

# **Irish Statutory Accounts**

## **WILLIS TOWERS WATSON PLC**

(Registered Number 475616)

### **DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**FINANCIAL YEAR ENDED DECEMBER 31, 2016**

#### **IMPORTANT NOTICE TO SHAREHOLDERS**

*Following our redomicile to Ireland in 2009, we are required to produce Irish statutory accounts prepared under applicable Irish company law, to be filed with the Irish Companies Registration Office. We are also required to send this document to the shareholders in advance of the Annual General Meeting.*

*These are in addition to our financial statements prepared under applicable US securities laws filed with the Securities and Exchange Commission on our Annual Form 10-K and sent to shareholders.*



# FINANCIAL HIGHLIGHTS

## FIVE FINANCIAL YEARS ENDED DECEMBER 31 (IN MILLIONS, EXCEPT PER SHARE DATA AND PERCENTAGES)

	2016	2015	2014	2013	2012
<b>Revenues</b>	\$ 7,887	\$ 3,829	\$ 3,802	\$ 3,655	\$ 3,480
<b>Total operating expenses <sup>(2)</sup></b>	\$ 7,286	\$ 3,452	\$ 3,155	\$ 2,992	\$ 3,705
<b>Operating income (loss)</b>	\$ 601	\$ 377	\$ 647	\$ 663	\$ (225)
<b>Operating margin</b>	7.6%	9.8%	17.0%	18.1%	(6.5)%
<b>Net income (loss) attributable to Willis Towers Watson <sup>(2)</sup></b>	\$ 450	\$ 343	\$ 362	\$ 365	\$ (446)
<b>Net income (loss) per diluted share <sup>(1) (2)</sup></b>	\$ 3.26	\$ 4.97	\$ 5.32	\$ 5.37	\$ (6.86)
<b>Total debt</b>	\$ 3,865	\$ 3,266	\$ 2,297	\$ 2,311	\$ 2,340
<b>Shareholders' equity <sup>(2)</sup></b>	\$10,065	\$ 2,199	\$ 1,985	\$ 2,215	\$ 1,699
<b>Capitalization ratio <sup>(2)</sup></b>	28%	60%	54%	51%	58 %

<sup>(1)</sup> As set out in Note 3 to the Consolidated Financial Statements, on January 4, 2016, pursuant to the Agreement and Plan of Merger, dated June 29, 2015, as amended on November 19, 2015, between Willis Group Holdings Public Limited Company, Towers Watson & Co., and Citadel Merger Sub, Inc., a wholly-owned subsidiary of Willis formed for the purpose of facilitating this transaction ('Merger Sub'), Merger Sub merged with and into Towers Watson, with Towers Watson continuing as the surviving corporation and a wholly-owned subsidiary of Willis. As a result, net income (loss) per diluted shares has been retroactively adjusted to reflect the 1 to 2.6490 reverse stock split effected by the Company as of January 4, 2016 upon completion of the Merger.

<sup>(2)</sup> Total operating expenses for 2015 were increased by \$50 million to reflect a settlement in principle the Company entered into on March 31, 2016 amounting to \$120 million relating to Stanford Financial Group litigation. As a consequence, net income attributable to Willis Towers Watson for 2015 was decreased by the post-tax effect of \$30 million, net income per diluted share and stockholders' equity for 2015 was decreased and the capitalization ratio for 2015 was increased. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

# Certain definitions

## Certain Definitions

The following definitions apply throughout this Directors' Report and Consolidated Financial Statements unless the context requires otherwise:

'We', 'Us', 'Company', 'Willis Towers Watson', 'Our', 'Willis Towers Watson plc' or 'WTW'	Willis Towers Watson Public Limited Company, a company organized under the laws of Ireland, and its subsidiaries
'Parent Company'	Willis Towers Watson Public Limited Company (only)
'shares'	The ordinary shares of Willis Towers Watson Public Limited Company, nominal value \$0.000304635 per share
'Legacy Willis' or 'Willis'	Willis Group Holdings Public Limited Company and its subsidiaries, predecessor to Willis Towers Watson, prior to the Merger
'Legacy Towers Watson' or 'Towers Watson'	Towers Watson & Co. and its subsidiaries
'Merger'	Merger of Willis Group Holdings Public Limited Company and Towers Watson & Co. pursuant to the Agreement and Plan of Merger, dated June 29, 2015, as amended on November 19, 2015, and completed on January 4, 2016
'Gras Savoye'	GS & Cie Groupe SAS
'Miller'	Miller Insurance Services LLP and its subsidiaries

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# Officers and corporate information

## CURRENT WILLIS TOWERS WATSON DIRECTORS

### Executive Director

John J. Haley\*

### Non-Executive Directors

Anna C. Catalano  
Victor F. Ganzì\*  
Wendy E. Lane  
James F. McCann (Chairman)  
Brendan R. O'Neill\*  
Jaymin B. Patel  
Linda D. Rabbitt\*  
Paul Thomas\*  
Jeffrey W. Ubben  
Wilhelm Zeller\*

\* Appointed on January 4, 2016 in connection with the consummation of the Merger.

## FORMER DIRECTORS

### Legacy Willis and Willis Towers Watson Executive Director<sup>†</sup>

Dominic J. Casserley

### Legacy Willis Non-Executive Directors<sup>††</sup>

Sir Roy Gardner  
The Rt. Hon. Sir Jeremy Hanley, KCMG  
Robyn S. Kravit  
Francisco Luzón  
Douglas B. Roberts  
Dr. Michael J. Somers

<sup>†</sup> Resigned on December 30, 2016.

<sup>††</sup> Resigned on January 4, 2016 in connection with the consummation of the Merger.

## SECRETARY

Nicole Napolitano (Secretary for Legacy Willis and Willis Towers Watson)

## REGISTERED OFFICE

Willis Towers Watson House  
Elm Park  
Merrion Road  
Dublin 4, Ireland

## AUDITOR

Deloitte, LLP  
London, United Kingdom

## DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

We have included in this document ‘forward-looking statements’ within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. These forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, that address activities, events or developments that we expect or anticipate may occur in the future, including such things as our outlook, future capital expenditures, future share repurchases, growth in commissions and fees, business strategies and planned acquisitions, competitive strengths, goals, the benefits of new initiatives, growth of our business and operations, plans and references to future successes, and the benefits of the Merger, including future financial and operating results, plans, objectives, expectations and intentions are forward-looking statements. Also, when we use words such as ‘may’, ‘will’, ‘would’, ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘plan’, ‘probably’, or similar expressions, we are making forward-looking statements. Such statements are based upon the current beliefs and expectations of the Company’s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. All forward-looking disclosure is speculative by its nature.

A number of risks and uncertainties that could cause actual results to differ materially from the results reflected in these forward-looking statements are identified under ‘Principal Risks and Uncertainties’ in the Directors’ Report. These statements are based on assumptions that may not come true and are subject to significant risks and uncertainties.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and therefore also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included in this report, our inclusion of this information is not a representation or guarantee by us that our objectives and plans will be achieved.

Our forward-looking statements speak only as of the date made and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document may not occur, and we caution you against unduly relying on these forward-looking statements.

## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2016

### Summary and Basis of Presentation

The Directors present their report, together with the audited consolidated financial statements of Willis Towers Watson plc, a company incorporated in Ireland, and its subsidiaries, for the year ended December 31, 2016.

Willis Towers Watson was formed upon completion of the Merger on January 4, 2016, pursuant to the Agreement and Plan of Merger dated June 29, 2015, as amended on November 19, 2015 (the 'Merger Agreement'), between Legacy Willis, Legacy Towers Watson, and Citadel Merger Sub, Inc., a wholly-owned subsidiary of Willis formed for the purpose of facilitating this transaction ('Merger Sub'). Pursuant to the Merger Agreement, Merger Sub merged with and into Towers Watson with Towers Watson continuing as the surviving corporation and a wholly-owned subsidiary of Willis.

Immediately following the Merger, Legacy Willis effected (i) a consolidation (i.e., a reverse stock split under Irish law) of Willis ordinary shares whereby every 2.6490 Legacy Willis ordinary shares were consolidated into one Willis Towers Watson ordinary share (the 'Consolidation') and (ii) an amendment to its Constitution and other organizational documents to change its name from Willis Group Holdings Public Limited Company to Willis Towers Watson Public Limited Company.

We continue to integrate Willis and Towers Watson while creating a unified platform for global growth, including positioning the Company to leverage our mutual distribution strength to enhance market penetration, expand our global footprint and create a strong platform for further innovation. The fully integrated Company will have a more comprehensive offering of services and solutions to provide to clients across four business segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions.

Our clients operate on a global and local scale in a multitude of businesses and industries throughout the world and generally range in size from large, major multinational corporations to middle-market domestic and international companies. Our clients include many of the world's leading corporations, including approximately 88% of the Fortune Global 500 companies and 85% of the Fortune 1000. We also advise more than three-quarters of the world's leading insurance companies. We work with major corporations, emerging growth companies, governmental agencies and not-for-profit institutions in a wide variety of industries, with many of our client relationships spanning decades. No one client accounted for a significant concentration of revenues in each of the years ended December 31, 2016, 2015 and 2014. We place insurance with approximately 2,500 insurance carriers, none of which individually accounted for a significant concentration of the total premiums we placed on behalf of our clients in 2016, 2015 or 2014.

The Directors have elected to prepare the consolidated financial statements of Willis Towers Watson plc in accordance with Section 279 of the Companies Act 2014 which provides that a true and fair view of the assets and liabilities, financial position and profit or loss may be given by preparing the financial statements in accordance with accounting principles generally accepted in the United States of America ('US GAAP'), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of Part 6 of the Companies Act 2014.

The Parent Company financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In the Consolidated Financial Statements and Parent Company Financial Statements (as well as the Directors' Report), the nominal value of ordinary shares and number of ordinary shares have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

### Principal Activities

Willis Towers Watson is a global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has more than 41,000 employees and services clients in more than 140 countries and territories. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. We believe our unique perspective allows us to see the critical intersections between talent, assets and ideas - the dynamic formula that drives business performance.

We are continuing our integration of Legacy Willis and Legacy Towers Watson, creating a unified platform for global growth, including positioning the Company to leverage our mutual distribution strength to enhance market penetration, expand our global footprint and create a strong platform for further innovation.



## Management Structure

In 2016, we began managing our business across four integrated reportable operating segments. As a result, the Company has changed the way it manages and reports segment revenues and operating income, resulting in a change in the Company's reportable segments from eight reportable segments, formerly known as Willis International; Willis North America; Willis Capital, Wholesale & Reinsurance; Willis GB; Towers Watson Benefits; Towers Watson Exchange Solutions; Towers Watson Risk and Financial Services; and Towers Watson Talent and Rewards, into four reportable segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions. Below are the percentages of revenues generated by each segment for each of the years ended December 31, 2016, 2015 and 2014:

	Year ended December 31,		
	2016	2015 <sup>(i)</sup>	2014 <sup>(i)</sup>
Human Capital and Benefits	41%	18%	17%
Corporate Risk and Broking	32%	61%	63%
Investment, Risk and Reinsurance	19%	21%	20%
Exchange Solutions	8%	—%	—%

(i) Figures have been recast into the new segment structure and do not include pro forma segment revenues from Legacy Towers Watson. For pro forma segment information, see our Form 8-K filed with the SEC on July 14, 2016.

### Human Capital and Benefits

The Willis Towers Watson Human Capital & Benefits ('HCB') segment provides an array of advice, broking, solutions and software for employee benefit plans, the human resources ('HR') organization and the management teams of our clients.

HCB is the largest segment of the Company, generating approximately 41% of our revenues for the year ended December 31, 2016. Organized into four primary offerings - Retirement; Health & Benefits; Talent & Rewards; and Technology and Administration Solutions, the segment is focused on addressing our clients' people and risk needs to help them take on the challenges of operating in a global marketplace.

HCB is strengthened with teams of international consultants that provide support in each of these areas to the global headquarters of multinational clients and their foreign subsidiaries.

**Retirement** — The Retirement business provides actuarial support, plan design, and administrative services for traditional pension and retirement savings plans. Our colleagues help our clients assess the costs and risks of retirement plans on cash flow, earnings and the balance sheet, the effects of changing workforce demographics on their retirement plans and retiree benefit adequacy and security. We offer clients a full range of integrated retirement consulting services to meet the needs of all types of employers - including those that continue to offer defined benefit plans and those that are reexamining their retirement benefit strategies. We bring a particular in-depth data analysis and perspective to their decision process, because we have tracked the retirement designs of the largest public companies around the world over many years.

For clients that want to outsource some or all of their pension plan management, we offer integrated solutions that combine investment consulting, pension administration, core actuarial services, and communication and change management assistance.

Our retirement consulting relationships are generally long-term in nature, and client retention rates for this business are high. A significant portion of the revenues in this business is from recurring work, with multi-year contracts that are driven by the heavily regulated nature of employee benefit plans and our clients' annual needs for these services. Revenues for the Retirement business are somewhat seasonal, as much of our work pertains to calendar-year plan administration and reporting and compliance related to the completion of pension plan valuations; thus, the first quarter of the financial year is typically HCB's strongest quarter. Major revenue growth drivers in this business include changes in regulations, capital market conditions, increased global demand and increased market share.

**Health and Benefits** — The Health & Benefits ('H&B') business provides plan management consulting, broking and administration across the full spectrum of health and group benefit programs, including medical, dental, disability, life and other coverage. As a result of the Merger, our H&B reach extends from small/mid-market clients to large market clients, across the full geographic footprint of the Company, and to most industries. We can address our clients' insured needs in more than 160 countries.

# Willis Towers Watson plc

Our consultants help clients make strategic decisions on topics such as optimizing program spend; evaluating emerging coverage options (including publicly-subsidized health insurance exchanges and private exchanges in the U.S.); and dealing with above-inflation-rate increases in healthcare costs. In addition to our consulting services, we manage a number of collective purchasing initiatives, such as pharmacy and stop-loss, that allow employers to realize greater value from third-party service providers than they can achieve on their own.

With Global Benefits Solutions, our suite of global services supporting medical, dental and risk (life, accident and disability) programs, we have a tailored offering for multinationals. That offering includes a flexible set of ready-made offerings, proven technology, efficient operational structure and an integrated approach to service delivery that translates to a globally consistent, high-quality experience for our clients.

Finally, H&B supports OneExchange Active, our private health insurance exchange for active employees. This offering is integrated with other health insurance exchange offerings, OneExchange Retiree and OneExchange Access, which are offered within the Exchange Solutions segment.

*Talent & Rewards* — Our Talent & Rewards ('T&R') business covers three areas of specialty: Executive Compensation ('EC'); Rewards, Talent & Communication ('RTC'); and Data, Surveys and Technology ('DST'). T&R provides advice, data, software and products to address clients' total rewards and talent issues. T&R has operations across the globe, including centralized software development and analytics teams that support the efficient delivery of services to clients.

Within our EC practice, we advise our clients' management and boards of directors on all aspects of executive pay programs, including base pay, annual bonuses, long-term incentives, perquisites and other benefits. Our focus is on aligning pay plans with the organization's business strategy and driving desired performance.

RTC offers services focused on designing and implementing rewards and talent management programs and processes which help companies attract and deploy talent, engage them over time, manage and reward their performance, develop their skills, provide them with relevant career paths, communicate with them and manage organizational change initiatives.

Our DST offerings include market benchmarking data, employee insight and listening tools, talent assessment tools and services, and HR software to help companies administer and manage their talent management and reward programs and analyze talent trends.

Revenues for the T&R business are partly seasonal in nature, with a meaningful amount of heightened activity in the second half of the calendar year during the annual compensation, benefits and survey cycles. While T&R enjoys long-term relationships with many clients, work in several practices is often project-based and can be sensitive to economic changes. The business benefits from regulatory changes affecting our clients that require strategic advice, program changes and communication such as CEO pay ratio disclosure and Fair Labor Standards Act changes in the U.S., by which swaths of employees will be newly-eligible for overtime pay. Additional areas of growth for T&R include evolving views on effective individual performance measurement and management, focus on workforce productivity improvements and labor cost reductions, globalization and digitization of the workforce, merger and acquisition ('M&A') activity, technology-enabled approaches for measuring and understanding workforce engagement, and the opportunity to leverage HR software to improve the design, management and implementation of HR processes and programs.

*Technology and Administration Solutions* — Our Technology and Administration Solutions ('TAS') business provides benefits outsourcing services to hundreds of clients across multiple industries. Our TAS team focuses on clients outside of the U.S. where our services are supported by high quality administration teams using robust technology platforms. We have high client retention rates, and we are the leading administrator among the 200 largest pension plans in the United Kingdom ('U.K.'), as well as a leader in Germany.

For both our defined benefit and defined contribution administration services, we use highly-automated processes and web technology to enable benefit plan members to access and manage their records, perform self-service functions and improve their understanding of their benefits. Our technology also provides trustees and HR teams with timely management information to monitor activity and service levels and reduce administration costs.

## ***Corporate Risk and Broking***

Our Corporate Risk & Broking ('CRB') segment provides a broad range of risk advice, insurance brokerage and consulting services to clients worldwide ranging from small businesses to multinational corporations. We deliver integrated global solutions tailored to client needs and underpinned by data and analytics.

CRB generated approximately 32% of Willis Towers Watson revenues for the year ended December 31, 2016, and places more than \$20 billion of premium into the insurance markets, annually.

CRB operates as an integrated global team comprising both functional and geographic leadership. In addition there are five global offerings, which aim to leverage capabilities across geographies, including Property and Casualty, Financial Lines, Transport, Affinity and Facultative. In these operations, we have extensive specialized experience handling diverse lines of coverage, including complex insurance programs. A key objective is to assist clients in reducing their overall cost of risk.

*Property and Casualty* — Property and Casualty provides property and liability insurance brokerage services across a wide range of industries including construction, real estate, healthcare and natural resources. Our construction practice provides risk management advice and brokerage services for a wide range of international construction activities. Clients of the construction practice include contractors, project owners, project managers, consultants and financiers. Our natural resources practice encompasses the oil and gas, mining, power and utilities sectors; and provides services including property damage, offshore construction liability and other services to global clients.

*Financial Lines* — Financial Lines specializes in brokerage services for financial, political and credit risks. Our clients include financial institutions and professional services firms from around the globe that require coverage for areas ranging from business risks, like trade credit, directors and officers and medical malpractice, to external threats, like cyberattacks and terrorism.

*Transport* — Transport provides specialist expertise to the transportation industry and aerospace, marine and inspace practices. Our aerospace business provides insurance brokerage and risk management services to aerospace clients worldwide, including the world's leading airlines, aircraft manufacturers, air cargo handlers and other airport and general aviation companies. Our marine business provides insurance brokerage services, including hull, cargo, protection and indemnity and general marine liabilities. Our marine clients include ship owners, ship builders, logistics operations, port authorities, traders and shippers. The specialist inspace team is also prominent in providing insurance and risk management services to the space industry.

*Affinity* — Affinity arranges the insurance products and services for our client partners to offer to their customers, employees or members alongside, or in addition to, their principal business activities. Products include: extended warranties, accidental damage of personal mobile devices, creditor payment protection, accident and health and personal lines.

*Facultative* — Facultative serves as a broker or intermediary for insurance companies looking to arrange reinsurance solutions across classes of risk, which enable them to deliver differentiated outcomes to their direct insureds, which in many situations are also clients of the wider Willis Towers Watson business. The facultative business also works closely with our treaty reinsurance business to structure reinsurance solutions that deliver capital and strategic benefits to insurance company clients.

## ***Investment, Risk and Reinsurance***

The Willis Towers Watson Investment, Risk and Reinsurance ('IRR') segment applies a sophisticated approach to risk which helps clients free up capital and manage investment complexity. The segment works closely with investors, reinsurers and insurers to manage the equation between risk and return. Blending advanced analytics with deep institutional knowledge, IRR helps identify new opportunities to maximize performance. IRR provides investment consulting services and insurance specific services and solutions through reserves opinions, software, ratemaking, usage-based insurance, risk underwriting, and reinsurance broking.

This segment is our third largest segment and generated approximately 19% of revenues for the Company for the year ended December 31, 2016. With approximately 80% of the revenues for this segment split between North America and the U.K., this segment includes the following businesses and offerings: Willis Re; Risk Consulting and Software; Investment; Wholesale Insurance Broking; Portfolio and Underwriting Services; and Capital Markets & Advisory.

*Willis Re* — Willis Re provides reinsurance industry clients with an understanding of how risk affects capital and financial performance and advises on the best ways to manage related outcomes. We operate this business on a global basis and provide a complete range of transactional capabilities, including, in conjunction with Capital Markets & Advisory, a wide variety of capital markets-based products to both insurance and reinsurance companies. Our services are underpinned by modeling, financial analysis and risk management advice.

*Risk Consulting and Software* — Risk Consulting and Software is a global business that provides advice and technology solutions to the insurance industry, as well as to corporate clients with respect to their insurance programs. We leverage our industry experience, strategic perspective and analytical skills to help clients measure and manage risk and capital, improve business performance and create a sustainable competitive advantage. Our services include software and technology, risk and capital management, products and pricing, financial and regulatory reporting, financial and capital modeling, M&A, outsourcing and business management.

# Willis Towers Watson plc

**Investment** — Investment provides advice to improve investment outcomes for asset owners using a broad and sophisticated framework for managing risk. We provide coordinated investment advice and solutions to some of the world's largest pension funds and institutional investors based on our expertise in risk assessment, asset-liability modeling, strategic asset allocation policy setting, manager selection and investment execution.

**Wholesale Insurance Broking** — Wholesale Insurance Broking provides wholesale and specialist broking services to retail brokers worldwide, through Willis Towers Watson and London based specialist broker Miller Insurance Services LLP.

**Portfolio and Underwriting Services** — Portfolio and Underwriting Services, with operations in London and North America, brings together our existing set of Managing General Agent underwriting activities for purposes of accelerating their future development. Within Portfolio and Underwriting Services, we act on behalf of our insurance carrier partners and self-insured entities in product marketing and distribution, risk underwriting and selection, claims management and other general administrative responsibilities.

**Capital Markets & Advisory** — Capital Markets & Advisory, with offices in New York, London, Hong Kong and Sydney, provides investment banking services to companies involved in the insurance and reinsurance industries for a broad array of merger and acquisition transactions as well as capital markets products, including acting as underwriter for primary issuances, operating a secondary insurance-linked securities trading desk and engaging in strategic advisory work.

## **Exchange Solutions**

The Willis Towers Watson Exchange Solutions ('ES') segment provides primary medical and ancillary benefit exchange and outsourcing services to active employees and retirees across both the group and individual markets. ES services individual populations via its 'group to individual' technology platform, which tightly integrates patented call routing technology, an efficient quoting and enrollment engine, a Customer Relationship Management system and comprehensive insurance carrier connectivity. This segment also delivers group benefit exchanges and full outsourcing solutions serving the active employees of employers across the United States. ES uses Software as a Service ('SaaS')-based technology and related services to deliver consumer-driven healthcare and reimbursement accounts, including health savings accounts, health reimbursement arrangements, flexible spending accounts and other consumer-directed accounts.

A significant portion of the revenues in this segment is recurring in nature, driven by either the commissions from the policies we sell, or from long-term service contracts with our clients that typically range from three to five years. Revenues across this segment may be seasonal, driven by the magnitude and timing of client transition activities, and we typically increase our membership levels significantly effective January 1, after calendar year-end benefits elections.

ES generated approximately 8% of our revenues for the year ended December 31, 2016. ES provides services across four integrated or related offerings to customers primarily in the U.S., including Retiree & Access Exchanges; Active Exchanges; Technology and Administration Solutions; and Consumer-Directed Accounts.

**Retiree & Access Exchanges** — This business provides solutions through a proprietary technology platform, OneExchange Retiree, which enables our employer clients to transition their retirees to individual, defined contribution health plans that provide individuals with a tax-free allowance or contribution to spend on healthcare services at an annual cost that the employer controls, as opposed to group-based, defined benefit health plans that provide groups of individuals with healthcare benefits at uncertain annual costs.

**Active Exchanges** — This business is focused on delivering group benefit exchanges, serving the active employees of employers across the United States. Using our proprietary BenefitConnect or Bright Choices exchange platforms, combined with our expertise in creating high-performing benefit plan designs, we believe we are well-positioned to help our clients simplify their benefits delivery, while lowering the total costs of benefits and related administration. We have relationships with more than 400 broker partners to access and service the small to mid-size group market and offer both fully-insured and self-insured exchanges to meet the needs of our employer clients.

**Technology and Administration Solutions** — Through our proprietary BenefitConnect technology, this business provides a broad suite of health and welfare outsourcing services as well as decision support and modeling tools for pension users. With our disciplined approach to customer service, we offer cost-effective, high-touch service to hundreds of clients across many industries.

**Consumer-Directed Accounts** — This business uses its SaaS-based technology and related services to deliver consumer-driven healthcare and reimbursement accounts, including health savings accounts, health reimbursement arrangements and other consumer-directed accounts.

## Competition

We face competition in all fields in which we operate, based on global capability, product breadth, innovation, quality of service and price. We compete with Accenture plc, Aon plc, Arthur J. Gallagher & Co., Brown & Brown Inc., Cognizant Technology Solutions Corporation, Marsh & McLennan Companies, Inc. and Robert Half International Inc., as well as with numerous specialty, regional and local firms. Marsh & McLennan Companies and Aon plc are the two other major providers of global risk management services. Competition for business is intense in all of our business lines and in every insurance market, and in some business lines Marsh & McLennan Companies and Aon plc have greater market share than we do.

Competition on premium rates has also exacerbated the pressures caused by a continuing reduction in demand in some classes of business. For example, rather than purchase additional insurance through brokers, some insureds have been retaining a greater proportion of their risk portfolios than previously. Industrial and commercial companies increasingly rely upon their own subsidiary insurance companies, known as captive insurance companies, self-insurance pools, risk retention groups, mutual insurance companies and other mechanisms for funding their risks, rather than buy insurance. Additional competitive pressures arise from the entry of new market participants, such as banks, accounting firms and insurance carriers themselves, offering risk management or transfer services.

The human capital and risk management consulting industries are highly competitive. We believe there are significant barriers to entry, and we have developed competitive advantages in providing HR consulting and risk management consulting services. We face strong competition from several sources.

Our principal competitors in the pension consulting industry are Mercer HR Consulting (a Marsh & McLennan company) and Aon plc. Beyond these large players, the global HR consulting industry is highly fragmented.

Our major competitors in the insurance consulting and software industry include Milliman, Oliver Wyman (a Marsh & McLennan company), the big four accounting firms and SunGard. Aon, Buck Consultants (a Xerox Company), Connexions (a United Healthcare company), Mercer (a Marsh & McLennan company), Automatic Data Processing and Fidelity are our primary competitors in the insurance exchange industry. With the implementation of the Patient Protection and Affordable Care Act, we also compete with the public exchanges currently run by the U.S. federal and state governments. We now compete with providers of account-based health plans and consumer-directed benefits such as WageWorks and HealthEquity.

The market for our services is subject to change as a result of economic, regulatory and legislative changes, technological developments, and increased competition from established and new competitors. Regulatory and legislative actions, along with continuously evolving technological developments, will likely have the greatest impact on the overall market for our exchange products. We believe the primary factors in selecting an HR consulting or risk management services firm include reputation, the ability to provide measurable increases to shareholder value and return on investment, global scale, quality of service and the ability to tailor services to clients' unique needs. With regard to the market for exchanges, we believe that clients base their decisions on a variety of factors that include the ability of the provider to deliver measurable cost savings for clients, a strong reputation for efficient execution, a provider's capability in delivering a broad number of configurations to serve various population segments and financing options, and an innovative service delivery model and platform. For our traditional consulting and risk management services and the rapidly evolving exchange products, we believe we compete favorably with respect to these factors.

## Regulation

Our business activities are subject to legal requirements and governmental and quasi-governmental regulatory supervision in all countries in which we operate. Also, such regulations may require individual or company licensing to conduct our business activities. While these requirements may vary from location to location, they are generally designed to protect our clients by establishing minimum standards of conduct and practice, particularly regarding the provision of advice and product information, as well as financial criteria. We are also subject to data privacy regulations in many countries. Our most significant regulatory regions are described below:

### *United States*

Our activities in connection with insurance brokerage services within the United States are subject to regulation and supervision by state authorities. Although the scope of regulation and form of supervision may vary from state to state, insurance laws in the United States are often complex and generally grant broad discretion to supervisory authorities in adopting regulations and supervising regulated activities. That supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling and investment of client funds held in a fiduciary capacity. Our continuing ability to provide insurance brokerage in the states in which we currently operate is dependent upon our compliance with the rules and regulations promulgated by the regulatory authorities in each of these states. Additionally, some of our private exchange

activities are overseen by the Centers for Medicare & Medicaid Services, which is part of the Department of Health and Human Services.

Certain of our activities are governed by other regulatory bodies, such as investment and securities licensing authorities. Our activities in connection with investment services within the United States are subject to regulation and supervision at both the federal and state levels. At the federal level, certain of our operating subsidiaries are regulated by the SEC through the Investment Company Act of 1940 and the Investment Advisers' Act of 1940; and by the Department of Labor through the Employee Retirement Income Security Act, or ERISA. In connection with the SEC regulations, we are required to file certain reports, and are subject to various marketing restrictions, among other requirements. In connection with ERISA regulations, we are restricted in actions we can take for plans for which we serve as fiduciaries, among other matters. Our U.S. investment activities are also subject to certain state regulatory schemes.

Our Capital Markets & Advisory business operates through its wholly-owned subsidiary, Willis Securities, Inc., a U.S.-registered broker-dealer and member of FINRA/SIPC, primarily in connection with investment banking services and advising on alternative risk financing transactions.

Our activities in connection with Third Party Administrator ('TPA') services in the United States are also subject to regulation and supervision by many state authorities. Licensing requirements and supervision vary from state to state. As with insurance brokerage services, our continuing ability to provide these services in states that regulate our activities is dependent upon our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these states.

## *European Union*

In 2005, the European Union Insurance Mediation Directive introduced rules to enable insurance and reinsurance intermediaries to operate and provide services within each member state of the European Union ('E.U.') on a basis consistent with the E.U. single market and customer protection aims. Each E.U. member state in which we operate is required to ensure that the insurance and reinsurance intermediaries resident in their country are registered with a statutory body in that country and that each intermediary meets professional requirements in relation to their competence, good repute, professional indemnity cover and financial capacity. The E.U. has been in the process of updating the Insurance Mediation Directive. Various E.U. bodies are working on creating a replacement to the Insurance Mediation Directive called the Insurance Distribution Directive. The current timetable would require all E.U. member states to make the Insurance Distribution Directive national law by February 2018.

In addition, Capital Markets & Advisory provides advice on securities or investments in the European Union and Australia through our U.K. wholly-owned subsidiary, Willis Capital Markets & Advisory Limited, which is authorized and regulated by the FCA (as defined below).

Willis Towers Watson is also subject to the new E.U. General Data Protection Regulation ('GDPR'), which goes into effect in May 2018. The GDPR is a new, comprehensive regime covering data protection.

## *United Kingdom*

In the United Kingdom, our business is regulated by the Financial Conduct Authority ('FCA'). The FCA has a wide range of rule-making, investigatory and enforcement powers, and conducts monitoring visits to assess our compliance with regulatory requirements.

The FCA has a sole strategic objective: to ensure that the relevant markets function well. Its operational objectives are to: secure an appropriate degree of protection for consumers; protect and enhance the integrity of the U.K. financial system; and to promote effective competition in the interests of consumers. The FCA has powers in product intervention. For instance, it can instruct firms to withdraw or amend misleading financial promotions. A U.K. exit from the E.U. may cause an increase in regulations in the U.K.

## *Other*

Capital Markets & Advisory, through its affiliate, Willis Capital Markets & Advisory (Hong Kong) Limited, is licensed to conduct certain securities-related activities, and is subject to regulation by the Hong Kong Securities and Futures Commission. Certain of our entities that undertake pension scheme management are subject to MiFID (Markets in Financial Instruments Directive) and are authorized and regulated by certain financial services authorities in countries such as Sweden, Ireland, the Netherlands and the U.K.

All companies carrying on similar activities in a given jurisdiction are subject to regulations which are not dissimilar to the requirements for our operations in the United States and United Kingdom. We do not consider these regulatory requirements as adversely affecting our competitive position.

Across all geographies we are subject to various data privacy regulations that apply to medical, financial and other types of personal information belonging to our clients, their employees and third parties, as well as our own employees.

Our failure, or that of our employees, to satisfy the regulatory compliance requirements or the legal requirements governing our activities, can result in disciplinary action, fines, reputational damage and financial harm.

See 'Principal Risks and Uncertainties' below in this Directors' Report for an analysis of how actions by regulatory authorities or changes in legislation and regulation in the jurisdictions in which we operate may have an adverse effect on our business.

## Corporate Governance

Willis Towers Watson is subject to SEC reporting requirements, the mandates of the Sarbanes-Oxley Act and applicable corporate governance rules of the Nasdaq Global Select Market. Willis Towers Watson continues to report its consolidated financial results in US dollars and in accordance with US GAAP, complying also with any additional reporting requirements of Irish Law.

## Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the chief executive officer ('CEO') and chief financial officer ('CFO'), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 31, 2016 in providing reasonable assurance that the information required to be disclosed in our periodic reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (2) accumulated and communicated to our management to allow for timely decisions regarding required disclosure.

## Management's Report on Internal Control over Financial Reporting

Internal control over financial reporting refers to the process designed by, or under the supervision of, our CEO and CFO, and overseen by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in the report entitled *Internal Control — Integrated Framework (2013)* to evaluate the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2016.

## Review of Developments and Business Performance

### General

*This discussion includes references to non-GAAP financial measures as defined in the rules of the Securities and Exchange Commission ('SEC'). We present such non-GAAP financial measures, specifically, adjusted, constant currency and organic non-GAAP financial measures, as we believe such information is of interest to the investment community because it provides additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent under U.S. GAAP, and these provide a measure against which our businesses may be assessed in the future.*

*Our methods of calculating these measures may differ from those used by other companies and therefore comparability may be limited. These financial measures should be viewed in addition to, not in lieu of, the consolidated financial statements for the year ended December 31, 2016.*

*See 'Non-GAAP Financial Measures' below for further discussion of our adjusted, constant currency and organic non-GAAP financial measures.*

*This discussion includes forward-looking statements. See 'Disclaimer Regarding Forward-looking Statements' for certain cautionary information regarding forward-looking statements and 'Principal Risks and Uncertainties' for risks and uncertainties that could cause actual results to differ materially from those predicted in those statements.*

### Executive Summary

#### Business Overview

Willis Towers Watson is a global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has more than 41,000 employees and services clients in more than 140 countries and territories. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. We believe our unique perspective allows us to see the critical intersections between talent, assets and ideas - the dynamic formula that drives business performance.

We offer clients a broad range of services to help them to identify and control their risks, and to enhance business performance by improving their ability to attract, retain and engage a talented workforce. Our risk control services range from strategic risk consulting (including providing actuarial analysis), to a variety of due diligence services, to the provision of practical on-site risk control services (such as health and safety or property loss control consulting), as well as analytical and advisory services (such as hazard modeling and reinsurance optimization studies). We assist clients in planning how to manage incidents or crises when they occur. These services include contingency planning, security audits and product tampering plans. We help our clients enhance their business performance by delivering consulting services, technology and solutions that help organizations anticipate, identify and capitalize on emerging opportunities in human capital management as well as investment advice to help our clients develop disciplined and efficient strategies to meet their investment goals.

As an insurance broker, we act as an intermediary between our clients and insurance carriers by advising our clients on their risk management requirements, helping clients determine the best means of managing risk and negotiating and placing insurance with insurance carriers through our global distribution network. We operate the largest private Medicare exchange in the U.S. Through this exchange and those for active employees, we help our clients move to a more sustainable economic model by capping and controlling the costs associated with healthcare benefits.

We are not an insurance company, and therefore we do not underwrite insurable risks for our own account.

We derive the majority of our revenue from either commissions or fees for broking or consulting services. No single client represented a significant concentration of our consolidated revenues for any of the periods presented.

Our shares are traded on the NASDAQ Global Select Market.



## **Market Conditions**

Due to the cyclical nature of the insurance market and the impact of other market conditions on insurance premiums, commission revenues may vary widely between accounting periods. A period of low or declining premium rates, generally known as a 'soft' or 'softening' market, generally leads to downward pressure on commission revenues and can have a material adverse impact on our commission revenues and operating margin. A 'hard' or 'firming' market, during which premium rates rise, generally has a favorable impact on our commission revenues and operating margin. Rates, however, vary by geography, industry and client segment. As a result, and due to the global and diverse nature of our business, we view rates in the aggregate.

Market conditions in our broking industry are generally defined by factors such as the strength of the economies in the various geographic regions in which we serve around the world, insurance rate movements, and insurance and reinsurance buying patterns of our clients.

Management has considered the U.K. referendum vote on June 23, 2016 to depart from the E.U. and the uncertainties about the near-term and longer-term effects of Brexit on the Company. The terms of Brexit, and its impact, are highly uncertain. For a further discussion of the risks of Brexit to the Company, see 'Principal Risks and Uncertainties' below in this Directors' Report.

Typically, our business benefits from regulatory change, political risk or economic uncertainty. Insurance broking generally tracks the economy, but demand for both insurance broking and consulting services usually remains steady during times of uncertainty. We believe that the U.K. has good long-term growth opportunities and, given that, we believe the impact to Willis Towers Watson will be neutral to slightly positive over the next couple of years, with some periods of increase and decrease in that time frame. We have some businesses, such as our health and benefits and administration businesses, which can be counter cyclical during the early period of a significant economic change.

Although approximately 23% of our revenues are generated in the U.K. on an annual basis, only about 14% of revenues are denominated in Pounds sterling as much of the insurance business is transacted in U.S. dollars. Approximately 20% of our expenses are denominated in Pounds sterling, thus we generally benefit from a weakening Pound in our income from operations. However, we have a company hedging strategy for this aspect of our business, where revenues are generated in currencies different from the currency of the related expenses, which is designed to mitigate significant fluctuations in currency.

The market for our consulting, technology and solutions, and private exchange services is subject to change as a result of economic, regulatory and legislative changes, technological developments, and increased competition from established and new competitors. Regulatory and legislative actions, along with continuously evolving technological developments, will likely have the greatest impact on the overall market for our exchange products. We believe the primary factors in selecting a human resources or risk management consulting firm include reputation, the ability to provide measurable increases to shareholder value and return on investment, global scale, quality of service and the ability to tailor services to clients' unique needs. With regard to the market for exchanges, we believe that clients base their decisions on a variety of factors that include the ability of the provider to deliver measurable cost savings for clients, a strong reputation for efficient execution, a provider's capability in delivering a broad number of configurations to serve various population segments and financing options, and an innovative service delivery model and platform.

See 'Principal Risks and Uncertainties' below in this Directors' Report for discussions of risks that may affect our ability to compete.

## **Business Strategy**

Willis Towers Watson sees that a unified approach to people and risk can be a path to growth for our clients. Our integrated teams bring together our understanding of risk strategies and market analytics. This helps clients around the world to achieve their objectives.

We operate in attractive markets - both growing and mature - with a diversified platform across geographies, industries, segments and lines of business. We aim to create and become the premier advisory, broking and solutions company of choice globally. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. We also help organizations improve performance through effective people, risk and financial management, by focusing on providing human capital and financial consulting services.

# Willis Towers Watson plc

We believe we can achieve this by:

- Delivering a powerful client proposition with an integrated global platform. Our highly complementary offerings provide comprehensive advice, analytics, specialty capabilities and solutions covering benefits, exchange solutions, brokerage and advisory, risk and capital management, and talent and rewards;
- Leveraging our combined distribution strength and global footprint to enhance market penetration and provide a platform for further innovation; and
- Underpinning this growth through continuous operational improvement initiatives that help make us more effective and efficient and drive cost synergies. We do this by:
  - continuing to modernize the way we run our business to better serve our clients, enable the skills of our staff, and lower our costs of doing business;
  - making the necessary changes to our processes, our IT, our real estate and workforce locations; and
  - targeting and delivering identified, highly achievable cost savings as a direct consequence of the Merger.

We care as much about how we work as we do about the impact that we make. This means commitment to shared values, a framework that guides how we run our business and serve clients.

Through these strategies we aim to accelerate revenue, cash flow, EBITDA and earnings growth, and generate compelling returns for investors by delivering tangible growth in revenues and capitalizing on the identified cost synergies.

## **Merger with Towers Watson**

On January 4, 2016, pursuant to the Agreement and Plan of Merger, dated June 29, 2015, as amended on November 19, 2015, between Willis, Towers Watson, and Citadel Merger Sub, Inc., a wholly-owned subsidiary of Willis formed for the purpose of facilitating this transaction ('Merger Sub'), Merger Sub merged with and into Towers Watson, with Towers Watson continuing as the surviving corporation and a wholly-owned subsidiary of Willis.

At the effective time of the Merger (the 'Effective Time'), each issued and outstanding share of Towers Watson common stock (the 'Towers Watson shares'), was converted into the right to receive 2.6490 validly issued, fully paid and nonassessable ordinary shares of Willis (the 'Willis ordinary shares'), \$0.000115 nominal value per share, other than any Towers Watson shares owned by Towers Watson, Willis or Merger Sub at the Effective Time and the Towers Watson shares held by stockholders who are entitled to and who properly exercised dissenter's rights under Delaware law.

Immediately following the Merger, Willis effected (i) a consolidation (i.e., a reverse stock split under Irish law) of Willis ordinary shares whereby every 2.6490 Willis ordinary shares were consolidated into one Willis ordinary share \$0.000304635 nominal value per share and (ii) an amendment to its Constitution and other organizational documents to change its name from Willis Group Holdings Public Limited Company to Willis Towers Watson Public Limited Company.

We are continuing our integration of Legacy Willis and Legacy Towers Watson, creating a unified platform for global growth, including positioning the Company to leverage our mutual distribution strength to enhance market penetration, expand our global footprint and create a strong platform for further innovation.

During the second quarter of 2016, we began managing our business and reporting our segmental results across four integrated reportable operating segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions.

# As Reported Consolidated Financial Information

The table below sets forth our consolidated statements of operations and data as a percentage of revenues for the years ended December 31, 2016, 2015, and 2014.

## Condensed Consolidated Statements of Operations (in millions of U.S. dollars, except per share data)

	Years ended December 31,					
	2016		2015		2014	
Total revenues	\$ 7,887	100 %	\$ 3,829	100 %	\$ 3,802	100 %
Costs of providing services						
Salaries and benefits	4,646	59 %	2,303	60 %	2,314	61 %
Other operating expenses	1,501	19 %	768	20 %	659	17 %
Depreciation	178	2 %	95	2 %	92	2 %
Amortization	591	7 %	76	2 %	54	1 %
Restructuring costs	193	2 %	126	3 %	36	1 %
Transaction and integration expenses	177	2 %	84	2 %	—	— %
Total costs of providing services	7,286		3,452		3,155	
Income from operations	601	8 %	377	10 %	647	17 %
Interest expense	184	2 %	142	4 %	135	4 %
Other expense/(income), net	27	— %	(55)	1 %	(6)	— %
(Benefit from)/provision for income taxes	(76)	(1)%	(53)	(1)%	159	4 %
Interest in earnings of associates, net of tax	2	— %	11	— %	14	— %
Income attributable to minority interests	(18)	— %	(11)	— %	(11)	— %
NET INCOME ATTRIBUTABLE TO WILLIS TOWERS WATSON	\$ 450	6 %	\$ 343	9 %	\$ 362	10 %
Diluted earnings per share	\$ 3.26		\$ 4.97		\$ 5.32	

The Merger affects the comparability of this data between 2016 and other periods presented. See 'Supplementary Pro Forma Financial Information' for additional analysis.

## Revenues

We derive the majority of our revenues from commissions from our brokerage businesses and fees for consulting services. Brokerage income and fees negotiated in lieu of commissions are recognized at the later of the policy inception date or when the policy placement is complete or as the fees are otherwise determined. Commissions on additional premiums and adjustments are recognized when approved by or agreed between the parties and collectability is reasonably assured. Consulting revenue is generally recognized as services are performed. No single client represented a significant concentration of our consolidated revenues for any of our three most recent financial years.

The following table details our top five markets based on percentage of consolidated revenues from the countries where work is performed for the year ended December 31, 2016. These figures do not represent the currency of the related revenue, which is presented in the succeeding table.

Geographic Region	% of Revenues
United States	48%
United Kingdom	23%
France	4%
Canada	3%
Germany	3%

# Willis Towers Watson plc

The table below details our revenues and expenses by transactional currency for the year ended December 31, 2016.

	Revenues	Expenses <sup>(i)</sup>
U.S. dollars	56%	48%
Pounds sterling	14%	20%
Euro	14%	13%
Other currencies	16%	19%

- (i) These percentages exclude certain expenses for significant items which will not be settled in cash, or which we believe to be items that are not core to our current or future operations. These items include Merger-related amortization of intangible assets, restructuring costs, and transaction and integration expenses.

The following table sets out the total revenues for the year ended December 31, 2016 and 2015 and the components of the change in total revenues for the year ended December 31, 2016:

	Years ended December 31,		As Reported Change	Currency Impact	Components of Change		
	2016	2015			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Total revenues	\$ 7,887	\$ 3,829	106%	(6)%	112%	112%	—%

Total revenues for the year ended December 31, 2016 were \$7.9 billion, compared to \$3.8 billion for the year ended December 31, 2015, an increase of \$4.1 billion or 106%. This growth in revenues was driven by our Merger with Towers Watson and our acquisition of Gras Savoye.

Our revenues can be materially impacted by changes in currency conversions, which can fluctuate significantly over the course of a calendar year. For the year ended December 31, 2016, currency translation decreased our consolidated revenues by \$111 million. The primary currency driving the change was the Pound sterling, which weakened against the U.S. dollar during the year ended December 31, 2016.

The following table sets out the total revenues for the year ended December 31, 2015 and 2014 and the components of the change in total revenues for the year ended December 31, 2015:

	Years ended December 31,		As Reported Change	Currency Impact	Components of Change		
	2015	2014			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Total revenues	\$ 3,829	\$ 3,802	1%	(6)%	7%	4%	3%

Total revenues for the year ended December 31, 2015 were \$3.8 billion, compared to \$3.8 billion for the year ended December 31, 2014, an increase of \$27 million, or 1%. This growth in revenues was driven primarily by a \$115 million organic growth in commissions and fees and a net \$157 million increase through acquisitions, partially offset by a \$15 million organic decline in interest and other income and \$230 million in adverse foreign currency movements.

In 2015, the foreign currency impact was as a result of the strengthening of the U.S. dollar against a number of currencies, most significantly the Euro and the Pound sterling.

Definitions of Constant Currency Change and Organic Change are included in the section entitled 'Non-GAAP Financial Measures' in this Directors' Report.

## Salaries and Benefits

Total salaries and benefits for the years ended December 31, 2016 and December 31, 2015 were \$4.6 billion and \$2.3 billion, respectively, an increase of \$2.3 billion. The growth in expenses was primarily driven by the Merger and our acquisition of Gras Savoye. Salaries and benefits for the years ended December 31, 2015 and December 31, 2014 were \$2.3 billion and \$2.3 billion, respectively, a decrease of \$11 million. The decrease was primarily related to an additional \$109 million related to acquisitions and \$31 million from increased headcount, pay reviews, and higher incentives, offset by \$148 million of favorable foreign currency movements. As a percentage of commissions and fees revenues, salaries and benefits expenses represented 60%, 60% and 61% for the years ended December 31, 2016, 2015 and 2014, respectively.

***Other Operating Expenses***

Other operating expenses include occupancy, legal, marketing, licenses, royalties, supplies, technology, printing and telephone costs, as well as insurance, including premiums on excess insurance and losses on professional liability claims, non-client-reimbursed travel by colleagues, publications, professional subscriptions and development, recruitment, other professional fees and irrecoverable value added and sales taxes.

Other operating expenses for the years ended December 31, 2016 and December 31, 2015 were \$1.5 billion and \$768 million, respectively, an increase of \$733 million. The growth in expenses was primarily driven by the Merger and our acquisition of Gras Savoye. Other operating expenses for the years ended December 31, 2015 and December 31, 2014 were \$768 million and \$659 million, respectively, an increase of \$109 million. This growth included a net \$36 million increase from acquisitions and disposals, and a \$120 million increase relating to the provision for the Stanford litigation. Growth was partially offset primarily by \$42 million of favorable foreign currency movements.

***Depreciation***

Depreciation represents the expense incurred over the useful life of our tangible fixed assets and internally developed software. Depreciation for the years ended December 31, 2016 and December 31, 2015 was \$178 million and \$95 million, respectively, an increase of \$83 million. The growth in expenses was primarily driven by the Merger and our acquisition of Gras Savoye. Depreciation expense for the years ended December 31, 2015 and December 31, 2014 was \$95 million and \$92 million, respectively, an increase of \$3 million. The increase of \$3 million included an organic increase of \$4 million and a net \$4 million increase from acquisitions and disposals, partially offset by \$5 million of favorable foreign currency movements.

***Amortization***

Amortization includes amortization of acquired intangible assets, including acquired internally developed software. Amortization for the years ended December 31, 2016 and December 31, 2015 was \$591 million and \$76 million, respectively, an increase of \$515 million. The primary driver of the increase in amortization was our acquisition of approximately \$4.0 billion in intangible assets in our Merger with Towers Watson and our acquisition of \$231 million and \$440 million of intangible assets related to our acquisitions of Miller and Gras Savoye, respectively. Amortization for the year ended December 31, 2015 was \$76 million, an increase of \$22 million compared to December 31, 2014. The increase primarily reflects the increased expense related to our acquisitions of Charles Monat and Max Matthiessen, partially offset by the ongoing reduction in the Hilb Rogal Hobbs Company, a wholly owned subsidiary, acquisition amortization.

***Restructuring Costs***

Restructuring costs for the year ended December 31, 2016 were \$193 million of which \$145 million related to the Operational Improvement Program ('OIP') and \$48 million relating to the Business Restructure Program. Restructuring costs for the years ended December 31, 2015 and December 31, 2014 were \$126 million and \$36 million, respectively, all of which was related to the OIP. See our discussion in the Operational Improvement Program and Business Restructure Program section herein and Note 5 to the Consolidated Financial Statements for additional details about these expenses.

***Transaction and integration expenses***

Transaction and integration expenses include fees and charges associated with our mergers and acquisitions and principally consist of integration consultants and contract termination fees, as well as legal, accounting, marketing, and information technology transaction and integration expenses. These costs also include retention and severance costs and the write-off of software development as a direct consequence of the Merger. Transaction and integration expenses for the year ended December 31, 2016 were \$177 million. Approximately \$162 million of these expenses were related to the Merger and \$15 million were related to the acquisition of Gras Savoye. Transaction and integration expenses for the year ended December 31, 2015 were \$84 million. Approximately \$58 million of these expenses were related to the Merger, \$15 million were related to the acquisition of Gras Savoye and \$11 million were related to our acquisition of Miller. Transaction and integration expenses for 2014 were included in other operating costs and are immaterial for reclassification.

## ***Income from Operations***

Income from operations for the year ended December 31, 2016 was \$601 million compared to \$377 million for the year ended December 31, 2015, an increase of \$224 million, or 59%. This growth in income from operations compared to that of 2015 was primarily driven by the Merger and our acquisition of Gras Savoye. Income from operations for the year ended December 31, 2015 was \$377 million compared to \$647 million for the year ended December 31, 2014, a decrease of \$270 million. This was primarily due to the \$90 million increase in restructuring costs related to the Operational Improvement Program, the \$120 million increase in the litigation provision relating to the Stanford litigation and an increase in expenses as the mid-year acquisition of Miller resulted in its expenses initially exceeding the increase in revenues generated by the acquisition, due to the seasonal profile of the business.

## ***Interest expense***

Interest expense for the years ended December 31, 2016, 2015 and 2014 was \$184 million, \$142 million and \$135 million, respectively. Interest expense is primarily related to interest on our senior notes and term loans. Interest expense increased by \$42 million for the year ended December 31, 2016, which was primarily related to additional debt acquired in the Merger and as part of the acquisition of Gras Savoye. Interest expense increased by \$7 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014, which was primarily related to the \$8 million increase in the unwind of the discount on contingent and deferred considerations.

## ***Other expense/(income), net***

Other expense/(income), net, includes other gains and losses, including gains and losses on foreign currency transactions.

Other expense/(income), net for the year ended December 31, 2016 was an expense of \$27 million, which was primarily foreign currency transaction losses. Other expense/(income), net for the year ended December 31, 2015 was income of \$55 million, which included gains on disposal of operations of \$25 million, gain on remeasurement of equity interests related to the Gras Savoye acquisition of \$59 million, partially offset by the \$30 million impact of the Venezuelan currency devaluation. Other expense/(income), net for the year ended December 31, 2014 was income of \$6 million which included gains on disposals of operations of \$12 million and gains related to foreign currency transactions of \$8 million, partially offset by the \$14 million impact of the Venezuelan currency devaluation.

## ***(Benefit from)/Provision for Income Taxes***

(Benefit from)/provision for income taxes for the years ended December 31, 2016, 2015 and 2014 were \$(76) million, \$(53) million and \$159 million, respectively. The benefit from income taxes in 2016 was primarily due to the release of a portion of U.S. valuation allowances and shifts in the global mix of income as a result of the Merger. This shift creates additional deductions in jurisdictions with high statutory income tax rates, which reduces the global effective tax rate. The benefit from income taxes in 2015 was primarily due to an income tax benefit from the release of a portion of U.S. valuation allowances.

## ***Net income attributable to Willis Towers Watson***

Net income attributable to Willis Towers Watson for the year ended December 31, 2016 was \$450 million, an increase of \$107 million compared to \$343 million for the year ended December 31, 2015. The growth was primarily driven by an improvement of \$224 million in income from operations and an increase of \$23 million in the benefit from income taxes, partially offset by a \$42 million increase in interest expense and an \$82 million increase to expense in other expense/(income), net. Net income attributable to Willis Towers Watson for the year ended December 31, 2015 was \$343 million, a decrease of \$19 million compared to \$362 million for the year ended December 31, 2014. This decrease was primarily driven by a decrease of \$270 million in income from operations and a \$7 million increase in interest expense, partially offset by a decrease of \$212 million in the provision for income taxes and an increase of \$49 million income from other expense/(income), net.

