The image features a large, glowing, abstract shape that resembles a hand or a flame, set against a dark blue background with stars and a bright starburst. The shape is primarily orange and yellow, with a bright, glowing core. It appears to be reaching upwards or outwards. The background is a deep blue, speckled with numerous small, bright stars. A prominent, bright starburst is located in the lower right quadrant, creating a lens flare effect. The overall composition is dynamic and evocative, suggesting themes of vision, growth, and aspiration.

The 1999 Annual Report

**AON**  
Insure your vision

## On The Cover

The Hubble telescope is showing us things never seen before. It is helping to resolve long-standing questions. And just as important, it is posing new ones and uncovering opportunities. On our cover, the telescope captures, for the first time, the birth of a star in the Eagle Nebula. It shows pillars of gas in M16-Eagle Nebula and cosmic dust that reach three light years in height, where inside, molecules of hydrogen and cosmic dust are being compressed by their own gravity into stars.

We selected this image for a simple, but very important reason. The Hubble telescope is seeking the unforeseen. On a less cosmic scale, so are we. Aon's exploration of the unforeseen means anticipating risk, developing unique solutions and uncovering opportunities for our clients. We believe that once you understand the unforeseen, you can protect yourself from its threats and move on to its opportunities.

## Aon Corporation

is a family of brokerage, consulting and consumer insurance companies providing innovative solutions for diverse businesses, financial institutions, governments, insurance organizations and individuals worldwide.

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## Financial Highlights

(millions except per share data)	1999	1998	Percent Change
<b>Income Data</b>			
Revenue	\$ 7,070	\$ 6,493	9%
Investment income	577	590	(2)
EBITDA*	1,383	1,271	9
Net income excluding special charges	547	541	1
Net income	352	541	(35)
<b>Financial Position</b>			
Total assets	21,132	19,688	7
Stockholders' equity	3,051	3,017	1
<b>Dilutive Per Share Data**</b>			
Net income excluding special charges	2.07	2.07	—
Special charges	(0.74)	—	—
Net income	1.33	2.07	(36)
<b>Stockholders' Equity Per Share**</b>			
	11.91	11.83	1
<b>Cash Dividends Per Share Paid on Common Stock**</b>			
	0.82	0.73	12
<b>Business Segments</b>			
<b>Insurance Brokerage and Other Services</b>			
Revenue	4,144	3,782	10
Income before income tax excluding special charges	684	663	3
Income before income tax	493	663	(26)
<b>Consulting</b>			
Revenue	656	615	7
Income before income tax excluding special charges	80	68	18
Income (loss) before income tax	(42)	68	—
<b>Insurance Underwriting</b>			
Revenue	2,106	1,946	8
Income before income tax	290	283	2
<b>Corporate and Other</b>			
Revenue	164	150	9
Loss before income tax	(106)	(83)	—

\* Earnings before special charges, interest, taxes, depreciation and amortization of intangible assets.

\*\* Per share data has been restated to reflect the 1999 three-for-two stock split.



**Patrick G. Ryan**  
Chairman and Chief Executive Officer

## Message to Stockholders

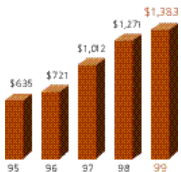
Usually I open this letter by talking about the strength of our financial performance, the success of our strategies and the strides we are making to align Aon's businesses with the demands and opportunities of our marketplace. Although 1999 was a year of significant progress in most of our operations, a number of fourth quarter difficulties require some discussion.

### Fourth quarter perspective

Notwithstanding record revenues, increases in the number of policyholders and strong retention rates in our brokerage business, there were obstacles in the fourth quarter.

On January 10, 2000, we announced that we would take special fourth quarter charges totaling \$150 million for increased reserves for U.K. pension selling issues and other litigation, and for Unicover matters. Fourth quarter results also reflected a disappointing fall-off in certain areas of our brokerage businesses, as well as a decline in income from equity investments. Another factor in the quarter's lower results was higher spending on information technology – a near-term impact with important long-term benefits, which I will discuss later in this letter. These events combined to lower fourth quarter earnings per share to \$0.05 compared to \$0.53 earned in the fourth quarter of 1998.

We are addressing the brokerage performance issues and expect to see significant improvement. As for our equity investments, our strategy has produced outstanding results. While the short-term results could be lower than in the past, we continue to expect superior returns over time from these investments.



#### Five-Year EBITDA (in millions)

Earnings from continuing operations before special charges, interest, taxes, depreciation and amortization of intangible assets.

For 1999, Aon's net income was \$352 million or \$1.33 per share. EBITDA (earnings before special charges, interest, taxes, depreciation and amortization) was \$1.4 billion or \$5.26 per share.

### Aon today

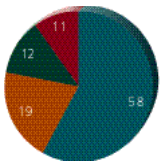
The fourth quarter of 1999 is now behind us. Management is galvanized to wring inefficiencies out of Aon. These temporarily low results will not change the significant growth opportunities for a company with the scale, depth and technologies of Aon to help clients deal with a new and challenging era of risk.

When physical property made up the majority of a client's assets, the definitions of risk were clearer and the boundaries more defined. But factor in issues such as globalization, the Internet, highly mobile employees, ever-widening litigation, economic and strategic interdependence, mega-mergers – and the risk equation changes. Physical assets now represent a much smaller portion of our clients' overall risk. The definitions have blurred, the stakes are immense and the boundaries continue to expand.

Aon must be able to distribute through multiple channels and in all key global markets. We must have deep expertise by industry, and consulting capabilities to help clients understand traditional and non-traditional risks — and how to manage them — so that they can pursue their growth plans uninterrupted.

### Aon matches up point for point

Aon's business units include the world's largest reinsurance brokerage, sophisticated risk management, and products and services for affinity and other groups. We offer administration, alternative risk financing and financial services that go well beyond insurance. Our consulting unit provides a full range of human resource services – from benefit plans to change management. We are in 550 offices and 120 countries – specializing in many industries and products in every aspect of risk management.



#### Geographic Segmentation 1999 Revenue

58% **United States**  
19% **United Kingdom**  
12% **Continent of Europe**  
11% **Rest of World**

### Delivering 100 percent of Aon

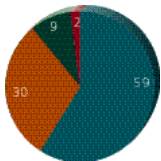
Most clients in a consolidating marketplace do not want to purchase risk and consulting services on a fragmented basis. Aon can deliver integrated insurance, financial and consulting services. We have an all-inclusive view of client needs.

For example, we have dramatically altered how we go to market — and serve the market — with the creation of Global Practice Groups organized around specific industries. These practice groups — concentrating on affinity, aviation, construction, energy, financial institutions and other specialized businesses — are charged with bringing together all Aon resources around our clients' needs.

To assure delivery of integrated solutions to our clients, we have implemented incentive programs to break down barriers between operating units. We also have established Aon University, where employees from around the world get the tools and insights needed to deliver the advantages of interdependence to our clients.

Information technology, as I mentioned earlier, has been a major strategic investment, both as a pathway to interdependence and a means of distribution. AonLine, for example, gives us an electronic connection to large- and middle-market clients. It is the nerve center of global account management that helps integrate all of our relationships with these clients — no matter how far-reaching or complex. Aon Enterprise allows small commercial accounts to buy protection by phone or on-line. RiskNet offers safety management programs over the Internet.

We are offering Omega as a Web-enabled risk management system. We are submitting applications to carriers electronically over Aon Market Exchange. In London, the Aon Multi-Line Facility gives us a more efficient, secure tool for placing treaty reinsurance. The Aon Financial Network is a business and consumer strategy that will allow companies and individuals to create benefits packages on-line. Our new Bridge software will provide an integrated client information, policy management and premium transaction system for Aon Risk Services. While a significant investment initially, our new systems will reduce costs and enhance revenues.



**Business Segments**  
1999 Revenue

59% Insurance Brokerage and Other Services

30% Insurance Underwriting

9% Consulting

2% Corporate and Other

We are investing aggressively in technology because it is transforming the insurance industry. Every one of our units will have parts of their operations that are simply more efficient and helpful on-line. The only way that we can put 100 percent of the capabilities of a global enterprise like Aon in the hands of our clients is to make maximum use of information.

As we have said before, Aon is a relatively young company that has seen tremendous growth – from a company with \$2.3 billion in revenues in 1992 to \$7.1 billion in 1999. We have built an outstanding global distribution system, a vast customer franchise, and a brand that give us opportunities for good organic growth.

In 1999, we welcomed two new members to our board of directors: Lester Knight, former vice chairman and director of Cardinal Health, Inc. and Michael O'Halleran, president and chief operating officer of Aon Corporation.

### Ahead with confidence

In all, 1999 was a solid year that came to a disappointing financial end.

We are dealing with the causes of that disappointment, and we are confident that we will have a good year in 2000. Our financial and market strengths remain very much intact. We will combine these strengths — along with the contributions of our people around the world — to produce the kind of performance our stockholders, and all of us at Aon, have the right to expect.

Sincerely,

A handwritten signature in black ink that reads "Patrick G. Ryan". The signature is fluid and cursive, with the first and last names being more prominent.

Patrick G. Ryan  
Chairman and Chief Executive Officer

# Anticipating Risk





The risks in a changing economy are as wide open as the sky, and just as uncertain — new kinds of businesses, competition, employees, markets — all of which demand new kinds of risk protection. And that takes an advocate who understands the new world of risk — and what to do about it.



## Welcome to the new world of risk

The old world of risk was a fairly orderly place. Things caught fire, people were injured, products failed. Customers understood those kinds of risks and how to manage them. That was the old world of risk.

Traditional property risk has been joined by the risks of a global marketplace where barriers are falling, the rules are changing and your toughest competitor might be the one that did not exist yesterday. The Internet makes any business vulnerable to the next big idea. Reinvention is an everyday event. Catastrophe can include the theft of ideas. Priceless intellectual capital can simply walk out the door.

The value chain is only as strong as the weakest global interconnection. Alliances create uneasy marriages that blur the lines between partner and predator.

Welcome to the new world of risk – financial, human, technological, organizational and physical. Merely handling insurance transactions is not enough in this new world. It takes an advocate.

Aon has been building an organization that can help clients deal with the new world of risk. We are a leader in risk management advice, brokerage services, human resource consulting and consumer insurance. That work started with a vision.

Key parts of the vision are worldwide distribution, dedicated client focus and the highest quality professional services. We also have redefined and expanded the role of an intermediary – from a provider of products, to our current position as an advocate for our clients in risk management and protection.

No organization is better positioned to deliver the kind of services that clients in virtually every type of business need. Our advantage centers on a strong presence in all the key channels of distribution. Our ability to reach diverse kinds of clients means we can focus our marketing, making certain that both our services and products align with identified needs. Because we know the clients, we know the issues – which means that we can offer higher quality service and a selection of the best and most relevant products. It also allows us to form stronger client relationships.

For Aon, our broad distribution channels mean opportunity. It is said that the best way to have a good idea is to have a lot of ideas. That is what unique perspectives on risk allow us to do. From the physical risk of a building, to the financial risk of a new venture, to the risk of losing key talent — and beyond — we try to see risk from all angles. The solutions we provide can apply to many clients. A one-size-fits-all approach? No, just the opposite. Our diverse lines of business and wide experience allow us to custom-fit the solution to the risk – even if it is so new that it takes an experienced specialist to see it.





# Developing Unique Solutions

The ocean is never constant – one minute tranquil, the next threatening. Business conditions can change as quickly and dramatically as the sea. Aon has the solutions to help companies navigate the risks and opportunities.

# Unique solutions around the world

New risks demand new solutions. We provide them through a global network of 550 offices in 120 countries. We have hundreds of insurance and risk management products, deep expertise in a range of industries and the dedication to provide the best available advice and execution.



It is a formidable line-up.  
But it is not enough.

We are realigning our operations around the need — and the opportunity — to focus all of our people, facilities, products and experience on client solutions around the world.

By combining strengths and creating a more integrated platform for global services, we are developing a total solution that is stronger, more flexible and more creative than anything our individual companies could provide alone. We can draw the best thinking and the most relevant experience from any point in our organization, and quickly put them to work as an advocate for our clients.

## One Aon

The expertise of our employees and our global presence provide our clients with the broadest and most efficient access to capital and risk management solutions, so they can focus on the things that will drive their businesses forward. No matter what or where the client's needs are, through our expertise in insurance brokerage and related services, consulting and insurance underwriting, Aon is able to harness the best thinking in the industry to build risk management solutions in every corner of the world. From traditional insurance coverage, to uncovering risks in mergers, to ensuring that companies retain their best employees, Aon is able to help clients stay focused on their core operations. Among the businesses that comprise the "One Aon" that we bring to clients are:

Aon Risk Services, one of the world's fastest growing insurance brokers, helps clients finance and transfer risk in ways that actually free up capital and remove liabilities from the balance sheet. These services span from developing traditional property and casualty coverages, to creating new forms of intellectual property protection, to building directors and officers solutions for Internet companies preparing their initial public offering.

Aon Re Worldwide, the largest reinsurance intermediary, provides risk transfer and financing solutions to risk-bearing entities worldwide (insurance companies, captives, risk retention groups, etc.) Services range from traditional reinsurance placement, to the design of creative, holistic products which utilize our sophisticated analytical and catastrophe modeling expertise. Through its product and industry specialization, Aon Group Limited, headquartered in the United Kingdom, is a major contributor to Aon Re's leadership position in every major reinsurance market. Aon Capital Markets is among the world leaders in securitizing catastrophic risk. It provides our clients access to capital beyond traditional insurance and reinsurance markets. This group is at the forefront of developing risk transfer securities (CatBonds), contingent financing securities (CatPuts®) and risk transfer swaps.

Aon Services Group is comprised of market-leading wholesalers and specialty brokerage that enable Aon to service independent insurance agents, professional and affinity groups, individual consumers and insurance carriers.

Alternative Market Operations is a leader in specialty underwriting solutions and custom-designed products and services.

Aon Consulting Worldwide is a leading human resource consulting and benefits provider that helps maximize human resource productivity. Services range from creating compensation and benefits programs for multi-national firms, to developing hiring and retention strategies to attract and keep a company's best employees, to building change management programs for clients undergoing mergers.


Combined Insurance Company of America is a leader in offering supplemental life, health and accident coverage. It also has opened a significant new channel of distribution by offering benefits through employer programs. This helps employers provide more cost efficient benefits for employees, and in turn, increase retention.


Virginia Surety Company and London General Insurance Company offer comprehensive extended warranty and consumer service programs.

## Focused On Client Needs

To always ensure that we are acting in the best interest of our clients, we continue to make changes to our organization. First, we revamped our compensation system in order to foster greater knowledge sharing. Second, we created global account teams to bring together the right capabilities for each engagement. Third, we continue to invest heavily in technology. This is already enabling our organization to act more efficiently, and it provides our clients greater access to their data in ways that help them make smarter business decisions. By continuing to enhance our interdependent culture, we are better able to help our clients anticipate their risks and uncover new opportunities.

# Uncovering Opportunities

A woman's face is shown in the foreground on the left, looking slightly to the right. In the background on the right, a man's face is visible, looking forward. The background is a dark, starry space with many small, bright white stars scattered throughout.

A close-up, low-angle shot of a hand reaching out from the left side of the frame. The hand is illuminated by a soft, blue light, creating a strong contrast with the dark, star-filled background. The background is a dense field of stars of varying sizes and brightness, some appearing as sharp points of light while others are slightly blurred, giving a sense of depth and vastness. The overall mood is one of exploration and reaching for something new.

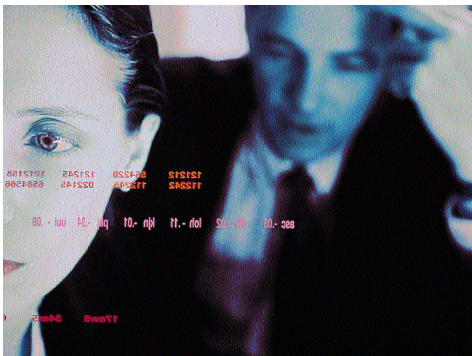
There is a universe of opportunity waiting for companies fast enough and agile enough to explore it. But the opportunities aren't always obvious, and making the most of them means confronting new risks in different ways. Aon combines deep experience, global resources and creative solutions to enable clients to take maximum advantage of opportunities.

