas where companies choose to use outsourcing services include the assessment and selection of job candidates, employment processing, training and development, benefits administration, and the individual benefits enrollment process.

Compensation for Services

Aon Consulting revenues are principally derived from fees paid by clients for advice and services. In addition, commission revenue is received from insurance companies for placing individual and group insurance contracts, primarily life, health and accident coverages.

Competitive Conditions

Our consulting business faces strong competition from other worldwide and national consulting companies, as well as regional and local firms. Competitors include independent consulting firms and consulting organizations affiliated with accounting, information systems, technology, and financial services firms. Some of our competitors provide administrative or consulting services as an adjunct to other primary services.

Insurance Underwriting

Our insurance underwriting segment, with approximately 6,800 employees worldwide, has operations in the U.S., Canada, Europe, and Asia Pacific. This segment generated approximately 23% of Aon's total operating segment revenues in 2006.

Subsegments

We classify our insurance underwriting businesses into two subsegments: (1) accident & health and life and (2) property and casualty.

Accident & Health and Life

Our Combined Insurance Company of America and Combined Life Insurance Company of New York ("Combined") subsidiaries provide accident, health, and life insurance. We are a leading underwriter and distributor of specialty individual accident, disability, health, and life insurance products that are targeted to middle income consumers in the U.S., Europe, Canada, and Asia Pacific. Combined also provides coverage in the senior market through its Sterling Life Insurance subsidiary. Sterling provides coverage in the Medicare Advantage market. Distribution is to individuals through an exclusive agency sales force.

A worldwide sales force of approximately 7,000 exclusive career agents, of which approximately 3,800 are employees and 3,200 are international career agents who are considered independent contractors and are not our employees, service clients regularly to initiate and renew coverage and to sell additional coverage. We offer a wide range of accident and sickness insurance products, including short-term disability, critical conditions and cancer aid, Medicare products, hospital confinement/recovery, and long-term care coverage. Most of these products are primarily fixed-indemnity obligations and are not subject to escalating medical cost inflation.

Our Worksite Solutions program complements existing benefits packages offered by employers with no additional cost to a company. Individual employees choose among insurance product options and pay for them through payroll deductions.

Compensation for Services

Accident and health revenues are based on premiums paid by policyholders for insurance coverage and services.

Competitive Conditions

The accident and health insurance industry in the U.S. is highly diverse, with more than 1,500 accident and health and life insurance companies competing in various industry segments. We believe that competition in our accident & health and life business is based on service, product features, price, commission structure, financial strength, claims-paying ability ratings, and name recognition.

Property and Casualty

We have ceased writing property and casualty business. This subsegment is now composed entirely of runoff activity pertaining to various personal and commercial risks, such as:

- professional liability errors and omissions
- excess liability
- workers' compensation
- commercial property and casualty risk.

In this subsegment, we formerly included the results of our warranty and credit operations, as well as a portion of our specialty property and casualty business, Construction Program Group ("CPG"). We divested these businesses in November 2006, as discussed in Key Recent Events, and the results of those businesses and the sale transactions are included in discontinued operations.

Compensation for Services

Insurance revenues are based on premiums paid by policyholders. Certain other revenues are based on fees paid by clients for administrative and other services.

Disposal of Operations

The Registrant hereby incorporates by reference Note 6, "Disposal of Operations," of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

Licensing and Regulation

Regulatory authorities in the states or countries in which the operating subsidiaries of our Risk and Insurance Brokerage Services segment conduct business may require individual or company licensing to act as brokers, agents, third party administrators, managing general agents, reinsurance intermediaries, or adjusters.

Under the laws of most states in the U.S. and most foreign countries, regulatory authorities have relatively broad discretion with respect to granting, renewing and revoking brokers' and agents' licenses to transact business in the state or country. The terms of operating may vary according to the licensing requirements of the particular state or country, which may require, among other things, that a firm operate in the state or country through a local corporation. In a few states and countries, licenses are issued only to individual residents or locally owned business entities. In such cases, our subsidiaries have arrangements with residents or business entities licensed to act in the state or country.

Our subsidiaries must comply with laws and regulations of the jurisdictions in which they do business. These laws and regulations are:

- designed to ensure financial solvency of insurance companies and to require fair and adequate service and treatment for policyholders

- enforced by the states in the U.S., by the Financial Services Authority ("FSA") in the U.K., and by various regulatory agencies in other countries through the granting and revoking of licenses to do business, licensing of agents, monitoring of trade practices, policy form approval, minimum loss ratio requirements, limits on premium and commission rates, and minimum reserve and capital requirements. State insurance departments monitor compliance through periodic regulatory reporting procedures and periodic examinations.

Our quarterly and annual financial reports to regulators in the U.S. use statutory accounting principles, which differ from U.S. generally accepted accounting principles ("GAAP"). Statutory accounting principles, which are intended to protect policyholders, are based, in general, on a liquidation concept, while U.S. GAAP are based on a going-concern concept.

State insurance regulators are members of the National Association of Insurance Commissioners ("NAIC"). The NAIC:

- promotes uniformity of, and enhances, the state regulation of insurance.

- focuses on the solvency of insurance companies and their conduct in the marketplace, as do the individual states. This focus is reflected in efforts to promote solvency by providing additional regulatory oversight by the states and by enacting or adopting additional NAIC model laws and regulations.

The NAIC has a formula for analyzing insurers called risk-based capital ("RBC"). RBC establishes "minimum" capital threshold levels that vary with the size and mix of a company's business. This formula is designed to identify companies with capital levels that may require regulatory attention.

State insurance holding company laws require prior notice to, and approval of, the domestic state insurance department of intracorporate transfers of assets within the holding company structure, including the payment of dividends by insurance company subsidiaries. In addition, premium finance loans by Cananwill, our indirect wholly owned subsidiary, are subject to one or more truth-in-lending and credit regulations, insurance premium finance acts, retail installment sales acts, and other similar consumer protection legislation. Failure to comply with such laws or regulations can result in the temporary suspension or permanent loss of the right to engage in business in a particular jurisdiction as well as other penalties.

Beginning in January 2005, our principal subsidiary in the U.K., Aon Limited, must be, and is, authorized by the FSA. Previously, Aon Limited was a member of a self-regulatory body. FSA oversight was introduced following the European Union Insurance Mediation Directive, which:

- set minimum standards for those involved in advising on, arranging, administering, or introducing contracts of insurance.
- includes rules governing handling funds held on behalf of clients that affect all brokers operating in the London market.

This regulation required significant operational changes, such as enhanced disclosures, particularly in connection with retail (private and non-commercial) customers. FSA regulations also include rules regarding the handling of funds held on behalf of clients that affect all brokers operating in the London market. As other member states of the European Union ("EU") adopt regulations to comply with the Directive, our operations in the EU have become or will become subject to enhanced regulatory requirements.

Clientele

No significant part of our business is dependent upon a single client or on a few clients. The loss of any one client would not have a material adverse effect on us or our operating segments.

Employees

At December 31, 2006, our operating subsidiaries had approximately 43,100 employees, of whom approximately 39,300 are salaried and hourly employees and the remaining 3,800 are career agents who are generally compensated wholly or primarily by commission. In addition, there were approximately 3,200 international career agents who are considered independent contractors and are not our employees. Of the total number of employees, approximately 18,000 work in the U.S.

Information Concerning Forward-Looking Statements

This report contains certain statements related to future results, or states our intentions, beliefs and expectations or predictions for the future which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Potential factors that could impact results include: general economic conditions in different countries in which we do business around the world, changes in global equity and fixed income markets that could affect the return on invested assets, fluctuations in exchange and interest rates that could influence revenue and expense, rating agency actions that could affect our ability to borrow funds, funding of our various pension plans, changes in the competitive environment, our ability to implement restructuring initiatives and other initiatives intended to yield cost savings, our ability to execute the stock repurchase program, our ability to obtain regulatory or legislative changes to permit continuous sales of our supplemental Medicare health product, changes in commercial property and casualty markets and commercial premium rates that could impact revenues, changes in revenues and earnings due to the elimination of contingent commissions, other uncertainties surrounding a new compensation model, the impact of investigations brought by state attorneys general, state insurance regulators, federal prosecutors and federal regulators, the impact of class actions and individual lawsuits including client class actions, securities class actions, derivative actions and ERISA class actions, the impact of the analyses of practices relating to stock options, the cost of resolution of other contingent liabilities and loss contingencies, the difference in ultimate paid claims in our underwriting companies from actuarial estimates and other factors disclosed under "Risk Factors" in Item 1A, below.

Website Access to Reports and Other Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available free of charge through our website (http://www.aon.com) as soon as practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Also posted on our website and available in print upon request, are the charters for our Audit, Compliance, Organization and Compensation, Governance/Nominating and Investment Committees; our Governance Guidelines, our Code of Ethics and our Code of Ethics for Senior Financial Officers. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to or waiver of the Code of Ethics for Senior Financial Officers, as well as any amendment to the Code of Ethics or waiver thereto applicable to any executive officer or director. The information provided on our website is not part of this report and is therefore not incorporated herein by reference.

Item 1A. Risk Factors.

The following are risks related to our business and the insurance industry.

Our results may fluctuate due to many factors, including cyclical or permanent changes in the insurance and reinsurance industries.

Our results historically have been subject to significant fluctuations arising from uncertainties and changes in the insurance industry. Changes in premium rates affect not only the potential profitability of our underwriting businesses but also generally affect the commissions and fees payable to our brokerage businesses. In addition, insurance industry developments that can significantly affect our financial performance include factors such as:

- rising levels of actual costs that are not known by companies at the time they price their products
- volatile and unpredictable developments, including weather-related and other natural and man-made catastrophes, including acts of terrorism
- changes in levels of capacity and demand, including reinsurance capacity
- changes in reserves resulting from the general claims and legal environments as different types of claims arise and judicial interpretations relating to the scope of insurers' liabilities develop
- changes in business practices and business compensation models.

Our results may be adversely affected by changes in the mode of compensation in the insurance industry.

Since the Attorney General of New York brought charges against one of our competitors in October 2004, there has been a great deal of uncertainty concerning then-longstanding methods of compensating insurance brokers. Soon after the Attorney General brought those charges, Aon and certain other large insurance brokers announced that they would terminate contingent commission arrangements with underwriters. Most insurance brokers, however, currently continue to enter into such arrangements, regulators have not taken action to end such arrangements throughout the industry, and thus it is unclear at this time whether other brokers will continue to accept contingent commissions. Because of this uncertainty, there is no assurance that we will be able to compete successfully against brokers who have not terminated contingent commission arrangements.

We face significant competitive pressures in each of our businesses.

We believe that competition in our lines of business is based on service, product features, price, commission structure, financial strength, claims-paying ability ratings and name recognition. In particular, we compete with a large number of national, regional and local insurance companies and other financial services providers and brokers.

Some of our underwriting competitors have penetrated more markets and offer a more extensive portfolio of products and services and have more competitive pricing than we do, which can adversely affect our ability to compete for business. Some underwriters also have higher claims-paying ability ratings and greater financial resources with which to compete and are subject to less government regulation than our underwriting operations.

We encounter strong competition for both clients and professional talent in our insurance brokerage and risk management services operations from other insurance brokerage firms which also operate on a nationwide or worldwide basis, from a large number of regional and local firms throughout the world, from insurance and reinsurance companies that market and service their insurance products without the assistance of brokers or agents and from other businesses, including commercial and investment banks, accounting firms and consultants that provide risk-related services and products. Our consulting operations compete with independent consulting firms and consulting organizations affiliated with accounting, information systems, technology and financial services firms around the world.

In addition, the increase in competition due to new legislative or industry developments could adversely affect us. These developments include:

- an increase in capital-raising by insurance underwriting companies, which could result in new entrants to our markets and an influx of capital into the industry
- the selling of insurance by insurance companies directly to insureds
- changes in our business compensation model as a result of regulatory investigations
- the establishment of programs in which state-sponsored entities provide property insurance in catastrophe prone areas or other alternative markets types of coverage
- additional regulations promulgated by the FSA in the U.K., or other regulatory bodies in jurisdictions in which we operate.

New competition as a result of these developments could cause the supply of, and demand for, our products and services to change, which could adversely affect our results of operations and financial condition.

We may not realize all of the expected benefits from our 2005 restructuring plan.

In third quarter 2005, we announced that we were reviewing the revenue potential and cost structure of each of our businesses. As a result of this review, we have adopted restructuring initiatives that are expected to result in the elimination of approximately 3,600 employee positions, the closing of various offices, asset impairments and other expenses necessary to implement these initiatives. We currently expect that the restructuring plan will result in cumulative pretax charges of $365 million. The objective of the restructuring and other business reorganization initiatives is to improve our profitability through operational efficiency. We anticipate that our annualized savings will be approximately $280 million by 2008. We cannot assure that we will achieve the targeted savings.

A decline in the financial strength or claims-paying ability ratings of our insurance underwriting subsidiaries may increase policy cancellations and negatively impact new sales of insurance products.

Financial strength and claims-paying ability ratings have become increasingly important factors in establishing the competitive position of insurance companies. These ratings are based upon criteria established by the rating agencies for the purpose of rendering an opinion as to an insurance company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. They are not evaluations directed toward the protection of investors, nor are they recommendations to buy, sell or hold specific securities. Periodically, the rating agencies evaluate our insurance underwriting subsidiaries to confirm that they continue to meet the criteria of the ratings previously assigned to them. A downgrade, or the potential for a downgrade, of these ratings could, among other things, increase the number of policy cancellations, adversely affect relationships with brokers, retailers and other distributors of our products and services, negatively impact new sales and adversely affect our ability to compete.

Combined Insurance Company of America, the principal insurance subsidiary that underwrites our specialty accident and health insurance business, is currently rated "A" (excellent; third highest of 16 rating levels) by A.M. Best Company, "A-" (strong; third highest of nine rating levels) for financial strength by S&P and "A3" (good; third highest of nine rating levels) for financial strength by Moody's Investors Service. We cannot assure that one or more of the rating agencies will not downgrade or withdraw their financial strength or claims-paying ability ratings in the future.

Changes in interest rates and investment prices could reduce the value of our investment portfolio and adversely affect our financial condition or results.

Our insurance underwriting subsidiaries own a substantial investment portfolio of fixed-maturity and equity and other long-term investments. As of December 31, 2006, our fixed-maturity investments (approximately 100% was investment grade) had a carrying value of $2.8 billion, our equity investments had a carrying value of $62 million and our other long-term investments and limited partnerships had a carrying value of $344 million. Funds held on behalf of clients, which were $2.9 billion at December 31, 2006, are held in short-term investments. Changes in interest rates and investment prices could reduce the value of our investment portfolio and adversely affect our financial condition or results.

For example, changes in domestic and international interest rates directly affect our income from, and the market value of, fixed-maturity investments. Similarly, general economic conditions, stock market conditions and other factors beyond our control affect the value of our equity investments. We monitor our portfolio for other-than-temporary impairments in carrying value. For securities judged to have an other-than-temporary impairment, we recognize a realized loss through the statement of income to write down the value of those securities.

In 2006, we recognized impairment losses of $2 million. We cannot assure that we will not have to recognize additional impairment losses in the future, which would negatively affect our financial results.

In 2001, our two major insurance companies sold the vast majority of their limited partnership portfolio, valued at $450 million, to Private Equity Partnership Structures I, LLC (PEPS I) a qualifying special purpose entity (QSPE). The common stock interest in PEPS I is held by a limited liability company which is owned by one of our subsidiaries (49%) and by a charitable trust, which is not controlled by us, established for victims of the September 11, 2001 attacks (51%). Approximately $171 million of investment grade fixed-maturity securities were sold by PEPS I to unaffiliated third parties. PEPS I then paid our insurance underwriting companies the $171 million in cash and issued to them an additional $279 million in fixed-maturity and preferred stock securities. The fixed-maturity securities our insurance underwriting companies received from PEPS I are rated as investment grade by S&P.

As part of this transaction, Aon is required to purchase from PEPS I additional fixed-maturity securities in an amount equal to the unfunded limited partnership commitments, as they are requested. As of December 31, 2006, these unfunded commitments amounted to $46 million.