## **As Reported Segment Revenues Analysis**

During the second quarter of 2016, we began managing our business across four integrated reportable operating segments. As a result, the Company has changed the way it manages and reports segment revenues and operating income, resulting in a change in the Company's reportable segments from eight reportable segments, formerly known as Willis International; Willis North America; Willis Capital, Wholesale & Reinsurance; Willis GB; Towers Watson Benefits; Towers Watson Exchange Solutions; Towers Watson Risk and Financial Services; and Towers Watson Talent and Rewards, into four reportable segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions.

All prior period segment revenues information has been recast from our historically reported filings to conform to the current reportable segment structure.

Segment revenues exclude amounts that were directly incurred on behalf of our clients and reimbursed by them (reimbursed expenses); however, these amounts are included in consolidated revenues.

The Merger affects the comparability of this data between 2016 and other periods presented. See 'Supplementary Pro Forma Segment Revenues Analysis' for additional analysis.

Beginning with 2017, we are realigning teams within some segments and will update our corporate expense allocation methodology to move additional costs which were formerly identified as corporate costs into the segments. We may continue to refine teams, business units and the cost allocation methodology as we continue the integration phase of the Merger.

## Human Capital and Benefits

The Willis Towers Watson Human Capital & Benefits ('HCB') segment provides an array of advice, broking, solutions and software for employee benefit plans, the HR organization and the management teams of our clients.

HCB is the largest segment of the Company, generating approximately 41% of our revenues for the year ended December 31, 2016. HCB is focused on addressing our clients' people and risk needs to help them take on the challenges of operating in a global marketplace. HCB is further strengthened with teams of international consultants that provide support through each of our business units to the global headquarters of multinational clients and their foreign subsidiaries.

The HCB segment provides services through four business units:

- *Retirement* — The Retirement business provides actuarial support, plan design, and administrative services for traditional pension and retirement savings plans. Our colleagues help our clients assess the costs and risks of retirement plans on cash flow, earnings and the balance sheet, the effects of changing workforce demographics on their retirement plans and retiree benefit adequacy and security.
- *Health and Benefits* — The Health & Benefits ('H&B') business provides plan management consulting, broking and administration across the full spectrum of health and group benefit programs, including medical, dental, disability, life and other coverage.
- *Talent & Rewards* — Our Talent & Rewards ('T&R') business covers three areas of specialty: Executive Compensation ('EC'); Rewards, Talent & Communication ('RTC'); and Data, Surveys and Technology ('DST'). T&R provides advice, data, software and products to address clients' total rewards and talent issues.
- *Technology and Administration Solutions* — Our Technology and Administration Solutions ('TAS') business provides benefits outsourcing services to clients outside of the U.S.

The table below presents segment commissions and fees and segment interest and other income for HCB for the years ended December 31, 2016, 2015, and 2014.

	December 31,		As reported change	December 31,		As reported change
	2016	2015		2015	2014	
	(in millions)			(in millions)		
Commissions and fees	\$ 3,210	\$ 697	361%	\$ 697	\$ 653	7 %
Interest and other income	16	1	1,500%	1	2	(50)%
Total segment revenues	<u>\$ 3,226</u>	<u>\$ 698</u>	<u>362%</u>	<u>\$ 698</u>	<u>\$ 655</u>	<u>7 %</u>

HCB total segment revenues for the year ended December 31, 2016 were \$3.2 billion, compared to \$698 million for the year ended December 31, 2015, an increase of \$2.5 billion or 362%. This growth in revenues was driven by our Merger and our acquisition of Gras Savoye. See the 'Supplementary Pro Forma Segment Revenues Analysis' section below for additional discussion of our 2016 results.

HCB total segment revenues for the year ended December 31, 2015 were \$698 million, compared to \$655 million for the year ended December 31, 2014, an increase of \$43 million or 7%. HCB recorded mid-single-digit growth driven by organic growth and our strategic acquisition of Evolution Benefits Consulting in 2015.

# Willis Towers Watson plc

## Corporate Risk and Broking

Our Corporate Risk & Broking ('CRB') segment provides a broad range of risk advice, insurance brokerage and consulting services to clients worldwide ranging from small businesses to multinational corporations. We deliver integrated global solutions tailored to client needs and underpinned by data and analytics.

CRB generated 32% of Willis Towers Watson revenues for the year ended December 31, 2016, and places more than \$20 billion of premiums into the insurance markets, annually.

CRB operates as an integrated global team comprising both functional and geographic leadership with five global offerings:

- *Property and Casualty* — Property and Casualty provides property and liability insurance brokerage services across a wide range of industries including construction, real estate, healthcare, and natural resources.
- *Financial Lines* — Financial Lines specializes in brokerage services for financial, political and credit risks.
- *Transport* — Transport provides specialist expertise to the transportation, aerospace, marine and space industries.
- *Affinity* — Affinity arranges the insurance products and services for our client partners to offer to their customers, employees or members alongside, or in addition to, their principal business activities.
- *Facultative* — Facultative serves as a broker or intermediary for insurance companies looking to arrange reinsurance solutions across classes of risk, which enable them to deliver differentiated outcomes to their direct insureds.

The table below presents segment commissions and fees, and segment interest and other income for CRB for the years ended December 31, 2016, 2015, and 2014.

	December 31,		As reported change	December 31,		As reported change
	2016	2015		2015	2014	
	(in millions)			(in millions)		
Commissions and fees	\$ 2,502	\$ 2,301	9%	\$ 2,301	\$ 2,365	(3)%
Interest and other income	29	17	71%	17	16	6 %
Total segment revenues	<u>\$ 2,531</u>	<u>\$ 2,318</u>	9%	<u>\$ 2,318</u>	<u>\$ 2,381</u>	(3)%

CRB total segment revenues for the year ended December 31, 2016 were \$2.5 billion, compared to \$2.3 billion for the year ended December 31, 2015, an increase of \$213 million or 9%. The growth for the year ended December 31, 2016 was primarily due to the acquisition of Gras Savoye, which occurred on December 29, 2015. Great Britain led organic growth with solid revenue increases across all lines of business. Western Europe contributed to organic growth with strong growth in Iberia, partially offset by softness in Italy. North America was flat with strong retention offset by lower new business. International organic revenue declined as a result of lower revenues in Asia and Australasia, partially offset by better performance in Latin America and Central and Eastern Europe, Middle East and Africa ('CEEMEA').

CRB total segment revenues for the year ended December 31, 2015 were \$2.3 billion, compared to \$2.4 billion for the year ended December 31, 2014, a decrease of \$63 million or 3%. This decrease in revenues was driven by negative currency movements, partially offset by growth in the construction practice in North America, as well as growth in financial lines, property & casualty and aerospace in Great Britain.

## Investment, Risk and Reinsurance

The Willis Towers Watson Investment, Risk and Reinsurance ('IRR') segment applies a sophisticated approach to risk which helps clients free up capital and manage investment complexity. The segment works closely with investors, reinsurers and insurers to manage the equation between risk and return. IRR provides investment consulting services and insurance specific services and solutions through reserves opinions, software, ratemaking, usage-based insurance, risk underwriting, and reinsurance broking.

This segment is our third largest segment and generated approximately 19% of revenues for the Company for the year ended December 31, 2016. With approximately 80% of the revenues for this segment split between North America and the U.K., this segment includes the following businesses and offerings:



- *Willis Re* — Willis Re provides reinsurance industry clients with an understanding of how risk affects capital and financial performance and advises on the best ways to manage related outcomes.
- *Risk Consulting and Software* — Risk Consulting and Software is a global business that provides advice and technology solutions to the insurance industry, as well as to corporate clients with respect to their insurance programs. Services include software and technology, risk and capital management, products and pricing, financial and regulatory reporting, financial and capital modeling, M&A, outsourcing and business management.
- *Investment* — Investment provides advice to improve investment outcomes for asset owners using a broad and sophisticated framework for managing risk.
- *Wholesale Insurance Broking* — Wholesale provides wholesale and specialist broking services to retail brokers.
- *Portfolio and Underwriting Services* — Portfolio and Underwriting Services acts on behalf of our insurance carrier partners and self-insured entities in product marketing and distribution, risk underwriting and selection, claims management and other general administrative responsibilities.
- *Capital Markets & Advisory* — Capital Markets & Advisory provides investment banking services to companies involved in the insurance and reinsurance industries for a broad array of merger and acquisition transactions as well as capital markets products.

The table below presents segment commissions and fees, and segment interest and other income for IRR for the years ended December 31, 2016, 2015, and 2014.

	December 31,		As reported change	December 31,		As reported change
	2016	2015		2015	2014	
	(in millions)			(in millions)		
Commissions and fees	\$ 1,382	\$ 812	70%	\$ 812	\$ 749	8 %
Interest and other income	59	1	5,800%	1	17	(94)%
Total segment revenues	<u>\$ 1,441</u>	<u>\$ 813</u>	77%	<u>\$ 813</u>	<u>\$ 766</u>	6 %

IRR total segment revenues for the year ended December 31, 2016 were \$1.4 billion, compared to \$813 million for the year ended December 31, 2015, an increase of \$628 million or 77%. This growth in revenues was driven by the Merger and a full year of revenues from Miller, following our acquisition in May 2015. See the 'Supplementary Pro Forma Segment Revenues Analysis' section below for additional discussion of our 2016 results.

IRR total segment revenues for the year ended December 31, 2015 were \$813 million, compared to \$766 million for the year ended December 31, 2014, an increase of \$47 million or 6%. The growth was driven by our acquisition of Miller Insurance Services, with additional organic growth in Reinsurance and Capital Markets & Advisory, partially offset by the negative impact from foreign currency translation and a \$12 million settlement received in 2014.

## Exchange Solutions

The Willis Towers Watson Exchange Solutions ('ES') segment provides primary medical and ancillary benefit exchange and outsourcing services to active employees and retirees across both the group and individual markets. A significant portion of the revenues in this segment is recurring in nature, driven by either the commissions from the policies we sell, or from long-term service contracts with our clients that typically range from three to five years. Revenues across this segment may be seasonal, driven by the magnitude and timing of client transition activities, and we typically increase our membership levels significantly effective January 1, after calendar year-end benefits elections.

ES generated approximately 8% of our revenues for the year ended December 31, 2016. ES provides services across four integrated or related offerings to customers primarily in the U.S. through four business units:

- *Retiree & Access Exchanges* — This business provides solutions through a proprietary technology platform, OneExchange Retiree, which enables our employer clients to transition their retirees to individual, defined contribution health plans that provide individuals with a tax-free allowance or contribution to spend on healthcare services at an annual cost that the employer controls, as opposed to group-based, defined benefit health plans that provide groups of individuals with healthcare benefits at uncertain annual costs.

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- *Active Exchanges* — This business is focused on delivering group benefit exchanges, serving the active employees of employers across the United States through our proprietary BenefitConnect or Bright Choices exchange platforms.
- *Technology and Administration Solutions* — Through our proprietary BenefitConnect technology, this business provides a broad suite of health and welfare outsourcing services as well as decision support and modeling tools for pension users within the U.S.
- *Consumer-Directed Accounts* — This business uses its SaaS-based technology and related services to deliver consumer-driven healthcare and reimbursement accounts, including health savings accounts, health reimbursement arrangements and other consumer-directed accounts.

The table below presents segment commissions and fees, and segment interest and other income for ES for the year ended December 31, 2016.

	<u>December 31,</u>
	<u>2016</u>
	<u>(in millions)</u>
Commissions and fees	\$ 652
Interest and other income	2
Total segment revenues	<u>\$ 654</u>

ES total segment revenues for the year ended December 31, 2016 were \$654 million. ES was not part of our business operations prior to the Merger. See the ‘Supplementary Pro Forma Segment Revenues Analysis’ section below for additional discussion of our 2016 results.

## Supplementary Pro Forma Financial Information

To assist the reader in understanding our comparative analysis, we have included discussion and analysis of pro forma financial information for Willis Towers Watson as if the Towers Watson Merger had occurred on January 1, 2015.

The pro forma financial information for the year ended December 31, 2015 combines: (i) the historical consolidated statement of operations of Willis Towers Watson for the year ended December 31, 2015 and (ii) the historical consolidated statement of operations of Towers Watson for the financial year ended June 30, 2015 less the historical consolidated statement of operations of Towers Watson for the six months ended December 31, 2014, plus the historical consolidated statement of operations of Towers Watson for the six months ended December 31, 2015.

The pro forma financial information is only for Willis and Towers Watson and does not include Gras Savoye or other merger or acquisition activity on a pro forma basis.

Pro forma financial information is for illustrative purposes only, and is based on adjustments that are estimates based upon available information and certain assumptions that Willis Towers Watson management believes are reasonable under the circumstances, as described in ‘Pro Forma Adjustments’ below. The pro forma financial information has not been adjusted to give effect to certain expected financial benefits of the Merger, such as revenue synergies, tax savings and cost synergies, or the anticipated costs to achieve these benefits, including the cost of integration activities. The pro forma financial information does not purport to represent what the actual consolidated results of operations of Willis Towers Watson would have been had the Merger occurred on the date indicated, nor is it necessarily indicative of future consolidated results of operations. The actual results of operations will differ, potentially significantly, from the pro forma amounts reflected herein due to a variety of factors, including access to additional information, changes in value not currently identified and changes in operating results following the date of the unaudited pro forma financial information.

**Pro Forma Condensed Consolidated Statements of Operations**  
(in millions of U.S. dollars, except per share data)

	Years ended December 31,							
	2016				2015			
	Willis Towers Watson		Legacy Willis	Legacy Towers Watson	Pro Forma Adjustments	Pro Forma Willis Towers Watson		
Total revenues	\$ 7,887	100%	\$ 3,829	\$ 3,664	b \$ (1) a	\$ 7,492	100%	
Costs of providing services								
Salaries and benefits	4,646	59%	2,303	2,161	(33) c	4,431	59%	
Other operating expenses	1,501	19%	768	725	b 3 a, d	1,496	20%	
Depreciation	178	2%	95	110	(46) e	159	2%	
Amortization	591	7%	76	71	388 f	535	7%	
Restructuring costs	193	2%	126	—	—	126	2%	
Transaction and integration expenses	177	2%	84	97	(151) k	30	—%	
Total costs of providing services	7,286	92%	3,452	3,164	161	6,777	90%	
Income from operations	601	8%	377	500	(162)	715	10%	
Interest expense	184	2%	142	9	13 g	164	2%	
Other expense/(income), net	27	—%	(55)	(57)	—	(112)	(1)%	
(Benefit from)/provision for income taxes	(76)	(1)%	(53)	217	(114) h	50	1%	
Interest in earnings of associates, net of tax	2	—%	11	(2)	—	9	—%	
Net income	468	6%	354	329	(61)	622	8%	
Income attributable to minority interests	(18)	—%	(11)	(1)	—	(12)	—%	
NET INCOME ATTRIBUTABLE TO WILLIS TOWERS WATSON	\$ 450	6%	\$ 343	\$ 328	\$ (61)	\$ 610	8%	
Basic earnings per share	\$ 3.28		\$ 5.04	\$ 4.75		\$ 4.45	i, j	
Diluted earnings per share	\$ 3.26		\$ 4.97	\$ 4.75		\$ 4.42	i, j	

**Pro Forma Adjustments**

The unaudited pro forma financial information reflects the following adjustments:

- Intercompany trading.* Adjustments to eliminate trading between Legacy Willis and Legacy Towers Watson of \$1 million for the year ended December 31, 2015.
- Conforming reclassifications and adjustments.* Certain reclassifications have been made to amounts in the Towers Watson historical statement of operations to conform to Willis' presentation, including reclassifying certain contra revenue accounts and Towers Watson's professional and subcontracted services, occupancy and general and administrative expenses within the relevant Willis captions.
- Pension and post-retirement benefit amortization.* Adjustments to remove the net periodic benefit costs of \$33 million for the year ended December 31, 2015 associated with the amortization of net actuarial losses and prior service credits/costs for Towers Watson's pension and other post-retirement benefit plans.
- Rent.* Adjustment to eliminate \$5 million of historical rent expense for the year ended December 31, 2015 offset by \$1 million amortization of our favorable and unfavorable lease agreements.
- Depreciation.* Adjustment related to depreciation on internally developed software of \$57 million partially offset by an increase of \$11 million for the year ended December 31, 2015 due to an increase in the estimated fair value for leasehold improvements, furniture and fixtures and computer hardware and software.
- Amortization.* Historical amortization expense of \$71 million was removed and amortization expense of \$459 million has been recorded to reflect the estimated fair values of Towers Watson's identifiable intangible assets and related amortization. See Note 3 and Note 7 to the Consolidated Financial Statements.

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- g. *Interest Expense.* Net adjustments to interest expense include additional interest and amortization of related deferred debt issuance costs. Approximately \$13 million incremental interest expense was recorded for the year ended December 31, 2015 related to a borrowing under a \$340 million term loan as part of the funding for the pre-Merger special dividend on December 29, 2015 and the portion of the senior notes issuance used to repay Towers Watson's existing debt at the time of the Merger.
- h. *Income taxes.* Adjustments to record the income tax impact of the pro forma adjustments, including the removal of the tax consequences of the repatriation of foreign earnings to partially fund the pre-Merger special dividend. The income tax expense was calculated based on the U.S. and foreign statutory rates applicable to adjustments made. Where applicable, a U.S. statutory rate of 40% was used. Pro forma adjustments for income tax purposes have been determined without regard to potential tax planning strategies that may result from the Merger of Towers Watson with Willis. Tax benefits from the Merger have not been considered in our pro forma adjustments.
- i. *Willis ordinary shares issuance.* Approximately 184 million Willis ordinary shares (prior to the reverse stock split) were issued to Towers Watson stockholders as the Merger Consideration in connection with the Merger, based on Towers Watson shares of common stock outstanding as of January 4, 2016, at a per share price of \$47.18, which was the closing share price on that date, for a total value of approximately \$8.7 billion.
- j. *Earnings per share.* The pro forma consolidated basic and diluted earnings per share for the year ended December 31, 2015 are calculated as follows:

	Year Ended December 31, 2015
	(in millions, except per share data)
Willis historic average basic shares in issue <sup>(i)</sup>	68
Shares issued for Towers Watson <sup>(ii)</sup>	69
Willis historic average basic shares in issue	137
Dilutive effect of securities	1
Diluted weighted average shares outstanding	138
Pro forma net income attributable to Willis Towers Watson	\$ 610
Basic earnings per share	\$ 4.45
Diluted earnings per share	\$ 4.42

(i) After taking into account the impact of the reverse stock split on January 4, 2016.

(ii) Shares issued for Towers Watson based on approximately 69 million Towers Watson shares outstanding at January 4, 2016.

- k. *Transaction and integration expenses.* Transaction and integration costs related to the Merger and have been eliminated.

## Consolidated Revenues

The following table sets out the total revenues generated for the year ended December 31, 2016, pro forma revenues generated for the year ended December 31, 2015, and the components of the change for the year ended December 31, 2016.

	Years ended December 31,		Components of Change				
	2016	Pro Forma 2015	Pro Forma Change	Currency Impact	Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Total revenues	\$ 7,887	\$ 7,492	5%	(3)%	8%	7%	1%

Total revenues for the year ended December 31, 2016 were \$7.9 billion, compared to \$7.5 billion pro forma revenues for the year ended December 31, 2015, an increase of \$395 million, or 5%. This growth was driven by a 7% increase due to our acquisitions of Gras Savoye and Miller and 1% organic revenue growth, partially offset by adverse foreign currency exchange movements of 3%. The primary drivers of our growth were within our Corporate Risk and Broking and Exchange Solutions segments. See our segment revenues analysis for a further discussion of our segment results.

Our results can be materially impacted by changes in currency conversions, which can fluctuate significantly over the course of a calendar year. For the year ended December 31, 2016, currency translation decreased our consolidated revenues by \$202 million on a constant currency basis from the pro forma year ended December 31, 2015. The primary currency driving the change was the Pound sterling which weakened against the U.S. dollar during 2016.

The organic change presented above includes the reduction to revenues for the year ended December 31, 2016 related to the fair value adjustment for deferred revenue made during purchase accounting for the Merger. If this revenue had not been reduced, the constant currency change would have been an increase of 9% and the organic change would have been an increase of 2%, respectively, for the year ended December 31, 2016.

Definitions of Constant Currency Change and Organic Change are included in the section entitled 'Non-GAAP Financial Measures' in this Directors' Report.

## ***Salaries and Benefits***

Salaries and benefits were \$4.6 billion for the year ended December 31, 2016, an increase of \$215 million, or 5%, compared to \$4.4 billion for the pro forma year ended December 31, 2015. The increase was primarily related to our acquisitions of Gras Savoye and Miller which contributed approximately \$291 million of the increase, partially offset by increased net periodic benefit credits from the adoption of the granular approach to calculating service and interest costs of \$51 million.

## ***Other Operating Expenses***

Other operating expenses include occupancy, legal, marketing, licenses, royalties, supplies, technology, printing and telephone costs, as well as insurance, including premiums on excess insurance and losses on professional liability claims, non-client-reimbursed travel by colleagues, publications, professional subscriptions and development, recruitment, other professional fees and irrecoverable value added and sales taxes.

Other operating expenses for the year ended December 31, 2016 were \$1.5 billion, compared to \$1.5 billion for the pro forma year ended December 31, 2015, an increase of \$5 million or 0%. The increase was primarily related to our acquisitions of Gras Savoye and Miller, which contributed approximately \$135 million of the increase. In 2016, we accrued \$nil for the Stanford litigation, which was \$120 million less than the \$120 million accrued in 2015.

## ***Depreciation***

Depreciation represents the expense incurred over the useful life of our tangible fixed assets and internally developed software. Depreciation was \$178 million for the year ended December 31, 2016, an increase of \$19 million, or 12%, compared to \$159 million for the pro forma year ended December 31, 2015. The increase was primarily related to our acquisitions of Gras Savoye and Miller and our normal capital expenditures.

## ***Amortization***

Amortization includes amortization of acquired intangible assets, including acquired internally developed software. Amortization was \$591 million for the year ended December 31, 2016, an increase of \$56 million, or 10%, compared to \$535 million for the pro forma year ended December 31, 2015. The increase in amortization in 2016 is primarily due to amortization of the intangible assets acquired in our acquisitions of Gras Savoye and Miller. We acquired approximately \$231 million and \$440 million in intangible assets in our acquisitions of Miller and Gras Savoye, respectively. These intangible assets are amortized over their expected lives which range from 4 to 25 years. See Note 3 and Note 7 to the Consolidated Financial Statements for additional information about our intangible assets.

## ***Transaction and integration expenses***

Transaction and integration expenses were \$177 million for the year ended December 31, 2016, an increase of \$147 million compared to \$30 million for the pro forma year ended December 31, 2015. The increase in 2016 is primarily due to integration expenses incurred subsequent to the Merger. For the year ended December 31, 2016, approximately \$162 million of these expenses were related to the Merger and \$15 million were related to the integration of Gras Savoye. For the pro forma year ended December 31, 2015, transaction expenses related to the Merger of \$151 million have been eliminated as part of the pro forma adjustments. Of the remaining \$30 million of transaction and integration expenses, approximately \$15 million were related to Gras Savoye, \$11 million were related to Miller, and \$4 million were related to other miscellaneous M&A activity.

## ***Restructuring costs and Interest expense***

Please see the discussion in the 'As Reported Consolidated Financial Information' section above.

## *Income from Operations*

Income from operations for the year ended December 31, 2016 was \$601 million, compared to \$715 million for the pro forma year ended December 31, 2015, a decrease of \$114 million. The decrease was primarily due to increases in transaction and integration expenses of \$147 million and restructuring costs of \$67 million, partially offset by the \$120 million decrease in operating expenses arising from the Stanford litigation.

## *Other Expense/(Income), Net*

Other expense/(income), net, includes other gains and losses, including gains and losses on foreign currency transactions.

Other expense/(income), net, for the year ended December 31, 2016 was \$27 million of net expense, which was primarily foreign currency transaction losses. Other expense/(income), net for the pro forma year ended December 31, 2015 was \$112 million of net income, which was primarily due to \$80 million of gains on disposals of operations and \$59 million in the gain on the remeasurement of equity interests, partially offset by \$30 million in foreign currency transaction losses in 2015.

## *(Benefit from)/Provision for Income Taxes*

For the year ended December 31, 2016, there was a \$76 million benefit from income taxes, due primarily to a benefit from the release of a portion of our U.S. valuation allowances and shifts in the global mix of income as a result of the Merger. This shift creates additional deductions in jurisdictions with high statutory income tax rates, which reduces the global effective tax rate. For the pro forma year ended December 31, 2015, there was a provision for income taxes of \$50 million. Legacy Willis had a benefit from income taxes due to the release of a portion of U.S. valuation allowances in 2015 which was more than offset by the provision for income taxes for Legacy Towers Watson.

## *Net Income Attributable to Willis Towers Watson*

Net income attributable to Willis Towers Watson for the year ended December 31, 2016 was \$450 million, a decrease of \$160 million compared to \$610 million for the pro forma year ended December 31, 2015. The decrease was primarily driven by increased transaction and integration expenses of \$147 million and restructuring costs of \$67 million in 2016 and gains on disposals of \$80 million and remeasurement of equity interests of \$59 million in 2015, partially offset by a decrease in income tax expense of \$126 million and the \$120 million decrease in the litigation provision relating to the Stanford litigation.

## **Supplementary Pro Forma Segment Revenues Analysis**

### *Human Capital and Benefits*

The following table sets out the components of HCB revenues for the year ended December 31, 2016 and pro forma revenues for the year ended December 31, 2015, and the components of the change in commissions and fees for the year ended December 31, 2016.

	Years ended December 31,		Pro Forma Change	Currency Impact	Components of Change		
	2016	Pro Forma 2015			Constant Currency Change	Acquisitions/Divestitures	Organic Change
	(in millions)						
Commissions and fees	\$ 3,210	\$ 3,151	2%	(3)%	5%	5%	—%
Interest and other income	16	16					
Total segment revenues	<u>\$ 3,226</u>	<u>\$ 3,167</u>					

HCB total segment revenues for the year ended December 31, 2016 and pro forma for the year ended December 31, 2015 were \$3.2 billion; and commissions and fees for the year ended December 31, 2016 and pro forma for the year ended December 31, 2015 were \$3.2 billion, representing an increase of \$59 million. Pro forma and constant currency revenue growth were driven by the acquisition of Gras Savoye, which occurred on December 29, 2015. In an effort to align resources and market demand, a significant restructuring across all lines of business took place during the second half of 2016, which caused disruption in our billable hours. Across the segment, performance was mixed, resulting in flat organic growth. Retirement revenues declined slightly as a result of reduced actuarial consulting, primarily in the fourth quarter. The Health and Benefits North America consulting business continued to see demand for plan design projects and increased product revenue. The Talent and Rewards advisory business was down period-over-period as the M&A market softened. The Technology and Administration Solutions Great Britain business had strong performance, led by increased project and administration activity along with new clients. Internationally, Global Wealth Solutions has been negatively impacted by adverse conditions in the Greater China market.

### Corporate Risk and Broking

The following table sets out the components of CRB revenues for the year ended December 31, 2016 and pro forma revenues for the year ended December 31, 2015, and the components of the change in commissions and fees for the year ended December 31, 2016.

	Years ended December 31,		Pro Forma Change	Currency Impact	Components of Change		
	2016	Pro Forma 2015			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Commissions and fees	\$ 2,502	\$ 2,301	9%	(3)%	12%	12%	—%
Interest and other income	29	17					
Total segment revenues	<u>\$ 2,531</u>	<u>\$ 2,318</u>					

CRB total segment and commissions and fees revenues for the year ended December 31, 2016 were \$2.5 billion, compared to pro forma \$2.3 billion for the year ended December 31, 2015. The growth for the year ended December 31, 2016 was due to the acquisition of Gras Savoye, which occurred on December 29, 2015. Great Britain led organic growth with solid revenue increases across all lines of business. Western Europe contributed to organic growth with strong revenue gains in Iberia, partially offset by softness in Italy. North America was flat with strong retention offset by lower new business. Offsetting the growth in Great Britain and Western Europe, International organic revenue declined as a result of lower revenues in Asia and Australasia, partially offset by better performance in Latin America and CEEMEA.

### Investment, Risk and Reinsurance

The following table sets out the components of IRR revenues for the year ended December 31, 2016 and pro forma revenues for the year ended December 31, 2015, and the components of the change in commissions and fees for the year ended December 31, 2016.

	Years ended December 31,		Pro Forma Change	Currency Impact	Components of Change		
	2016	Pro Forma 2015			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Commissions and fees	\$ 1,382	\$ 1,399	(1)%	(3)%	2%	6%	(4)%
Interest and other income	59	12					
Total segment revenues	<u>\$ 1,441</u>	<u>\$ 1,411</u>					

IRR total segment revenues for the year ended December 31, 2016 and pro forma for the year ended December 31, 2015 were \$1.4 billion. Included in total segment revenues for the year ended December 31, 2016 is a previously disclosed settlement with JLT of £28 million (\$41 million) related to the Fine Art, Jewellery and Specie team. Commissions and fees for the year ended December 31, 2016 and pro forma for the year ended December 31, 2015 were \$1.4 billion, representing a decrease of \$17 million. The organic decline was primarily related to the following factors: soft market conditions and renewal factors impacting our Reinsurance and Portfolio and Underwriting Services businesses, particularly in North America; a decline in overall insurance industry M&A activity impacting our Capital Markets & Advisory business after a record year in 2015; and a decline arising from lower demand in risk consulting projects.

### Exchange Solutions

The following table sets out the components of ES revenues for the year ended December 31, 2016 and pro forma revenues for the year ended December 31, 2015, and the components of the change in commissions and fees for the year ended December 31, 2016.

	Years ended December 31,		Pro Forma Change	Currency Impact	Components of Change		
	2016	Pro Forma 2015			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Commissions and fees	\$ 652	\$ 484	35%	—%	35%	2%	33%
Interest and other income	2	3					
Total segment revenues	\$ 654	\$ 487					

ES total segment revenues for the year ended December 31, 2016 were \$654 million, compared to pro forma \$487 million for the year ended December 31, 2015; and commissions and fees for the year ended December 31, 2016 were \$652 million, compared to pro forma \$484 million for the year ended December 31, 2015. Retiree and Access Exchanges commissions and fees increased by 41%, primarily as a result of the record 2016 annual enrollment season. The rest of the segment commissions and fees increased by 27%, primarily due to Technology and Administration Solutions adding new clients and experiencing higher project activity.

ES revenue growth is expected to slow to around 10% in 2017 due to the stabilization of the retiree enrollments. We continue to expect the active exchange growth to be strong.

## Restructuring Programs

### *Operational Improvement Program*

In April 2014, Legacy Willis announced an operational improvement program that would allow it to continue to strengthen its client service, realize operational efficiencies, and invest in new capabilities for growth.

The primary elements of the program include: moving more than 3,500 support roles from higher cost locations to facilities in lower cost locations; net workforce reductions in support positions; lease consolidation in real estate; and information technology systems simplification and rationalization.

The program began in the second quarter of 2014 and will be completed by the end of 2017. We are expecting to deliver \$325 million of annual cost savings beginning in 2018. To achieve these savings, the Company expects to incur \$130 million in restructuring charges in 2017, bringing the cumulative restructuring charges to approximately \$440 million through the end of 2017.



Total spend, actual savings, and timing may vary positively or negatively from these estimates due to changes in the scope, underlying assumptions, or execution risk of the restructuring plan throughout its duration. Restructuring costs related to the OIP for the years ended December 31, 2016, 2015 and 2014 by segment are as follows:

	HCB	CRB	IRR	ES	Corporate	Total
	(in millions)					
<b>2016</b>						
Termination benefits	\$ 1	\$ 18	\$ 3	\$ —	\$ 1	\$ 23
Professional services and other <sup>(i)</sup>	1	81	4	—	36	122
Total	<u>\$ 2</u>	<u>\$ 99</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 37</u>	<u>\$ 145</u>
<b>2015</b>						
Termination benefits	\$ 2	\$ 24	\$ 7	\$ —	\$ 3	\$ 36
Professional services and other <sup>(i)</sup>	1	57	2	—	30	90
Total	<u>\$ 3</u>	<u>\$ 81</u>	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 126</u>
<b>2014</b>						
Termination benefits	\$ —	\$ 15	\$ 1	\$ —	\$ —	\$ 16
Professional services and other <sup>(i)</sup>	—	3	—	—	17	20
Total	<u>\$ —</u>	<u>\$ 18</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 17</u>	<u>\$ 36</u>

(i) Other includes salary and benefits, premises, and other expenses incurred to support the ongoing management and facilitation of the programs.

## Business Restructuring Program

In the second quarter of 2016, we began planning targeted staffing reductions in certain portions of the business due to a reduction in business demand or change in business focus (hereinafter referred to as the Business Restructure Program, or the 'BRP'). The main element of the program is the workforce reduction of approximately 450 positions across all segments, resulting in annualized savings of approximately \$80 million. The program was complete as of December 31, 2016.

Restructuring costs related to the BRP for the year ended December 31, 2016 by segment are as follows:

	HCB	CRB	IRR	ES	Corporate	Total
	(in millions)					
Termination benefits	\$ 32	\$ 8	\$ 3	\$ 1	\$ 1	\$ 45
Professional services and other	3	—	—	—	—	3
Total	<u>\$ 35</u>	<u>\$ 8</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 48</u>

## Liquidity and Capital Resources

### Executive Summary

Our principal sources of liquidity are funds generated by operating activities, available cash and cash equivalents and amounts available under revolving credit facilities.

Based on our balance sheets, combined cash flows, current market conditions and information available to us at this time, we believe that Willis Towers Watson has sufficient liquidity, which includes our undrawn revolving credit facilities, to meet our cash needs for the next twelve months, including investing in the business for growth, creating value through the integration of Willis, Towers Watson and Gras Savoye, scheduled debt repayments, dividend payments, and contemplated share repurchases, subject to market conditions and other factors.

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Historically, we have not provided deferred taxes on cumulative earnings of our subsidiaries that have been reinvested indefinitely. As a result of the Merger and our plan to restructure certain foreign operations or distribute accumulated earnings of certain acquired Towers Watson subsidiaries, we recorded a deferred tax liability through goodwill. We continue to assert that the cumulative earnings of our other subsidiaries are reinvested indefinitely and we do not provide deferred tax liabilities on these amounts. The Company has no current plans and does not anticipate repatriating cash other than for certain foreign subsidiaries. If future events, including material changes in estimates of cash, working capital, long-term investment requirements or U.S. tax reform necessitate that these earnings be distributed, an additional provision for income and foreign withholding taxes, net of credits, may be necessary. One of the potential sources of cash may be through settlement of intercompany loans or return of capital distributions in a tax efficient manner.

Events that could change the historical cash flow dynamics discussed above include significant changes in operating results, potential future acquisitions or divestitures, material changes in geographic sources of cash, unexpected adverse impacts from litigation or future pension funding during periods of severe downturn in the capital markets.

During the year ended December 31, 2016, the Company restructured some of its debt financing in March and May 2016. We issued (i) \$1.0 billion of senior notes (\$450 million due 2021 and \$550 million due 2026) to: refinance the \$300 million senior notes due 2016; refinance \$400 million of debt assumed as part of the Merger; and make further repayment on the revolving credit facility, and (ii) €540 million (\$609 million) of senior notes to repay Tranche A of the 1-year term loan that was used to finance the acquisition of Gras Savoye.

## ***Cash and Short-term Investments***

Our cash and cash equivalents at December 31, 2016 totaled \$870 million, compared to \$532 million at December 31, 2015. The increase in cash from December 31, 2015 to December 31, 2016 was primarily due to cash acquired in the Merger with Towers Watson.

Additionally, \$557 million was available to draw under our \$800 million revolving credit facility, compared with \$333 million at December 31, 2015, and \$420 million was available to draw for regulatory capital purposes related to securities underwriting.

Included within cash and cash equivalents at December 31, 2016 are amounts held for regulatory capital adequacy requirements, including \$87 million held within our regulated U.K. entities for regulatory capital adequacy requirements.

## ***Summarized Consolidated Cash Flows***

The following table presents the summarized consolidated cash flow information for the years ended:

	Years ended December 31,		
	2016	2015	2014
	(in millions)		
Net cash from/(used in):			
Operating activities	\$ 920	\$ 243	\$ 477
Investing activities	195	(943)	(276)
Financing activities	(762)	641	(323)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	353	(59)	(122)
Effect of exchange rate changes on cash and cash equivalents	(15)	(44)	(39)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	532	635	796
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 870	\$ 532	\$ 635

## ***Cash Flows from Operating Activities***

Cash flows from operating activities were \$920 million for 2016, compared to cash flows from operating activities of \$243 million for 2015. The \$920 million net cash from operating activities for 2016 included net income of \$468 million, adjusted for \$610 million of non-cash adjustments, partially offset by changes in operating assets and liabilities of \$158 million. The \$610 million non-cash adjustments primarily include depreciation, amortization, net defined benefit pension credits, share-based compensation, and the benefit from deferred income taxes. The \$677 million increase in cash from operations in 2016 compared to 2015 was primarily due to cash from operations from Legacy Towers Watson and Gras Savoye.

Cash flows from operating activities for 2015 was \$243 million, which included net income of \$354 million, adjusted for \$18 million of non-cash adjustments to reconcile net income to cash used in operating activities, offset by changes in operating assets and liabilities of \$129 million.

Cash flows from operating activities for 2014 was \$477 million, which included net income of \$373 million, adjusted for \$257 million of non-cash adjustments to reconcile net income to cash used in operating activities, offset by changes in operating assets and liabilities of \$153 million.

## ***Cash Flows From/(Used In) Investing Activities***

Cash flows from investing activities for 2016 were \$195 million, largely driven by \$476 million of cash acquired as a result of our Merger with Towers Watson, which was a non-cash transaction as it was consummated through the issuance of shares. Cash inflows were partially offset by \$303 million of fixed assets and software for internal use and capitalized costs of developing software.

Cash flows used in investing activities of \$943 million for the year ended December 31, 2015 were primarily driven by \$857 million used in the acquisitions of operations and \$146 million for capital expenditures.

Cash flows used in investing activities of \$276 million for the year ended December 31, 2014 were primarily driven by \$245 million used in the acquisitions of operations and \$113 million for capital expenditures, partially offset by \$86 million of proceeds from the disposal of operations.

## ***Cash Flows (Used In)/From Financing Activities***

Cash flows used in financing activities for 2016 were \$762 million. The primary drivers during the period were debt issuance of \$2.0 billion, debt repayments of \$1.9 billion, net payments on the revolving credit facility of \$237 million, dividend payments of \$199 million, and share repurchases of \$396 million.

The debt issuance of \$2.0 billion was primarily the issuance of \$450 million of senior notes due 2021, \$550 million of senior notes due 2026, €540 million (\$609 million) of senior notes due 2022 and a \$400 million drawdown on the 1-year term loan facility.

The debt repayments of \$1.9 billion were primarily \$300 million repayment of senior notes due 2016, \$400 million repayment of Legacy Towers Watson debt and repayments of \$592 million and \$400 million on the 1-year term loan facility.

Net cash provided by financing activities in 2015 was \$641 million, primarily due to \$469 million net drawings on the revolving credit facility, a \$592 million term loan draw down to fund the acquisition of Gras Savoye, the issuance of shares and excess tax benefit of \$131 million, partially offset by dividends paid of \$277 million and repurchase of shares of \$82 million.

Net cash used in financing activities in 2014 was \$323 million, primarily due to dividends paid of \$210 million and repurchase of shares of \$213 million, partially offset by proceeds from the issuance of shares and excess tax benefit of \$139 million.

## **Indebtedness**

Total debt, total equity, and the capitalization ratio at December 31, 2016 and December 31, 2015 were as follows:

	December 31, 2016	December 31, 2015
	(in millions)	
Long-term debt	\$ 3,357	\$ 2,278
Short-term debt and current portion of long-term debt	508	988
Total debt	3,865	3,266
Total Willis Towers Watson shareholders' equity	\$ 10,065	\$ 2,199
Capitalization ratio	27.7%	59.8%

At December 31, 2016, our material mandatory debt repayments over the next twelve months include \$394 million senior notes due 2017, scheduled repayments of \$85 million on our term loan maturing in 2019 and scheduled repayments of \$22 million on our 7-year term loan.

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On March 22, 2016, we issued \$450 million of 3.500% senior notes due 2021 and \$550 million of 4.400% senior notes due 2026. We used the net proceeds from this offering to: repay \$300 million under our \$800 million revolving credit facility (which was drawn to repay our 4.125% senior notes on March 15, 2016); repay the \$400 million Tranche B under our 1-year term loan facility; pay down further amounts outstanding under our \$800 million revolving credit facility; and pay related accrued interest.

On May 26, 2016, we issued €540 million (\$609 million) of 2.125% senior notes due 2022. These 2022 senior notes will mature on May 26, 2022. We used the net proceeds of this offering to repay Tranche A of the 1-year term loan and related accrued interest.

At December 31, 2016 and December 31, 2015, we were in compliance with all financial covenants.

On March 7, 2017, the Company increased its \$800 million revolving credit facility to \$1.25 billion, held by Trinity Acquisition plc, and extended the repayment date to March 7, 2022. On the same day, the Company repaid the 7-year term loan due July 23, 2018.

## Fiduciary Funds

As an intermediary, we hold funds, generally in a fiduciary capacity, for the account of third parties, typically as the result of premiums received from clients that are in transit to insurers and claims due to clients that are in transit from insurers. We report premiums, which are held on account of, or due from, clients as assets with a corresponding liability due to the insurers. Claims held by, or due to, us which are due to clients are also shown as both Fiduciary assets and Fiduciary liabilities on our balance sheets.

Fiduciary funds are generally required to be kept in regulated bank accounts subject to guidelines which emphasize capital preservation and liquidity; such funds are not available to service the Company's debt or for other corporate purposes. Notwithstanding the legal relationships with clients and insurers, the Company is entitled to retain investment income earned on fiduciary funds in accordance with industry custom and practice and, in some cases, as supported by agreements with insureds.

At December 31, 2016 and 2015, we had fiduciary funds of \$2.5 billion and \$2.3 billion, respectively.

## Share Repurchase Program

The Company is authorized to repurchase shares, by way of redemption, and will consider whether to do so from time to time, based on many factors, including market conditions.

On April 20, 2016, the Willis Towers Watson Board reconfirmed, reapproved and reauthorized the remaining portion of the Legacy Willis program to repurchase the Company's ordinary shares on the open market or by way of redemption or otherwise.

On November 10, 2016, the Company announced the Board of Directors approved an increase to the existing share repurchase program of \$1 billion. The \$1 billion increase is in addition to the remaining authority on the Legacy Willis program discussed in the preceding paragraph. We anticipate this authorization to be executed in 2017 and 2018. At December 31, 2016, approximately \$1.1 billion remained on the open-ended repurchase authorities granted by the Board.

There are no expiration dates for these repurchase plans or programs. The following table presents specified information about the Company's repurchases of ordinary shares for the year ended December 31, 2016.

During 2016, the Company had the following share repurchase activity:

	Year Ended December 31, 2016
Shares repurchased	3,170,330
Average price per share	\$124.87
Aggregate repurchase cost	\$396 million

An analysis of movements on shares held by the Company is as follows:

	Year Ended December 31, 2016			
	Ordinary shares, \$0.000304635 nominal value		Ordinary shares, €1 nominal value	
	Number of shares	Nominal value (thousands)	Number of shares	Nominal value (thousands)
Balance at January 1, 2016	46,408	\$—	40,000	\$—
Effect of reverse stock split <sup>(i)</sup>	(28,889)	—	—	—
Balance at January 4, 2016	17,519	\$—	40,000	\$—

<sup>(i)</sup> See Note 3 to the Consolidated Financial Statements for further details.

	Year Ended December 31, 2016			
	Ordinary shares, \$0.000304635 nominal value		Ordinary shares, €1 nominal value	
	Number of shares	Nominal value (thousands)	Number of shares	Nominal value (thousands)
Balance at January 5, 2016	17,519	\$—	40,000	\$—
Shares repurchased	3,170,330	1	—	—
Shares canceled	(2,392,033)	(1)	—	—
Balance at December 31, 2016	795,816	\$—	40,000	\$—

## Capital Commitments

The Company has no material commitments for capital expenditures. Our capital expenditures for fixed assets and software for internal use and capitalized software costs were \$303 million for the year ended December 31, 2016. Expected capital expenditures for fixed assets and software for internal use are approximately \$250 million for the year ended December 31, 2017. We expect cash from operations to adequately provide for these cash needs.

## Dividends

Total interim cash dividends of \$199 million were paid during 2016 and a final cash dividend of \$66 million has subsequently been paid. In February 2017, the board of directors approved a quarterly cash dividend of \$0.53 per share, which will be paid on or about April 17, 2017, for an annual rate of \$2.12 per share.

## Off-Balance Sheet Arrangements and Contractual Obligations

### Off-Balance Sheet Transactions

Apart from commitments, guarantees and contingencies, as disclosed herein and in Note 14 to the Consolidated Financial Statements which is incorporated herein by reference, as of December 31, 2016, the Company had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations or liquidity.

## Contractual Obligations

The Company's material contractual obligations as of December 31, 2016 are as follows:

	Payments due by				
	Total	2017	2018-2019 (in millions)	2020-2021	After 2021
Debt and related interest obligations					
Senior notes	\$ 3,176	\$ 394	\$ 187	\$ 950	\$ 1,645
Term loans	473	107	366	—	—
Revolving \$800 million credit facility	238	—	238	—	—
Other debt	7	7	—	—	—
Interest on senior notes	1,049	128	241	191	489
Total debt and related interest obligations	4,943	636	1,032	1,141	2,134
Operating leases	1,482	238	365	268	611
U.K. pension contractual obligations	277	55	103	70	49
Acquisition liabilities	142	59	83	—	—
Other contractual obligations <sup>(i)</sup>	142	47	44	13	38
	<u>\$ 6,986</u>	<u>\$ 1,035</u>	<u>\$ 1,627</u>	<u>\$ 1,492</u>	<u>\$ 2,832</u>

(i) Other contractual obligations include capital lease commitments, put option obligations and investment fund capital call obligations, the timing of which are included at the earliest point they may fall due.

**Debt obligations and facilities** — The Company's material debt and related interest obligations at December 31, 2016 are shown in the above table. Mandatory repayments of debt over the next 12 months include maturity of the 6.200% senior notes due 2017 and the scheduled repayment of the current portion of the Company's 7-year and 2019 term loans. The Company also has the right, at its option, to prepay indebtedness under the credit facility without further penalty and to redeem the senior notes by paying a 'make-whole' premium as provided under the applicable debt instrument.

**Operating Leases** — We lease office space and furniture under operating lease agreements with terms typically ranging from three to twenty years. We have determined that there is not a large concentration of leases that will expire in any one financial year. Consequently, management anticipates that any increase in future rent expense on leases will be mainly market-driven. We also lease cars and selected computer equipment under operating lease agreements. For acquired operating leases, intangible assets or liabilities have been recognized for the difference between the contractual cash obligations and the estimated market rates at the time of acquisition. These intangibles are amortized to rent expense but do not affect our contractual cash obligations. See further discussion in Note 14 to the Consolidated Financial Statements.

**Pension Contributions** — The Company has agreed with Trustees of certain plans in the U.K. to contribute deficit funding and minimum ongoing accrual of benefits funding and presented those obligations in the table above. These obligations exclude any potential funding level contributions, which are dependent on future funding level assessments. There are no contractual obligations for our U.S. pension plans. Our total expected contributions to all qualified pension plans, including amounts presented above, for the year ending December 31, 2017 are projected to be \$128 million. Additionally, the Company expects to pay \$60 million in benefits directly to participants for the year ended 2017.

**Uncertain Tax Positions** — The table above does not include liabilities for uncertain tax positions under ASC 740, *Income Taxes*. The settlement period for the \$56 million liability, which excludes interest and penalties, cannot be reasonably estimated since it depends on the timing and possible outcomes of tax examinations with various tax authorities.

**Guarantees, Acquisition Liabilities and Other Contractual Obligations** — Information regarding guarantees and other contractual obligations and their impact on the financial statements is set forth in Note 14 to the Consolidated Financial Statements and is incorporated herein by reference.

**Claims, Lawsuits and Other Proceedings, including Stanford Financial Group Litigation** — Information regarding claims, lawsuits and other proceedings, including the Stanford Financial Group litigation, and their impact on the consolidated financial statements is set forth in Note 14 to the Consolidated Financial Statements and is incorporated herein by reference.

## Non-GAAP Financial Measures

Effective from January 1, 2016, we have made changes to the non-GAAP financial measures that we use to provide additional meaningful methods of evaluating the Company's financial performance and have replaced our underlying and organic measures with those described below.

These changes have been made both as a direct consequence of the Merger and to simplify and better align these measures with how we internally assess core performance and benchmark our operating results versus competitors.

In order to assist readers of our consolidated financial statements in understanding the core operating results that Willis Towers Watson's management uses to evaluate the business and for financial planning, we present non-GAAP measures: (1) Adjusted Revenues, (2) Constant Currency Change, (3) Organic Change, (4) Adjusted Operating Income, (5) Adjusted EBITDA, (6) Adjusted Net Income, (7) Adjusted Diluted Earnings Per Share, (8) Adjusted Income Before Taxes, (9) Adjusted Income Taxes/Tax Rate and (10) Free Cash Flow. The Company believes that these measures are relevant and provide useful information widely used by analysts, investors and other interested parties in our industry to provide a baseline for evaluating and comparing our operating and liquidity results.

Within these measures, we have adjusted for significant items which will not be settled in cash, or which we believe to be items that are not core to our current or future operations. These items include the following:

- *Restructuring and Transaction and integration expenses* - Management believes it is appropriate to adjust for restructuring and transaction and integration expenses when they relate to a specific significant program with a defined set of activities and costs that are not expected to continue beyond a defined period of time. We believe the adjustment is necessary to present how the Company is performing, both now and in the future when these programs will have concluded.
- *Fair value adjustment to deferred revenue* - Adjustment to normalize for the deferred revenue written down as part of the purchase accounting for the Merger.
- *Gains and losses on disposals of operations* - Adjustment to remove the results of disposed operations.
- *Provision for Stanford litigation* - The provision for the Stanford litigation matter, which we consider to be a non-ordinary course litigation matter.
- *Venezuelan currency devaluation* - Foreign exchange losses incurred as a consequence of the Venezuelan government's enforced changes to exchange rate mechanisms.
- *Deferred tax valuation allowance* - Adjustment to remove the effects of a release of the valuation allowance against certain U.S. deferred tax assets.
- *Gain on remeasurement of equity interests* - The Company recognized a gain as a result of remeasuring its prior equity interest in Gras Savoye held before the business combination.

These measures are different than those reported in our Directors' Report for the year ended December 31, 2015. Historical non-GAAP measures have been recalculated using management's new metrics for 2016.

These non-GAAP measures are not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies. Non-GAAP measures should be considered in addition to, and not as a substitute for, the information contained within our consolidated financial statements.

The pro forma financial information is only for Willis and Towers Watson and does not include Gras Savoye or other M&A activity on a pro forma basis.

### Adjusted Revenues

We consider Adjusted Revenues to be an important financial measure, which is used to internally evaluate and assess our core operations and to benchmark our operating results against our competitors. Adjusted Revenues presents relevant period-over-period comparisons of revenues by excluding the impact of purchase accounting rules.

*Adjusted Revenues* is defined as Total revenues adjusted for the fair value adjustment for deferred revenues that would otherwise have been recognized but for the purchase accounting treatment of these transactions. GAAP accounting requires the elimination of this revenue.

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We have included the reconciliation of Total revenues to Adjusted Revenues in the table below, together with our reconciliation of the pro forma revenues change to the constant currency and organic changes.

## **Constant Currency Change and Organic Change**

We evaluate our revenues on an as reported (U.S. GAAP), constant currency and organic basis. We believe providing constant currency and organic information provides valuable supplemental information regarding our comparable results, consistent with how we evaluate our performance internally.

- **Constant Currency Change** - Represents the year over year change in revenues excluding the impact of foreign currency fluctuations. To calculate this impact, the prior year local currency results are first translated using the current year monthly average exchange rates. The change is calculated by comparing the prior year revenues, translated at the current year monthly average exchange rates, to the current year as reported revenues, for the same period. We believe constant currency measures provide useful information to investors because they provide transparency to performance by excluding the effect that foreign currency exchange rate fluctuations have on period-over-period comparability given volatility in foreign currency exchange markets.
- **Organic Change** - The organic presentation excludes both the impact of fluctuations in foreign currency exchange rates, as described above, as well as the period-over-period impact of acquisitions and divestitures. We believe that excluding transaction-related items from our GAAP financial measures provides useful supplemental information to our investors, and it is important in illustrating what our core operating results would have been had we not incurred these transaction-related items, since the nature, size and number of these transaction-related items can vary from period to period.

The constant currency and organic change results, and a reconciliation from the as reported results for consolidated revenues are included in the As Reported Consolidated Financial Information section within this Directors' Report. These measures are also reported by segment in the As Reported Segment Revenues Analysis tables in that discussion and analysis.

A reconciliation of Total revenues to Adjusted Revenues for the year ended December 31, 2016 and pro forma 2015, and a reconciliation of the pro forma change to the constant currency and organic change for the year ended December 31, 2016 is as follows:

	Year Ended December 31,		Pro Forma Change	Currency Impact	Components of Change		
	2016	Pro Forma 2015			Constant Currency Change	Acquisitions/ Divestitures	Organic Change
	(in millions)						
Total revenues	\$ 7,887	\$ 7,492	5%	(3)%	8%	7%	1%
Fair value adjustment for deferred revenue	58	—					
Adjusted Revenues	<u>\$ 7,945</u>	<u>\$ 7,492</u>	6%	(3)%	9%	7%	2%

## **Adjusted Operating Income**

We consider Adjusted Operating Income to be an important financial measure, which is used to internally evaluate and assess our core operations and to benchmark our operating results against our competitors.