# A universe waiting for exploration

An airline industry customer needed a new source of capital. We found a way to collateralize used jet engines to leverage existing assets. A Middle-Eastern country wanted to build a toll road, but their sources of financing worried about disruption by terrorists. We assessed the risk, put a value on it, and placed it in insurance markets. The construction went forward.

Different examples, but one clear point. Understanding risk does more than provide protection. It creates opportunity. It removes barriers that often stand in the way of growth.

Aon understands the relationship between risk and opportunity. We have the experience, products, expertise — and creativity — to handle the risk, which means our clients can focus on the business of growth and profits.



At Aon, there is no unit called the Opportunity Division. There is no Senior Vice President of Opportunity. Rather, we all help companies see and exploit opportunities. We combine organizations, protections and deep lines of business experience to become an advisor, consultant and advocate for our clients.

With the coordination and focus of global account management, every Aon unit can — and will — be a part of that process.

For example, one of the barriers to opportunity in e-commerce is protection of intellectual property. Patent licensing revenues are expected to exceed \$500 billion by 2005 – up from \$100 billion in 1998. When your asset is an idea or a body of knowledge, opportunity demands a new kind of protection. A new risk transfer product developed by Aon will, for the first time, allow companies to secure blanket protection to recover damages or enforce rights for patents, trademarks, copyrights and other intellectual property assets.

Often, opportunity demands thinking outside the boundaries of insurance. Aon Capital Markets is a leader in creating opportunity through insurance-linked securities. We also provide advisory services to clients who need risk financing that goes beyond the protection of typical insurance or reinsurance services.

Opportunity often lies in the ability to change – quickly. Aon Consulting is a comprehensive human resource consulting firm. In addition to benefits, retirement and other human resource services, Aon Consulting can help companies deal with accelerated, potentially disruptive, changes.

A few examples, but they illustrate new and important dimensions in the work we do for clients. We have the organization, the information technology, the distribution channels and the focus to create unique opportunities.

## Financial and Operations Highlights

### Management's Discussion and Analysis

This annual report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. See "Information Concerning Forward-Looking Statements" on page 54 of this annual report.

#### Consolidated Results

##### General

On March 19, 1999, the Board of Directors authorized a three-for-two stock split, payable in the form of a stock dividend, of Aon's \$1.00 par value common stock. All references to share data in the accompanying management's discussion and analysis and financial statements reflect the three-for-two stock split. In the following discussion, the references to per share data are on a dilutive basis.

##### Special Charges

In first quarter 1999, Aon recorded special charges of \$163 million (\$102 million after-tax or \$0.39 per share). These charges included provisions for restructuring in the brokerage and other services and consulting segments of \$120 million (see note 3). Also, in the consulting segment, charges of \$43 million were recorded in first quarter 1999 to reflect amounts required to compensate customers who switched out of company pension plans in the U.K. based upon advice offered by financial advisors of current Aon subsidiaries. This advice was given prior to Aon's purchase of these companies (see note 13).

In fourth quarter 1999, Aon recorded special charges of \$150 million (\$93 million after-tax or \$0.35 per share). These charges reflect an additional \$78 million related to the pension payments described above mainly due to changes in U.K. government requirements and \$72 million for Unicover and other litigation matters (see note 13).

In first quarter 1997, Aon recorded special charges of \$145 million (\$91 million after-tax or \$0.36 per share), primarily related to management's commitment to a formal plan of restructuring Aon's brokerage operations as a result of the acquisition of Alexander and Alexander Services, Inc. (A&A) (see note 3).

In second quarter 1997, Aon recorded special charges of \$27 million (\$17 million after-tax or \$0.07 per share) to recognize investment losses incurred at A&A before Aon acquired A&A.

##### Revenue and Income Before Income Tax

##### Consolidated Results for 1999 Compared to 1998

For purposes of the following consolidated results discussions, certain prior period information has been reclassified to conform to the current year presentation.

Total revenues amounted to \$7.1 billion, an increase of 9% in 1999. This increase was largely attributable to the following: growth in brokerage commissions and fees resulting from business combination activity, slower premium rate declines, growth in insurance premiums resulting from new business and internal growth in the operating segments. Overall, foreign exchange and interest rate reductions, the absence of Unicover revenues in fourth quarter 1999 and lower corporate investment income on equity securities negatively impacted revenue growth.

U.S. revenues increased 11% in 1999 compared to 1998 primarily due to increased new business, acquisitions and slower premium rate declines that benefit insurance brokerage commissions. Insurance brokerage commission revenue is a percentage of total premiums placed. If the rate of pricing decline slows on underlying premiums, commission revenue is benefited. European revenue increased 8% to \$2.2 billion and Rest of World revenue of \$746 million increased 3% in 1999 primarily due to acquisitions and new business. Approximately 30% of 1999 income before income tax is derived from operations outside the U.S.

Brokerage commissions and fees increased 11% to \$4.6 billion reflecting growth from business combination activity, internal growth, increased new business and slower premium rate declines.

Premiums and other revenue is primarily related to insurance underwriting operations and includes premiums earned and other income of \$1.9 billion, an increase of 9% in 1999. Extended warranty premiums earned increased \$83 million or 15%, primarily reflecting continued growth related to appliance and electronics warranty products. Direct sales premiums earned increased \$44 million or 4%, reflecting continued growth from historic levels of accident and health revenues. Specialty and other revenue increased \$28 million or 11%, primarily due to the acquisition of an auto credit book of business in 1999.

Investment income of \$577 million, which includes income on disposals and related expenses decreased 2% for the year. The primary factors contributing to this decrease are a reduction in short-term interest rates mostly outside of the U.S. and lower levels of income from equity securities. Partially offsetting the investment income decline was income on disposal of tax-exempt bonds (with proceeds reinvested in foreign source income bonds for tax planning purposes) and higher levels of income on disposals of certain private equity investments. During 1999, investments in limited partnerships and private equities increased. Limited partnerships and private equity investments do not have fixed returns and consequently exhibit

greater variability in investment income. See "Investment Operations."

General expenses increased 17% for the year. The increase reflects the inclusion of 1999 pretax special charges of \$313 million. General expenses, excluding the 1999 special charges, increased over prior year primarily due to the inclusion of expenses associated with the integration of new businesses in 1999, as well as expenses related to new initiatives, increased levels of technology spending in 1999 and a branding campaign. In addition, due to the early retirement program in 1999 and significant changes in interest rates, Aon revalued its domestic and U.K. pension plans in 1999 (see note 10). The revaluation resulted in a reduction of pension expense. Restructuring liabilities for recent acquisitions and 1999 special charges have been reduced by payments as planned.

A 9% increase in benefits to policyholders when compared to 1998 was consistent with growth in related premiums earned and reflected no unusual claims activity. The run-off of certain specialty liability programs is now substantially complete. Interest expense and amortization of intangibles increased 21% and 17%, respectively, largely as a result of acquisitions.

References to income before income tax are before minority interest related to the issuance of 8.205% mandatorily redeemable preferred capital securities (capital securities) (see note 9).

Income before income tax decreased \$296 million or 32% in 1999 primarily due to the inclusion of special charges in 1999. Excluding special charges, pretax income grew only 2% or \$17 million primarily reflecting costs to integrate Aon's global network, increased technology expenses and the launching of a branding campaign.

Fourth quarter revenue increased 10% to \$1.9 billion compared to 1998 primarily reflecting brokerage business combination activity, slower premium rate declines and additional new business. Total expenses, excluding 1999 special charges, increased 15% to \$1.7 billion for the quarter as a result of acquisitions and related costs, increased technology expenses and a branding campaign. Pretax income, excluding fourth quarter 1999 special charges, decreased \$49 million or 21% to \$190 million. The decrease in pretax earnings before special charges reflects a decline in short-term investment income, less income on equity investments, the absence of Unicover revenues, higher levels of technology spending, lower income from certain insurance brokerage and other services businesses and higher loss ratios on home warranty claims.

#### Consolidated Results for 1998 Compared to 1997

Total revenues amounted to \$6.5 billion, an increase of 13% in 1998. Brokerage commissions and fees increased 16% to \$4.2 billion, largely resulting from business combination activity. Premiums and other revenue of \$1.7 billion increased 4% in 1998, reflecting continued growth primarily related to appliance and electronics warranty products and, to a lesser extent, the mechanical extended warranty line. Direct sales premiums earned increased modestly, reflecting changes in the consumer insurance market. The run-off of North American auto credit business partially offset this growth in premiums earned. Investment income of \$590 million increased 18% for the year, attributable primarily to brokerage acquisitions, income from certain equity and other investment holdings, assets underlying capital accumulation products and higher levels of income on disposals.

General expenses increased 7% for the year primarily due to growth in the brokerage businesses. Benefits to policyholders increased 6% when compared to 1997, reflecting a higher volume of new extended warranty and capital accumulation business. This increase was partially offset by the run-off of auto credit business as planned. Interest expense increased 24% as a result of acquisition financing. Amortization of intangibles increased slightly.

Total expenses increased 7% or \$353 million over 1997. Total 1998 expenses increased over prior year primarily due to investments in new business initiatives, technology and product development. Total expenses, excluding the 1997 special charges, increased 10% or \$525 million over 1997.

Income before income tax increased \$389 million or 72% in 1998 primarily due to the inclusion of special charges in 1997. Excluding special charges, income before income tax increased 30% or \$217 million, largely due to brokerage business combination activity, to the achievement of cost savings resulting from the consolidation of brokerage operations during 1998 and 1997, and to internal growth.

#### Business Segments

For purposes of the following business segments discussions, comparisons of 1999 against 1998 results exclude special charges. Also, a discussion of discontinued operations follows the Business Segments section.

Aon's operating segments are identified as those for which separate financial information is available and that are evaluated on a regular basis in deciding how to allocate resources and in assessing performance. Total revenue for each of the major operating segments is presented both by product and

## Financial and Operations Highlights

by geographic area in note 14. Since Aon's culture fosters interdependence among its operating units, the allocation of expenses by product and on a geographic basis is difficult to delineate. While revenue is tracked and evaluated separately by management, expenses are allocated to products within each of the business segments. In addition to revenue, Aon also measures a segment's financial performance based on business segment income before income tax. Revenues are attributed to geographic areas based on the location of the resources producing the revenues.

Aon classifies its businesses into three major operating segments: Insurance Brokerage and Other Services, Consulting and Insurance Underwriting; and into one nonoperating segment, Corporate and Other (see note 14).

All material intercompany revenues and expenses are eliminated in computing consolidated revenues and income before income tax. A description of operations and a review of financial performance for each of the four business segments follow.

### Insurance Brokerage and Other Services

The Insurance Brokerage and Other Services segment consists principally of Aon's retail and reinsurance brokerage operations, which include specialty and wholesale activity.

Total 1999 Insurance Brokerage and Other Services revenue was \$4.1 billion, up 10%. Acquisitions, new business and diminishing premium rate declines accounted for the majority of this revenue growth. Overall, global insurance pricing in retail had a slightly negative impact in 1999 with selected improvement in reinsurance pricing. Excluding the impact of acquisitions and Unicover related revenue, commissions and fee revenue for brokerage core businesses grew approximately 6% in a very competitive environment. This growth was primarily due to increased new business, specialty and reinsurance operations and diminishing premium rate declines. Revenue includes investment income allocated to this operating segment. Investment income in this segment decreased \$35 million in 1999 compared to prior year primarily due to reductions in short-term interest rates. See "Investment Operations."

U.S. revenue of \$2.1 billion in 1999 was up 14% from 1998 due to increased new business, acquisitions, diminishing premium rate declines and U.S. specialty operations. U.K. and other European revenue of \$1.5 billion increased 6% from 1998, primarily due to acquisition activity, particularly in Italy, France and the U.K. and to internal growth in the U.K., Spain, The Netherlands, Finland, Ireland, Norway and Belgium. Rest of World revenue increased modestly in 1999 primarily due to new initiatives.

Insurance Brokerage and Other Services segment results were impacted positively by acquisitions, in particular the Nikots Group acquisition in 1999 and the inclusion of Auto Insurance Specialists, Le Blanc de Nicolay and Gil y Carvajal in 1998. Retail brokerage results continued to reflect competitive property and casualty pricing although slower premium rate declines were evident. Pretax income growth, excluding 1999 special charges, was impacted by lower investment income on short-term funds, acquisition-related integration costs and increased technology costs. Pretax margins in this segment declined in 1999 reflecting the above revenue and pretax income growth discussion.

### Consulting

The Consulting segment provides a range of consulting services including employee benefits, human resources, compensation and change management.

In the Consulting segment, 1999 revenue increased 7% to \$656 million. Acquisition activity and internal growth, both domestically and internationally, influenced revenue growth. Revenue includes investment income allocated to this operating segment. Excluding the impact of acquisitions and foreign exchange, revenue for consulting core businesses grew approximately 9% in 1999.

U.S. revenue of \$405 million in 1999 was up 5% from 1998 primarily from employee benefits and compensation services. U.K. and European revenue of \$191 million increased 12% from 1998 primarily reflecting growth in the U.K. and The Netherlands. Rest of World revenue increased 3% primarily attributable to Canada. Total consulting pretax income increased \$12 million or 18% from prior year, reflecting internal revenue growth mentioned above and pretax income margin improvements.

### Insurance Underwriting

Aon's Insurance Underwriting segment is comprised of direct sales life, accident and health insurance, extended warranty, specialty and other insurance products.

Revenue was \$2.1 billion in 1999, up 8% from 1998. There was a higher volume of new business related to appliance and electronics extended warranty products, both in the U.S. and internationally, as well as in the U.S. mechanical extended warranty products line. Direct sales continued to expand its product distribution through work-site marketing programs and the recent introduction of new product initiatives on a global basis. However, the above revenue growth is predominantly from core operations as these new initiatives continue to build momentum. Revenue includes investment income allocated to this operating segment. See "Investment Operations."

U.S. revenue of \$1.5 billion was up 7% in 1999, mainly due to growth in revenues for direct sales and the mechanical extended warranty products. United Kingdom and European revenue of \$464 million rose 14%, principally due to a higher volume of new business in the appliance and electronic extended warranty products. Rest of World revenue rose 7% reflecting continuing geographic expansion.

Pretax income was \$290 million in 1999, up 2% from \$283 million last year. The completion of the profitable run-off of specialty liability business prior to 1999 negatively influenced pretax income growth this year. Pretax income growth was also negatively impacted by worksite marketing and the recent introduction of several new direct sales products. Additionally, there was a modest increase in the extended warranty loss ratio primarily due to the home warranty appliance product. Start-up costs related to new direct sales product initiatives and the modest increase in the extended warranty loss ratio partially offset the direct sales and extended warranty expense ratio improvements. Overall, benefit and expense margins in 1999 did not suggest any significant shift in operating trends.

#### Corporate and Other

Revenue consists primarily of investment income (including income on disposals) which is not otherwise allocated to the operating segments. See "Investment Operations." Corporate operating expenses include administrative and certain information technology costs.

Revenue increased 9% or \$14 million in 1999 compared to prior year. Revenue growth was primarily influenced by approximately \$30 million of gains on disposals of tax-exempt bonds in 1999 and higher levels of income on disposals of certain private equity investments. Private equities are principally carried at cost and usually earn little income until a disposal occurs. Lower levels of income from equity investments partially offset revenue growth in the segment. The timing of revenues from limited partnerships and private equity investments varies significantly between periods. In particular, the reported income from limited partnership investments varies with the market values of underlying publicly-traded equity investments. See "Investment Operations." The investment strategy for the corporate segment is to seek long-term total returns from public and private equities, including limited partnerships which exceed long-term security market rates. Income from these equity investments is expected to be lower in the year 2000 than it was in 1999. The loss before income tax increased \$23 million over 1998. Contributing to the loss in 1999 were financing costs and goodwill amortization related to acquisitions and costs related to investments in information technology.

Corporate and other expenses also included costs related to a branding campaign launched in 1999.

#### Discontinued Operations

Discontinued operations are composed of certain insurance underwriting subsidiaries acquired with A&A that are currently in run-off and the indemnification by A&A of certain liabilities relating to subsidiaries sold by A&A prior to Aon's acquisition. Management believes that, based on current estimates, these discontinued operations are adequately reserved. The liability is included as a component of other liabilities on the consolidated statements of financial position.