Although the PEPS I transaction has reduced the reported earnings volatility historically associated with directly owning limited partnership investments, it will not eliminate our risk of future losses. For instance, we must analyze our preferred stock and fixed-maturity interests in PEPS I for other-than-temporary impairment, based on the valuation of the limited partnership interests held by PEPS I and recognize an impairment loss if necessary. We cannot assure that we will not have to recognize impairment losses with respect to our PEPS I interests in the future.

Our net pension liabilities may grow, which could adversely affect our stockholders' equity, net income, cash flow and liquidity and require us to make additional cash contributions to our pension plans.

To the extent that the present value of the benefits incurred to date for pension obligations in the major countries in which we operate continue to exceed the market value of the assets supporting these obligations, our financial position and results of operations may be adversely affected. In certain previous years, there have been declines in interest rates. As a result of lower interest rates, the present value of plan liabilities increased faster than the present value of plan assets, resulting in significantly higher unfunded positions in several of our major pension plans.

Cash contributions of approximately $233 million will be required in 2007 for our major pension plans, although we may elect to contribute more. Total cash contributions to these major defined benefit pension plans in 2006 were $185 million. We also contributed $166 million of non-cash financial instruments to certain of our U.K. plans. Our total contribution, $351 million, was a decrease of $112 million from 2005. Future estimates are based on certain assumptions, including discount rates, interest rates, fair value of assets for some of our plans and expected return on plan assets. We are currently taking actions to manage our pension liabilities, including closing certain plans to new participants. In November 2006, we announced proposed changes to our U.S. and U.K. defined benefit pension plans. Changes to the plans will not affect pension plan benefits earned by participants prior to the effective date of the changes. Effective January 1, 2007, future benefits in the Company's U.S. defined benefit pension plan will be calculated based on a "career average pay" formula instead of a "final average pay" formula. For our U.K. defined benefit pension plans, the Company is proposing, subject to trustee approval and member consultation, to cease crediting future benefits relating to salary and service.

In addition to the critical assumptions described above, all plans use certain assumptions about the life expectancy of plan participants and surviving spouses. Periodic revision of those assumptions can materially change the present value of future benefits, and therefore the funded status of the plans and the resulting periodic pension expense. Changes in our pension benefit obligations and the related net periodic costs or credits may occur in the future due to any variance of actual results from our assumptions and changes in the number of participating employees. As a result, there can be no assurance that we will not experience future decreases in stockholders' equity, net income, cash flow and liquidity or that we will not be required to make additional cash contributions in the future beyond those which have been estimated.

We are subject to a number of contingencies and legal proceedings which, if determined unfavorably to us, would adversely affect our financial results.

We are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. It is possible that, if the outcomes of these contingencies and legal proceedings were not favorable to us, it could materially adversely affect our future financial results. In addition, our results of operations, financial condition or liquidity may be adversely affected if in the future our insurance coverage proves to be inadequate or unavailable or there is an increase in liabilities for which we self-insure. Aon has purchased errors and omissions ("E&O") insurance and other insurance to provide protection against losses that arise in such matters. Accruals for these items, net of insurance receivables, when applicable, have been provided 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.

In 2004, Aon, other insurance brokers, insurers and numerous other industry participants received subpoenas and other requests for information from the office of the Attorney General of the State of New York and from other states relating to certain practices in the insurance industry.

On March 4, 2005, Aon entered into an agreement (the "Settlement Agreement") with the Attorney General of the State of New York, the Superintendent of Insurance of the State of New York, the Attorney General of the State of Connecticut, the Illinois Attorney General and the Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation (collectively, the "State Agencies") to resolve all the issues related to investigations conducted by the State Agencies.

As has been described in detail in Aon's previous financial filings, the Settlement Agreement required Aon to pay between 2005-2007 a total of $190 million into a fund (the "Fund") to be distributed to certain Eligible Policyholder clients and to implement certain business reforms. The Settlement Agreement set forth the procedures under which Aon mailed notices to its Eligible Policyholder clients and distributed the Fund to Participating Policyholder clients.

Purported clients have also filed civil litigation against Aon and other companies under a variety of laws and legal theories relating to broker compensation practices and other issues under investigation by New York and other states. As previously reported, a putative class action styled *Daniel v. Aon (Affinity)* has been pending in the Circuit Court of Cook County, Illinois since August 1999. In March 2005, the Court gave preliminary approval to a nationwide class action settlement under which Aon agreed to pay a total of $38 million to its policyholders. The Court granted final approval to the settlement in March 2006. Parties that objected to the settlement have appealed.

Beginning in June 2004, a number of other putative class actions were filed against Aon and other companies by purported classes of clients under a variety of legal theories, including state tort, contract, fiduciary duty, antitrust and statutory theories and federal antitrust and Racketeer Influenced and Corrupt Organizations Act theories. These actions are currently pending in state court in California and in federal court in New Jersey. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

Beginning in late October 2004, several putative securities class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Also beginning in late October 2004, several putative ERISA class actions were filed against Aon in the U.S. District Court for the Northern District of Illinois. Aon believes it has meritorious defenses in all of these cases and intends to vigorously defend itself against these claims. The outcome of these lawsuits, and any losses or other payments that may occur as a result, cannot be predicted at this time.

With respect to the various class actions that have been filed, we are unable to estimate a range of possible losses, as these actions have not yet progressed to the stages where damages can be estimated.

In February 2006, Lloyds announced that it had brought suit in London against Benfield and a subsidiary of Aon to recover alleged losses relating to these brokers' placement of insurance for Lloyds's New Central Fund. Lloyds alleges that its brokers did not fairly present the risk to reinsurers and thus the brokers should be held liable for reinsurers' failure to pay Lloyds an amount that Lloyds claims is approximately £325 million ($639 million based on December 31, 2006 exchange rate). Aon disputes Lloyds's allegations, believes that it has meritorious defenses and intends to vigorously defend itself against Lloyds's claims. Possible losses in this action range from zero, if Aon prevails, to the £325 million Lloyds claims.

Although the ultimate outcome of all matters referred to above cannot be ascertained, and liabilities in indeterminate amounts may be imposed on Aon or its subsidiaries, on the basis of present information, amounts already provided, availability of insurance coverages and legal advice received, it is the opinion of management that the disposition or ultimate determination of such claims will not have a material adverse effect on the consolidated financial position of Aon. However, it is possible that future results of operations or cash flows for any particular quarterly or annual period could be materially affected by an unfavorable resolution of these matters.

We are subject to increasing costs arising from E&O claims against us.

In our insurance brokerage and consulting businesses, we often assist our clients with matters which include the placement of insurance coverage or employee benefit plans and the handling of related claims. E&O claims against us may allege our potential liability for all or part of the amounts in question. E&O claims could include, for example, the failure of our employees or sub-agents, whether negligently or intentionally, to place coverage correctly or notify carriers of claims on behalf of clients or to provide insurance carriers with complete and accurate information relating to the risks being insured. 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, E&O claims may harm our reputation or divert management resources away from operating our business.

Our success depends, in part, on our ability to attract and retain experienced and qualified personnel.

Our future success depends on our ability to attract and retain experienced personnel, including underwriters, brokers and other professional personnel. Competition for such experienced professional personnel is intense. If we cannot hire and retain talented personnel, our business, operating results and financial condition could be adversely affected.

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

Our businesses are subject to extensive federal, state and foreign governmental regulation and supervision, which could reduce our profitability or limit our growth by increasing the costs of regulatory compliance, limiting or restricting the products or services we sell or the methods by which we sell our products and services or subjecting our businesses to the possibility of regulatory actions or proceedings. With respect to our insurance brokerage businesses, this supervision generally includes the licensing of insurance brokers and agents and third-party administrators and the regulation of the handling and investment of client funds held in a fiduciary capacity. Our continuing ability to provide insurance brokering and third-party administration in the jurisdictions in which we currently operate depends on our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these jurisdictions. Also, we can be affected indirectly by the governmental regulation and supervision of other insurance companies. For instance, if we are providing managing general underwriting services for an insurer, we may have to contend with regulations affecting our client. Further, regulation affecting the insurance companies with whom our brokers place business can affect how we conduct those operations.

Most insurance regulations are designed to protect the interests of policyholders rather than stockholders and other investors. In the U.S., this system of regulation, generally administered by a department of insurance in each state in which we do business, affects the way we can conduct our insurance underwriting business. Furthermore, state insurance departments conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to the financial condition of insurance companies, holding company issues and other matters.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including employee benefit plan regulation, age, race, disability and sex discrimination, investment company regulation, financial services regulation, securities laws and federal taxation, do affect the insurance industry generally and our insurance underwriting subsidiaries in particular. One of our subsidiaries, Sterling Life Insurance Company, provides individual health care coverage to seniors in the United States. Sterling's ability to enroll people into its health plans, and the terms and conditions of these plans, are subject to federal laws and various regulations promulgated by the Department of Health and Human Services. Prior to July 2006, Sterling was authorized to market all of its products year-round, but that authorization was due to expire. Federal legislation that passed in late 2006 extended year-round enrollment (through 2008) for certain health plans like those marketed by Sterling. To the extent this area of federal law is ever changed further, including by repeal of existing law or modifications of the rules for plan terms and enrollment, Sterling's opportunities for growth may be adversely impacted.

With respect to our international operations, we are subject to various regulations relating to, among other things, licensing, currency, policy language and terms, reserves and the amount of local investment. These various regulations also add to our cost of doing business through increased compliance expenses, the financial impact of use of capital restrictions and increased training and employee expenses. Furthermore, the loss of a license in a particular jurisdiction could restrict or eliminate our ability to conduct business in that jurisdiction.

In all jurisdictions the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, we may be precluded or temporarily suspended from carrying on some or all of our activities or otherwise fined or penalized in a given jurisdiction. No assurances can be given that our businesses can continue to be conducted in any given jurisdiction as they have been in the past.

Our significant global operations expose us to various international risks that could adversely affect our business.

A significant portion of our operations are conducted outside the U.S. Accordingly, we are subject to legal, economic and market risks associated with operating in foreign countries, including:

- the general economic and political conditions existing in those countries
- imposition of limitations on conversion of foreign currencies or remittance of dividends and other payments by foreign subsidiaries
- imposition or increase of withholding and other taxes on remittances and other payments by subsidiaries
- hyperinflation in certain foreign countries
- imposition or increase of investment and other restrictions by foreign governments
- longer payment cycles
- greater difficulties in accounts receivables collection
- the requirement of complying with a wide variety of foreign laws.

Some of our foreign brokerage subsidiaries receive revenues in currencies that differ from their functional currencies. We must also translate the financial results of our foreign subsidiaries into U.S. dollars. Although we use various derivative financial instruments to help protect against adverse transaction and translation effects due to exchange rate fluctuations, we cannot eliminate such risks and significant changes in exchange rates may adversely affect our results.

Our financial results could be adversely affected if assumptions used in establishing our underwriting reserves differ from actual experience.

We maintain reserves as an estimate of our liability under insurance policies issued by our insurance underwriting subsidiaries. The reserves that we maintain that could cause variability in our financial results consist of (1) unearned premium reserves, (2) policy and contract claim reserves and (3) future policy benefit reserves. Unearned premium reserves generally reflect our liability to return premiums we have collected under policies in the event of the lapse or cancellation of those policies. Under U.S. GAAP, premiums we have collected generally become "earned" over the life of a policy by means of a reduction in the amount of the unearned premium reserve associated with the policy.

Policy and contract claim reserves reflect our estimated liability for unpaid claims and claims adjustment expenses, including legal and other fees and general expenses for administering the claims adjustment process and for reported and unreported losses incurred as of the end of each accounting period. If the reserves originally established for future claims prove inadequate, we would be required to increase our liabilities, which could have an adverse effect on our business, results of operations and financial condition.

The obligation for policy and contract claims does not represent an exact calculation of liability. Rather, reserves represent our best estimate of what we expect the ultimate settlement and administration of claims will cost. These estimates represent informed judgments based on our assessment of currently available data, as well as estimates of future trends in claims severity, frequency, judicial theories of liability and other factors. Many of these factors are not quantifiable in advance and both internal and external events, such as changes in claims handling procedures, inflation, judicial and legal developments and legislative changes, can cause our estimates to vary. The inherent uncertainty of estimating reserves is greater for certain types of liabilities, where the variables affecting these types of claims are subject to change and long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are periodically refined as experience develops and further losses are reported and settled. Adjustments to reserves are reflected in the results of the periods in which such estimates are changed. Because setting the level of reserves for policy and contract claims is inherently uncertain, we cannot assure that our current reserves will prove adequate in light of subsequent events.

Future policy benefit reserves generally reflect our liability to provide future life insurance benefits and future accident and health insurance benefits on guaranteed renewable and non-cancelable policies. Future policy benefit reserves on accident & health and life products have been provided on the net level premium method. These reserves are calculated based on assumptions as to investment yield, mortality, morbidity and withdrawal rates that were determined at the date of issue and provide for possible adverse deviations.

Each of our business lines may be adversely affected by an overall decline in economic activity.

The demand for property and casualty insurance generally rises as the overall level of economic activity increases and generally falls as such activity decreases, affecting both the commissions and fees generated by our brokerage and consulting businesses and the premiums generated by our underwriting businesses. In particular, a growing number of insolvencies associated with an economic downturn, especially insolvencies in the insurance industry, could adversely affect our brokerage business through the loss of clients or by hampering our ability to place insurance and reinsurance business. Moreover, the results of our consulting business are generally affected by the level of business activity of our clients, which in turn is affected by the level of economic activity in the industries and markets these clients serve. As our clients become adversely affected by declining business conditions, they may choose to delay or forgo consulting engagements with us.

We have debt outstanding that could adversely affect our financial flexibility.

As of December 31, 2006, we had total consolidated debt outstanding of approximately $2.3 billion. This amount of debt outstanding could adversely affect our financial flexibility.

A decline in the credit ratings of our senior debt and commercial paper may adversely affect our borrowing costs and financial flexibility.

A downgrade in the credit ratings of our senior debt and commercial paper would increase our borrowing costs and reduce our financial flexibility. In addition, certain downgrades may trigger obligations of our company to fund certain amounts with respect to our premium finance securitizations. Similarly, a downgrade would increase our commercial paper interest rates or may result in our inability to access the commercial paper market altogether. We cannot assume that our financial position would not be adversely affected if we are unable to access the commercial paper market. A downgrade in the credit ratings of our senior debt may also adversely affect the claims-paying ability or financial strength ratings of our insurance company subsidiaries. See "A decline in the financial strength or claims-paying ability ratings of our insurance underwriting subsidiaries may increase policy cancellations and negatively impact new sales of insurance products" above.

Recent and proposed accounting rule changes could negatively affect our financial position and results.

From time to time, the Financial Accounting Standards Board ("FASB") considers accounting rule changes. Whether these proposals will become final rules are uncertain, as is their final content. However, if enacted, these proposals could negatively affect our financial position and results of operations.

We are a holding company and, therefore, may not be able to receive dividends in needed amounts from our subsidiaries.

Our principal assets are the shares of capital stock of our subsidiaries, including our insurance underwriting companies. We have to rely on dividends from these subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations and for paying dividends to stockholders and corporate expenses. Payments from our underwriting subsidiaries are limited by governmental regulation and depend on the surplus and future earnings of these subsidiaries. In some circumstances, specific payments from our insurance underwriting subsidiaries may require prior regulatory approval and we may not be able to receive dividends from these subsidiaries at times and in the amounts we anticipate or require.

We cannot guarantee that our underwriting subsidiaries' reinsurers or reinsurers of our property and casualty business will pay in a timely fashion, if at all.

To better manage our portfolio of underwriting risk, we purchase reinsurance thereby transferring part of the risk that we assume (known as ceding) to a reinsurance company in exchange for part of the premium that we receive in connection with the risk. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred (or ceded) to the reinsurer, it does not relieve us of our liability to our policyholders. Accordingly, we bear credit risk with respect to our reinsurers. Recently, due to industry and general economic conditions, there is an increasing risk of insolvency among reinsurance companies, resulting in a greater incidence of litigation and affecting the recoverability of claims. We cannot assure that our reinsurers will pay the reinsurance recoverables owed to us or that they will pay these recoverables on a timely basis.