Adjusted Operating Income is defined as Income from Operations adjusted for amortization, restructuring costs, transaction and integration expenses, the fair value adjustment for deferred revenue and non-recurring items that, in management's judgment, significantly affect the period-over-period assessment of operating results.



A reconciliation of Income from Operations to Adjusted Operating Income for the year ended December 31, 2016 and pro forma year ended December 31, 2015 is as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Willis Towers Watson	Legacy Willis	Pro Forma Towers Watson (i)	Pro Forma Willis Towers Watson
	(in millions)			
Income from operations	\$ 601	\$ 377	338	\$ 715
Adjusted for certain items:				
Amortization	591	76	459	535
Restructuring costs	193	126	—	126
Transaction and integration expenses	177	73	(58)	15
Provision for the Stanford litigation	—	120	—	120
Fair value adjustment for deferred revenue	58	—	—	—
Adjusted Operating Income	<u>\$ 1,620</u>	<u>\$ 772</u>	<u>\$ 739</u>	<u>\$ 1,511</u>

(i) Includes pro forma adjustments made in the Supplementary Pro Forma Financial Information section in this Directors' Report.

Adjusted Operating Income for the year ended December 31, 2016 was \$1.6 billion, compared to pro forma \$1.5 billion for the year ended December 31, 2015, an increase of \$109 million. The increase in Adjusted Operating Income for the year ended December 31, 2016 was primarily driven by our acquisition of Gras Savoye, the settlement with JLT of £28 million (\$41 million) related to the Fine Art, Jewellery and Specie team, and the performance of our Exchange Solutions segment.

## **Adjusted EBITDA**

We consider Adjusted EBITDA to be an important financial measure, which is used to internally evaluate and assess our core operations, to benchmark our operating results against our competitors, and to evaluate and measure our performance-based compensation plans.

Adjusted EBITDA is defined as Net Income adjusted for provision for income taxes, interest expense, depreciation and amortization, restructuring costs, transaction and integration expenses, the fair value adjustment for deferred revenue, gain on disposal of operations and non-recurring items that, in management's judgment, significantly affect the period-over-period assessment of operating results.

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A reconciliation of net income to Adjusted EBITDA for the year ended December 31, 2016 and pro forma year ended December 31, 2015 is as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015	
	Willis Towers Watson	Legacy Willis	Pro Forma Towers Watson (i)	Pro Forma Willis Towers Watson
	(in millions)			
NET INCOME	\$ 468	\$ 354	\$ 268	\$ 622
(Benefit from)/provision for income taxes	(76)	(53)	103	50
Interest expense	184	142	22	164
Depreciation	178	95	64	159
Amortization	591	76	459	535
EBITDA	1,345	614	916	1,530
Restructuring costs	193	126	—	126
Transaction and integration expenses	177	73	(58)	15
Provision for the Stanford litigation	—	120	—	120
Fair value adjustment for deferred revenue	58	—	—	—
Gain on disposal of operations	(2)	(25)	(55)	(80)
Venezuela currency devaluation	—	30	—	30
Gain on remeasurement of equity interests	—	(59)	—	(59)
Adjusted EBITDA	\$ 1,771	\$ 879	\$ 803	\$ 1,682

(i) Includes pro forma adjustments made in the Supplementary Pro Forma Financial Information section in this Directors' Report.

Adjusted EBITDA for the year ended December 31, 2016 was \$1.8 billion, compared to pro forma \$1.7 billion for the year ended December 31, 2015, an increase of \$89 million. The increase in Adjusted EBITDA for the year ended December 31, 2016 was primarily driven by our acquisition of Gras Savoye, the settlement with JLT of £28 million (\$41 million) related to the Fine Art, Jewellery and Specie team, and the performance of our Exchange Solutions segment.

## ***Adjusted Net Income and Adjusted Diluted Earnings Per Share***

Adjusted Net Income is defined as Net Income Attributable to Willis Towers Watson adjusted for amortization, restructuring costs, transaction and integration expenses, the fair value adjustment of deferred revenue, gain on disposal of operations and non-recurring items that, in management's judgment, significantly affect the period-over-period assessment of operating results and the related tax effect of those adjustments. This measure is used solely for the purpose of calculating adjusted diluted earnings per share.

Adjusted Diluted Earnings Per Share is used to internally evaluate and assess our core operations and to benchmark our operating results against our competitors. Adjusted Diluted Earnings Per Share is defined as Adjusted Net Income divided by the weighted average number of shares of common stock, diluted.

A reconciliation of net income attributable to Willis Towers Watson to adjusted diluted earnings per share for the year ended December 31, 2016 and 2015 is as follows:

	Year Ended December 31,	
	2016	2015 (ii)
	Willis Towers Watson	Legacy Willis
	(in millions, except per share amounts)	
NET INCOME ATTRIBUTABLE TO WILLIS TOWERS WATSON	\$ 450	\$ 343
Adjusted for certain items:		
Amortization	591	76
Restructuring costs	193	126
Transaction and integration expenses	177	73
Provision for the Stanford litigation	—	120
Fair value adjustment for deferred revenue	58	—
Gain on disposal of operations	(2)	(25)
Venezuela currency devaluation	—	30
Gain on remeasurement of equity interests	—	(59)
Tax effect on certain items listed above <sup>(i)</sup>	(300)	(103)
Deferred tax valuation allowance	(69)	(96)
Adjusted Net Income	<u>\$ 1,098</u>	<u>\$ 485</u>
Weighted average shares of common stock — diluted (millions of shares)	138	69
Diluted earnings per share, as reported from continuing operations	\$ 3.26	\$ 4.97
Adjusted for certain acquisition related items:		
Amortization	4.28	1.10
Restructuring costs	1.40	1.83
Transaction and integration expenses	1.28	1.06
Provision for the Stanford litigation	—	1.74
Fair value adjustment for deferred revenue	0.42	—
Gain on disposal of operations	(0.01)	(0.36)
Venezuela currency devaluation	—	0.43
Gain on remeasurement of equity interests	—	(0.86)
Tax effect on certain items listed above <sup>(i)</sup>	(2.17)	(1.49)
Deferred tax valuation allowance	(0.50)	(1.39)
Adjusted Diluted Earnings Per Share	<u>\$ 7.96</u>	<u>\$ 7.03</u>

(i) The tax effect was calculated using the statutory tax rate applicable to the item being adjusted for in the jurisdiction from which each adjustment arises.

(ii) We have not presented this measure on a comparative pro forma basis because it is not practical to present the 2015 adjusted income tax effects on a pro forma basis, as making tax-effected non-GAAP adjustments on a proforma basis would be highly speculative in nature.

## ***Adjusted Income Before Taxes and Adjusted Income Taxes/Tax Rate***

Adjusted Income Before Taxes is defined as Income from continuing operations before income taxes and interest in earnings of associates adjusted for amortization, restructuring costs, transaction and integration expenses, the fair value adjustment of deferred revenue, gain on disposal of operations and non-recurring items that, in management's judgment, significantly affect the period-over-period assessment of operating results. Adjusted income before taxes is used solely for the purpose of calculating the adjusted income tax rate.

# Willis Towers Watson plc

Adjusted Income Tax Rate is defined as Provision for income taxes adjusted for taxes on certain items of amortization, restructuring costs, transaction and integration expenses, the fair value adjustment for deferred revenue, gain on disposal of operations and non-recurring items that, in management's judgment, significantly affect the period-over-period assessment of operating results, divided by Adjusted Income Before Taxes. Adjusted income taxes is used solely for the purpose of calculating the Adjusted Income Tax Rate.

Management believes the Adjusted Income Tax Rate presents a rate that is more closely aligned to the rate we would incur if not for the reduction of pre-tax income of the adjusted items, which are not core to our current and future operations.

A reconciliation of income from continuing operations before income taxes and interest in earnings of associates to adjusted income and provision for income taxes to adjusted income taxes for the year ended December 31, 2016 is as follows:

	Year Ended December 31, 2016 (iii)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INTEREST IN EARNINGS OF ASSOCIATES	\$ 390
Adjusted for certain items:	
Amortization	591
Restructuring costs	193
Transaction and integration expenses	177
Provision for the Stanford litigation	—
Fair value adjustment for deferred revenue	58
Gain on disposal of operations	(2)
Adjusted income before taxes	\$ 1,407
(Benefit from)/provision for income taxes	\$ (76)
Deferred tax valuation allowance	69
Tax effect on certain items listed above <sup>(i)</sup>	300
Adjusted income taxes	\$ 293
Tax	
GAAP tax rate <sup>(ii)</sup>	(19.4)%
Adjusted income tax rate <sup>(ii)</sup>	20.8 %

- (i) The tax effect and effective tax rate were calculated using the statutory tax rate applicable to the item being adjusted for in the jurisdiction from which each adjustment arises.
- (ii) These effective tax rates are calculated using extended values from our consolidated statement of operations for this reconciliation, and are therefore more precise tax rates than can be calculated from rounded values.
- (iii) We have not presented this measure on a comparative basis because it is not practical to present the 2015 adjusted income tax rate on a pro forma basis, as making tax-effected non-GAAP adjustments on a proforma basis would be highly speculative in nature.

## Free Cash Flow

Free Cash Flow is used to evaluate our liquidity, and is defined as cash flows from operating activities less cash used to purchase fixed assets and software for internal use.

A summary of our cash flows from operating, investing and financing activities, along with a reconciliation of cash flows from operating activities to Free Cash Flow is as follows:

	Years ended December 31,		
	2016	2015	2014
	(in millions)		
Net cash from operating activities	\$ 920	\$ 243	\$ 477
Net cash from/(used in) investing activities	195	(943)	(276)
Net cash (used in)/from financing activities	(762)	641	(323)
Net cash from operating activities	\$ 920	\$ 243	\$ 477
Less: Additions to fixed assets and software for internal use	(218)	(146)	(113)
Free Cash Flow	\$ 702	\$ 97	\$ 364

Free cash flow for the year ended December 31, 2016 was \$702 million, compared to free cash flow of \$97 million for the year ended December 31, 2015. The \$677 million increase in cash from operations in the year ended December 31, 2016 compared to the year ended December 31, 2015 was the primary driver for the increase in free cash flow period-over-period, and was primarily due to cash from operations from Legacy Towers Watson and Gras Savoye.

## Principal Risks and Uncertainties

In addition to the risks and uncertainties discussed elsewhere in this report, the following are some of the important risks and uncertainties that could cause our actual results to differ materially from those projected in any forward-looking statements. These risks and uncertainties should be carefully considered in evaluating our business. The descriptions below are not the only risks and uncertainties that we face. Additional risks and uncertainties that are presently unknown to us could also impair our business operations, financial condition or results. If any of the risks and uncertainties below or other risks were to occur, our business operations, financial condition or results of operations could be materially and adversely impacted. **With respect to the tax-related consequences of acquisition, ownership and disposal of ordinary shares, you should consult with your own tax advisors.**

### Risks Relating to Integration Following the Merger and Related Actions

*We may fail to realize some or all of the anticipated benefits of the Merger or related actions or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating the businesses.*

Our ability to realize the anticipated benefits of the Merger and related actions occurring around the time of the Merger, particularly the Gras Savoye acquisition, depends, to a large extent, on our ability to integrate the businesses. The combination of independent businesses is a complex, costly and time-consuming process. As a result, we have been and will be required to devote significant management attention and resources to integration activities. The integration process may disrupt the businesses and, if implemented ineffectively, could restrict the realization of the full-expected benefits. The failure to meet the challenges involved in integrating the businesses and to realize the anticipated benefits of the transactions could cause an interruption of, or a loss of momentum in, our activities and could adversely affect our results of operations.

In addition, the overall integration may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of client relationships, and diversion of management's attention. The difficulties of combining the operations of the companies include, among others:

- the diversion of management's attention to integration matters;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the combinations;
- difficulties in the integration of operations and systems;
- conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures between the companies;
- difficulties in the assimilation of employees;
- difficulties in managing the expanded operations of a significantly larger and more complex company;

- difficulties in establishing effective uniform controls, systems, procedures and policies for the combined company;
- challenges in keeping existing clients and obtaining new clients;
- challenges in attracting and retaining key personnel; and
- challenges in coordinating a geographically dispersed organization.

Many of these factors have been and will continue to be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact our business, financial condition and results of operations. In addition, even if our operations are integrated successfully, the full benefits of the transactions may not be realized, including the synergies, cost savings or sales or growth opportunities that are expected. These benefits may not be achieved within the anticipated time frame, or at all. Further, additional unanticipated costs may be incurred in the integrations. All of these factors could cause dilution to our earnings per share, decrease or delay the expected benefits of the Merger or the related actions, including the Gras Savoye acquisition, and negatively impact the price of our ordinary shares. As a result, we cannot assure you that the Merger or the Gras Savoye acquisition will result in the realization of the full benefits anticipated.

***The loss of key colleagues as a result of the Merger or otherwise could damage or result in the loss of client relationships and could result in such colleagues competing against us.***

Our success depends on our ability to attract, retain and motivate qualified personnel, including key managers and colleagues. In addition, our success largely depends upon our colleagues' abilities to generate business and provide quality services. In particular, our colleagues' business relationships with our clients are a critical element of obtaining and maintaining client engagements. The uncertainties about the effect of the Merger and the related actions may impair our ability to attract, retain and motivate key personnel. Following the Merger, we have lost colleagues who manage substantial client relationships or possess substantial experience or expertise; if we lose additional colleagues such as those or if we are unable to successfully attract new talent, it could materially adversely affect our ability to secure and complete engagements, which would materially adversely affect our results of operations and prospects. In addition, we have experienced intense competition for certain types of colleagues in the past, including following the Merger, and if any of our key colleagues were to join a competitor or form a competing company or we are unable to continue to recruit key colleagues, existing and potential clients could choose to use the services of that competitor instead of Willis Towers Watson's services.

***We have incurred and will incur direct and indirect costs as a result of the Merger and related actions, which could exceed our estimates.***

We have incurred substantial expenses in connection with completing the Merger and related actions, including the Gras Savoye acquisition, and expect to incur substantial expenses in connection with coordinating and integrating the businesses, operations, policies and procedures of the combined companies. While we have assumed that a certain level of transaction and integration expenses will be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of these transaction and integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately. These expenses may exceed the costs historically borne by us, which could exceed our estimates for these expenses. These costs could adversely affect our financial condition and results of operations.

***Our success largely depends on our ability to achieve our global business strategy arising out of the Merger, and our results of operations and financial condition could suffer if the Company were unable to successfully establish and execute on its strategy and generate anticipated revenue growth and cost savings and efficiencies.***

Our future growth, profitability and cash flows largely depend upon our ability to successfully establish and execute our global business strategy. As discussed under 'Business Strategy', we seek to be an advisory, broking and solutions provider of choice through an integrated global platform created as a result of the Merger. Although we believe that our strategy will lead to long-term growth in revenue and profitability, we may not realize, in full or in part, the anticipated benefits of our business strategy. While we have confidence that our strategic plan reflects opportunities that are appropriate and achievable, there is a possibility that our strategy may not deliver the projected results due to inadequate execution, incorrect assumptions, global or local economic conditions, competition, changes in the industries in which we operate, sub-optimal resource allocation or any of the other risks described in this 'Principal Risks and Uncertainties' section. The failure to execute optimally on our global business strategy could have a material adverse effect on our business, financial condition and results of operations.

## Risks Relating to our Business

***Demand for our services could decrease for various reasons, including a general economic downturn, increased competition, a decline in a client's or an industry's financial condition or prospects, or a decline in defined benefit pension plans or the purchasing of insurance, all of which could materially adversely affect us.***

We can give no assurance that the demand for our services will grow or that we will compete successfully with our existing competitors, new competitors or our clients' internal capabilities. Client demand for our services may change based on the clients' needs and financial conditions.

Our results of operations are affected directly 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 that they serve. Global financial markets may continue to experience disruptions, including increased volatility and credit availability, which could substantially impact our results. Economic slowdowns in some markets have caused and may continue to cause reductions in discretionary spending by our clients, longer client payment terms, an increase in late payments by clients and an increase in uncollectible accounts receivable, each of which may reduce the demand for our services, increase price competition and/or adversely impact our growth, profit margins and liquidity.

While it is difficult to predict the consequences of any deterioration in global economic conditions on our business, any significant reduction or delay by our clients in purchasing our services or insurance or making payment of premiums could have a material adverse impact on our financial condition and results of operations. In addition, the potential for a significant insurer to fail, be downgraded or withdraw from writing certain lines of insurance coverages that we offer our clients could negatively impact overall capacity in the industry, which could then reduce the placement of certain lines and types of insurance and reduce our revenues and profitability. The potential for an insurer to fail or be downgraded could also result in errors and omissions claims by clients.

In addition, the markets for our principal services are highly competitive. Our competitors include other insurance brokerage, human capital and risk management consulting and actuarial firms, and the human capital and risk management divisions of diversified professional services, insurance, brokerage and accounting firms and specialty, regional and local firms.

Competition for business is intense in all of our business lines and in every insurance market, and some competitors have greater market share in certain lines of business than we do. Some of our competitors have greater financial, technical and marketing resources than us, which could enhance their ability to finance acquisitions, fund internal growth and respond more quickly to professional and technological changes. New competitors or alliances among competitors could emerge, creating additional competition and gaining significant market share, resulting in a loss of business for us and a corresponding decline in revenues and profit margin. In order to respond to increased competition and pricing pressure, we may have to lower our prices, which would also have an adverse effect on our revenues and profit margin.

An example of a business that may be significantly impacted by changes in customer demand is our retirement consulting and actuarial business, which comprises a substantial portion of our revenue and profit. We provide clients with actuarial and consulting services relating to both defined benefit and defined contribution pension plans. Defined benefit pension plans generally require more actuarial services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. If organizations shift to defined contribution plans more rapidly than we anticipate, or if we are unable to otherwise compensate for the decline in our business that results from employers moving away from defined benefit plans, our business, financial condition and results of operations could be materially adversely affected.

In addition, the demand for many of our core benefit services, including compliance-related services, is affected by government regulation and taxation of employee benefit plans. Significant changes in tax or social welfare policy or other regulations could lead some employers to discontinue their employee benefit plans, including defined benefit pension plans, thereby reducing the demand for our services. A simplification of regulations or tax policy also could reduce the need for our services.

***We could be subject to claims and lawsuits arising from our work, as well as government inquiries and investigations, which could materially adversely affect our reputation, business and financial condition.***

We depend in large part on our relationships with clients and our reputation for high-quality services to secure future engagements. Clients that become dissatisfied with our services may terminate their business relationships with us, and clients and third parties that claim they suffered damages caused by our services may bring lawsuits against us. We are subject to various actual and potential claims, lawsuits, investigations and other proceedings relating principally to alleged errors and omissions in connection with the provision of our services or the placement of insurance and reinsurance in the ordinary course of business. We are also subject to actual and potential claims, lawsuits, investigations and proceedings outside of errors and

omissions claims. See Note 14 to the Consolidated Financial Statements for examples of claims to which we are subject, including claims arising out of the Stanford insolvency.

Because we often assist our clients with matters involving substantial amounts of money, including actuarial services and the placement of insurance coverage and the handling of related claims, errors and omissions claims against us may arise that allege our potential liability for all or part of the substantial amounts in question. The nature of our work, particularly our actuarial services, necessarily involves the use of assumptions and the preparation of estimates relating to future and contingent events, the actual outcome of which we cannot know in advance. Our actuarial and brokerage services also rely on substantial amounts of data provided by clients, the accuracy and quality of which we cannot ensure. In addition, we could make computational, software programming or data management errors in connection with the services we provide to clients.

Clients may seek to hold us responsible for alleged errors or omissions related to any of the brokerage advice and services we provide, including when claims they submit to their insurance carriers are disputed or denied. Given that many of our clients have very high insurance policy limits to cover all of their risks, alleged errors and omissions claims against us arising from disputed or denied claims are often significant. Moreover, in a number of markets and in various circumstances, our brokerage and certain other terms of business may not limit the maximum liability to which we may be exposed for claims involving alleged errors or omissions; and as such, we do not have limited liability for the work we provide to the associated clients.

Further, given that we frequently work with large pension funds and insurance companies as well as other large clients, relatively small percentage errors or variances can create significant financial variances and result in significant claims for unintended or unfunded liabilities. The risks from such variances or errors could be aggravated in an environment of declining pension fund asset values and insurance company capital levels. In almost all cases, our exposure to liability with respect to a particular engagement is substantially greater than the revenue opportunity that the engagement generates for us.

Clients may seek to hold us responsible for the financial consequences of variances between assumptions and estimates and actual outcomes or for errors. For example, in the case of liability for pension plan actuarial errors, a client's claims might focus on the client's alleged reliance that actuarial assumptions were reasonable and, based on such reliance, the client made benefit commitments the client may later claim are not affordable or funding decisions that result in plan underfunding if and when actual outcomes vary from actuarial assumptions.

We also provide advice on both asset allocation and selection of investment managers. Increasingly, for some clients, we are responsible for making decisions on both of these matters, or we may serve in a fiduciary capacity, either of which may increase liability exposure. In addition, for certain clients, we are responsible for some portions of cash and investment management, including rebalancing of investment portfolios and guidance to third parties on the structure of derivatives and securities transactions. Asset classes may experience poor absolute performance, and investment managers may underperform their benchmarks; in both cases the investment return shortfall can be significant. Clients experiencing this underperformance may assert claims against us, and such claims may be for significant amounts. In addition, our failure to properly execute our role can cause monetary damage to our clients or such third parties for which we might be found liable, and such claims may be for significant amounts. Defending against these claims can involve potentially significant costs, including legal defense costs. Our ability to limit our potential liability may be limited in certain jurisdictions or in connection with claims involving breaches of fiduciary duties or other alleged errors or omissions.

The ultimate outcome of all of the above matters cannot be ascertained and liabilities in indeterminate amounts may be imposed on us. It is thus 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. In addition, these matters continue to divert management and personnel resources away from operating our business. Even if we do not experience significant monetary costs, there may also be adverse publicity associated with these matters that could result in reputational harm to the industries we operate in or to us in particular that may adversely affect our business, client or employee relationships.

Finally, we have been and may continue to be subject to inquiries and investigations by federal, state or other governmental agencies regarding aspects of our clients' businesses or our own businesses, especially regulated businesses such as our insurance broker, securities broker-dealer and investment advisory services. Such inquiries or investigations may consume significant management time and result in regulatory sanctions, fines or other actions as well as significant legal fees, which could have a material adverse impact on our business, results of operations and liquidity.

### ***Our ability to successfully manage ongoing organizational changes could impact our business results.***

We have recently undergone several significant business and organizational changes, including the Merger, the acquisitions of Gras Savoye and Miller Insurance Services, LLP, and our ongoing Business Restructuring Program and multi-year operational improvement program. In connection with these changes, we are managing a number of large-scale and complex integration projects. While we have concluded that each of these large, complex projects is necessary or desirable to the execution of the



Company's business strategy, we cannot guarantee that the collective effect of all of these projects will not adversely impact our business or results of operations. In addition, as we have experienced, competition to retain or recruit talent is heightened in a challenging rate environment or during a time when we are experiencing significant change. Effectively managing these organizational changes is critical to retaining talent, servicing clients and our business success overall. The failure to effectively manage such risks could adversely impact our resources or business or financial results.

***In conducting our businesses around the world, we are subject to political, economic, legal, cultural, market, nationalization, operational and other risks that are inherent in operating in many countries.***

In conducting our businesses and maintaining and supporting our global operations, we are subject to political, economic, legal, market, nationalization, operational and other risks. Our businesses and operations continue to expand into new regions throughout the world, including emerging markets. The possible effects of economic and financial disruptions throughout the world could have an adverse impact on our businesses. These risks include:

- the general economic and political conditions in foreign countries;
- the imposition of controls or limitations on the conversion of foreign currencies or remittance of dividends and other payments by foreign subsidiaries;
- the imposition of sanctions by both the U.S. and foreign governments;
- the imposition of withholding and other taxes on remittances and other payments from subsidiaries;
- the imposition or increase of investment and other restrictions by foreign governments;
- the price of commodities, such as oil;
- fluctuations in our tax rate;
- difficulties in controlling operations and monitoring employees in geographically dispersed and culturally diverse locations; and
- the practical challenge and costs of complying, or monitoring compliance, with a wide variety of foreign laws (some of which are evolving or not as well-developed as the laws of the U.S. or U.K. or which may conflict with U.S. or other sources of law), laws and regulations applicable to insurance brokers and other business operations abroad (in more than 140 countries and territories including many countries in Africa), including laws, rules and regulations relating to the conduct of business, trade sanctions laws administered by the U.S. Office of Foreign Assets Control, the E.U., the U.K. and the United Nations ('U.N.'), and the requirements of the U.S. Foreign Corrupt Practices Act as well as other anti-bribery and corruption rules and requirements in all of the countries in which we operate.

***Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government regulations, or if government regulations decrease the need for our services or increase our costs.***

A material portion of our revenues are affected by statutory or regulatory changes. The recent U.S. election may result in significant regulatory change and/or uncertainty. For example, the new administration and certain key members of Congress have expressed a desire to replace or amend all or a portion of the Patient Protection and Affordable Care Act ('PPACA'), and the Healthcare and Education Reconciliation Act of 2010, ('HCERA'), which we refer to collectively as 'Healthcare Reform'. If we are unable to adapt our services to applicable laws and regulations, our ability to provide effective services in these areas may be substantially impacted.

Many areas in which we provide services are the subject of government regulation, which is constantly evolving. For example, our activities in connection with insurance brokerage services are subject to regulation and supervision by national, state or other authorities. Insurance laws in the markets in which we operate are often complex and generally grant broad discretion to supervisory authorities in adopting regulations and supervising regulated activities. That supervision generally includes the licensing of insurance brokers and agents and the regulation of the handling and investment of client funds held in a fiduciary capacity. Our continuing ability to provide insurance brokerage in the markets in which we currently operate is dependent upon our compliance with the rules and regulations promulgated from time to time by the regulatory authorities in each of these locations.

Changes in government and accounting regulations in the U.S. and the U.K., two of our principal geographic markets, affecting the value, use or delivery of benefits and human capital programs may materially adversely affect the demand for, or the profitability of, our services. In addition, more restrictive rules or interpretations of the Federal Centers for Medicare Services

marketing rules, or judicial decisions that restrict or otherwise change existing provisions of U.S. healthcare regulation, could have a material adverse impact on our Exchange Solutions business. Further, changes to insurance regulatory schemes, or our failure to keep pace with such changes, could negatively affect demand for services in our Investment, Risk and Reinsurance business segment. For example, our continuing ability to provide investment advisory services depends on compliance with the rules and regulations in each of these jurisdictions. Any failure to comply with these regulations could lead to disciplinary action, including compensating clients for loss, the imposition of fines or the revocation of the authorization to operate, as well as damage to our reputation.

In addition, we have significant operations throughout the world, which further subject us to applicable laws and regulations of countries outside the U.S. and the U.K. Changes in legislation or regulations and actions by regulators in particular countries, including changes in administration and enforcement policies, could require operational improvements or modifications, which may result in higher costs or hinder our ability to operate our business in those countries.

***Our growth strategy depends, in part, on our ability to make acquisitions and we face risks when we acquire or divest businesses, and could have difficulty in acquiring, integrating or managing acquired businesses, or with effecting internal reorganizations, which could harm our business, financial condition, results of operations or reputation.***

Our growth depends in part on our ability to make acquisitions. We may not be successful in identifying appropriate acquisition candidates or consummating acquisitions on terms acceptable or favorable to us. We also face additional risks related to acquisitions, including that we could overpay for acquired businesses and that any acquired business could significantly underperform relative to our expectations. If we are unable to identify and successfully make acquisitions, our business could be materially adversely affected.

In addition, we cannot be certain that our acquisitions will be accretive to earnings or that our acquisitions or divestitures will otherwise meet our operational or strategic expectations. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired businesses, and acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. In addition, if the operating performance of an acquired business deteriorates significantly, we may need to write down the value of the goodwill and other acquisition-related intangible assets recorded on our balance sheet.

We may be unable to effectively integrate an acquired business into our organization, and may not succeed in managing such acquired businesses or the larger company that results from such acquisitions. The process of integration of an acquired business may subject us to a number of risks, including:

- Diversion of management attention;
- Amortization of intangible assets, adversely affecting our reported results of operations;
- Inability to retain the management, key personnel and other employees of the acquired business;
- Inability to establish uniform standards, controls, systems, procedures and policies;
- Inability to retain the acquired company's clients;
- Exposure to legal claims for activities of the acquired business prior to acquisition; and
- Incurrence of additional expenses in connection with the integration process.

We may also face similar challenges in effecting internal reorganizations. If acquisitions or internal reorganizations are not successfully integrated, our business, financial condition and results of operations could be materially adversely affected, as well as our professional reputation.

We also own an interest in a number of associates where we do not exercise management control and we are therefore limited in our ability to direct or manage the business to realize the anticipated benefits that we could achieve if we had full ownership.

***Data security breaches or improper disclosure of confidential company or personal data could result in material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.***

We depend on information technology networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Additionally, one of our significant responsibilities is to maintain the security and privacy of our clients' confidential and proprietary information and the personal data of their customers and/or employees. Our information systems, and those of our third-party service providers and vendors, are vulnerable to an increasing threat of continually evolving cybersecurity risks. Computer viruses, hackers and

other external hazards, as well as improper or inadvertent staff behavior, could expose confidential company and personal data systems and information to security breaches.

With respect to our commercial arrangements with third-party vendors, we have processes designed to require third-party IT outsourcing, offsite storage and other vendors to agree to maintain certain standards with respect to the storage, protection and transfer of confidential, personal and proprietary information. However, we remain at risk of a data breach due to the intentional or unintentional non-compliance by a vendor's employee or agent, the breakdown of a vendor's data protection processes, or a cyber-attack on a vendor's information systems.

Unauthorized parties may attempt to gain access to our information technology networks and systems or our information through fraud or other means of deceiving our colleagues, third-party service providers or vendors. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are also constantly changing and evolving; continue to become more advanced and complex; and may be difficult to anticipate or detect. For example, the Cyber Division of the U.S. Federal Bureau of Investigation ('FBI') recently issued a notification that cyber criminals have targeted, and may increasingly target, assets held in Health Savings Accounts and Reimbursement Accounts to fraudulently acquire the assets held in those accounts. Assets held in Health Savings Accounts are expected to grow substantially over the next few years and given the Company's move toward managing more of these assets ourselves as a Non-Bank Custodian in connection with our Exchange Solutions Businesses, our reputation could be harmed and our business and results of operations could be materially adversely affected if we are the target of such fraud and it goes undetected for any period of time.

We have implemented and regularly review and update processes and procedures to protect against fraud or unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes, and there is no guarantee that they will be adequate to safeguard against all fraud, data security breaches or misuses of data. Any future significant compromise or breach of our data security or fraud, whether external or internal, or misuse of client, colleague, supplier or company data, could result in additional significant costs, lost revenue opportunities, fines, lawsuits, and damage to our reputation.

We are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. Laws and regulations in this area are evolving and generally becoming more stringent. Further, a U.K. exit from the E.U. will increase uncertainty regarding applicable laws and regulations pending more clarity on the terms of that exit. If any person, including any of our colleagues, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our colleagues or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management's focus and resources from business operations.

We have experienced a number of data incidents, resulting from human error or malfeasance as well as attempts at unauthorized access to our systems, none of which to our knowledge have been material to our business or our clients. We maintain policies, procedures and technological safeguards designed to protect the security and privacy of this information. However, we cannot entirely eliminate the risk of data security breaches, improper access to or disclosure of confidential company or personally identifiable information. Our technology may fail to adequately secure the private information we hold and protect it from theft, computer viruses, hackers or inadvertent loss. In such circumstances, we may be held liable to our clients, which could result in legal liability or impairment to our reputation resulting in increased costs or loss of revenue. Further, data privacy, information security, identity theft, and related computer and internet issues are matters of growing public concern and are subject to frequently changing rules and regulations. Our failure to adhere to or successfully implement processes in response to changing customer expectations and legal or regulatory requirements in this area, including changing legal or regulatory requirements that may be developed or revised due to the vote in the U.K. to leave the E.U., could result in legal liability or impairment to our reputation or business.

***Our compliance systems and controls cannot guarantee that we comply with all applicable federal and state or foreign laws and regulations, and actions by regulatory authorities or changes in applicable laws and regulations in the jurisdictions in which we operate could have an adverse effect on our business.***

Our activities are subject to extensive regulation under the laws of the U.S., the U.K., the E.U. and its member states, and the other jurisdictions around the world in which we operate. In addition, we own an interest in a number of associates where we do not exercise management control. Over the last few years, regulators across the world are increasingly seeking to regulate brokers who operate in their jurisdictions. The foreign and U.S. laws and regulations applicable to our operations are complex, continually evolving and may increase the costs of regulatory compliance, limit or restrict the products or services we sell or subject our business to the possibility of regulatory actions or proceedings. These laws and regulations include insurance and financial industry regulations, competition law regulations, economic and trade sanctions laws relating to countries in which certain subsidiaries do business or may do business (“Sanctioned Jurisdictions”) such as Cuba, Iran, Russia, Sudan and Syria, anti-corruption laws such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010 and similar local laws prohibiting corrupt payments to governmental officials and the Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act in the U.S., as well as laws and regulations related to data privacy and cyber security. Because of changes in regulation and Company practice, our non-U.S. subsidiaries are providing more services with connections to various countries, including some Sanctioned Jurisdictions, that our U.S. subsidiaries are unable to perform.

In most jurisdictions, governmental and regulatory authorities have the ability to interpret and amend these laws and regulations and impose penalties for non-compliance, including sanctions, civil remedies, monetary fines, injunctions, revocation of licenses or approvals, suspension of individuals, limitations on business activities or redress to clients. While we believe that we have substantially increased our focus on the geographic breadth of regulations to which we are subject, maintain good relationships with our key regulators and our current systems and controls are adequate, we cannot assure that such systems and controls will prevent any violations of any applicable laws and regulations. While we strive to remain fully-compliant with all applicable laws and regulations, we cannot guarantee that we will fully comply at all times with all laws and regulations, especially in countries with developing or evolving legal systems or with evolving or extra-territorial regulations. In particular, given the challenges of integrating operations, many of which are de-centralized, we cannot assure that our newly-acquired entities’ business systems and controls have prevented or will prevent any and all violations of applicable laws or regulations.

***Interruption to or loss of our information processing capabilities or failure to effectively maintain and upgrade our information processing hardware or systems could cause material financial loss, regulatory actions, reputational harm or legal liability.***

Our business depends significantly on effective information systems. Our capacity to service our clients relies on effective storage, retrieval, processing and management of information. Our information systems also rely on the commitment of significant resources to maintain and enhance existing systems, develop and create new systems and products in order to keep pace with continuing changes in information processing technology or evolving industry and regulatory standards and to be at the forefront of a range of technology relevant to our business.

If the data we rely on to run our business were found to be inaccurate or unreliable or if we fail to maintain effective and efficient systems (including through a telecommunications failure, failure to replace or update redundant or obsolete computer hardware, applications or software systems or if we experience other disruptions), this could result in material financial loss, regulatory action, reputational harm or legal liability.

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

Should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations.

A disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships or legal liability.

***Damage to our reputation, including due to failure of third-parties on whom we rely to perform services, could damage our businesses.***

Maintaining a positive reputation is critical to our ability to attract and maintain relationships with clients and colleagues. Damage to our reputation could therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory action, failure to deliver minimum standards of service and quality, compliance failures and unethical behavior. Negative publicity, whether or not true, may also result in harm to our prospects. In addition, the failure to deliver satisfactory service and quality in one line of business could cause clients to terminate the services we provide to that client in many other lines of business.

We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Identifying conflicts of interest may prove particularly difficult in the near-term while we bring together and integrate Legacy Willis, Legacy Towers Watson and Gras Savoye. In addition, we may encounter more conflicts of interest than anticipated in connection with the Merger or the Gras Savoye acquisition and we may not be able to adequately address such conflicts of interest.

The failure or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions. There can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

In addition, as part of providing services to clients and managing our business, we rely on a number of third-party service providers. Our ability to perform effectively depends in part on the ability of these service providers to meet their obligations, as well as on our effective oversight of their performance. The quality of our services could suffer or we could be required to incur unanticipated costs if our third-party service providers do not perform as expected or their services are disrupted. This could have a material adverse effect on our reputation as well as our business and results of operations.

***The vote in the United Kingdom to leave the European Union, and the risk that other countries may follow, could adversely affect us.***

On an annual basis, approximately 23% of our revenues are generated in the U.K., although only about 14% of revenues are denominated in Pounds sterling as much of the insurance business is transacted in U.S. dollars. Approximately 20% of our expenses are denominated in Pounds sterling. In a referendum held in June 2016, a majority of voters in the U.K. voted in favor of the U.K. leaving the E.U. On March 29, 2017, the U.K. government triggered Article 50 of the Treaty of Lisbon, giving formal notification of the U.K.'s intention to withdraw from membership of the E.U. At this time, we are not able to predict the impact that the result of this vote will have on the economy; economic, regulatory and political stability; and market conditions in Europe, including in the U.K., or on Pound sterling, Euro or other European currencies, but any such impacts and others we cannot currently anticipate could materially adversely affect us and our operations. Among other things, we could experience: lower growth in the region due to indecision as businesses hold off on generating new projects or due to adverse market conditions; and reduced reported revenues and earnings because foreign currencies may translate into fewer U.S. dollars due to the fact that we translate revenue denominated in non-U.S. currencies such as Pounds sterling into U.S. dollars for our financial statements. In addition, there can be no assurance that our hedging strategies will be effective.

It is expected that the British government will begin negotiating the terms of the U.K.'s future relationship with the E.U. this year. Although it is unknown and we cannot anticipate what those terms will be, they may result in greater restrictions on business between the U.K. and E.U. countries and increased regulatory complexities. There is also uncertainty regarding how the U.K.'s access to the E.U. Single Market and the wider trading, legal, regulatory, tax and labor environments, especially in the U.K. and E.U., will be impacted, including the resulting impact on our business and that of our clients. Any such changes may adversely affect our operations and financial results. For example, any changes to the passporting or other regulations relating to doing business in various E.U. countries by relying on a regulatory permission in the U.K. (or doing business in the U.K. by relying on a regulatory permission in an E.U. country) could increase our costs of doing business, or our ability to do so. As another example, changes in labor laws may impact the ability to hire and retain non-U.K. staff in the U.K. or U.K. staff in the E.U. In addition, the outcome of the referendum has created uncertainty with regard to the regulation of data protection in the U.K. Among other things, it is unclear whether the U.K. will enact legislation similar to the pending European General Data Protection Regulation after the U.K.'s exit from the E.U. ('Brexit'), and how data transfers to and from the U.K. will be regulated. A change in such regulations, or other regulations, could increase our costs of doing business, or in some cases our ability to do business, and adversely impact our operations and financial results.

There is also a risk that other countries may decide to leave the E.U. In particular, depending on the outcome of the upcoming election in France, France could be the next country to decide whether to leave the E.U. We cannot predict the impact that any additional countries leaving the E.U. will have on us, but any such impacts could materially adversely affect us.

***Our Exchange Solutions business may be harmed if we lose our relationships with insurance carriers, fail to maintain good relationships with insurance carriers, become dependent upon a limited number of insurance carriers or fail to develop new carrier relationships.***

Our Exchange Solutions business typically enters into contractual agency relationships with insurance carriers that are non-exclusive and terminable on short notice by either party for any reason. In many cases, insurance carriers also have the ability to amend the terms of our agreements unilaterally on short notice. Insurance carriers may be unwilling to allow us to sell their existing or new health insurance plans or may amend our agreements with them, for a variety of reasons, including for competitive or regulatory reasons or because of a reluctance to distribute their products through our exchange platform. Insurance carriers may decide to rely on their own internal distribution channels, choose to exclude us from their most profitable or popular plans, or decide not to distribute insurance plans in individual markets in certain geographies or altogether. Additionally, if one of the insurance carriers with which we are associated violates the law or comes under scrutiny by the Centers for Medicare & Medicaid Services ('CMS'), CMS may impose sanctions on such carriers, resulting in a loss of supply of insurance plans that we are able to sell. The termination or amendment of our relationship with an insurance carrier could reduce the variety of health insurance plans we offer. We also could lose a source of, or be paid reduced commissions for, future sales and could lose renewal commissions for past sales. Our business could also be harmed if we fail to develop new carrier relationships or are unable to offer customers a wide variety of health insurance plans.

The private health insurance industry in the U.S. has experienced a substantial amount of consolidation over the past several years, resulting in a decrease in the number of insurance carriers. In the future, it may become necessary for us to offer insurance plans from a reduced number of insurance carriers or to derive a greater portion of our revenues from a more concentrated number of carriers as our business and the health insurance industry evolve. Should our dependence on a smaller number of insurance carriers increase, whether as a result of the termination of carrier relationships, further insurance carrier consolidation or otherwise, we may become more vulnerable to adverse changes in our relationships with our carriers, particularly in states where we offer health insurance plans from a relatively small number of carriers or where a small number of insurance carriers dominate the market. The termination, amendment or consolidation of our relationship with our insurance carriers could harm our business, results of operations and financial condition.

***Changes and developments in the health insurance system in the United States could harm our Exchange Solutions business or other businesses.***

In 2010, the Federal government enacted significant reforms to healthcare legislation through Healthcare Reform. Our Exchange Solutions business depends upon the private sector of the U.S. insurance system, its role in financing health care delivery, and insurance carriers' use of, and payment of commissions to, agents, brokers and other organizations to market and sell individual and family health insurance plans. Healthcare Reform contains provisions that have changed and will continue to change the industry in which we operate in substantial ways.

The recent U.S. election may result in significant regulatory change and/or uncertainty. The new administration, and certain key members of Congress have expressed a desire to replace or amend all or a portion of Healthcare Reform. Any partial or complete repeal or amendment or implementation difficulties, or uncertainty regarding such events, could increase our costs of compliance, prevent or delay future adoption of our exchange platform, and adversely impact our results of operations and financial condition. Given the uncertainty relating to the potential repeal and replacement of Healthcare Reform, the impact is difficult to determine, but it could have negative effects on us, including:

- Increasing our competition;
- Reducing or eliminating the need for health insurance agents and brokers or demand for the health insurance that we sell;
- Decreasing the number of types of health insurance plans that we sell, as well as the number of insurance carriers offering such plans;
- Causing insurance carriers to change the benefits and/or premiums for the plans they sell;
- Causing insurance carriers to reduce the amount they pay for our services or change our relationship with them in other ways; or
- Materially restricting our call center operations.

Any of these effects could materially harm our business and results of operations. For example, the manner in which the Federal government and the states implement health insurance exchanges and the process for receiving subsidies and cost-sharing credits could substantially increase our competition and member turnover and substantially reduce the number of

individuals who purchase insurance through us. Various aspects of Healthcare Reform could cause insurance carriers to limit the types of health insurance plans we are able to sell and the geographies in which we are able to sell them. In addition, the U.S. Congress has been charged with finding spending cuts, and such cuts are expected to include Medicare. If cuts are made to Medicare, there may be substantial changes in the types of health insurance plans we are able to sell. Changes in the law could also cause insurance carriers to exit the business of selling insurance plans in a particular jurisdiction, to eliminate certain categories of products or to attempt to move members into new plans for which we receive lower commissions. If insurance carriers decide to limit our ability to sell their plans or determine not to sell individual health insurance plans altogether, our business, results of operations and financial condition would be materially harmed.

***Our Exchange Solutions business may not grow as quickly as expected or its growth may occur faster than expected and we may not have the resources required to support it.***

If clients do not select private healthcare exchanges, do not select our healthcare exchange business or if clients move to exchanges more slowly than we have anticipated, then our Exchange Solutions business and operating results may be materially adversely affected. If, conversely, revenues from our Exchange Solutions business do grow significantly, there is the risk that we do not have the resources required to support such growth in revenues.

***Our quarterly revenues could fluctuate, including as a result of factors outside of our control, while our expenses are relatively fixed.***

Quarterly variations in our revenues and results of operations have occurred in the past and could occur as a result of a number of factors, such as: the significance of client engagements commenced and completed during a quarter; seasonality of certain types of services; the number of business days in a quarter; colleague hiring and utilization rates; our clients' ability to terminate engagements without penalty; the size and scope of assignments; and general economic conditions.

A sizeable portion of our total operating expenses is relatively fixed, encompassing the majority of administrative, occupancy, communications and other expenses, depreciation and amortization, and salaries and employee benefits excluding financial year-end incentive bonuses. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments or our inability to forecast demand can cause significant variations in quarterly operating results and could result in losses and volatility in our stock price.

We derive significant revenues from commissions for brokerage services and do not determine the insurance premiums on which our commissions are generally based. Commission levels generally follow the same trend as premium levels, as they are a percentage of the premiums paid by the insureds. Fluctuations in the premiums charged by the insurance carriers can therefore have a direct and potentially material impact on our results of operations. Due to the cyclical nature of the insurance market and the impact of other market conditions on insurance premiums, commission levels may vary widely between accounting periods. A period of low or declining premium rates, generally known as a 'soft' or 'softening' market, generally leads to downward pressure on commission revenues and can have a material adverse impact on our commission revenues and operating margin. We have been and continue to be negatively impacted by soft market conditions across certain sectors and geographic regions. In addition, insurance carriers may seek to reduce their expenses by reducing the commission rates payable to insurance agents or brokers such as ourselves. The reduction of these commission rates, along with general volatility and/or declines in premiums, may significantly undermine our profitability.

***Accepting market derived income (MDI) may cause regulatory or other scrutiny, which may have a material adverse effect on our business.***

Insurance intermediaries have traditionally been remunerated by commission or fees paid by clients. Intermediaries also obtain revenue from insurance carriers. This is commonly known as market derived income or 'MDI'. MDI takes a variety of forms, including volume- or profit-based contingent commissions, facilities administration charges, business development agreements, and fees for providing certain data to carriers.

MDI creates various risks. Intermediaries have a duty to act in the best interests of their clients and payments from carriers can incentivize intermediaries to put carriers' interests ahead of their clients. Accordingly, MDI may be subject to scrutiny by various regulators under conflict of interest, anti-trust, unfair competition, and anti-bribery laws and regulations. While accepting MDI is a lawful and acceptable business practice, and while we have established systems and controls to manage these risks, we cannot predict whether our position will result in regulatory or other scrutiny.

***New product or service offerings may carry greater risk of liability and regulatory action than existing or historical product or service offerings or may fail to yield sufficient return to cover their investment.***

We continue to grow the business of providing products and services to institutional investors, financial services companies and other clients. The risk of claims from these lines of business and related products and services may be greater than from our core businesses, and such claims may be for significant amounts. In addition, with respect to some of these new ventures, we may enter into arrangements that need to be examined to determine whether they fall under the variable interest entity accounting guidance. The structure of such arrangements could require us to consolidate assets or liabilities on which we do not have risk of loss.

We may also invest significant time and resources into new product or service offerings and there is the possibility that these offerings may fail to yield sufficient return to cover their investment. Failure to successfully manage these risks in the development and implementation of new lines of business and new products and services could have a material adverse effect on our business, financial condition or results of operations. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business.

***Our business performance and growth plans could be negatively affected if we are not able to effectively apply technology and analytics to drive value for our clients through technology-based solutions or gain internal efficiencies through the effective application of technology, analytics and related tools.***

Our success depends, in part, on our ability to develop and implement technology and analytic solutions that anticipate, lead or keep pace with rapid and continuing changes in technology, industry standards and client preferences. We may not be successful in anticipating or responding to these developments in a timely and cost-effective manner, and our ideas may not be accepted in the marketplace. Additionally, the effort to gain technological expertise and develop new technologies or analytic techniques in our business requires us to incur significant cost. Our competitors are seeking to develop competing technologies, and their success in this space may impact our ability to differentiate our services to our clients through the use of unique technological solutions. If we cannot offer new technologies or analytic services or solutions as quickly or effectively as our competitors, or if our competitors develop more cost-effective technologies or analytic tools, it could have a material adverse effect on our ability to obtain and complete client engagements.

***Limited protection of our intellectual property could harm our business, and we face the risk that our services or products may infringe upon the intellectual property rights of others.***

We cannot guarantee that trade secret, trademark and copyright law protections are adequate to deter misappropriation of our intellectual property (including our software, which may become an increasingly important part of our business). Existing laws of some countries in which we provide services or products may offer only limited protection of our intellectual property rights. Also, we may be unable to detect the unauthorized use of our intellectual property and take the necessary steps to enforce our rights, which may have a material adverse impact on our business, financial condition or results of operations. We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or our clients. These claims may harm our reputation, result in financial liability, consume financial resources to pursue or defend, and prevent us from offering some services or products.

## **Financial and Tax Risks**

***Our outstanding debt could adversely affect our cash flows and financial flexibility and we may not be able to obtain financing on favorable terms or at all.***

Willis Towers Watson had total consolidated debt outstanding of approximately \$3.9 billion as of December 31, 2016, and our interest expense was \$184 million for the year ended December 31, 2016.

Although management believes that our cash flows will be sufficient to service this debt, there may be circumstances in which required payments of principal and/or interest on this debt could adversely affect our cash flows and this level of indebtedness may:

- require us to dedicate a significant portion of our cash flow from operations to payments on our debt, thereby reducing the availability of cash flow to fund capital expenditures, to pursue other acquisitions or investments, to pay dividends and for general corporate purposes;
- increase our vulnerability to general adverse economic conditions, including if we borrow at variable interest rates, which makes us vulnerable to increases in interest rates generally;



- limit our flexibility in planning for, or reacting to, changes or challenges relating to our business and industry; and
- put us at a competitive disadvantage against competitors who have less indebtedness or are in a more favorable position to access additional capital resources.

The terms of our current financings also include certain limitations. For example, the agreements relating to the debt arrangements and credit facilities contain numerous operating and financial covenants, including requirements to maintain minimum ratios of consolidated EBITDA to consolidated cash interest expense and maximum levels of consolidated funded indebtedness in relation to consolidated EBITDA, in each case subject to certain adjustments. The operating restrictions and financial covenants in our credit facilities do, and any future financing agreements may, limit our ability to finance future operations or capital needs or to engage in other business activities.

A failure to comply with the restrictions under our credit facilities and outstanding notes could result in a default under the financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that is not cured or the inability to secure a necessary consent or waiver could cause our obligations with respect to our debt to be accelerated and have a material adverse effect on our business, financial condition or results of operations.

The maintenance and growth of our business depends on our access to capital, which will depend in large part on cash flow generated by our business and the availability of equity and debt financing. There can be no assurance that our operations will generate sufficient positive cash flow to finance all of our capital needs or that we will be able to obtain equity or debt financing on favorable terms or at all, which could have a material adverse effect on us.

***Our significant non-U.S. operations, particularly our London market operations, expose us to exchange rate fluctuations and various other risks that could impact our business.***

A significant portion of our operations is conducted outside of the U.S. Accordingly, we are subject to legal, economic and market risks associated with operating in foreign countries, including devaluations and fluctuations in currency exchange rates; imposition of limitations on conversion of foreign currencies into Pounds sterling or U.S. dollars or remittance of dividends and other payments by foreign subsidiaries; hyperinflation in certain foreign countries; imposition or increase of investment and other restrictions by foreign governments; and the requirement of complying with a wide variety of foreign laws.

We report our operating results and financial condition in U.S. dollars. Our U.S. operations earn revenues and incur expenses primarily in U.S. dollars. In our London market operations, however, we earn revenues in a number of different currencies, but expenses are almost entirely incurred in Pounds sterling. Outside of the U.S. and our London market operations, we predominantly generate revenues and expenses in local currencies.

Because of devaluations and fluctuations in currency exchange rates or the imposition of limitations on conversion of foreign currencies into U.S. dollars, we are subject to currency translation exposure on the profits of our operations, in addition to economic exposure. Furthermore, the mismatch between Pounds sterling revenues and expenses, together with any net Pound sterling balance sheet position we hold in our U.S. dollar denominated London market operations, creates an exchange exposure.

***A downgrade to our corporate credit rating and the credit ratings of our outstanding debt may adversely affect our borrowing costs and financial flexibility and, under certain circumstances, may require us to offer to buy back some of our outstanding debt.***

A downgrade in our corporate credit rating or the credit ratings of our debt would increase our borrowing costs including those under our credit facilities, and reduce our financial flexibility. In addition, certain downgrades would trigger a step-up in interest rates under the indentures for certain of our senior notes, which would increase our interest expense. If we need to raise capital in the future, any credit rating downgrade could negatively affect our financing costs or access to financing sources.

In addition, under the indenture for our 4.625% senior notes due 2023, our 6.125% senior notes due 2043, our 3.500% senior notes due 2021, our 4.400% senior notes due 2026, and our 2.125% senior notes due 2022, if we experience a ratings decline together with a change of control event, we would be required to offer to purchase these notes from holders unless we had previously redeemed those notes. We may not have sufficient funds available or access to funding to repurchase tendered notes in that event, which could result in a default under the notes. Any future debt that we incur may contain covenants regarding repurchases in the event of a change of control triggering event.

***We have material pension liabilities that can fluctuate significantly.***

We have material pension liabilities, some of which represent unfunded and underfunded pension and postretirement liabilities. Movements in the interest rate environment, inflation or changes in other assumptions that are used for the estimates of our benefit obligations and other factors could have a material effect on the level of liabilities in these plans at any given time. These pension plans have minimum funding requirements that may require material amounts of periodic additional funding. The need to make additional cash contributions may reduce our financial flexibility and increase liquidity risk by reducing the cash available to meet our other obligations, including the payment obligations under our credit facilities and other long-term debt, or other needs of our business.

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

The Company is organized as a holding company, a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, we are dependent upon dividends and other payments from our operating subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, for paying dividends to shareholders, for repurchasing shares of common stock and for corporate expenses. Legal and regulatory restrictions, foreign exchange controls, as well as operating requirements of our subsidiaries, may limit our ability to obtain cash from these subsidiaries. For example, Willis Limited, our U.K. brokerage subsidiary regulated by the FCA, is currently required to maintain \$140 million in unencumbered and available funds, of which at least \$79 million must be in cash, for regulatory purposes. In the event our operating subsidiaries are unable to pay dividends and other payments to the Company, we may not be able to service debt, pay obligations or pay dividends on, or repurchase shares of, common stock.

In the event we are unable to generate cash from our operating subsidiaries for any of the reasons discussed above, our overall liquidity could deteriorate.