#### Income Tax and Net Income

Net income for 1999 was \$352 million or \$1.33 per share compared to \$541 million or \$2.07 per share in 1998. Net income for fourth quarter 1999 amounted to \$13 million or \$0.05 per share compared to \$139 million or \$0.53 per share for 1998. The decrease in 1999 net income and related per share amount is influenced primarily by 1999 after-tax special charges of \$195 million (\$0.74 per share) with no comparable amount in 1998. Basic net income on a per share basis was \$1.35 and \$2.11 in 1999 and 1998, respectively. Dividends on the redeemable preferred stock in 1999 and 1998 have been deducted from net income to compute income per share.

Net income excluding special charges was \$547 million or \$2.07 per share in 1999 compared to \$541 million or \$2.07 per share in 1998. The effective income tax rate increased to 38.3% in 1999 from 37.5% in 1998 due principally to a program designed to enable Aon to fully utilize foreign tax credits by switching from tax-exempt to taxable bonds. Dilutive average shares outstanding for 1999 increased 1% when compared to 1998 primarily due to the issuance of common shares for acquisition financing and, to a lesser extent, for employee stock compensation plans.

#### Liquidity

Aon's operating subsidiaries anticipate that there will be adequate liquidity to meet their needs in the foreseeable future. Aon's routine liquidity needs are primarily for servicing its debt and for the payment of dividends on stock issues and the capital securities. Dividends from Aon's subsidiaries are the primary source for meeting these requirements. After meeting its routine dividend and debt servicing requirements, Aon used a majority of the remaining dividends received throughout the year to invest in acquisitions within the operational segments of its businesses. There are certain regulatory restrictions relating to dividend capacity of insurance subsidiaries that are discussed in note 9. Insurance subsidiaries' statutory capital

## Financial and Operations Highlights

and surplus at year-end 1999 again exceeded the risk-based capital target set by the National Association of Insurance Commissioners by a satisfactory level.

The businesses of Aon's operating subsidiaries continue to provide substantial positive cash flow. Brokerage cash flow has been used primarily for acquisition related activities. Given Aon's fixed-maturity portfolio average life of 6.2 years, access to lines of credit and Aon's positive cash flow, Aon expects sufficient cash flow to meet both short-term and long-term cash needs.

Cash flow from operations decreased \$402 million from 1998 to \$462 million. This decrease primarily represents the timing of the settlement of brokerage receivables and payables, income taxes and a branding campaign. Excluding changes in net brokerage insurance premiums payable and taxes, operating cash increased in 1999 over 1998.

Investing activities used cash of \$493 million in 1999, which was made available from financing and operating activities. Cash used for brokerage acquisition activity during 1999 was \$395 million. Aon also acquired insurance underwriting blocks of business for \$50 million in 1999.

Financing activities in 1999 provided cash totaling \$152 million. This was primarily due to the issuance of \$250 million 6.9% debt securities in 1999 and offset in part by the redemption of Aon's \$100 million 6.875% debt securities. Net short-term borrowing issuances of \$408 million in 1999 principally reflect funds provided for general corporate purposes. The net cash withdrawn from capital accumulation product deposits and withdrawals was \$130 million in 1999, primarily due to a reduction in funding agreements. Cash was used to pay dividends of \$207 million on common stock and \$3 million on redeemable preferred stock.

Total assets increased \$1.4 billion to \$21.1 billion. Invested assets at December 31, 1999 decreased \$268 million from year-end 1998 levels, principally reflecting declines in the market value of fixed maturities and equity securities. Insurance brokerage and consulting receivables increased \$807 million in 1999 with a comparable increase in insurance premiums payable.

Aon's consolidated statement of financial position contains a general expense liability of \$146 million related to purchase related restructuring liabilities (see note 3). Aon anticipates that all outstanding termination benefits will be settled in 2000. The remaining items primarily reflect lease obligations and will run-off over a period up to 15 years. Aon does not anticipate that the payment for termination benefits and

lease obligations will have a material impact on cash flows in subsequent periods.

In addition, at December 31, 1999, Aon has general expense liabilities (see note 13) for the settlement of various contingencies regarding U.K. pension selling, Unicover related settlements and other litigation matters totaling \$179 million. Aon anticipates the settlement of the liabilities relating to the U.K. pension selling to be disbursed over the next few years. A portion of the Unicover matter has been settled in January 2000 for \$27 million. The remaining Unicover issues are complex and, therefore, the timing of resolution cannot be determined at this time.

### Impact of Year 2000

In prior years, Aon discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, Aon completed its remediation and testing of systems. As a result of those planning and implementation efforts, Aon experienced no significant disruptions in mission critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. As projected, Aon's total Year 2000 remediation costs for all business units was approximately \$70 million, of which approximately \$27 million was expended during 1999. These costs were funded through business unit operating cash flows. Aon is not aware of any material problems resulting from Year 2000 issues, either with its products, its internal systems or the products and services of third parties. Aon will continue to monitor its mission critical computer applications and those of its suppliers and vendors throughout the year 2000 to ensure that any latent Year 2000 matters that may arise are addressed promptly.

### Investment Operations

Aon invests in broad asset categories related to its diversified operations. Investments are managed with the objective of maximizing earnings while monitoring asset and liability durations and considering regulatory requirements.

Aon maintains well-capitalized operating companies. The financial strength of these companies permits a diversified investment portfolio including invested cash, fixed income obligations and public and private equities.

Investment characteristics mirror liability characteristics of the respective operating units. Aon's insurance brokerage and other services and consulting businesses invest fiduciary funds and operating funds in shorter-term obligations, and income derived from these investments is allocated to the revenues of those businesses. Investments underlying interest-sensitive

capital accumulation insurance products are fixed- or floating-rate fixed-maturity obligations to match the appropriate liability characteristics. Indemnity and other types of non-interest sensitive insurance liabilities are primarily supported by intermediate to long-term fixed-maturity instruments. Income from fixed-maturity investments underlying these insurance products and liabilities is allocated to revenues of the insurance underwriting segment.

Invested assets and related investment income not directly required to support insurance brokerage, consulting and underwriting businesses are allocated to the corporate segment.

These diversified assets, which are publicly-traded equities, as well as less liquid private equities and limited partnerships, represent a more aggressive investment strategy that provides an opportunity for greater returns with a longer-term investment horizon. Many of the limited partnerships in which Aon invests have significant holdings in publicly-traded equities. Changes in market value of these equities flow through the income of the limited partnerships. Aon's ownership share of this partnership income is included in Aon's reported corporate investment income. By comparison, changes in market value of directly-held, publicly-traded equities are recorded directly in stockholders' equity. The investment strategy employed in the corporate segment leads to greater variability in investment income than is the case of investments supporting the insurance brokerage, consulting and underwriting businesses.

With a carrying value of \$2.5 billion at December 31, 1999, Aon's total fixed-maturity portfolio is invested primarily in investment grade holdings (95%) and has a fair value which is 96% of amortized cost.

#### Invested Assets

(millions)	As of December 31	1999	1998
Short-term investments		\$ 2,362	\$ 2,221
Fixed maturities		2,497	3,103
Equity securities		574	768
Other*		751	360
<b>Total invested assets</b>		<b>\$ 6,184</b>	<b>\$ 6,452</b>

\*Limited partnerships were \$465 million and \$255 million as of December 31, 1999 and 1998, respectively.

#### Investment Income

(millions)	Years ended December 31	1999	1998	1997
Insurance brokerage and other services (primarily short-term investments)		\$ 159	\$ 194	\$ 163
Consulting		3	6	6
Insurance underwriting (primarily fixed maturities)		251	240	214
Corporate and other		164	150	117
<b>Total investment income</b>		<b>\$ 577</b>	<b>\$ 590</b>	<b>\$ 500</b>

#### Market Risk Exposure

Aon is subject to market risk exposures of varying correlations and volatilities, including foreign exchange rate risk, interest rate risk and equity price risk. The following disclosure reflects estimates of future performance and economic conditions. Actual results may differ.

Aon is subject to foreign exchange rate risk associated with translating financial statements of its foreign subsidiaries into U.S. dollars. Additionally, certain of Aon's foreign subsidiaries receive revenues in currencies that differ from the currency in which their operating expenses are denominated. Aon's primary exposures are associated with the British Pound, other European currencies, the Canadian Dollar and the Australian Dollar. Aon uses forward contracts and over-the-counter options, as well as listed foreign currency futures and options on futures to protect against adverse transaction and translation effects due to exchange rate fluctuations. The potential decrease to Aon's consolidated stockholders' equity at December 31, 1999 resulting from a hypothetical 10% adverse change in quoted year-end foreign currency exchange rates amounts to \$136 million and \$130 million, respectively, at December 31, 1999 and 1998. The impact to 1999 and 1998 pretax income in the event of a hypothetical 10% adverse change in the respective quoted year-end exchange rates would not be material after consideration of derivative positions.

Due to the nature of Aon's businesses, operating earnings are affected by changes in international and domestic short-term interest rates. Aon hedges its net exposure in short-term interest rates on short-term investments and short-term borrowings with Eurodollar, Eurosterling, EURIBOR futures contracts, interest rate swaps and interest rate caps. A hypothetical 1% decrease in interest rates would cause a decrease, net of derivative positions, of \$8 million and \$16 million to 1999 and 1998 pretax income, respectively.

## Financial and Operations Highlights

The valuation of Aon's fixed-maturity portfolio is subject to interest rate risk. Aon generally uses treasury options and futures and interest rate swaps to hedge the value of the fixed-maturity portfolio. A hypothetical 1% increase in long-term interest rates would decrease the fair value of the portfolio at December 31, 1999 and 1998, net of derivative positions, by approximately \$121 million and \$133 million, respectively. Aon has long-term notes payable and capital securities outstanding with a fair value of \$1.8 billion at December 31, 1999 and 1998. Such fair value was greater than (less than) the carrying value by \$18 million) and \$125 million at December 31, 1999 and 1998, respectively. A hypothetical 1% decrease in interest rates would increase the fair value by approximately 10% at December 31, 1999 and 1998.

The valuation of Aon's marketable equity portfolio is subject to equity price risk. If market prices were to decrease 10%, the fair value of the equity portfolio would have a corresponding decrease, net of derivative positions, of \$57 million at December 31, 1999 compared to \$77 million at December 31, 1998. At December 31, 1999 and 1998, there were no outstanding derivatives hedging the price risk on the equity portfolio.

The selection of the ranges of values chosen to represent changes in foreign currency exchange rates, equity market prices and interest rates should not be construed as Aon's prediction of future market events, but rather an illustration of the impact of such events. The range of changes chosen reflects Aon's view of changes, which are reasonably possible over a one-year period.

In 1999, Aon addressed and implemented the system modifications necessary for full conversion to the Euro. The Euro conversion did not have a material impact on Aon's European operations.

### Capital Resources

At December 31, 1999, Aon had back-up lines of credit available of \$1.1 billion to support Aon's commercial paper that was \$844 million at December 31, 1999. In order to achieve tax efficient financing, Aon Corporation established, in June 1998, a committed bank credit facility under which certain European subsidiaries can borrow up to a maximum of \$405 million on a revolving basis. As of December 31, 1999, there were loans totaling \$351 million outstanding under the facility. A total of \$292 million is committed for five years and \$59 million is committed for 364 days. Short-term borrowings increased \$402 million in 1999 when compared to 1998 attributable to additional commercial paper issued for general corporate purposes. Notes payable increased in 1999 by \$88 million when compared to year-end 1998. The principal

factor influencing this increase was the issuance of \$250 million 6.9% debt securities due July 2004 (see note 6). Partially offsetting the increase was the redemption of Aon's \$100 million 6.875% debt securities, due October 1, 1999, which were redeemed at 100% of the principal amount plus accrued interest and the impact of foreign exchange on outstanding loans under the European bank credit facility.

Aon Corporation borrows funds from and lends funds to its various subsidiaries. As of December 31, 1999, Aon Corporation held obligations to its subsidiaries of approximately \$600 million. These obligations have competitive interest rates.

In 1999, common stockholders' equity per share increased to \$11.91, up from \$11.83 in 1998. The principal factors influencing this increase were net income (which includes \$195 million of after-tax special charges) and a \$60 million decrease in the additional minimum pension liability related to U.K. pension plans. Offsetting this increase were net unrealized investment losses of \$199 million, net foreign exchange losses of \$54 million and dividends to stockholders of \$210 million. Fluctuations in unrealized investment gains and losses and foreign exchange gains and losses from period to period are largely based on market conditions.

## Consolidated Statements of Income

(millions except per share data)	Years ended December 31		
	1999	1998	1997
<b>Revenue</b>			
Brokerage commissions and fees	\$ 4,639	\$ 4,197	\$ 3,605
Premiums and other	1,854	1,706	1,646
Investment income (note 5)	577	590	500
Total revenue	<u>7,070</u>	<u>6,493</u>	<u>5,751</u>
<b>Expenses</b>			
General expenses (notes 3 and 13)	5,214	4,457	4,176
Benefits to policyholders	973	896	842
Interest expense	105	87	70
Amortization of intangible assets	143	122	121
Total expenses	<u>6,435</u>	<u>5,562</u>	<u>5,209</u>
<b>Income Before Income Tax and Minority Interest</b>	635	931	542
Provision for income tax (note 7)	243	349	203
<b>Income Before Minority Interest</b>	<u>392</u>	<u>582</u>	<u>339</u>
Minority interest, net of tax — Company-obligated mandatorily redeemable preferred capital securities (note 9)	(40)	(41)	(40)
<b>Net Income</b>	<u>\$ 352</u>	<u>\$ 541</u>	<u>\$ 299</u>
<b>Net Income Available for Common Stockholders</b>	<u>\$ 349</u>	<u>\$ 538</u>	<u>\$ 287</u>
<b>Basic Net Income Per Share</b>	\$ 1.35	\$ 2.11	\$ 1.14
<b>Dilutive Net Income Per Share</b>	1.33	2.07	1.12
<b>Cash Dividends Per Share Paid on Common Stock</b>	\$ 0.82	\$ 0.73	\$ 0.68
<b>Dilutive Average Common and Common Equivalent Shares Outstanding</b>	<u>262.7</u>	<u>259.4</u>	<u>255.8</u>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Financial Position

(millions)	As of December 31	1999	1998
<b>Assets</b>			
<b>Investments</b>			
Fixed maturities — at fair value		\$ 2,497	\$ 3,103
Equity securities — at fair value		574	768
Short-term investments		2,362	2,221
Other investments		751	360
Total investments		<u>6,184</u>	<u>6,452</u>
<hr/>			
<b>Cash</b>		837	723
<b>Receivables</b>			
Insurance brokerage and consulting		6,230	5,423
Premiums and other		1,116	1,183
Total receivables (net of allowance for doubtful accounts: 19 99 — \$9 4 1998 — \$99)		<u>7,346</u>	<u>6,606</u>
<hr/>			
<b>Current Income Taxes</b>		73	—
<b>Deferred Income Taxes</b>		270	214
<b>Deferred Policy Acquisition Costs</b>		636	573
<b>Excess of Cost Over Net Assets Purchased</b>			
(net of accumulated amortization: 1999 — \$466; 1998 — \$364)		3,359	3,006
<b>Other Intangible Assets</b>			
(net of accumulated amortization: 1999 — \$779; 1998 — \$738)		503	494
<b>Other Assets</b>		1,924	1,620
<b>Total Assets</b>		<u>\$ 21,132</u>	<u>\$ 19,688</u>

See accompanying notes to consolidated financial statements.