In connection with the sale of Aon Warranty Group ("AWG") on November 30, 2006, Aon sold the capital stock of Virginia Surety Company, Inc. ("VSC"). Because VSC issued property and casualty policies, VSC continues to remain liable to property and casualty policyholders. However, pursuant to contractual arrangements entered into as part of the sale of AWG, we have agreed to indemnify the buyer of VSC for all obligations arising out of the property and casualty business, including any failure by reinsurers to meet their obligations with respect to the property and casualty business. We have also agreed to guaranty amounts owed by reinsurers in respect of CPG business issued prior to the closing of that transaction. If reinsurers fail to pay the reinsurance recoverables owed to VSC with respect to the property and casualty business (including with respect to CPG business) or do not pay on a timely basis, we will be responsible for these amounts.

The volume of premiums we write and our profitability are affected by the availability of reinsurance and the size and adequacy of our insurance company subsidiaries' capital base.

The level of business that our insurance underwriting subsidiaries are able to write depends on the size and adequacy of their capital base. Many state insurance laws to which they are subject impose risk-based capital requirements for purposes of regulating insurer solvency. Insurers having less statutory surplus than that required by the risk-based capital model formula generally are subject to varying degrees of regulatory scrutiny and intervention depending on the level of capital inadequacy. As of December 31, 2006, each of our insurance company subsidiaries substantially exceeded NAIC risk-based statutory surplus requirements.

We purchase reinsurance for certain of the risks underwritten by our insurance company subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase, which may affect the level of business we are able to write and our profitability. We cannot assure that we will be able to maintain our current reinsurance facilities or that we can obtain other reinsurance facilities in adequate amounts and at favorable rates. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase or, if we are unwilling to bear an increase in net exposures, we would have to reduce the level of our underwriting commitments. Either of these potential developments could adversely affect our underwriting business.

In connection with the implementation of our corporate strategy, we face certain risks associated with the acquisition or disposition of businesses.

In pursuing our corporate strategy, we may 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 favorable terms and ultimately complete such transactions. If acquisitions are made, there can be no assurance that we will realize the anticipated benefits of such acquisitions, including revenue growth, operational efficiencies or expected synergies. In addition, we may not be able to integrate acquisitions successfully into our existing business, and we could incur or assume unknown or unanticipated liabilities or contingencies, which may impact our results of operations. 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our business activities are conducted principally in leased office space in cities throughout the world. In general, no difficulty is anticipated in negotiating renewals as leases expire or in finding other satisfactory space if the premises become unavailable. In certain circumstances, we may have unused space and may seek to sublet such space to third parties, depending upon the demands for office space in the locations involved.

Item 3. Legal Proceedings.

We hereby incorporate by reference Note 16, "Contingencies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

20

Executive Officers of the Registrant

Our executive officers are regularly elected by our Board of Directors at the annual meeting of the Board which is held following each annual meeting of our stockholders. Our executive officers were elected to their current positions on May 19, 2006 to serve until the meeting of the Board following the annual meeting of stockholders to be held on May 18, 2007. The information presented for executive officers, including with respect to ages and positions held, is shown as of December 31, 2006 unless otherwise noted.

Name	Age	Position
Patrick G. Ryan	69	Executive Chairman. Mr. Ryan currently serves as Aon's Executive Chairman. Mr. Ryan has been Chairman of the Board of Aon since 1990 and was Chief Executive Officer of Aon from 1982 until April 4, 2005.
Gregory C. Case	44	President and Chief Executive Officer. Mr. Case became Chief Executive Officer of Aon in April 2005. Prior to joining Aon, Mr. Case was with McKinsey & Company, the international management consulting firm, for 17 years, most recently serving as head of the Financial Services Practice.
Michael D. O'Halleran	56	Senior Executive Vice President. Mr. O'Halleran currently serves as Senior Executive Vice President of Aon and is Chairman and Chief Executive Officer of Aon Global Re. Mr. O'Halleran previously served as President and Chief Operating Officer of Aon from April 1999 until September 2004. Mr. O'Halleran has served in other significant senior management positions within Aon's group of companies since 1987.
David P. Bolger	49	Executive Vice President, Chief Financial Officer and Chief Administrative Officer. Mr. Bolger became Executive Vice President Finance and Administration in January 2003. In April 2003, Mr. Bolger assumed the additional role of Chief Financial Officer. Prior to joining Aon, Mr. Bolger served for 21 years in various capacities for Bank One Corporation and its predecessor companies, most recently serving as Executive Vice President.
Ted T. Devine	43	Executive Vice President and Head of Corporate Strategy. Chief Operating Officer, Aon Risk Services Americas. Mr. Devine became Executive Vice President and Head of Corporate Strategy in May 2005. Prior to joining Aon, Mr. Devine worked at McKinsey & Company for 12 years, most recently serving as a director in the firm's Chicago office and leader of the firm's North American Insurance Practice and North American Insurance Operations and Technology efforts.
D. Cameron Findlay	47	Executive Vice President and General Counsel. Mr. Findlay became Executive Vice President and General Counsel in August 2003. Prior to joining Aon, Mr. Findlay served as the U.S. Deputy Secretary of Labor. Before joining the Labor Department in June 2001, Mr. Findlay was a partner at the law firm now known as Sidley Austin LLP.

Dennis L. Mahoney	56	Chairman and Chief Executive Officer, Aon Limited. Mr. Mahoney currently serves as Chairman of Aon Limited and Chairman of Aon Global. Until January 2007, Mr. Mahoney also served as Chief Executive Officer of Aon Limited. Mr. Mahoney was previously the Chairman of Alexander Howden Limited, which was acquired by Aon in 1997.
D.P.M. Verbeek	56	Vice Chairman, Aon Group. Mr. Verbeek was appointed Vice Chairman of Aon Group in November 2006. Mr. Verbeek was previously Chairman and Chief Executive Officer of Aon Risk Services International. Mr. Verbeek joined Aon in 1989.
Michael D. Rice	64	Chairman, Aon Risk Services Americas. Mr. Rice serves as Chairman of Aon Risk Services Americas. Mr. Rice has served Aon and its predecessor, Ryan Insurance Group, in various capacities for 40 years.
Stephen P. McGill	48	Chief Executive Officer, Aon Risk Services Americas. Mr. McGill joined Aon in May 2005 as Chief Executive Officer of the Global Large Corporate business unit, which is now part of Aon Global, and was named Chief Executive Officer of Aon Risk Services Americas in January 2006 and Chief Executive Officer of Aon Global in January 2007. Previously, Mr. McGill served as Chief Executive Officer of Jardine Lloyd Thompson Group plc.
Andrew M. Appel	42	Chief Executive Officer, Aon Consulting Worldwide, Inc. Mr. Appel became Chief Executive Officer of Aon Consulting Worldwide, Inc. in July 2005. Mr. Appel joined Aon from McKinsey & Company, where he was a senior partner in the firm's Financial Services and Technology practices.
Richard M. Ravin	63	Chairman, President and Chief Executive Officer, Combined Insurance Company of America. Mr. Ravin has served as Chairman and Chief Executive Officer of Combined Insurance Company of America since 1993.
Diane Aigotti	42	Senior Vice President, Treasurer, and Chief Risk Officer. Ms. Aigotti joined Aon in 2000 as Senior Vice President and Treasurer and was appointed Chief Risk Officer in October 2006. Prior to joining Aon, Ms. Aigotti was Vice President Finance for the University of Chicago Health Systems and budget director for the City of Chicago.
Michael A. Conway	59	Senior Vice President and Senior Investment Officer. Mr. Conway has served as Senior Vice President and Senior Investment Officer of Aon since 1990.
Jeremy G.O. Farmer	57	Senior Vice President and Head of Human Resources. Mr. Farmer joined Aon in 2003 as Senior Vice President and Head of Human Resources. Prior to joining Aon, Mr. Farmer spent 22 years with Bank One Corporation and its predecessor companies, where he served in a variety of senior human resources positions.
Daniel F. Hunger	55	Senior Vice President and Controller. Mr. Hunger was named Senior Vice President and Controller of Aon in June 2004. Mr. Hunger joined Aon in 1989, and has served Aon in a number of capacities, including Chief Financial Officer of Aon Consulting.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Aon's common stock, par value $1.00 per share, is traded on the New York Stock Exchange. We hereby incorporate by reference the "Dividends paid per share" and "Price range" data under the heading "Quarterly Financial Data" in Part II, Item 8 of this report.

Aon had 10,015 holders of record of its common stock as of January 31, 2007.

We hereby incorporate by reference Note 11, "Stockholders' Equity" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

The following information relates to the repurchase of equity securities by Aon or any affiliated purchaser during any month within the fourth quarter of the fiscal year covered by this report:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/06 - 10/31/06	2,207,353	$ 34.84	2,207,353	$ 240,379,158
11/1/06 - 11/30/06	4,447,700	34.93	4,447,700	1,085,021,706
12/1/06 - 12/31/06	4,336,100	36.29	4,336,100	927,653,546
	10,991,153	$ 35.45	10,991,153	

On November 3, 2005, the Company announced that its Board of Directors had authorized the repurchase of up to $1 billion of Aon's common stock. On November 20, 2006, the Company announced that its Board of Directors had increased the authorized share repurchase program to $2 billion. Shares may be repurchased through the open market or in privately negotiated transactions.

Information relating to the compensation plans under which equity securities of Aon are authorized for issuance is set forth under Part III, Item 12 of this report and is incorporated herein by reference.

Item 6. Selected Financial Data.

The consolidated financial information below has been restated as set forth in this Form 10-K. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below. The information presented in the following tables has been adjusted to reflect the restatement of our financial results, which is more fully described in the "Explanatory Note" immediately preceding Part I, Item 1 and in Note 2 "Restatement of Consolidated Financial Statements" in Notes to Consolidated Financial Statements of this Form 10-K.

We have not amended any other previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by this restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this Annual Report on Form 10-K, and the financial statements and related financial information contained in previously-filed reports should no longer be relied upon. The impact of corrected compensation expense is not material to any reporting period. However, the aggregate cumulative impact for the 1994 to 2005 period is considered sufficiently material to warrant restatement.

Selected Financial Data (millions except stockholder, employee and per share data)

	2006	2005	2004	2003	2002
		As Restated (2)	As Restated (2)	As Restated (3)	As Restated (3)
Income Statement Data					
Commissions and fees	**$ 6,677**	$ 6,466	$ 6,591	$ 6,323	$ 5,616
Premiums and other	**1,918**	1,759	1,742	1,739	1,650
Investment income	**359**	271	274	269	177
Total revenue	**$ 8,954**	$ 8,496	$ 8,607	$ 8,331	$ 7,443
Income from continuing operations	**$ 626**	$ 568	$ 484	$ 568	$ 391
Discontinued operations	**93**	167	59	51	65
Cumulative effect of change in accounting principle, net of tax (1)	**1**				
Net income	**$ 720**	$ 735	$ 543	$ 619	$ 456
Diluted Net Income Per Share					
Continuing operations	**$ 1.86**	$ 1.68	$ 1.45	$ 1.73	$ 1.38
Discontinued operations	**0.27**	0.49	0.18	0.15	0.23
Cumulative effect of change in accounting principle (1)					
Net income	**$ 2.13**	$ 2.17	$ 1.63	$ 1.88	$ 1.61
Basic Net Income Per Share					
Continuing operations	**$ 1.98**	$ 1.75	$ 1.51	$ 1.79	$ 1.38
Discontinued operations	**0.29**	0.52	0.18	0.16	0.23
Cumulative effect of change in accounting principle (1)					
Net income	**$ 2.27**	$ 2.27	$ 1.69	$ 1.95	$ 1.61
Balance Sheet Data					
Assets					
Investments	**$ 7,575**	$ 7,058	$ 6,664	$ 6,068	$ 5,621
Brokerage and consulting receivables	**8,707**	8,039	8,235	8,335	8,120
Intangible assets	**4,679**	4,253	4,744	4,659	4,296
Other	**3,357**	8,482	8,703	7,982	7,310
Total assets	**$ 24,318**	$ 27,832	$ 28,346	$ 27,044	$ 25,347
Liabilities and Stockholders' Equity					
Insurance premiums payable	**$ 9,704**	$ 9,380	$ 9,775	$ 9,816	$ 9,420
Policy liabilities	**2,849**	3,501	3,413	3,314	3,005
Notes payable	**2,243**	2,105	2,115	2,095	1,671
General liabilities	**4,304**	7,529	7,873	7,254	6,591
Total liabilities	**19,100**	22,515	23,176	22,479	20,687
Redeemable preferred stock			50	50	50
Capital securities					702
Stockholders' equity	**5,218**	5,317	5,103	4,515	3,908
Total liabilities and stockholders' equity	**$ 24,318**	$ 27,832	$ 28,346	$ 27,044	$ 25,347
Common Stock and Other Data					
Dividends paid per share	**$ 0.60**	$ 0.60	$ 0.60	$ 0.60	$ 0.825

	2006	2005	2004	2003	2002
Price range	**42.76-31.01**	37.14-20.65	29.40-18.17	26.79-17.41	39.63-13.50
At year-end:					
Stockholders' equity per share	**$ 17.42**	$ 16.56	$ 16.16	$ 14.37	$ 12.58
Market price	**$ 35.34**	$ 35.95	$ 23.86	$ 23.94	$ 18.89
Common stockholders	**10,013**	10,523	11,291	11,777	11,419
Shares outstanding	**299.6**	321.2	316.8	314.0	310.2
Number of employees	**43,100**	46,600	47,900	54,400	55,100

(1)
Adoption of FASB Statement No. 123(R), "Share-Based Payments," effective January 1, 2006, net of tax.

(2)
See the "Explanatory Note" immediately preceding Part 1, Item 1 and Note 2, "Restatement of Consolidated Financial Statements" to the consolidated financial statements of this Form 10-K.

(3)
Selected Financial Data for 2003 and 2002 have been restated to reflect the adjustments described in the "Explanatory Note" immediately preceding Part 1, Item 1 of this Form 10-K.

Selected Financial Data has also been reclassified to conform to the 2006 financial presentation. The effects of the adjustments and reclassifications are presented in the following table.

Selected Financial Data (millions)

	Year Ended December 31, 2003					Year Ended December 31, 2002				
	As Reported	**Adjust-ments**	**As Restated**	**Reclass-ifications**	**As Presented**	**As Reported**	**Adjust-ments**	**As Restated**	**Reclass-ifications**	**As Presented**
Income Statement Data										
Commissions and fees	$ 6,545	$	**$ 6,545**	$ (222)	**$ 6,323**	$ 5,853	$	**$ 5,853**	$ (237)	**$ 5,616**
Premiums and other	2,609		**2,609**	(870)	**1,739**	2,368		**2,368**	(718)	**1,650**
Investment income	310		**310**	(41)	**269**	249		**249**	(72)	**177**
Total revenue	$ 9,464	$	**$ 9,464**	$ (1,133)	**$ 8,331**	$ 8,470	$	**$ 8,470**	$ (1,027)	**$ 7,443**
Income from continuing operations	$ 642	$ (9)	**$ 633**	$ (65)	**$ 568**	$ 464	$ (10)	**$ 454**	$ (63)	**$ 391**
Income from discontinued operations	(14)		**(14)**	65	**51**	2		**2**	63	**65**
Net income	$ 628	$ (9)	**$ 619**	$	**$ 619**	466	$ (10)	**$ 456**	$	**$ 456**
Diluted Net Income Per Share										
Continuing operations	$ 1.94	$ (0.02)	**$ 1.92**	$ (0.19)	**$ 1.73**	$ 1.63	$ (0.03)	**$ 1.60**	$ (0.22)	**$ 1.38**
Discontinued operations	(0.04)		**(0.04)**	0.19	**0.15**	0.01		**0.01**	0.22	**0.23**
Net income	$ 1.90	$ (0.02)	**$ 1.88**	$	**$ 1.88**	$ 1.64	$ (0.03)	**$ 1.61**	$	**$ 1.61**
Basic Net Income Per Share										
Continuing operations	$ 2.01	$ (0.02)	**$ 1.99**	$ (0.20)	**$ 1.79**	$ 1.64	$ (0.04)	**$ 1.60**	$ (0.22)	**$ 1.38**
Discontinued operations	(0.04)		**(0.04)**	0.20	**0.16**	0.01		**0.01**	0.22	**0.23**
Net income	$ 1.97	$ (0.02)	**$ 1.95**	$	**$ 1.95**	$ 1.65	$ (0.04)	**$ 1.61**	$	**$ 1.61**
Balance Sheet Data										
Assets										
Investments	$ 7,240	$	**$ 7,240**	$ (1,172)	**$ 6,068**	$ 6,443	$	**$ 6,443**	$ (822)	**$ 5,621**
Brokerage and consulting receivables	8,335		**8,335**		**8,335**	8,120		**8,120**		**8,120**
Intangible assets	4,659		**4,659**		**4,659**	4,296		**4,296**		**4,296**
Other	6,793	17	**6,810**	1,172	**7,982**	6,475	13	**6,488**	$ 822	**7,310**
Total assets	$ 27,027	$ 17	**$ 27,044**	$	**$ 27,044**	$ 25,334	$ 13	**$ 25,347**		**$ 25,347**
Liabilities and Stockholders' Equity										
Insurance premiums payable	$ 9,816	$	**$ 9,816**	$	**$ 9,816**	$ 9,420	$	**$ 9,420**	$	**$ 9,420**
Policy liabilities	5,932		**5,932**	(2,618)	**3,314**	5,310		**5,310**	(2,305)	**3,005**
Notes payable	2,095		**2,095**		**2,095**	1,671		**1,671**		**1,671**
General liabilities	4,636		**4,636**	2,618	**7,254**	4,286		**4,286**	2,305	**6,591**
Total liabilities	22,479		**22,479**		**22,479**	20,687		**20,687**		**20,687**
Redeemable preferred stock	50		**50**		**50**	50		**50**		**50**
Capital securities						702		**702**		**702**
Stockholders' equity	4,498	17	**4,515**		**4,515**	3,895	13	**3,908**		**3,908**
Total liabilities and stockholders' equity	$ 27,027	$ 17	**$ 27,044**	$	**$ 27,044**	$ 25,334	$ 13	**$ 25,347**		**$ 25,347**

	Year Ended December 31, 2003	Year Ended December 31, 2002

25

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following information has been adjusted to reflect the restatement of our financial results, which is described in the "Explanatory Note" immediately preceding Part I, Item I and in Note 2 to the consolidated financial statements, "Restatement of Consolidated Financial Statements". The net of tax impact of the adjustments, which amounted to $1 million in 2006, was recorded by the Company in its fourth quarter of 2006. The net of tax impact of the restatements on the Company's results of operations amounted to $2 million and $3 million in 2005 and 2004, respectively. The impact of these adjustments was not significant to the Company's operating results, trends, or liquidity for the annual or quarterly periods in 2006, 2005, and 2004.