***Changes in our accounting estimates and assumptions could negatively affect our financial position and results of operations.***

We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America ('U.S. GAAP'). These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions, including those relating to revenue recognition, valuation of billed and unbilled receivables from clients, discretionary compensation, incurred but not reported liabilities, restructuring, pensions, goodwill and other intangible assets, contingencies, share-based payments and income taxes. We base our estimates on historical experience and various assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates, and changes in accounting standards could have an adverse impact on our future financial position and results of operations.

In addition, we have a substantial amount of goodwill on our balance sheet as a result of acquisitions we have completed, and we significantly increased goodwill as a result of the Merger. We review goodwill for impairment annually or whenever events or circumstances indicate impairment may have occurred. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets, liabilities and goodwill to reporting units and the determination of the fair value of each reporting unit. A significant deterioration in a key estimate or assumption or a less significant deterioration to a combination of assumptions or the sale of a part of a reporting unit could result in an impairment charge in the future, which could have a significant adverse impact on our reported earnings.

***Legislative or regulatory action in the U.S. or abroad could materially adversely affect our ability to maintain a competitive worldwide effective corporate tax rate.***

We cannot give any assurance as to what our effective tax rate will be in the future, because of, among other things, uncertainty regarding the tax policies of the jurisdictions where we operate. Our actual effective tax rate may vary from expectations and that variance may be material. Additionally, the tax laws of Ireland and other jurisdictions could change in the future, and such changes could cause a material change in our effective tax rate.

Legislative action may be taken by the U.S. Congress which, if ultimately enacted, could limit the availability of tax benefits or deductions that we currently claim, override tax treaties upon which we rely, or otherwise affect the taxes that the U.S. imposes on our worldwide operations. Regulations or administrative guidance from the U.S. Treasury Department could have similar consequences. Such changes could materially adversely affect our effective tax rate and/or require us to take further action, at potentially significant additional expense, to seek to preserve our effective tax rate. In addition, if proposals were enacted that

have the effect of limiting our ability as an Irish company to take advantage of tax treaties with the U.S., we could incur additional tax expense and/or otherwise incur business detriment.

In addition, the U.S. Congress, the Organisation for Economic Co-operation and Development and other government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is in the area of “base erosion and profit shifting”, where payments are made between affiliates from a jurisdiction with high tax rates to a jurisdiction with lower tax rates. In October 2015, the Organisation for Economic Co-operation and Development released final reports addressing fifteen specific actions as part of a comprehensive plan to create an agreed set of international rules for fighting base erosion and profit shifting. As a result, the tax laws in the U.S., Ireland, and other countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect us and our affiliates.

***The laws of Ireland differ from the laws in effect in the United States and may afford less protection to holders of our securities.***

It may not be possible to enforce court judgments obtained in the U.S. against us in Ireland, based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the U.S. currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Ireland.

As an Irish company, we are governed by the Irish Companies Act, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the United States.

## **Quantitative and Qualitative Disclosures about Market Risk**

### **Financial Risk Management**

We are exposed to market risk from changes in foreign currency exchange rates and interest rates. In order to manage the risk arising from these exposures, we enter into a variety of interest rate and foreign currency derivatives. We do not hold financial or derivative instruments for trading purposes.

A discussion of our accounting policies for financial and derivative instruments is included in Note 2 and Note 9 to the Consolidated Financial Statements.

### **Foreign Exchange Risk**

Because of the large number of countries and currencies we operate in, movements in currency exchange rates may affect our results.

We report our operating results and financial condition in U.S. dollars. Our U.S. operations earn revenues and incur expenses primarily in U.S. dollars. Outside the United States, we predominantly generate revenues and expenses in the local currency with the exception of our London market operations which earn revenues in several currencies but incur expenses predominantly in Pounds sterling.

The table below gives an approximate analysis of revenues and expenses by currency in 2016.

	U.S. dollars	Pounds sterling	Euro	Other currencies
Revenues	56%	14%	14%	16%
Expenses <sup>(i)</sup>	48%	20%	13%	19%

(i) These percentages exclude certain expenses for significant items which will not be settled in cash, or which we believe to be items that are not core to our current or future operations. These items include Merger-related amortization of intangible assets, restructuring costs, and transaction and integration expenses.

Our principal exposures to foreign exchange risk arise from:

- our London market operations; and
- translation.

## London market operations

The Company's primary foreign exchange risks in its London market operations arise from changes in the exchange rate between U.S. dollars and Pounds sterling as its London market operations earn the majority of their revenues in U.S. dollars and incur expenses predominantly in Pounds sterling, and may also hold a significant net sterling asset or liability position on the balance sheet. In addition, the London market operations earn significant revenues in Euro and Japanese yen.

The foreign exchange risks in our London market operations are hedged to the extent that:

- forecast Pounds sterling expenses exceed Pounds sterling revenues, in which case the Company limits its exposure to this exchange rate risk by the use of forward contracts matched to specific, clearly identified cash outflows arising in the ordinary course of business;
- the U.K. operations earn significant revenues in Euro and Japanese yen, in which case the Company limits its exposure to changes in the exchange rate between the U.S. dollar and these currencies by the use of forward contracts matched to a percentage of forecast cash inflows in specific currencies and periods. In addition, we are also exposed to foreign exchange risk on any net Pounds sterling asset or liability position in our London market operations; and
- Miller Insurance Services LLP, which is a Pounds sterling functional entity, earns significant non-functional currency revenues, in which case the Company limits its exposure to exchange rate changes by the use of forward contracts matched to a percentage of forecast cash inflows in specific currencies and periods.

However, where the foreign exchange risk relates to any Pounds sterling pension benefits assets or liability for pension benefits, we do not hedge the risk. Consequently, if our London market operations have a significant pension asset or liability, we may be exposed to accounting gains and losses, recognized in other comprehensive income or loss, if the U.S. dollar and Pounds sterling exchange rates change. We do, however, hedge the Pounds sterling contributions into the pension plan.

## Translation risk

Outside our U.S. and London market operations, we predominantly earn revenues and incur expenses in the local currency. When we translate the results and net assets of these operations into U.S. dollars for reporting purposes, movements in exchange rates will affect reported results and net assets. For example, if the U.S. dollar strengthens against the Euro, the reported results of our Eurozone operations in U.S. dollar terms will be lower.

With the exception of foreign currency hedges for certain intercompany loans that are not designated as hedging instruments, we do not hedge translation risk.

The table below provides information about our foreign currency forward exchange contracts, which are sensitive to exchange rate risk. The table summarizes the U.S. dollar equivalent amounts of each currency bought and sold forward and the weighted average contractual exchange rates. All forward exchange contracts mature within three years.

December 31, 2016	Settlement date before December 31,					
	2017		2018		2019	
	Contract amount	Average contractual exchange rate	Contract amount	Average contractual exchange rate	Contract amount	Average contractual exchange rate
	(millions)		(millions)		(millions)	
<b>Foreign currency sold</b>						
U.S. dollars sold for Pounds sterling	\$ 390	\$1.51 = £1	\$ 268	\$1.46 = £1	\$ 77	\$1.39 = £1
Euro sold for U.S. dollars	74	€1 = \$1.20	48	€1 = \$1.19	14	€1 = \$1.17
Japanese yen sold for U.S. dollars	21	¥110.85 = \$1	13	¥110.90 = \$1	5	¥98.63 = \$1
Euro sold for Pounds sterling	22	€1 = £1.21	9	1 = £1.33	4	€1 = £1.24
Total	<u>\$ 507</u>		<u>\$ 338</u>		<u>\$ 100</u>	
Fair value <sup>(i)</sup>	<u>\$ (65)</u>		<u>\$ (40)</u>		<u>\$ (5)</u>	

(i) Represents the difference between the contract amount and the cash flow in U.S. dollars which would have been receivable had the foreign currency forward exchange contracts been entered into on December 31, 2016 at the forward exchange rates prevailing at that date.

December 31, 2015	Settlement date before December 31,					
	2016		2017		2018	
	Contract amount	Average contractual exchange rate	Contract amount	Average contractual exchange rate	Contract amount	Average contractual exchange rate
	(millions)		(millions)		(millions)	
<b>Foreign currency sold</b>						
U.S. dollars sold for Pounds sterling	\$ 485	\$1.57 = £1	\$ 363	\$1.54 = £1	\$ 175	\$1.55 = £1
Euro sold for U.S. dollars	87	€1 = \$1.26	63	€1 = \$1.30	29	€1 = \$1.15
Japanese yen sold for U.S. dollars	26	¥111.41 = \$1	18	¥113.49 = \$1	7	¥116.17 = \$1
Euro sold for Pounds sterling	15	€1 = £1.22	5	€1 = £1.24	3	€1 = £1.38
Total	<u>\$ 613</u>		<u>\$ 449</u>		<u>\$ 214</u>	
Fair value <sup>(i)</sup>	<u>\$ (13)</u>		<u>\$ (11)</u>		<u>\$ (7)</u>	

(i) Represents the difference between the contract amount and the cash flow in U.S. dollars which would have been receivable had the foreign currency forward exchange contracts been entered into on December 31, 2015 at the forward exchange rates prevailing at that date.

Income earned within foreign subsidiaries outside of the United Kingdom is generally offset by expenses in the same local currency but the Company does have exposure to foreign exchange movements on the net income of these entities.

## Interest Rate Risk

The Company has access to (i) \$800 million under a revolving credit facility expiring July 23, 2018, (ii) \$400 million under a revolving credit facility expiring April 28, 2017, with a repayment date of April 28, 2018, which will be available for regulatory capital purposes related to securities underwriting only, and (iii) \$20 million available under another revolving credit facility which is only available for specific regulatory purposes. As of December 31, 2016, \$238 million was drawn on these facilities. We are also subject to market risk from exposure to changes in interest rates based on our investing activities where our primary interest rate risk arises from changes in short-term interest rates in both U.S. dollars and Pounds sterling.

# Willis Towers Watson plc

As a result of our operating activities, we receive cash for premiums and claims which we deposit in short-term investments denominated in U.S. dollars and other currencies. We earn interest on these funds, which is included in our consolidated financial statements as interest income. These funds are regulated in terms of access and the instruments in which they may be invested, most of which are short-term in maturity.

During the year ended December 31, 2015, the Company, in order to manage interest rate risk arising from these financial assets, entered into interest rate swaps to receive a fixed rate of interest and pay a variable rate of interest. The use of interest rate contracts essentially converted groups of short-term variable rate investments to fixed rates. These derivatives were designated as hedging instruments and were for a total notional amount of \$300 million.

The table below provides information about our derivative instruments and other financial instruments that are sensitive to changes in interest rates. For interest rate swaps, the table presents notional principal amounts and average interest rates analyzed by expected maturity dates. Notional principal amounts are used to calculate the contractual payments to be exchanged under the contracts. The duration of the interest rate swaps was three years, with re-fixing periods of three months. Average fixed and variable rates are, respectively, the weighted-average actual and market rates for the interest rate hedges in place. Market rates are the rates prevailing at December 31, 2016 or 2015, as appropriate. We have evaluated the need for a sensitivity analysis, and based on the Company's debt, we believe this to be immaterial.

	Expected to mature before December 31,							
December 31, 2016	2017	2018	2019	2020	2021	Thereafter	Total	Fair value
	(\$ millions, except percentages)							
Fixed rate debt								
Principal	\$ 394	—	\$ 187	—	\$ 950	\$ 1,645	\$ 3,176	\$ 3,306
Fixed rate payable	6.200%	—	7.000%	—	4.684%	3.934%	4.620%	
Floating rate debt								
Principal	\$ 107	\$ 519	\$ 85	—	—	—	\$ 711	\$ 711
Variable rate payable <sup>(iii)</sup>	2.046%	2.047%	2.020%	—	—		2.043%	
Derivatives - interest rate swaps								
Notional principal	—	\$ 300	—	—	—	—	\$ 300	—
Fixed rate receivable	—	1.167%	—	—	—	—	1.167%	
Variable rate payable	—	0.567%	—	—	—	—	0.567%	

	Expected to mature before December 31,							Fair Value
December 31, 2015	2016	2017	2018	2019	2020	Thereafter	Total	
	(\$ millions, except percentages)							
Fixed rate debt								
Principal	\$ 300	\$ 394	—	\$ 187	—	\$ 1,025	\$ 1,906	\$ 2,012
Fixed rate payable	4.125%	6.200%	—	7.000%	—	5.576%	5.616%	
Floating rate debt								
Principal	\$ 694	\$ 22	\$ 664	—	—	—	\$ 1,380	\$ 1,380
Variable rate payable <sup>(ii)</sup>	1.647%	2.323%	2.451%	—	—		2.045%	
Derivatives - interest rate swaps								
Notional principal	—	—	\$ 300	—	—	—	\$ 300	—
Fixed rate receivable	—	—	1.167%	—	—	—	1.167%	
Variable rate payable	—	—	0.900%	—	—	—	0.900%	

(i) Represents the net present value of the expected cash flows discounted at current market rates of interest or quoted market rates as appropriate.

(ii) Represents the estimated interest rate payable.

## Credit Risk and Concentrations of Credit Risk

Credit risk represents the loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Company currently does not anticipate non-performance by its counterparties. The Company generally does not require collateral or other security to support financial instruments with credit risk.

Concentrations of credit risk that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Financial instruments on the balance sheet that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, fiduciary funds, accounts receivable and derivatives which are recorded at fair value.

The Company maintains a policy providing for the diversification of cash and cash equivalent investments and places such investments in an extensive number of financial institutions to limit the amount of credit risk exposure. These financial institutions are monitored on an ongoing basis for credit quality predominantly using information provided by credit agencies. Concentrations of credit risk with respect to receivables are limited due to the large number of clients and markets in which the Company does business, as well as the dispersion across many geographic areas. Management does not believe significant risk exists in connection with the Company's concentrations of credit as of December 31, 2016.

## **Subsidiary Companies**

Information regarding principal subsidiary undertakings and undertakings of substantial interest is provided in Note 24 to the Consolidated Financial Statements.

## **Branches**

As of December 31, 2016, Willis Towers Watson had the following branches of European Economic Area ('E.E.A.') entities in other E.E.A. member states: Willis s.r.o. branch in Slovakia; Willis Limited branches in Belgium, France, the Netherlands and Spain; Willis Risk Services (Ireland) Limited branch in the U.K.; Miller Insurance Services LLP branches in Belgium and France; Trade Credit Brokers Limited branch in the U.K.; Gras Savoye NSA S.A.S. branch in Portugal; Towers Watson Limited branch in Germany; and Willis Europe B.V. branch in the U.K.

## **Political Donations**

Neither the Parent Company nor its subsidiaries made any political donations which are required to be disclosed under Irish law for the year ended December 31, 2016 (2015: none).

## **Environment**

Willis Towers Watson recognizes the importance of its environmental responsibilities, and its impact on the environment on a location by location basis, and designs and implements policies to reduce any damage that might be caused by Willis Towers Watson's activities.

## **Employees**

Details of staff employed during the period by the Company and its subsidiaries are set out in Note 16 to the Consolidated Financial Statements.

## **Accounting Records**

To ensure that adequate accounting records are kept in accordance with Sections 281 to 285 of the Companies Act 2014 the Directors have employed appropriately qualified accounting personnel and have maintained appropriate computerized accounting systems. The accounting records are held at the Company's registered office at Elmpark, Merrion Road, Dublin 4, Ireland.

## **Directors and Secretary**

The Directors and Secretary of the Company are shown in 'Officers and corporate information' on page 6, which forms part of this report.

Sir Roy Gardner, The Rt. Hon. Sir Jeremy Hanley, KCMG, Robyn S. Kravit, Francisco Luzón, Douglas B. Roberts and Dr. Michael J. Somers resigned as Directors of the Company on January 4, 2016 in connection with the Merger and Dominic J. Casserley resigned as a Director on 30 December 2016. John J. Haley, Victor F. Ganzi, Brendan R. O'Neill, Linda D. Rabbitt, Paul Thomas and Wilhelm Zeller were appointed as Directors of the Company on January 4, 2016. There were no other changes in Directors during the year or after the year end.

## Directors' and Secretary's Interests

The interests (all of which are beneficially owned) of the Directors and Company Secretary in office at December 31, 2016 in 1 percent or over of the share capital of the ultimate parent company at December 31, 2016 and 2015, were as follows:

<b>Name of Director/Secretary</b>	<b>December 31,</b>		<b>December 31,</b>		<b>December 31,</b>	
	<b>Ordinary shares of \$0.000115 each <sup>(1)(3)</sup></b>		<b>Options over Ordinary shares of \$0.000115 each <sup>(3)</sup></b>		<b>Restricted Share Units <sup>(2)(3)</sup></b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
JW Ubben	8,109,358	18,426,275	—	—	1,069	2,154

- <sup>(1)</sup> 8,108,015 (2015: 18,423,835) of the securities reported herein are directly beneficially owned by ValueAct Capital Master Fund, L.P. and may be deemed to be indirectly beneficially owned by (i) VA Partners I, LLC as General Partner of ValueAct Capital Master Fund, L.P., (ii) ValueAct Capital Management, L.P. as the manager of ValueAct Capital Master Fund, L.P., (iii) ValueAct Capital Management, LLC as General Partner of ValueAct Capital Management, L.P., (iv) ValueAct Holdings, L.P. as the sole owner of the limited partnership interests of ValueAct Capital Management, L.P. and the membership interests of ValueAct Capital Management, LLC and as the majority owner of the membership interests of VA Partners I, LLC and (v) ValueAct Holdings GP, LLC as General Partner of ValueAct Holdings, L.P. Mr. Ubben disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- <sup>(2)</sup> Under an agreement with ValueAct Capital, Mr. Ubben is deemed to hold the Restricted Share Units for the benefit of the limited partners of ValueAct Capital Master Fund, L.P. and indirectly for the entities described in (i) to (v) of footnote (i) above. Mr. Ubben disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- <sup>(3)</sup> The nominal value of ordinary shares and number of ordinary shares at December 31, 2015 have not been retroactively adjusted to reflect the reverse stock split on January 4, 2016. The nominal value of the Company's ordinary shares as of January 4, 2016 is \$0.000304635. See Note 3 to the Consolidated Financial Statements for further details.

There have been no contracts or arrangements entered into during the financial period in which a Director of the Company was materially interested and which were significant in relation to Willis Towers Watson's business.

## Directors' Responsibilities Statement in relation to the Financial Statements

The Directors are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014.

Irish company law requires the Directors to prepare financial statements for each financial year. Under Irish company law, the Directors have elected to prepare the Company financial statements in accordance with accounting principles generally accepted in the United States of America ('US GAAP'), as defined in Section 279 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the Company financial statements does not contravene any provision of Part 6 of the Companies Act 2014, and to prepare the Parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('relevant financial reporting framework').

Under Irish company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and the Parent Company as at the financial year end date and of the profit and loss of the Company for the financial year and otherwise comply with the Companies Act 2014. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies for the Company and Parent Company financial statements and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Parent Company and the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps, or causes to be kept, adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy and enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' Compliance Statement

As required by section 225(2) of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The directors further confirm that a "compliance policy statement" (as defined in section 225(3)(a)) has been drawn up, that appropriate arrangements and structures that are, in the directors' opinion, designed to secure material compliance with the relevant obligations have been put in place and that a review of those arrangements and structures has been conducted in the financial year to which this report relates.

## Relevant Audit Information

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's statutory auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's statutory auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

## Audit and Risk Committee

The Company has established an Audit and Risk Committee which is in conformity with the provisions of Section 167 of the Companies Act 2014, with responsibilities including:

- the monitoring of the financial reporting process;
- the monitoring of the effectiveness of the Company's systems of internal control, internal audit and risk management;
- the monitoring of the statutory audit of the Company's statutory financial statements; and
- the review and monitoring of the independence of the statutory auditor and the provision of additional services to the Company.

## Auditor

A resolution to reappoint Deloitte LLP, Chartered Accountants and Statutory Audit Firm, United Kingdom as auditor will be raised at the forthcoming Annual General Meeting of Shareholders.

On behalf of the Directors

/s/ Victor F. Ganzi  
Director

Date: April 21, 2017

Elm Park  
Merrion Road  
Dublin 4, Ireland

/s/ Wendy E. Lane  
Director

Date: April 21, 2017

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# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WILLIS TOWERS WATSON PLC**

We have audited the Consolidated financial statements of Willis Towers Watson plc for the financial year ended December 31, 2016 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows and the Consolidated Statement of Changes in Equity and the related notes 1 to 26 excluding the unaudited pro-forma information in Note 3 Merger and Acquisitions and excluding the unaudited information in Note 25 Quarterly Financial Data. The relevant financial reporting framework that has been applied in the preparation of the Consolidated financial statements comprises the Companies Act 2014 and the accounting principles generally accepted in the United States of America ("US GAAP") as defined in Section 279 of the Companies Act 2014 to the extent that the use of those principles in preparation of the Consolidated financial statements does not contravene any provision of Part 6 of the Companies Act 2014 ("relevant financial reporting framework").

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Consolidated financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the Consolidated financial statements in accordance with the Companies Act 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

## **Opinion on financial statements**

In our opinion, the Consolidated financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2016 and of the profit of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

## **Matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the information given in the directors' report is consistent with the Consolidated financial statements.

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

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

**Other matter**

We have reported separately on the Parent Company financial statements of Willis Towers Watson plc for the financial year ended December 31, 2016.

Andrew Downes  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Audit Firm  
London  
April 21, 2017

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

		Years ended December 31,		
	Note	2016	2015	2014
		(millions, except per share data)		
REVENUES				
Commissions and fees		\$ 7,778	\$ 3,809	\$ 3,767
Interest and other income		109	20	35
Total revenues		7,887	3,829	3,802
EXPENSES				
Salaries and benefits	16	4,646	2,303	2,314
Other operating expenses <sup>(ii)</sup>		1,501	768	659
Depreciation	8	178	95	92
Amortization	7	591	76	54
Restructuring costs	5	193	126	36
Transaction and integration expenses		177	84	—
Total expenses		7,286	3,452	3,155
OPERATING INCOME				
		601	377	647
Other expense/(income), net	18	27	(55)	(6)
Interest expense	10	184	142	135
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INTEREST IN EARNINGS OF ASSOCIATES <sup>(iii)</sup>				
		390	290	518
(Benefit from)/provision for income taxes <sup>(ii)</sup>	6	(76)	(53)	159
INCOME FROM CONTINUING OPERATIONS BEFORE INTEREST IN EARNINGS OF ASSOCIATES				
		466	343	359
Interest in earnings of associates, net of tax		2	11	14
NET INCOME				
		468	354	373
Less: net income attributable to minority interests		(18)	(11)	(11)
NET INCOME ATTRIBUTABLE TO WILLIS TOWERS WATSON				
		\$ 450	\$ 343	\$ 362
EARNINGS PER SHARE <sup>(i)</sup>				
	22			
Basic earnings per share <sup>(ii)</sup>		\$ 3.28	\$ 5.04	\$ 5.40
Diluted earnings per share <sup>(ii)</sup>		\$ 3.26	\$ 4.97	\$ 5.32
CASH DIVIDENDS DECLARED PER SHARE <sup>(i)</sup>				
		\$ 1.92	\$ 3.28	\$ 3.18

<sup>(i)</sup> Basic and diluted earnings per share and cash dividends declared per share, for the years ended December 31, 2015 and 2014 have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

<sup>(ii)</sup> Other operating expenses for 2015 was adjusted by \$50 million to reflect a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. As a consequence, the income tax benefit for 2015 was increased by \$20 million and basic earnings per share and diluted earnings per share for 2015 was decreased. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

<sup>(iii)</sup> Income from continuing operations before income taxes and interest in earnings of associates relates to ordinary activities.

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME**

	Note	Years ended December 31,		
		2016	2015	2014
		(millions)		
Net income		\$ 468	\$ 354	\$ 373
Other comprehensive (loss)/income, net of tax:				
Foreign currency translation	19	(353)	(133)	(183)
Defined pension and post-retirement benefits	19	(439)	180	(179)
Derivative instruments	19	(75)	(28)	(17)
Other comprehensive (loss)/income, net of tax, before minority interests		(867)	19	(379)
Comprehensive (loss)/income before minority interests		(399)	373	(6)
Less: Comprehensive loss/(income) attributable to minority interests		2	(1)	(5)
Comprehensive (loss)/income attributable to Willis Towers Watson		<u>\$ (397)</u>	<u>\$ 372</u>	<u>\$ (11)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

		December 31,	
	Note	2016	2015
		(millions, except share data)	
ASSETS			
FIXED ASSETS			
Intangible assets			
Goodwill	7	\$ 10,413	\$ 3,737
Other intangible assets, net	7	4,368	1,115
Tangible assets			
Fixed assets, net	8	839	563
Financial assets			
Investments in associates		24	13
Pension benefits assets	12	488	623
Deferred tax assets <sup>(iii)</sup>	6	50	96
Other non-current assets	15	279	209
Total fixed assets		16,461	6,356
CURRENT ASSETS			
Accounts receivable, net	15	2,080	1,258
Fiduciary assets		10,505	10,458
Other current assets	15	337	255
Cash and cash equivalents		870	532
Total current assets		13,792	12,503
TOTAL ASSETS		\$ 30,253	\$ 18,859
LIABILITIES, CAPITAL AND RESERVES			
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Short-term debt and current portion of long-term debt	10	\$ 508	\$ 988
Fiduciary liabilities		10,505	10,458
Deferred revenue		455	134
Accrued expenses		1,026	618
Income taxes payable	6	45	45
Other current liabilities	15	831	558
Total creditors: amounts falling due within one year		13,370	12,801
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Long-term debt	10	3,357	2,278
Retirement benefit obligations	12	1,321	279
Deferred tax liabilities	6	864	240
Other non-current liabilities	15	532	533
Total creditors: amounts falling due after more than one year		6,074	3,330
PROVISIONS FOR LIABILITIES <sup>(iii)</sup>	13	575	345
Total liabilities		20,019	16,476

(Continued on next page)

**CONSOLIDATED BALANCE SHEET (Continued)**

		December 31,	
	Note	2016	2015
		(millions, except share data)	
COMMITMENTS AND CONTINGENCIES	14	—	—
REDEEMABLE MINORITY INTEREST <sup>(ii)</sup>		51	53
CAPITAL AND RESERVES			
Ordinary shares, \$0.000304635 nominal value; Authorized: 1,510,003,775; Issued 137,075,068 shares in 2016 and 68,624,892 shares in 2015 <sup>(i)</sup>		—	—
Ordinary shares, €1 nominal value; Authorized: 40,000; Issued 40,000 shares in 2016 and 2015		—	—
Preference shares, \$0.000115 nominal value; Authorized: 1,000,000,000; Issued nil shares in 2016 and 2015		—	—
Share premium		627	564
Profit and loss account <sup>(iii)</sup>		1,353	1,564
Other reserves		9,969	1,108
Accumulated other comprehensive loss, net of tax	19	(1,884)	(1,037)
Total Willis Towers Watson shareholders' equity		10,065	2,199
Minority interests		118	131
Total equity		10,183	2,330
TOTAL LIABILITIES, CAPITAL AND RESERVES		\$ 30,253	\$ 18,859

(i) The nominal value of ordinary shares and number of ordinary shares issued in 2015 have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

(ii) The redeemable minority interest has been presented in accordance with US GAAP.

(iii) Provisions for liabilities at December 31, 2015 were adjusted by \$50 million to reflect a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. As a consequence, deferred tax assets at December 31, 2015 was increased by \$20 million and the profit and loss account at December 31, 2015 was decreased by \$30 million. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors on April 21, 2017 and signed on behalf of the Directors:

/s/ Victor F. Ganzi

Director

/s/ Wendy E. Lane

Director



**CONSOLIDATED STATEMENT OF CASH FLOWS**

		Years ended December 31,		
	Note	2016	2015	2014
		(millions)		
CASH FLOWS FROM OPERATING ACTIVITIES				
NET INCOME <sup>(i)</sup>		\$ 468	\$ 354	\$ 373
Adjustments to reconcile net income to total net cash from operating activities:				
Depreciation	8	178	95	92
Amortization	7	591	76	54
Net periodic benefit of defined benefit pension plans		(93)	(78)	(17)
Provision for doubtful receivables from clients	15	36	5	4
(Benefit from)/provision for deferred income taxes <sup>(i)</sup>	6	(224)	(119)	66
Share-based compensation	21	123	64	52
Non-cash foreign exchange (gain)/loss		(28)	73	39
Net gain on disposal of operations and fixed and intangible assets and gain on remeasurement of equity interests		—	(90)	(17)
Other, net		27	(8)	(16)
Changes in operating assets and liabilities, net of effects from purchase of subsidiaries:				
Accounts receivable		(101)	(155)	(66)
Fiduciary assets		(249)	(508)	(887)
Fiduciary liabilities		249	508	887
Other assets		(233)	(5)	16
Other liabilities		161	(62)	(91)
Movement on provisions <sup>(i)</sup>		15	93	(12)
Net cash from operating activities		920	243	477
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Additions to fixed assets and software for internal use		(218)	(146)	(113)
Capitalized software costs		(85)	—	—
Acquisitions of operations, net of cash acquired		476	(857)	(245)
Net (cash paid)/proceeds from sale of operations		(1)	44	86
Other, net		23	16	(4)
Net cash from/(used in) investing activities		195	(943)	(276)

(Continued on next page)

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

		Years ended December 31,		
	Note	2016	2015	2014
		(millions)		
CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES				
Net (payments on)/borrowings on revolving credit facility		(237)	469	—
Senior notes issued		1,606	—	—
Proceeds from issuance of other debt		404	592	—
Debt issuance costs		(14)	(5)	(3)
Repayments of debt		(1,901)	(166)	(15)
Repurchase of shares		(396)	(82)	(213)
Proceeds from issuance of shares and excess tax benefit		63	131	139
Payments of deferred and contingent consideration related to acquisitions		(67)	—	—
Dividends paid		(199)	(277)	(210)
Acquisitions of and dividends paid to minority interests		(21)	(21)	(21)
Net cash (used in)/from financing activities		(762)	641	(323)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
Effect of exchange rate changes on cash and cash equivalents		(15)	(44)	(39)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR				
		532	635	796
CASH AND CASH EQUIVALENTS, END OF YEAR				
		\$ 870	\$ 532	\$ 635

(i) The movement on provisions for 2015 has been adjusted by \$50 million to reflect a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. As a consequence, net income for 2015 has been decreased for the post-tax effect of \$30 million and the movement in the provision for deferred income taxes for 2015 has been increased by the tax effect of \$20 million. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Shares outstanding <sup>(i)</sup>	Share premium	Profit and loss account	Other reserves	AOCL <sup>(ii)</sup>	Total WTW shareholders' equity	Minority interests	Total Equity	Redeemable minority interest <sup>(iii)</sup>	Total
	(thousands)					(millions)				
Balance at January 1, 2014	67,520	305	1,592	1,011	(693)	2,215	28	2,243	—	
Shares repurchased	(1,906)	—	(213)	—	—	(213)	—	(213)	—	
Net income	—	—	362	—	—	362	11	373	—	\$ 373
Dividends	—	—	(214)	—	—	(214)	(17)	(231)	—	
Other comprehensive (loss)/income	—	—	—	—	(373)	(373)	(2)	(375)	(4)	\$ (379)
Issue of shares under employee stock compensation plans	1,832	134	—	—	—	134	—	134	—	
Issue of shares for acquisitions	14	1	—	—	—	1	—	1	—	
Tax benefits on issue of shares under employee share compensation plans	—	—	—	12	—	12	—	12	—	
Share-based compensation	—	—	—	52	—	52	—	52	—	
Additional minority interests	—	—	—	—	—	—	2	2	63	
Foreign currency translation	—	—	—	9	—	9	—	9	—	
Balance at December 31, 2014	67,460	440	1,527	1,084	(1,066)	1,985	22	2,007	59	
Shares repurchased	(646)	—	(82)	—	—	(82)	—	(82)	—	
Net income <sup>(iv)</sup>	—	—	343	—	—	343	8	351	3	\$ 354
Dividends	—	—	(224)	—	—	(224)	(11)	(235)	(5)	
Other comprehensive income/(loss)	—	—	—	—	29	29	(6)	23	(4)	\$ 19
Issue of shares under employee stock compensation plans	1,811	124	—	—	—	124	—	124	—	
Tax benefits on issue of shares under employee share compensation plans	—	—	—	4	—	4	—	4	—	
Share-based compensation	—	—	—	64	—	64	—	64	—	
Additional minority interests	—	—	—	(53)	—	(53)	118	65	—	
Foreign currency translation	—	—	—	9	—	9	—	9	—	
Balance at December 31, 2015	68,625	\$ 564	\$ 1,564	\$ 1,108	\$ (1,037)	\$ 2,199	\$ 131	\$ 2,330	\$ 53	
Shares repurchased	(3,170)	—	(396)	—	—	(396)	—	(396)	—	
Net income <sup>(iv)</sup>	—	—	450	—	—	450	11	461	7	\$ 468
Dividends	—	—	(265)	—	—	(265)	(9)	(274)	(5)	
Other comprehensive (loss)/income	—	—	—	—	(847)	(847)	(16)	(863)	(4)	\$ (867)
Issue of shares under employee stock compensation plans	1,342	63	—	—	—	63	—	63	—	
Tax benefits on issue of shares under employee share compensation plans	—	—	—	3	—	3	—	3	—	
Issue of shares for acquisitions	69,500	—	—	8,686	—	8,686	—	8,686	—	
Replacement share-based compensation awards issued on acquisition	—	—	—	37	—	37	—	37	—	
Share-based compensation	—	—	—	123	—	123	—	123	—	
Additional minority interests	—	—	—	7	—	7	1	8	—	
Foreign currency translation	—	—	—	5	—	5	—	5	—	
Balance at December 31, 2016	136,297	\$ 627	\$ 1,353	\$ 9,969	\$ (1,884)	\$ 10,065	\$ 118	\$ 10,183	\$ 51	

- (i) The nominal value of the ordinary shares and the number of ordinary shares issued in the years ended December 31, 2015 and 2014 have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.
- (ii) Additional other comprehensive loss, net of tax ('AOCL').
- (iii) The minority interest is related to Max Matthiessen Holding AB.
- (iv) Net income for 2015 has been decreased by \$30 million to reflect the post-tax effect of a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognised in Annual Form 10-K for the following year, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

(Tabular amounts are in millions of U.S. dollars, except per share data and employee numbers)

## 1. NATURE OF OPERATIONS

### Nature of Operations

Willis Towers Watson is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. Willis Towers Watson has more than 41,000 employees and services clients in more than 140 countries and territories. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas - the dynamic formula that drives business performance.

We offer clients a broad range of services to help them to identify and control their risks, and to enhance business performance by improving their ability to attract, retain and engage a talented workforce. Our risk control services range from strategic risk consulting (including providing actuarial analysis), to a variety of due diligence services, to the provision of practical on-site risk control services (such as health and safety or property loss control consulting), as well as analytical and advisory services (such as hazard modeling and reinsurance optimization studies). We assist clients in planning how to manage incidents or crises when they occur. These services include contingency planning, security audits and product tampering plans. We help our clients enhance their business performance by delivering consulting services, technology and solutions that help organizations anticipate, identify and capitalize on emerging opportunities in human capital management as well as investment advice to help our clients develop disciplined and efficient strategies to meet their investment goals.

As an insurance broker, we act as an intermediary between our clients and insurance carriers by advising our clients on their risk management requirements, helping clients determine the best means of managing risk and negotiating and placing insurance with insurance carriers through our global distribution network. We operate the largest private Medicare exchange in the United States ('U.S.'). Through this exchange and those for active employees, we help our clients move to a more sustainable economic model by capping and controlling the costs associated with healthcare benefits.

We are not an insurance company, and therefore we do not underwrite insurable risks for our own account.

We believe our broad perspective allows us to see the critical intersections between talent, assets and ideas - the dynamic formula that drives business performance.

The Merger with Towers Watson that closed on January 4, 2016 affects the comparability between 2016 and other periods presented. See Note 3 to the Consolidated Financial Statements for additional information.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The Directors have elected to prepare the consolidated financial statements of Willis Towers Watson in accordance with Section 279 of the Companies Act 2014 of the Republic of Ireland, which provides that a true and fair view of the assets and liabilities, financial position and profit or loss may be given by preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ('US GAAP'), to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of Part 6 of the Companies Act 2014.

The preparation of these financial statements under US GAAP includes primary statement formats, captions and terminology throughout that both complies with US GAAP and is familiar to users of such accounts filed by the Company in the United States.

Such disclosure formats, captions and terminology may not always comply specifically with the requirements of Irish Company Law. The Company has departed from the format requirements in Irish Company Law as explained below, to continue its disclosure under US formats. There are various instances of this occurring, including, but not limited to:

- the Company's consolidated profit and loss account does not strictly conform to the formats prescribed under Irish Company Law. However, the Company believes that the consolidated profit and loss account as reported better reflects the business and activities of the Company; and
- the Company presents certain line items, such as Interest in earnings of associates, net of tax.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### True and fair view override

In special disclosure circumstances, where compliance with any of the provisions of the Companies Act 2014 as to the matters to be included in a company's financial statements (or notes thereto) is inconsistent with the requirement to give a true and fair view of the state of affairs and profit or loss, the directors shall depart from that provision to the extent necessary to give a true and fair view. The Company is adopting a true and fair view override in relation to goodwill - see the accounting policy on goodwill below.

### Balance Sheet Presentation

The Company is required to file consolidated financial statements with the Irish Companies Registration Office. These consolidated financial statements are prepared under US GAAP but incorporate additional Irish Companies Act requirements.

### Significant Accounting Policies

*Conforming reclassifications* — Certain reclassifications have been made to prior period amounts to conform to the current year presentation. A material reclassification within the 2015 Consolidated Statement of Operations was made to reclassify \$84 million of Transaction and integration expenses from Salary and benefits and Other operating expenses of \$3 million and \$81 million, respectively. This reclassification was made to present information on a comparable basis.

*Principles of Consolidation* — The accompanying consolidated financial statements include the accounts of Willis Towers Watson and those of our majority-owned and controlled subsidiaries. Intercompany accounts and transactions have been eliminated.

We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ('VIE'). Variable interest entities are entities that lack one or more of the characteristics of a voting interest entity and therefore require a different approach in determining which party involved with the VIE should consolidate the entity. With a VIE, either the entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties, or the equity holders, as a group, do not have the power to direct the activities that most significantly impact its financial performance, the obligation to absorb expected losses of the entity, or the right to receive the expected residual returns of the entity. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE.

Voting interest entities are entities that have sufficient equity and provide equity investors voting rights that give them the power to make significant decisions related to the entity's operations. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. Accordingly, we consolidate our voting interest entity investments in which we hold, directly or indirectly, more than 50% of the voting rights.

*Use of Estimates* — These consolidated financial statements conform to accounting principles generally accepted in the United States of America ('U.S. GAAP'), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. Estimates are used when accounting for revenue recognition, the selection of useful lives of fixed and intangible assets, impairment testing, valuation of billed and unbilled receivables from clients, discretionary compensation, income taxes, pension assumptions, incurred but not reported claims, legal reserves and goodwill and intangible assets.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

**Going Concern** — Management evaluates at each annual and interim period whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. Management's evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the consolidated financial statements are issued. Management has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date of these financial statements.

**Fair Value of Financial Instruments** — The carrying values of our cash and cash equivalents, accounts receivable, accrued expenses, revolving lines of credit and term loans approximate their fair values because of the short maturity and liquidity of those instruments. We consider the difference between carrying value and fair value to be immaterial for our senior notes. The fair value of our senior notes are considered Level 2 financial instruments as they are corroborated by observable market data. See Note 11 to the Consolidated Financial Statements for additional information about our measurements of fair value.

**Investments in Associates** — Investments are accounted for using the equity method of accounting, included within other non-current assets in the consolidated balance sheets, if the Company has the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company has an equity ownership in the voting stock of the investee between 20 and 50 percent, although other factors, such as representation on the Board of Directors and the impact of commercial arrangements, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is carried at the cost of acquisition, plus the Company's equity in undistributed net income since acquisition, less any dividends received since acquisition.

The Company periodically reviews its investments in associates for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. The amount of any write-down is included in the consolidated statements of operations.

**Common Shares Split** — On January 4, 2016, the Company effected a 1 to 2.6490 reverse share split to shareholders of record as of January 4, 2016. All share and per share information has been retroactively adjusted to reflect the reverse share split and show the new number of shares. See Note 3 to the Consolidated Financial Statements for additional information about our Merger and reverse share split.

**Cash and Cash Equivalents** — Cash and cash equivalents primarily consist of time deposits with original maturities of 90 days or less. Willis Limited, our U.K. brokerage subsidiary regulated by the Financial Conduct Authority, is currently required to maintain \$140 million in unencumbered and available funds, of which at least \$79 million must be in cash, for regulatory purposes. Term deposits and certificates of deposits with original maturities greater than 90 days are considered to be short-term investments. There is no restricted cash included in our cash and cash equivalents balance, as these amounts are included in fiduciary assets.

**Fiduciary Assets and Liabilities** — Fiduciary funds represent unremitted premiums received from insureds and unremitted claims or refunds received from insurers. Fiduciary funds are generally required to be kept in certain regulated bank accounts subject to guidelines which emphasize capital preservation and liquidity. Such funds are not available to service the Company's debt or for other corporate purposes. Notwithstanding the legal relationships with insureds and insurers, the Company is entitled to retain investment income earned on fiduciary funds in accordance with industry custom and practice and, in some cases, as supported by agreements with insureds. The period for which the Company holds such funds is dependent upon the date the insured remits the payment of the premium to the Company, or the date the Company receives refunds from the insurers, and the date the Company is required to forward such payment to the insurer, or insured, respectively. In certain instances, the Company advances premiums, refunds or claims to insurance underwriters or insureds prior to collection. Such advances are made from fiduciary funds and are reflected in the consolidated balance sheets as fiduciary assets. Fiduciary liabilities represent the obligations to remit fiduciary funds and fiduciary receivables to insurers or insureds. Certain of our health and welfare benefits administration outsourcing agreements require us to hold funds on behalf of clients to pay obligations on their behalf. These amounts are included in fiduciary assets and fiduciary liabilities on the consolidated balance sheets.

**Accounts Receivable** — Accounts receivable includes both billed and unbilled receivables and is stated at estimated net realizable values. Provision for billed receivables is recorded, when necessary, in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts. Accrued and unbilled receivables are stated at net realizable value which includes an allowance for accrued and unbillable amounts. See Note 15 to the Consolidated Financial Statements for additional information about our accounts receivable.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Income Taxes* — The Company recognizes deferred tax assets and liabilities for the estimated future tax consequences of events attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating and capital loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted rates in effect for the year in which the differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the consolidated statement of operations in the period in which the change is enacted. Deferred tax assets are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized. The Company adjusts valuation allowances to measure deferred tax assets at the amounts considered realizable in future periods if the Company's facts and assumptions change. In making such determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and the results of recent financial operations. We place more reliance on evidence that is objectively verifiable.

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. The Company recognizes the benefit of uncertain tax positions in the financial statements when it is more likely than not that the position will be sustained on the basis of the technical merits of the position assuming the tax authorities have full knowledge of the position and all relevant facts. Recognition also occurs upon either the lapse of the relevant statute of limitations, or when positions are effectively settled. The benefit recognized is the largest amount of tax benefit that is greater than 50 percent likely to be realized on settlement with the tax authority. The Company adjusts its recognition of uncertain tax benefits in the period in which new information is available impacting either the recognition or measurement of its uncertain tax positions. Such adjustments are reflected as increases or decreases to income taxes in the period in which they are determined.

The Company recognizes interest and penalties relating to unrecognized tax benefits within income taxes. See Note 6 to the Consolidated Financial Statements for additional information about our income taxes.

*Foreign Currency* — Transactions in currencies other than the functional currency of the entity are recorded at the rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities in currencies other than the functional currency are translated at the rates of exchange prevailing at the balance sheet date and the related transaction gains and losses are reported in the consolidated statements of operations. Certain intercompany loans are determined to be of a long-term investment nature. The Company records transaction gains and losses from remeasuring such loans in the consolidated statements of comprehensive income/(loss).

Upon consolidation, the results of operations of subsidiaries and associates whose functional currency is other than the U.S. dollar are translated into U.S. dollars at the average exchange rates and assets and liabilities are translated at year-end exchange rates. Translation adjustments are presented as a separate component of other comprehensive income in the financial statements and are included in net income only upon sale or liquidation of the underlying foreign subsidiary or associated company.

*Derivatives* — The Company uses derivative financial instruments for other than trading purposes to alter the risk profile of an existing underlying exposure. Interest rate swaps have been used to manage interest risk exposures. Forward foreign currency exchange contracts are used to manage currency exposures arising from future income and expenses. The fair values of derivative contracts are recorded in other assets and other liabilities. The effective portions of changes in the fair value of derivatives that qualify for hedge accounting as cash flow hedges are recorded in other comprehensive income. Amounts are reclassified from other comprehensive income into earnings when the hedged exposure affects earnings. If the derivative is designated as, and qualifies as, an effective fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are both recognized in earnings. The amount of hedge ineffectiveness recognized in earnings is based on the extent to which an offset between the fair value of the derivative and hedged item is not achieved. Changes in fair value of derivatives that do not qualify for hedge accounting, together with any hedge ineffectiveness on those that do qualify, are recorded in other operating expenses or interest expense as appropriate.

The Company evaluates whether its contracts include clauses or conditions which would be required to be separately accounted for at fair value as embedded derivatives. See Note 9 to the Consolidated Financial Statements for additional information about our derivatives.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

*Commitments, Contingencies and Provisions for Liabilities* — The Company establishes provisions against various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors and omissions in the ordinary course of business. Such provisions cover claims that have been reported but not paid and also unasserted claims and related legal fees. These provisions are established based on actuarial estimates together with individual case reviews and are believed to be adequate in the light of current information and legal advice. In certain cases, where a range of loss exists, we accrue the minimum amount in the range if no amount within the range is a better estimate than any other amount. To the extent such losses can be recovered under the Company's insurance programs, estimated recoveries are recorded when losses for insured events are recognized and the recoveries are likely to be realized. Significant management judgment is required to estimate the amounts of such unasserted claims and the related insurance recoveries. The Company analyzes its litigation exposure based on available information, including consultation with outside counsel handling the defense of these matters, to assess its potential liability. These contingent liabilities are not discounted. See Notes 13 and 14 to the Consolidated Financial Statements for additional information about our commitments, contingencies and provisions for liabilities.

*Share-Based Compensation* — The Company has equity-based compensation plans that provide for grants of restricted stock units and stock options to employees and non-employee directors of the Company who perform services for the Company.

The Company expenses equity-based compensation, which is included in Salaries and benefits in the consolidated statements of operations, primarily on a straight-line basis over the requisite service period based upon the fair value of the award on the date of grant, the estimated achievement of any performance targets and anticipated staff retention. The awards under equity-based compensation are classified as equity and included as a component of equity on the Company's consolidated balance sheets, as the ultimate payment of such awards will not be achieved through use of the Company's cash or other assets.

*Fixed Assets* — Fixed assets are stated at cost less accumulated depreciation. Expenditures for improvements are capitalized; repairs and maintenance are charged to expenses as incurred. Depreciation is computed primarily using the straight-line method based on the estimated useful lives of assets.

Depreciation on internally developed software is amortized over the estimated useful life of the asset ranging from 3 to 10 years. Buildings include assets held under capital leases and are depreciated over the lesser of 50 years, the asset lives or the lease terms. Depreciation on leasehold improvements is calculated over the lesser of the useful lives of the assets or the remaining lease terms. Depreciation on furniture and equipment is calculated based on a range of 3 to 10 years. Land is not depreciated.

Long-lived assets are tested for recoverability whenever events or changes in circumstance indicate that their carrying amounts may not be recoverable. An impairment loss is recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. Recoverability is determined based on the undiscounted cash flows expected to result from the use and eventual disposition of the asset or asset group. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

*Operating Leases* — Rentals payable on operating leases are charged straight line to Other operating expenses in the consolidated statements of operations over the lease term.

*Goodwill and Other Intangible Assets* — In applying the acquisition method of accounting for business combinations, amounts assigned to identifiable assets and liabilities acquired were based on estimated fair values as of the date of acquisition, with the remainder recorded as goodwill. Irish Law requires the amortization of goodwill. However, the Company believes the amortization of goodwill would not give a true and fair view because:

- not all goodwill declines in value; and
- goodwill that does decline in value rarely does so on a straight-line basis.

Consequently, straight-line amortization of goodwill over an arbitrary period does not reflect economic reality and thus does not provide useful information to financial statement users. Furthermore, under both US and International generally accepted accounting principles, goodwill is considered an indefinite lived asset and not amortized. The Company is therefore invoking the 'true and fair view override' described above.

The Company is not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful life of goodwill cannot be predicted with a satisfactory level of reliability, nor can the pattern in which goodwill diminishes be known.



## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Consequently, the Company does not amortize goodwill but tests it for impairment annually as of October 1, and whenever indicators of impairment exist. Goodwill is tested at the reporting unit level, and the Company had eight reporting units as of October 1, 2016. In the first step of the impairment test, the fair value of each reporting unit is compared with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, the amount of an impairment loss, if any, is calculated in the second step of the impairment test by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The Company's goodwill impairment tests for the years ended December 31, 2016 and 2015 have not resulted in any impairment charges. See Note 7 to the Consolidated Financial Statements for additional information about our goodwill and other intangible assets.

Intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets with indefinite lives (currently only acquired software that is in the in-process research and development stage) are tested for impairment annually as of October 1, and whenever indicators of impairment exist. The fair values of intangible assets are compared with their carrying values, and an impairment loss would be recognized for the amount by which a carrying amount exceeds its fair value.

Acquired intangible assets are amortized over the following periods:

	Amortization basis	Expected life (years)
Client relationships	In line with underlying cash flows	5 to 20
Software	In line with underlying cash flows or straight line basis	4 to 7
Product	In line with underlying cash flows	17.5
Trademark and trade name	Straight line basis	14 to 25
Favorable agreements	Straight line basis	7
Management contracts	Straight line basis	18

**Pensions** — The Company has multiple defined benefit pension and defined contribution plans. The net periodic cost of the Company's defined benefit plans are measured on an actuarial basis using various methods and actuarial assumptions. The most significant assumptions are the discount rates (calculated from the 2016 financial year and forward using the granular approach to calculating service and interest cost) and the expected long-term rates of return on plan assets. Other material assumptions include rates of participant mortality, the expected long-term rates of compensation and pension increases and rates of employee termination. Gains and losses occur when actual experience differs from actuarial assumptions. If such gains or losses exceed ten percent of the greater of plan assets or plan liabilities, the Company amortizes those gains or losses over the average remaining service period or average remaining life expectancy, as appropriate, of the plan participants. In accordance with U.S. GAAP, the Company records on its consolidated balance sheets the funded status of its pension plans based on the projected benefit obligation.

Contributions to the Company's defined contribution plans are recognized as incurred. Differences between contributions payable in the year and contributions actually paid are shown as either other assets or other liabilities in the consolidated balance sheets.

**Revenue Recognition** — Revenues include insurance commissions, fees in lieu of commission, fees for consulting services rendered, hosted and delivered software, survey sales, interest and other income.

Revenue recognized in excess of billings is recorded as unbilled accounts receivable. Cash collections in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met. Client reimbursable expenses, including those relating to travel, other out-of-pocket expenses and any third-party costs, are included in revenue, and an equivalent amount of reimbursable expenses is included in other operating expenses as a cost of revenue.

### *Commissions and fees*

**Commissions revenue.** Brokerage commissions and fees negotiated in lieu of commissions are recognized at the later of the policy inception date or when the policy placement is complete. In situations in which our fees are not fixed and determinable due to the uncertainty of the commission fee per policy, we recognize revenue as the fees are determined. Commissions on additional premiums and adjustments are recognized when approved by or agreed between the parties and collectability is reasonably assured.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

*Consulting revenue.* The majority of our consulting revenues consists of fees earned from providing consulting services. We recognize revenues from these consulting engagements when hours are worked, either on a time-and-expense basis or on a fixed-fee basis, depending on the terms and conditions defined at the inception of an engagement with a client. We have engagement letters with our clients that specify the terms and conditions upon which the engagements are based. These terms and conditions can only be changed upon agreement by both parties. Individual billing rates are principally based on a multiple of salary and compensation costs.

Revenues for fixed-fee arrangements are based upon the proportional performance method to the extent estimates can be made of the remaining work required under the arrangement. If we do not have sufficient information to estimate proportional performance, we recognize the fees straight-line over the contract period. We typically have four types of fixed-fee arrangements: annual recurring projects, projects of a short duration, stand-ready obligations and non-recurring system projects.

- *Annual recurring projects and projects of short duration.* These projects are typically straightforward and highly predictable in nature. As a result, the project manager and financial staff are able to identify, as the project status is reviewed and bills are prepared monthly, the occasions when cost overruns could lead to the recording of a loss accrual.
- *Stand-ready obligations.* Where we are entitled to fees (whether fixed or variable based on assets under management or a per-participant per-month basis) regardless of the hours, we generally recognize this revenue on either a straight-line basis or as the variable fees are calculated.
- *Non-recurring system projects.* These projects are longer in duration and subject to more changes in scope as the project progresses. Certain software or outsourced administration contracts generally provide that if the client terminates a contract, we are entitled to payment for services performed through termination.

Revenue recognition for fixed-fee engagements is affected by a number of factors that change the estimated amount of work required to complete the project such as changes in scope, the staffing on the engagement and/or the level of client participation. The periodic engagement evaluations require us to make judgments and estimates regarding the overall profitability and stage of project completion that, in turn, affect how we recognize revenue. We recognize a loss on an engagement when estimated revenues to be received for that engagement are less than the total estimated costs associated with the engagement. Losses are recognized in the period in which the loss becomes probable and the amount of the loss is reasonably estimable.

*Hosted software.* We have developed various software programs and technologies that we provide to clients in connection with consulting services. In most instances, such software is hosted and maintained by us and ownership of the technology and rights to the related code remain with us. We defer costs for software developed to be utilized in providing services to a client, but for which the client does not have the contractual right to take possession, during the implementation stage. We recognize these deferred costs from the go live date, signaling the end of the implementation stage, until the end of the initial term of the contract with the client. We determined that the system implementation and customized ongoing administrative services are one combined service. Revenue is recognized over the service period, after the go live date, in proportion to the services performed. As a result, we do not recognize revenue during the implementation phase of an engagement.