(millions)	As of December 31	1999	1998
<b>Liabilities and Stockholders' Equity</b>			
<b>Insurance Premiums Payable</b>		\$ 7,643	\$ 6,948
<b>Policy Liabilities</b>			
Future policy benefits		1,005	986
Policy and contract claims		764	779
Unearned and advance premiums		2,012	1,797
Other policyholder funds		1,207	1,261
Total policy liabilities		<u>4,988</u>	<u>4,823</u>
<b>General Liabilities</b>			
General expenses		1,731	1,448
Current income taxes		—	156
Short-term borrowings		903	501
Notes payable		1,011	923
Other liabilities		955	1,022
<b>Total Liabilities</b>		<u>17,231</u>	<u>15,821</u>
<b>Commitments and Contingent Liabilities</b>			
<b>Redeemable Preferred Stock</b>		50	50
<b>Company-Obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary</b>			
Trust Holding Solely the Company's Junior Subordinated Debentures		800	800
<b>Stockholders' Equity</b>			
Common stock—\$1 par value			
Authorized—300 shares; issued		259	172
Paid-in additional capital		525	450
Accumulated other comprehensive loss		(309)	(116)
Retained earnings		2,905	2,782
Treasury stock at cost (shares: 1999—2.7; 1998—2.3)		(90)	(58)
Deferred compensation		(239)	(213)
<b>Total Stockholders' Equity</b>		<u>3,051</u>	<u>3,017</u>
<b>Total Liabilities and Stockholders' Equity</b>		<u>\$ 21,132</u>	<u>\$ 19,688</u>

## Consolidated Statements of Stockholders' Equity

(millions)	Years Ended December 31	1999	1998	1997
<b>Common Stock</b> Balance at January 1		\$ 172	\$ 172	\$ 114
Effect of three-for-two stock split		86	—	57
Shares issued for business combinations		1	—	1
		<u>259</u>	<u>172</u>	<u>172</u>
<b>Paid-in Additional Capital</b> Balance at January 1		450	377	475
Effect of three-for-two stock split		(86)	—	(57)
Employee benefit plans		114	73	79
Business combinations		47	—	11
Retirement and conversion of preferred stock		—	—	(131)
		<u>525</u>	<u>450</u>	<u>377</u>
<b>Accumulated Other Comprehensive Income (Loss)</b> Balance at January 1		(116)	103	154
Net unrealized investment gains (losses)		(199)	(111)	36
Net foreign exchange losses		(54)	(12)	(87)
Net additional minimum pension liability adjustment		60	(96)	—
Other comprehensive loss		(193)	(219)	(51)
		<u>(309)</u>	<u>(116)</u>	<u>103</u>
<b>Retained Earnings</b> Balance at January 1		2,782	2,463	2,357
Net income		352	541	299
Dividends to stockholders		(210)	(194)	(180)
Loss on treasury stock reissued		(19)	(30)	(7)
Adjustment for business combinations		—	2	(6)
		<u>2,905</u>	<u>2,782</u>	<u>2,463</u>
<b>Treasury Stock</b> Balance at January 1		(58)	(93)	(121)
Cost of shares acquired		(105)	(44)	(12)
Shares reissued at average cost		73	79	40
		<u>(90)</u>	<u>(58)</u>	<u>(93)</u>
<b>Deferred Compensation</b> Balance at January 1		(213)	(200)	(151)
Issuance of stock awards		(73)	(54)	(81)
Debt guarantee of employee stock ownership plan		17	16	13
Amortization of deferred compensation		30	25	19
		<u>(239)</u>	<u>(213)</u>	<u>(200)</u>
<b>Preferred Stock</b> Balance at January 1		—	—	5
Retirement and conversion of preferred stock		—	—	(5)
		<u>—</u>	<u>—</u>	<u>—</u>
<b>Stockholders' Equity at December 31</b>		<b>\$ 3,051</b>	<b>\$ 3,017</b>	<b>\$ 2,822</b>
<b>Comprehensive Income</b>				
Net income		\$ 352	\$ 541	\$ 299
Other comprehensive loss (note 2)		(193)	(219)	(51)
<b>Comprehensive income</b>		<b>\$ 159</b>	<b>\$ 322</b>	<b>\$ 248</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(millions)	Years ended December 31	1999	1998	1997
<b>Cash Flows from Operating Activities</b>				
Net income		\$ 352	\$ 541	\$ 299
Adjustments to reconcile net income to cash provided by operating activities				
Policy liabilities		222	28	(155)
Deferred policy acquisition costs		(239)	(236)	(164)
Amortization of deferred policy acquisition costs		247	216	208
Amortization of intangible assets		143	122	121
Other amortization		25	15	14
Depreciation of property and equipment		187	131	107
Income taxes		(106)	75	42
Brokerage insurance premiums payable—net		(40)	220	380
Other		(329)	(248)	(68)
		<b>462</b>	<b>864</b>	<b>784</b>
<b>Cash Flows from Investing Activities</b>				
Sale of investments				
Fixed maturities				
Maturities		80	107	105
Calls and prepayments		160	108	156
Sales		1,152	2,062	2,175
Equity securities		461	2,176	1,827
Other investments		114	51	55
Purchase of investments				
Fixed maturities				
		(959)	(2,257)	(2,767)
Equity securities				
		(385)	(2,253)	(1,724)
Other investments				
		(357)	(141)	(111)
Purchase of short-term investments—net				
		(93)	(534)	(31)
Acquisition of subsidiaries				
		(395)	(374)	(1,649)
Acquired fiduciary funds from acquisitions				
		—	—	734
Property and equipment and other				
		(271)	(300)	(146)
		<b>(493)</b>	<b>(1,355)</b>	<b>(1,376)</b>
<b>Cash Flows from Financing Activities</b>				
Treasury stock transactions—net				
		(66)	(18)	21
Issuance of short-term borrowings—net				
		408	80	542
Issuance of mandatorily redeemable preferred capital securities				
		—	—	800
Issuance of long-term debt				
		250	—	—
Repayment of long-term debt				
		(100)	(34)	(74)
Interest sensitive, annuity and investment-type contracts				
Deposits				
		444	435	373
Withdrawals				
		(574)	(137)	(44)
Retirement of preferred stock				
		—	—	(136)
Cash dividends to stockholders				
		(210)	(194)	(182)
		<b>152</b>	<b>132</b>	<b>1,300</b>
<b>Effect of Exchange Rate Changes on Cash</b>				
		(7)	(3)	(33)
<b>Increase (Decrease) in Cash</b>				
		114	(362)	675
<b>Cash at Beginning of Year</b>				
		723	1,085	410
<b>Cash at End of Year</b>				
		<b>\$ 837</b>	<b>\$ 723</b>	<b>\$ 1,085</b>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

### 1 Summary of Significant Accounting Principles and Practices

#### Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and include the accounts of Aon Corporation and its operating subsidiaries (Aon). These statements include informed estimates and assumptions that affect the amounts reported. Actual results could differ from the amounts reported. All material intercompany accounts and transactions have been eliminated.

#### Brokerage Commissions and Fees

In general, commission income is recognized at the later of the billing or effective date of the related insurance policies. Contingent commissions, certain life insurance commissions and commissions on premiums billed directly by insurance companies are generally recognized as income when received. Commissions on premium adjustments, including policy cancellations, are recognized as they occur. Fees for claim administration services, benefit consulting, reinsurance services and other services are recognized when the services are rendered.

#### Premium Revenue

In general, for accident and health and extended warranty products, premiums collected are reported as earned in proportion to insurance protection provided over the period covered by the policies. For life products, premiums are recognized as revenue when due.

For universal life-type and investment products, generally there is no requirement for payment of premium other than to maintain account values at a level sufficient to pay mortality and expense charges. Consequently, premiums for universal life-type policies and investment products are not reported as revenue, but as deposits. Policy fee revenue for universal life-type policies and investment products consists of charges for the cost of insurance, policy administration and surrenders assessed during the period. Expenses include interest credited to policy account balances and benefit claims incurred in excess of policy account balances.

#### Reinsurance

Reinsurance premiums, commissions and expense reimbursements on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits ceded to other companies have been reported as a reduction of premium revenue and benefits. Expense reim-

bursements received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs or, to the extent such reimbursements exceed the related acquisition costs, as other revenue. Reinsurance receivables and prepaid reinsurance premium amounts are reported as assets.

#### Stock Compensation Plans

Aon applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for its stock option plan as the exercise price of the options equaled the market price of the stock at the date of grant. Compensation expense has been recognized for the Aon Stock Award Plan based on the market price at the date of the award.

#### Income Tax

Deferred income tax has been provided for the effects of temporary differences between financial reporting and tax bases of assets and liabilities and has been measured using the enacted marginal tax rates and laws that are currently in effect.

#### Income Per Share

Basic income per share is computed based on the weighted-average number of common shares outstanding, excluding any dilutive effects of options, awards and convertible securities. Net income available for common stockholders is net of all preferred dividends. Dilutive income per share is computed based on the weighted-average number of common shares outstanding plus the dilutive effect of options, awards and convertible securities. The dilutive effect of options and awards is calculated under the treasury stock method using the average market price for the period. Income per share is calculated as follows:

(millions except per share data)	1999	1998	1997
Net income	\$ 352	\$ 541	\$ 299
8% preferred stock dividends	—	—	(9)
Redeemable preferred stock dividends	(3)	(3)	(3)
Net income for dilutive and basic	\$ 349	\$ 538	\$ 287
Basic shares outstanding	259	255	252
Common stock equivalents	4	4	4
Dilutive potential common shares	263	259	256
Dilutive net income per share	\$ 1.33	\$ 2.07	\$ 1.12
Basic net income per share	\$ 1.35	\$ 2.11	\$ 1.14

A three-for-two stock split of Aon's \$1.00 par value common stock was effected on May 17, 1999 with 86 million shares issued to common stockholders of record as of May 4, 1999. All references in the accompanying consolidated financial statements and notes to the number of common shares and per share amounts have been retroactively restated to reflect the stock split.

### Investments

Fixed-maturity securities are available for sale and are carried at fair value. The amortized cost of fixed maturities is adjusted for amortization of premiums to the first call date and the accretion of discounts to maturity that are included in investment income. Marketable equity securities, that are held directly, are carried at fair value. Unrealized gains and temporary unrealized losses on fixed maturities and equity securities are excluded from income and are recorded directly to stockholders' equity in accumulated other comprehensive loss, net of related deferred income taxes. Mortgage loans, policy loans and private equity investments are generally carried at cost or unpaid principal balance.

Limited partnership investments are carried under the equity method. Many of the limited partnerships in which Aon invests have significant holdings in publicly-traded equities. Changes in market value of these equities flow through the income of the limited partnerships. Aon's ownership share of this partnership income is included in Aon's reported corporate investment income.

Income or loss on disposal of any securities held in the portfolio is computed using specific costs of securities sold and reported as investment income in the consolidated financial statements.

Investments that have declines in fair value below cost, which are judged to be other than temporary, are written down to estimated fair values. Reserves for certain other investments are established based on an evaluation of the respective investment portfolio and current economic conditions. Writedowns and changes in reserves are included in investment income in the consolidated statements of income. In general, Aon ceases to accrue investment income where interest or dividend payments are in arrears.

Accounting policies relating to derivative financial instruments are discussed in note 12.

### Deferred Policy Acquisition Costs

Costs of acquiring new and renewal insurance underwriting business, principally the excess of new commissions over

renewal commissions, underwriting and sales expenses that vary with and are primarily related to the production of new business, are deferred and reported as assets. For long-duration life and health products, amortization of deferred policy acquisition costs is related to and based on the expected premium revenues of the policies. In general, such amortization is adjusted to reflect current withdrawal experience. Expected premium revenues are estimated by using the same assumptions used in estimating future policy benefits. For extended warranty and short-duration health insurance, costs of acquiring and renewing business, which are deferred, are amortized as the related premium is earned.

### Intangible Assets

In general, the excess of cost over net assets purchased relating to business acquisitions is being amortized into income over periods not exceeding 40 years using the straight-line method, with a weighted-average life of 37 years. The cost of other intangible assets is being amortized over a range of 4 to 25 years, with a weighted-average life of 18 years.

In the unexpected event of a significant deterioration in profitability that is expected to be recurring, Aon would assess the recoverability of its intangible assets using the undiscounted cash flow method.

### Property and Equipment

Property and equipment, reported in other assets, are generally depreciated using the straight-line method over their estimated useful lives. Included in this category is internal use software, which is software that is acquired, internally developed or modified solely to meet internal needs, with no plan to market externally. Costs related to directly obtaining, developing or upgrading internal use software are capitalized. These costs are generally amortized using the straight-line method over a range of 2 to 8 years. The weighted-average life of Aon's software at December 31, 1999 is 5.4 years.

### Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amounts in the consolidated statements of financial position for cash and cash equivalents, including short-term investments, approximate their fair value. Fair value for fixed-maturity and equity securities is based on quoted market prices or, if they are not actively traded, on estimated values obtained from independent pricing services. Fair value of derivatives is based on quoted prices for exchange-traded instruments or the cost to terminate or offset with other contracts.

## Notes to Consolidated Financial Statements

Other investments are comprised of mortgage loans, policy loans, private equity investments and limited partnerships. The fair value for mortgage loans and policy loans is estimated using discounted cash flow analyses, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. It is not practical to estimate the fair value of private equity investments and limited partnerships without incurring excessive costs.

Fair value for liabilities for investment-type contracts is estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. The fair value for notes payable is based on quoted market prices for the publicly-traded portion and on estimates using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements for the nonpublicly-traded portion.

### Future Policy Benefits, Policy and Contract Claims and Unearned Premiums

Future policy benefit liabilities on non-universal life and accident and health products have been provided on the net level premium method. The liabilities are calculated based on assumptions as to investment yield, mortality, morbidity and withdrawal rates that were determined at the date of issue, and provide for possible adverse deviations. Interest assumptions are graded and range from 4.5% to 7.0% at December 31, 1999. Withdrawal assumptions are based principally on insurance subsidiaries' experience and vary by plan, year of issue and duration.

Policyholder liabilities on universal life and investment products are generally based on policy account values. Interest credit rates for these products range from 5.2% to 8.4%.

Policy and contract claim liabilities represent estimates for reported claims, as well as provisions for losses incurred, but not yet reported. These claim liabilities are based on historical experience and are estimates of the ultimate amount to be paid when the claims are settled. Changes in the estimated liability are reflected in income as the estimates are revised.

Unearned premiums generally are calculated using the pro rata method based on gross premiums. However, in the case of extended warranty products, the unearned premiums are calculated such that the premiums are earned over the period of risk in a reasonable relationship to anticipated claims.

### Foreign Currency Translation

In general, foreign revenues and expenses are translated at average exchange rates. Foreign assets and liabilities are translated at year-end exchange rates. Net foreign exchange gains and losses on translation are generally reported in stockholders' equity, in accumulated other comprehensive loss, net of deferred income tax.

### Accounting and Disclosure Changes

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." Statement No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities and will require Aon to recognize all derivatives on the statement of financial position at fair value. Aon has not yet determined the effect this statement will have on the consolidated financial statements.

In June 1999, the FASB issued Statement No. 137 that amends the required adoption date of Statement No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. Early adoption is permitted as of the beginning of any quarter subsequent to the issuance of Statement No. 137. Aon has not yet decided when it will adopt Statement No. 137.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101 which provides guidance for applying generally accepted accounting principles relating to the timing of revenue recognition in financial statements filed with the SEC. Any change required by the SAB must be made in the first quarter 2000 with a cumulative effect accounting change. Aon has not yet determined the effect, if any, this SAB will have on the consolidated financial statements.

### Reclassification

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the 1999 presentation.

## 2 Comprehensive Income

The components of other comprehensive loss and the related tax effects are as follows:

Year ended December 31, 1999 (millions)	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes	Year ended December 31, 1997 (millions)	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes
Unrealized holding gains arising during the year					\$ 8 6	\$ (32)	\$ 5 4
Less: reclassification adjustment					2 9	(11)	1 8
Net unrealized investment gains					5 7	(21)	3 6
Net foreign exchange losses					(138)	5 1	(87)
Net additional minimum pension liability adjustment							
Total other comprehensive loss	\$ (302)	\$ 109	\$ (193)		\$ (81)	\$ 3 0	\$ (51)

The components of accumulated other comprehensive income (loss), net of related tax, as of December 31, 1999, 1998 and 1997 are as follows:

(millions)	1999	1998	1997
Net unrealized investment gains (losses)	\$ (121)	\$ 7 8	\$ 189
Net foreign exchange losses	(152)	(98)	(86)
Net additional minimum pension liability	(36)	(96)	—
Accumulated other comprehensive income (loss)	\$ (309)	\$ (116)	\$ 103

## 3 Business Combinations

### Purchase Method

In 1999, Aon acquired The Nikols Group (the leading Italian insurance and reinsurance broker), Presidium Holdings, Inc. (a third-party insurance claims administration firm that specializes in managing all aspects of workers' compensation claims), Societ  Generale d'Assurance et de Prevoganie (a leading French broker) and certain other insurance brokerage and consulting operations for approximately \$395 million in cash transactions and \$45 million in stock transactions accounted for on a preliminary basis by the purchase method. Aon also acquired insurance underwriting blocks of business for \$50 million. The acquisitions were financed by internal funds, short-term borrowings and stock. Excess of cost over net assets purchased of approximately \$500 million resulted from the 1999 acquisitions and is primarily being amortized over 40 years.