This Management's Discussion and Analysis is organized as follows:

OVERVIEW

Key Drivers of Financial Performance

Segments

The key drivers of financial performance vary among our operating segments.

Risk and Insurance Brokerage Services. Brokerage segment results are affected by several key drivers, including:

- conditions in insurance markets generally, particularly fluctuations in premiums charged by insurance companies
- success attracting and keeping clients
- fluctuations in foreign exchange rates
- interest income on our investments
- expense management
- employee retention.

Consulting. Consulting segment results are principally affected by:

- our clients' employment levels, which are driven mainly by economic conditions
- governmental regulations affecting the health care market, employee benefit programs and our clients' respective industries
- our success attracting and keeping clients
- expense management
- employee retention.

Insurance Underwriting. Underwriting segment results are affected by:

- consumer buying habits, which are influenced by economic conditions
- competition with other underwriters, including competition based upon claims-paying ratings
- our success selling new policies, selling existing policyholders more services, and having customers renew their policies
- our investment results

property and casualty reserve estimates and reinsurance collectability.

Liquidity

Liquidity is derived from cash flows from our businesses, excluding funds held on behalf of clients, and from financing. We use liquidity for capital expenditures, to repay debt, to fund acquisitions and pension obligations, to repurchase shares, and to pay dividends to our stockholders. Because we are a holding company, our subsidiaries may not have available cash to pay us dividends; in the case of the insurance underwriting subsidiaries, this ability is limited by regulatory and rating agency considerations. Our access to cash generated from operations outside the U.S. may be affected by tax considerations and by pension funding requirements in our international pension plans.

Executive Summary of 2006 Financial Results

Below is a summary of our 2006 financial results. Refer to our detailed discussion below for further details.

Our revenues from continuing operations increased $458 million or 5% overall (5% on an organic basis) driven by organic revenue growth in each of our segments. Risk and Insurance Brokerage Services revenue grew $261 million (2% on an organic basis). Our Insurance Underwriting revenue rose $171 million (13% on an organic basis). Consulting revenue increased $27 million or 4% on an organic basis. We use supplemental information related to organic revenue growth to help us and our investors evaluate business growth from existing operations. Organic revenue growth excludes from reported revenues the impact of foreign exchange rate changes, acquisitions, divestitures, transfers between business units, investment income, reimbursable expenses and unusual items. Organic revenue growth for the underwriting segment is based on premiums written.

Expenses rose 5% in 2006, due to an increase in benefits to policyholders that was driven by a provision for underwriting reserves, higher compensation and benefit costs and unfavorable foreign exchange. Partially offsetting these increases were savings related to our restructuring program.

We sold our Aon Warranty Group (AWG) and Construction Program Group (CPG) businesses; see Key Recent Events for further discussion.

We continued our restructuring plan which began in late 2005. We expect an additional $40 million of costs to result from this plan in addition to the $325 million already expensed, of which $167 million was incurred in 2006. We expect these efforts to reduce our annual costs by approximately $280 million by 2008.

Our Board of Directors increased our share repurchase program in November 2006 to $2 billion. We repurchased 28.4 million shares for $1,048 million during 2006; further detail is discussed below in Key Recent Events. At December 31, 2006, the Company had $928 million remaining under the authorized share repurchase program.

In managing our cash and investments during the year, we:

repaid certain outstanding indebtedness under our €650 million Euro credit facility by issuing CAD 375 million (U.S. $323 million at December 31, 2006) 5.05% senior unsecured debentures due in 2011

received approximately $800 million in gross cash proceeds relating to the sales of AWG and CPG

spent $1,048 million to repurchase 28.4 million of our outstanding shares

contributed $185 million in cash and $166 million in non-cash financial instruments to our various pension plans.

We also repaid $250 million of notes payable in January 2007.

All of Aon's financial information reflects the application of critical accounting policies, estimates, assumptions and judgments, as discussed below under "Critical Accounting Policies and Estimates."

These items are discussed further in the remainder of this Management's Discussion and Analysis.

KEY RECENT EVENTS

Sale of Businesses and Disposal of Operations

We fundamentally changed the composition of our underwriting segment in 2006 by selling our AWG and CPG operations in two separate, but related, transactions. Virginia Surety Company, Inc. ("VSC"), our principal underwriter for both AWG and CPG, was sold to the buyer of AWG. We received approximately $800 million in gross cash proceeds and realized a pretax gain of $43 million on these sales. On an after-tax basis, the transactions generated a gain of $9 million. The operating results of AWG and CPG and the impact of the sales transactions are included in discontinued operations for all periods presented.

Over the last three years, we also sold the following businesses that are included in discontinued operations:

- our U.S. wholesale brokerage business, Swett & Crawford
- our U.K. claims services businesses
- a small non-core consulting subsidiary
- our U.K. reinsurance brokerage runoff unit
- a small U.S. and Australian brokerage unit.

Results of these businesses are as follows:

(millions) Years ended December 31	2006	2005	2004
Revenues	**$ 1,357**	**$ 1,534**	**$ 1,598**
Pretax income (loss):			
Operations	**$ 116**	**$ 148**	**$ 123**
Sale	**46**	**236**	**(23)**
Total	**$ 162**	**$ 384**	**$ 100**
After-tax income (loss):			
Operations	**$ 84**	**$ 66**	**$ 77**
Sale	**9**	**101**	**(18)**
Total	**$ 93**	**$ 167**	**$ 59**

In November 2004, we sold our Cambridge claims administration business to Scandent Holdings Mauritius Limited ("SHM") for $90 million in cash plus convertible preferred stock in SHM, valued at $15 million. Because of our convertible preferred stock holding and other factors, we included Cambridge's results before the sale's effective date, as well as a pretax gain on the sale of $15 million, in income from continuing operations. In 2006, we contributed the preferred stock to one of our U.K. pension plans.

See Note 6 to the consolidated financial statements, "Disposal of Operations," for further information.

Third Quarter Underwriting Reserve Adjustments

We continually review the adequacy of our policy liabilities. During the third quarter 2006, in connection with the sales of AWG and CPG, we completed a detailed review of all our property and casualty reserves. Based on the results of this review, we increased our property and casualty reserves by approximately $102 million, reflecting adverse development, refined assumptions and additional claim information relating to programs to be disposed of through sale or runoff. We recorded

$81 million of this adjustment in continuing operations, of which the majority related to National Program Services, an independent managing general underwriter which wrote habitational risk on behalf of VSC. The remaining $21 million related to CPG and was recorded in discontinued operations.

Restructuring and Other Business Reorganization Initiatives

Plan Summary

In 2005, we began executing a broad restructuring initiative to reduce our fixed cost base and increase efficiency. This three-year plan has evolved as new opportunities have been identified and existing initiatives have been finalized. We expect the remaining portion to cost $40 million during 2007, which is in addition to the $325 million already expensed. Restructuring costs include workforce reductions, lease consolidation costs, asset impairments, and other expenses. In 2006, we estimate restructuring benefits were approximately $119 million. These initiatives are expected to lead to annualized cost savings of approximately $280 million by 2008.

We estimate 3,600 positions will be eliminated as a result of this initiative. As of December 31, 2006, approximately 2,500 of these eliminations had already occurred. Further, office closures require that we recognize losses on subleases or lease buy-outs, and may also trigger asset impairments.

The following chart details the restructuring and related expenses we incurred through 2006 and our estimates for 2007 by geographic region:

(millions)	United States	United Kingdom	Continent of Europe	Rest of World	Total
2005	$ 28	$ 92	$ 30	$ 8	$ 158
2006	66	56	34	11	167
2007 estimated	25	10	5		40
Total incurred and Remaining estimated	$ 119	$ 158	$ 69	$ 19	$ 365

The following chart summarizes the restructuring costs incurred through 2006 and our estimated expenses by type for 2007.

(millions)	Actual				
	2005	2006	Total Incurred	Estimated 2007 (1)	Total
Workforce reduction	$ 116	$ 116	$ 232	$ 13	$ 245
Lease consolidation	20	27	47	19	66
Asset impairments	17	12	29	5	34
Other related expenses	5	12	17	3	20
Total restructuring and related expenses	$ 158	$ 167	$ 325	$ 40	$ 365

(1) Our estimated costs are forward looking and should be read in connection with our risk factors. Actual costs may vary due to changes in the assumptions built into this plan. Some of the assumptions that may change include changes in severance calculations, the assumptions underlying our sublease loss calculations due to changing market conditions, and our overall analysis that might cause us to add or cancel component initiatives.

Stock Repurchase Program

In November 2005, our Board of Directors authorized the repurchase of up to $1 billion of Aon's common stock, and in November 2006, the Board increased that amount to $2 billion. Any repurchased common stock will be available for employee stock plans and for other corporate purposes. From time to time, we may purchase shares through the open market or in privately negotiated transactions based on prevailing market conditions, which will be funded from available capital. During 2006, we repurchased 28.4 million shares for $1,048 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Aon's consolidated financial statements have been prepared according to U.S. generally accepted accounting principles ("GAAP"). To prepare these financial statements, we made estimates, assumptions and judgments that affect:

- what we report as our assets and liabilities
- what we disclose as contingent assets and liabilities at the date of the financial statements
- the reported amounts of revenues and expenses during the periods presented.

In accordance with our policies, we:

- regularly evaluate our estimates, assumptions and judgments, including those concerning pensions, contingencies, policy liabilities (including future policy benefit reserves, unearned premium reserves and policy and contract claim reserves), investments, intangible assets, share-based payments and income taxes.
- base our estimates, assumptions and judgments on our historical experience and on factors we believe reasonable under the circumstances.

The results involve judgments about the carrying values of assets and liabilities not readily apparent from other sources. If our assumptions or conditions change, the actual results we report may differ from these estimates.

We believe the following critical accounting policies affect the more significant estimates, assumptions and judgments we used to prepare these consolidated financial statements.

Pensions

U.S. Plans

Our U.S. pension plans are closed to new entrants, and effective January 1, 2007, we will determine future pension benefits using a "career average pay" formula rather than the prior "final average pay" formula.

As of year-end 2006:

- the market-related value of assets does not yet reflect accumulated asset gains of $36 million. These gains will decrease pension expense as they are graded into the market-related asset value and may be offset by future asset losses. We recognize twenty percent of the asset gain or loss in the current year's market-related value, with the remaining eighty percent spread over the next four years.
- we reported a fair value of pension assets of $1,457 million, while market-related value of assets is $1,421 million.

Gains and losses on pension obligations arise from such things as changes in the discount rate and demographic changes in employee data. Unrecognized gains and losses are deferred and amortized as a

component of pension expense over several years, based on the average expected future service of active employees in the plans, which is currently estimated to be eight years.

As of December 31, 2006, the pension plans have a deferred loss of $485 million (comprised of unrecognized asset gains of $36 million and unrecognized actuarial losses of $521 million) that has not yet been recognized through income in the financial statements. We amortize the actuarial losses of $521 million outside of a corridor, over approximately eight years; this corridor is defined as 10% of the greater of market-related value of plan assets or PBO. For 2007, we estimate that this expense amortization will be approximately $43 million. To the extent not offset by future gains, incremental amortization as calculated above will continue to affect future pension expense similarly until fully amortized.

To determine future pension expense, we currently assume a long-term rate of return of approximately 8.6%. We base this expected long-term return on capital market expectations for various asset classes (see following table). U.S. equities and fixed income expectations are estimated using a theoretical Capital Asset Pricing ("CAP") Model. The CAP Model for equities included three factors:

Current dividend yield (1.8%)

Corporate earnings nominal growth (7.1%)

P/E ratio repricing (0.0%).

The 5.8% fixed income expectation factor included the then current 10-year U.S. Treasury Note yields and simulations of future yields based on expected inflation and other factors. We based:

other asset class expectations on risk premiums relative to U.S. equities and fixed income expected returns.

estimates of volatilities and correlations among asset classes on historical data.

We then weighted the expected returns for each asset class by the plan's target allocation.

This table shows the result of our calculation based on target asset allocation for year-end 2006. The actual return for the 2006 calendar year (15.3%) was in excess of the assumed return.

Asset Class	Target Allocation	Historical Returns	Weighted Average Expected Rate Of Return
Equities	**80%**		
Domestic Equities	45	8.9%	4.0%
Alternatives	15	11.4	1.7
International Equities	15	9.0	1.3
Real Estate and REITs	5	7.2	0.4
Debt Securities	**20**		
Fixed Maturities	20	5.8	1.2
Invested Cash	No Target	5.0	
Total			8.6%

Several assumptions affect the actuarial calculation of pension obligations, and in turn, net periodic pension expense. The most significant of these assumptions are:

expected return on plan assets

discount rate on plan liabilities.

We use the same assumptions for our pension plans and postretirement benefit plans where applicable. Changes in these assumptions can have a material impact on pension obligations and pension expense. For example, holding all other assumptions constant, a one percentage point:

- decrease in our estimated liability discount rate would increase our estimated 2007 pension expense approximately $36 million and the estimated 2007 postretirement medical benefit expense $0.1 million

- increase in our estimated liability discount rate would decrease our 2007 estimated pension expense approximately $31 million and the estimated 2007 postretirement medical benefit expense approximately $0.3 million.

Similarly, holding other assumptions constant, a one percentage point:

- decrease in our estimated long-term rate of return on plan assets would increase estimated 2007 pension expense approximately $14 million

- increase in our estimated long-term rate of return on plan assets would decrease pension expense approximately $14 million.

Required cash contributions are also sensitive to assumptions; however, we rarely change the assumptions we use to determine contributions to the plan. We anticipate minimum cash funding requirements of $36 million in 2007. Under the new funding rules of the Pension Protection Act, we anticipate funding requirements of $67 million in 2008.

Major U.K. Plans

Our U.K. pension plans are closed to new entrants, and in November 2006, we proposed ceasing future benefit accruals relating to salary and service in the U.K. plans, subject to trustee approval and member consultation. Proposed changes would take effect in the first half of 2007, and future retirement benefits would be provided in a defined contribution segment of a pension scheme.