*Delivered software.* We deliver software under arrangements with clients who take possession of our software. The maintenance associated with the initial software fees is a fixed percentage which enables us to determine the stand-alone value of the delivered software separate from the maintenance. We recognize the initial software fees as software is delivered to the client and we recognize the maintenance ratably over the contract period based on each element's relative fair value. For software arrangements in which initial fees are received in connection with mandatory maintenance for the initial software license to remain active, we determined that the initial maintenance period is substantive. Therefore, we recognize the fees for the initial license and maintenance bundle ratably over the initial contract term, which is generally one year. Each subsequent renewal fee is recognized ratably over the contractually stated renewal period.

*Surveys.* We collect, analyze and compile data in the form of surveys for our clients who have the option of participating in the survey. The surveys are published online via a web tool that provides simplistic functionality. We have determined that the web tool is inconsequential to the overall arrangement. We record the survey revenues when the results are delivered online and made available to our clients who have a contractual right to the data. If the data is updated more frequently than annually, we recognize the survey revenues ratably over the contractually stated period.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Interest and other income*

*Interest income.* Interest income is recognized as earned.

*Other Income.* Other income includes gains on disposal of intangible assets, which primarily arise from settlements through enforcing non-compete agreements in the event of losing accounts through producer defection or the disposal of books of business.

### **Recent Accounting Pronouncements**

#### *Not yet adopted*

In May 2014, the Financial Accounting Standards Board ('FASB') issued Accounting Standard Update ('ASU') No. 2014-09 'Revenue From Contracts With Customers'. The new standard supersedes most current revenue recognition guidance and eliminates industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. Additional ASUs have since been issued, all of which provide additional guidance, examples and technical corrections for the implementation of ASU No. 2014-09. The guidance is effective for the Company at the beginning of its 2018 financial year, with early adoption permitted.

While we are still in the process of analyzing our various revenue streams to determine the full impact this standard will have on our revenue recognition, cost deferral, systems and processes, the Company has determined the following:

- The Company will adopt the standard using the modified retrospective approach on January 1, 2018.
- We expect certain revenue streams to have accelerated revenue recognition timing. In particular, the revenue recognition for our Retiree Medicare Exchange is expected to move from monthly ratable recognition over the policy period, to the recognition upon placement of the policy during the Company's fourth quarter of the preceding calendar year in the amount of one year of expected commissions. Therefore, upon adoption, we will reflect an adjustment to retained earnings for the revenue that would otherwise have been recognized during our 2018 calendar year since our earnings process will have been completed during the fourth quarter of 2017.
- We expect our accounting for deferred costs will change. First, for those portions of the business that currently defer costs (related to system implementation activities), the length of time over which we amortize those costs is expected to extend to a longer estimated contract term. Currently these costs are amortized over a typical period of 3-5 years in accordance with the initial stated terms of the customer agreement. Second, we believe there may be other types of arrangements with associated costs that do not meet the rules for cost deferral under current U.S. GAAP but do meet the rules under the new standard. We are still evaluating the types of arrangements that might now have cost deferral impacts.

The Company continues to update its assessment of the impacts of the accounting standard, and related updates, to the consolidated financial statements, and will note material impacts when known.

In February 2016, the FASB issued ASU No. 2016-02 'Leases', which requires a lessee to recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The ASU becomes effective for the Company at the beginning of the 2019 financial year and early adoption is permitted. In transition, the Company is required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients. While the Company continues to assess the impact of the ASU to the consolidated financial statements, the majority of our leases are currently considered operating leases and will be capitalized as a lease asset on our balance sheet with a related lease liability for the obligated lease payments.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

In March 2016, the FASB issued ASU No. 2016-09 'Compensation - Stock Compensation', which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU becomes effective for the Company at the beginning of the 2017 financial year and early adoption is permitted. Certain applications of the ASU are to be applied prospectively or retrospectively with a cumulative-effect adjustment to the balance sheet as of the beginning of the financial year of adoption. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 'Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments', which amends guidance on presentation and classification of eight specific cash flow issues with the objective of reducing diversity in practice. The ASU becomes effective for the Company at the beginning of 2018. Early adoption is permitted and any adjustments should be reflected as of the beginning of the financial year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is still assessing the impact of this ASU, but we believe the impact on our financial statements will be immaterial as we are largely in compliance with its requirements.

In October 2016, the FASB issued ASU No. 2016-16 'Income Taxes', which amends guidance regarding the recognition of current and deferred income taxes for intra-entity asset transfers. Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company intends to early adopt this standard on January 1, 2017. The cumulative-effect adjustment will be immaterial to the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01 'Business Combinations - Clarifying the Definition of a Business', which clarifies the definition of a business, to assist with the evaluation of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU include the provision of a screen to determine when an integrated set of assets and activities is not a business; that is, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset (or a group of similar identifiable assets), the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The ASU becomes effective for the Company at the beginning of 2018. The amendments in this ASU should be applied prospectively. Early adoption is permitted for acquisitions (or disposals) that have not already been reported in the financial statements. The Company is currently assessing the impact that this ASU will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 'Simplifying the Test for Goodwill Impairment', which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, current U.S. GAAP requires the performance of procedures to determine the fair value at the impairment testing date of assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, the amendments under this ASU require the goodwill impairment test to be performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The ASU becomes effective for the Company at the beginning of 2020. The amendments in this ASU should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect an immediate impact to its consolidated financial statements upon adopting this ASU since the most recent Step 1 goodwill impairment test resulted in fair values exceeding carrying values for all reporting units at October 1, 2016.

In March 2017, the FASB issued ASU No. 2017-07 'Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost', which requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and that the other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside any subtotal of income from operations. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The ASU becomes effective for the Company at the beginning of 2018. The amendments in this ASU should be applied retrospectively

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

for separate presentation in the income statement of service costs and other components and prospectively for the requirement to limit the capitalization of benefit costs to the service cost component. Early adoption is permitted as of the beginning of a financial year. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

### *Adopted*

In May 2015, the FASB issued ASU No. 2015-07, 'Fair Value Measurement - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)', which simplifies reporting requirements and modifies those investments required to be classified within the fair value hierarchy. Certain investments measured at fair value using the Net Asset Value ('NAV') practical expedient are no longer required to be classified as a Level within the fair value hierarchy table. Entities will be required to include in their disclosure, the fair value of the investments using the NAV practical expedient so that financial statement users can reconcile amounts reported in the fair value hierarchy table to amounts reported on the balance sheet. The ASU is to be applied retrospectively in all periods presented in an entity's financial statements. The Company adopted this standard on January 1, 2016. The adoption has been reflected in the fair value tables in Note 11 to the Consolidated Financial Statements.

In September 2015, the FASB issued ASU No. 2015-16 'Simplifying the Accounting for Measurement-Period Adjustments' in relation to business combinations, which requires that an acquirer recognize adjustments to provisional amounts that are identified in the measurement period in the reporting period in which the adjustment amounts are determined. The Company adopted this standard on January 1, 2016. Adjustments made to provisional amounts related to business combinations are reflected in the consolidated financial statements and disclosed in Note 7 and Note 3 to the Consolidated Financial Statements.

## 3. MERGER AND ACQUISITIONS

### **Merger**

On January 4, 2016, pursuant to the Agreement and Plan of Merger, dated June 29, 2015, as amended on November 19, 2015, between Willis, Towers Watson, and Citadel Merger Sub, Inc., a wholly-owned subsidiary of Willis formed for the purpose of facilitating this transaction ('Merger Sub'), Merger Sub merged with and into Towers Watson, with Towers Watson continuing as the surviving corporation and a wholly-owned subsidiary of Willis.

Towers Watson was a leading global professional services firm operating throughout the world, dating back more than 100 years. The Merger will allow the combined firm to go to market with complementary strategic product and services offerings.

At the effective time of the Merger (the 'Effective Time'), each issued and outstanding share of Towers Watson common stock (the 'Towers Watson shares'), was converted into the right to receive 2.6490 validly issued, fully paid and nonassessable ordinary shares of Willis (the 'Willis ordinary shares'), \$0.000115 nominal value per share, other than any Towers Watson shares owned by Towers Watson, Willis or Merger Sub at the Effective Time and the Towers Watson shares held by stockholders who are entitled to and who properly exercised dissenter's rights under Delaware law.

Immediately following the Merger, Willis effected (i) a consolidation (i.e., a reverse stock split under Irish law) of Willis ordinary shares whereby every 2.6490 Willis ordinary shares were consolidated into one Willis ordinary share \$0.000304635 nominal value per share and (ii) an amendment to its Constitution and other organizational documents to change its name from Willis Group Holdings Public Limited Company to Willis Towers Watson Public Limited Company.

On December 29, 2015, the third business day immediately prior to the closing date of the Merger, Towers Watson declared and paid the Towers Watson pre-merger special dividend, in an amount of \$10.00 per share of Towers Watson common stock, approximately \$694 million in the aggregate based on approximately 69 million Towers Watson shares issued and outstanding at December 29, 2015.

On December 30, 2015, all Towers Watson treasury stock was canceled.

The Merger was accounted for using the acquisition method of accounting with Willis considered the accounting acquirer of Towers Watson.

The registered office of the Towers Watson holding undertaking, WTW Delaware Holdings LLC (formerly Towers Watson & Co.), is 160, Greentree Drive, Suite 101, Dover, Kent, DE 19904.

## 3. MERGER AND ACQUISITIONS (continued)

The table below presents the calculation of aggregate Merger Consideration.

	<b>January 4, 2016</b>
Number of shares of Towers Watson common stock outstanding as of January 4, 2016	69 million
Exchange ratio	2.6490
Number of Willis Group Holdings shares issued (prior to reverse stock split)	184 million
Willis Group Holdings price per share on January 4, 2016	\$ 47.18
Fair value of 184 million Willis ordinary shares	\$ 8,686
Value of equity awards assumed	37
Aggregate Merger Consideration	<u>\$ 8,723</u>

A summary of the fair values of the identifiable assets acquired, and liabilities assumed, of Towers Watson at January 4, 2016 are summarized in the following table.

	<b>January 4, 2016</b>
Cash and cash equivalents	\$ 476
Accounts receivable, net	825
Other current assets	82
Fixed assets, net	204
Goodwill	6,783
Intangible assets	3,991
Pension benefits assets	67
Other non-current assets	115
Deferred tax liabilities	(1,151)
Liability for pension benefits	(923)
Other current liabilities <sup>(i)</sup>	(667)
Other non-current liabilities <sup>(ii)</sup>	(331)
Long term debt, including current portion <sup>(iii)</sup>	(740)
Net assets acquired	8,731
Minority interests acquired	(8)
Allocated Aggregate Merger Consideration	<u>\$ 8,723</u>

- (i) Includes \$348 million in accounts payable, accrued liabilities and deferred revenue, \$308 million in employee-related liabilities and \$11 million in other current liabilities.
- (ii) Includes acquired contingent liabilities of \$242 million. See Note 14 to the Consolidated Financial Statements for a discussion of our material acquired contingencies related to Legacy Towers Watson.
- (iii) Represents both debt due upon change of control of \$400 million borrowed under Towers Watson's term loan (\$188 million) and revolving credit facility (\$212 million) and a draw down under a new term loan of \$340 million. The \$400 million debt was repaid by Willis' borrowings under the 1-year term loan facility on January 4, 2016. The \$340 million new term loan partially funded the \$694 million Towers Watson pre-merger special dividend.

The assessment outlined above was updated to reflect changes in the initial estimates of the fair values of assets and liabilities acquired as presented in the subsequent event disclosure of the financial year 2015 Consolidated Financial Statements, including the following material changes: intangible assets decreased by \$119 million; deferred tax liabilities increased by \$135 million; and goodwill increased by \$237 million for the residual amount of the changes. Goodwill is calculated as the difference between the aggregate merger consideration and the acquisition date fair value of the net assets acquired, and represents the value of the Legacy Towers Watson assembled workforce and the future economic benefits that we expect to achieve as a result of the Merger. None of the goodwill recognized on the transaction is tax deductible.

## 3. MERGER AND ACQUISITIONS (continued)

The acquired intangible assets are attributable to the following categories:

	Valuation Methodology	Amortization basis	Fair Value	Weighted Average Useful Life
Customer relationships	Multiple period excess earnings	In line with underlying cash flows	\$ 2,221	15.0
Software - income approach	Multiple period excess earnings	In line with underlying cash flows or straight line basis	567	6.4
Software - cost approach	Cost of reproduction	Straight line basis	108	4.9
Product	Multiple period excess earnings	In line with underlying cash flows	42	17.5
IPR&D <sup>(i)</sup>	Multiple period excess earnings or cost of reproduction	n/a	39	n/a
Trade name	Relief from royalty	Straight line basis	1,003	25.0
Favorable lease agreements	Market approach	Straight line basis	11	6.5
			<u>\$ 3,991</u>	

- (i) Represents software not yet placed in service. As of the date of the Merger, \$39 million was not yet placed in service. Once placed into service, each in-process research and development ('IPR&D') software component will be reclassified into finite-lived software intangible assets and amortized in line with underlying cash flows or on a straight line basis.

The purchase price allocation as of the date of acquisition was based on a valuation of the assets acquired and liabilities assumed in the acquisition. All revisions to the purchase price allocation during the year ended December 31, 2016 are reflected in our current consolidated financial statements, and the purchase price allocation is final.

The following pro forma financial information is unaudited and is intended to reflect the impact of the Merger on Willis Towers Watson's consolidated financial statements as if the Merger had taken place on January 1, 2015 and presents the results of operations of Willis Towers Watson based on the historical financial statements of Willis and Towers Watson after giving effect to the Merger and pro forma adjustments. Pro forma adjustments are included only to the extent they are (i) directly attributable to the Merger, (ii) factually supportable and (iii) with respect to the consolidated statement of operations, expected to have a continuing impact on the combined results. The accompanying unaudited pro forma financial information is presented for illustrative purposes only and has not been adjusted to give effect to certain expected financial benefits of the Merger, such as revenue synergies, tax savings and cost synergies, or the anticipated costs to achieve these benefits, including the cost of integration activities. The unaudited pro forma results are not indicative of what would have occurred had the Merger taken place on the indicated date.

	Years ended December 31,	
	As reported	Pro Forma (Unaudited)
	2016	2015
Total revenues	\$ 7,887	\$ 7,492
Net income attributable to Willis Towers Watson	\$ 450	\$ 610
Diluted earnings per share	\$ 3.26	\$ 4.42

The above pro forma financial information for the year ended December 31, 2015 does not include pro forma adjustments for the Gras Savoye or other acquisitions as their revenues and results of operations were immaterial to the consolidated financial statements.

Revenues attributable to Towers Watson for the year ended December 31, 2016 were \$3.6 billion. Net income attributable to Towers Watson for the year ended December 31, 2016 was \$111 million.

## 3. MERGER AND ACQUISITIONS (continued)

### *Acquired Share-Based Compensation Plans*

In connection with our Merger with Towers Watson on January 4, 2016, we assumed certain stock options and restricted stock units ('RSU') issued under the Towers Watson & Co. 2009 Long Term Incentive Plan ('LTIP'), the Liazon Corporation 2011 Equity Incentive Plan, and the Extend Health, Inc. 2007 Equity Incentive Plan.

*Stock Options.* The outstanding unvested employee stock options were converted into 592,486 Willis Towers Watson stock options using the conversion ratios stated in the Merger agreement for the number of options. The fair value of the stock options was calculated using the Black-Scholes model with a volatility and risk-free interest rate over the expected term of each group of options and the Willis Towers Watson's closing share price on the date of acquisition. We determined the fair value of the portion of the outstanding options related to pre-acquisition employee service using the straight-line expense methodology from the date of grant to the acquisition date to be \$7 million, which was added to the transaction consideration. The fair value of the remaining portion of options related to the post-acquisition employee services was \$13 million, and will be recorded over the future vesting periods.

*Restricted Stock Units.* The outstanding unvested restricted stock units were converted into 597,307 Willis Towers Watson restricted stock units using the conversion ratios stated in the Merger agreement. The fair value of these restricted stock units was calculated using Willis Towers Watson's closing share price on the date of acquisition. We determined the fair value of the portion of the outstanding RSUs related to pre-acquisition employee service using the straight-line expense methodology from the date of grant to the acquisition date to be \$30 million which was added to the transaction consideration. The fair value of the remaining portion of RSUs related to the post-acquisition employee services was \$32 million, and will be recorded over the future vesting periods.

### **Gras Savoye Acquisition**

On December 29, 2015, Legacy Willis completed the transaction to acquire substantially all of the remaining 70% of the outstanding share capital of Gras Savoye, the leading insurance broker in France, for total consideration of €544 million (\$592 million) of which \$582 million in cash was paid at closing. Additionally, the previously held equity interest in Gras Savoye was remeasured to a fair value of €221 million (\$241 million) giving a total fair value on a 100% basis of €765 million (\$833 million).

The union combines the Company's global insurance broking footprint with Gras Savoye's particularly strong presence in France, Central and Eastern Europe, and across Africa. Gras Savoye's expertise in high-growth markets and industry sectors complements the Company's global strengths, creating value for clients.

The Company funded the cash consideration with a 1-year term loan. The term loan was repaid in its entirety on May 26, 2016, from the proceeds from the issuance of new senior notes discussed in Note 10 to the Consolidated Financial Statements.

Deferred consideration is payable on the first and second anniversary of the acquisition. The discounted fair value of the deferred consideration at December 31, 2016 and 2015 was \$4 million and \$10 million, respectively. None of the goodwill recognized on the transaction is tax deductible.

The registered office of the Gras Savoye holding undertaking, GS & Cie Groupe S.A.S., is Immeuble Quai 33, 33/34 Quai de Dion-Bouton, CS 70001, 92814 Puteaux, France.



## 3. MERGER AND ACQUISITIONS (continued)

The following table presents the Company's allocation of the purchase price to the assets acquired and liabilities assumed based on their fair values:

	<b>December 29, 2015</b>
Cash and cash equivalents	\$ 87
Fiduciary assets	625
Accounts receivable, net	89
Goodwill	584
Intangible assets	440
Other assets	56
Fiduciary liabilities	(625)
Deferred revenue and accrued expenses	(80)
Short and long-term debt	(80)
Net deferred tax liabilities	(87)
Other liabilities	(179)
Net assets acquired	830
Decrease in paid in capital for purchase of minority interest	43
Minority interest acquired	(40)
Purchase price allocation	<u>\$ 833</u>

The purchase price allocation as of the date of acquisition was based on a valuation and was subject to revision within the purchase price allocation period as more detailed analysis was completed and additional information about the value of assets acquired and liabilities assumed became available. During the year ended December 31, 2016, the assessment outlined above was updated to reflect the final estimates of the fair value of assets and liabilities acquired. The purchase price allocation is final.

The acquired intangible assets are attributable to the following categories:

	<b>Valuation methodology</b>	<b>Amortization basis</b>	<b>Fair Value</b>	<b>Weighted Average Useful Life</b>
Customer relationships	Multiple period excess earnings	In line with underlying cash flows	\$ 339	20
Software and other intangibles	Cost of reproduction	Straight line basis	66	5
Trade name	Relief from royalty	Straight line basis	35	14
			<u>\$ 440</u>	

### Miller Insurance Services LLP Acquisition

On May 31, 2015, Legacy Willis completed the transaction to acquire an 85 percent interest in Miller, a leading London wholesale specialist insurance broking firm, for total consideration of \$401 million including cash consideration of \$232 million.

Deferred consideration is payable at the first, second and third anniversaries of the acquisition. Contingent consideration is payable at the third anniversary of the acquisition and is contingent on meeting certain earnings before interest, taxes, depreciation and amortization ('EBITDA') performance targets. At December 31, 2015, the discounted fair value of the deferred and contingent considerations, based on best estimates, at acquisition were \$124 million and \$29 million, respectively. At December 31, 2016, the discounted fair values of the deferred consideration, related to the second and third anniversaries, and contingent consideration were \$69 million and \$26 million, respectively.

The Company recognized assets and liabilities acquired of \$1.1 billion and \$844 million, respectively. Included within the acquired assets are identifiable intangible assets of \$231 million and goodwill of \$184 million.

### 3. MERGER AND ACQUISITIONS (continued)

The purchase price allocation as of the date of acquisition was based on a valuation of the assets acquired, liabilities assumed, and contingent consideration associated with the acquisition. There have been no material revisions to the purchase price allocation during the year ended December 31, 2016 and the purchase price allocation is final.

The registered office of the Miller holding undertaking, Miller Insurance Services LLP, is 70 Mark Lane, London, EC3R 7NQ.

### 4. SEGMENT INFORMATION

During the second quarter of 2016, we began managing our business across four integrated reportable operating segments. As a result, the Company has changed the way it manages and reports segment revenues and segment operating income, resulting in a change in the Company's reportable segments from eight reportable segments, formerly known as Willis International; Willis North America; Willis Capital, Wholesale & Reinsurance; Willis GB; Towers Watson Benefits; Towers Watson Exchange Solutions; Towers Watson Risk and Financial Services; and Towers Watson Talent and Rewards, into four reportable segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions.

The prior period comparatives have been retroactively reclassified for our segment reorganization.

Willis Towers Watson's chief operating decision maker is the chief executive officer. We determined that the operational data used by the chief operating decision maker is at the segment level. Management bases strategic goals and decisions on these segments and the data presented below is used to assess the adequacy of strategic decisions, the method of achieving these strategies and related financial results.

Management evaluates the performance of its segments and allocates resources to them based on net operating income on a pre-bonus, pre-tax basis. Consolidated U.S. GAAP revenues include amounts that were directly incurred on behalf of our clients and reimbursed by them (reimbursable expenses).

See the Directors' Report for complete descriptions of our segments. A brief description of our new segments are as follows:

#### Human Capital and Benefits

The Human Capital & Benefits ('HCB') segment provides an array of advice, broking, solutions and software for our clients. HCB is the largest segment of the Company. The segment is focused on addressing our clients' employee and risk needs so that they can deliver sustainable employee experiences. This segment also delivers full outsourcing solutions to employers outside of the United States.

#### Corporate Risk and Broking

The Corporate Risk and Broking ('CRB') segment provides a broad range of risk advice, insurance broking and consulting services to clients worldwide ranging from small businesses to multinational corporations. The segment delivers innovative, integrated global solutions tailored to client needs and underpinned by data and analytics. CRB operates as an integrated global team comprising both functional and geographic leadership. In these operations, we have extensive specialized experience handling diverse lines of coverage, including complex insurance programs. A key objective is to assist clients in reducing their overall cost of risk.

#### Investment, Risk and Reinsurance

The Investment, Risk and Reinsurance ('IRR') segment uses a sophisticated approach to risk which helps clients free up capital and manage investment complexity. The segment works closely with investors, reinsurers and insurers to manage the equation between risk and return. Blending advanced analytics with deep institutional knowledge, IRR identifies new opportunities to maximize performance. IRR provides investment consulting services and insurance specific services and solutions through reserves opinions, software, ratemaking, usage-based insurance, risk underwriting, and reinsurance broking.

#### 4. SEGMENT INFORMATION (continued)

##### Exchange Solutions

The Exchange Solutions ('ES') segment provides primary medical and ancillary benefit exchange and outsourcing services to active employees and retirees across both the group and individual markets. ES services individual populations via its 'group to individual' technology platform, which tightly integrates patented call routing technology, an efficient quoting and enrollment engine, a custom-developed Customer Relationship Management system and comprehensive insurance carrier connectivity. This segment also delivers group benefit exchanges and full outsourcing solutions serving the active employees of employers across the United States. ES uses Software as a Service ('SaaS')-based technology and related services to deliver consumer-driven healthcare and reimbursement accounts, including health savings accounts, health reimbursement arrangements, flexible spending accounts and other consumer-directed accounts.

Under the new segment structure and for internal and segment reporting, Willis Towers Watson segment revenues include commissions and fees, interest and other income. U.S. GAAP revenues include amounts that were directly incurred on behalf of our clients and reimbursed by them (reimbursable expenses), which are removed from segment revenues. Segment commissions and fees excludes interest and other income. Segment operating income excludes certain costs, including (i) amortization of intangibles; (ii) restructuring costs; (iii) certain transaction and integration expenses; (iv) certain litigation provisions; and (v) to the extent that the actual expense based upon which allocations are made differs from the forecast/budget amount, a reconciling item will be created between internally allocated expenses and the actual expense that we report for U.S. GAAP purposes.

Segment revenues and operating income both include revenue that was deferred by Towers Watson at the time of the Merger, and eliminated due to purchase accounting. The impact of the elimination from purchase accounting (which is the reduction to 2016 consolidated revenues and operating income) has been included in the reconciliation to our consolidated results in order to provide the actual revenues that the segments would have recognized on an unadjusted basis.

The table below presents segment commissions and fees, segment interest and other income, segment revenues, and segment operating income for our reportable segments for the years ended December 31, 2016, 2015, and 2014, respectively:

	Years ended December 31,														
	HCB			CRB			IRR			ES			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Segment commissions and fees	\$3,210	\$ 697	\$ 653	\$2,502	\$2,301	\$2,365	\$1,382	\$ 812	\$ 749	\$ 652	\$ —	\$ —	\$7,746	\$3,810	\$3,767
Segment interest and other income	16	1	2	29	17	16	59	1	17	2	—	—	106	19	35
Segment revenues	<u>\$3,226</u>	<u>\$ 698</u>	<u>\$ 655</u>	<u>\$2,531</u>	<u>\$2,318</u>	<u>\$2,381</u>	<u>\$1,441</u>	<u>\$ 813</u>	<u>\$ 766</u>	<u>\$ 654</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$7,852</u>	<u>\$3,829</u>	<u>\$3,802</u>
Segment operating income	\$ 680	\$ 157	\$ 144	\$ 520	\$ 491	\$ 500	\$ 306	\$ 188	\$ 228	\$ 102	\$ —	\$ —	\$1,608	\$ 836	\$ 872

#### 4. SEGMENT INFORMATION (continued)

The table below presents a reconciliation of the information reported by segment to the consolidated amounts reported for the years ended December 31, 2016, 2015, and 2014, respectively:

	Years ended December 31,		
	2016	2015	2014
Revenues:			
Total segment revenues	\$ 7,852	\$ 3,829	\$ 3,802
Fair value adjustment to deferred revenue	(58)	—	—
Reimbursable expenses and other	93	—	—
Total revenues	<u>\$ 7,887</u>	<u>\$ 3,829</u>	<u>\$ 3,802</u>
Total segment operating income	\$ 1,608	\$ 836	\$ 872
Differences in allocation methods <sup>(i)</sup>	18	(65)	(131)
Fair value adjustment for deferred revenue	(58)	—	—
Amortization	(591)	(76)	(54)
Restructuring costs	(193)	(126)	(36)
Transaction and integration expenses <sup>(ii)</sup>	(177)	(73)	—
Provision for the Stanford litigation	—	(120)	—
Other, net	(6)	1	(4)
Income from operations	<u>601</u>	<u>377</u>	<u>647</u>
Interest expense	184	142	135
Other expense/(income), net	<u>27</u>	<u>(55)</u>	<u>(6)</u>
Income from continuing operations before income taxes and interest in earnings of associates	<u>\$ 390</u>	<u>\$ 290</u>	<u>\$ 518</u>

(i) Includes certain costs, primarily those related to corporate functions, leadership, projects, and certain differences between budgeted expenses determined at the beginning of the financial year and actual expenses that we report for U.S. GAAP purposes.

(ii) Includes transaction and integration expenses related to the Merger and the acquisition of Gras Savoye.

The Company does not currently provide asset information by reportable segment as it does not routinely evaluate the total asset position by segment.

None of the Company's customers represented a significant amount of the Company's consolidated commissions and fees for the years ended December 31, 2016, 2015 and 2014.

Below are our revenues and long-lived assets by legal entity for Ireland, our country of domicile, countries with significant concentrations, and all other foreign countries for each of the years ended December 31, 2016, 2015 and 2014:

	Revenues			Long-Lived Assets <sup>(i)</sup>		
	2016	2015	2014	2016	2015	2014
Ireland	\$ 92	\$ 64	\$ 51	\$ 114	\$ 124	\$ 121
United States	3,395	1,597	1,600	11,400	1,759	1,800
United Kingdom	2,236	1,055	1,057	2,431	2,426	1,666
Rest of World	2,164	1,113	1,094	2,466	1,951	976
Total Foreign Countries	<u>\$ 7,795</u>	<u>\$ 3,765</u>	<u>\$ 3,751</u>	<u>\$ 16,297</u>	<u>\$ 6,136</u>	<u>\$ 4,442</u>
	<u>\$ 7,887</u>	<u>\$ 3,829</u>	<u>\$ 3,802</u>	<u>\$ 16,411</u>	<u>\$ 6,260</u>	<u>\$ 4,563</u>

(i) Long-Lived Assets does not include deferred tax assets.

## 5. RESTRUCTURING COSTS

An analysis of our total restructuring costs recorded in the statements of operations, and the costs by segment, and costs attributable to corporate functions, for the years ended December 31, 2016, 2015, and 2014 are as follows:

	HCB	CRB	IRR	ES	Corporate	Total
<b>Year ended December 31, 2016</b>						
Termination benefits	\$ 33	\$ 26	\$ 6	\$ 1	\$ 2	\$ 68
Professional services and other <sup>(ii)</sup>	4	81	4	—	36	125
Total	<u>\$ 37</u>	<u>\$ 107</u>	<u>\$ 10</u>	<u>\$ 1</u>	<u>\$ 38</u>	<u>\$ 193</u>
<b>Year ended December 31, 2015<sup>(i)</sup></b>						
Termination benefits	\$ 2	\$ 24	\$ 7	\$ —	\$ 3	\$ 36
Professional services and other <sup>(ii)</sup>	1	57	2	—	30	90
Total	<u>\$ 3</u>	<u>\$ 81</u>	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 33</u>	<u>\$ 126</u>
<b>Year ended December 31, 2014<sup>(i)</sup></b>						
Termination benefits	\$ —	\$ 15	\$ 1	\$ —	\$ —	\$ 16
Professional services and other <sup>(ii)</sup>	—	3	—	—	17	20
Total	<u>\$ —</u>	<u>\$ 18</u>	<u>\$ 1</u>	<u>\$ —</u>	<u>\$ 17</u>	<u>\$ 36</u>

(i) The prior period comparatives have been retroactively reclassified for our segment reorganization. See Note 4 to the Consolidated Financial Statements for further details.

(ii) Other includes salary and benefits, premises, and other expenses incurred to support the ongoing management and facilitation of the programs.

**Operational Improvement Program** - In April 2014, Legacy Willis announced a multi-year operational improvement program designed to strengthen its client service capabilities and to deliver future cost savings. The main elements of the program, which will be completed by the end of 2017, include moving more than 3,500 support roles from higher cost locations to facilities in lower cost locations, net workforce reductions in support positions; lease consolidation in real estate; and information technology systems simplification and rationalization.

The Company recognized restructuring costs of \$145 million, \$126 million, and \$36 million for the years ended December 31, 2016, 2015 and 2014, related to its OIP. The Company expects to incur an additional \$130 million of restructuring costs through the end of 2017, bringing the cumulative restructuring charges to approximately \$440 million.

## 5. RESTRUCTURING COSTS (continued)

An analysis of the total cumulative restructuring costs recognized for the OIP from commencement to December 31, 2016 by segment, and costs attributable to corporate functions, are as follows:

	HCB	CRB	IRR	ES	Corporate	Total
<b>2014 <sup>(i)</sup></b>						
Termination benefits	\$ —	\$ 15	\$ 1	\$ —	\$ —	\$ 16
Professional services and other <sup>(ii)</sup>	—	3	—	—	17	20
<b>2015 <sup>(i)</sup></b>						
Termination benefits	\$ 2	\$ 24	\$ 7	\$ —	\$ 3	\$ 36
Professional services and other <sup>(ii)</sup>	1	57	2	—	30	90
<b>2016</b>						
Termination benefits	\$ 1	\$ 18	\$ 3	\$ —	\$ 1	\$ 23
Professional services and other <sup>(ii)</sup>	1	81	4	—	36	122
<b>Total</b>						
Termination benefits	\$ 3	\$ 57	\$ 11	\$ —	\$ 4	\$ 75
Professional services and other <sup>(ii)</sup>	2	141	6	—	83	232
<b>Total</b>	<b>\$ 5</b>	<b>\$ 198</b>	<b>\$ 17</b>	<b>\$ —</b>	<b>\$ 87</b>	<b>\$ 307</b>

(i) The prior period comparatives have been retroactively reclassified for our segment reorganization. See Note 4 to the Consolidated Financial Statements for further details.

(ii) Other includes salary and benefits, premises, and other expenses incurred to support the ongoing management and facilitation of the program.

At December 31, 2016, the Company's liability under the OIP is as follows:

	Termination Benefits	Professional Services and Other	Total
Balance at January 1, 2014	\$ —	\$ —	\$ —
Charges incurred	16	20	36
Cash payments	(11)	(14)	(25)
Balance at December 31, 2014	5	6	11
Charges incurred	36	90	126
Cash payments	(26)	(85)	(111)
Balance at December 31, 2015	15	11	26
Charges incurred	23	122	145
Cash payments	(31)	(115)	(146)
Balance at December 31, 2016	<u>\$ 7</u>	<u>\$ 18</u>	<u>\$ 25</u>

*Business Restructure Program* - In the second quarter of 2016, we began planning targeted staffing reductions in certain portions of the business due to a reduction in business demand or change in business focus. The main element of the program was workforce reductions, and was completed as of December 31, 2016. The Company recognized restructuring costs of \$48 million for the year ended December 31, 2016.

## 5. RESTRUCTURING COSTS (continued)

An analysis of the total cumulative restructuring costs recognized for the BRP from commencement to December 31, 2016 by segment, and those costs attributable to corporate functions, are as follows:

	HCB	CRB	IRR	ES	Corporate	Total
<b>2016</b>						
Termination benefits	\$ 32	\$ 8	\$ 3	\$ 1	\$ 1	\$ 45
Professional services and other <sup>(i)</sup>	3	—	—	—	—	3
<b>Total</b>	<b>\$ 35</b>	<b>\$ 8</b>	<b>\$ 3</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 48</b>

(i) Other includes salary and benefits, premises, and other expenses incurred to support the ongoing management and facilitation of the program.

At December 31, 2016, the Company's liability under the BRP is as follows:

	Termination Benefits	Professional Services and Other	Total
Balance at December 31, 2015	\$ —	\$ —	\$ —
Charges incurred	45	3	48
Cash payments	(19)	(3)	(22)
Balance at December 31, 2016	<u>\$ 26</u>	<u>\$ —</u>	<u>\$ 26</u>

## 6. INCOME TAXES

### *Provision for income taxes*

An analysis of income/(loss) before income taxes by taxing jurisdiction is shown below:

	Years ended December 31,		
	2016	2015	2014
Ireland	\$ (27)	\$ (61)	\$ (65)
U.S.	(261)	(117)	92
U.K.	123	65	154
Other jurisdictions	555	403	337
<b>Total</b>	<b>\$ 390</b>	<b>\$ 290</b>	<b>\$ 518</b>

## 6. INCOME TAXES (continued)

The components of the income tax provision for continuing operations include:

	Years ended December 31,		
	2016	2015	2014
Current tax expense/(benefit):			
U.S. federal taxes	\$ 35	\$ 14	\$ (16)
U.S. state and local taxes	14	1	7
U.K. corporation tax	28	—	29
Other jurisdictions	71	51	73
Total current tax expense	148	66	93
Deferred tax expense/(benefit):			
U.S. federal taxes <sup>(i)</sup>	(197)	(130)	35
U.S. state and local taxes <sup>(i)</sup>	(2)	(6)	10
U.K. corporation tax	10	14	24
Other jurisdictions	(35)	3	(3)
Total deferred tax (benefit)/expense	(224)	(119)	66
Total (benefit from)/provision for income taxes	\$ (76)	\$ (53)	\$ 159

- (i) The US federal and US state and local deferred tax benefits for 2015 were increased by \$17 million and \$3 million, respectively, to reflect the tax effect of a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This settlement in principle has been recognized in Annual Form 10-K for the following year, 2016.



**6. INCOME TAXES (continued)*****Effective tax rate reconciliation***

The reported income tax provision for continuing operations differs from the amounts that would have resulted had the reported income before income taxes been taxed at the U.S. federal statutory rate. The principal reasons for the differences between the amounts provided and those that would have resulted from the application of the U.S. federal statutory tax rate are as follows:

	Years ended December 31,		
	2016	2015	2014
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INTEREST IN EARNINGS OF ASSOCIATES	\$ 390	\$ 290	\$ 518
U.S. federal statutory income tax rate	35%	35%	35%
Income tax expense at U.S. federal tax rate	136	102	181
Adjustments to derive effective rate:			
Non-deductible expenses and dividends	15	32	21
Non-deductible acquisition costs	1	9	—
Disposal of non-deductible goodwill	2	3	11
Gain on remeasurement of equity interests	—	(20)	—
Impact of change in rate on deferred tax balances	(15)	(5)	—
Effect of foreign exchange and other differences	6	(1)	(4)
Non-deductible Venezuelan foreign exchange loss	4	11	5
Changes in valuation allowances	(74)	(104)	7
Net tax effect of intra-group items	(98)	(30)	(30)
Tax differentials of non-U.S. jurisdictions	(80)	(42)	(48)
Tax differentials of U.S. state taxes and local taxes	17	(5)	17
Other items, net	10	(3)	(1)
(Benefit from)/provision for income taxes	<u>\$ (76)</u>	<u>\$ (53)</u>	<u>\$ 159</u>

- (i) Income from continuing operations before income taxes and interest in earnings of associates for 2015 was decreased by \$50 million to reflect a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. As a consequence, the income tax expense at the US federal tax rate for 2015 was decreased by \$17 million and US state taxes and local taxes for 2015 were decreased by \$3 million. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This settlement in principle has been recognized in Annual Form 10-K for the following year, 2016.

Willis Towers Watson plc is a non-trading holding company tax resident in Ireland where it is taxed at the statutory rate of 25%. The provision for income tax on continuing operations has been reconciled above to the U.S. federal statutory tax rate of 35% due to significant operations in the U.S.

***Deferred income taxes***

Deferred income tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. We recognize deferred tax assets if it is more likely than not that a benefit will be realized.

## 6. INCOME TAXES (continued)

Deferred income tax assets and liabilities included in the consolidated balance sheets at December 31, 2016 and 2015 are comprised of the following:

	December 31,	
	2016	2015
Deferred tax assets:		
Accrued expenses not currently deductible	\$ 286	\$ 195
Net operating losses	116	115
Capital loss carryforwards	28	33
Accrued retirement benefits	467	109
Deferred compensation	83	34
Stock options	36	16
Financial derivative transactions	12	4
Gross deferred tax assets	1,028	506
Less: valuation allowance	(134)	(187)
Net deferred tax assets	\$ 894	\$ 319
Deferred tax liabilities:		
Cost of intangible assets, net of related amortization	\$ 1,431	\$ 289
Cost of tangible assets, net of related depreciation	73	32
Prepaid retirement benefits	85	111
Accrued revenue not currently taxable	119	31
Deferred tax liabilities	\$ 1,708	\$ 463
Net deferred tax liabilities	\$ 814	\$ 144

The net deferred income tax assets are included in other non-current assets and the net deferred tax liabilities are included in deferred tax liabilities in our balance sheets.

	December 31,	
	2016	2015
Balance sheet classifications:		
Other non-current assets	\$ 50	\$ 96
Deferred tax liabilities	864	240
Net deferred tax liability	\$ 814	\$ 144

At December 31, 2016, the Company had deferred tax assets of \$894 million, net of the valuation allowance. Management believes, based on the evaluation of positive and negative evidence, including the future reversal of existing taxable temporary differences, it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance. During calendar year 2016 the Company released a valuation allowance of \$69 million relating to accrued interest not deductible as a result of deferred tax liabilities recorded for the Merger. The future reversal of the deferred tax liabilities serve as a source of income to recognize the deferred tax asset for accrued interest not deductible.

At December 31, 2016, we had U.S. federal and non-U.S. tax loss carryforwards amounting to \$246 million of which \$197 million can be indefinitely carried forward under local statutes. The remaining \$49 million of net operating loss carryforwards will expire, if unused, in varying amounts from 2017 through 2036. In addition, we had U.S. state net operating loss carryforwards of \$1.2 billion, which will expire in varying amounts from 2017 to 2036.

At December 31, 2016 and 2015, the Company had valuation allowances of \$134 million and \$187 million, respectively, to reduce its deferred tax assets to estimated realizable value. The valuation allowance at December 31, 2016 relates to deferred tax assets for U.K. capital loss carryforwards of \$28 million, which have an unlimited carryforward period. The valuation allowances on U.S. and non-U.S. net operating losses are \$78 million and \$28 million, respectively. The valuation allowance at December 31, 2015 relates to deferred tax assets for U.K. capital loss carryforwards of \$33 million and accrued interest not currently deductible of \$69 million, which have an unlimited carryforward period. The valuation allowances on U.S. and non-U.S. net operating losses are \$79 million and \$6 million, respectively.

**6. INCOME TAXES (continued)**

An analysis of our valuation allowance is shown below.

	Years ended December 31,		
	2016	2015	2014
Balance at beginning of year	\$ 187	\$ 280	\$ 196
Additions charged against/(credited to) to costs and expenses	—	—	—
Additions charged against/(credited to) to other accounts	21	2	84
Deductions	(74)	(95)	—
Balance at end of year	<u>\$ 134</u>	<u>\$ 187</u>	<u>\$ 280</u>

The amount charged to tax expense in the table above for 2016 differs from the effect of \$74 million disclosed in the rate reconciliation primarily because the movement in this table includes the effects of acquisition accounting, which does not impact tax expense.

The Company recognizes deferred tax balances related to the undistributed earnings of subsidiaries when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. Historically, we have not provided deferred taxes on the cumulative earnings of our subsidiaries that have been reinvested indefinitely.

As a result of the Merger, and our plan to restructure certain foreign operations or distribute accumulated earnings of certain acquired Towers Watson subsidiaries', we recorded a deferred tax liability of \$77 million on outside basis differences and cumulative earnings through goodwill. We continue to assert that the historical cumulative earnings of our other subsidiaries are reinvested indefinitely and we do not provide deferred tax liabilities on these amounts. The cumulative earnings related to amounts reinvested indefinitely as of December 31, 2016 were approximately \$5.9 billion. It is not practicable to estimate the tax liability that might be payable if such earnings are not reinvested indefinitely. If future events, including material changes in estimates of cash, working capital, long-term investment requirements or U.S. tax reform necessitate that these earnings be distributed, an additional provision for income and foreign withholding taxes, net of credits, may be necessary.

***Uncertain tax positions***

At December 31, 2016, the amount of unrecognized tax benefits associated with uncertain tax positions, determined in accordance with ASC 740-10, excluding interest and penalties, was \$56 million. This liability can be reduced by \$4 million of offsetting deferred tax benefits associated with timing differences, foreign tax credits and the federal tax benefit of state income taxes. If recognized, \$52 million of this difference would impact our effective tax rate.

A reconciliation of the beginning and ending balances of the liability for unrecognized tax benefits is as follows:

	2016	2015	2014
Balance at beginning of year	\$ 22	\$ 19	\$ 41
Increases related to acquisitions	33	8	—
Increases related to tax positions in prior years	1	1	3
Decreases related to tax positions in prior years	(9)	(6)	(32)
Decreases related to settlements	(1)	—	—
Decreases related to lapse in statute of limitations	(1)	—	—
Increases related to current year tax positions	11	2	8
Cumulative translation adjustment	—	(2)	(1)
Balance at end of year	<u>\$ 56</u>	<u>\$ 22</u>	<u>\$ 19</u>

The liability for the years ended December 31, 2015 and 2014, respectively, had nil and \$2 million of deferred tax benefits that, if recognized, would have a favorable impact on our effective tax rate. In addition, there are no material balances that would result in adjustments to other tax accounts.

Interest and penalties related to unrecognized tax benefits are included as a component of income tax expense. At December 31, 2016, we had cumulative accrued interest of \$4 million. At December 31, 2015, the cumulative accrued interest was immaterial. Penalties accrued in 2016 and 2015, respectively, were immaterial.

## 6. INCOME TAXES (continued)

Tax expense for the years ended December 31, 2016 and 2015 include interest benefits of \$1 million, and nil, respectively.

The Company believes that the outcomes which are reasonably possible within the next 12 months may result in a reduction in the liability for uncertain tax positions in the range of \$3 million to \$6 million, excluding interest and penalties.

The Company and its subsidiaries file income tax returns in various tax jurisdictions in which it operates. During calendar year 2016 the Company recognized approximately \$3 million of income tax benefits, including interest and penalties due to U.S. Federal lapses in statutes of limitations and effective settlements related to fiscal year 2015.

Willis North America Inc. is not currently under examination by the U.S. Internal Revenue Service ('IRS'). Although tax years 2008 through 2012 are closed, the IRS could make adjustments (but not assess additional tax) up to the amount of net operating losses carried forward from those years and utilized in open years. Towers Watson & Co. is currently being audited by the IRS under the Compliance Assurance Process ('CAP') for the short tax period July 1, 2015 to January 4, 2016. Under CAP, the IRS works with large business taxpayers to identify and resolve issues prior to the filing of a tax return. This is Towers Watson & Co.'s last year in the CAP program. As of December 31, 2016, the Company has not been advised of any significant adjustments. We also have ongoing state income tax examinations in certain states for tax years ranging from fiscal year ended June 30, 2012 through fiscal year ended June 30, 2014. The statute of limitations in certain states extends back to 2002 as a result of changes to taxable income resulting from prior year federal tax examinations.

All U.K. tax returns have been filed timely and are in the normal process of being reviewed by HM Revenue & Customs. The Company is not currently subject to any material examinations in other jurisdictions. A summary of the tax years that remain open to tax examination in our major tax jurisdictions are as follows:

	Open Tax Years (fiscal year ending in)
U.S. — federal	2013 and forward
U.S. — various states	2002 and forward
U.K.	2010 and forward
Ireland	2013 and forward
France	2010 and forward
Germany	2002 and forward
Canada - federal	2009 and forward

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable net assets at the dates of acquisition. Goodwill is not amortized but is subject to impairment testing annually and whenever facts or circumstances indicate that the carrying amounts may not be recoverable. Goodwill is allocated to our reporting units primarily based on the original purchase price allocation for acquisitions within the reporting units, or relative fair value when an acquisition covers multiple reporting units. When a business entity is sold, goodwill is allocated to the entity disposed of based on the relative fair value of that entity compared with the fair value of the reporting unit in which it is included.

During the second quarter of 2016, the Company changed the way it manages and reports operating results, resulting in a change in the Company's operating and reportable segments from the Legacy Company platforms into four integrated reportable operating segments: Human Capital and Benefits; Corporate Risk and Broking; Investment, Risk and Reinsurance; and Exchange Solutions. See Note 4 to the Consolidated Financial Statements for a description of our segments.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The components of goodwill are outlined below for the years ended December 31, 2016 and 2015:

	HCB	CRB	IRR	ES	Total
Balance at December 31, 2014 <sup>(i)</sup>					
Goodwill, gross	\$ 677	\$ 1,897	\$ 855	\$ —	\$ 3,429
Accumulated impairment losses	(130)	(362)	—	—	(492)
Goodwill, net	547	1,535	855	—	2,937
Purchase price allocation adjustments	1	—	—	—	1
Goodwill acquired during the period	330	348	187	—	865
Goodwill disposed of during the period	(3)	(9)	(1)	—	(13)
Foreign exchange	(19)	(24)	(10)	—	(53)
Balance at December 31, 2015 <sup>(i)</sup>					
Goodwill, gross	\$ 986	\$ 2,212	\$ 1,031	\$ —	\$ 4,229
Accumulated impairment losses	(130)	(362)	—	—	(492)
Goodwill, net	856	1,850	1,031	—	3,737
Purchase price allocation adjustments	8	5	(7)	—	6
Goodwill acquired during the period <sup>(ii)</sup>	3,458	—	770	2,557	6,785
Goodwill disposed of during the period	—	(5)	—	—	(5)
Foreign exchange	(40)	(34)	(36)	—	(110)
Balance at December 31, 2016					
Goodwill, gross	4,412	2,178	1,758	2,557	10,905
Accumulated impairment losses	(130)	(362)	—	—	(492)
Goodwill, net	\$ 4,282	\$ 1,816	\$ 1,758	\$ 2,557	\$ 10,413

(i) The prior period comparatives have been retroactively reclassified for our segment reorganization. See Note 4 to the Consolidated Financial Statements for further details.

(ii) Goodwill acquired consists primarily of goodwill recognized from the Merger.

### Other Intangible Assets

The following table reflects changes in the net carrying amount of the components of finite-lived intangible assets for the year ended December 31, 2016:

	Balance as of December 31, 2015	Purchase price allocation adjustments	Intangible assets acquired	Intangible assets disposed	Amortization (ii)	Foreign Exchange	Balance as of December 31, 2016
Client relationships	\$ 920	\$ 2	\$ 2,222	\$ (5)	\$ (395)	\$ (89)	\$ 2,655
Management contracts	62	—	—	—	(4)	(4)	54
Software <sup>(i)</sup>	77	(13)	675	—	(142)	(27)	570
Trademark and trade name	50	1	1,003	—	(45)	(3)	1,006
Product	—	—	42	—	(3)	(6)	33
Favorable agreements	2	—	11	—	(2)	—	11
Other	4	—	—	—	(2)	1	3
Total amortizable intangible assets	\$ 1,115	\$ (10)	\$ 3,953	\$ (5)	\$ (593)	\$ (128)	\$ 4,332

(i) In-process research and development intangible assets acquired as part of the Merger on January 4, 2016 of \$39 million (\$36 million at December 31, 2016) have not yet been placed in service and are not included in this presentation.

(ii) Amortization associated with favorable agreements is recorded in other Operating expenses in the consolidated statements of operations.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The following table reflects changes in the net carrying amount of the components of finite-lived intangible assets for the year ended December 31, 2015:

	Balance as of December 31, 2014	Intangible assets acquired	Intangible assets disposed	Amortization	Foreign Exchange	Balance as of December 31, 2015
Client relationships	\$ 373	\$ 642	\$ (5)	\$ (69)	\$ (21)	\$ 920
Management contracts	70	—	—	(4)	(4)	62
Software	—	77	—	—	—	77
Trademark and trade name	3	50	—	(2)	(1)	50
Favorable agreements	—	2	—	—	—	2
Other	4	2	—	(1)	(1)	4
Total amortizable intangible assets	<u>\$ 450</u>	<u>\$ 773</u>	<u>\$ (5)</u>	<u>\$ (76)</u>	<u>\$ (27)</u>	<u>\$ 1,115</u>

We recorded amortization related to our finite-lived intangible assets, exclusive of the amortization of our favorable lease agreements, of \$591 million, \$76 million, and \$54 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Our acquired unfavorable lease liabilities were \$29 million and \$23 million as of December 31, 2016 and December 31, 2015, respectively, and are recorded in the other non-current liabilities in the consolidated balance sheet.

The following table reflects the carrying value of finite-lived intangible assets and liabilities as of December 31, 2016 and December 31, 2015:

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 3,396	\$ (741)	\$ 1,293	\$ (373)
Management contracts	62	(8)	67	(5)
Software	711	(141)	77	—
Trademark and trade name	1,051	(45)	52	(2)
Product	36	(3)	—	—
Favorable agreements	13	(2)	2	—
Other	6	(3)	8	(4)
Total finite-lived assets	<u>\$ 5,275</u>	<u>\$ (943)</u>	<u>\$ 1,499</u>	<u>\$ (384)</u>
Unfavorable agreements	\$ 34	\$ (5)	\$ 23	\$ —
Total finite-lived intangible liabilities	<u>\$ 34</u>	<u>\$ (5)</u>	<u>\$ 23</u>	<u>\$ —</u>

The weighted average remaining life of amortizable intangible assets and liabilities at December 31, 2016 was 14.8 years.

## 7. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

The table below reflects the future estimated amortization expense for amortizable intangible assets and the rent offset resulting from amortization of the net lease intangible assets and liabilities for the next five years are as follows:

<b><u>Year ending December 31,</u></b>	<b><u>Amortization</u></b>	<b><u>Rent offset</u></b>
2017	\$ 563	\$ (4)
2018	514	(3)
2019	458	(2)
2020	406	(2)
2021	333	(3)
Thereafter	2,047	(4)
Total	<u>\$ 4,321</u>	<u>\$ (18)</u>

## 8. FIXED ASSETS, NET

The following table reflects changes in the net carrying amount of the components of fixed assets for the year ended December 31, 2016 and 2015:

	Furniture, equipment and software	Leasehold improvements	Land and buildings	Total
Cost: at January 1, 2015	\$ 642	\$ 245	\$ 93	\$ 980
Additions	119	27	—	146
Acquisitions	26	26	5	57
Disposals	(31)	(16)	—	(47)
Foreign exchange	(32)	(10)	(3)	(45)
Cost: at December 31, 2015	724	272	95	1,091
Additions	265	44	2	311
Acquisitions	109	95	—	204
Disposals	(28)	(8)	—	(36)
Foreign exchange	(61)	(21)	(7)	(89)
Cost: at December 31, 2016	\$ 1,009	\$ 382	\$ 90	1,481
Depreciation: at January 1, 2015	\$ (366)	\$ (93)	\$ (38)	\$ (497)
Depreciation expense	(72)	(19)	(4)	(95)
Disposals	28	14	—	42
Foreign exchange	17	4	1	22
Depreciation: at December 31, 2015	(393)	(94)	(41)	(528)
Depreciation expense	(119)	(55)	(4)	(178)
Disposals	17	5	—	22
Foreign exchange	31	7	4	42
Depreciation: at December 31, 2016	\$ (464)	\$ (137)	\$ (41)	\$ (642)
Net book value:				
At December 31, 2015	\$ 331	\$ 178	\$ 54	\$ 563
At December 31, 2016	\$ 545	\$ 245	\$ 49	\$ 839

Included within land and buildings are the following assets held under capital leases:

	December 31,	
	2016	2015
Capital leases	\$ 32	\$ 32
Accumulated depreciation	(12)	(10)
	\$ 20	\$ 22

Depreciation related to capital leases was \$2 million for each of the years ended December 31, 2016, 2015 and 2014.