In 1999, Aon consummated a plan of restructuring its operations as a result of recent business combination activity. A charge was recorded in the amount of \$120 million. Total termination benefits were \$67 million and related pension expense was \$32 million, involving 900 positions, of which 860 terminations occurred in 1999 and 40 are planned for 2000. Benefits related to pension plans are included in Aon's total pension liability. Workforce reductions were related to a voluntary early retirement plan for employees of Aon's U.S. and Canadian operating subsidiaries, as well as the consolidation of Aon's European insurance brokerage and other services operations, primarily in the United Kingdom. The remaining charges of \$21 million primarily reflect lease abandonments of \$11 million relating to the consolidation of worldwide brokerage operations and asset impairments of \$10 million.

## Notes to Consolidated Financial Statements

The following table demonstrates the activity related to the liability for termination benefits and abandoned leases:

(millions)	Termination Benefits	Lease Abandonments	Total
Expense charged in 1999	\$ 67	\$ 11	\$ 78
Cash payments in 1999	(51)	(6)	(57)
Balance at December 31, 1999	\$ 16	\$ 5	\$ 21

In 1998, Aon acquired Le Blanc de Nicolay, Gil y Carvajal and certain other operations for approximately \$400 million in transactions accounted for by the purchase method. The purchase accounting for these acquisitions was finalized in 1999. The acquisitions were financed by internal funds and short-term borrowings. Excess cost over net assets purchased of approximately \$400 million resulted from the 1998 acquisitions and is being amortized over 40 years. As a result of 1998 acquisitions and the finalization of purchase accounting for the 1997 acquisition of Jauch and Hübener, Aon had established approximately \$70 million of purchase accounting liabilities primarily relating to termination benefits and lease abandonments. Terminations involved 160 positions which occurred in 1998 and 1999 as planned.

The following table demonstrates the activity related to the liabilities:

(millions)	Termination Benefits	Lease Abandonments	Total
Initial liability	\$ 40	\$ 30	\$ 70
Cash payments in 1998	(16)	(4)	(20)
Balance at December 31, 1998	24	26	50
Cash payments in 1999	(24)	(6)	(30)
Balance at December 31, 1999	\$ —	\$ 20	\$ 20

In 1997, Aon acquired Alexander and Alexander Services, Inc. (A&A) for \$1.3 billion and the Minet Group (Minet) and Jauch & Hübener for approximately \$300 million. These transactions were accounted for by the purchase method. The 1997 acquisitions were financed primarily by the issuance of capital securities (see note 9), issuance of commercial paper and internal funds. Excess of cost over net assets purchased of approximately \$1.5 billion was created by the 1997 acquisitions, of which \$1.2 billion was for A&A. The excess of cost over net assets purchased is primarily being amortized over 40 years.

In second quarter 1997, Aon recorded pretax special charges of \$27 million to recognize investment losses incurred at A&A before Aon acquired A&A. At Aon's acquisition date, the carrying value of certain securities in A&A's portfolio was overstated by the previously unrecognized investment losses.

In first quarter 1997, Aon recorded pretax special charges of \$145 million related to management's commitment to a formal plan of restructuring Aon's brokerage operations as a result of the acquisition of A&A. These charges, in addition to certain charges taken in 1996, constitute the "Aon Plan." The restructuring charges included costs related to termination benefits of \$40 million, lease abandonments and other exit costs of \$68 million and asset impairments of \$37 million relating to the abandonment of systems and real estate space. Terminations involved 600 positions which occurred in 1997 and 1998 as planned. The lease abandonments amount to \$54 million, are primarily located in the United Kingdom and are being paid out over several years as planned.

The following table demonstrates the activity related to the Aon Plan liabilities:

(millions)	Termination Benefits	Lease Abandonments and Other Exit Costs	Total
Balance at December 31, 1996	\$ 12	\$ 48	\$ 60
Expense charged in 1997	40	68	108
Cash payments in 1997	(48)	(10)	(58)
Balance at December 31, 1997	4	106	110
Cash payments in 1998	(4)	(26)	(30)
Balance at December 31, 1998	—	80	80
Cash payments in 1999	—	(24)	(24)
Credit to expense in 1999	—	(11)	(11)
Balance at December 31, 1999	\$ —	\$ 45	\$ 45

Also in 1997, due to management's commitment to a formal plan of restructuring the A&A and Bain Hogg (a late 1996 acquisition) brokerage operations, Aon estimated costs of \$264 million which were allocated to the cost of those acquisitions (the "A&A and Bain Hogg Plan"). The costs primarily relate to termination benefits and lease abandonments. Terminations involved 2000 positions that occurred in 1997 and 1998 as planned.

The following table demonstrates the activity related to the A&A and Bain Hogg Plan liabilities:

(millions)	Termination Benefits	Lease Abandonments and Other Exit Costs	Total
Initial liability	\$ 100	\$ 164	\$ 264
Cash payments in 1997	(65)	(44)	(109)
Balance at December 31, 1997	3 5	120	155
Cash payments in 1998	(35)	(45)	(80)
Balance at December 31, 1998	—	7 5	7 5
Cash payments in 1999	—	(28)	(28)
Charge to expense in 1999	—	13	13
Balance at December 31, 1999	\$ —	\$ 60	\$ 60

The remaining liabilities at December 31, 1999 primarily relate to real estate.

All of Aon's liabilities relating to acquisitions are reflected in general expense liabilities in the consolidated statements of financial position.

In accordance with a 1992 purchase agreement, securities with a value of \$48 million are being held in escrow. The escrowed securities will be released on a predetermined schedule through 2007.

#### Pooling of Interests Method

In 1998 and 1997, Aon issued 2,315,000 shares and 411,000 shares of common stock, respectively, for mergers with insurance brokerage and consulting organizations. In connection with several of the mergers, 94,000 shares issued to sellers are being held in escrow at December 31, 1999, pending the resolution of contingencies. Aon's prior period financial statements have not been restated for the mergers because the effect of the above mergers was not material.

## 4 Discontinued Operations

A&A discontinued its property and casualty insurance underwriting operations in 1985, some of which were then placed into run-off, with the remainder sold in 1987. In connection with those sales, A&A provided indemnities to the purchaser for various estimated and potential liabilities, including provisions to cover future losses attributable to insurance pooling arrangements, a stop-loss reinsurance agreement and actions or omissions by various underwriting agencies previously managed by an A&A subsidiary.

As of December 31, 1999, the liabilities associated with the foregoing indemnities and liabilities of insurance underwriting subsidiaries that are currently in run-off result principally from asbestos, pollution and other health hazard insurance claims and were included in other liabilities in the accompanying statement of financial position and amounted to \$145 million. Such liabilities are net of reinsurance recoverables and other assets of \$178 million.

The insurance liabilities represent estimates of known and future claims expected to be made under occurrence-based

insurance policies and reinsurance business. Those claims are expected to develop and be settled over the next 20 to 30 years.

The insurance liabilities cannot be estimated using conventional actuarial reserving techniques because of, among other matters, the inadequacy of available historical experience to support such techniques and because case law and scientific standards for measuring the adequacy of site clean-up are still evolving. Therefore, independent actuaries have combined available exposure information with other relevant industry data and have used various projection techniques to estimate the insurance liabilities.

Although these insurance liabilities represent a best estimate of the probable liabilities, adverse developments may occur due to the nature of the information available and the variables inherent in the estimation processes. Based on current estimates, management believes that the established liabilities of discontinued operations are sufficient.

## 5 Investments

The components of investment income are as follows:

(millions)	Years ended December 31	1999	1998	1997
Short-term investments		\$ 173	\$ 196	\$ 178
Fixed maturities:				
Interest income		195	219	210
Income on disposals		52	37	27
Losses on disposals		(13)	(24)	(14)
Total		234	232	223
Equity securities:				
Dividend income		42	80	95
Income on disposals		18	65	52
Losses on disposals		(11)	(27)	(32)
Total		49	118	115
Limited partnerships and other:				
Interest, dividend and other income		79	59	23
Income (losses) on disposals		48	1	(27)
Total		127	60	(4)
Gross investment income		583	606	512
Less investment expenses		6	16	12
Investment income		\$ 577	\$ 590	\$ 500

The components of net unrealized gains (losses) are as follows:

(millions)	As of December 31	1999	1998	1997
Fixed maturities		\$ (100)	\$ 108	\$ 130
Equity securities		(88)	12	167
Deferred tax credit (charge)		67	(42)	(108)
Net unrealized investment gains (losses)		\$ (121)	\$ 78	\$ 189

The pretax changes in net unrealized investment gains (losses) are as follows:

(millions)	Years ended December 31	1999	1998	1997
Fixed maturities		\$ (208)	\$ (22)	\$ 18
Equity securities		(100)	(155)	39
Total		\$ (308)	\$ (177)	\$ 57

The amortized cost and fair value of investments in fixed maturities and equity securities are as follows:

(millions) As of December 31, 1999	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies	\$ 170	\$ 1	\$(11)	\$ 160
States and political subdivisions	8	—	(1)	7
Foreign governments	755	14	(19)	750
Corporate securities	1,577	8	(90)	1,495
Mortgage-backed securities	44	—	(1)	43
Other fixed maturities	43	1	(2)	42
Total fixed maturities	2,597	24	(124)	2,497
Total equity securities	662	12	(100)	574
Total	\$ 3,259	\$ 36	\$(224)	\$ 3,071

(millions) As of December 31, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agencies	\$ 96	\$ 6	\$(1)	\$ 101
States and political subdivisions	485	32	—	517
Foreign governments	740	65	(4)	801
Corporate securities	1,596	54	(46)	1,604
Mortgage-backed securities	25	1	—	26
Other fixed maturities	53	1	—	54
Total fixed maturities	2,995	159	(51)	3,103
Total equity securities	756	49	(37)	768
Total	\$ 3,751	\$ 208	\$(88)	\$ 3,871

The amortized cost and fair value of fixed maturities, by contractual maturity as of December 31, 1999, are shown on page 37. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(millions)	Amortized Cost	Fair Value
Due in one year or less	\$ 152	\$ 140
Due after one year through five years	730	729
Due after five years through ten years	841	799
Due after ten years	830	786
Mortgage-backed securities	4	4
<b>Total fixed maturities</b>	<b>\$ 2,597</b>	<b>\$ 2,497</b>

Securities on deposit for regulatory authorities as required by law amounted to \$323 million at December 31, 1999 and

\$274 million at December 31, 1998. As required by the bylaws of Lloyd's brokers, cash and short-term investments subject to floating charges for the benefit of insurance creditors amounted to \$1.2 billion and \$1.3 billion at December 31, 1999 and 1998, respectively. Aon maintains premium trust bank accounts for premiums collected from insureds but not yet remitted to insurance companies of \$1.3 billion at December 31, 1999 and 1998.

At December 31, 1999 and 1998, Aon had \$41 million and \$56 million, respectively, of non-income producing investments.

## 6 Debt and Lease Commitments

### Notes Payable

The following is a summary of notes payable:

(millions)	As of December 31	1999	1998
6.9% debt securities, due July 2004	\$ 250	\$ —	—
6.3% debt securities, due January 2004	100	100	100
6.7% debt securities, due June 2003	150	150	150
7.4% debt securities, due October 2002	100	100	100
6.875% debt securities, due October 1999	—	—	100
Euro credit facility, due June 2003, with interest at 3.3% to 3.6%	292	343	—
Debt guarantee of employee stock ownership plan (ESOP)	—	—	17
Notes payable, due in varying installments, with interest at 4% to 10 %	119	113	—
<b>Total notes payable</b>	<b>\$ 1,011</b>	<b>\$ 923</b>	<b>—</b>

In May 1999, Aon filed a universal shelf registration on Form S-3 with the Securities and Exchange Commission for the issuance of \$500 million of debt and equity securities. In a public offering based on the shelf registration, Aon issued \$250 million of 6.9% debt securities due July 2004. The net proceeds from the sale of the 6.9% notes were used to reduce outstanding short-term commercial paper borrowings.

In 1999, Aon's 6.875% debt securities, due in October 1999, were redeemed at 100% of the principal amount plus accrued interest.

Interest is payable semi-annually on all debt securities. In addition, the debt securities are not redeemable by Aon prior to

maturity and contain no sinking fund provisions. Maturities of notes payable are \$7 million, \$5 million, \$103 million, \$442 million and \$420 million in 2000, 2001, 2002, 2003 and 2004, respectively.

In 1998, Aon entered into a committed bank credit facility under which certain European subsidiaries can borrow up to EUR 400 million. At December 31, 1999, Aon had borrowed EUR 347 million (\$351 million) under this facility, of which \$59 million is classified as short-term borrowings and \$292 million is classified as notes payable in the consolidated statements of financial position. Aon has \$1.1 billion of other unused committed bank credit facilities at December 31, 1999 to support its commercial paper borrowings which were \$844 million at December 31, 1999.

Information related to notes payable (excluding the debt guarantee of ESOP) and short-term borrowings is as follows:

Years ended December 31	1999	1998	1997
Interest paid (millions)	\$ 105	\$ 87	\$ 70
Weighted-average interest rates—			
short-term borrowings	5.4%	5.5%	5.6%

### Debt Guarantee of ESOP

Aon's ESOP entered into loan agreements to purchase Aon common stock. The loans were unconditionally guaranteed by Aon and therefore the unpaid balance of the loans was classified as notes payable in the accompanying consolidated statements of financial position. An equivalent amount, representing deferred compensation, was recorded as a deduction from

## Notes to Consolidated Financial Statements

stockholders' equity. The ESOP paid \$18 million in 1999 and 1998 and \$16 million in 1997, in loan principal and interest from contributions made by Aon to the ESOP, as well as dividend proceeds of common stock held by the ESOP. The loans had an interest rate of 8.35% and matured in 1999. The remaining 1,101,000 shares were released for allocation in 1999.

The following table details the shares held by the ESOP at December 31, 1998:

(thousands)	
Allocated	4,860
Committed to be released	1,101
<b>Total</b>	<b>5,961</b>

### Lease Commitments

Aon has noncancelable operating leases for certain office space, equipment and automobiles. Future minimum rental payments

required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1999 are:

(millions)	
2000	\$ 224
2001	197
2002	176
2003	154
2004	133
Later years	727
<b>Total minimum payments required</b>	<b>\$ 1,611</b>

Rental expenses for all operating leases for the years ended December 31, 1999, 1998 and 1997, amounted to \$198 million, \$202 million and \$177 million, respectively

## 7 Income Tax

Aon and its principal domestic subsidiaries are included in a consolidated life-nonlife federal income tax return. Aon's foreign subsidiaries file various income tax returns in their foreign jurisdictions.

Income before income taxes and the provision for income taxes consist of the following:

(millions)	Years ended December 31	1999	1998	1997
Income before income taxes:				
U.S.		\$ 444	\$ 528	\$ 353
Foreign		191	403	189
<b>Total</b>		<b>\$ 635</b>	<b>\$ 931</b>	<b>\$ 542</b>
Provision for income taxes:				
Current:				
Federal		\$ 201	\$ 184	\$ 21
Foreign		60	53	35
State		20	23	18
<b>Total current</b>		<b>\$ 281</b>	<b>\$ 260</b>	<b>\$ 74</b>
Deferred (credit):				
Federal		\$ (42)	\$ 2	\$ 100
Foreign		7	87	24
State		(3)	—	5
<b>Total deferred</b>		<b>(38)</b>	<b>89</b>	<b>129</b>
<b>Provision for income tax</b>		<b>\$ 243</b>	<b>\$ 349</b>	<b>\$ 203</b>

During 1999, 1998 and 1997, Aon's consolidated statements of income reflect a tax benefit of \$26 million, \$25 million and \$24 million, respectively, on the capital securities.