As of December 31, 2006, our U.K. pension plans have a combined unrecognized loss (from asset and liability experience) of $1,541 million that has not yet been recognized through income in the financial statements. We amortize the unrecognized loss outside of a corridor over 16 years; this corridor is defined as 10% of the greater of fair value of plan assets or PBO. For 2007, we estimate that this expense amortization will be approximately $71 million. To the extent not offset by future gains, incremental amortization as calculated above will continue to affect future pension expense similarly until fully amortized.

To calculate pension expense, we use the fair market value of plan assets. Generally, the U.K. plans' trustees determine the investment policy for each plan. In total, at the end of the 2006 valuation year, the plans were invested 63% in equities, 32% in fixed income securities, and 5% in real estate, with a fair value of $3,665 million.

In determining the expected rate of return, we analyzed investment community forecasts and current market conditions to develop expected returns for each of the asset classes used by the plans. We:

- consider historical performance data by asset class over long periods

- weight the expected returns for each asset class by actual asset allocations of the plans

As a result, we assume a rate of return of 7.2% to determine future pension expense.

The table below shows the result of our calculation based on target asset allocation for year-end 2006. Because there are eight pension plans maintained in the U.K., the target allocation represents a weighted average of the target allocation of each plan. Further, target allocations are subject to change. The actual return for the 2006 calendar year (9.4%) was in excess of the assumed return.

Asset Class	Target Allocation	Expected Returns	Weighted Average Expected Rate Of Return
Equities	**68%**		
U.K. Equities	37	8.1%	3.0%
Non-U.K. Equities	27	8.5	2.2
Property	4	6.8	0.3
Debt Securities	**32**		
Corporate Bonds/Gilts	32	5.1	1.7
Invested Cash		4.0	
Total			7.2%

With respect to U.K. pension liabilities, a one-percentage point:

decrease in our estimated liability discount rate would increase the estimated 2007 pension expense approximately $58 million

increase in our estimated liability discount rate would decrease the estimated 2007 pension expense approximately $68 million.

Similarly, a one-percentage point:

decrease in our estimated long-term rate of return on plan assets would increase estimated 2007 pension expense approximately $37 million

increase in our estimated long-term rate of return on plan assets would decrease estimated 2007 pension expense approximately $37 million.

Cash flow requirements are also sensitive to assumptions; however, we rarely change the assumptions we use for funding the U.K. plans. Under current rules and assumptions, we anticipate U.K. funding requirements of $182 million in both 2007 and 2008. These contributions reflect minimum funding requirements plus other amounts agreed with U.K. plan trustees.

Dutch Plan

To calculate pension expense, we use the fair market value of plan assets. As of December 31, 2006, the Dutch pension plan had a combined unrecognized loss of $80 million that has not yet been recognized through income in the financial statements. We amortize the unrecognized loss outside of a corridor over 12 years; this corridor is defined as 10% of the greater of fair value of plan assets or PBO. For 2007, we estimate that this amortization will be approximately $3 million. To the extent not offset by future gains, incremental amortization as calculated above will continue to affect future pension expense similarly until fully amortized.

The target asset allocation is 28% global equities, 65% fixed income securities, and 7% real estate, with an allowed deviation of 5%. At year-end 2006, actual asset allocation was consistent with target allocation. The expected long-term rate of return on assets is 6%, which results from:

an expected future return of 8% on equities

a 5% return on fixed income investments

a 7% return on real estate investments.

With respect to Dutch pension liabilities, a one percentage point:

- decrease in our estimated liability discount rate would increase estimated 2007 pension expense approximately $8 million

- increase in our estimated liability discount rate would decrease estimated 2007 pension expense approximately $7 million.

A one percentage point:

- decrease in our estimated long-term rate of return on plan assets would increase estimated 2007 pension expense approximately $4 million

- increase in our estimated long-term rate of return on plan assets would decrease estimated 2007 pension expense approximately $4 million.

All Plans

In addition to the critical assumptions described above, all plans use certain assumptions about the life expectancy of plan participants and surviving spouses. Periodic revision of those assumptions can materially change the present value of future benefits, and therefore the funded status of the plans and the resulting periodic pension expense.

Contingencies

We define a contingency as any material condition that involves a degree of uncertainty that will ultimately be resolved. Under GAAP, we are required to establish reserves for contingencies when a loss is probable and we can reasonably estimate its financial impact. We do not recognize gain contingencies until the contingency is resolved.

We are required to assess the likelihood of material adverse judgments or outcomes as well as potential ranges or probability of losses. We determine the amount of reserves required, if any, for contingencies after carefully analyzing each individual issue. The required reserves may change due to new developments in each issue, or changes in approach, such as changing our settlement strategy.

Policy Liabilities

Through our insurance underwriting operations, we collect premiums from policyholders, and we establish liabilities (reserves) to pay benefits to policyholders. The liabilities for policy benefits, claims, and unearned premiums:

- are a large portion of the total policy liabilities shown on our balance sheet

- are comprised primarily of estimated future payments to policyholders, policy and contract claims and unearned and advance premiums and contract fees

- represent our best estimates of what we expect to pay to policyholders in the future.

If these liabilities prove inadequate, we would be required to increase the reserves, which could hurt our results and financial condition.

Accident & Health and Life

To establish policy liabilities, we develop estimates of reported and anticipated claims, based on our historical experience, other actuarial data, and assumptions on investment yields. The actuarial data reflects our best estimates of future expectations regarding claim frequency, claim severity, and the

length of time that a customer is insured. Morbidity and mortality patterns may change over time due to many factors including:

- improvements in the general health of the insured population
- changes in lifestyle
- advances in medical diagnosis and treatment
- the occurrence of a widespread pandemic.

We base interest rate assumptions on factors such as market conditions and expected investment returns.

Although mortality, morbidity, persistency, and interest rate assumptions are set when we issue new insurance policies, we may need to provide for additional losses on a product by:

- increasing reserves
- reducing previously capitalized acquisition costs established for that product
- establishing premium deficiency reserves if there are significant changes in our experience or assumptions.

Since estimating and establishing policy and contract liabilities is inherently uncertain, the actual ultimate cost of a claim may vary materially from the estimated amount reserved.

Liabilities for incurred but unpaid claims include estimated costs relating to reported claims, and incurred, but not reported, claims. We base the liability for unpaid claims on the estimated ultimate cost of settling claims using best estimates from past experience. These estimates incorporate current trends and any other factors that influence historical data. Actual experience, however, may vary from our estimates, due to changes in claim reporting, processing patterns, and variations from historic averages for the amount paid per claim. Variations from historic patterns and averages could result in additional changes that increase or decrease unpaid claim liabilities. As of December 31, 2006, there were no known changes in reporting or processing patterns.

Except for products that meet the definition of FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments,* we accrue a liability for future policy benefits relating to long-duration contracts when we recognize premium revenue. The liability represents the present value of future benefits to be paid to policyholders less the present value of future premiums; we estimate this liability using methods that include estimates of expected investment yields, mortality, morbidity, and policy persistency.

Actual experience may vary from our estimates due to emerging trends in morbidity, mortality, persistency, and asset yields and some of these trends can fluctuate significantly over time. As we realize the actual experience, we take into account the financial impacts of these variations from our original assumptions. When current estimates of the present value of future benefits and expenses exceed the present value of future premiums for a product line, we recognize all excess amounts as a loss.

We account for long-duration contracts meeting the definition of Statement No. 97, such as universal life type products, the same way we account for interest-bearing or other financial instruments. We do not report payments received on those contracts as revenue and, correspondingly, we do not establish a policy benefit reserve. The liability for policy benefits is equal to:

- the balance that accrues to the benefit of policyholders at the date of the financial statements amounts that have been assessed to compensate the insurer for services to be performed over future periods, and

amounts previously assessed against policyholders that are refundable when the contract terminates.

Claim Liabilities

Reserves for claim liabilities were $506 million, $428 million and $422 million as of December 31, 2006, 2005 and 2004, respectively. A 1% increase in the assumed medical cost trends would reduce pretax income by approximately $3 million.

Future Policy Benefits

Reserves for future policy benefits were $1,784 million, $1,671 million and $1,542 million as of December 31, 2006, 2005 and 2004, respectively. If a 1% unfavorable change were to occur in the mortality and morbidity assumptions for both the accident & health and life books of business, pretax income would be decreased by approximately $8 million.

Property & Casualty

Loss reserves reflect our estimated liability for unpaid claims and claims adjustment expenses and for reported and unreported losses incurred as of the end of each accounting period. Because setting loss reserve levels is inherently uncertain, we cannot guarantee that our current reserves will prove adequate in light of subsequent events.

Since we cannot calculate estimated liabilities exactly, reserves represent our best estimate of what we expect the ultimate settlement and administration of claims will cost, given our informed judgments based on:

- currently available data
- future trends in claims severity and frequency
- judicial theories of liability
- other factors.

Many of these factors are not quantifiable in advance, and both internal and external events, such as changes in claims handling procedures, inflation, judicial and legal developments, and legislative changes, can cause our estimates to vary. The inherent uncertainty of estimating reserves is greater for certain types of liabilities, where the variables affecting the claims are subject to change and long periods of time may elapse before we can definitively determine liability. We:

- periodically refine our reserve estimates as further losses are reported and settled and we continue to refine our experience.
- reflect adjustments to reserves in the results of the periods during which such estimates are changed.

We estimate loss reserves for all property and casualty lines of business by accident year using several standard actuarial techniques, which include, but are not limited to:

- incurred and paid loss development methods
- the Bornhuetter-Ferguson method
- frequency/severity methods.

We project ultimate losses on a direct, assumed, ceded and net basis, and deduct paid losses from the selected ultimate losses to arrive at the total indicated reserve. The total reserve includes case reserves and incurred but not reported reserves.

Factors influencing loss reserve estimates include the consistency of the results from actuarial techniques and our knowledge of emerging loss trends and rate or benefit changes.

Valuation of Investments

We periodically review securities with unrealized losses and evaluate them for other-than-temporary impairment. We analyze various risk factors and determine if any specific asset impairment exists. If there is a specific asset impairment, we recognize a realized loss and adjust the cost basis of the impaired asset to its fair value.

We review invested assets with unrealized losses separated into two categories:

1. Assets with unrealized losses due to issuer-specific events.
2. Assets with unrealized losses due to market conditions or industry-related events.

Assets with unrealized losses due to issuer-specific events

At least quarterly, we review the following types of information, depending on the type of security:

- the creditworthiness of corporate obligors for changes in ratings and fundamental financial performance of the underlying entity
- cash flow trends and underlying levels of collateral for asset-backed securities
- issuer financial trends and market expectations based on third-party forward-looking analytical reports, when available
- securities whose financial performance has declined for other-than-temporary impairment.

We recognize an other-than-temporary impairment loss when appropriate for these investments with continuous unrealized losses due to issuer-specific events. We base our decision on the facts and circumstances for each investment.

Assets with unrealized losses due to market conditions or industry-related events

Invested assets with unrealized losses due to market conditions or industry-related events include those affected by increasing U.S. Treasury or local sovereign interest rates; corporate and asset-backed credit spread widening; common stock price volatility due to conditions in the overall market or a particular industry; and illiquid market conditions.

In certain circumstances, we assume that a decline in value below cost is temporary for fixed-maturity investments, with unrealized losses due to market conditions or industry-related events from which the market is expected to recover; and we can hold the investment until maturity or the market recovers, which is a decisive factor when considering an impairment loss. If we conclude that we do not have the intent or ability to hold an investment to maturity, we will reevaluate that investment for other-than-temporary impairment.

We evaluate other-than-temporary impairment for preferred and common stock and other investments with continuous unrealized losses for two consecutive quarters due to market conditions or industry-related events. We recognize an other-than-temporary impairment loss based upon each investment's facts and circumstances. We continue to monitor these securities quarterly to ensure that unrealized losses are not the result of issuer-specific events.

Note 7 to the consolidated financial statements provides additional information about our investments, including unrealized losses segregated by type and period of continuous unrealized loss at December 31, 2006.

Intangible Assets

Intangible assets represent the excess of cost over the value of net tangible assets of acquired businesses. We classify our intangible assets as either goodwill, client lists, non-compete agreements, future profits of purchased books of business of the insurance underwriting subsidiaries, or other purchased intangibles.

Although goodwill is not amortized, we test it for impairment at least annually. We test more frequently if there are indicators of impairment or whenever business circumstances suggest that the carrying value of goodwill may not be recoverable. We perform impairment reviews at the reporting unit level. If the fair value of a reporting unit is determined to be less than the carrying value of the reporting unit, we complete further analysis to determine whether there was an impairment loss. No further analysis was required in 2006 or 2005. We determine fair value based on estimates and assumptions related to the amount and timing of future cash flows and future interest rates. Different estimates or assumptions could produce different results.

Share-based Payments

As discussed in the Explanatory Note, certain stock options granted in prior years were not accounted for correctly. All options granted in prior years were evaluated and, with respect to approximately 85% of the grants, revised measurement dates were derived based upon contemporaneous written evidence of approval. For the remainder, system entry date information was used to determine the measurement date. Absent better approval date information, the system entry date represented the latest date when the terms of the options to individual recipients were known with finality and provided a reasonable and reliable measurement date. Of the cumulative $43 million adjustment, approximately $7 million was attributable to use of the system entry date. Although the system entry date may have been subsequent to the actual approval date for some grants, based on the assessment of the processes in place and a sensitivity analysis of the potential price variance, the impact of any alternative revised measurement dates would be immaterial, cumulatively or in any restated period.

On January 1, 2006, Aon adopted FASB Statement No. 123 (revised 2004), *Share-Based Payment* ("Statement No. 123(R)"), which requires that we measure and recognize compensation expense for all share-based payments to employees, including grants of employee stock options and awards as well as employee stock purchases related to the Employee Stock Purchase Plan, based on estimated fair values. Aon adopted Statement No. 123(R) using the modified prospective transition method. Our consolidated financial statements as of and for the year ended December 31, 2006, reflect the impact of Statement No. 123(R). In accordance with the modified prospective transition method, we have not restated the Company's consolidated financial statements for prior periods due to the adoption of Statement No. 123(R).

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that we ultimately expect to vest during that period. Stock-based compensation expense recognized in our consolidated statements of income for the year ended December 31, 2006 includes compensation expense for share-based payment awards granted:

- before, but not yet vested by, December 31, 2005, based on the grant date fair value estimated according to the pro forma provisions of Statement No. 123

- after December 31, 2005, based on the grant date fair value estimated according to the provisions of Statement No. 123(R).

As the stock-based compensation expense we recognize is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. Statement No. 123(R) requires that we estimate forfeitures at the time of grant and revise our estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In Aon's pro forma information required under Statement No. 123 for periods prior to 2006, we accounted for forfeitures on restricted stock units (RSUs) as they occurred, but estimated forfeitures on stock options. When the terms of an award require no additional service, the award is fully expensed at the grant date. When awards are modified, the incremental shares are accounted for at the fair market value at the date of modification. Expense recognition begins on the date the service period begins, which can precede or be after the grant date, depending on the provisions of the award.

Option Accounting

Before 2006, Aon was subject to Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for its stock-based compensation plans. Under APB No. 25, no compensation expense was recognized for stock options when the exercise price of the options equaled the market price of the stock at the date of grant. During 2006, we discovered certain errors in relation to measurement dates in options granted prior to 2001. See Note 2 to our consolidated financial statements for further details.

Following adoption of Statement No. 123(R), we have also changed our method of valuation for stock options granted: in 2006, we moved to a lattice-binomial option-pricing model from the Black-Scholes option-pricing model, which we previously used for our pro forma information required under Statement No. 123. Lattice-based option valuation models:

- use a range of assumptions over the expected term of the options
- estimate expected volatilities based on the average of the historical volatility of Aon's stock price and the implied volatility of traded options on Aon's stock.

Furthermore, we:

- use historical data to estimate option exercise and employee terminations within the valuation model, differentiating between executives and key employees.
- base the expected dividend yield assumption on the company's historical and expected future dividend rate.
- base the risk-free rate for periods within the contractual life of the option on the U.S. Treasury yield curve in effect at the time of grant.

The expected life of employee stock options represents the weighted-average period stock options are expected to remain outstanding, which is a derived output of the lattice-binomial model.

During 2006, we recognized $25 million of expense related to stock options.