## 9. DERIVATIVE FINANCIAL INSTRUMENTS

We are exposed to certain interest rate and foreign currency risks. Where possible, we identify exposures in our business that can be offset internally. Where no natural offset is identified, we may choose to enter into various derivative transactions. For the years ended December 31, 2016 and 2015, all of our derivative instruments qualifying for hedge accounting are considered cash flow hedges. These instruments have the effect of reducing our exposure to unfavorable changes in interest and foreign currency rates. The Company's Board of Directors reviews and approves policies for managing each of these risks as summarized below.

### *Interest Rate Risk - Interest Income*

As a result of the Company's operating activities, the Company holds fiduciary funds. The Company earns interest on these funds, which is included in the Company's consolidated financial statements as interest and other income. These funds are regulated in terms of access as are the instruments in which they may be invested, most of which are short-term in nature.

During 2015, in order to manage interest rate risk arising from these financial assets, the Company entered into interest rate swaps to receive a fixed rate of interest and pay a variable rate of interest. These derivatives were designated as hedging instruments at December 31, 2016 and December 31, 2015 and had total notional amounts of \$300 million and fair values of nil for each period, respectively.

### *Foreign Currency Risk*

Some of our non-U.S. subsidiaries receive revenues and incur expenses in currencies other than their functional currency and as a result, the foreign subsidiary's functional currency revenues will fluctuate as the currency rates change. Additionally, the forecast Pounds sterling expenses of our London brokerage market operations may exceed their Pounds sterling revenues, and they may also hold a significant net Pounds sterling asset or liability position in the balance sheet. To reduce the variability, we use foreign exchange forward contracts to hedge this foreign exchange risk.

These derivatives were designated as hedging instruments and as of December 31, 2016 and December 31, 2015 had a total notional amount of \$945 million and \$1.2 billion, respectively, and net fair value liabilities of \$110 million and \$28 million, respectively.

At December 31, 2016, the Company estimates, based on current interest and exchange rates, there will be \$64 million of net derivative losses on forward exchange rates, interest rate swaps, and treasury locks reclassified from accumulated comprehensive income into earnings within the next 12 months as the forecast transactions affect earnings. At December 31, 2016, our longest outstanding maturity was 2.5 years.

The material effects of derivative instruments that are designated as hedging instruments on the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Loss recognized in OCI (effective portion)			Location of (loss)/gain reclassified from OCI into income (effective portion)	(Loss)/gain reclassified from OCI into income (effective portion)			Location of (loss)/ gain recognized in income (ineffective portion and amount excluded from effectiveness testing)	(Loss)/gain recognized in income (ineffective portion and amount excluded from effectiveness testing)		
	2016	2015	2014		2016	2015	2014		2016	2015	2014
Foreign exchange forwards	\$ (127)	\$ (38)	\$ (31)	Other expense/ (income), net	\$ (42)	\$ 4	\$ 16	Interest expense	\$ (1)	\$ 1	\$ (1)

We also enter into foreign currency transactions, primarily to hedge certain intercompany loans. These derivatives are not generally designated as hedging instruments and at December 31, 2016 and December 31, 2015 we had notional amounts of \$630 million and \$574 million, and net fair value liabilities of \$8 million, and \$3 million, respectively, for each of the years then ended. The effects of derivatives that have not been designated as hedging instruments on the consolidated statements of operations for the three years ended December 31, 2016 are immaterial.

## 10. DEBT

Short-term debt and current portion of long-term debt consists of the following:

	December 31,	
	2016	2015
1-year term loan facility matures 2016	\$ —	\$ 587
4.125% senior notes due 2016	—	300
6.200% senior notes due 2017	394	—
Current portion of 7-year term loan facility expires 2018	22	22
Current portion of term loan expires 2019	85	—
Short-term borrowing under bank overdraft arrangement	5	79
Other debt	2	—
	<u>\$ 508</u>	<u>\$ 988</u>

Long-term debt consists of the following:

	December 31,	
	2016	2015
Revolving \$800 million credit facility	\$ 238	\$ 467
6.200% senior notes due 2017	—	394
7-year term loan facility expires 2018	196	218
Term loan expires 2019	169	—
7.000% senior notes due 2019	186	186
5.750% senior notes due 2021	496	495
3.500% senior notes due 2021	446	—
2.125% senior notes due 2022	565	—
4.625% senior notes due 2023	247	247
4.400% senior notes due 2026	543	—
6.125% senior notes due 2043	271	271
	<u>\$ 3,357</u>	<u>\$ 2,278</u>

### Guarantees

All direct obligations under the 6.200% and 7.000% senior notes are issued by Willis North America Inc. and guaranteed by Willis Towers Watson, Willis Netherlands Holdings B.V., Willis Investment U.K. Holdings Limited, TA I Limited, Trinity Acquisition plc, Willis Group Limited, Willis Towers Watson Sub Holdings Unlimited Company and WTW Bermuda Holdings Ltd.

All direct obligations under the 4.125% (repaid during 2016) and 5.750% senior notes are issued by the Company and guaranteed by Trinity Acquisition plc, Willis Netherlands Holdings B.V., Willis Investment U.K. Holdings Limited, TA I Limited, Willis North America Inc., Willis Group Limited, Willis Towers Watson Sub Holdings Unlimited Company and WTW Bermuda Holdings Ltd.

All direct obligations under the 4.625%, 6.125%, 3.500%, 4.400%, and 2.125% senior notes are issued by Trinity Acquisition plc guaranteed by Willis Towers Watson, Willis Netherlands Holdings B.V., Willis Investment U.K. Holdings Limited, TA I Limited, Willis North America Inc., Willis Group Limited, Willis Towers Watson Sub Holdings Unlimited Company and WTW Bermuda Holdings, Ltd.

## 10. DEBT (continued)

### *Senior Notes*

On May 26, 2016, Trinity Acquisition plc issued €540 million (\$609 million) of 2.125% senior notes due 2022 ('2022 senior notes'). The 2022 senior notes are fully and unconditionally guaranteed by Willis Towers Watson. The effective interest rate of these senior notes is 2.154%, which includes the impact of the discount upon issuance. The 2022 senior notes will mature on May 26, 2022. Interest accrues on the notes from May 26, 2016 and will be paid in cash on May 26 of each year. The net proceeds from this offering, after deducting underwriter discounts and commissions and estimated offering expenses, were €535 million (\$600 million). We used the net proceeds of this offering to repay Tranche A of the 1-year term loan and related accrued interest.

On March 22, 2016, Trinity Acquisition plc issued \$450 million of 3.500% senior notes due 2021 ('2021 senior notes') and \$550 million of 4.400% senior notes due 2026 ('2026 senior notes'). The 2021 senior notes and the 2026 senior notes are fully and unconditionally guaranteed by the Company. The effective interest rates of these senior notes are 3.707% and 4.572%, respectively, which includes the impact of the discount upon issuance. The 2021 senior notes and the 2026 senior notes will mature on September 15, 2021 and March 15, 2026, respectively. Interest accrues on the notes from March 22, 2016 and will be paid in cash on March 15 and September 15 of each year. The net proceeds from this offering, after deducting underwriter discounts and commissions and estimated offering expenses, were \$988 million. We used the net proceeds of this offering as follows: to repay \$300 million principal under our \$800 million revolving credit facility and related accrued interest, which was drawn to repay our 4.125% senior notes on March 15, 2016; to repay \$400 million principal on Tranche B under our 1-year term loan facility and related accrued interest; and to pay down a portion of the remaining principal amount outstanding under our \$800 million revolving credit facility and related accrued interest.

On August 15, 2013, the Company issued \$250 million of 4.625% senior notes due 2023 and \$275 million of 6.125% senior notes due 2043. The effective interest rates of these senior notes are 4.696% and 6.154%, respectively, which include the impact of the discount upon issuance. The proceeds were used to repurchase other previously issued senior notes.

In March 2011, the Company issued \$300 million of 4.125% senior notes due 2016 and \$500 million of 5.750% senior notes due 2021. The effective interest rates of these senior notes are 4.240% and 5.871%, respectively, which include the impact of the discount upon issuance. The proceeds were used to repurchase and redeem other previously issued senior notes. As noted above, the 4.125% senior notes were repaid in March 2016.

In September 2009, Willis North America Inc. issued \$300 million of 7.000% senior notes due 2019. The effective interest rates of these senior notes are 7.081%, which include the impact of the discount upon issuance. A portion of the proceeds were used to repurchase and redeem other previously issued senior notes. In August 2013, \$113 million of the 7.000% senior notes due 2019 were repurchased.

On March 28, 2007, we issued \$600 million of 10 year senior notes at 6.200%. We used the proceeds of the notes to fund share buybacks and to repay the then outstanding borrowings of \$200 million under our revolving credit facility. The effective interest rate of these senior notes is 6.253%. In August 2013, \$206 million of the 6.200% senior notes were repurchased.

### ***\$800 million revolving credit facility***

Drawings under the \$800 million revolving credit facility ('RCF') bear interest at LIBOR plus a margin of 1.25% to 2.00%, or alternatively the base rate plus a margin of 0.25% to 1.00% based upon the Company's guaranteed senior unsecured long-term debt rating; a 1.375% margin applies while the Company's debt rating remains BBB/Baa3. As of December 31, 2016 and December 31, 2015, \$238 million and \$467 million was outstanding under this revolving credit facility, respectively.

### ***7-year term loan facility***

The 7-year term loan facility expiring 2018 bears interest at the same rate applicable to the \$800 million revolving credit facility and is repayable in quarterly installments of \$6 million with a final repayment of \$186 million due in the third quarter of 2018.

## 10. DEBT (continued)

### *1-year term loan facility*

On November 20, 2015, Legacy Willis entered into a 1-year term loan facility. The 1-year term loan had two tranches: Tranche A was for €550 million, of which €544 million (\$592 million) was drawn on December 19, 2015 and used to finance the acquisition of Gras Savoye. Tranche B was for \$400 million and was drawn on January 4, 2016 and used to re-finance debt held by Legacy Towers Watson which became due on acquisition. Tranche A was repaid in its entirety on May 26, 2016 from the proceeds from the issuance of our 2022 senior notes discussed above. Tranche B was repaid in its entirety on March 22, 2016 from a portion of the proceeds from the issuance of our senior notes discussed above. The amount outstanding as of December 31, 2015 was \$592 million, gross of \$5 million in debt fees related to the 1-year term loan facility.

### *WSI revolving credit facility*

Willis Securities Inc. ('WSI') is permitted to incur up to \$400 million in indebtedness under the \$800 million revolving credit facility held by Trinity Acquisition plc and has the ability to borrow in Euro, Japanese yen and other approved currencies subject to a reserve for foreign currency fluctuation.

Proceeds under the credit facility may be used for regulatory capital purposes related to securities underwriting only, which allows WSI to meet or exceed capital requirements of regulatory agencies, self-regulatory agencies and their clearing houses, including the Financial Industry Regulatory Authority. Advances under the WSI revolving credit facility bear interest at a rate equal to LIBOR plus a margin of 1.25% to 2.00%, or alternatively the base rate plus a margin of 0.25% to 1.00%, based upon the Company's guaranteed senior-unsecured long-term debt rating. A margin of 1.50% applies while the Company's debt rating remains BBB/Baa3.

As of December 31, 2016 and 2015, there were no borrowings outstanding under the WSI revolving credit facility. On April 27, 2016, the end date of the credit period was extended to April 28, 2017 and the repayment date was extended to April 28, 2018. There were no other significant changes in the terms of this credit facility.

The agreements relating to the \$800 million revolving credit facility, the 7-year term loan facility, and the 1-year term loan contain requirements that we are not to exceed certain levels of consolidated funded indebtedness in relation to consolidated EBITDA and we are to maintain at least a minimum level of consolidated EBITDA to consolidated cash interest expense, subject to certain adjustments. In addition, the agreements relating to our facilities and senior notes include, in the aggregate, covenants relating to the delivery of financial statements, reports and notices, limitations on liens, limitations on sales and other disposals of assets, limitations on indebtedness and other liabilities, limitations on sale and leaseback transactions, limitations on mergers and other fundamental changes, maintenance of property, maintenance of insurance, nature of business, compliance with applicable laws, maintenance of corporate existence and rights, payment of taxes and access to information and properties. At December 31, 2016 and December 31, 2015, we were in compliance with all financial covenants.

### *Term Loan Due December 2019*

On January 4, 2016, we acquired a \$340 million term loan in connection with the Merger. On November 20, 2015, Towers Watson Delaware Inc. entered into a four-year amortizing term loan agreement for up to \$340 million with a consortium of banks to help fund the pre-Merger special dividend. On December 28, 2015, Towers Watson Delaware Inc. borrowed the full \$340 million.

The interest rate on the term loan is based on the Company's choice of one, two, three or six-month LIBOR plus a spread of 1.25% to 1.75%, or alternatively the bank base rate plus 0.25% to 0.75%. The spread to each index is dependent on the Company's consolidated leverage ratio. The weighted-average interest rate on this term loan for the year ended December 31, 2016 was 1.83%. The term loan amortizes at a rate of \$21 million per quarter, beginning in March 2016, with a final maturity date of December 2019. The Company has the right to prepay a portion or all of the outstanding term loan balance on any interest payment date without penalty. At December 31, 2016, the balance outstanding on the term loan was \$255 million, before reduction of \$1 million in debt issuance fees.

## 10. DEBT (continued)

### Covenants

The terms of our current financings also include certain limitations. For example, the agreements relating to the debt arrangements and credit facilities generally contain numerous operating and financial covenants, including requirements to maintain minimum ratios of consolidated EBITDA to consolidated cash interest expense and maximum levels of consolidated funded indebtedness in relation to consolidated EBITDA, in each case subject to certain adjustments. The operating restrictions and financial covenants in our credit facilities do, and any future financing agreements may, limit our ability to finance future operations or capital needs or to engage in other business activities.

### Debt Maturity

The following table summarizes the maturity of our debt, interest on senior notes and excludes any reduction for debt issuance costs:

	2017	2018	2019	2020	2021	Thereafter	Total
Senior notes	\$ 394	\$ —	\$ 187	\$ —	\$ 950	\$ 1,645	\$ 3,176
Interest on senior notes	128	122	119	109	82	489	1,049
Term loans	107	281	85	—	—	—	473
Revolving Credit Facility	—	238	—	—	—	—	238
Other debt	7	—	—	—	—	—	7
Total	<u>\$ 636</u>	<u>\$ 641</u>	<u>\$ 391</u>	<u>\$ 109</u>	<u>\$ 1,032</u>	<u>\$ 2,134</u>	<u>\$ 4,943</u>

### Interest Expense

The following table shows an analysis of the interest expense for the years ended December 31:

	Years ended December 31,		
	2016	2015	2014
Senior notes	\$ 139	\$ 114	\$ 117
Term loans	17	5	5
Revolving Credit Facility	10	6	3
WSI revolving credit facility	2	2	4
Other	16	15	6
Total interest expense	<u>\$ 184</u>	<u>\$ 142</u>	<u>\$ 135</u>

## 11. FAIR VALUE MEASUREMENTS

The Company has categorized its assets and liabilities that are measured at fair value on a recurring and non-recurring basis into a three-level fair value hierarchy, based on the reliability of the inputs used to determine fair value as follows:

- Level 1: refers to fair values determined based on quoted market prices in active markets for identical assets;
- Level 2: refers to fair values estimated using observable market based inputs or unobservable inputs that are corroborated by market data; and
- Level 3: includes fair values estimated using unobservable inputs that are not corroborated by market data.

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments:

Market values for our derivative instruments have been used to determine the fair value of interest rate swaps and forward foreign exchange contracts based on estimated amounts the Company would receive or have to pay to terminate the agreements, taking into account the current interest rate environment or current foreign currency forward rates. Such financial instruments are classified as Level 2 in the fair value hierarchy.

## 11. FAIR VALUE MEASUREMENTS (continued)

Available-for-sale securities are classified as Level 1 because we use quoted market prices in determining the fair value of these securities.

Contingent consideration payable is classified as Level 3 and we estimate fair value based on the likelihood and timing of achieving the relevant milestones of each arrangement, applying a probability assessment to each of the potential outcomes, and discounting the probability-weighted payout. Typically, milestones are based on revenue or EBITDA growth for the acquired business.

The following presents our assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and December 31, 2015:

		Fair Value Measurements on a Recurring Basis at December 31, 2016			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
<i>Available-for-sale securities:</i>					
Mutual funds / exchange traded funds	Prepaid and other current assets and other non-current assets	\$ 37	\$ —	\$ —	\$ 37
<i>Derivatives:</i>					
Derivative financial instruments (i)	Prepaid and other current assets and other non-current assets	\$ —	\$ 15	\$ —	\$ 15
<b>Liabilities:</b>					
<i>Contingent Consideration:</i>					
Contingent consideration (ii)	Other current liabilities and other non-current liabilities	\$ —	\$ —	\$ 55	\$ 55
<i>Derivatives:</i>					
Derivative financial instruments (i)	Other current liabilities and other non-current liabilities	\$ —	\$ 133	\$ —	\$ 133
		Fair Value Measurements on a Recurring Basis at December 31, 2015			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
<i>Derivatives:</i>					
Derivative financial instruments (i)	Prepaid and other current assets and other non-current assets	\$ —	\$ 26	\$ —	\$ 26
<b>Liabilities:</b>					
<i>Contingent Consideration:</i>					
Contingent consideration	Other current liabilities and other non-current liabilities	\$ —	\$ —	\$ 74	\$ 74
<i>Derivatives:</i>					
Derivative financial instruments (i)	Other current liabilities and other non-current liabilities	\$ —	\$ 57	\$ —	\$ 57

(i) See Note 9 to the Consolidated Financial Statements for further information on our derivative instruments.

(ii) Probability weightings are based on our knowledge of the past and planned performance of the acquired entity to which the contingent consideration applies. The weighted average discount rate used on our material contingent consideration calculations was 10.76%. Using different probability weightings and discount rates could result in an increase or decrease of the contingent consideration payable.

While Irish Company Law does not permit contingent consideration to be carried at fair value, as required under US GAAP, the use of a discounted best estimate is permitted under Irish Company Law and would not result in a materially different carrying amount.

**11. FAIR VALUE MEASUREMENTS (continued)**

The following table summarizes the change in fair value of the Level 3 liabilities:

Fair Value Measurements using significant unobservable inputs (Level 3)	December 31, 2016
Balance at December 31, 2015	\$ 74
Obligations assumed	3
Payments	(11)
Realized and unrealized losses	(5)
Foreign exchange	(6)
Balance at December 31, 2016	\$ 55

There were no significant transfers between Levels 1, 2 or 3 in the financial years ended December 31, 2016 and 2015.

**Fair value information about financial instruments not measured at fair value**

The following presents our liabilities not measured at fair value on a recurring basis at December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Liabilities:</b>				
Current portion of long term debt	\$ 508	\$ 513	\$ 988	\$ 998
Long-term debt	\$ 3,357	\$ 3,504	\$ 2,278	\$ 2,394

The carrying values of our revolving lines of credit and term loans approximate their fair values. The fair values above are not necessarily indicative of the amounts that the Company would realize upon disposition nor do they indicate the Company's intent or ability to dispose of the financial instrument. The fair value of our senior notes are considered level 2 financial instruments as they are corroborated by observable market data.

**12. RETIREMENT BENEFITS*****Defined Benefit Plans and Post-retirement Welfare Plans***

Willis Towers Watson sponsors both qualified and non-qualified defined benefit pension plans and other post-retirement welfare plans ('PRW') plans throughout the world. The majority of our plan assets and obligations are in the United States and the United Kingdom. We have also included disclosures related to defined benefit plans in certain other countries, which includes Canada, Germany, Ireland and the Netherlands. Together, these disclosed funded and unfunded plans represented 99% of Willis Towers Watson's pension and PRW obligations and plan assets and are disclosed herein for the 2016 disclosures.

On January 4, 2016, in connection with the Merger, we acquired additional defined benefit pension, PRW, and defined contribution plans. Total plan assets of approximately \$3.7 billion and projected benefit obligations of approximately \$4.6 billion were acquired. The funded status for each of the acquired plans has been included in the values of identifiable assets acquired, and liabilities assumed in Note 3 to the Consolidated Financial Statements and are recorded as \$67 million in pension benefits assets and \$923 million in liability for pension benefits. As part of these obligations, in the United States, the United Kingdom and Canada, we have non-qualified plans that provide for the additional pension benefits that would be covered under the qualified plan in the respective country were it not for statutory maximums. The non-qualified plans are unfunded.

## 12. RETIREMENT BENEFITS (continued)

Certain prior year amounts have been reclassified between the presentation groupings of 'U.S.', 'U.K.' and 'Other' to conform to current year presentation. The significant plans within each grouping are described below:

### *United States*

Legacy Willis – This plan covers approximately one third of the Legacy Willis employees in the United States and is now frozen with no new entrants nor future accruals.

Legacy Towers Watson – This plan covers substantially all Legacy Towers Watson U.S. employees, with the exception of certain employees of our Exchange Solutions segment. Prior to December 31, 2010, employees earned benefits under their original plan formulas, which were frozen on December 31, 2011. Beginning January 1, 2012, all Legacy Towers Watson employees, including named executive officers, accrue qualified and non-qualified benefits under a stable value pension design.

2017 Changes – The Legacy Towers Watson plan's current non-contributory stable value formula is not available to employees hired or rehired on or after January 1, 2017. Beginning July 1, 2017, Legacy Towers Watson employees participating in the Plan will accrue benefits under a new non-contributory stable value pension formula. Also beginning July 1, 2017, the Plan will cover newly eligible employees, including employees hired on or after January 1, 2017, and employees from Legacy Willis and the Exchange Solutions segment, who elect to participate (who do not 'opt out') under a new contributory stable value pension formula..

### *United Kingdom*

Legacy Willis – This plan covers approximately one third of the Legacy Willis employees in the United Kingdom. The plan is now closed to new entrants. New employees in the United Kingdom are offered the opportunity to join a defined contribution plan.

Legacy Towers Watson – Benefit accruals earned under the Legacy Watson Wyatt defined benefit plan (predominantly pension benefits) ceased on February 28, 2015, although benefits earned prior to January 1, 2008 retain a link to salary until the employee leaves the Company. Benefit accruals earned under the legacy Towers Perrin defined benefit plan (predominantly lump sum benefits) were frozen on March 31, 2008. All participants now accrue defined contribution benefits.

Legacy Miller – The plan provides retirement benefits based on members' salaries at the point at which they ceased to accrue benefits under the scheme.

### *Other*

Canada (Legacy Towers Watson) – Participants accrue qualified and non-qualified benefits based on a career average benefit formula. Additionally, participants can choose to make voluntary contributions to purchase enhancements to their pension.

2017 Canada Changes – Effective January 1, 2017, the Legacy Towers Watson Canada plan was amended with respect to future benefit accruals. The ancillary benefits were reduced for all members and the benefit formula was reduced for members joining on or after January 1, 2017. Additionally on January 1, 2017, the Legacy Willis employees in Canada joined the plan and will accrue qualified and non-qualified benefits based on a career average benefit formula.

France (Legacy Gras Savoye) – The mandatory retirement indemnity plan is a termination benefit which provides lump sum benefits at retirement. There is no vesting before the retirement date and the benefit formula is determined through the collective bargaining agreement and the labor code. All employees with permanent employment contracts are eligible.

Germany (Legacy Willis) – The defined benefit plan population consists of retirees receiving annuities and two participants with deferred vested benefits. Other employees and former employees participate in defined contribution arrangements.



## 12. RETIREMENT BENEFITS (continued)

Germany (Legacy Towers Watson) – Effective January 1, 2011, all new participants participate in a defined contribution plan. Participants hired prior to this date continue to participate in various defined contribution and defined benefit arrangements according to legacy plan formulas. The legacy defined benefit plans are primarily account-based, with some long-service participants continuing to accrue benefits according to grandfathered final-average-pay formulas.

Ireland (Legacy Willis) – The defined benefit plans provide pension benefits for approximately one third of legacy Willis employees in Ireland. The defined benefit plans are now closed to new entrants.

Ireland (Legacy Towers Watson) – Benefit accruals earned under the scheme's defined benefit plan ceased on May 1, 2015. Benefits earned prior to this date retain a link to salary until the employee leaves the Company.

Netherlands (Legacy Towers Watson) – Benefits under the plan used to accrue on a final pay basis on earnings up to a maximum amount each year. The benefit accrual under the final pay plan stopped at December 31, 2010. The accrued benefits will receive conditional indexation each year.

### *Post-retirement Welfare Plan*

We provide certain healthcare and life insurance benefits for retired participants. The principal plans cover participants in the U.S. who have met certain eligibility requirements. Our principal post-retirement benefit plans are primarily unfunded. Retiree medical benefits provided under our U.S. post-retirement benefit plans were closed to new hires effective January 1, 2011. Life insurance benefits under the plans were frozen with respect to service, eligibility and amounts as of January 1, 2012 for active participants.

Retirement benefit costs and liabilities in respect of defined benefit pension plans are assessed in accordance with the advice of professionally qualified actuaries. The most recent actuarial valuations of the four principal defined benefit pension plans (which are not available for public inspection) were January 1, 2016 for the Legacy Willis United States scheme, January 1, 2016 for the Legacy Towers Watson United States scheme, December 31, 2013 for the Legacy Willis United Kingdom scheme and March 31, 2014 for the Legacy Watson Wyatt United Kingdom scheme.

## 12. RETIREMENT BENEFITS (continued)

*Amounts Recognized in our Consolidated Financial Statements*

The following schedules provide information concerning the defined benefit pension plans and PRW plan as of and for the years ended December 31, 2016 and 2015:

	2016				2015			
	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW
<b>Change in Benefit Obligation</b>								
Benefit obligation, beginning of year	\$ 976	\$ 2,881	\$ 184	\$ —	\$ 1,066	\$ 3,093	\$ 186	\$ —
Service cost	59	24	19	1	—	33	3	—
Interest cost	137	114	18	3	41	107	3	—
Employee contributions	—	1	—	7	—	1	—	—
Actuarial losses/(gains)	151	852	61	4	(92)	(97)	(5)	—
Curtailment loss	—	—	—	—	—	13	—	—
Settlements	—	(12)	(61)	—	—	—	(1)	—
Benefits paid	(166)	(130)	(24)	(14)	(39)	(102)	(7)	—
Business combinations	3,012	842	530	112	—	224	24	—
Transfers in	—	—	1	—	—	—	—	—
Foreign currency changes	—	(673)	4	—	—	(176)	(19)	—
Plan amendments	—	—	—	—	—	(215)	—	—
Benefit obligation, end of year	\$ 4,169	\$ 3,899	\$ 732	\$ 113	\$ 976	\$ 2,881	\$ 184	\$ —
<b>Change in Plan Assets</b>								
Fair value of plan assets, beginning of year	\$ 749	\$ 3,478	\$ 158	\$ —	\$ 806	\$ 3,398	\$ 171	\$ —
Actual return on plan assets	153	782	26	—	(19)	73	4	—
Employer contributions	91	106	39	7	1	107	10	—
Employee contributions	—	1	—	7	—	1	—	—
Settlements	—	(12)	(58)	—	—	—	—	—
Benefits paid	(166)	(130)	(24)	(14)	(39)	(102)	(7)	—
Business combinations	2,453	906	321	4	—	202	—	—
Transfers in	—	—	1	—	—	—	—	—
Foreign currency adjustment	—	(771)	4	—	—	(201)	(20)	—
Fair value of plan assets, end of year	\$ 3,280	\$ 4,360	\$ 467	\$ 4	\$ 749	\$ 3,478	\$ 158	\$ —
<b>Funded status at end of year</b>	<b>\$ (889)</b>	<b>\$ 461</b>	<b>\$ (265)</b>	<b>\$ (109)</b>	<b>\$ (227)</b>	<b>\$ 597</b>	<b>\$ (26)</b>	<b>\$ —</b>
<b>Accumulated Benefit Obligation</b>	<b>\$ 4,169</b>	<b>\$ 3,899</b>	<b>\$ 696</b>	<b>\$ 113</b>	<b>\$ 975</b>	<b>\$ 2,881</b>	<b>\$ 173</b>	<b>\$ —</b>
<b>Components on the Consolidated Balance Sheet</b>								
Pension benefits assets	\$ —	\$ 478	\$ 10	\$ —	\$ —	\$ 617	\$ 6	\$ —
Current liability for pension benefits	\$ (47)	\$ —	\$ (7)	\$ (3)	\$ —	\$ —	\$ —	\$ —
Non-current liability for pension benefits	\$ (842)	\$ (17)	\$ (268)	\$ (106)	\$ (227)	\$ (20)	\$ (32)	\$ —
	<u>\$ (889)</u>	<u>\$ 461</u>	<u>\$ (265)</u>	<u>\$ (109)</u>	<u>\$ (227)</u>	<u>\$ 597</u>	<u>\$ (26)</u>	<u>\$ —</u>

## 12. RETIREMENT BENEFITS (continued)

Amounts recognized in accumulated other comprehensive loss as of December 31, 2016 and 2015 consist of:

	2016				2015			
	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW
Net actuarial loss	\$ 603	\$ 918	\$ 80	\$ 4	\$ 378	\$ 790	\$ 25	\$ —
Net prior service gain	—	(147)	—	—	—	(196)	—	—
Accumulated other comprehensive loss	<u>\$ 603</u>	<u>\$ 771</u>	<u>\$ 80</u>	<u>\$ 4</u>	<u>\$ 378</u>	<u>\$ 594</u>	<u>\$ 25</u>	<u>\$ —</u>

The following table presents the projected benefit obligation and fair value of plan assets for our plans that have a projected benefit obligation in excess of plan assets as of December 31, 2016 and 2015:

	2016			2015		
	U.S.	U.K.	Other	U.S.	U.K.	Other
Projected benefit obligation at end of year	\$ 4,169	\$ 843	\$ 686	\$ 976	\$ 204	\$ 52
Fair value of plan assets at end of year	\$ 3,280	\$ 825	\$ 411	\$ 749	\$ 184	\$ 19

The following table presents the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for our plans that have an accumulated benefit obligation in excess of plan assets as of December 31, 2016 and 2015.

	2016			2015		
	U.S.	U.K.	Other	U.S.	U.K.	Other
Projected benefit obligation at end of year	\$ 4,169	\$ 843	\$ 686	\$ 976	\$ 204	\$ 33
Accumulated benefit obligation at end of year	\$ 4,169	\$ 843	\$ 650	\$ 975	\$ 204	\$ 26
Fair value of plan assets at end of year	\$ 3,280	\$ 825	\$ 411	\$ 749	\$ 184	\$ 4

## 12. RETIREMENT BENEFITS (continued)

The components of the net periodic benefit income and other amounts recognized in other comprehensive (income)/loss for the years ended December 31, 2016, 2015 and 2014 for the defined benefit plans and PRW plan are as follows:

	2016				2015				2014			
	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW
Components of net periodic benefit (income)/cost:												
Service cost	\$ 59	\$ 24	\$ 19	\$ 1	\$ —	\$ 33	\$ 3	\$ —	\$ —	\$ 41	\$ 3	\$ —
Interest cost	137	114	18	3	41	107	3	—	41	121	6	—
Expected return on plan assets	(240)	(253)	(27)	—	(57)	(230)	(3)	—	(54)	(213)	(6)	—
Amortization of unrecognized prior service credit	—	(19)	—	—	—	(18)	—	—	—	(4)	—	—
Amortization of unrecognized actuarial loss	12	42	—	—	11	36	1	—	6	42	—	—
Settlement	—	—	5	—	—	—	—	—	—	—	—	—
Curtailment gain	—	—	—	—	—	(5)	—	—	—	—	—	—
Net periodic benefit (income)/cost	\$ (32)	\$ (92)	\$ 15	\$ 4	\$ (5)	\$ (77)	\$ 4	\$ —	\$ (7)	\$ (13)	\$ 3	\$ —
Other changes in plan assets and benefit obligations recognized in other comprehensive loss/(income):												
Net actuarial loss/(gain)	\$ 238	\$ 323	\$ 62	\$ 4	\$ (16)	\$ 59	\$ (5)	\$ —	\$ 174	\$ 83	\$ 17	\$ —
Amortization of unrecognized actuarial loss	(12)	(42)	—	—	(11)	(36)	(1)	—	(6)	(42)	—	—
Prior service gain	—	—	—	—	—	(215)	—	—	—	—	—	—
Amortization of unrecognized prior service credit	—	19	—	—	—	18	—	—	—	4	—	—
Settlement	—	—	(8)	—	—	—	—	—	—	—	—	—
Curtailment loss/(gain)	—	—	—	—	—	18	—	—	—	(2)	—	—
Total recognized in other comprehensive loss/(income)	226	300	54	4	(27)	(156)	(6)	—	168	43	17	—
Total recognized in net periodic benefit (income)/cost and other comprehensive loss/(income)	\$ 194	\$ 208	\$ 69	\$ 8	\$ (32)	\$ (233)	\$ (2)	\$ —	\$ 161	\$ 30	\$ 20	\$ —

During financial year 2016, WTW adopted the granular approach to calculating service and interest cost. This was treated as a change in accounting estimate, and resulted in a credit of \$51 million included in our total net periodic benefit income reflected above.

On March 6, 2015, Legacy Willis announced to members of the U.K. defined benefit pension plan that with effect from June 30, 2015, future salary increases would not be pensionable (the 'salary freeze'). Legacy Willis recognized the salary freeze as a plan amendment at the announcement date. The impact of the salary freeze reduced the plan's projected benefit obligation by approximately \$215 million and created a prior service credit which is recognized in other comprehensive income and then amortized to the consolidated statement of operations over the remaining expected service life of active employees.

The estimated net actuarial loss and prior service cost for the defined benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next financial year are:

	For the Year Ended December 31, 2017			
	U.S.	U.K.	Other	PRW
Estimated net actuarial loss	\$ 13	\$ 51	\$ 2	\$ —
Prior service gain	—	(17)	—	—

## 12. RETIREMENT BENEFITS (continued)

### *Assumptions Used in the Valuations of the Defined Benefit Pension Plans and PRW Plan*

The determination of the Company's obligations and annual expense under the plans is based on a number of assumptions that, given the longevity of the plans, are long-term in focus. A change in one or a combination of these assumptions could have a material impact on our projected benefit obligation. However, certain of these changes, such as changes in the discount rate and actuarial assumptions, are not recognized immediately in net income, but are instead recorded in other comprehensive income. The accumulated gains and losses not yet recognized in net income are amortized into net income as a component of the net periodic benefit cost/(credit) generally based on the average working life expectancy of the plan's active participants to the extent that the net gains or losses as of the beginning of the year exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation. The average remaining service period of participants for the PRW plan is approximately 9.5 years.

The Company considers several factors prior to the start of each financial year when determining the appropriate annual assumptions, including economic forecasts, relevant benchmarks, historical trends, portfolio composition and peer company comparisons. These assumptions, used to determine our pension liabilities and pension expense, are reviewed annually by senior management and changed when appropriate. The discount rate will be changed annually if underlying rates have moved, whereas the expected long-term return on assets will be changed less frequently as longer term trends in asset returns emerge or long-term target asset allocations are revised. To calculate the discount rate, we use the granular approach to determining service and interest costs. The expected rate of return assumptions for all plans are supported by an analysis of the weighted-average yield expected to be achieved based upon the anticipated makeup of the plans' investments. Other material assumptions include rates of participant mortality, and the expected long-term rate of compensation and pension increases.

The following assumptions were used in the valuations of Willis Towers Watson's defined benefit pension plans and PRW plan. The assumptions presented for the U.S. plans represent the weighted-average of rates for all U.S. plans. The assumptions presented for the U.K. plans represent the weighted-average of rates for the U.K. plans. The assumptions presented for the Other plans represent the weighted-average of rates for the Canada, France, Germany, Ireland, and Netherlands plans.

The assumptions used to determine net periodic benefit cost for the financial years ended December 31, 2016, 2015 and 2014 were as follows:

	Years ended December 31,											
	2016				2015				2014			
	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW
Discount rate <sup>(i)</sup>	N/A	N/A	N/A	N/A	3.9%	3.6%	2.3%	—%	4.8%	4.4%	3.7%	—%
Discount rate - PBO	4.2%	3.8%	3.2%	4.2%	N/A	N/A	N/A	—%	N/A	N/A	N/A	—%
Discount rate - service cost	3.9%	3.8%	3.4%	4.1%	N/A	N/A	N/A	—%	N/A	N/A	N/A	—%
Discount rate - interest cost on service cost	3.2%	3.8%	3.1%	3.5%	N/A	N/A	N/A	—%	N/A	N/A	N/A	—%
Discount rate - interest cost on PBO	3.4%	3.4%	2.8%	3.3%	N/A	N/A	N/A	—%	N/A	N/A	N/A	—%
Expected long-term rate of return on assets <sup>(ii)</sup>	7.6%	6.2%	6.1%	2.0%	7.3%	6.5%	3.3%	—%	7.3%	7.0%	3.7%	—%
Rate of increase in compensation levels	4.3%	3.2%	2.3%	N/A	N/A	2.9%	2.2%	—%	N/A	3.2%	2.1%	—%
Healthcare cost trend												
Initial rate				7.0%				N/A				N/A
Ultimate rate				5.0%				N/A				N/A
Year reaching ultimate rate				2022				N/A				N/A

(i) This discount rate represents the assumption to determine net periodic benefit cost prior to the Company's use of the granular approach to calculating service and interest cost which began for the 2016 financial year.

(ii) As part of the salary freeze negotiations with the Scheme Trustee, Legacy Willis agreed to the U.K. plan Trustee's de-risking strategy which will lead to a strategic target asset allocation with a greater weighting to fixed income assets. Consequently, with effect from March 6, 2015, the expected return on assets assumption was reduced by 50 basis points from 7.00% to 6.50%.

## 12. RETIREMENT BENEFITS (continued)

The following table presents the assumptions used in the valuation to determine the projected benefit obligation for the financial years ended December 31, 2016 and 2015:

	December 31, 2016				December 31, 2015			
	U.S.	U.K.	Other	PRW	U.S.	U.K.	Other	PRW
Discount rate	4.0%	2.6%	2.7%	4.0%	4.2%	3.8%	2.4%	—%
Rate of increase in compensation levels	4.3%	3.2%	2.3%	N/A	N/A	3.3%	2.2%	—%

A one percentage point change in the assumed healthcare cost trend rates would have an immaterial effect on the post-retirement benefit cost and obligation as of December 31, 2016.

The expected return on plan assets was determined on the basis of the weighted-average of the expected future returns of the various asset classes, using the target allocations shown below. The Company's pension plan asset target allocations as of December 31, 2016 were as follows:

Asset Category	U.S.		U.K.			Canada	Germany	Ireland	
	Willis	Towers Watson	Willis	Towers Watson	Miller	Towers Watson	Towers Watson	Willis	Towers Watson
Equity securities	50%	23%	32%	13%	27%	60%	36%	38%	73%
Debt securities	50%	43%	50%	60%	57%	40%	60%	28%	27%
Real estate	—%	6%	—%	—%	—%	—%	—%	3%	—%
Other	—%	28%	18%	27%	16%	—%	4%	31%	—%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

The Legacy Willis plan in Germany and the Legacy Towers Watson plan in the Netherlands are invested in insurance contracts. Consequently, the asset allocations of the plans are managed by the insurer. The Legacy Gras Savoye plan in France is unfunded.

Our investment strategy is designed to generate returns that will reduce the interest rate risk inherent in each of the plan's benefit obligations and enable the plans to meet their future obligations. The precise amount for which these obligations will be settled depends on future events, including the life expectancy of the plan participants and salary inflation. The obligations are estimated using actuarial assumptions, based on the current economic environment.

Each pension plan seeks to achieve total returns sufficient to meet expected future obligations when considered in conjunction with expected future contributions and prudent levels of investment risk and diversification. Each plan's targeted asset allocation is generally determined through a plan-specific Asset-Liability Modeling study. These comprehensive studies provide an evaluation of the projected status of asset and benefit obligation measures for each plan under a range of both positive and negative environments. The studies include a number of different asset mixes, spanning a range of diversification and potential equity exposures.

In evaluating the strategic asset allocation choices, an emphasis is placed on the long-term characteristics of each individual asset class, such as expected return, volatility of returns and correlations with other asset classes within the portfolios. Consideration is also given to the proper long-term level of risk for each plan, the impact of the volatility and magnitude of plan contributions and costs, and the impact that certain actuarial techniques may have on the plan's recognition of investment experience.

We monitor investment performance and portfolio characteristics on a quarterly basis to ensure that managers are meeting expectations with respect to their investment approach. There are also various restrictions and controls placed on managers, including prohibition from investing in our stock.

## 12. RETIREMENT BENEFITS (continued)

### Fair Value of Plan Assets

The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value:

- Level 1: refers to fair values determined based on quoted market prices in active markets for identical assets;
- Level 2: refers to fair values estimated using observable market based inputs or unobservable inputs that are corroborated by market data; and
- Level 3: includes fair values estimated using unobservable inputs that are not corroborated by market data.

The fair values of our U.S. plan assets by asset category at December 31, 2016 and 2015 are as follows:

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Asset category:</b>								
Cash	\$ 3	\$ —	\$ —	\$ 3	\$ —	\$ —	\$ —	\$ —
Short-term securities	—	33	—	33	—	—	—	—
Equity securities	253	8	—	260	86	7	—	93
Government bonds	10	—	—	10	—	—	—	—
Corporate bonds	—	169	—	170	—	—	—	—
Other fixed income	—	19	—	19	—	—	—	—
Pooled / commingled funds	—	—	—	1,665	—	—	—	476
Mutual funds	183	—	—	183	180	—	—	180
Private equity	—	—	—	234	—	—	—	—
Hedge funds	—	—	—	692	—	—	—	—
<b>Total assets</b>	<b>\$ 449</b>	<b>\$ 229</b>	<b>\$ —</b>	<b>\$ 3,269</b>	<b>\$ 266</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 749</b>

The fair values of our U.K. plan assets by asset category at December 31, 2016 and 2015 are as follows:

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Asset category:</b>								
Cash	\$ 49	\$ —	\$ —	\$ 49	\$ 149	\$ 2	\$ —	\$ 151
Equity securities	374	8	—	382	737	17	—	754
Government bonds	1,184	—	—	1,184	836	1	—	837
Corporate bonds	—	118	—	118	—	138	—	138
Other fixed income	—	216	—	216	—	—	—	—
Pooled / commingled funds	—	—	—	1,677	—	—	—	820
Mutual funds	—	—	—	11	—	—	—	—
Private equity	—	—	—	40	—	—	—	—
Derivatives	—	73	—	73	—	195	—	195
Real estate	—	—	—	197	—	—	—	146
Hedge funds	—	—	—	426	—	—	—	457
<b>Total assets</b>	<b>\$ 1,607</b>	<b>\$ 415</b>	<b>\$ —</b>	<b>\$ 4,373</b>	<b>\$ 1,722</b>	<b>\$ 353</b>	<b>\$ —</b>	<b>\$ 3,498</b>
<b>Liability category:</b>								
Derivatives	—	14	—	14	—	20	—	20
<b>Net Assets</b>	<b>\$ 1,607</b>	<b>\$ 401</b>	<b>\$ —</b>	<b>\$ 4,359</b>	<b>\$ 1,722</b>	<b>\$ 333</b>	<b>\$ —</b>	<b>\$ 3,478</b>

## 12. RETIREMENT BENEFITS (continued)

The fair values of our Other plan assets by asset category at December 31, 2016 and 2015 are as follows:

Asset category:	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	\$ 17	\$ —	\$ —	\$ 17	\$ —	\$ —	\$ —	\$ —
Equity securities	—	—	—	—	1	—	—	1
Government bonds	—	—	—	—	29	—	—	29
Corporate bonds	—	—	—	—	4	—	—	4
Pooled / commingled funds	—	—	—	214	—	—	—	—
Mutual funds	—	—	—	224	—	—	—	102
Derivatives	—	—	—	—	—	19	—	19
Insurance contracts	—	—	17	17	—	—	1	1
Real estate	—	—	—	—	—	—	—	2
<b>Total assets</b>	<b>\$ 17</b>	<b>\$ —</b>	<b>\$ 17</b>	<b>\$ 472</b>	<b>\$ 34</b>	<b>\$ 19</b>	<b>\$ 1</b>	<b>\$ 158</b>

Our PRW plan invests only in short-term investments and mutual funds and is not included within this fair value hierarchy table.

We evaluate the need to transfer between levels based upon the nature of the financial instrument and size of the transfer relative to the total net assets of the plans. There were no significant transfers between Levels 1, 2 or 3 in the financial years ended December 31, 2016 and 2015.

In accordance with Subtopic 820-10, *Fair Value Measurement and Disclosures*, certain investments that are measured at fair value using the net asset value per share practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of net assets. See the description of ASU 2015-07 in Note 2 to the Consolidated Financial Statements, which notes the adoption of this practical expedient for the presentation of our pension plan investments in the fair value hierarchy tables included above, and the retrospective application to comparative periods.

Following is a description of the valuation methodologies used for investments at fair value:

*Short-term securities:* Valued at the net value of shares held by the Company at year end as reported by the sponsor of the funds.

*Equity securities and Mutual Funds:* Valued at the closing price reported on the active market on which the individual securities are traded. Exchange traded mutual funds are included as level 1 above.

*Government bonds:* Valued at the closing price reported in the active market in which the bond is traded.

*Corporate bonds:* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

*Other Fixed Income:* Foreign and municipal bonds are valued at the closing price reported in the active market in which the bond is traded.

*Pooled / Commingled Funds and Mutual Funds:* Valued at the net value of shares held by the Company at year end as reported by the manager of the funds. These funds are not exchange traded and are not reported by level in the tables above.

*Derivative investments:* Valued at the closing level of the relevant index or security and interest accrual through the valuation date.

*Private equity funds, Real estate funds, Hedge funds:* The fair value for these investments is estimated based on the net asset value derived from the latest audited financial statements or most recent capital account statements provided by the private equity fund's investment manager or third-party administrator.

*Insurance contracts:* The fair values are determined using model-based techniques that include option-pricing models, discounted cash flow models and similar techniques.



## 12. RETIREMENT BENEFITS (continued)

The following table reconciles the net plan investments to the total fair value of the plan assets:

	December 31,	
	2016	2015
Net assets held in investments	\$ 8,100	\$ 4,385
PRW plan assets	3	—
Net receivable for investments purchased	3	—
Dividend and interest receivable	3	—
Fair value of plan assets	<u>\$ 8,109</u>	<u>\$ 4,385</u>

### Level 3 investments

As a result of the inherent limitations related to the valuations of the Level 3 investments, due to the unobservable inputs of the underlying funds, the estimated fair value may differ significantly from the values that would have been used had a market for those investments existed.

The following table sets forth a summary of changes in the fair value of the plans' Level 3 assets for the financial year ended December 31, 2016:

	Level 3 Roll Forward
Beginning balance at December 31, 2015	\$ 1
Insurance contracts acquired in the Merger	16
Foreign exchange	—
Ending balance at December 31, 2016	<u>\$ 17</u>

### Contributions and Benefit Payments

Funding is based on actuarially determined contributions and is limited to amounts that are currently deductible for tax purposes. Since funding calculations are based on different measurements than those used for accounting purposes, pension contributions are not equal to net periodic pension costs.

The following table sets forth our projected pension contributions to our qualified plans for financial year 2017, as well as the pension contributions to our qualified plans in financial years 2016 and 2015:

	2017 (Projected)	2016 (Actual)	2015 (Actual)
U.S.	\$ 50	\$ 50	\$ —
U.K.	\$ 60	\$ 105	\$ 102
Other	\$ 13	\$ 29	\$ 6

## 12. RETIREMENT BENEFITS (continued)

Expected benefit payments from our defined benefit pension plans to current plan participants, including the effect of their expected future service, as appropriate, are as follows:

Financial Year	Benefit Payments				
	U.S.	U.K.	Other	PRW	Total
2017	226	91	27	15	359
2018	223	97	22	16	358
2019	231	101	24	16	372
2020	239	105	25	16	385
2021	244	111	26	16	397
Years 2022 – 2026	1,329	649	162	84	2,224
	<u>\$ 2,492</u>	<u>\$ 1,154</u>	<u>\$ 286</u>	<u>\$ 163</u>	<u>\$ 4,095</u>

### Defined Contribution Plan

We have defined contribution plans covering eligible employees in many countries. The most significant plans are in the U.S. and U.K. and are described here.

Legacy Willis has a 401(k) plan covering all eligible employees of Legacy Willis U.S. and its subsidiaries. The plan allows participants to make pre-tax contributions which the Company, at its discretion, may match. All investment assets of the plan are held in a trust account administered by independent trustees.

The Legacy Towers Watson U.S. Defined Contribution Plan allows eligible Towers Watson U.S. employees to participate in a savings plan design that provides for 100% match on the first 2% of employee contributions and 50% match on the next 4% of employee contributions. Employees vest in the employer match upon two years of service.

The Legacy Towers Watson U.K. pension plan has a money purchase feature to which we make core contributions plus additional contributions matching those of the participants up to a maximum rate. Contribution rates depend on the age of the participant and whether or not they arise from salary sacrifice arrangements through which the participant has elected to receive a pension contribution in lieu of additional salary.

The Company's expenses related to its defined contribution plans for the years ended December 31, 2016, 2015 and 2014 amounted to \$152 million, \$77 million and \$70 million.

## 13. PROVISIONS FOR LIABILITIES

An analysis of movements on provisions for liabilities is as follows:

	Claims, lawsuits and other proceedings <sup>(i)</sup>	Other provisions <sup>(ii)</sup>	Total
Balance at January 1, 2015	\$ 148	\$ 46	\$ 194
Net provisions made during the year <sup>(iii)</sup>	132	3	135
Balances from acquisitions during the year	6	58	64
Utilized in the year	(27)	(15)	(42)
Foreign currency translation adjustment	(4)	(2)	(6)
Balance at December 31, 2015	\$ 255	\$ 90	\$ 345
Net provisions made during the year	56	(9)	47
Balances from acquisitions during the year	240	—	240
Utilized in the year	(28)	(9)	(37)
Foreign currency translation adjustment	(15)	(5)	(20)
Balance at December 31, 2016	\$ 508	\$ 67	\$ 575

- (i) The claims, lawsuits and other proceedings provision includes E&O cases which represents management's assessment of liabilities that may arise from asserted and unasserted claims for alleged errors and omissions that arise in the ordinary course of the Company's business. Where some of the potential liability is recoverable under the Company's external insurance arrangements, the full assessment of the liability is included in the provision with the associated insurance recovery shown separately as an asset.
- (ii) The 'Other' category includes amounts that principally relate to post placement service provisions, property and employee-related provisions.
- (iii) In 2015, we added \$120 million to our provisions for loss contingencies relating to the Stanford litigation. We initially added \$70 million to our provisions for loss contingencies relating to the Stanford litigation. On March 31, 2016, the Company entered into a settlement in principle, for \$120 million, relating to this litigation and we therefore increased our provisions by \$50 million. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This \$50 million increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

## 14. COMMITMENTS AND CONTINGENCIES

### Operating Leases

The Company leases certain land, building and equipment under various operating lease commitments. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease. Rental expenses and sub-lease rental income for operating leases are recorded as part of other operating expenses in the consolidated statements of operations. Rental expense, exclusive of sublease income, was \$302 million, \$142 million, and \$134 million for the years ended December 31, 2016, 2015 and 2014, respectively. We have entered into sublease agreements for some of our excess leased space. Sublease income was \$17 million, \$17 million, and \$13 million for the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, the aggregate future minimum rental commitments under all non-cancellable operating lease agreements are as follows:

	Gross rental commitments	Rentals from subleases	Net rental commitments
2017	\$ 238	\$ (16)	\$ 222
2018	194	(16)	178
2019	171	(14)	157
2020	146	(14)	132
2021	122	(11)	111
Thereafter	611	(11)	600
Total	\$ 1,482	\$ (82)	\$ 1,400

## 14. COMMITMENTS AND CONTINGENCIES (continued)

### *Guarantees*

Guarantees issued by certain of Willis Towers Watson's subsidiaries with respect to the senior notes and revolving credit facilities are discussed in Note 10 to the Consolidated Financial Statements.

Certain of Willis Towers Watson's subsidiaries have given the landlords of some leasehold properties occupied by the Company in the United Kingdom and the United States guarantees in respect of the performance of the lease obligations of the subsidiary holding the lease. The operating lease obligations subject to such guarantees amounted to \$558 million and \$676 million at December 31, 2016 and 2015, respectively. The capital lease obligations subject to such guarantees amounted to \$9 million and \$10 million as of December 31, 2016 and 2015, respectively.

### *Acquisition liabilities*

The Company has deferred and contingent consideration due to be paid on existing acquisitions until 2019 totaling \$142 million at December 31, 2016. Most notably, our liability for the acquisition of Miller Insurance Services LLP in May 2015, for which deferred and contingent consideration, including interest, was \$95 million at December 31, 2016. Total deferred and contingent consideration paid during the year ended December 31, 2016 was \$67 million.

### *Other contractual obligations*

For certain subsidiaries and associates, the Company has the right to purchase shares (a call option) from co-shareholders at various dates in the future. In addition, the co-shareholders of certain subsidiaries and associates have the right to sell their shares (a put option) to the Company at various dates in the future. Generally, the exercise price of such put options and call options is formula-based (using revenues and earnings) and is designed to reflect fair value. Based on current projections of profitability and exchange rates, and assuming the put options are exercised, the potential amount payable from these options is not expected to exceed \$73 million.

In July 2010, the Company made a capital commitment of \$25 million to Trident V Parallel Fund, LP, an investment fund managed by Stone Point Capital. This replaced a capital commitment of \$25 million that had been made to Trident V, LP in December 2009. As of December 31, 2016 there have been approximately \$23 million of capital contributions.

In May 2011, the Company made a capital commitment of \$10 million to Dowling Capital Partners I, LP. As of December 31, 2016 there had been approximately \$8 million of capital contributions.