A reconciliation of the income tax provisions based on the U.S. statutory corporate tax rate to the provisions reflected in the consolidated financial statements is as follows:

	Years ended December 31	1999	1998	1997
Statutory tax rate		35.0%	35.0%	35.0%
Tax-exempt investment income		(1.2)	(1.8)	(3.1)
Amortization of intangible assets relating to acquired businesses		2.8	1.9	3.3
State income taxes		1.7	1.6	2.8
Other — net		—	0.8	(0.5)
<b>Effective tax rate</b>		<b>38.3%</b>	<b>37.5%</b>	<b>37.5%</b>

Significant components of Aon's deferred tax assets and liabilities are as follows:

(millions)	As of December 31	1999	1998
Deferred tax assets:			
Net operating loss and tax credit carryforwards	\$ 36	\$ 82	
Certain purchase accounting and special charges	58	93	
Unrealized investment losses	67	—	
Employee benefit plans	64	57	
Unrealized foreign exchange losses	97	62	
Other	156	92	
Total	\$ 478	\$ 386	
Deferred tax liabilities:			
Policy acquisition costs	\$ (53)	\$ (41)	
Unrealized investment gains	—	(42)	
Other	(127)	(38)	
Total	(180)	(121)	
Valuation allowance	(28)	(51)	
Net deferred tax assets	\$ 270	\$ 214	

There are limitations on the utilization of net operating loss and tax credit carryforwards after a change of control, consequently, there will be annual limitations on the realization of these tax assets. Accordingly, in connection with the purchase of A&A, a \$56 million valuation allowance was established in

1997. The valuation allowance changed to \$51 million in 1998 and \$28 million in 1999 corresponding to reductions in related deferred tax assets, with no effect on income. Subsequently, recognized tax benefits for these items would reduce excess of cost over net assets purchased. Although future earnings cannot be predicted with certainty, management currently believes that realization of the net deferred tax asset after consideration of the valuation allowance is more likely than not.

Prior to 1984, the life insurance companies were required to accumulate certain untaxed amounts in a memorandum "policyholders' surplus account." Under the Tax Reform Act of 1984, the "policyholders' surplus account" balances were "capped" at December 31, 1983 and the balances will be taxed only to the extent distributed to stockholders or when they exceed certain prescribed limits. As of December 31, 1999, the combined "policyholders' surplus account" of Aon's life insurance subsidiaries approximates \$363 million. Aon's life insurance subsidiaries do not intend to make any taxable distributions or exceed the prescribed limits in the foreseeable future; therefore, no income tax provision has been made. However, if such taxes were assessed, the amount of taxes payable would be approximately \$127 million.

The amount of income taxes paid in 1999, 1998 and 1997 was \$324 million, \$249 million and \$137 million, respectively

## 8 Reinsurance and Claim Reserves

Aon's insurance subsidiaries are involved in both the cession and assumption of reinsurance with other companies. Aon's reinsurance consists primarily of short-duration contracts that are entered into with numerous automobile dealerships and insurers. Aon's insurance subsidiaries remain liable to the extent that the reinsuring companies are unable to meet their obligations.

A summary of reinsurance activity is as follows:

(millions)	Years ended December 31	1999	1998	1997
Ceded premiums earned	\$ 624	\$ 580	\$ 609	
Ceded premiums written	510	528	713	
Assumed premiums earned	178	149	298	
Assumed premiums written	116	133	284	
Ceded benefits to policyholders	377	325	286	

Activity in the liability for policy contract claims is summarized as follows:

(millions)	Years ended December 31	1999	1998	1997
Liabilities at beginning of year	\$ 483	\$ 520	\$ 535	
Incurred losses:				
Current year	890	807	814	
Prior years	(39)	(19)	(50)	
Total	851	788	764	
Payment of claims:				
Current year	(618)	(539)	(538)	
Prior years	(268)	(286)	(241)	
Total	(886)	(825)	(779)	
Liabilities at end of year (net of reinsurance recoverables: 1999—\$316, 1998—\$296, 1997—\$289)				
	\$ 448	\$ 483	\$ 520	

## 9 Redeemable Preferred Stock, Capital Securities and Stockholders' Equity

### Redeemable Preferred Stock

At December 31, 1999, 1,000,000 shares of redeemable preferred stock are outstanding. Dividends are cumulative at an annual rate of \$2.55 per share. The shares of redeemable preferred stock will be redeemable at the option of Aon or the holders, in whole or in part, at \$50.00 per share beginning one year after the occurrence of certain future events.

### Capital Securities

In January 1997, Aon created Aon Capital A, a wholly-owned statutory business trust, for the purpose of issuing mandatorily redeemable preferred capital securities (Capital Securities). The sole asset of Aon Capital A is an \$824 million aggregate principal amount of Aon's 8.205% Junior Subordinated Deferrable Interest Debentures due January 1, 2027. The back-up guarantees, in the aggregate, provide a full and unconditional guarantee of the Trust's obligations under the Capital Securities.

Aon Capital A issued \$800 million of 8.205% capital securities in January 1997. The proceeds from the issuance of the Capital Securities were used to finance a portion of the A&A acquisition. The Capital Securities are subject to mandatory redemption on January 1, 2027 or are redeemable in whole, but not in part, at the option of Aon upon the occurrence of certain events. Interest is payable semi-annually on the Capital Securities. The Capital Securities are categorized in the consolidated statements of financial position as "Company-Obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary Trust Holding Solely the Company's Junior Subordinated Debentures." The after-tax interest incurred on the Capital Securities is reported as minority interest in the consolidated statements of income.

### 8% Cumulative Perpetual Preferred Stock

At December 31, 1996, 5,446,000 shares of 8% cumulative perpetual preferred stock were outstanding. Dividends were cumulative at the annual rate of \$2.00 per share. In November 1997, Aon purchased and retired all of the remaining outstanding shares at a total cost of \$136 million.

### Common Stock

Aon repurchased 2,774,000, 1,043,000 and 303,000 shares in 1999, 1998 and 1997, respectively, of its common stock, primarily to provide shares for stock compensation plans and the conversion of preferred stock. In addition, Aon issued 1.5 million new shares of common stock in 1999 for employee benefit plans and for acquisitions.

### Dividends

A summary of dividends incurred is as follows:

(millions)	Years ended December 31	1999	1998	1997
Redeemable preferred stock		\$ 3	\$ 3	\$ 3
8% cumulative perpetual preferred stock		—	—	9
Common stock		207	191	168
Total dividends incurred		\$ 210	\$ 194	\$ 180

### Statutory Capital and Surplus

Generally, the capital and surplus of Aon's insurance subsidiaries available for transfer to the parent company are limited to the amounts that the insurance subsidiaries' statutory capital and surplus exceed minimum statutory capital requirements; however, payments of the amounts as dividends may be subject to approval by regulatory authorities. See note 7 for possible tax effects of distributions made out of untaxed earnings.

Net statutory income of the insurance subsidiaries is summarized as follows:

(millions)	Years ended December 31	1999	1998	1997
Life insurance		\$ 101	\$ 239	\$ 265
Property casualty		57	62	66

Statutory capital and surplus of the insurance subsidiaries is summarized as follows:

(millions)	As of December 31	1999	1998	1997
Life insurance		\$ 502	\$ 610	\$ 724
Property casualty		411	446	438

## 10 Employee Benefits

### Savings and Profit Sharing Plans

Aon subsidiaries maintain contributory savings plans for the benefit of United States salaried and commissioned employees. Provisions made for these plans were \$37 million in 1999 and \$22 million in 1998 and 1997.

### Employee Stock Ownership Plan

Aon subsidiaries maintained a leveraged ESOP for the benefit of the United States salaried and certain commissioned employees. The final allocation under the leveraged ESOP was for 1998. Contributions to the ESOP amounted to \$16 million and \$14 million in 1998 and 1997, respectively. There were no contributions in 1999.

### Pension and Other Postretirement Benefits

Aon sponsors defined benefit, pension and postretirement health and welfare plans that provide retirement, medical and life insurance benefits. The postretirement health care plans are contributory, with retiree contributions adjusted annually; the life insurance and pension plans are noncontributory.

### U.S. Pension and Other Benefit Plans

The following tables provide a reconciliation of the changes in obligations and fair value of assets for the years ended December 31, 1999 and 1998 and a statement of the funded status as of December 31, 1999 and 1998.

(millions)	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
<b>Reconciliation of benefit obligation</b>				
Obligation at beginning of period				
Service cost	\$ 756	\$ 692	\$ 70	\$ 61
Interest cost	31	32	2	1
Participant contributions	55	51	5	5
Plan amendments	—	—	5	4
Actuarial (gain) loss	—	(8)	—	—
Acquisitions	(2)	(13)	(8)	7
Benefit payments	—	11	—	—
Benefit payments	(40)	(38)	(12)	(8)
Curtailements	—	—	7	—
Special termination benefits	—	—	—	—
Change in interest rate	32	—	—	—
Change in interest rate	(100)	29	—	—
<b>Obligation at end of period</b>	<b>\$ 732</b>	<b>\$ 756</b>	<b>\$ 69</b>	<b>\$ 70</b>
<b>Reconciliation of fair value of plan assets</b>				
Fair value at beginning of period				
Actual return on plan assets	\$ 904	\$ 853	\$ 8	\$ 7
Acquisitions	66	60	—	1
Employer contributions	—	16	—	—
Benefit payments	3	13	—	—
Benefit payments	(40)	(38)	—	—
<b>Fair value at end of period</b>	<b>\$ 933</b>	<b>\$ 904</b>	<b>\$ 8</b>	<b>\$ 8</b>
<b>Funded status</b>				
Funded status at end of period	\$ 201	\$ 148	\$(61)	\$(62)
Unrecognized prior-service cost	(6)	(6)	(5)	(10)
Unrecognized gain	(169)	(99)	(16)	(16)
<b>P repaid (accrued) benefit cost</b>				
P repaid (accrued) benefit cost	\$ 26	\$ 43	\$(82)	\$(88)

Pension plan assets include 2.5 million shares of common stock issued by Aon for 1999 and 1998 on which dividends of \$2 million were received in both years.

## Notes to Consolidated Financial Statements

In February 1999, Aon established a limited time early retirement incentive program that provided benefits through the defined benefit pension plan. The additional cost of termination benefits applicable for 1999 resulting from the program has been included above.

The following table provides the components of net periodic benefit cost (credit) for the plans for the years ended December 31, 1999, 1998 and 1997:

(millions)	Pension Benefits	1999	1998	1997
Service cost		\$ 31	\$ 32	\$ 32
Interest cost		55	51	46
Expected return on plan assets		(89)	(71)	(62)
Amortization of prior-service		(1)	(1)	—
Amortization of net gain		(6)	—	—
Net periodic benefit cost (credit)		\$ (10)	\$ 11	\$ 16

(millions)	Other Benefits	1999	1998	1997
Service cost		\$ 2	\$ 1	\$ 2
Interest cost		5	5	4
Expected return on plan assets		—	(1)	(1)
Amortization of prior-service		(5)	(5)	(5)
Amortization of net gain		(1)	(1)	(1)
Net periodic benefit cost (credit)		\$ 1	\$ (1)	\$ (1)

The weighted-average assumptions for the measurement period for U.S. benefit obligations are shown in the following table:

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Discount rate	8.0%	7.2%	8.0%	7.2%
Expected return on plan assets	10.0	9.0	—	—
Rate of compensation increase	4.0	5.0	4.0	5.0

### Assumptions for Other Postretirement Benefits

The employer's liability for future plan cost increase is limited in any year to 5% per annum. For measurement purposes in 1999, 1998 and 1997, 7.0%, 7.5% and 8.5%, respectively, annual rate of increase in the per capita cost of covered health care benefits (trend rate) adjusted for actual current year cost experience was assumed, decreasing gradually to 6% in year 2003 and remaining the same thereafter. However, with the employer funding increase cap limited to 5% per year, net employer trend rates are effectively limited to 5% per year in the future.

Due to the employer funding cap, a 1% change in assumed healthcare cost trend rates has no effect on the service and interest cost components of net periodic postretirement healthcare benefit cost and on the accumulated postretirement benefit obligation for the measurement period ended in 1999.

### International Pension Plans

The following tables provide a reconciliation of the changes in obligations and fair value of assets for the years ended December 31, 1999 and 1998 and a statement of the funded status as of December 31, 1999 and 1998 for material international plans, which are located in the United Kingdom and The Netherlands.

(millions)	International Pension	
	1999	1998
<b>Reconciliation of benefit obligation</b>		
Obligation at beginning of period	\$ 2,147	\$ 1,623
Service cost	74	61
Interest cost	127	113
Participants contributions	6	7
Benefit payments	(77)	(73)
Change in interest rate	29	375
Foreign exchange translation	(96)	41
Obligation at end of period	\$ 2,210	\$ 2,147

### Reconciliation of fair value of plan assets

Fair value at beginning of period	\$ 1,976	\$ 1,752
Actual return on plan assets	248	215
Employer contributions	61	33
Participants contributions	6	7
Benefit payments	(77)	(73)
Foreign exchange translation	(92)	42
Fair value at end of period	\$ 2,122	\$ 1,976

### Funded status

Funded status at end of period	\$ (88)	\$ (171)
Unrecognized prior-service	1	1
Unrecognized loss	260	430
Additional minimum pension liability	(60)	(155)
Prepaid benefit cost	\$ 113	\$ 105

In 1999, plans with a projected benefit obligation (PBO) in excess of the fair value of plan assets had a PBO of \$1.4 billion and plan assets with a fair value of \$1.3 billion, and plans with an accumulated benefit obligation (ABO) in excess of the fair value of plan assets had an ABO of \$480 million and plan assets with a fair value of \$440 million. Also, in 1999, the prepaid

benefit cost presented in the foregoing table is comprised of plans with prepaid assets of \$173 million and accrued liabilities of \$60 million.

The following table provides the components of net periodic benefit cost for the international plans for the measurement period ended in 1999, 1998 and 1997:

(millions)	1999	1998	1997
Service cost	\$ 74	\$ 61	\$ 49
Interest cost	127	113	96
Expected return on plan assets	(196)	(172)	(141)
Amortization of net loss	8	2	—
Net periodic benefit cost	\$ 13	\$ 4	\$ 4

The weighted-average assumptions for the measurement period for the international pension benefit obligations are shown in the following table:

	1999	1998	1997
Discount rate	6.0–7.0%	6.0–7.0%	7.0%
Expected return on plan assets	7.0–10.0	7.0–10.0	7.0–10.0
Rate of compensation increase	4.0–4.5	4.0–4.5	4.0–5.5

## 11 Stock Compensation Plans

### Stock Award Plan

Under the Aon Stock Award Plan, Aon could award up to 19,400,000 shares of common stock. At December 31, 1999, approximately 3,900,000 shares remain available for award. Generally, the award plan requires the employees to complete three continuous years of service before the award begins to vest in increments until the completion of a ten-year period of continuous employment. In general, most awarded shares are issued as they become vested. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each award is deferred and amortized over the period of continuous employment using the straight-line method.

Aon common stock awards outstanding consist of the following:

(shares in thousands)	1999	1998	1997
Years ended December 31			
Shares outstanding at beginning of year	9,321	9,621	7,815
Granted	2,056	1,179	2,804
Vested and exercised	(1,159)	(1,205)	(855)
Canceled	(353)	(274)	(143)
Shares outstanding at end of year	9,865	9,321	9,621

### Stock Option Plan

Under the nonqualified Aon Stock Option Plan, options to purchase common stock were granted to certain officers and employees of Aon and its subsidiaries at 100% of market value on the date of grant. Under the plan, Aon could issue options to purchase up to 35,000,000 shares. Generally, the option plan requires employees to complete three continuous years of service before the options begin to vest in increments until the completion of a six-year period of continuous employment.