Service-Based RSU Awards

Prior to 2006, RSUs granted to employees were generally service-based and accounted for by expensing the total award value over the service period. The total award value was calculated by multiplying the total number of shares to be delivered by the quoted market value on the date of grant. Beginning in 2006, we adopted the provisions of Statement No. 123(R), requiring that we apply forfeitures as well as dividend discounts, if appropriate, when determining the fair value of the award to be expensed over the service period.

Performance-Based Awards

Beginning with awards granted in 2006, awards to executives and key employees may also consist of performance-based awards, which ultimately result in the receipt of RSUs if the employee achieves his or her objective. Such objectives may be made on a personal or group level. Generally, our

performance awards are fixed, which means we determine the fair value of the award at the grant date and recognize the expense over the performance or vesting period, whichever is longer.

To expense performance-based awards, we:

- estimate the number of shares to be delivered at the end of the performance period multiplied by the fair value of those shares.
- recognize the resulting value by multiplying the fair value to be delivered times the percentage of the performance period completed.

These estimates take into account performance to date as well as the assessment of future performance. These assessments are made by management using subjective estimates, such as long-term plans. As a result, changes in the underlying assumptions could have a material impact on the expense recognized.

During 2006, we recognized $26 million of expense related to performance-based awards, including both individual and group awards. Based on estimates as of December 31, 2006, we will incur an additional $71 million of expense related to these awards between 2007 and 2012.

The largest performance-based stock plan is the Leadership Performance Plan ("LPP"), which substantially replaced fixed methods of stock compensation to ensure expense is recognized only if targets are achieved. We currently expect to recognize $61 million of expense for the LPP plan over the 3 year performance period (2006-2008), of which $19 million was expensed in 2006. A 10% upward or downward adjustment in our estimated performance targets would increase or decrease expense by approximately $2 million. As the percent of expected performance increases or decreases, the potential change in expense can go from 0% to 150% of the targeted total expense.

Liability Awards

Awards that have either an indeterminate number of shares to be delivered or are required to be settled in cash are accounted for as liabilities. These liabilities are marked-to-market at the end of each reporting period at the then fair market value of our stock.

Income Taxes

We earn income in numerous foreign countries and are subject to the laws of taxing jurisdictions within those countries, as well as U.S. federal and state tax laws. At December 31, 2006, the Company has a $627 million net deferred income tax asset and $216 million income tax refund receivable.

The carrying values of deferred income tax assets and liabilities reflect the application of our income tax accounting policies in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and are based on management's:

- assumptions and estimates about future operating results and levels of taxable income
- judgments regarding the interpretation of the provisions of Statement No. 109.

We assess carryforwards and tax credits for realization as a reduction of future taxable income by using a "more likely than not" determination. We have not recognized a U.S. deferred tax liability for undistributed earnings of certain foreign subsidiaries because they are considered permanently reinvested. Distributions may be subject to additional U.S. income taxes if we either distribute these earnings, or are deemed to have distributed these earnings, according to the Internal Revenue Code.

The carrying values of liabilities for income taxes currently payable are based on management's interpretation of applicable tax laws, and incorporate management's assumptions and judgments regarding the use of tax planning strategies in various taxing jurisdictions. Using different estimates,

assumptions and judgments in accounting for income taxes, especially those which deploy tax planning strategies, may result in materially different carrying values of income tax assets and liabilities and changes in our results of operations.

We operate in many foreign jurisdictions where tax laws relating to the insurance broking, consulting, and underwriting businesses are not well developed. In such jurisdictions, we obtain professional guidance and consider existing industry practices before using tax planning strategies and meeting our tax obligations. Tax returns are routinely subject to audit in most jurisdictions, and tax liabilities are frequently finalized through negotiations. While historically we have not experienced significant adjustments to previously recognized tax assets and liabilities as a result of finalizing tax returns, there can be no assurance that significant adjustments will not arise in the future. In addition, there are several factors that could increase the future level of uncertainty over our tax liabilities, including the following:

- During recent years, the portion of our overall operations conducted in foreign tax jurisdictions has been increasing, and we anticipate this trend will continue.

- To deploy tax planning strategies and conduct foreign operations efficiently, our subsidiaries frequently enter into transactions with affiliates, which are generally subject to complex tax regulations and are frequently reviewed by tax authorities.

- We may conduct future operations in certain tax jurisdictions where tax laws are not well developed, and it may be difficult to secure adequate professional guidance.

- Tax laws, regulations, agreements and treaties change frequently, requiring us to modify existing tax strategies to conform to such changes.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes which are recognized in a company's financial statements in accordance with Statement No. 109. FIN 48 prescribes a recognition threshold and measurement of a tax position taken, or expected to be taken, in a company's tax return. We are required to adopt FIN 48 in first quarter 2007 and are evaluating the impact FIN 48 will have, if any, on our consolidated financial statements.

REVIEW OF CONSOLIDATED RESULTS

General

In our discussion of operating results, we sometimes refer to supplemental information derived from consolidated financial information.

We use supplemental information related to organic revenue growth to help us and our investors evaluate business growth from existing operations. Organic revenue growth excludes from reported revenues the impact of foreign exchange rate changes, acquisitions, divestitures, transfers between business units, investment income, reimbursable expenses, and unusual items. Organic revenue growth for the underwriting segment is based on premiums written.

Supplemental organic revenue growth information should be viewed in addition to, not instead of, our consolidated statements of income. Industry peers provide similar supplemental information about their revenue performance, although they may not make identical adjustments.

Since we conduct business in more than 120 countries, foreign exchange rate fluctuations have a significant impact on our business. In comparison to the U.S. dollar, foreign exchange rate movements may be significant and may distort true period-to-period comparisons of changes in revenue or pretax income. Therefore, we have:

- isolated the impact of the change in currencies between periods by providing percentage changes on a comparable currency basis for revenue, and have disclosed the effect on earnings per share.

- provided this form of reporting to give financial statement users more meaningful information about our operations.

Some tables in the segment discussions reconcile organic revenue growth percentages to the reported revenue growth percentages for the segments and subsegments. We separately disclose the impact of foreign currency as well as the impact from acquisitions, divestitures, and transfers of business units, which represent the most significant reconciling items. In an "all other" category, we total other reconciling items that are not generally significant individually or in the aggregate. If there is a significant individual reconciling item within the "all other" category, we provide additional disclosure in a note.

Summary of Results for 2004 through 2006

The consolidated results of continuing operations follow:

(millions) Years ended December 31,	2006	2005	2004
Revenue:			
Commissions and fees	**$ 6,677**	$ 6,466	$ 6,591
Premiums and other	**1,918**	1,759	1,742
Investment income	**359**	271	274
Total consolidated revenue	**8,954**	8,496	8,607
Expenses:			
General expenses	**6,523**	6,346	6,339
Benefits to policyholders	**1,142**	952	940
Depreciation and amortization	**237**	260	279
Interest expense	**129**	125	136
Provision for New York and other state settlements	**3**	5	180
Total expenses	**8,034**	7,688	7,874
Income from continuing operations before provision for income tax	**$ 920**	$ 808	$ 733
Pretax margin continuing operations	**10.3%**	9.5%	8.5%

Consolidated Results for 2006 Compared to 2005

Revenue

During 2006, compared to the prior year:

Commissions and fees increased $211 million or 3% driven by 2% organic revenue growth in Risk and Insurance Brokerage and 4% organic revenue growth in Consulting.

Premiums and other increased $159 million or 9%, driven by 11% organic revenue growth in our accident & health and life business resulting from strong growth in our supplemental health product, partially offset by reductions in property and casualty runoff programs.

Investment income increased $88 million or 32%. The increase was driven primarily by higher interest rates and a $35 million gain recognized in connection with the contribution of a certain investment to a U.K. pension plan. Investment income includes related investment expense and income or loss on investment disposals and impairments.

Consolidated revenue by geographic area follows:

(millions) Years ended December 31,	2006	% of Total	2005	% of Total	2004	% of Total
Revenue by geographic area:						
United States	**$ 4,185**	**47%**	$ 3,932	46%	$ 4,116	48%
Americas, other than U.S.	**940**	**10**	844	10	763	9
United Kingdom	**1,384**	**16**	1,428	17	1,491	17
Europe, Middle East & Africa	**1,787**	**20**	1,672	20	1,644	19

(millions) Years ended December 31,		2006	% of Total		2005	% of Total		2004	% of Total
Asia Pacific		**658**	**7**		620	7		593	7
Total revenue	**$**	**8,954**	**100%**	$	8,496	100%	$	8,607	100%

We attribute revenues to geographic areas based on the location of the resources producing the revenues.

U.S. revenues increased $253 million or 6%, reflecting improved results in our retail business, increases in sales of our supplemental health product, and increased investment income.

Americas other than U.S. revenues increased $96 million or 11%, due to strong growth in Latin America.

U.K. revenues declined $44 million or 3% as improvements in our accident & health and life and consulting businesses were more than offset by softness in our retail and reinsurance lines.

Europe, Middle East & Africa revenues increased $115 million or 7%, as a result of acquisitions and organic revenue growth in our retail business.

Asia Pacific revenue increased $38 million to $658 million, driven by acquisitions and organic revenue growth in emerging markets in Asia.

Expenses

Total expenses increased $346 million or 5% from 2005 for three primary reasons:

General expenses increased $177 million or 3%, primarily reflecting increased compensation and benefits costs, unfavorable foreign exchange, and hedging losses.

Benefits to policyholders increased $190 million or 20% due to growth in our supplemental health product and property and casualty reserve strengthening.

Depreciation and amortization decreased $23 million reflecting asset disposals and impairments in prior years.

Income from Continuing Operations Before Provision for Income Tax

Income from continuing operations was $920 million compared to $808 million in 2005. The increase in income was driven by organic revenue growth across each segment along with estimated restructuring savings of $119 million, partially offset by increases in benefits to policyholders and higher compensation and benefits costs.

Provision for Income Taxes

The effective tax rate on income from continuing operations was 32.0% in 2006 and 29.7% in 2005.

Differences between the overall effective tax rate and the U.S. federal statutory rate are typically due to U.S. state income taxes and differences between U.S. and international tax rates. Changes in the mix between our U.S. and international pretax income directly affect our effective tax rates. In 2006 and 2005, our effective tax rate also reflects the favorable resolution of tax examination issues, adjustments, and tax credits. For a summary of these effects, please see the rate reconciliation provided in Note 9 to the consolidated financial statements.

Income from Continuing Operations

In 2006, compared to 2005:

Income from continuing operations rose to $626 million ($1.86 per diluted income per share) from $568 million ($1.68 per diluted income per share). Hedging and currency translation losses were $0.03 and $0.04 per share, respectively, which were included in income from continuing operations in 2006. Hedging and currency translation gains of $0.08 and $0.05 per share, respectively, were included in 2005.

Basic income per share from continuing operations increased to $1.98 from $1.75.

To compute income per share in 2005, we have deducted dividends paid on the redeemable preferred stock from net income. The redeemable preferred stock was redeemed and retired in September 2005. To comply with Emerging Issues Task Force (EITF) No. 04-8, *The Effect of Contingently Convertible Investments on Diluted Earnings per Share*, we increased diluted shares outstanding by 14 million to reflect the possible conversion of Aon's 3.5% convertible debt securities. When calculating the diluted income per share, we added after-tax interest expense on these debt securities to income from continuing operations.

Discontinued Operations

After-tax income from discontinued operations was:

$93 million in 2006 ($0.29 and $0.27 per basic and diluted income per share, respectively). These results include eleven months of operations of AWG and CPG, as those businesses were sold on November 30, 2006, and the gain on the sale of those operations ($0.03 per both basic and diluted income per share).

$167 million in 2005 ($0.52 and $0.49 per basic and diluted income per share, respectively). Results in 2005 include twelve months of results for AWG and CPG ($0.22 per basic and $0.21 diluted income per share), along with nine months of operations and the gain on sale ($0.33 per basic and $0.31 per diluted income per share) of our Swett & Crawford operation.

Consolidated Results for 2005 Compared to 2004

Revenue

In 2005, compared to the prior year:

Commissions and fees decreased by $125 million or 2%, driven by $100 million in lower contingent commission revenue and net dispositions of $168 million, partially offset by strong renewals and new business.

Premiums and other increased $17 million or 1%, driven by growth in our core products and favorable exchange rates, partially offset by reductions in runoff programs.

Investment income decreased $3 million or 1%. Investment income includes related investment expense and income or loss on investment disposals and impairments.

By Geography:

U.S. revenue, which represented 46% of total revenue, decreased $184 million or 4%. The decrease primarily reflected the 2004 sale of Cambridge.

Americas other than U.S. revenue increased 11% to $844 million, as a result of growth in Latin America and favorable foreign exchange rates.

U.K. revenue decreased $63 million or 4%; this decline reflected a soft U.K. market and changes in the model for compensation from underwriters, partially offset by a refinement in the techniques we used to estimate installment revenue in the U.K., which added $23 million to revenue in 2005.

Europe, Middle East & Africa revenue increased 2% to $1.7 billion, due to higher revenue in France, Austria, Sweden and Africa.

Asia Pacific revenue increased $27 million or 5% to $620 million, reflecting growth in Japan, Australia and New Zealand.

Expenses

Total expenses decreased $186 million or 2% from 2004 for three primary reasons:

- The 2004 expense from the New York Attorney General ("NYAG") and other regulatory authorities as well as the Daniel class action settlements, which accounted for $220 million of expenses in 2004.

- Cambridge expenses, which were $223 million in 2004. This unit was sold in the fourth quarter of 2004.

- Our continued focus on reducing expenses.

These favorable impacts were partially offset by $158 million in restructuring related expenses.

Income from Continuing Operations Before Provision for Income Tax

Income from continuing operations before provision for income tax increased $75 million to $808 million; as previously discussed, this fluctuation reflects several significant items.

Provision for Income Taxes

Differences between the overall effective tax rate and the U.S. federal statutory rate are typically due to U.S. state income taxes and differences between U.S. and international tax rates. Changes in the mix between our U.S. and international pretax income directly affect our effective tax rates.

The effective tax rate on income from continuing operations was:

- **29.7% in 2005** reflecting the favorable resolution of tax examination issues

- **34.0% in 2004** which was reduced by a one-time tax benefit resulting from the difference between our tax and book basis in Cambridge, which was sold in 2004.

Income from Continuing Operations

In 2005, compared to 2004:

- **Income from continuing operations** increased to $568 million ($1.68 per diluted income per share) from $484 million ($1.45 per diluted income per share). Hedging and currency translation gains added $0.08 and $0.05 per share, respectively, to income from continuing operations in 2005. In 2004, hedging and currency translation gains were $0.11 and $0.07 per share, respectively.

- **Basic income per share from continuing operations** rose to $1.75 from $1.51.

To compute income per share, we deducted dividends paid on the redeemable preferred stock from net income. To comply with EITF No. 04-8, we increased diluted shares outstanding by 14 million to reflect the possible conversion of Aon's 3.5% convertible debt securities. When calculating the diluted income per share, we added after-tax interest expense on these debt securities to income from continuing operations.

Discontinued Operations

After-tax income from discontinued operations was:

$167 million in 2005 ($0.52 and $0.49 per basic and diluted income per share, respectively). This increase was due to improved operations at AWG and CPG, along with the gain on the sale of our Swett & Crawford operation ($0.33 and $0.31 per basic and diluted income per share, respectively), partially offset by lower operating results at Swett.

$59 million in 2004 ($0.18 per both basic and diluted income per share).

REVIEW BY SEGMENT

General

Aon classifies its businesses into three operating segments: Risk and Insurance Brokerage Services, Consulting and Insurance Underwriting (see Note 17 to the consolidated financial statements for further information).

Aon's operating segments are identified as those that:

- report separate financial information
- are evaluated regularly when we are deciding how to allocate resources and assess performance.

Segment revenue includes investment income generated by invested assets of that segment, as well as the impact of related derivatives. Investment characteristics mirror liability characteristics of the respective segments:

- Our Risk and Insurance Brokerage Services and Consulting businesses invest funds held on behalf of clients and operating funds in short-term obligations.
- In Insurance Underwriting, policyholder claims and other types of non-interest sensitive insurance liabilities are primarily supported by intermediate to long-term fixed-maturity instruments. For this business segment, operating invested assets are approximately equal to average net policy liabilities.
- Our insurance subsidiaries have invested assets that exceed net policy liabilities, which allow us to maintain solid claims paying ratings. Income from these investments is reflected in unallocated revenues.