Other contractual obligations at December 31, 2016 and 2015, include certain capital lease obligations totaling \$54 million and \$59 million, respectively, primarily in respect of the Company's Nashville property.

On October 1, 2015, Legacy Towers Watson made a capital commitment of \$40 million to Longitude Holdings Limited in exchange for 48,322 common shares outstanding representing 24.2% of outstanding equity ownership. As of December 31, 2016, approximately \$5 million of capital contributions had been made towards this commitment.

### *Indemnification Agreements*

Willis Towers Watson has various agreements which provide that it may be obligated to indemnify the other party to the agreement with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business and in connection with the purchase and sale of certain businesses. Although it is not possible to predict the maximum potential amount of future payments that may become due under these indemnification agreements because of the conditional nature of Willis Towers Watson's obligations and the unique facts of each particular agreement, Willis Towers Watson does not believe any potential liability that might arise from such indemnity provisions is probable or material. There are no provisions for recourse to third parties, nor are any assets held by any third parties that any guarantor can liquidate to recover amounts paid under such indemnities.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

### *Legal Proceedings*

In the ordinary course of business, the Company is subject to various actual and potential claims, lawsuits, and other proceedings. Some of the claims, lawsuits and other proceedings seek damages in amounts which could, if assessed, be significant. We do not expect the impact of claims or demands not described below to be material to the Company's consolidated financial statements. The Company also receives subpoenas in the ordinary course of business and, from time to time, receives requests for information in connection with governmental investigations.

Errors and omissions claims, lawsuits, and other proceedings arising in the ordinary course of business are covered in part by professional indemnity or other appropriate insurance. See Note 13 to the Consolidated Financial Statements for the amounts accrued at December 31, 2016 and 2015 in the consolidated balance sheets. The terms of this insurance vary by policy year. Regarding self-insured risks, the Company has established provisions which are believed to be adequate in the light of current information and legal advice, or, in certain cases, where a range of loss exists, the Company accrues the minimum amount in the range if no amount within the range is a better estimate than any other amount. The Company adjusts such provisions from time to time according to developments.

On the basis of current information, the Company does not expect that the actual claims, lawsuits and other proceedings to which the Company is subject, or potential claims, lawsuits, and other proceedings relating to matters of which it is aware, will ultimately have a material adverse effect on the Company's financial condition, results of operations or liquidity. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation and disputes with insurance companies, it is possible that an adverse outcome or settlement in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in any particular quarterly or annual periods.

The Company provides for contingent liabilities based on ASC 450, Contingencies, when it is determined that a liability, inclusive of defense costs, is probable and reasonably estimable. Unasserted claims reserves are primarily developed actuarially. Litigation is subject to many factors which are difficult to predict so there can be no assurance that in the event of a material unfavorable result in one or more claims, we will not incur material costs.

### *In re Towers Watson & Co. Stockholders Litigation*

Five putative class action complaints challenging the Merger were filed in the Court of Chancery for the State of Delaware, captioned New Jersey Building Laborers' Statewide Annuity Fund v. Towers Watson & Co., et al., C.A. No. 11270-CB (filed on July 9, 2015), Stein v. Towers Watson & Co., et al., C.A. No. 11271-CB (filed on July 9, 2015), City of Atlanta Firefighters' Pension Fund v. Ganzi, et al., C.A. No. 11275-CB (filed on July 10, 2015), Cordell v. Haley, et al., C.A. No. 11358-CB (filed on July 31, 2015), and Mills v. Towers Watson & Co., et al., C.A. No. 11423-CB (filed on August 24, 2015). The Stein action was voluntarily dismissed on July 28, 2015. These complaints were filed by purported stockholders of Towers Watson on behalf of a putative class comprised of all Towers Watson stockholders. The complaints sought, among other things, to enjoin the Merger, and generally alleged that Towers Watson's directors breached their fiduciary duties to Towers Watson stockholders by agreeing to merge Towers Watson with Willis through an inadequate and unfair process, which led to inadequate and unfair consideration, and by agreeing to unfair deal protection devices. The complaints also alleged that Willis and the Merger Sub formed for purposes of consummating the Merger aided and abetted the alleged breaches of fiduciary duties by Towers Watson directors. On August 17, 2015, the court consolidated the New Jersey Building Laborers' Statewide Annuity Fund, City of Atlanta Firefighters' Pension Fund, and Cordell actions (the Mills action had not yet been filed) and any other actions then pending or thereafter filed arising out of the same issues of fact under the caption *In re Towers Watson & Co. Stockholders Litigation*, Consolidated C.A. No. 11270-CB. On September 9, 2015, the plaintiffs in the consolidated action and in Mills filed a consolidated amended complaint, which, among other things, added claims for alleged misstatements and omissions from a preliminary proxy statement and prospectus for the Merger dated August 27, 2015. On September 17, 2015, plaintiffs filed a motion for expedited proceedings and a motion for a preliminary injunction, which motions plaintiffs voluntarily withdrew on October 19, 2015. On December 14, 2015, the defendants filed motions to dismiss the consolidated amended complaint. On April 1, 2016, the court consolidated the Mills action into the consolidated action. On April 18, 2016, the court dismissed the consolidated action as moot, set a briefing schedule for plaintiffs' application for an award of attorneys' fees and reimbursement of expenses, and scheduled a hearing on plaintiffs' fee and expense application for June 28, 2016. On April 27, 2016, plaintiffs filed a petition for an award of attorneys' fees and expenses, requesting an aggregate fee and expense award of at least \$1.7 million. On June 8, 2016, defendants filed their opposition to the petition. After negotiations, the parties agreed in principle to resolve the petition for a payment of \$250,000 to plaintiffs' counsel by the Company. On July 29, 2016, the court entered a proposed order submitted by the parties closing the consolidated action for all purposes.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

### *Merger-related Appraisal demands*

Between November 12, 2015 and December 10, 2015, in connection with the then-proposed Merger, Towers Watson received demands for appraisal under Section 262 of the Delaware General Corporation Law on behalf of ten purported beneficial owners of an aggregate of approximately 2.4% of the shares of Towers Watson common stock outstanding at the time of the Merger. Between March 3, 2016 and March 23, 2016, three appraisal petitions were filed in the Court of Chancery for the State of Delaware on behalf of three purported beneficial owners of an aggregate of 1,354,338 shares of Towers Watson common stock, captioned Rangeley Capital LLC v. Towers Watson & Co., C.A. No. 12063-CB, Merion Capital L.P. v. Towers Watson & Co., C.A. No. 12064-CB, and College Retirement Equities Fund v. Towers Watson & Co., C.A. No. 12126-CB. The appraisal petitions seek, among other things, a determination of the fair value of the appraisal petitioners' shares at the time of the Merger; an order that Towers Watson pay that value to the appraisal petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. Towers Watson answered the appraisal petitions between March 24, 2016 and April 18, 2016. On May 9, 2016, the court consolidated the three pending appraisal proceedings under the caption In re Appraisal of Towers Watson & Co., Consolidated C.A. No. 12064-CB. Based on all of the information to date, the Company is currently unable to estimate what the court would determine, following trial, to be the fair value of the appraisal petitioners' shares. It is possible that the court could determine that fair value was the same as, less than or greater than the value received by shareholders in the Merger. Therefore we are unable to provide an estimate of the reasonably possible loss or range of loss as to such value. The Company intends to vigorously defend against the appraisal proceedings.

### *Stanford Financial Group*

The Company has been named as a defendant in 15 similar lawsuits relating to the collapse of The Stanford Financial Group ('Stanford'), for which Willis of Colorado, Inc. acted as broker of record on certain lines of insurance. The complaints in these actions generally allege that the defendants actively and materially aided Stanford's alleged fraud by providing Stanford with certain letters regarding coverage that they knew would be used to help retain or attract actual or prospective Stanford client investors. The complaints further allege that these letters, which contain statements about Stanford and the insurance policies that the defendants placed for Stanford, contained untruths and omitted material facts and were drafted in this manner to help Stanford promote and sell its allegedly fraudulent certificates of deposit.

The 15 actions are as follows:

- *Troice, et al. v. Willis of Colorado, Inc., et al.*, C.A. No. 3:9-CV-1274-N, was filed on July 2, 2009 in the U.S. District Court for the Northern District of Texas against Willis Group Holdings plc, Willis of Colorado, Inc. and a Willis associate, among others. On April 1, 2011, plaintiffs filed the operative Third Amended Class Action Complaint individually and on behalf of a putative, worldwide class of Stanford investors, adding Willis Limited as a defendant and alleging claims under Texas statutory and common law and seeking damages in excess of \$1 billion, punitive damages and costs. On May 2, 2011, the defendants filed motions to dismiss the Third Amended Class Action Complaint, arguing, *inter alia*, that the plaintiffs' claims are precluded by the Securities Litigation Uniform Standards Act of 1998 ('SLUSA').

On May 10, 2011, the court presiding over the Stanford-related actions in the Northern District of Texas entered an order providing that it would consider the applicability of SLUSA to the Stanford-related actions based on the decision in a separate Stanford action not involving a Willis entity, *Roland v. Green*, Civil Action No. 3:10-CV-0224-N ('*Roland*'). On August 31, 2011, the court issued its decision in *Roland*, dismissing that action with prejudice under SLUSA.

On October 27, 2011, the court in *Troice* entered an order (i) dismissing with prejudice those claims asserted in the Third Amended Class Action Complaint on a class basis on the grounds set forth in the *Roland* decision discussed above and (ii) dismissing without prejudice those claims asserted in the Third Amended Class Action Complaint on an individual basis. Also on October 27, 2011, the court entered a final judgment in the action.

**14. COMMITMENTS AND CONTINGENCIES (continued)**

On October 28, 2011, the plaintiffs in Troice filed a notice of appeal to the U.S. Court of Appeals for the Fifth Circuit. Subsequently, Troice, Roland and a third action captioned Troice, et al. v. Proskauer Rose LLP, Civil Action No. 3:09-CV-01600-N, which also was dismissed on the grounds set forth in the Roland decision discussed above and on appeal to the U.S. Court of Appeals for the Fifth Circuit, were consolidated for purposes of briefing and oral argument. Following the completion of briefing and oral argument, on March 19, 2012, the Fifth Circuit reversed and remanded the actions. On April 2, 2012, the defendants-appellees filed petitions for rehearing en banc. On April 19, 2012, the petitions for rehearing en banc were denied. On July 18, 2012, defendants-appellees filed a petition for writ of certiorari with the United States Supreme Court regarding the Fifth Circuit's reversal in Troice. On January 18, 2013, the Supreme Court granted our petition. Opening briefs were filed on May 3, 2013 and the Supreme Court heard oral argument on October 7, 2013. On February 26, 2014, the Supreme Court affirmed the Fifth Circuit's decision.

On March 19, 2014, the plaintiffs in Troice filed a Motion to Defer Resolution of Motions to Dismiss, to Compel Rule 26(f) Conference and For Entry of Scheduling Order.

On March 25, 2014, the parties in Troice and the Janvey, et al. v. Willis of Colorado, Inc., et al. action discussed below stipulated to the consolidation of the two actions for pre-trial purposes under Rule 42(a) of the Federal Rules of Civil Procedure. On March 28, 2014, the Court 'so ordered' that stipulation and, thus, consolidated Troice and Janvey for pre-trial purposes under Rule 42(a).

On September 16, 2014, the court (a) denied the plaintiffs' request to defer resolution of the defendants' motions to dismiss, but granted the plaintiffs' request to enter a scheduling order; (b) requested the submission of supplemental briefing by all parties on the defendants' motions to dismiss, which the parties submitted on September 30, 2014; and (c) entered an order setting a schedule for briefing and discovery regarding plaintiffs' motion for class certification, which schedule, among other things, provided for the submission of the plaintiffs' motion for class certification (following the completion of briefing and discovery) on April 20, 2015.

On December 15, 2014, the court granted in part and denied in part the defendants' motions to dismiss. On January 30, 2015, the defendants except Willis Group Holdings plc answered the Third Amended Class Action Complaint.

On April 20, 2015, the plaintiffs filed their motion for class certification, the defendants filed their opposition to plaintiffs' motion, and the plaintiffs filed their reply in further support of the motion. Pursuant to an agreed stipulation also filed with the court on April 20, 2015, the defendants on June 4, 2015 filed sur-replies in further opposition to the motion. The Court has not yet scheduled a hearing on the motion.

On June 19, 2015, Willis Group Holdings plc filed a motion to dismiss the complaint for lack of personal jurisdiction. On November 17, 2015, Willis Group Holdings plc withdrew the motion.

On March 31, 2016, the parties in the Troice and Janvey actions entered into a settlement in principle that is described in more detail below.

- *Ranni v. Willis of Colorado, Inc., et al.*, C.A. No. 9-22085, was filed on July 17, 2009 against Willis Group Holdings plc and Willis of Colorado, Inc. in the U.S. District Court for the Southern District of Florida. The complaint was filed on behalf of a putative class of Venezuelan and other South American Stanford investors and alleges claims under Section 10(b) of the Securities Exchange Act of 1934 (and Rule 10b-5 thereunder) and Florida statutory and common law and seeks damages in an amount to be determined at trial. On October 6, 2009, *Ranni* was transferred, for consolidation or coordination with other Stanford-related actions (including *Troice*), to the Northern District of Texas by the U.S. Judicial Panel on Multidistrict Litigation (the 'JPML'). The defendants have not yet responded to the complaint in *Ranni*. On August 26, 2014, the plaintiff filed a notice of voluntary dismissal of the action without prejudice.
- *Canabal, et al. v. Willis of Colorado, Inc., et al.*, C.A. No. 3:9-CV-1474-D, was filed on August 6, 2009 against Willis Group Holdings plc, Willis of Colorado, Inc. and the same Willis associate named as a defendant in *Troice*, among others, also in the Northern District of Texas. The complaint was filed individually and on behalf of a putative class of Venezuelan Stanford investors, alleged claims under Texas statutory and common law and sought damages in excess of \$1 billion, punitive damages, attorneys' fees and costs. On December 18, 2009, the parties in *Troice* and *Canabal* stipulated to the consolidation of those actions (under the *Troice* civil action number), and, on December 31, 2009, the plaintiffs in *Canabal* filed a notice of dismissal, dismissing the action without prejudice.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

- Rupert, et al. v. Winter, et al.*, Case No. 2009C115137, was filed on September 14, 2009 on behalf of 97 Stanford investors against Willis Group Holdings plc, Willis of Colorado, Inc. and the same Willis associate, among others, in Texas state court (Bexar County). The complaint alleges claims under the Securities Act of 1933, Texas and Colorado statutory law and Texas common law and seeks special, consequential and treble damages of more than \$300 million, attorneys' fees and costs. On October 20, 2009, certain defendants, including Willis of Colorado, Inc., (i) removed *Rupert* to the U.S. District Court for the Western District of Texas, (ii) notified the JPML of the pendency of this related action and (iii) moved to stay the action pending a determination by the JPML as to whether it should be transferred to the Northern District of Texas for consolidation or coordination with the other Stanford-related actions. On April 1, 2010, the JPML issued a final transfer order for the transfer of *Rupert* to the Northern District of Texas. On January 24, 2012, the court remanded *Rupert* to Texas state court (Bexar County), but stayed the action until further order of the court. On August 13, 2012, the plaintiffs filed a motion to lift the stay, which motion was denied by the court on September 16, 2014. On October 10, 2014, the plaintiffs appealed the court's denial of their motion to lift the stay to the U.S. Court of Appeals for the Fifth Circuit. On January 5, 2015, the Fifth Circuit consolidated the appeal with the appeal in the *Rishmague, et ano. v. Winter, et al.* action discussed below, and the consolidated appeal, was fully briefed as of March 24, 2015. Oral argument on the consolidated appeal was held on September 2, 2015. On September 16, 2015, the Fifth Circuit affirmed. The defendants have not yet responded to the complaint in *Rupert*.
- Casanova, et al. v. Willis of Colorado, Inc., et al.*, C.A. No. 3:10-CV-1862-O, was filed on September 16, 2010 on behalf of seven Stanford investors against Willis Group Holdings plc, Willis Limited, Willis of Colorado, Inc. and the same Willis associate, among others, also in the Northern District of Texas. The complaint alleges claims under Texas statutory and common law and seeks actual damages in excess of \$5 million, punitive damages, attorneys' fees and costs. On February 13, 2015, the parties filed an Agreed Motion for Partial Dismissal pursuant to which they agreed to the dismissal of certain claims pursuant to the motion to dismiss decisions in the *Troice* action discussed above and the *Janvey* action discussed below. Also on February 13, 2015, the defendants except Willis Group Holdings plc answered the complaint in the *Casanova* action. On June 19, 2015, Willis Group Holdings plc filed a motion to dismiss the complaint for lack of personal jurisdiction. Plaintiffs have not opposed the motion.
- Rishmague, et ano. v. Winter, et al.*, Case No. 2011CI2585, was filed on March 11, 2011 on behalf of two Stanford investors, individually and as representatives of certain trusts, against Willis Group Holdings plc, Willis of Colorado, Inc., Willis of Texas, Inc. and the same Willis associate, among others, in Texas state court (Bexar County). The complaint alleges claims under Texas and Colorado statutory law and Texas common law and seeks special, consequential and treble damages of more than \$37 million and attorneys' fees and costs. On April 11, 2011, certain defendants, including Willis of Colorado, Inc., (i) removed *Rishmague* to the Western District of Texas, (ii) notified the JPML of the pendency of this related action and (iii) moved to stay the action pending a determination by the JPML as to whether it should be transferred to the Northern District of Texas for consolidation or coordination with the other Stanford-related actions. On August 8, 2011, the JPML issued a final transfer order for the transfer of *Rishmague* to the Northern District of Texas, where it is currently pending. On August 13, 2012, the plaintiffs joined with the plaintiffs in the *Rupert* action in their motion to lift the court's stay of the *Rupert* action. On September 9, 2014, the court remanded *Rishmague* to Texas state court (Bexar County), but stayed the action until further order of the court and denied the plaintiffs' motion to lift the stay. On October 10, 2014, the plaintiffs appealed the court's denial of their motion to lift the stay to the Fifth Circuit. On January 5, 2015, the Fifth Circuit consolidated the appeal with the appeal in the *Rupert* action, and the consolidated appeal was fully briefed as of March 24, 2015. Oral argument on the consolidated appeal was held on September 2, 2015. On September 16, 2015, the Fifth Circuit affirmed. The defendants have not yet responded to the complaint in *Rishmague*.



**14. COMMITMENTS AND CONTINGENCIES (continued)**

- MacArthur v. Winter, et al.*, Case No. 2013-07840, was filed on February 8, 2013 on behalf of two Stanford investors against Willis Group Holdings plc, Willis of Colorado, Inc., Willis of Texas, Inc. and the same Willis associate, among others, in Texas state court (Harris County). The complaint alleges claims under Texas and Colorado statutory law and Texas common law and seeks actual, special, consequential and treble damages of approximately \$4 million and attorneys' fees and costs. On March 29, 2013, Willis of Colorado, Inc. and Willis of Texas, Inc. (i) removed *MacArthur* to the U.S. District Court for the Southern District of Texas and (ii) notified the JPML of the pendency of this related action. On April 2, 2013, Willis of Colorado, Inc. and Willis of Texas, Inc. filed a motion in the Southern District of Texas to stay the action pending a determination by the JPML as to whether it should be transferred to the Northern District of Texas for consolidation or coordination with the other Stanford-related actions. Also on April 2, 2013, the court presiding over *MacArthur* in the Southern District of Texas transferred the action to the Northern District of Texas for consolidation or coordination with the other Stanford-related actions. On September 29, 2014, the parties stipulated to the remand (to Texas state court (Harris County)) and stay of *MacArthur* until further order of the court (in accordance with the court's September 9, 2014 decision in *Rishmague* (discussed above)), which stipulation was 'so ordered' by the court on October 14, 2014. The defendants have not yet responded to the complaint in *MacArthur*.
- Florida suits*: On February 14, 2013, five lawsuits were filed against Willis Group Holdings plc, Willis Limited and Willis of Colorado, Inc. in Florida state court (Miami-Dade County) alleging violations of Florida common law. The five suits are: (1) *Barbar, et al. v. Willis Group Holdings Public Limited Company, et al.*, Case No. 13-05666CA27, filed on behalf of 35 Stanford investors seeking compensatory damages in excess of \$30 million; (2) *de Gadala-Maria, et al. v. Willis Group Holdings Public Limited Company, et al.*, Case No. 13-05669CA30, filed on behalf of 64 Stanford investors seeking compensatory damages in excess of \$83.5 million; (3) *Ranni, et ano. v. Willis Group Holdings Public Limited Company, et al.*, Case No. 13-05673CA06, filed on behalf of two Stanford investors seeking compensatory damages in excess of \$3 million; (4) *Tisminesky, et al. v. Willis Group Holdings Public Limited Company, et al.*, Case No. 13-05676CA09, filed on behalf of 11 Stanford investors seeking compensatory damages in excess of \$6.5 million; and (5) *Zacarias, et al. v. Willis Group Holdings Public Limited Company, et al.*, Case No. 13-05678CA11, filed on behalf of 10 Stanford investors seeking compensatory damages in excess of \$12.5 million. On June 3, 2013, Willis of Colorado, Inc. removed all five cases to the Southern District of Florida and, on June 4, 2013, notified the JPML of the pendency of these related actions. On June 10, 2013, the court in *Tisminesky* issued an order *sua sponte* staying and administratively closing that action pending a determination by the JPML as to whether it should be transferred to the Northern District of Texas for consolidation and coordination with the other Stanford-related actions. On June 11, 2013, Willis of Colorado, Inc. moved to stay the other four actions pending the JPML's transfer decision. On June 20, 2013, the JPML issued a conditional transfer order for the transfer of the five actions to the Northern District of Texas, the transmittal of which was stayed for seven days to allow for any opposition to be filed. On June 28, 2013, with no opposition having been filed, the JPML lifted the stay, enabling the transfer to go forward.

On September 30, 2014, the court denied the plaintiffs' motion to remand in *Zacarias*, and, on October 3, 2014, the court denied the plaintiffs' motions to remand in *Tisminesky* and *de Gadala Maria*. On December 3, 2014 and March 3, 2015, the court granted the plaintiffs' motions to remand in *Barbar* and *Ranni*, respectively, remanded both actions to Florida state court (Miami-Dade County) and stayed both actions until further order of the court. On January 2, 2015 and April 1, 2015, the plaintiffs in *Barbar* and *Ranni*, respectively, appealed the court's December 3, 2014 and March 3, 2015 decisions to the Fifth Circuit. On April 22, 2015 and July 22, 2015, respectively, the Fifth Circuit dismissed the *Barbar* and *Ranni* appeals *sua sponte* for lack of jurisdiction. The defendants have not yet responded to the complaints in *Ranni* or *Barbar*.

On April 1, 2015, the defendants except Willis Group Holdings plc filed motions to dismiss the complaints in *Zacarias*, *Tisminesky* and *de Gadala-Maria*. On June 19, 2015, Willis Group Holdings plc filed motions to dismiss the complaints in *Zacarias*, *Tisminesky* and *de Gadala-Maria* for lack of personal jurisdiction. On July 15, 2015, the court dismissed the complaint in *Zacarias* in its entirety with leave to replead within 21 days. On July 21, 2015, the court dismissed the complaints in *Tisminesky* and *de Gadala-Maria* in their entirety with leave to replead within 21 days. On August 6, 2015, the plaintiffs in *Zacarias*, *Tisminesky* and *de Gadala-Maria* filed amended complaints (in which, among other things, Willis Group Holdings plc was no longer named as a defendant). On September 11, 2015, the defendants filed motions to dismiss the amended complaints. The motions await disposition by the court.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

- *Janvey, et al. v. Willis of Colorado, Inc., et al.*, Case No. 3:13-CV-03980-D, was filed on October 1, 2013 also in the Northern District of Texas against Willis Group Holdings plc, Willis Limited, Willis North America Inc., Willis of Colorado, Inc. and the same Willis associate. The complaint was filed (i) by Ralph S. Janvey, in his capacity as Court-Appointed Receiver for the Stanford Receivership Estate, and the Official Stanford Investors Committee (the ‘OSIC’) against all defendants and (ii) on behalf of a putative, worldwide class of Stanford investors against Willis North America Inc. Plaintiffs Janvey and the OSIC allege claims under Texas common law and the court’s Amended Order Appointing Receiver, and the putative class plaintiffs allege claims under Texas statutory and common law. Plaintiffs seek actual damages in excess of \$1 billion, punitive damages and costs. As alleged by the Stanford Receiver, the total amount of collective losses allegedly sustained by all investors in Stanford certificates of deposit is approximately \$4.6 billion.

On November 15, 2013, plaintiffs in *Janvey* filed the operative First Amended Complaint, which added certain defendants unaffiliated with Willis. On February 28, 2014, the defendants filed motions to dismiss the First Amended Complaint, which motions, other than with respect to Willis Group Holding plc’s motion to dismiss for lack of personal jurisdiction, were granted in part and denied in part by the court on December 5, 2014. On December 22, 2014, Willis filed a motion to amend the court’s December 5 order to certify an interlocutory appeal to the Fifth Circuit, and, on December 23, 2014, Willis filed a motion to amend and, to the extent necessary, reconsider the court’s December 5 order. On January 16, 2015, the defendants answered the First Amended Complaint. On January 28, 2015, the court denied Willis’s motion to amend the court’s December 5 order to certify an interlocutory appeal to the Fifth Circuit. On February 4, 2015, the court granted Willis’s motion to amend and, to the extent necessary, reconsider the December 5 order.

As discussed above, on March 25, 2014, the parties in *Troice* and *Janvey* stipulated to the consolidation of the two actions for pre-trial purposes under Rule 42(a) of the Federal Rules of Civil Procedure. On March 28, 2014, the Court ‘so ordered’ that stipulation and, thus, consolidated *Troice* and *Janvey* for pre-trial purposes under Rule 42(a).

On January 26, 2015, the court entered an order setting a schedule for briefing and discovery regarding the plaintiffs’ motion for class certification, which schedule, among other things, provided for the submission of the plaintiffs’ motion for class certification (following the completion of briefing and discovery) on July 20, 2015. By letter dated March 4, 2015, the parties requested that the court consolidate the scheduling orders entered in *Troice* and *Janvey* to provide for a class certification submission date of April 20, 2015 in both cases. On March 6, 2015, the court entered an order consolidating the scheduling orders in *Troice* and *Janvey*, providing for a class certification submission date of April 20, 2015 in both cases, and vacating the July 20, 2015 class certification submission date in the original *Janvey* scheduling order.

On November 17, 2015, Willis Group Holdings plc withdrew its motion to dismiss for lack of personal jurisdiction.

- *Martin v. Willis of Colorado, Inc., et al.*, Case No. 201652115, was filed on August 5, 2016, on behalf of one Stanford investor against Willis Group Holdings plc, Willis Limited, Willis of Colorado, Inc. and the same Willis associate in Texas state court (Harris County). The complaint alleges claims under Texas statutory and common law and seeks actual damages of less than \$100,000, exemplary damages, attorneys’ fees and costs. On September 12, 2016, the plaintiff filed an amended complaint, which added five more Stanford investors as plaintiffs and seeks damages in excess of \$1 million. The defendants have not yet responded to the amended complaint in *Martin*.
- *Abel, et al. v. Willis of Colorado, Inc., et al.*, C.A. No. 3:16-cv-2601, was filed on September 12, 2016, on behalf of more than 300 Stanford investors against Willis Group Holdings plc, Willis Limited, Willis of Colorado, Inc. and the same Willis associate, also in the Northern District of Texas. The complaint alleges claims under Texas statutory and common law and seeks actual damages in excess of \$135 million, exemplary damages, attorneys’ fees and costs. On November 10, 2016, the plaintiffs filed an amended complaint, which, among other things, added several more Stanford investors as plaintiffs. The defendants have not yet responded to the complaint in *Abel*.

The plaintiffs in *Janvey* and *Troice* and the other actions above seek overlapping damages, representing either the entirety or a portion of the total alleged collective losses incurred by investors in Stanford certificates of deposit, notwithstanding the fact that Legacy Willis acted as broker of record for only a portion of time that Stanford issued certificates of deposit. In the fourth quarter of 2015, the Company recognized a \$70 million litigation provision for loss contingencies relating to the Stanford matters based on its ongoing review of a variety of factors as required by accounting standards.

## 14. COMMITMENTS AND CONTINGENCIES (continued)

On March 31, 2016, the Company entered into a settlement in principle for \$120 million relating to this litigation, and we therefore increased our provisions by \$50 million for this adjusting subsequent event in the Consolidated Financial Statements for 2015. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016. Further details on this settlement in principle are given below.

The settlement is contingent on a number of conditions, including court approval of the settlement and a bar order prohibiting any continued or future litigation against Willis related to Stanford, which may not be given. Therefore, the ultimate resolution of these matters may differ from the amount provided for. The Company continues to dispute the allegations and, to the extent litigation proceeds, to defend the lawsuits vigorously.

*Settlement.* On March 31, 2016, the Company entered into a settlement in principle, as reflected in a Settlement Term Sheet, relating to the Stanford litigation matter. The Company agreed to the Settlement Term Sheet to eliminate the distraction, burden, expense and uncertainty of further litigation. In particular, if the settlement and the related bar orders described below are approved by the Court and become effective, the Company (a newly-combined firm) would be able to conduct itself with the bar orders' protection from the continued overhang of matters alleged to have occurred approximately a decade ago. Further, the Settlement Term Sheet provided that the parties understood and agreed that there is no admission of liability or wrongdoing by the Company. The Company expressly denies any liability or wrongdoing with respect to the matters alleged in the Stanford litigation. Specifically, the parties to the Settlement Term Sheet are Ralph S. Janvey (in his capacity as the Court-appointed receiver (the 'Receiver') for The Stanford Financial Group and its affiliated entities in receivership (collectively, 'Stanford')), the Official Stanford Investors Committee, Samuel Troice, Martha Diaz, Paula Gilly-Flores, Punga Punga Financial, Ltd., Manuel Canabal, Daniel Gomez Ferreiro and Promotora Villa Marina, C.A. (collectively, 'Plaintiffs'), on the one hand, and Willis Towers Watson Public Limited Company (formerly Willis Group Holdings Public Limited Company), Willis Limited, Willis North America Inc. and Willis of Colorado, Inc. (collectively, 'Defendants'), on the other hand.

Under the terms of the Settlement Term Sheet, the parties agreed in principle to settle and dismiss the *Janvey* and *Troice* actions (collectively, the 'Actions') and all current or future claims arising from or related to Stanford. If the settlement, including the bar orders described below, is approved by the Court and is not subject to further appeal, Willis North America Inc. will make a one-time cash payment of \$120 million to the Receiver to be distributed to all Stanford investors who have claims recognized by the Receiver pursuant to the distribution plan in place at the time the payment is made.

The Settlement Term Sheet also provided the parties' agreement to seek the Court's entry of bar orders prohibiting any continued or future litigation against the Defendants and their related parties of claims relating to Stanford, whether asserted to date or not. The terms of the bar orders therefore would prohibit all Stanford-related litigation described above, and not just the Actions, including any pending matters and any actions that may be brought in the future. Final Court approval of these bar orders is a condition of the settlement.

On or about August 31, 2016, the parties to the settlement signed a formal Settlement Agreement memorializing the terms of the settlement as originally set forth in the Settlement Term Sheet. On September 7, 2016, the plaintiffs in the *Troice* and *Janvey* actions filed with the Court a motion to approve the settlement. On October 19, 2016, the Court preliminarily approved the settlement. Several of the plaintiffs in the other actions above have objected to the settlement. A hearing to consider final approval of the settlement was held on January 20, 2017 and the Court reserved decision. The Actions are stayed pending final approval of the settlement. The timing of any final decision is subject to the discretion of the Court and any appeal, and the Court may decide not to approve the settlement.

### *City of Houston*

On August 1, 2014, the City of Houston ('plaintiff') filed suit against Legacy Towers Watson in the United States District Court for the Southern District of Texas, Houston Division. On March 8, 2016, plaintiff filed its First Amended Complaint.

In the amended complaint, plaintiff alleges various deficiencies in pension actuarial work-product and advice stated to have been provided by Legacy Towers Watson's predecessor firm, Towers Perrin, in its capacity as principal actuary to the Houston Firefighters' Relief and Retirement Fund (the 'Fund'). Towers Perrin is stated to have acted in this capacity between "the early 1980s until 2003".

## 14. COMMITMENTS AND CONTINGENCIES (continued)

In particular, the amended complaint alleges “misrepresentations and miscalculations” in valuation reports allegedly issued by Towers Perrin from 2000 through 2002 upon which plaintiff claims to have relied. Plaintiff asserts that Towers Perrin assigned a new team of actuaries to the Fund in 2002 “to correct Towers’ own earlier mistakes” and that the new team “altered” certain calculations which “increased the actuarial accrued liability by \$163 million.” Plaintiff claims that the reports indicated that the City’s minimum contribution percentages to the Fund would remain in place through at least 2019; and that existing benefits under the Fund could be increased, and new benefits could be added, without increasing plaintiff’s financial burden, and without increasing plaintiff’s rate of annual contributions to the Fund. The amended complaint alleges that plaintiff relied on these reports when supporting a new benefit package for the Fund. These reports, and other advice, are alleged, among other things, to have been negligent, to have misrepresented the present and future financial condition of the Fund and the contributions required to be made by plaintiff to support those benefits. Plaintiff asserts that, but for Towers Perrin’s alleged negligence and misrepresentations, plaintiff would not have supported the benefit increase, and that such increased benefits would not and could not have been approved or enacted. It is further asserted that Towers Perrin’s alleged “negligence and misrepresentations damaged the City to the tune of tens of millions of dollars in annual contributions.”

Plaintiff seeks the award of punitive damages, actual damages, exemplary damages, special damages, attorney’s fees and expenses, costs of suit, pre- and post- judgment interest at the maximum legal rate, and other unspecified legal and equitable relief. Plaintiff has not yet quantified fully its asserted damages.

On October 10, 2014, Legacy Towers Watson filed a motion to dismiss plaintiff’s entire complaint on the basis that the complaint fails to state a claim upon which relief can be granted. On November 21, 2014, the City filed its response in opposition to Legacy Towers Watson’s motion to dismiss. On September 23, 2015, Legacy Towers Watson’s motion to dismiss was denied by the United States District Court for the Southern District of Texas, Houston Division. The court entered a scheduling order setting trial for May 30, 2017. On June 20, 2016, the Court entered an amended scheduling order setting trial for October 31, 2017. Trial has since been re-scheduled for January 16, 2018.

Given the stage of the proceedings, the Company is currently unable to provide an estimate of the reasonably possible loss or range of loss. The Company disputes the allegations, and intends to defend the lawsuit vigorously.

### *British Coal Staff Superannuation Scheme*

On September 4, 2014, Towers Watson Limited (‘TWL’), a wholly-owned subsidiary of Legacy Towers Watson, received a Letter of Claim (the ‘Demand Letter’) on behalf of Coal Staff Superannuation Scheme Trustees Limited (the ‘Trustee’), trustee of the British Coal Staff Superannuation Scheme (the ‘Scheme’). The Demand Letter was sent under the Professional Negligence Pre-Action Protocol, a pre-action dispute resolution procedure which applies in England and Wales.

In the Demand Letter, it is asserted that the Trustee has a claim against TWL in respect of allegedly negligent investment consulting advice provided to it by Watson Wyatt Limited, in the United Kingdom, in particular with regard to a currency hedge that was implemented in connection with the Scheme’s investment of £250 million in a Bluebay local currency emerging market debt fund in August 2008 (the ‘Investment’). It is alleged that the currency hedge has caused a substantial loss to the Scheme, compensatory damages for which losses are quantified at £47.5 million, for the period August 2008 to October 2012.

TWL sent a Letter of Response on December 23, 2014.

On November 11, 2015, the Trustee issued a claim form in the English High Court of Justice, Queen’s Bench Division, Commercial Court, in which TWL is named defendant. The Trustee asserts that, in breach of retainer, or of a duty of care alleged to have been owed under contract or at common law, TWL acted negligently and/or provided negligent advice in connection with the Investment and/or in relation to the monitoring of the performance of the Investment. The Trustee asserts that, but for the alleged breaches, the Scheme would have achieved a return on the Investment that was approximately £47.5 million greater than the return on the Investment which it ultimately achieved, in the period between August 2008 and 28 September 2012. The claim form was not served on TWL within the validity period.

Based on current information, the Company does not anticipate any further developments, and considers the matter to be closed.

### *Meriter Health Services*

On January 6, 2015, Meriter Health Services, Inc. (‘Meriter’), plan sponsor of the Meriter Health Services Employee Retirement Plan (the ‘Plan’) filed a complaint in Wisconsin state court against Towers Watson Delaware Inc. (‘TWDE’), a wholly-owned subsidiary of the Company, and against its former lawyers, individual actuaries, and insurers. In the Third

**14. COMMITMENTS AND CONTINGENCIES (continued)**

Amended Complaint, served on April 12, 2016, Meriter alleges that its former actuaries and other entities and individuals, including Meriter's former lawyers, acted negligently concerning the benefits consulting advice provided to Meriter in the design and drafting of the Plan document in 1987, in the Plan redesign in 2002, and in finalizing the Plan amendment and drafting the ERISA section 204(h) notices in 2002. Additionally, Meriter asserts that the actuary defendants breached alleged fiduciary duties to advise Meriter regarding the competency of Meriter's then ERISA counsel. Meriter also has asserted causes of action for contribution, indemnity, and equitable subrogation related to amounts paid to settle a class action lawsuit related to the Plan that was filed by Plan participants against Meriter in 2010, alleging a number of ERISA violations and related claims. Meriter settled that lawsuit in 2015 for \$82 million. In this matter, Meriter seeks damages of approximately \$190 million, which includes amounts it claims to have paid to settle and defend the class action litigation, and amounts it claims to have incurred as a result the alleged negligence. Meriter seeks to recover these alleged damages from TWDE and the other defendants. Between November 2016 and March 2017, Meriter and the lawyer defendants have reached settlements regarding the allegations asserted in this case. The settlement amounts are undisclosed and confidential as between Meriter and the lawyer defendants.

On January 12, 2016, TWDE and the other defendants filed a motion for partial summary judgment seeking dismissal of Meriter's negligence and breach of fiduciary duty claims. On April 18, 2016, TWDE and the other defendants filed a motion to dismiss the contribution, indemnification, and equitable subrogation claims. On May 4, 2016, the parties appeared for oral argument on the motion for partial summary judgment, which the court granted in part and denied in part. The court dismissed the fiduciary duty claims, but not the negligence claims. Meriter subsequently moved for reconsideration of the dismissal of its breach of fiduciary duty claims, which motion was denied as to TWDE on August 16, 2016. On June 22, 2016, the court granted in part TWDE's motion to dismiss, and dismissed the contribution and equitable subrogation claims, but denied the motion as to Meriter's indemnification claim without prejudice to the right of any defendant to raise the issue again by later motion.

On March 15, 2017, the court entered a revised scheduling order. Trial has been set for December 11-29, 2017, and dispositive motions will be argued on September 7, 2017.

Based on all of the information to date, and given the stage of the matter, TWDE is currently unable to provide an estimate of the reasonably possible loss or range of loss. TWDE disputes the allegations, and intends to defend the matter vigorously.

*Elma Sanchez, et. al*

On August 6, 2013, three individual plaintiffs filed a putative class action suit against the California Public Employees' Retirement System ('CalPERS') in Los Angeles County Superior Court. On January 10, 2014, plaintiffs filed an amended complaint, which added as defendants several members of CalPERS' Board of Administration and three Legacy Towers Watson entities, Towers Watson & Co., Towers Perrin, and Tillinghast-Towers Perrin ('Towers Perrin').

Plaintiffs' claims all relate to a self-funded, non-profit Long Term Care Program that CalPERS established in 1995 (the 'LTC Program'). Plaintiffs' claims seek unspecified damages allegedly resulting from CalPERS' 2012 decision to implement in 2015 and 2016 an 85 percent increase in the premium rates of certain of the long term care policies it issued between 1995 and 2004 (the '85% Increase').

The amended complaint alleges claims against CalPERS for breach of contract and breach of fiduciary duty. It also includes a single cause of action against Towers Perrin for professional negligence relating to actuarial services Towers Perrin provided to CalPERS relating to the LTC Program between 1995 and 2004.

Plaintiffs principally allege that CalPERS mismanaged the LTC Program and its investment assets in multiple respects and breached its contractual and fiduciary duties to plaintiffs and other class members by impermissibly imposing the 85% Increase to make up for investment losses. Plaintiffs also allege that Towers Perrin recommended inadequate initial premium rates at the outset of the LTC Program and used unspecified inappropriate assumptions in its annual valuations for CalPERS. Plaintiffs claim that Towers Perrin's allegedly negligent acts and omissions, prior to the end of its retainer in 2004, contributed to the need for the 85% Increase.

In May 2014, the court denied the motions to dismiss filed by CalPERS and Towers Perrin addressed to the sufficiency of the complaint. On January 28, 2016, the court granted plaintiffs' motion for class certification. The certified class as currently defined includes those long term care policy holders whose policies were "subject to" the 85% Increase. The court thereafter set an October 2, 2017 trial date.

# 14. COMMITMENTS AND CONTINGENCIES (continued)

In November 2016, Towers Perrin filed a motion for summary judgment asserting that plaintiffs' negligence is barred by the statute of limitations and that plaintiffs, as a matter of law, were not owed the required legal duty by Towers Perrin. The Court set a hearing date for March 8, 2017, on this motion. On March 1, 2017, plaintiffs and Towers Perrin participated in a mediation, which resulted in a non-binding settlement in principle between those parties in the amount of \$9.75 million, that remains subject to finalization and approval by the Court. In the event the Court does not grant approval of the settlement in principle, Towers Perrin will continue to dispute the allegations and will defend the lawsuit vigorously. The Court moved the hearing on Towers Perrin's summary judgment motion to June 16, 2017. The Company estimates the reasonably possible loss in connection with plaintiffs' amended complaint to be \$9.75 million.

## U.K. Regulatory Investigation

On April 4, 2017 the Financial Conduct Authority ('FCA') informed Willis Limited, our U.K. brokerage subsidiary, that it has opened a formal investigation into possible agreements/concerted practices in the aviation broking sector, which represents less than \$100 million of the Company's revenues. The Company is cooperating with the FCA. Given the status of the investigation, the Company is currently unable to assess the terms on which this investigation will be resolved, and thus is unable to provide a reasonable estimate of any potential loss or range of loss.

# 15. SUPPLEMENTARY INFORMATION FOR CERTAIN BALANCE SHEET ACCOUNTS

Additional details of specific balance sheet accounts are detailed below:

Accounts receivable, net consists of the following:

	December 31, 2016	December 31, 2015
Billed, net of provision for doubtful accounts of \$40 million and \$22 million	\$ 1,789	\$ 1,051
Accrued and unbilled, at estimated net realizable value	291	207
Accounts receivable, net	<u>\$ 2,080</u>	<u>\$ 1,258</u>

Accounts receivable are stated at estimated net realizable values. The provisions shown below as of the end of each period, are recorded as the amounts considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

	December 31, 2016	December 31, 2015	December 31, 2014
Balance at beginning of year	\$ 22	\$ 12	\$ 13
Additions charged to costs and expenses	36	5	4
Charges to other accounts - acquisitions	8	11	—
Deductions / other movements	(27)	(7)	(6)
Foreign exchange differences	1	1	1
Balance at end of year	<u>\$ 40</u>	<u>\$ 22</u>	<u>\$ 12</u>

Other current assets consist of the following:

	December 31, 2016	December 31, 2015
Prepayments and accrued income	\$ 131	\$ 86
Derivatives and investments	32	29
Deferred compensation plan assets	15	20
Retention incentives	7	14
Corporate income and other taxes	97	66
Other current assets	55	40
Total prepaid and other current assets	<u>\$ 337</u>	<u>\$ 255</u>

## 15. SUPPLEMENTARY INFORMATION FOR CERTAIN BALANCE SHEET ACCOUNTS (continued)

Other non-current assets consist of the following:

	December 31, 2016	December 31, 2015
Prepayments and accrued income	\$ 15	\$ 23
Deferred compensation plan assets	111	102
Accounts receivable, net	27	30
Other investments	30	42
Other non-current assets	96	12
Total other non-current assets	<u>\$ 279</u>	<u>\$ 209</u>

Other current liabilities consist of the following:

	December 31, 2016	December 31, 2015
Accounts payable	\$ 117	\$ 75
Contingent and deferred consideration on acquisition	53	68
Payroll related liabilities	200	82
Derivatives	80	31
Third party commissions	184	177
Other current liabilities	197	125
Total other current liabilities	<u>\$ 831</u>	<u>\$ 558</u>

Other non-current liabilities consist of the following:

	December 31, 2016	December 31, 2015
Incentives from lessors	\$ 133	\$ 175
Deferred compensation plan liability	111	102
Contingent and deferred consideration on acquisitions	89	156
Derivatives	51	27
Other non-current liabilities	148	73
Total other non-current liabilities	<u>\$ 532</u>	<u>\$ 533</u>

## 16. EMPLOYEES

The average number of persons, including Executive Directors, employed by the Company are approximated below:

	Year ended December 31, 2016 <sup>(i)</sup>
	(average number)
Human Capital and Benefits	12,300
Corporate Risk and Broking	12,700
Investment, Risk and Reinsurance	4,600
Exchange Solutions	4,700
Total operating segments	34,300
Corporate and Other	7,200
Total average number of employees for the year <sup>(ii)</sup>	41,500

- (i) As discussed in Note 4 to the Consolidated Financial Statements, new reportable operating segments were introduced in 2016 following the Merger. Old Legacy Willis operating segments ceased to be used, with relevant employees reallocated either to the new operating segments (excluding Exchange Solutions) or (for global shared service center staff) to Corporate and Other.
- (ii) Based on the average for each month in the financial year.

	Year ended December 31, 2015
	(average number)
Willis GB	2,600
Willis Capital, Wholesale & Reinsurance	2,400
Willis North America	5,500
Willis International	6,900
Total operating segments	17,400
Corporate and Other	1,900
Total average number of employees for the year <sup>(i)</sup>	19,300

- (i) Based on the average for each month in the financial year.

	Year ended December 31, 2014
	(average number)
Willis GB	2,700
Willis Capital, Wholesale & Reinsurance	2,000
Willis North America	5,500
Willis International	6,300
Total operating segments	16,500
Corporate and Other	1,800
Total average number of employees for the year <sup>(i)</sup>	18,300

- (i) Based on the average for each month in the financial year.



## 16. EMPLOYEES (continued)

Staff costs were as follows:

	Years ended December 31,		
	2016	2015 <sup>(iii)</sup>	2014
Salaries and other compensation <sup>(i)</sup>	\$ 4,202	\$ 2,098	\$ 2,069
Share-based compensation	123	64	52
Severance costs <sup>(ii)</sup>	8	7	8
Social security costs	346	150	147
Retirement benefits — defined benefit plan income	(98)	(78)	(17)
Retirement benefits — defined contribution plan expense	65	62	55
Total salaries and benefits expense	\$ 4,646	\$ 2,303	\$ 2,314
Restructuring costs termination benefits	68	36	16
Transaction and integration expenses	1	3	—
Total salaries and benefits expense, including termination benefits	\$ 4,715	\$ 2,342	\$ 2,330
Staff costs capitalized	96	8	8
Total staff costs	\$ 4,811	\$ 2,350	\$ 2,338

- (i) Salaries and other compensation comprises: \$3,078 million salaries and directors' fees, \$1,086 million benefits and incentive awards and \$10 million amortization of cash retention awards (2015: \$1,531 million, \$559 million and \$11 million, respectively; 2014: \$1,543 million, \$516 million and \$10 million, respectively).
- (ii) Severance costs have arisen in the normal course of business.
- (iii) As described in Note 2 to the Consolidated Financial Statements, for 2015 \$3 million has been reclassified from Salary and benefits to Transaction and integration expenses in order to present information on a comparable basis.

## 17. DIRECTORS' AND AUDITOR'S REMUNERATION

Directors' remuneration set forth below represents remuneration for services to Willis Towers Watson.

Directors' remuneration in respect of services to the Parent Company are included and also disclosed in Note 4 to the Parent Company Financial Statements.

## 17. DIRECTORS' AND AUDITOR'S REMUNERATION (continued)

An analysis of directors' remuneration is as follows:

	Years ended December 31,		
	2016	2015	2014
Aggregate emoluments in respect of qualifying services <sup>(i) (ii)</sup>			
Director services <sup>(iii)</sup>	\$ 3	\$ 3	\$ 3
Managerial services <sup>(iv)</sup>	13	4	3
Total emoluments	\$ 16	\$ 7	\$ 6
Aggregate long term incentive scheme amounts in respect of qualifying services (excluding share options) - managerial services <sup>(iv)</sup>	—	4	4
Aggregate share options in respect of qualifying services - managerial services <sup>(iv)</sup>	—	1	2
Aggregate termination payments - managerial services <sup>(iv)</sup>	14	—	—
Total directors' remuneration <sup>(v) (vi) (vii) (viii)</sup>	\$ 30	\$ 12	\$ 12

- (i) Emoluments information includes salaries, fees, bonuses, any sums paid by way of expenses allowance in so far as those sums are chargeable to income tax, and the estimated money value of any other benefits received otherwise than in cash, including vested share awards but excluding the value of any unvested share awards.
- (ii) In connection with the Company's redomicile to Ireland, the Company agreed to indemnify the directors in the event they may need to pay additional taxes as a result of the redomicile. The above amounts reflect gross-up payments made to the non-employee directors in 2016 and 2015 in connection with taxes paid by them. The Company reimburses directors for reasonable travel and related expenses incurred in connection with their participation in Board or Board committee meetings, including the impact of excess foreign taxes for which a home country credit is either limited or unavailable. The Company also hired auditors in Dublin, Ireland to prepare the directors' Irish tax returns, whose fees are expected to be less than \$50,000 in the aggregate.
- (iii) Includes director's fees of £nil (2015: £50,000; 2014: £50,000) received by Sir Jeremy Hanley, while he was a Director of the Company, in connection with his appointment as a director of a subsidiary of the Company.
- (iv) Directors' remuneration for managerial services represents remuneration of Mr. Haley (CEO) and Mr. Casserley (former CEO of Legacy Willis and Deputy CEO and President of Willis Towers Watson) for services to Willis Towers Watson during the year (2015 and 2014: Mr. Casserley only).
- (v) Retirement benefits are accruing to Mr. Haley and Mr. Casserley, only, under defined contribution schemes and to non-employee directors under defined benefit schemes, in respect of qualifying services. Pension contributions under defined contribution schemes in 2016 were \$85,617.
- (vi) Directors' remuneration disclosed above for services to Willis Towers Watson reflects the remuneration reported by the Company in its proxy statements presented at the Annual General Meeting (AGM) of shareholders in 2016 and to be presented at the AGM in 2017.
- (vii) In aggregate, Directors made gains of \$nil on the exercise of share options during 2016.
- (viii) The amounts shown include all amounts paid or payable to a person connected with a director.

The aggregate amount paid or payable to past directors (who resigned or ceased to hold office before 2016) in respect of directors' retirement benefits was \$nil in respect of the office of director and in respect of other offices and in respect of termination benefits was \$nil in respect of the office of director and in respect of other offices (2015: for past directors who resigned or ceased to hold office before 2015, \$nil and \$nil, respectively).

An analysis of auditor's remuneration is as follows:

	Years ended December 31,		
	2016	2015	2014
Audit of the Company's consolidated financial statements	\$ 17	\$ 6	\$ 5
Other assurance services	2	3	2
Tax advisory services	—	—	—
Other non-audit services	—	1	1
Total auditor's remuneration <sup>(i)</sup>	\$ 19	\$ 10	\$ 8

- (i) Includes out-of-pocket expenses.

## 18. OTHER EXPENSE/(INCOME), NET

Other expense/(income), net consists of the following:

	Years ended December 31,		
	2016	2015	2014
Gain on disposal of operations	\$ (2)	\$ (25)	\$ (12)
Gain on remeasurement of equity interests <sup>(i)</sup>	—	(59)	—
Impact of Venezuelan currency devaluation <sup>(ii)</sup>	—	30	14
Foreign exchange loss/(gain)	29	(1)	(8)
Other expense/(income), net	<u>\$ 27</u>	<u>\$ (55)</u>	<u>\$ (6)</u>

- (i) Prior to the acquisition date, the Company accounted for its 30% interest in Gras Savoye as an equity-method investment. The acquisition-date fair value of the previously held equity interest was \$158 million and is included in the measurement of the consideration transferred. The Company recognized a gain of \$59 million as a result of remeasuring its prior equity interest in Gras Savoye held before the business combination.
- (ii) On December 31, 2015 the Company began using the SIMADI rate for the Venezuelan Bolivar (approximately Venezuelan bolivars 198.7 = U.S. dollar 1) instead of the SICAD I auction rate (approximately Venezuelan bolivars 13.5 = U.S. dollar 1) to translate on Venezuelan retail operations. In March 2016, the DICOM mechanism replaced the SIMADI mechanism. At December 31, 2016, the DICOM rate was approximately Venezuelan bolivars 673 = U.S. dollar 1.