A summary of Aon's stock option activity and related information consists of the following:

Years ended December 31	1999		1998		1997	
(shares in thousands)	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Beginning						
outstanding	10,298	\$ 26	9,078	\$ 21	7,914	\$ 17
Granted	2,417	43	2,381	43	2,469	32
Exercised	(1,026)	17	(987)	15	(869)	13
Canceled	(466)	28	(174)	22	(436)	19
Ending						
outstanding	11,223	\$ 31	10,298	\$ 26	9,078	\$ 21
Exercisable at end of year	1,833	\$ 17	1,262	\$ 15	1,044	\$ 14
Options available for grant	4,843		6,795		9,002	

## Notes to Consolidated Financial Statements

A summary of options outstanding and exercisable is as follows:

As of December 31, 1999  
(shares in thousands)

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price	
\$ 14.17–\$ 15.09	1,423	1.3	\$ 14.93	780	\$ 14.92	
15.22– 21.72	1,303	2.0	16.08	613	16.20	
22.89– 22.89	1,614	3.2	22.89	385	22.89	
23.56– 28.92	2,136	6.9	28.62	5 5	25.65	
29.63– 42.67	530	7.9	35.70	—	—	
43.33– 43.33	2,120	8.2	43.33	—	—	
43.44– 49.29	2,097	9.2	43.56	—	—	
\$ 14.17–\$ 49.29	11,223	5.8	\$ 30.51	1,833	\$ 17.34	

As of December 31, 1998  
(shares in thousands)

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price	
\$ 12.71–\$ 14.86	572	1.9	\$ 13.91	315	\$ 13.46	
15.09– 15.09	1,292	2.2	15.09	446	15.09	
15.22– 15.89	1,335	3.1	15.85	297	15.81	
15.93– 21.72	423	1.8	16.52	204	16.56	
22.89– 22.89	1,848	4.2	22.89	—	—	
23.55– 28.92	2,223	7.9	28.63	—	—	
35.06– 47.87	2,605	9.1	41.99	—	—	
\$ 12.71–\$ 47.87	10,298	5.6	\$ 26.31	1,262	\$ 15.09	

### Pro forma Information

Pro forma information regarding net income and net income per share is required by FASB Statement No. 123, and has been determined as if Aon had accounted for employee stock options and stock awards under the fair value method.

The pro forma net income and net income per share information is as follows:

Years ended December 31	1999	1998	1997
Net income (millions):			
As reported	\$ 352	\$ 541	\$ 299
Pro forma	341	530	292
Net income per share :			
Dilutive			
As reported	1.33	2.07	1.12
Pro forma	1.29	2.03	1.09
Basic			
As reported	1.35	2.11	1.14
Pro forma	1.31	2.07	1.11

The fair value per share of options and awards granted is estimated as \$10.87 and \$35.02 in 1999, \$11.01 and \$37.39 in 1998, and \$5.98 and \$27.73 in 1997, respectively, on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions:

	1999	1998	1997
Dividend yield	2.0%	2.0%	2.5%
Expected volatility	21%	20%	20%
Risk-free interest rate	6%	6%	6%
Expected term life (in years):			
Stock options	0.87	1.35	1.35
Stock awards	0	0	0

The compensation cost as generated by the Black-Scholes model, may not be indicative of the future benefit, if any, that may be received by the option holder.

The pro forma information reflected above may not be representative of the amounts to be expected in future years as the fair value method of accounting contained in FASB Statement No. 123 has not been applied to options granted prior to January 1995.

### Employee Stock Purchase Plans

Effective July 1, 1998, Aon adopted an employee stock purchase plan, which provides for the purchase of a maximum of 7,500,000 shares of Aon's common stock by eligible U.S. employees. Under the plan, shares of Aon's common stock may be purchased at six-month intervals at 85% of the lower of the fair market value of the common stock on the first or the last day of each six-month period. No shares were issued under the plan in 1998. In 1999, 333,000 shares were purchased by employees under the plan. Approximately 320,000 shares were purchased by employees under the plan in January 2000.

In 1999, Aon adopted an employee stock purchase plan which provides for the purchase of approximately 720,000 shares of Aon's common stock by eligible U.K. employees that is similar to the U.S. plan described above. No shares were issued under the plan in 1999.

## 12 Financial Instruments

### Financial Risk Management

Aon is exposed to market risk from changes in foreign currency exchange rates, interest rates and securities prices. To manage the volatility related to these exposures, Aon enters into various derivative transactions that have the effect of reducing these risks by creating offsetting market exposures. If Aon did not use derivative contracts, its exposure and market risk would be higher.

Derivative transactions are governed by a uniform set of policies and procedures covering areas such as authorization, counterparty exposure and hedging practices. Positions are monitored using techniques such as market value and sensitivity analyses.

In addition to creating market risks that offset the underlying business exposures, certain derivatives also give rise to credit risks due to possible non-performance by counterparties. The credit risk is generally limited to the fair value of those contracts that are favorable to Aon. Aon has limited its credit risk by restricting investments in derivative contracts to a diverse group of highly rated major financial institutions and by using exchange-traded instruments. Aon closely monitors the credit-worthiness of and exposure to its counterparties and considers its credit risk to be minimal. At December 31, 1999 and 1998, Aon placed securities in escrow amounting to \$4 million and \$8 million, respectively, relating to these derivative contracts.

### Foreign Exchange Risk Management

Certain of Aon's foreign brokerage subsidiaries, primarily in the United Kingdom, receive revenues in currencies that differ from the currency in which their operating expenses are denominated. To reduce the variability of cash flows from these operations, foreign exchange forward contracts and options are used having settlement dates that are primarily less than one year. Related gains or losses on these contracts are reflected as an adjustment to income when the currencies are exchanged to settle expense commitments. Forward contracts entered into require no up-front premium and settle at the expiration of the related contract.

Prior to July 1999, Aon managed a group of foreign exchange and interest rate risks that considered the correlation among thirteen currency rates and two short-term interest rates. Aon used foreign currency listed futures and options on futures, as well as over-the-counter options, and forward contracts to manage the effects of foreign currency fluctuations on the translation of the financial statements of Aon's foreign operations.

Generally, related gains and losses on these contracts were reflected as an adjustment to income when settled. For contracts designated as hedges of a net investment in foreign subsidiary, realized and unrealized gains were recorded directly to stockholders' equity as a component of net unrealized foreign exchange gains and losses.

### Interest Rate Risk Management

Aon uses interest rate derivative contracts to manage the interest rate risk associated with assets and liabilities underlying its insurance underwriting and insurance brokerage businesses. Interest rate derivatives are also utilized to manage the company's funding and other corporate risks in the U.S. and in Europe.

Interest rate swap agreements are being used to manage asset and liability durations. Prior to 1999, exchange-traded Eurodollar futures, used in conjunction with basis rate swaps, were used to manage asset liability durations related to various other crediting arrangements emanating from other insurance underwriting businesses. As of December 31, 1999 and 1998, these swap agreements had the net effect of shortening asset durations. Variable rates received on interest rate and basis rate swap agreements correlate with crediting rates paid on outstanding liabilities. The net effect of swap payments is settled periodically and reported in income. There is no settlement of underlying notional amounts.

Aon also enters into interest rate swap and floor agreements and purchases exchange-traded futures and options to limit its exposure to decreasing short-term interest rates, primarily relating to brokerage fiduciary funds in the U.S., U.K. and Europe. Aon also enters into interest rate swap agreements, sells exchange-traded interest rate futures and purchases interest rate caps to limit its interest rate exposure to financing short-term receivables and to manage corporate funding risks. The net effect of swap payments is settled periodically and reported in income. There is no settlement of underlying notional amounts. Exchange-traded futures are valued and settled daily, with amounts reported in income when the contract expires. The commission paid for these futures contracts represents the cost basis of the position, until it expires or is closed. The premium that Aon pays for interest rate caps represents the cost basis of the position until it expires or is closed.

## Notes to Consolidated Financial Statements

### Security Price Risk Management

Exchange-traded treasury and equity futures and options are used primarily as a hedge against the value of Aon's available for sale fixed-maturity and equity investments. Aon also uses exchange traded equity futures and options to protect the value of its pension equity investments. Aon sells futures, purchases put options and writes call options. Exchange-traded futures and options are valued and settled daily. The premium that Aon pays for purchased options and receives for written options represents the cost basis of the option until it expires or is closed.

In most cases, derivatives hedging the invested asset portfolio are hedging groups of invested assets. The sale, maturity or extinguishment of a hedged invested asset within a group would not affect the accounting method for the derivative. The accounting for a hedge would differ from the company's regular accounting practices if the hedge ceases to meet the criteria for hedge accounting.

Realized gains and losses on derivatives that qualify as hedges are deferred and reported as an adjustment of the cost basis of the hedged item. Deferred gains and losses are amortized into income over the remaining life of the hedged item. Outstanding derivatives that are hedges of items carried at fair value are reflected in the financial statements at fair value with changes in the derivative fair value reported as unrealized gains and losses directly in stockholders' equity.

The following criteria must be met in order for a derivative to qualify for hedge accounting. The derivative must be designated as a hedge at inception and be consistent with Aon's policy for risk management. The hedged group of invested assets must have a reliably measurable fair value and changes in fair value must have the potential to affect future earnings.

Aon performs frequent analyses to measure the degree of correlation associated with its derivative programs. Aon assesses the adequacy of the correlation analyses results in determining whether the derivatives qualify for hedge accounting. Changes in the fair value of the derivative must be expected to substantially offset changes in the fair value of the designated risk being hedged. If the criteria for hedge accounting are not met, the resulting gain or loss from the hedge would be realized through the statement of operations in the current period.

### Notional and Other Data

The following are the notional amounts of Aon's outstanding derivatives grouped by the types of risks being managed reflecting various periods of exposure:

(millions)	As of December 31	1999	1998
Foreign currency management			
Forwards		\$ 65	\$ 195
Futures		—	69
Call options		165	35
Interest rate and asset/liability duration management			
Eurodollar future s		4,455	1,730
Eurosterling options		297	—
Eurosterling future s		329	900
Treasury future s		55	15
Treasury call options		49	30
Treasury put options		35	10
Interest rate swaps—pay fixed		660	1,192
Interest rate swaps—receive fixed		—	172
Basis rate swaps—pay and receive variable		397	184

Aon amortized into income \$6 million in 1999, \$1 million in 1998 and \$3 million in 1997 of net deferred gains relating to derivatives. Separately deferred hedging gains or losses for derivative financial instruments accounted for as hedges of anticipated transactions were \$0 at December 31, 1999 and \$5 million of gains at December 31, 1998.

The interest rates on Aon's outstanding swaps at December 31 are presented below:

	Receive Fixed	Pay Variable	Pay Fixed	Receive Variable
1999	—	5.7-5.9%	5.3-6.6%	5.1-6.0%
1998	4.0-8.1%	3.2-8.8%	4.8-9.7%	4.3-5.7%

As of December 31, 1999, swaps have maturities ranging from January 2000 to July 2004. Aon receives variable rates based on the one-month commercial paper rate.

### Other Financial Instruments

Aon has certain investment commitments to provide capital and fixed-rate loans, as well as certain forward contract purchase commitments. The investment commitments, which would be collateralized by related properties of the underlying investments, involve varying elements of credit and market risk. Investment commitments outstanding at December 31, 1999 and 1998 totaled \$312 million and \$283 million, respectively.

Subsidiaries of Aon have entered into agreements with financial institutions, whereby the subsidiaries sold certain receivables, with limited recourse. Agreements provide for sales of receivables on a continuing basis through December 2002. As of December 31, 1999 and 1998, the maximum commitment contained in these agreements was \$3.6 billion and \$2.8 billion, respectively. Aon's maximum credit risk under recourse provisions of these agreements was approximately \$260 million and \$202 million at December 31, 1999 and 1998, respectively. In 1999, a subsidiary of Aon sold \$10 million of credit protection in the form of a credit default swap and purchased similar credit protection, also in the form of a credit default swap, to offset its risk in the transaction.

An Aon subsidiary issues fixed- and floating-rate Guaranteed Investment Contracts (GICs) and floating-rate funding agreements and invests the proceeds primarily in the U.S. fixed income markets. The assets backing the GICs are subject to varying elements of credit and market risk.

### Fair Value of Financial Instruments

Accounting standards require the disclosure of fair values for certain financial instruments. The fair value disclosures are not

intended to encompass the majority of policy liabilities, various other non-financial instruments or other intangible assets related to Aon's business. Accordingly, care should be exercised in deriving conclusions about Aon's business or financial condition based on the fair value disclosures. The carrying value and fair value of certain of Aon's financial instruments are as follows:

As of December 31	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(millions)				
<b>Assets:</b>				
Fixed maturities and equity securities	\$ 3,071	\$ 3,071	\$ 3,871	\$ 3,871
Other investments	740	739	349	348
Cash, receivables and short-term investments	10,545	10,545	9,550	9,550
Derivatives*	—	3	—	(2)
<b>Liabilities:</b>				
Investment type insurance contracts	1,207	1,147	1,261	1,310
Short-term borrowings, premium payables and general expenses	10,277	10,277	8,897	8,897
Notes payable	1,011	1,001	923	932
Capital securities	800	792	800	916

\*These exclude derivatives with a carrying value of \$1 million and \$(2) million and a fair value of \$(1) million and \$(2) million that are included in other asset categories at December 31, 1999 and 1998, respectively.

## 13 Contingencies

Aon and its subsidiaries are subject to numerous claims, tax assessments and lawsuits that arise in the ordinary course of business. The damages that may be claimed are substantial, including in many instances claims for punitive or extraordinary damages. Accruals for these items have been provided to the extent that losses are deemed probable and are estimable.

In 1998, the Internal Revenue Service (IRS) proposed adjustments to the tax of certain Aon subsidiaries for the period of 1990 through 1993. Most of these adjustments should be resolved through factual substantiation of certain accounting matters. However, the IRS has contended that retro-rated extended warranty contracts do not constitute insurance for tax purposes. Accordingly, the IRS has proposed a deferral of

deductions for obligations under those contracts. The effect of such deferral would be to increase the current tax obligations of certain Aon subsidiaries by approximately \$74 million, \$3 million, \$5 million and \$12 million (plus interest) in years 1990, 1991, 1992 and 1993, respectively. Aon believes that the IRS's position is without merit and inconsistent with numerous previous IRS private letter rulings. Aon has commenced an administrative appeal and intends to contest vigorously such treatment. Aon believes that if the contracts are deemed not to be insurance for tax purposes, they would be recharacterized in such a way that the increased taxes for the years in question would be far less than the proposed assessments.

## Notes to Consolidated Financial Statements

In the second quarter of 1999, Allianz Life Insurance Company of North America, Inc. ("Allianz") filed an amended complaint in Minnesota adding a brokerage subsidiary of Aon as a defendant in an action which Allianz brought against three insurance carriers reinsured by Allianz. These three carriers provided certain types of workers' compensation reinsurance to a pool of insurers and to certain facilities managed by Unicover Managers, Inc. ("Unicover"), a New Jersey corporation not affiliated with Aon. Allianz alleges that the Aon subsidiary acted as an agent of the three carriers when placing reinsurance coverage on their behalf. Allianz claims that the reinsurance it issued should be rescinded or that it should be awarded damages, based on alleged fraudulent, negligent and innocent misrepresentations by the carriers, through their agents, including the Aon subsidiary defendant. Aon believes that the Aon subsidiary has meritorious defenses and the Aon subsidiary intends to vigorously defend this claim.

Except for an action filed to compel Aon to produce documents to which Aon is responding, the Allianz lawsuit is the only lawsuit or arbitration relating to Unicover in which any Aon related entity is a party. However, in fourth quarter 1999 Aon recognized a pretax charge for \$72 million in general expenses in its insurance brokerage and other services segment relating to Unicover and other litigation matters. Of this charge, \$27 million is for a January 2000 settlement of certain Unicover related business reinsured by Reliance Group Holdings, Inc. The remaining Unicover issues are complex and, therefore, the timing of resolution cannot be determined at this time.

Certain U.K. subsidiaries of Aon have been required by their regulatory body, the Personal Investment Authority (PIA), to

review advice given by those subsidiaries to individuals who bought pension plans during the period from April 1988 to June 1994. These reviews have resulted in a requirement to pay compensation to clients based on guidelines issued by the PIA. In 1999, Aon charged general expenses for \$121 million in the consulting segment to provide for these payments. As of December 31, 1999, Aon has \$107 million remaining in general expense liabilities for these payments which are expected to be disbursed over the next few years. Aon's ultimate exposure from the private pension plan review, as presently calculated, is subject to a number of variable factors including, among others, equity markets, the rate of response to the pension review mailings, the interest rate established quarterly by the PIA for calculating compensation and the precise scope, duration and methodology of the review, including whether recent regulatory guidance will have to be applied to previously settled claims.