The following tables and commentary provide selected financial information on the operating segments.

(millions) **Years ended December 31,**	**2006**	2005	2004
Operating segment revenue: (1)			
Risk and Insurance Brokerage Services	**$ 5,628**	$ 5,367	$ 5,468
Consulting	**1,282**	1,255	1,247
Insurance Underwriting	**2,046**	1,875	1,848
Income before income tax:			
Risk and Insurance Brokerage Services	**$ 841**	$ 702	$ 562
Consulting	**120**	110	105
Insurance Underwriting	**137**	185	181
Pretax margins:			
Risk and Insurance Brokerage Services	**14.9%**	13.1%	10.3%
Consulting	**9.4%**	8.8%	8.4%
Insurance Underwriting	**6.7%**	9.9%	9.8%

(1) Intersegment revenues of $59 million, $46 million and $58 million were included in 2006, 2005 and 2004, respectively. See Note 17 to the consolidated financial statements for further information.

Risk and Insurance Brokerage Services

Aon is a leader in many sectors of the insurance industry: globally, it is the largest insurance broker, the largest reinsurance broker, and the leading manager of captive insurance companies worldwide. These rankings are based on the most recent surveys compiled and reports printed by *Business Insurance.*

Changes in premiums have a direct and potentially material impact on the insurance brokerage industry, as commission revenues are generally based on a percentage of the premiums paid by insureds.

Insurance premiums are cyclical in nature and may vary widely based on market conditions. Heavier than anticipated loss experience or capital shortages can result in increasing premium rates, which is referred to as a "hard market." A hard market tends to favorably impact commission revenues. Conversely, increased competition for market share among insurance carriers or increased underwriting capacity can result in flat or reduced premium rates, or a "soft market." A soft market tends to put downward pressure on commission revenues. Hard and soft markets may be broad-based or more narrowly focused across certain product lines or geographic areas.

Risk and Insurance Brokerage Services generated approximately 63% of Aon's total operating segment revenues in 2006. Revenues are generated primarily through:

- fees paid by clients
- commissions and fees paid by insurance and reinsurance companies
- interest income on funds held on behalf of clients.

Our revenues vary from quarter to quarter throughout the year as a result of:

- the timing of our clients' policy renewals
- the net effect of new and lost business
- the timing of services provided to our clients
- the income we earn on investments, which is heavily influenced by short-term interest rates.

Our risk brokerage companies operate in a highly competitive industry and compete with many retail insurance brokerage and agency firms, as well as with individual brokers, agents, and direct writers of insurance coverage. Specifically, this segment:

- addresses the highly specialized product development and risk management needs of commercial enterprises, professional groups, insurance companies, governments, healthcare providers, and non-profit groups, among others
- provides affinity products for professional liability, life, disability income, and personal lines for individuals, associations, and businesses
- provides reinsurance services to insurance and reinsurance companies and other risk assumption entities by acting as brokers or intermediaries on all classes of reinsurance
- provides managing underwriting and premium finance services to independent agents and brokers as well as corporate clients

provides actuarial, loss prevention, and administrative services to businesses and consumers

manages captive insurance companies.

We review our revenue results using the following subsegments:

Risk Management and Insurance Brokerage encompasses our retail brokerage services, affinity products, managing general underwriting, placement and captive management services, and premium finance services in the following areas: *Americas; United Kingdom; Europe, Middle East & Africa; and Asia Pacific.*

Reinsurance Brokerage and Related Services (Reinsurance) offers sophisticated advisory services in program design and claim recoveries that:

enhance the risk/return characteristics of insurance policy portfolios

improve capital utilization

evaluate and mitigate catastrophic loss exposures worldwide.

Claims Services (Claims) offered claims administration and loss cost management services. We exited these activities in 2004 by selling our U.S. and U.K. claims administration businesses.

Revenue

This table details Risk and Insurance Brokerage Services revenue by subsegment:

(millions) Years ended December 31,	**2006**	**2005**	**2004**
Americas	**$ 2,319**	$ 2,139	$ 2,038
United Kingdom	**732**	792	808
Europe, Middle East & Africa	**1,177**	1,150	1,123
Asia Pacific	**478**	441	426
Reinsurance	**922**	845	861
Claims			212
Total revenue	**$ 5,628**	$ 5,367	$ 5,468

In 2006, revenue increased $261 million or 5% from 2005 due to growth in our retail and reinsurance operation and higher investment income, partially offset by weakness in the U.K.

This table reconciles organic revenue growth to reported revenue growth in 2006 versus 2005:

Year ended December 31, 2006	**Reported Revenue Growth**	**Less: Currency Impact**	**Less: Acquisitions, Divestitures & Transfers**	**Less: All Other**	**Organic Revenue Growth**
Americas	8%	1%	2%	2%	3%
United Kingdom	(8)	1	(3)	(4)	(2)
Europe, Middle East & Africa	2	(1)	3	(2)	2
Asia Pacific	8	(1)	3	1	5
Reinsurance	9	(1)	1	6	3
Total revenue	5%	%	2%	1%	2%

Organic revenue growth for the entire segment was 2%.

The 8% reported growth in **Americas** reflects:

- improved performance in U.S. retail
- a $35 million gain related to the contribution of a preferred stock investment to one of our U.K. pension plans, received in connection with the sale of our Cambridge operation.

the transfer of certain small businesses from Consulting

increased investment income

favorable foreign exchange rates.

U.K. revenue fell 8%. Organic revenue decreased 2%, driven by revenue declines from soft pricing, low retention rates, and lower new business. In addition, 2005 revenue included $23 million resulting from refinement of the techniques we used to estimate revenues on installment contracts. This refinement has been excluded from our calculation of organic revenue growth.

Europe, Middle East & Africa revenue was up 2%, driven by acquisitions and organic revenue growth especially in Africa, the Middle East, Netherlands, Spain, and France, and partially offset by declines in Germany and the Nordic region.

Asia Pacific revenue rose 8%, driven by acquisitions and organic growth in emerging markets in Asia.

Reinsurance revenue improved 9%, due to higher investment income and organic revenue growth in most areas of the world.

This table shows Risk and Insurance Brokerage Services revenue by geographic area and total pretax income:

(millions) **Years ended December 31,**	**2006**	**% of Total**	**2005**	**% of Total**	**2004**	**% of Total**
Revenue by geographic area:						
United States	**$ 2,133**	**38%**	$ 1,982	37%	$ 2,122	39%
Americas, other than U.S.	**586**	**10**	530	10	495	9
United Kingdom	**946**	**17**	1,021	19	1,056	19
Europe, Middle East & Africa	**1,439**	**26**	1,344	25	1,319	24
Asia Pacific	**524**	**9**	490	9	476	9
Total revenue	**$ 5,628**	**100%**	$ 5,367	100%	$ 5,468	100%
Income before income tax	**$ 841**		$ 702		$ 562	

U.S. revenue rose 8% over 2005 as a result of organic revenue growth, increased investment income, including the gain on the contribution of a preferred stock, and the realignment of certain businesses from Consulting.

Americas other than U.S. revenue increased 11% due to growth in Latin America.

The decline in **U.K. revenues** reflect low retention rates, lower new businesses, and the restructuring of the U.K. insurance market.

Europe, Middle East & Africa and Asia Pacific revenue both rose 7%, due to acquisitions and organic revenue growth.

Income Before Income Tax

Pretax income increased $139 million or 20% from 2005 to $841 million. In 2006, pretax margins in this segment were 14.9%, up from 13.1% in 2005.

Our results improved primarily as a result of five factors:

estimated savings of $97 million achieved as a result of the restructuring program

an increase in investment income of $67 million, including the $35 million gain on the contribution of a preferred stock

- improved margins in U.S. retail
- a $30 million gain on the sale of a building in Spain
- $7 million reduction in restructuring charges.

Negative impacts to this year's income and margins included higher staff expense, driven principally by increased incentives and benefit costs.

Consulting

Aon Consulting is one of the world's largest integrated human capital consulting organizations. Our consulting segment:

- provides a broad range of consulting services
- generated 14% of Aon's total operating segment revenues in 2006.

We review our revenue results using the following subsegments:

- *Consulting Services*, which provides consulting services in six practice areas:

  1. *Employee Benefits* advises clients about how to structure, fund, and administer employee benefit programs that attract, retain, and motivate employees. Benefits consulting includes health and welfare, retirement, executive benefits, absence management, compliance, employer commitment, investment advisory and elective benefit services.
  2. *Compensation* focuses on designing salary, bonus, commission, stock option, and other pay structures, with special expertise in the financial services and technology industries.
  3. *Management Consulting* assists clients in process improvement and design, leadership, organization and human capital development, and change management.
  4. *Communications* advises clients on how to communicate initiatives that support their corporate vision.
  5. *Strategic Human Resource Consulting* advises complex global organizations on talent, change and organization effectiveness issues, including assessment, selection performance management, succession planning, organization design and related people-management programs.
  6. *Financial Advisory and Litigation Consulting* provide consulting services including white collar and financial statement investigation, securities litigation, financial due diligence, financial valuation services, and other related specialties.

- *Outsourcing,* which offers employment processing, performance improvement, benefits administration and other employment-related services.

Revenue

In 2006, revenues of $1,282 million were 2% over 2005. Revenue on an organic basis was up 4% from last year.

This table details Consulting revenue by subsegment.

(millions) Years ended December 31,	2006	2005	2004
Consulting services	**$ 989**	$ 981	$ 949
Outsourcing	**293**	274	298
Total revenue	**$ 1,282**	$ 1,255	$ 1,247

This table reconciles organic revenue growth to reported revenue growth in 2006 versus 2005.

Year ended December 31, 2006	Reported Revenue Growth	Less: Currency Impact	Less: Acquisitions, Divestitures & Transfers	Less: All Other	Organic Revenue Growth
Consulting services	1%	1%	(4)%	%	4%
Outsourcing	7	1	2	(1)	5
Total revenue	2%	1%	(2)%	(1)%	4%

On a subsegment basis, Consulting services was up $8 million or 1%, resulting from:

- Growth in the U.K., driven by pension revaluation engagements mandated by recent pension reforms in that country
- Revenue from our new Financial Advisory and Litigation Consulting practice
- Growth in compensation consulting.

This growth more than offset a decline in our health and welfare practice and the transfer of certain small units to the Risk and Insurance Brokerage Services segment.

Outsourcing revenue rose 7% during the year, due primarily to $13 million of fees we received from a client terminating an outsourcing contract, as well as from an acquisition made late in 2005.

This table shows Consulting revenue by geographic area and pretax income:

(millions) Years ended December 31,	2006	% of Total	2005	% of Total	2004	% of Total
Revenue by geographic area:						
United States	**$ 708**	**55%**	$ 730	58%	$ 754	61%
Americas, other than U.S.	**113**	**9**	100	8	91	7
United Kingdom	**228**	**18**	206	16	213	17
Europe, Middle East & Africa	**197**	**15**	186	15	162	13
Asia Pacific	**36**	**3**	33	3	27	2
Total revenue	**$ 1,282**	**100%**	$ 1,255	100%	$ 1,247	100%

(millions) Years ended December 31,	2006	% of Total	2005	% of Total	2004	% of Total
Income before income tax	**$ 120**		$ 110		$ 105	

U.S. revenue decreased in 2006, primarily reflecting lower revenue in the health and welfare practice, offset in part by the termination fee previously noted.

Americas other than U.S. revenue grew 13%, reflecting improved results in Canada and favorable foreign exchange.

United Kingdom revenue rose 11%, due to growth in pension revaluation consulting as discussed previously.

Europe, Middle East & Africa and Asia Pacific increases were due to organic revenue growth.

Income Before Income Tax

Pretax income was $120 million, up $10 million or 9% from 2005. 2006 pretax margins in this segment were 9.4%, up from 8.8% in 2005.

The following items affected the year-to-year comparisons:

- Organic revenue growth, especially in the U.K., increased income before income tax and pretax margins.
- Start-up costs for the Financial Advisory & Litigation Consulting practice reduced both profits and margins.
- Restructuring costs increased $12 million over 2005.

The $13 million termination fee discussed above was offset by $13 million of expenses related to the termination of the contract, resulting in no net impact to income before income taxes.

Insurance Underwriting

The Insurance Underwriting segment:

- provides accident, health, and life insurance coverage mostly through direct distribution networks, primarily through more than 7,000 career insurance agents working for our subsidiaries. Our revenues are affected by our success in attracting and retaining these career agents.
- previously offered select commercial property and casualty business on a limited basis through managing general underwriters. We have ceased writing property and casualty business and have placed all programs in runoff.
- has operations in the U.S., Canada, Europe, and Asia Pacific.
- generated approximately 23% of Aon's total operating segment revenues in 2006.

Revenue

Written premiums and fees are the basis for organic revenue growth in this segment; however, reported revenues reflect earned premiums and fees.

We review our revenue results using the following subsegments:

- *Accident & Health and Life*, through which we provide an array of accident, sickness, short-term disability, and other insurance products. Most of these products are primarily fixed-indemnity obligations and are not subject to escalating medical cost inflation.
- *Property and Casualty* We have ceased writing property and casualty business. This subsegment is entirely composed of runoff liabilities pertaining to various personal and commercial risks we formerly underwrote, such as:
  - professional liability errors and omissions
  - excess liability
  - workers' compensation

commercial property and casualty risk.

In this subsegment, we formerly included the results of our warranty and credit operations, as well as a portion of our specialty property and casualty business, CPG. We divested these businesses in

November 2006, as discussed in Key Recent Events, and the results of those businesses and the sale transactions are included in discontinued operations.

The table below reflects written and earned premiums and associated reserves:

(millions) Years ended December 31,	2006	2005	2004
Written premiums:			
Accident & health and life	**$ 1,466**	$ 1,476	$ 1,461
Property & casualty	**34**	13	104
Total Insurance Underwriting	**$ 1,500**	$ 1,489	$ 1,565
Earned premiums:			
Accident & health and life	**$ 1,884**	$ 1,696	$ 1,620
Property & casualty	**34**	63	122
Total Insurance Underwriting	**$ 1,918**	$ 1,759	$ 1,742
Policy and Contract Claim Liabilities:			
Accident & health and life	**$ 506**	$ 428	$ 422
Property & casualty (1)	**150**	1,022	1,068
Total Insurance Underwriting	**$ 656**	$ 1,450	$ 1,490

(1) See Note 10 to the consolidated financial statements for additional information.

This table details Insurance Underwriting revenue by subsegment:

(millions) Years ended December 31,	2006	2005	2004
Accident & health and life	**$ 2,005**	$ 1,805	$ 1,721
Property & casualty	**41**	70	127
Total revenue	**$ 2,046**	$ 1,875	$ 1,848

This table reconciles organic revenue growth to reported revenue growth in 2006 versus 2005:

Year ended December 31, 2006	Reported Revenue Growth	Less: Currency Impact	Less: All Other(1)	Organic Revenue Growth
Accident & health and life	11%	1%	(1)%	11%
Property & casualty	(41)	N/A	N/A	N/A
Total revenue	9%	1%	(5)%	13%

(1)

The difference between written and earned premiums and fees, as a percentage change, was (1)% for accident & health and life and (2)% for total revenue.

(2) Organic revenue growth for property and casualty is no longer meaningful as the remaining business is in run-off.

In 2006, revenues of $2.0 billion increased 9% over 2005.

In Accident & health and life, revenue increased $200 million, or 11%, primarily driven by strong growth in a supplemental health product, favorable impact from foreign exchange rates, and higher investment income.

Property & casualty revenue decreased $29 million, primarily due to the decision to run off the property and casualty business in 2006.

This table details Insurance Underwriting revenue by geographic area and pretax income:

(millions) Years ended December 31,		2006	% of Total		2005	% of Total		2004	% of Total
Revenue by geographic area:									
United States	$	**1,397**	**68%**	$	1,267	68%	$	1,226	66%
Americas, other than U.S.		**212**	**10**		189	10		167	9
United Kingdom		**202**	**10**		194	10		215	12
Europe, Middle East & Africa		**143**	**7**		134	7		155	8
Asia Pacific		**92**	**5**		91	5		85	5
Total revenue	$	**2,046**	**100%**	$	1,875	100%	$	1,848	100%
Income before income taxes	$	**137**		$	185		$	181	

Improvements in revenues from:

U.S. represents growth in a supplemental health product which more than offset a decline in other accident & health and life core products.