## 19. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of other comprehensive income/(loss) are as follows:

	December 31, 2016			December 31, 2015			December 31, 2014		
	Before tax amount	Tax	Net of tax amount	Before tax amount	Tax	Net of tax amount	Before tax amount	Tax	Net of tax amount
Other comprehensive income/(loss):									
Foreign currency translation	\$ (353)	\$ —	\$ (353)	\$ (133)	\$ —	\$ (133)	\$ (183)	\$ —	\$ (183)
Defined pension and post-retirement benefits	(553)	114	(439)	233	(53)	180	(179)	—	(179)
Derivative instruments	(87)	12	(75)	(35)	7	(28)	(21)	4	(17)
Other comprehensive income/(loss)	(993)	126	(867)	65	(46)	19	(383)	4	(379)
Less: Other comprehensive loss attributable to minority interests	20	—	20	10	—	10	6	—	6
Other comprehensive income/(loss) attributable to Willis Towers Watson	<u>\$ (973)</u>	<u>\$ 126</u>	<u>\$ (847)</u>	<u>\$ 75</u>	<u>\$ (46)</u>	<u>\$ 29</u>	<u>\$ (377)</u>	<u>\$ 4</u>	<u>\$ (373)</u>

## 19. ACCUMULATED OTHER COMPREHENSIVE LOSS (continued)

The components of accumulated other comprehensive loss, net of tax, are as follows:

	Foreign currency translation (i)	Derivative instruments (i)	Defined pension and post-retirement benefits (ii)	Total
Balance, January 1, 2014	\$ (14)	\$ 35	\$ (714)	\$ (693)
Other comprehensive income/(loss) before reclassifications	(177)	(25)	(216)	(418)
Amounts reclassified from accumulated other comprehensive income	—	8	37	45
Net current year other comprehensive income/(loss), net of tax and minority interests	(177)	(17)	(179)	(373)
Balance, December 31, 2014	\$ (191)	\$ 18	\$ (893)	\$ (1,066)
Other comprehensive income/(loss) before reclassifications	(123)	(31)	158	4
Amounts reclassified from accumulated other comprehensive income	—	3	22	25
Net current year other comprehensive income/(loss), net of tax and minority interests	(123)	(28)	180	29
Balance, December 31, 2015	\$ (314)	\$ (10)	\$ (713)	\$ (1,037)
Other comprehensive income/(loss) before reclassifications	(336)	(110)	(483)	(929)
Amounts reclassified from accumulated other comprehensive income	—	38	44	82
Net current year other comprehensive income/(loss), net of tax and minority interests	(336)	(72)	(439)	(847)
Balance, December 31, 2016	\$ (650)	\$ (82)	\$ (1,152)	\$ (1,884)

- (i) Reclassification adjustments from accumulated other comprehensive income are included in Other expense/(income), net of foreign currency translation and gains and losses on cash flow hedges. See Note 9 to the Consolidated Financial Statements for additional details regarding the reclassification adjustments for the hedge settlements.
- (ii) Reclassification adjustments from accumulated other comprehensive income are included in the computation of net periodic pension cost (see Note 12 to the Consolidated Financial Statements) which is included in Salaries and benefits in the accompanying consolidated statements of operations.

## 20. EQUITY AND MINORITY INTERESTS

The effects on equity of changes in Willis Towers Watson's ownership interests in its subsidiaries are as follows:

	Years ended December 31,		
	2016	2015	2014
Net income attributable to Willis Towers Watson	\$ 450	\$ 343	\$ 362
Transfers to/(from) minority interests:			
Increase/(decrease) in Willis Towers Watson's paid-in capital for reductions in/(additional) minority interests	7	(53)	—
Net transfers to/(from) minority interests	7	(53)	—
Change from net income attributable to Willis Towers Watson and transfers to/(from) minority interests	\$ 457	\$ 290	\$ 362

## 21. SHARE-BASED COMPENSATION

### *Plan Summaries*

On December 31, 2016, the Company had a number of open share-based compensation plans, which provide for the grant of time-based and performance-based options, time-based and performance-based restricted stock units, and various other share-based grants to employees. All of the Company's share-based compensation plans under which any options, restricted stock units or other share-based grants are outstanding as of December 31, 2016 are described below. The compensation cost that has been recognized for those plans for the years ended December 31, 2016, 2015 and 2014 was \$123 million, \$64 million and \$52 million, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements for the years ended December 31, 2016, 2015, and 2014 was \$35 million, \$15 million and \$12 million, respectively.

### *2012 Equity Incentive Plan*

This plan, which was established on April 25, 2012, provides for the granting of incentive stock options, time-based or performance-based non-statutory stock options, share appreciation rights, restricted shares, time-based or performance-based restricted share units ('RSUs'), performance-based awards and other share-based grants or any combination thereof (collectively referred to as 'Awards') to employees, officers, non-employee directors and consultants ('Eligible Individuals') of the Company. The Board of Directors also adopted a sub-plan under the 2012 plan to provide an employee sharesave scheme in the United Kingdom.

There were approximately 9 million shares remaining available for grant under this plan as of December 31, 2016. Options are exercisable on a variety of dates, including from the second, third, fourth or fifth anniversary of grant. Unless terminated sooner by the Board of Directors, the 2012 Plan will expire 10 years after the date of its adoption. That termination will not affect the validity of any grants outstanding at that date.

### *Towers Watson Share Plans*

In January 2016, in connection with the Merger, we assumed the Towers Watson & Co. 2009 Long-Term Incentive Plan ('LTIP') and converted the outstanding unvested restricted stock units and options into Willis Towers Watson restricted stock units ('RSUs') and options using a conversion ratio stated in the Merger Agreement. We determined the fair value of the portion of the outstanding RSUs and options related to pre-acquisition employee service using the straight-line methodology from date of grant to the acquisition date to be \$37 million, which was added to the transaction consideration. The fair value of the remaining portion of RSUs and options related to the post-acquisition employee services was \$45 million, and will be recorded over the future vesting periods. For the year ended December 31, 2016, we recorded \$31 million of non-cash stock based compensation.

The acquired awards include performance-vested restricted stock units. Under the RSU agreement, participants become vested in a number of RSUs based on the achievement of specified levels of financial performance during the performance period set forth in the Merger Agreement, provided that the participant remains in continuous service with us through the end of the performance period. Dividend equivalents will accrue on these RSUs and vest to the same extent as the underlying shares. The Compensation Committee of the Board of Directors may provide for continuation of vesting of restricted stock units upon an employee's termination under certain circumstances such as qualified retirement. The definition of qualified retirement is age 55 with 15 years of service with the Company and a minimum of one year of service in the performance period. Due to the terms of the RSU agreement, the achievement of the level of financial performance is determined at the higher of 100% or the level attained at the time of the Merger.

The Company does not intend to grant future awards under the 2009 LTIP plan.

### *Employee Stock Purchase Plans*

The Company adopted the Willis Group Holdings 2010 North America Employee Stock Purchase Plan, which expires on May 31, 2020. These plans provide certain eligible employees in the United States and Canada with the ability to contribute payroll deductions to the purchase of Willis Towers Watson ordinary shares at the end of each offering period.

## 21. SHARE-BASED COMPENSATION (continued)

### *Share-based Compensation Valuation Assumptions*

#### *Options*

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's shares. The Company uses the simplified method set out in ASC 718 – *Compensation – Stock Compensation* to derive the expected term of options granted as it does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The assumptions noted in the table below represent the weighted-average of each assumption for each grant during the year.

	Years ended December 31,		
	2016	2015	2014
Expected volatility	21.0%	17.4%	18.7%
Expected dividends	1.5%	2.7%	2.8%
Expected life (years)	3	4	4
Risk-free interest rate	0.7%	1.5%	1.3%

## 21. SHARE-BASED COMPENSATION (continued)

### Share-based Compensation Award Activity

#### Options

Classification of options as time-based or performance-based is dependent on the original terms of the award. Performance conditions on the majority of options have been met. A summary of option activity under the plans at December 31, 2016, and changes during the year then ended is presented below:

	Options <sup>(ii)</sup>	Weighted Average Exercise Price <sup>(i)</sup>	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
<b>Time-based stock options</b>				
Balance as of December 31, 2015	1,598	\$ 100.99		
Acquired	72	\$ 18.26		
Granted	71	\$ 111.88		
Exercised	(459)	\$ 90.65		
Forfeited	(49)	\$ 100.38		
Expired	(32)	\$ 83.40		
Balance as of December 31, 2016	1,201	\$ 101.11	4 years	\$ 25
Options vested or expected to vest at December 31, 2016	1,197	\$ 101.13	4 years	\$ 10
Options exercisable at December 31, 2016	851	\$ 100.46	5 years	\$ 8
<b>Performance-based stock options</b>				
Balance as of December 31, 2015	617	\$ 88.65		
Acquired	520	\$ 110.69		
Exercised	(236)	\$ 85.97		
Forfeited	(18)	\$ 109.43		
Balance as of December 31, 2016	883	\$ 101.95	4 years	\$ 19
Options vested or expected to vest at December 31, 2016	883	\$ 102.03	4 years	\$ 6
Options exercisable at December 31, 2016	432	\$ 92.79	2 years	\$ 1

(i) Certain options are exercisable in Pounds sterling and are converted to dollars using the exchange rate at December 31, 2016.

(ii) The number of options outstanding and other per share data have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

The weighted average grant-date fair value of time-based options granted during the years ended December 31, 2016, 2015, and 2014 were \$16.88, \$14.77, and \$14.12, respectively. The total intrinsic value of options exercised during the years ended December 31, 2016, 2015, and 2014 was \$25 million, \$17 million, and \$22 million, respectively. At December 31, 2016 there was \$4 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements under time-based stock option plans; that cost is expected to be recognized over a weighted average period of 2 years.

There were no performance-based options granted during the three years ended December 31, 2016, 2015 or 2014. However, 520,295 performance-based options were acquired during the year ended December 31, 2016, at which time the performance conditions were met. The total intrinsic value of options exercised during the years ended December 31, 2016, 2015, and 2014 was \$9 million, \$25 million, and \$15 million, respectively. At December 31, 2016 there was \$1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements under performance-based stock option plans; that cost is expected to be recognized over a weighted-average period of 1 year.

## 21. SHARE-BASED COMPENSATION (continued)

### Restricted Stock Units

The fair value of each time-based restricted stock unit is based on the grant date fair value, or the fair value on the acquisition date in the case of acquired awards. The fair value of each performance-based restricted stock unit is estimated on the grant date using a Monte-Carlo simulation that uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's shares. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The assumptions noted in the table below represent the weighted-average of each assumption for each grant during the year.

	2016
Expected volatility	20.3%
Expected dividend yield	—%
Risk-free interest rate	0.8%
Term of award (years)	2.6

A summary of time-based and performance-based restricted stock unit activity under the Plans at December 31, 2016, and changes during the year then ended, is presented below:

	Shares <sup>(i)</sup> (thousands)	Weighted Average Grant Date Fair Value
<b>Nonvested shares (time-based restricted stock units)</b>		
Balance, beginning of year	666	\$ 116.58
Acquired	220	\$ 124.98
Granted	44	\$ 121.97
Vested	(460)	\$ 118.85
Forfeited	(33)	\$ 116.33
Balance, end of year	437	\$ 118.98
<b>Nonvested shares (performance-based restricted stock units)</b>		
Balance, beginning of year	662	\$ 116.06
Acquired	235	\$ 124.98
Granted	592	\$ 124.66
Vested	(259)	\$ 118.39
Forfeited	(30)	\$ 106.61
Balance, end of year	1,200	\$ 121.78

- (i) The number of nonvested shares outstanding and other per share data have been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

The total number of time-based restricted stock units vested during the year ended December 31, 2016 was 459,838 shares at an average share price of \$120.42. The total number of time-based restricted stock units vested during the year ended December 31, 2015 was 408,032 shares at an average share price of \$117.72. The total number of restricted stock units vested during the year ended December 31, 2014 was 261,530 shares at an average share price of \$116.97. At December 31, 2016 there was \$43 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements under the plan; that cost is expected to be recognized over a weighted average period of 1 year.



## 21. SHARE-BASED COMPENSATION (continued)

The total number of performance-based restricted stock units vested during the year ended December 31, 2016 was 258,536 shares at an average share price of \$119.75. The total number of performance-based restricted stock units vested during the year ended December 31, 2015 was 63,180 shares at an average share price of \$117.88. The total number of performance-based restricted stock units vested during the year ended December 31, 2014 was 62,216 shares at an average share price of \$116.00. At December 31, 2016 there was \$54 million of total unrecognized compensation cost related to nonvested performance-based share-based compensation arrangements under the plan; that cost is expected to be recognized over a weighted average period of 2 years.

Cash received from option exercises under all share-based payment arrangements for the years ended December 31, 2016, 2015, and 2014 was \$63 million, \$124 million, and \$134 million, respectively. The actual tax benefit recognized for the tax deductions from option exercises of the share-based payment arrangements totaled \$30 million for the year ended December 31, 2016. The actual tax benefit recognized for the tax deductions from option exercises of the share-based payment arrangements totaled \$25 million and \$20 million for the years ended December 31, 2015 and December 31, 2014, respectively.

## 22. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net income attributable to Willis Towers Watson by the average number of ordinary shares outstanding during each period. The computation of diluted earnings per share reflects the potential dilution that could occur if dilutive securities and other contracts to issue shares were exercised or converted into shares or resulted in the issuance of shares that then shared in the net income of the Company.

At December 31, 2016 and 2015, there were 1.2 million and 1.6 million time-based share options; 0.9 million and 0.6 million performance based options; 0.4 million and 0.7 million restricted time-based share units; and 1.2 million and 0.7 million restricted performance-based share units outstanding, respectively.

Basic and diluted earnings per share are as follows:

	Years ended December 31,		
	2016	2015	2014
Net income attributable to Willis Towers Watson <sup>(ii)</sup>	\$ 450	\$ 343	\$ 362
Basic weighted average number of shares outstanding	137	68	67
Dilutive effect of potentially issuable shares	1	1	1
Diluted weighted average number of shares outstanding	138	69	68
Basic earnings per share	\$ 3.28	\$ 5.04	\$ 5.40
Dilutive effect of potentially issuable shares	(0.02)	(0.07)	(0.08)
Diluted earnings per share	\$ 3.26	\$ 4.97	\$ 5.32

(i) Shares outstanding, potentially issuable shares, basic and diluted earnings per share, and the dilutive effect of potentially issuable shares, for the year ended December 31, 2014 and 2015 have been retroactively adjusted to reflect the reverse stock split effected on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

(ii) Net income attributable to Willis Towers Watson for 2015 was decreased by \$30 million to reflect the post-tax effect of a settlement in principle the Company entered into on March 31, 2016 relating to Stanford Financial Group litigation. As a consequence, basic earnings per share and diluted earnings per share attributable to Willis Towers Watson shareholders for 2015 were decreased. Further details on this settlement in principle are given in Note 14 to the Consolidated Financial Statements. This increase in the litigation provision has been recognized in Annual Form 10-K for the following year, 2016.

Options to purchase 0.5 million, 0.6 million and 0.9 million shares were not included in the computation of the dilutive effect of share options for the years ended December 31, 2016, 2015 and 2014, respectively, because their effect was anti-dilutive. Options to purchase nil, 0.5 million, and 0.6 million restricted stock units were not included in the computation of the dilutive effect of share options for the years ended December 31, 2016, 2015 and 2014, respectively, because their effect was anti-dilutive. The number of options for 2015 and 2014 has been retroactively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.

## 23. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures regarding cash flow information and non-cash investing and financing activities are as follows:

	Years Ended December 31,		
	2016	2015	2014
Supplemental disclosures of cash flow information:			
Cash payments for income taxes, net	\$ 158	\$ 91	\$ 88
Cash payments for interest	\$ 143	\$ 126	\$ 123
Cash acquired	\$ 476	\$ 148	\$ 57
Supplemental disclosures of non-cash investing and financing activities:			
Issuance of shares and assumed awards in connection with the Merger	\$ 8,723	\$ —	\$ —
Fair value of deferred and contingent consideration related to acquisitions	\$ —	\$ 204	\$ 12

## 24. SUBSIDIARY UNDERTAKINGS AND UNDERTAKINGS OF SUBSTANTIAL INTEREST

As of December 31, 2016, the Company included the following subsidiary undertakings principally affecting the assets, liabilities, financial position or profit or loss of the Company.

Subsidiary Name	Country of Registration	Class of Share	Percentage Ownership
<b>Indirect subsidiaries:</b>			
<b>Holding entities</b>			
Trinity Acquisition plc (formerly Trinity Acquisition Limited)	England and Wales	Ordinary shares	100%
WTW Delaware Holdings LLC (formerly Towers Watson & Co.)	USA	Common shares	100%
Willis Group Limited	England and Wales	Ordinary shares	100%
Willis International Limited	England and Wales	Ordinary shares	100%
Watson Wyatt European Investment LP	England and Wales	Membership interest	100%
Towers Watson Global 2 Limited	England and Wales	Ordinary shares	100%
Watson Wyatt International, Inc.	USA	Common shares	100%
GS & Cie Groupe S.A.S.	France	Preferred shares	99.84%
Gras Savoye Euro-Finance S.A.	Belgium	Ordinary shares	99.84%
Towers Watson Delaware Holdings Inc.	USA	Common shares	100%
Towers Watson (Düsseldorf) GmbH	Germany	Ordinary shares	100%
<b>Group services companies</b>			
Willis Group Services Limited	England and Wales	Ordinary shares	100%
Willis Processing Services (India) Pvt. Ltd	India	Ordinary shares	100%
<b>Insurance broking entities</b>			
Willis HRH, Inc.	USA	Common shares	100%
Willis Limited	England and Wales	Ordinary shares	100%
Willis North America, Inc.	USA	Common shares	100%
Willis Re, Inc.	USA	Common shares	100%
Gras Savoye S.A.S.	France	Ordinary shares	99.84%
Miller Insurance Services LLP	England and Wales	Membership interest	85%
Max Matthiessen AB	Sweden	Ordinary shares	76%
<b>Actuarial, consulting and benefit exchange companies</b>			
Towers Watson Delaware Inc.	USA	Common shares	100%
Towers Watson Limited	England and Wales	Ordinary shares	100%
Towers Watson Software Limited	England and Wales	Ordinary shares	100%
Extend Health, Inc.	USA	Common shares	100%

As of December 31, 2016, the Company did not have investments in undertakings of substantial interest that substantially affected the net income or net assets of the Company.

## 25. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for 2016 and 2015 were as follows:

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
<b>2016</b>				
Total revenues	\$ 2,234	\$ 1,949	\$ 1,777	\$ 1,927
Total costs of providing services	\$ 1,858	\$ 1,813	\$ 1,776	\$ 1,839
Income from operations	\$ 376	\$ 136	\$ 1	\$ 88
Net income/(loss)	\$ 275	\$ 76	\$ (31)	\$ 148
Net income/(loss) attributable to Willis Towers Watson	\$ 268	\$ 72	\$ (32)	\$ 142
Earnings/(loss) per share				
— Basic	\$ 1.99	\$ 0.52	\$ (0.23)	\$ 1.04
— Diluted	\$ 1.97	\$ 0.51	\$ (0.23)	\$ 1.03
<b>2015</b>				
Total revenues	\$ 1,087	\$ 922	\$ 846	\$ 974
Total costs of providing services	\$ 794	\$ 817	\$ 819	\$ 1,022
Income from operations	\$ 293	\$ 105	\$ 27	\$ (48)
Net income/(loss)	\$ 214	\$ 72	\$ 116	\$ (48)
Net income/(loss) attributable to Willis Towers Watson	\$ 210	\$ 70	\$ 117	\$ (54)
Earnings/(loss) per share				
— Basic	\$ 3.09	\$ 1.03	\$ 1.72	\$ (0.80)
— Diluted	\$ 3.04	\$ 1.01	\$ 1.70	\$ (0.78)

The Merger affects the comparability of this data between 2016 and other periods presented. See Note 3 to the Consolidated Financial Statements for additional information.

During the fourth quarter of 2016, management corrected an error by recording a \$103 million benefit from income taxes related to the release of a portion of our U.S. deferred tax valuation allowance. A portion of the correction should have been recorded in each of the three financial year 2016 Quarterly Reports on Forms 10-Q. Management has determined that the error is immaterial to the previously filed 2016 quarterly financial statements and has no impact on prior year financial statements.

## 26. SUBSEQUENT EVENTS

### *Debt refinancing*

On March 7, 2017, the Company increased its \$800 million revolving credit facility to \$1.25 billion, held by Trinity Acquisition plc, and extended the repayment date to March 7, 2022. On the same day, the Company repaid the 7-year term loan due July 23, 2018.

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WILLIS TOWERS WATSON PLC**

We have audited the Parent Company financial statements of Willis Towers Watson plc for the financial year ended December 31, 2016 which comprise the Parent Company Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 18. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the Companies Act 2014 ("relevant financial reporting framework").

This report is made solely to the Parent Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance the Companies Act 2014 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

### **Opinion on financial statements**

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities, and financial position of the Parent Company as at December 31, 2016; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

### **Matters on which we are required to report by the Companies Act 2014**

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Parent Company were sufficient to permit the financial statements to be readily and properly audited.
- The Parent Company statement of financial position is in agreement with the accounting records.
- In our opinion the information given in the Directors' report is consistent with the financial statements.

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

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

**Other matter**

We have reported separately on the consolidated financial statements of Willis Towers Watson plc for the financial year ended December 31, 2016.

Andrew Downes  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Audit Firm  
London  
April 21, 2017

**PARENT COMPANY STATEMENT OF FINANCIAL POSITION**

		December 31,	
	Note	2016	2015
		(millions)	
NON-CURRENT ASSETS			
Investments in subsidiaries	8	\$ 5,011	\$ 806
		5,011	806
CURRENT ASSETS			
Receivables	10	7,229	3,424
Cash at bank and in hand		—	3
		7,229	3,427
CURRENT LIABILITIES			
Current portion of long-term debt	11	—	300
Other payables	11	77	15
		77	315
NET CURRENT ASSETS		7,152	3,112
TOTAL ASSETS LESS CURRENT LIABILITIES		12,163	3,918
NON-CURRENT LIABILITIES			
Long-term debt	12	496	495
		496	495
NET ASSETS		\$ 11,667	\$ 3,423
EQUITY			
Called up share capital	13	\$ —	\$ —
Share premium account		627	564
Other reserves <sup>(i)</sup>		9,122	276
Profit and loss account		1,918	2,583
SHAREHOLDERS' EQUITY		\$ 11,667	\$ 3,423

<sup>(i)</sup> Includes \$8,686 million in relation to the fair value of 184 million Parent Company ordinary shares issued in exchange for Towers Watson & Co. shares, on the Merger, as described in Note 3 to the Consolidated Financial Statements.

The accompanying notes are an integral part of the Parent Company financial statements.

Approved by the Board of Directors on April 21, 2017 and signed on behalf of the Directors:

/s/ Victor F. Ganzi  
Director

/s/ Wendy E. Lane  
Director



**PARENT COMPANY STATEMENT OF CASH FLOWS**

	<b>Years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>(millions)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	\$ (4)	\$ (23)
Adjustments for:		
Effect of changes in exchange rates	—	9
Movement in other assets	(13)	2
Movement in other liabilities	(3)	2
Net cash used in operating activities	(20)	(10)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds, net of repayments, from intercompany investing activities	849	239
Net cash provided by investing activities	849	239
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of debt	(300)	—
Repurchase of shares	(396)	(82)
Issue of shares under employee share compensation plans	63	124
Dividends paid	(199)	(277)
Net cash used in financing activities	(832)	(235)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3)</b>	<b>(6)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3</b>	<b>9</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR <sup>(i)</sup></b>	<b>\$ —</b>	<b>\$ 3</b>

<sup>(i)</sup> Cash and cash equivalents relate only to cash at bank and in hand.

**PARENT COMPANY STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium account	Profit and loss account	Other reserves	Total
	(millions)				
At December 31, 2014	\$ —	\$ 440	\$ 2,912	\$ 212	\$ 3,564
Shares repurchased <sup>(i)</sup>	—	—	(82)	—	(82)
Net loss	—	—	(23)	—	(23)
Dividends paid and payable	—	—	(224)	—	(224)
Issue of shares under employee share compensation plans	—	124	—	—	124
Share-based compensation	—	—	—	64	64
At December 31, 2015	\$ —	\$ 564	\$ 2,583	\$ 276	\$ 3,423
Shares repurchased <sup>(i)</sup>	—	—	(396)	—	(396)
Net loss	—	—	(4)	—	(4)
Dividends paid and payable	—	—	(265)	—	(265)
Issue of shares under employee share compensation plans	—	63	—	—	63
Issue of shares for acquisitions <sup>(ii)</sup>	—	—	—	8,686	8,686
Replacement share-based compensation awards issued on acquisition	—	—	—	37	37
Share-based compensation	—	—	—	123	123
At December 31, 2016	\$ —	\$ 627	\$ 1,918	\$ 9,122	\$ 11,667

(i) Based on settlement date the Parent Company repurchased 3,170,330 shares (2015: 646,433 shares) at an average price of \$124.87 in 2016 (2015: \$127.34). (The number of ordinary shares and average price for 2015 have been retrospectively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details.) The proceeds used to purchase the shares during 2016 and 2015, which were subsequently canceled (with a minority of the shares purchased during 2016 being canceled in 2017), were charged to distributable profits. In accordance with Irish law the parent company maintains a capital redemption reserve fund of \$864.00.

(ii) The Parent Company has credited the premium on the shares issued on the Merger to Other reserves, taking advantage of the provisions of Section 72 of the Companies Act 2014.

## **1. BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

### **Basis of presentation**

The financial statements of Willis Towers Watson plc (the 'Parent Company') have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and in accordance with the Companies Act 2014.

The financial statements have been prepared on the historical cost basis.

The significant accounting policies adopted by the Parent Company are set out below.

### **Ordinary shares split**

On January 4, 2016, the Parent Company effected a 1 to 2.6490 reverse stock split to shareholders of record as of January 4, 2016. All share and per share information for 2015 has been retrospectively adjusted to reflect the reverse stock split and show the new number of shares.

### **Significant accounting policies**

#### **Going concern**

The Parent Company's business activities and the factors likely to affect its future development and position are set out in the Directors' Report. The Directors have conducted enquiries into the nature and quality of the assets, liabilities, and cash that make up the capital of the Parent Company and its subsidiaries. Furthermore the Directors' enquiries extend to the relationship of the Parent Company and its subsidiaries with external parties on a financial and non-financial level. Having assessed the responses to their enquiries, the Directors have no reason to believe that a material uncertainty exists that may cast significant doubt upon the ability of the Parent Company to continue as a going concern or its ability to repay loans due from time to time. As a consequence of the enquiries the Directors have a reasonable expectation that the Parent Company has appropriate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Foreign currency translation**

These financial statements are presented in US dollars which is the currency of the primary economic environment in which the Parent Company operates. Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

#### **Dividends receivable**

Income from shares in subsidiary undertakings is recognized when the right to receive payment is established.

#### **Dividends payable**

Dividends payable are recognized as liabilities and in equity when the obligation to make payment arises.

#### **Share-based payments**

The Parent Company has equity-based compensation plans that provide for grants of restricted share units and stock options to directors of the Parent Company who perform services for the Company and to employees of the Company's subsidiaries. The awards under equity-based compensation are classified as equity and included as a component of equity on the Parent Company's balance sheets, as the ultimate payment of such awards will not be achieved through use of the Parent Company's cash or other assets.

## **1. BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

The Parent Company expenses equity-based compensation for directors of the Parent Company on a straight-line basis over the requisite service period based upon the fair value of the award on the date of grant, the estimated achievement of any performance targets and anticipated staff retention. Where the Parent Company enters into share-based payment arrangements involving employees of subsidiaries, the cost of the arrangements is recognized as an addition to 'Investment in subsidiaries'. From 2016, the Parent Company deducts from 'Investments in subsidiaries' certain recharges to subsidiaries of the cost of the arrangements.

### **Taxation**

Corporation tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is generally recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements although deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

### **Investments**

Investments in subsidiary undertakings are carried at cost less any accumulated allowance for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the subsidiary may not be fully recoverable.

### **Financial assets and financial liabilities**

Financial assets and financial liabilities include cash and cash equivalents and receivables as well as payables (including amounts owed to / by group undertakings).

The Parent Company classifies its financial assets and financial liabilities in the following categories: as loans, receivables or payables (including amounts owed by / to group undertakings). The classification is made by management at initial recognition and depends on the purpose for which the financial assets or financial liabilities were entered into.

Loans, receivables and payables are non-derivative financial assets or financial liabilities with fixed or determinable receipts or payments that are not quoted in an active market. Such financial assets or financial liabilities are initially recognised at fair value, plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and subsequently measured at amortized cost using the effective interest method. Any resulting interest is recognised in interest income or interest expense, as appropriate.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### **Impairment of loans and receivables**

The Parent Company assesses at the end of each reporting period whether there is objective evidence that loans and receivables are impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The amount of any impairment loss is recognised in profit or loss.

### **Derecognition of financial liabilities**

The Parent Company removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

## **1. BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

### **Contingencies**

The Parent Company has guaranteed certain liabilities of group entities. The Parent Company reviews the status of these guarantees at each reporting date and considers whether it is required to make a provision for payment on those guarantees based on the probability of the commitment being called.

The provision required for the obligation under the guarantee would be measured initially at fair value and subsequently measured at the higher of: (i) the amount of obligation under the guarantee, as determined in accordance with International Accounting Standard ('IAS') 37 'Provisions, Contingent Liabilities and Contingent Assets'; and (ii) the amounts initially recognised less, where appropriate, cumulative amortization recognised.

### **Significant recent accounting pronouncements adopted in the current period**

The Parent Company did not adopt any new IFRSs or interpretations ('IFRICs') issued by the International Accounting Standards Board ('IASB') during the year ended 31 December 2016 and no amendments to IFRSs or International Accounting Standards ('IASS') issued or adopted by the IASB had a significant effect on its financial statements.

### **Significant recent accounting pronouncements to be adopted in future periods**

In May 2014, the IASB issued International Financial Reporting Standard ('IFRS') 15, 'Revenue From Contracts With Customers', whose core principle is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has been endorsed by the EU and will become mandatorily effective for the Parent Company at the beginning of its 2018 financial year.

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. This standard has been endorsed by the EU and will become mandatorily effective for the Parent Company at the beginning of its 2018 financial year.

In January 2016, the IASB issued IFRS 16 'Leases', which introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. Subject to EU and/or any other required UK endorsement, this standard will become mandatorily effective for the Parent Company at the beginning of its 2019 financial year.

The Parent Company expects that these standards will have no significant effect on its financial statements when adopted.

### **Critical accounting judgments and estimates**

The preparation of financial statements in conformity with IFRSs and in the application of the Parent Company's accounting policies, which are described above, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the dates of the financial statements and the reported amounts of revenues and expenses during the year. Judgments, estimates and assumptions are made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### ***Critical judgments in applying the Parent Company's accounting policies***

Management made no critical judgments, apart from those involving estimations (which are dealt with separately below), in the process of applying the Parent Company's accounting policies.

## **1. BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

### ***Key sources of estimation uncertainty***

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### ***Impairment of investments in subsidiaries***

Determining whether the Parent Company's investment in a subsidiary has been impaired requires estimations of the investment's recoverable amount, the higher of its fair value, less costs of disposal, and its value in use. Management judgment is required to identify comparable recent transactions and/or to estimate the future cash flows expected to arise from the investment and select a suitable discount rate to use in calculating present value. See Note 8 to the Parent Company Financial Statements for the carrying amount of investments in subsidiaries. No impairment loss was recognised in 2016 or 2015.

### ***Impairment of loans and receivables***

Management judgment is required to assess at the end of each reporting period whether there is any objective evidence that loans and receivables are impaired and, if so, to determine the amount of any impairment loss. See Note 10 to the Parent Company Financial Statements for the carrying amount of loans and receivables. No impairment loss was recognised in 2016 or 2015.

### ***Taxation***

Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the level of historical taxable income and projections for future taxable income. Further details are given in Note 6 to the Parent Company Financial Statements.

## **2. NET PROFIT (LOSS)**

As permitted by section 304 of the Companies Act 2014 the Parent Company is availing itself of the exemption from including its Parent Company only profit and loss account in these financial statements and from filing it with the Registrar of Companies. The loss for the financial year dealt with in the Parent Company only financial statements amounts to \$4 million (December 31, 2015: \$23 million). There is no other comprehensive income in either the financial year ending December 31, 2016 or the preceding financial year other than the net loss.

## **3. EMPLOYEES**

The Parent Company employed no staff during the year ended December 31, 2016 and the preceding year.

## **4. DIRECTORS' REMUNERATION**

Information regarding directors' remuneration is included in Note 17 to the Consolidated Financial Statements.

Information regarding directors' interests in stock and stock options for the consolidated Company is included in the Directors' Report under the heading 'Directors' and Secretary's Interests'.

## 5. AUDITOR'S REMUNERATION

	Year ended December 31,	
	2016	2015
	(thousands)	
Audit of individual financial statements <sup>(i)</sup>	\$ 10	\$ 10

(i) Includes out-of-pocket expenses.

Note 17 to the Consolidated Financial Statements provides additional details of auditor's remuneration paid by the Company.

## 6. TAXATION

The tax charge on ordinary activities is shown below:

	Years ended December 31,	
	2016	2015
	(millions)	
Analysis of tax charge for the year		
Current tax		
Irish corporation tax on non-trading profit at 25% (2015: 25%)	\$ —	\$ —
Current tax charge on profit on ordinary activities	\$ —	\$ —
Factors affecting tax charge for the year		
The tax assessed for the year is lower than the standard rate of corporation tax on non-trading activities in Ireland (25%). The differences are explained below:		
Loss on ordinary activities before taxation	\$ (4)	\$ (23)
Loss on ordinary activities multiplied by the standard rate of corporation tax on non-trading activities in Ireland of 25%	\$ (1)	\$ (6)
Effects of:		
Options charge back not taxable	(8)	(10)
Non-deductible financing expenses	8	11
Disallowable expenditure	—	4
Losses surrendered for nil consideration	1	1
Total current tax charge for the year	\$ —	\$ —

## 7. DIVIDENDS PAID AND PAYABLE

	Years ended December 31,	
	2016	2015
	(millions)	
First interim paid April	\$ 67	\$ 56
Second interim paid July	66	56
Third interim paid October	66	56
Fourth interim paid December <sup>(i)</sup>	—	56
Total paid	\$ 199	\$ 224
Final payable <sup>(i) (ii)</sup>	66	—
Total dividends paid and payable	\$ 265	\$ 224

- (i) The Parent Company declared a final dividend during the fourth quarter of 2016 of \$66 million (2015: fourth interim of \$56 million) which was subsequently paid on January 15, 2017 (2015: December 2, 2015) to shareholders of record as at December 31, 2016 (2015: November 18, 2015).
- (ii) The Parent Company has subsequently declared a first interim dividend in the first quarter of 2017 of \$0.53 per share payable on or about April 17, 2017 to shareholders of record on March 31, 2017.

## 8. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings
	(millions)
<b>Cost and carrying amount</b>	
Balance at December 31, 2014	\$ 742
Share-based compensation	64
Balance at December 31, 2015	\$ 806
Towers Watson & Co. shares acquired on the Merger <sup>(i)</sup>	8,686
Towers Watson & Co. shares transferred to an indirect subsidiary	(4,600)
Replacement share-based payment awards issued on acquisition	37
Share-based compensation <sup>(ii)</sup>	82
Balance at December 31, 2016	\$ 5,011

- (i) On January 4, 2016, Towers Watson & Co. became a wholly-owned subsidiary of the Parent Company, as described in Note 3 to Consolidated Financial Statements.
- (ii) Net of \$41 million share-based compensation recharged to subsidiaries.

On January 4, 2016, the Parent Company and certain of its subsidiaries then undertook a number of transaction steps to effect a reorganisation, including:

- The Parent Company transferred 100% of the shares in Willis Netherlands Holdings B.V. to Willis Towers Watson Sub Holdings Limited (now Willis Towers Watson Sub Holdings Unlimited Company) in exchange for one share in Willis Towers Watson Sub Holdings Limited.
- The Parent Company transferred its investment of 1,000 shares in Towers Watson & Co. with a value of \$8,686 million to Willis Investment UK Holdings Limited in exchange for Willis Investment UK Holdings Limited issuing \$4,600 million notes in nine tranches, two new shares and an obligation to issue a further 4,573,745 new shares ('the WIUKH Obligation'). The total value of the new shares was \$4,086 million.
- The Parent Company then transferred to Willis Towers Watson Sub Holdings Limited the two new shares in Willis Investment UK Holdings Limited and the WIUKH Obligation in exchange for shares in Willis Towers Watson Sub Holdings Limited to the value of \$4,086 million.



# Notes to the parent company financial statements

## 8. INVESTMENTS IN SUBSIDIARIES (continued)

- Willis Towers Watson Sub Holdings Limited sold to Willis Netherlands Holdings B.V. the two shares in Willis Investment UK Holdings Limited and the WIUKH Obligation in exchange for the issue by Willis Netherlands Holdings B.V. of \$3,400 million interest free loans and \$686 million share premium.
- The Parent Company sold the \$4,600 million notes payable by Willis Investment UK Holdings Limited to Willis Netherlands Holdings B.V. in exchange for a non-interest bearing loan of \$4,600 million.

## 9. SHARES IN SUBSIDIARY UNDERTAKINGS

As of December 31, 2016, the Parent Company controlled the following subsidiary undertakings principally affecting the assets, liabilities, financial position or profit or loss of the Company.

Subsidiary Name	Registered Office	Country of Registration	Class of Share	Percentage Ownership
<b>Indirect subsidiaries:</b>				
<b>Holding entities</b>				
Trinity Acquisition plc (formerly Trinity Acquisition Limited)	51 Lime Street, London EC3M 7DQ	England and Wales	Ordinary shares	100%
WTW Delaware Holdings LLC (formerly Towers Watson & Co.)	160, Greentree Drive, Suite 101, Dover, Kent, DE 19904	USA	Common shares	100%
Willis Group Limited	51 Lime Street, London EC3M 7DQ	England and Wales	Ordinary shares	100%
Willis International Limited	51 Lime Street, London EC3M 7DQ	England and Wales	Ordinary shares	100%
Watson Wyatt European Investment LP	Watson House, London Road, Reigate, Surrey, RH2 9PQ	England and Wales	Membership interest	100%
Towers Watson Global 2 Limited	Watson House, London Road, Reigate, Surrey, RH2 9PQ	England and Wales	Ordinary shares	100%
Watson Wyatt International, Inc.	311, South Division Street, Carson City, NV 89703	USA	Common shares	100%
GS & Cie Groupe S.A.S.	Immeuble Quai 33, 33/34 Quai de Dion-Bouton, CS70001, 92814 Puteaux Cedex	France	Preferred shares	99.84%
Gras Savoye Euro-Finance S.A.	18/20 Quai des Venues, 4020 Liège	Belgium	Ordinary shares	99.84%
Towers Watson Delaware Holdings Inc.	160, Greentree Drive, Suite 101, Dover, Kent, DE 19904	USA	Common shares	100%
Towers Watson (Düsseldorf) GmbH	Habsburgerring 2, 50674 Köln	Germany	Ordinary shares	100%
<b>Group services companies</b>				
Willis Group Services Limited	51 Lime Street, London EC3M 7DQ	England and Wales	Ordinary shares	100%
Willis Processing Services (India) Pvt. Ltd	Plant No.6, Godrej & Boyce Mfg. Co. compound, LBS Marg, Vikhroli (West), Mumbai - 400079	India	Ordinary shares	100%
<b>Insurance broking entities</b>				
Willis HRH, Inc.	One World Financial Center, 200 Liberty Street, New York, NY 10281	USA	Common shares	100%
Willis Limited	51 Lime Street, London EC3M 7DQ	England and Wales	Ordinary shares	100%
Willis North America, Inc.	One World Financial Center, 200 Liberty Street, New York, NY 10281	USA	Common shares	100%
Willis Re, Inc.	One World Financial Center, 200 Liberty Street, New York, NY 10281	USA	Common shares	100%
Gras Savoye S.A.S.	Immeuble Quai 33, 33/34 Quai de Dion-Bouton, CS70001, 92814 Puteaux Cedex	France	Ordinary shares	99.84%
Miller Insurance Services LLP	70 Mark Lane, London, EC3R 7NQ	England and Wales	Membership interest	85%
Max Matthiessen AB	Box 5908, Lästmakargatan 22, SE-114 89 Stockholm	Sweden	Ordinary shares	76%
<b>Actuarial, consulting and benefit exchange companies</b>				
Towers Watson Delaware Inc.	160, Greentree Drive, Suite 101, Dover, Kent, DE 19904	USA	Common shares	100%
Towers Watson Limited	Watson House, London Road, Reigate, Surrey, RH2 9PQ	England and Wales	Ordinary shares	100%
Towers Watson Software Limited	Watson House, London Road, Reigate, Surrey, RH2 9PQ	England and Wales	Ordinary shares	100%
Extend Health, Inc.	160, Greentree Drive, Suite 101, Dover, Kent, DE 19904	USA	Common shares	100%

The Parent Company did not have material undertakings of substantial interest at December 31, 2016.

## 10. RECEIVABLES

	December 31,	
	2016	2015
	(millions)	
Amounts due from subsidiary undertakings <sup>(i)</sup>	\$ 7,229	\$ 3,423
Other debtors	—	1
Total debtors	\$ 7,229	\$ 3,424

(i) The fair value of these amounts due from subsidiary undertakings, which are repayable on demand and non-interest bearing, was the same as the carrying amount as of December 31, 2016 and December 31, 2015.

## 11. CURRENT LIABILITIES

	December 31,	
	2016	2015
	(millions)	
Other payables:		
Accrued dividends payable	\$ 66	\$ 2
Interest payable	8	12
Other creditors	3	1
Total other payables	77	15
Current portion of long-term debt, net of debt issuance costs <sup>(i)</sup> :		
4.125% senior notes due 2016	—	300
Total current liabilities	\$ 77	\$ 315

(i) The fair value of these senior notes as of December 31, 2015 was \$304 million. The fair value is based on quoted market values and classified as a Level 1 measurement (fair value determined based on quoted market prices in active markets for identical liabilities that the Parent Company can access at the measurement date). These notes were redeemed on March 15, 2016.

## 12. NON-CURRENT LIABILITIES

	December 31,	
	2016	2015
	(millions)	
Long-term debt, net of debt issuance costs <sup>(i)</sup> :		
5.750% senior notes due 2021	\$ 496	\$ 495
Total non-current liabilities	\$ 496	\$ 495

(i) The fair value of these senior notes as of December 31, 2016 was \$543 million (2015: \$544 million). The fair value is based on quoted market values and classified as a Level 1 measurement (fair value determined based on quoted market prices in active markets for identical liabilities that the Parent Company can access at the measurement date).

# Notes to the parent company financial statements

## 13. CALLED UP SHARE CAPITAL

	December 31,	
	2016	2015
	Number (thousands)	
Authorized share capital		
Ordinary shares of €1 each	40	40
Ordinary shares of \$0.000304635 <sup>(i) (ii)</sup>	1,510,004	1,510,004
Preferred shares of \$0.000115	1,000,000	1,000,000
	December 31,	
	2016	2015
	(thousands)	
Allotted, called up and fully paid		
137,075,068 ordinary shares in 2016 of \$0.000304635 each (2015: 68,624,892) <sup>(i) (ii) (iii)</sup>	\$ 42	\$ 21
40,000 ordinary shares of €1 each	59	59
Balance at December 31	\$ 101	\$ 80

- (i) The nominal value of ordinary shares and number of ordinary shares have been retrospectively adjusted to reflect the reverse stock split on January 4, 2016. See Note 3 to the Consolidated Financial Statements for further details. On a pre-reverse stock split basis: Authorized share capital 4 billion Ordinary shares of \$0.000115 each (2015: 4 billion); and Allotted, called up and fully paid, 363,109,612 Ordinary shares of \$0.000115 each (2015: 181,787,339).
- (ii) At December 31, 2016 a subsidiary of the Parent Company held 17,519 ordinary shares of \$0.000304635 par value (December 31, 2015: 17,519) in a trust. (The nominal value of ordinary shares and number of ordinary shares have been retrospectively adjusted to reflect the reverse stock split on January 4, 2016). On a pre-reverse stock split basis 46,408 ordinary shares of \$0.000115 par value (2015: 46,408).
- (iii) At December 31, 2016 the Parent Company held 778,297 treasury shares (2015: nil), which were subsequently canceled.

## 14. RELATED PARTY TRANSACTIONS

The Parent Company's related parties include subsidiaries, associates and Key Management Personnel.

### Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Parent Company and comprise the Directors of the Parent Company as of December 31, 2016.

Remuneration of the Key Management Personnel for services rendered to the Parent Company during the year is analyzed below:

	Year ended December 31,	
	2016	2015
	(millions)	
Short-term employment benefits	\$ 2	\$ 1
Total remuneration of Key Management Personnel <sup>(i)</sup>	\$ 2	\$ 1

- (i) Includes \$nil (2015: \$nil) paid or due to any connected persons.

The Parent Company entered into no other transactions with Key Management Personnel in 2016 or 2015, and there were no balances in respect of other transactions as of December 31, 2016 or December 31, 2015.

## 14. RELATED PARTY TRANSACTIONS (continued)

### Transactions with subsidiaries

Transactions relating to the cost of the Parent Company's investment in its subsidiaries are described in Note 8 to the Parent Company Financial Statements.

Transactions of the Parent Company with its subsidiaries on intercompany debtor accounts during the year, and amounts due from subsidiaries as of the year end, are analyzed below:

	Year ended December 31,			
	2016		2015	
	Balance at the end of the financial year	Transactions in the financial year <sup>(i)</sup>	Balance at the end of the financial year	Transactions in the financial year <sup>(i)</sup>
	(millions)			
Willis Netherlands Holdings B.V.	\$ 6,778	\$ 3,600	\$ 3,178	\$ (331)
Willis Group Services Limited	410	165	245	80
Other subsidiaries	41	41	—	—
Total	<u>\$ 7,229</u>	<u>\$ 3,806</u>	<u>\$ 3,423</u>	<u>\$ (251)</u>

(i) Includes the effect of foreign exchange movements.

Transactions with Willis Netherlands Holdings B.V. in 2016 represent \$4,600 million non-interest bearing notes issued to the Parent during the year, as described in Note 8 to the Parent Company Financial Statements, partially offset by repayments totaling \$1,000 million of existing notes (2015: partial repayment of amounts due to the Parent Company).

Transactions with Willis Group Services Limited in 2016 and 2015 represent the net increase in lending by the Parent Company.

Transactions with Willis Group Services Limited in 2016 include \$31 million (2015: \$41 million) charged by the Parent Company to subsidiary companies in relation to share-based compensation.

Transactions with other subsidiaries in 2016 represent share-based compensation recharges.

The balances are intercompany advances that are repayable on demand and non-interest bearing. The amounts outstanding are unsecured and no guarantees have been given or received in respect of them.

No impairment loss was recognized in 2016 or 2015 in respect of amounts owed by related parties.

See Note 15 to the Parent Company Financial Statements for details of guarantees given by the Parent Company.

### Transactions with undertakings of substantial interest

There were no transactions with undertakings of substantial interest in 2016 or 2015, and no balances in respect of such transactions as of December 31, 2016 or December 31, 2015.

## 15. FINANCIAL GUARANTEE CONTRACTS

As the holding company of Willis Towers Watson, the Parent Company guarantees borrowings (as detailed below), certain local letters of credit, guarantees in respect of certain subsidiaries' leasehold obligations and guarantees in respect of certain of its UK and Irish subsidiaries' obligations to fund the UK and Irish defined benefit pension plans.

## 15. FINANCIAL GUARANTEE CONTRACTS (continued)

### Borrowings

See Notes 11 and 12 to the Parent Company Financial Statements for information about the Parent Company's debt.

The Parent Company guarantees, on a joint and several basis with certain of its subsidiary undertakings, the following debt securities issued by its subsidiary undertaking Willis North America Inc.:

- \$394 million 6.200% Senior Notes due 2017 (repaid on March 28, 2017)
- \$187 million 7.000% Senior Notes due 2019

The Parent Company guarantees, on a joint and several basis with certain of its subsidiary undertakings, the following debt securities issued by its subsidiary undertaking Trinity Acquisition plc (formerly Trinity Acquisition Limited):

- \$450 million 3.500% Senior Notes due 2021
- €540 million 2.125% Senior Notes due 2022
- \$250 million 4.625% Senior Notes due 2023
- \$550 million 4.400% Senior Notes due 2026
- \$275 million 6.125% Senior Notes due 2043

In December 2011 the Parent Company became a guarantor, on a joint and several basis, with certain of its subsidiary undertakings for a \$300 million term loan facility and a \$500 million revolving credit facility borrowed by its subsidiary undertaking Trinity Acquisition plc (formerly Trinity Acquisition Limited). During 2013 Trinity Acquisition plc entered in to an amendment to these existing credit facilities. As a result of this amendment, the revolving credit facility was increased from \$500 million to \$800 million and the maturity date on both the revolving credit facility and the \$300 million 7-year term loan was extended to July 23, 2018, from December 16, 2016. Interest on the term loan is set at each quarter based on LIBOR plus a margin. Drawings under the \$800 million revolving credit facility bear interest at LIBOR plus a margin of 1.25% to 2.00% based upon the Company's guaranteed senior unsecured long-term debt.

On March 3, 2014 the Parent Company became a guarantor, on a joint and several basis, with certain of its subsidiary undertakings for a \$300 million revolving note and cash subordination agreement entered in to by its subsidiary undertaking Willis Securities Inc. ('WSI'). On April 28, 2014, the Parent Company entered into an amendment to the \$300 million revolving note and cash subordination agreement to increase the amount of financing and to extend both the end date of the original credit period and the original repayment date. As a result of this amendment, the revolving credit facility was increased from \$300 million to \$400 million. The end date of the credit period was extended to April 28, 2015 from March 3, 2015 and the repayment date was extended to April 28, 2016 from March 3, 2016. On February 27, 2015, the Parent Company entered into a second amendment to the revolving note and cash subordination agreement. This amendment included all of the following: (i) the end date of the credit period was extended to April 28, 2016 and the repayment date was extended to April 28, 2017; (ii) WSI was permitted to incur up to \$400 million in indebtedness under the \$800 million revolving credit facility held by Trinity Acquisition plc, and (iii) WSI now has the ability to borrow in Euro, Japanese yen and other approved currencies subject to a reserve for foreign currency fluctuation. Proceeds under the credit facility may be used for regulatory capital purposes related to securities underwriting only, which will allow Willis Securities to meet or exceed capital requirements of regulatory agencies, self-regulatory agencies and their clearing houses, including the Financial Industry Regulatory Authority. Advances under the WSI revolving credit facility bear interest at a rate equal to LIBOR plus a margin of 1.25% to 2.00%, or alternatively the base rate plus a margin of 0.25% to 1.00%, based upon the Company's guaranteed senior-unsecured long-term debt rating. A margin of 1.50% applies while the Company's debt rating remains BBB/Baa3. As of December 31, 2016 and 2015, there were no borrowings outstanding under the WSI revolving credit facility. On April 27, 2016, the end date of the credit period was extended to April 28, 2017 and the repayment date was extended to April 28, 2018. There were no other significant changes in the terms of this credit facility.

On November 20, 2015 the Parent Company became a guarantor, on a joint and several basis, with certain of its subsidiary undertakings for a 1 year-term loan facility borrowed by its subsidiary undertaking Trinity Acquisition plc (formerly Trinity Acquisition Limited). The 1-year term loan had two tranches: Tranche A of €550 million, of which €544 million (\$592 million) was drawn on December 19, 2015 and used to finance the acquisition of Gras Savoye; and Tranche B of \$400 million tranche, which was drawn on January 4, 2016 and used to re-finance debt held by Legacy Towers Watson which became due on acquisition. Tranche A was repaid in its entirety on May 26, 2016 and Tranche B was repaid in its entirety on March 22, 2016. See Note 3 and Note 10 to the Consolidated Financial Statements for further details.

## 15. FINANCIAL GUARANTEE CONTRACTS (continued)

Taking into account the inherent uncertainties involved in estimating the cash flows under the financial guarantee contracts and the credit risk of the counterparties, the fair value of these inter-company guarantee contracts are considered to approximate book value. Furthermore, the Company considers that it is more likely than not that such an amount will not be payable under the financial guarantee contracts.

## 16. SHARE-BASED PAYMENTS

Details of share-based compensation relating to the shares of the Parent Company are provided in Note 21 to the Consolidated Financial Statements.

## 17. CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

### Capital management

The Parent Company manages its capital to ensure that it will be able to continue as a going concern. The Parent Company has both debt and equity capital which it uses to invest in the activities of Willis Towers Watson. Amounts are disclosed in Notes 11, 12 and 13 to the Parent Company Financial Statements. The capital structure of the Parent Company is reviewed at least annually as part of the review of the Company's capital structure by the Board of Directors. The Parent Company is not subject to externally imposed capital requirements.

### Financial risk management

The Parent Company's financial risks are managed by the Treasury function of Willis Towers Watson. These risks comprise market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

#### Market risk

The Parent Company transacts in certain other currencies in addition to the US Dollar, its functional currency, and is therefore exposed to movements in exchange rates, primarily in respect of Pounds Sterling and Euro. However, approximately 97 percent of the Parent Company's expenses in 2016 (2015: approximately 95 percent) were denominated in US dollars and the Parent Company's assets and liabilities at December 31, 2016 were all denominated in US dollars (2015: all denominated in US dollars except for \$1 million cash and \$1 million amounts due from subsidiary undertakings, each denominated in Pounds Sterling).

The Parent Company pays fixed rate interest on its senior debt.

#### Credit risk

The Parent Company is potentially exposed to credit risk from its investments in, and amounts due from, its subsidiary undertakings. An impairment allowance would be made if there were to be an identified loss event which evidenced a potential reduction in the recoverability of the cash flows. No such event has been identified.

#### Liquidity risk

The undiscounted remaining contractual maturity of the principal and interest amounts of the Parent Company's senior debt is analyzed below:

Obligations	Payments due by					
	Total	2017	2018	2019	2020	2021
			(millions)			
5.750% senior notes due 2021	\$ 500	\$ —	\$ —	\$ —	\$ —	\$ 500
Interest on senior notes	121	29	29	29	29	5
Total senior notes and related interest	\$ 621	\$ 29	\$ 29	\$ 29	\$ 29	\$ 505

The Parent Company, together with the Treasury function of Willis Towers Watson, manages amounts due from subsidiary undertakings to ensure that it has sufficient funds to repay senior debt, and interest on that debt, as it falls due.

## **18. SUBSEQUENT EVENTS**

### **Dividend**

On February 8, 2017, the Parent Company declared a first interim dividend of \$0.53 per share, payable on or about April 17, 2017 to shareholders of record on March 31, 2017.

### **Debt refinancing**

On March 7, 2017, the Company increased its \$800 million revolving credit facility to \$1.25 billion, held by Trinity Acquisition plc, and extended the repayment date to March 7, 2022. The Parent Company remains a guarantor of amounts borrowed under the facility. On the same day, the Company repaid the 7-year term loan due July 23, 2018.