Americas other than U.S. reflect organic revenue growth in Canada, along with favorable foreign exchange rates.

The U.K. and Europe, Middle East & Africa represents organic revenue growth.

Income Before Income Tax

Pretax income of $137 million decreased 26% from 2005. Pretax margins fell from 9.9% in 2005 to 6.7% in 2006. Both decreases are primarily attributable to an $81 million reserve increase recorded in third quarter 2006 in our property and casualty subsegment. See the Key Recent Events section.

Unallocated Income and Expense

Unallocated income consists primarily of investment income (including income or loss on investment disposals and other-than-temporary impairment losses), which is not otherwise reflected in the operating segments. We include:

invested assets and related investment income not directly required to support the risk and insurance brokerage services and consulting businesses

the assets in excess of net policyholder liabilities of the insurance underwriting subsidiaries and related income.

Unallocated income included:

income from Endurance common stock, which was accounted for under the equity method before the sale of virtually all of our holdings in December 2004

changes in the valuation of Endurance warrants. Through March 31, 2006, we carried our investment in Endurance warrants at fair value and recorded changes in the fair value through unallocated investment income. On March 31, 2006, the investment in Endurance warrants was contributed to our U.K. pension plans.

Private equities are principally carried at cost; however, where we have significant influence, they are carried under the equity method. These investments usually do not pay dividends. Limited partnerships (LP) are accounted for under the equity method and changes in the value of the underlying LP investments flow through unallocated investment income.

Unallocated income rose $12 million in 2006 to $57 million. Increased investment income due to higher interest rates and amounts invested, along with lower losses on disposals of securities more than offset the impact of negative mark-to-market adjustments to our Endurance warrants in 2006 ($17 million), versus a positive adjustment in 2005 ($10 million).

Unallocated expenses include corporate governance costs not attributable to the operating segments. These expenses decreased to $106 million in 2006 from $109 million in 2005.

Interest expense, which represents the cost of our worldwide debt obligations, rose $4 million in 2006 to $129 million due to carrying higher debt balances and refinancing part of our Euro facility balance to a 5.05% fixed rate note due in 2011.

FINANCIAL CONDITION AND LIQUIDITY

Liquidity

Our operating subsidiaries obtain their liquidity through selling their products and services and collecting their receivables. Funds collected are used to pay creditors and employees and to fund acquisitions. Funds that we are holding on behalf of clients and to satisfy policyholder liabilities are segregated and are not available for other uses. We believe that our operating subsidiaries will have adequate liquidity to meet their needs in the foreseeable future and to provide funds to the parent company. Payment of dividends from our underwriting subsidiaries are limited by government regulation and depend on the surplus and future earnings of these subsidiaries.

Our parent company's routine liquidity needs include paying corporate expenses, servicing debt and paying dividends on Aon's outstanding stock. Our primary source for meeting these requirements is from dividends and internal financing from our operating subsidiaries. Other uses of available liquidity are for capital expenditures and the repurchase of common stock.

Cash in our consolidated statements of financial position includes funds available for operations.

During 2006, we:

- paid the second $76 million installment of the $190 million required under the settlement we reached with the NYAG and other regulatory authorities. We are scheduled to pay the remaining $38 million in 2007. In addition to the NYAG and other regulatory authorities' investigations, we have $40 million accrued for the settlement in the Daniel class action lawsuit and related costs.

- received approximately $800 million in gross cash proceeds from the sales of AWG and CPG.

- spent $1,048 million to repurchase 28.4 million of our outstanding shares of common stock.

In 2006, total cash contributions to our major defined benefit pension plans were $185 million. In addition, we contributed $166 million of non-cash financial instruments to our U.K. pension plans. The total contributed of $351 million represents a $112 million decrease from 2005. Under current rules and assumptions, we currently anticipate 2007 contributions to our major defined benefit pension plans of approximately $233 million.

In connection with one of our U.K. pension plans, our principal U.K. subsidiary has agreed with the trustees of the plan to contribute £20 million ($39 million) per year to the plan for six years with the amount payable increasing by 5.3% on each January 1, which began in 2005. These contributions are in addition to the normal employer contributions to the plan. The trustees of the plan:

- have certain rights to request that our U.K. subsidiary advance an amount equal to an actuarially determined winding-up deficit. As of December 31, 2005, the estimated winding-up deficit was £350 million ($688 million at December 31, 2006 exchange rates).

- have accepted in practice the agreed-upon schedule of contributions and have not requested an advance.

Cash Flows

Cash flows from operations represent the net income we earned in the reported periods adjusted for non-cash charges and changes in operating assets and liabilities.

Cash flows provided by operating activities for the twelve months ended December 31, 2006 and 2005 are as follows:

(millions) Twelve months ended December 31	2006	2005
Insurance Underwriting operating cash flows (including AWG)	**$ 522**	$ 423
All other operating cash flows	**596**	463
	$ 1,118	$ 886
Change in funds held on behalf of brokerage and consulting clients	**(150)**	
Cash provided by operating activities	**$ 968**	$ 886

Insurance Underwriting operating cash flows

For cash flow reporting, our insurance underwriting operations include accident & health and life and warranty, credit and property & casualty businesses. These insurance products have distinct differences in the timing of premiums earned and payment of future liabilities.

The operating cash flow from our insurance subsidiaries, which also includes related corporate items, was $522 million for 2006, an increase of $99 million compared to 2005. Included in these cash flows are the operations of AWG and CPG through November 30, 2006, the date of sale. The increase in operating cash flows was primarily related to organic revenue growth. For 2006, operating cash flows, analyzed by major income statement component, indicated that premium and other fees collected, net of reinsurance, were $3,546 million compared to $3,193 million in 2005. Investment and other miscellaneous income received was $235 million and $227 million in 2006 and 2005, respectively. Investment income improved in 2006 due to favorable interest rates and an increase in invested assets.

We used revenues generated from premiums, investments and other miscellaneous income to pay claims and other cash benefits, commissions, general expenses and taxes. Claims and other cash benefits paid were $1,632 million in 2006 versus $1,393 million in 2005. Commissions and general expenses paid were $1,483 million for 2006, compared to $1,446 million in 2005. Tax payments for 2006 were $144 million compared to $158 million last year.

We will invest and use operating cash flows to satisfy future benefits to policyholders and when appropriate, make them available to pay dividends to the Aon parent company. During 2006, Combined Insurance Company of America, one of our major underwriting subsidiaries, declared and paid a cash dividend of $250 million to Aon. At the time of sale, AWG made a dividend to Aon of $361 million, of which $66 million was in cash and $295 million was a dividend-in-kind, which were primarily equity investments. Aon received proceeds of $662 million from the sale of AWG and CPG, net of direct costs and cash sold.

Generally, we invest in highly liquid and marketable investment grade securities to support policy liabilities. These invested assets are subject to insurance regulations set forth by the various governmental jurisdictions in which we operate, both domestically and internationally. The insurance regulations may restrict both the quantity and quality of various types of assets within the portfolios.

Our insurance subsidiaries' policy liabilities are segmented among multiple accident and health and property casualty portfolios. Those portfolios have widely varying estimated durations and interest rate characteristics. Generally, our policy liabilities are not subject to interest rate volatility risk. Therefore, in many of the portfolios, asset and policy liability duration are not closely matched. Interest rate sensitive policy liabilities are generally supported by floating rate assets.

Funds held on behalf of clients

In our Risk and Insurance Brokerage Services and Consulting segments, we typically hold funds on behalf of clients as a result of:

- premiums received from clients that are in transit to insurers. These premiums held on behalf of, or due from, clients are reported as assets with a corresponding liability due to the insurer.

- claims due to clients that are in transit from insurers. Claims held by, or due to us and which are due to clients, are also shown as both assets and liabilities.

These funds held on behalf of clients are generally invested in interest bearing trust accounts and can fluctuate significantly depending on when we collect cash from our clients and when premiums are remitted to the insurance carriers.

All other operating cash flows

The operating cash flow from our Risk and Insurance Brokerage Services and Consulting segments, as well as related corporate items, was $596 million in 2006 compared to $463 million in 2005. These amounts exclude the change in funds held on behalf of clients as described above. The operating cash flows depend on the timing of receipts and payments related to revenues, incentive compensation, other operating expenses and income taxes. Comparing 2006 to 2005, the net increase in cash from our Risk and Insurance Brokerage Services and Consulting segments and related corporate items of $133 million was primarily influenced by higher non-cash incentives, investment income, and organic revenue growth.

Aon uses the excess cash generated by our brokerage and consulting businesses as well as dividends received from our insurance company subsidiaries to meet its liquidity needs, which consist of servicing its debt, paying dividends to its stockholders and repurchasing outstanding shares.

Investing and Financing Activities

We used the consolidated cash flow from operations (net of funds held on behalf of clients) for:

- investing activities of $190 million. The cash flows used by investing activities included purchases of investments, net of sales, of $582 million; capital expenditures, net of disposals, of $152 million; and cash provided by investing activities from divestitures of subsidiaries, net of acquisitions, of $544 million.

- financing needs of $964 million. Financing uses primarily included cash dividends paid to shareholders of $189 million, and net share activity of $916 million. Financing provided cash of $141 million from debt issuances, net of repayments.

Financial Condition

Comparing year-end 2006 with year-end 2005:

- **Total assets** decreased $3.5 billion to $24.3 billion. The major reason for the decline is the sale of AWG and CPG, which had assets of $4.2 billion at December 31, 2005.

- **Total investments** increased $0.5 billion to $7.6 billion. Fixed maturities increased $138 million. Short-term investments increased $452 million, primarily as a result of funds received in connection with the sales of AWG and CPG.

Risk and Insurance Brokerage Services and Consulting premium and fee receivables increased $668 million. **Insurance premiums payable** increased $324 million over the same period. The increase in receivables and payables reflects:

- the timing of receipts and payments
- client demands for risk programs
- the effect of foreign exchange rates.

Other assets decreased $180 million. Other assets are comprised principally of prepaid premiums related to reinsurance and prepaid pension assets. The decline from last year primarily reflects the impact of adopting FASB Statement No. 158 in 2006.

Policy liabilities decreased $652 million to $2.8 billion due to a decline in policy and contract claims. **Other receivables** declined in a similar manner. In connection with the sale of AWG and CPG, certain reinsured property and casualty balances that were previously reported in policy liabilities and other receivables are no longer direct obligations of Aon and, therefore, are no longer reported in Aon's consolidated statement of financial position. Aon has issued a corporate guarantee covering these reinsurance balances. See Note 10 to the consolidated financial statements for further information.

Investments

We invest in broad asset categories related to our diversified operations. In managing our investments, our objective is to maximize earnings while monitoring asset and liability durations, interest and credit risks, and regulatory requirements.

We do not allocate to the operating segments:

- invested assets or related investment income not directly required to support the insurance brokerage and consulting businesses

or

- assets in excess of net policyholder liabilities of the underwriting business and related income.

These insurance assets are publicly traded equities, as well as less liquid private equities and LPs. These assets, owned by the insurance underwriting companies:

- are necessary to support strong claims paying ratings by independent rating agencies
- are unavailable for other uses, such as debt reduction or share repurchases, without considering regulatory requirements (see Note 11 to the consolidated financial statements).

See Note 7 to our consolidated financial statements for more information on our investments.

Borrowings

Total debt at December 31, 2006, was $2.3 billion, an increase of $173 million from December 31, 2005. Our notes payable increased by $138 million compared to year-end 2005. This increase results from issuing CAD 375 million (U.S. $323 million at December 31, 2006) of 5.05% senior unsecured debentures due in 2011, offset by a partial reduction in the amount borrowed under our Euro credit facility. Our total debt as a percentage of total capital was 30.5% and 28.4% at December 31, 2006 and 2005, respectively.

We have disclosed future payments of notes payable and operating lease commitments (with initial or remaining non-cancelable lease terms in excess of one year) in Note 8 to the consolidated financial statements.

In 2002, we completed an offering of $300 million aggregate principal amount of 3.5% convertible senior debentures due 2012. The debentures are unsecured obligations and are convertible into our common stock at an initial conversion price of approximately $21.475 per common share under certain circumstances, including the following:

If the closing price of our common stock during any fiscal quarter exceeds 120% of the conversion price (i.e. $25.77) for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the previous fiscal quarter.

Or

Subject to certain exceptions, during five business days after any ten consecutive trading days in which the trading price per $1,000 principal amount of the debentures for each day of the ten trading day period was less than 95% of the product of the closing sale price of our common stock and the number of shares issuable upon conversion of $1,000 principal amount of the debentures.

Aon has reserved approximately 14 million shares for the potential conversion of these debentures.

At December 31, 2006, we had a $600 million unused U.S. committed bank credit facility, which expires in February 2010, to support commercial paper and other short-term borrowings. This facility allows us to issue up to $150 million in letters of credit.

We also have several foreign credit facilities available. At December 31, 2006, we had available to us:

a five-year €650 million ($853 million) multi-currency facility, of which $403 million was outstanding at December 31, 2006. See Note 8 to the consolidated financial statements for further discussion on both the U.S. and Euro facilities.

£37.5 million ($74 million) facility, a 364-day 10 million Canadian dollar (U.S. $9 million) facility, and a 364-day €25 million (U.S. $33 million) facility.

a €20 million (U.S. $26 million) open-ended facility.

The major rating agencies' ratings of our debt at February 19, 2007 appear in the table below:

	Senior long-term debt		**Commercial paper**	
	Rating	**Outlook**	**Rating**	**Outlook**
Standard & Poor's	BBB+	Stable	A-2	Positive
Moody's Investor Services	Baa2	Positive	P-2	Positive
Fitch, Inc.	BBB+	Stable	F-2	Stable

During 2006, Moody's Investor Services changed its outlook on Aon to positive from stable for both our senior long-term debt and commercial paper. Standard & Poor's changed its outlook on Aon's senior long-term debt from positive to stable.

A downgrade in the credit ratings of our senior debt and commercial paper would:

increase our borrowing costs and reduce our financial flexibility.

increase our commercial paper interest rates or possibly restrict our access to the commercial paper market altogether. Although we have committed backup lines, we cannot ensure that our financial position will not be hurt if we can no longer access the commercial paper market.

Stockholders' Equity

Stockholders' equity decreased $99 million during 2006 to $5.2 billion, driven primarily by an $886 million increase in treasury stock repurchases, net of reissuance of stock in connection with employee benefit plans. Offsetting this decline were increases in equity of:

- $720 million of net income
- $178 million in paid-in-capital principally due to stock issued in connection with employee benefit plans.

Accumulated other comprehensive loss decreased $145 million since December 31, 2005. Compared to year-end 2005:

- net foreign exchange translation increased by $237 million because of the weakening of the U.S. dollar against foreign currencies
- net derivative gains increased $26 million
- net unrealized investment gains rose $21 million
- our net additional minimum pension liability adjustment decreased by $210 million.

In addition, the impact of the adoption of Statement No. 158 increased the accumulated other comprehensive loss by $349 million.

For 2007, we project we will make $233 million in cash contributions to our major defined benefit pension plans, although we may elect to contribute more cash or certain non-cash assets to the plans.

Off Balance Sheet Arrangements

We record various contractual obligations as liabilities in our consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts, are not recognized as liabilities in our consolidated financial statements, but we are required to disclose them.

Aon and its subsidiaries have issued letters of credit to cover contingent payments of approximately $32 million for taxes and other business obligations to third parties. We accrue amounts in our consolidated financial statements for these letters of credit to the extent they are probable and estimable.

Following the guidance of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, and other relevant accounting guidance, we use special purpose entities and qualifying special purpose entities ("QSPE's"), also known as special purpose vehicles, in some of our operations.

Reinsurance Guarantee

In connection with the AWG transaction we issued an indemnification which protects the purchaser from credit exposure relating to the property and casualty reserves that have been reinsured. We recorded a $13 million liability reflecting the fair value of this indemnification as of November 30, 2006. The loss was included in the AWG gain. The value remained approximately $13 million as of December 31, 2006. The indemnification represents the present value of the indemnification on the credit risk of the reinsurers.

At December 31, 2006, Aon no longer reports reinsurance recoverables related to its property and casualty business, which was not part of the sale of AWG. Aon has provided a corporate guaranty with respect to these reinsurance recoverables which amount to $790 million at Dec