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

## 14 Segment Information

Aon classifies its business into three major segments based on the type of service or product, and a fourth nonoperating segment. The Insurance Brokerage and Other Services segment is comprised of retail and reinsurance brokerage operations, which include specialty and wholesale activity. The Consulting segment is Aon's employee benefit and human resource consulting organization. The Insurance Underwriting segment is comprised of direct sales life, accident and health, extended warranty, specialty and other insurance products. The Corporate and Other segment revenues consist primarily of investment income on capital.

Amounts reported in the tables for the four segments, when aggregated, total to the amounts in the accompanying consolidated financial statements. Revenues are attributed to geographic areas based on the location of the resources producing the revenues. Intercompany revenues and expenses are eliminated in computing consolidated revenues and income before income tax. There are no material inter-segment amounts to be eliminated. Long-lived assets and related depreciation and amortization are not material.

Selected information about Aon's operating and geographic areas of operation follows:

### Consolidated Revenue by Geographic Area

(millions)	Years ended December 31	1999	1998	1997
United States		\$ 4,131	\$ 3,736	\$ 3,413
United Kingdom		1,352	1,244	1,158
Continent of Europe		841	790	439
Rest of World		746	723	741
<b>Total</b>		<b>\$ 7,070</b>	<b>\$ 6,493</b>	<b>\$ 5,751</b>

### Investment Income by Segment

(millions)	Years ended December 31	1999	1998	1997
Insurance brokerage and other services (primarily short-term investments)		\$ 159	\$ 194	\$ 163
Consulting		3	6	6
Insurance underwriting (primarily fixed maturities)		251	240	214
Corporate and other		164	150	117
<b>Total</b>		<b>\$ 577</b>	<b>\$ 590</b>	<b>\$ 500</b>

### Insurance Brokerage and Other Services

(millions)	Years ended December 31	1999	1998	1997
Revenue by geographic area:				
United States		\$ 2,146	\$ 1,884	\$ 1,670
United Kingdom		830	798	733
Continent of Europe		680	626	317
Rest of World		488	474	501
Revenue by product:				
Retail		\$ 2,831	\$ 2,761	\$ 2,327
Reinsurance and wholesale		1,313	1,021	894
<b>Total</b>		<b>4,144</b>	<b>3,782</b>	<b>3,221</b>
Operating expenses		3,422	3,086	2,749
Amortization of intangibles		38	33	36
<b>Total expenses</b>		<b>3,460</b>	<b>3,119</b>	<b>2,785</b>
Income before income tax excluding special charges				
Special charges		684	663	436
Special charges		191	—	132
<b>Income before income tax</b>		<b>\$ 493</b>	<b>\$ 663</b>	<b>\$ 304</b>
<b>Identifiable assets at December 31</b>		<b>\$ 9,467</b>	<b>\$ 9,006</b>	<b>\$ 8,382</b>

### Consulting

(millions)	Years ended December 31	1999	1998	1997
Revenue by geographic area:				
United States		\$ 405	\$ 387	\$ 358
United Kingdom		147	134	131
Continent of Europe		44	36	18
Rest of World		60	58	46
<b>Total</b>		<b>656</b>	<b>615</b>	<b>553</b>
Operating expenses		573	544	491
Amortization of intangibles		3	3	4
<b>Total expenses</b>		<b>576</b>	<b>547</b>	<b>495</b>
Income before income tax excluding special charges				
Special charges		80	68	58
Special charges		122	—	13
<b>Income (loss) before income tax</b>		<b>\$ (42)</b>	<b>\$ 68</b>	<b>\$ 45</b>
<b>Identifiable assets at December 31</b>		<b>\$ 248</b>	<b>\$ 150</b>	<b>\$ 141</b>

## Notes to Consolidated Financial Statements

### Insurance Underwriting

(millions)	Years ended December 31	1999	1998	1997
Revenue by geographic area:				
United States		\$ 1,457	\$ 1,366	\$ 1,308
United Kingdom		349	290	274
Continent of Europe		115	117	102
Rest of World		185	173	174
Revenue by product:				
Direct sales		\$ 1,098	\$ 1,053	\$ 1,035
Extended warranty		730	643	574
Specialty and other		278	250	249
Total		2,106	1,946	1,858
Benefits to policyholders		973	896	842
Operating expenses		596	551	530
Amortization of deferred acquisition costs				
		247	216	208
Total expenses		1,816	1,663	1,580
Income before income tax		\$ 290	\$ 283	\$ 278
Identifiable assets at December 31		\$ 5,640	\$ 5,213	\$ 4,936

### Corporate and Other

(millions)	Years ended December 31	1999	1998	1997
Total revenue		\$ 164	\$ 150	\$ 119
Operating expenses		63	60	26
Interest expense		105	87	70
Amortization of intangibles		102	86	81
Total expenses		270	233	177
Loss before income tax excluding special charges				
		(106)	(83)	(58)
Special charges		—	—	27
Loss before income tax		\$ (106)	\$ (83)	\$ (85)
Identifiable assets at December 31		\$ 5,777	\$ 5,319	\$ 5,232

## Reports by Independent Auditors and Management

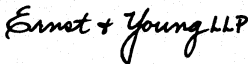
### Report of Ernst & Young LLP, Independent Auditors

#### Board of Directors and Stockholders Aon Corporation

We have audited the accompanying consolidated statements of financial position of Aon Corporation as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aon Corporation at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.



Chicago, Illinois  
February 8, 2000

### Report by Management

The management of Aon Corporation is responsible for the integrity and objectivity of the financial statements and other financial information in the annual report. The statements have been prepared in conformity with accounting principles generally accepted in the United States. These statements include informed estimates and judgments for those transactions not yet complete or for which the ultimate effects cannot be measured precisely. Financial information elsewhere in this report is consistent with that in the financial statements. The consolidated financial statements have been audited by our independent auditors. Their role is to render an independent professional opinion on Aon's financial statements.

Management maintains a system of internal control designed to meet its responsibilities for reliable financial statements. The system is designed to provide reasonable assurance, at appropriate costs, that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. Judgments are required to assess and balance the relative costs and expected benefits of those controls. It is management's opinion that its system of internal control as of December 31, 1999, was effective in providing reasonable assurance that its financial statements were free of material misstatement. In addition, management supports and maintains a professional staff of internal auditors who coordinate audit coverage with the independent auditors and conduct an extensive program of financial and operational audits.

The Board of Directors selects an Audit Committee from among its members. No member of the Audit Committee is an employee of Aon. The Audit Committee is responsible for recommending appointment of the independent auditors and provides oversight relating to the review of financial information provided to stockholders and others, the systems of internal control which management and the board of directors have established and the audit process. The Audit Committee meets periodically with management, internal auditors and independent auditors to review the work of each and satisfy itself that those parties are properly discharging their responsibilities. Both the independent auditors and the internal auditors have free access to the Audit Committee, without the presence of management, to discuss the adequacy of internal control and to review the quality of financial reporting.

## Selected Financial Data

(millions except common stock and per share data)	1999	1998	1997	1996	1995
<b>Income Statement Data</b>					
Brokerage commissions and fees	\$ 4,639	\$ 4,197	\$ 3,605	\$ 1,919	\$ 1,651
Premiums and other	1,854	1,706	1,646	1,577	1,473
Investment income	577	590	500	392	342
Total revenue	7,070	6,493	5,751	3,888	3,466
Income from continuing operations excluding special charges	\$ 547	\$ 541	\$ 406	\$ 351	\$ 304
Income from continuing operations	352	541	299	292	304
Discontinued operations	—	—	—	43	99
Net income	352	541	299	335	403
<b>Dilutive Per Share Data*</b>					
Income from continuing operations excluding special charges	\$ 2.07	\$ 2.07	\$ 1.55	\$ 1.33	\$ 1.14
Income from continuing operations	1.33	2.07	1.12	1.10	1.14
Discontinued operations	—	—	—	0.17	0.39
Net income	1.33	2.07	1.12	1.27	1.53
<b>Basic Per Share Data*</b>					
Income from continuing operations	1.35	2.11	1.14	1.11	1.15
Net income	1.35	2.11	1.14	1.29	1.55
<b>Balance Sheet Data</b>					
<b>Assets</b>					
Investments	\$ 6,184	\$ 6,452	\$ 5,922	\$ 5,213	\$ 10,639
Brokerage and consulting receivables	6,230	5,423	5,320	3,566	2,264
Intangible assets	3,862	3,500	3,094	1,598	1,598
Other	4,856	4,313	4,355	3,346	5,235
Total assets	\$ 21,132	\$ 19,688	\$ 18,691	\$ 13,723	\$ 19,736
<b>Liabilities and Stockholders' Equity</b>					
Insurance premiums payable	\$ 7,643	\$ 6,948	\$ 6,380	\$ 4,144	\$ 2,723
Policy liabilities	4,988	4,823	4,450	4,360	9,556
Notes payable	1,011	923	637	521	554
General liabilities	3,589	3,127	3,552	1,815	4,179
Total liabilities	17,231	15,821	15,019	10,840	17,012
Redeemable preferred stock	50	50	50	50	50
Capital securities	800	800	800	—	—
Stockholders' equity	3,051	3,017	2,822	2,833	2,674
Total liabilities and stockholders' equity	\$ 21,132	\$ 19,688	\$ 18,691	\$ 13,723	\$ 19,736
<b>Common Stock Data*</b>					
Dividends paid per share	\$ 0.82	\$ 0.73	\$ 0.68	\$ 0.63	\$ 0.59
Stockholders' equity per share	11.91	11.83	11.20	10.81	10.12
Price range	46%–26% <sup>o</sup>	50%–32% <sup>o</sup>	39%–26% <sup>o</sup>	28%–21% <sup>o</sup>	22%–13% <sup>o</sup>
Market price at year-end	40.000	36.917	39.083	27.583	22.167
Common stockholders	13,757	12,294	12,698	13,030	13,520
Shares outstanding (in millions)	256.1	255.0	252.0	249.6	243.6

\*Per share and common stock data have been restated to reflect the 1999 three-for-two stock split.

## Quarterly Financial Data

(millions except common stock and per share data)	1Q	2Q	3Q	4Q	1999
<b>Income Statement Data</b>					
Brokerage commissions and fees	\$ 1,112	\$ 1,143	\$ 1,127	\$ 1,257	\$ 4,639
Premiums and other	437	441	475	501	1,854
Investment income	150	139	168	120	577
Total revenue	<u>1,699</u>	<u>1,723</u>	<u>1,770</u>	<u>1,878</u>	<u>7,070</u>
Net income excluding special charges	152	151	138	106	547
Net income	50	151	138	13	352
<b>Dilutive Per Share Data*</b>					
Net income excluding special charges	\$ 0.58	\$ 0.57	\$ 0.52	\$ 0.40	\$ 2.07
Net income	0.19	0.57	0.52	0.05	1.33
<b>Basic Net Income Per Share*</b>	0.19	0.58	0.53	0.05	1.35
<b>Common Stock Data*</b>					
Dividends paid per share	\$ 0.19	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.82
Stockholders' equity per share	11.27	12.17	12.30	11.91	11.91
Price range	45%-32 <sup>1</sup> / <sub>2</sub> %	46%-39 <sup>1</sup> / <sub>2</sub> %	43%-29 <sup>1</sup> / <sub>2</sub> %	41 <sup>1</sup> / <sub>2</sub> %-26 <sup>1</sup> / <sub>2</sub> %	46 <sup>1</sup> / <sub>2</sub> %-26 <sup>1</sup> / <sub>2</sub> %
Shares outstanding (in millions)	256.2	256.2	256.6	256.1	256.1
Average monthly trading volume (in millions)	8.7	9.1	9.6	17.6	11.2

(millions except common stock and per share data)	1Q	2Q	3Q	4Q	1998
<b>Income Statement Data</b>					
Brokerage commissions and fees	\$ 996	\$ 1,060	\$ 1,023	\$ 1,118	\$ 4,197
Premiums and other	417	423	431	435	1,706
Investment income	148	140	153	149	590
Total revenue	<u>1,561</u>	<u>1,623</u>	<u>1,607</u>	<u>1,702</u>	<u>6,493</u>
Net income	138	140	124	139	541
<b>Dilutive Net Income Per Share*</b>	\$ 0.53	\$ 0.54	\$ 0.47	\$ 0.53	\$ 2.07
<b>Basic Net Income Per Share*</b>	0.55	0.55	0.48	0.54	2.11
<b>Common Stock Data*</b>					
Dividends paid per share	\$ 0.17	\$ 0.19	\$ 0.19	\$ 0.19	\$ 0.73
Stockholders' equity per share	11.40	11.94	11.75	11.83	11.83
Price range	44%-36 <sup>1</sup> / <sub>2</sub> %	48%-41	50%-39%	42%-32 <sup>1</sup> / <sub>2</sub> %	50%-32 <sup>1</sup> / <sub>2</sub> %
Shares outstanding (in millions)	253.1	253.4	255.2	255.0	255.0
Average monthly trading volume (in millions)	6.6	7.7	8.6	12.0	8.7

\*Per share and common stock data have been restated to reflect the 1999 three-for-two stock split.

## Information Concerning Forward-Looking Statements

This annual report contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors such as general economic conditions in different countries around the world, fluctuations in global equity and fixed income markets, downward commercial property and casualty premium pressures, the competitive environment and the actual cost of resolution of contingent liabilities. Further information concerning the company and its business, including factors that potentially could materially affect the company's financial results are contained in the company's filings with the Securities and Exchange Commission.

## Structure of Operating Businesses

Aon Corporation is a holding company. Its separate subsidiary corporations conduct operations. References herein to "Aon" usually relate to such subsidiaries, individually or in the aggregate, but on occasion may relate to Aon Corporation. Express references to "Aon Corporation" relate to the holding company. Operating businesses are principally involved in insurance brokerage, consulting and insurance underwriting; however, references in this annual report are not intended to be a complete or inclusive list of our businesses.

## Operating Businesses

### Aon Group

**Patrick G. Ryan**  
Chairman

**Michael D. O'Halleran**  
President

**Richard A. Riley**  
Vice Chairman

**Aon Risk Services  
Worldwide**  
**Dirk P.M. Verbeek**  
Chairman

**Aon Risk Services  
Companies, Inc.**  
The Americas

**Alternative Market  
Operations**  
**Kenneth J. LeStrange**  
Chairman

**Aon Services Group, Inc.**  
**Michael D. Rice**  
Chairman

**Aon Re Worldwide, Inc.**  
**Paul R. Davies**  
Chairman

**Michael W. Cashman, Sr.**  
Vice Chairman

**Donald P. Koziol, Jr.**  
Vice Chairman

**H. Rocker Channell, Jr.**  
President

The Americas  
**Michael G. Bungert**  
Chairman

**Aon Group Limited**  
**Dennis L. Mahoney**  
Chairman

**John L. Kavanaugh**  
Deputy Chairman

**Brian T. Stewart-Brown**  
Deputy Chairman

**Aon Consulting  
Worldwide, Inc.**  
**Daniel T. Cox**  
Chairman

The Americas  
**Donald C. Ingram**  
Chairman

**Aon Capital Markets**  
**Kevin R. Callahan**  
Chairman

**Joseph E. Morahan**  
President

**Aon Credit Services**  
**Gilbert N. Zitin**  
Chairman

**Aon University**  
**Teresa L. Pahl**  
Executive Vice President

### Insurance Underwriting

**Combined Insurance  
Company of America**  
**Richard M. Ravin**  
Chairman

**John E. Johnston**  
Vice Chairman

**Aon Warranty Group/  
Virginia Surety Company, Inc.**  
**David L. Cole**  
Chairman

**Aon Warranty Group, Inc.**  
**Robert F. Shepard**  
President  
**European Operations**  
**Roger C.J. Powell**  
President

## Board of Directors

**Patrick G. Ryan**  
Chairman and  
Chief Executive Officer

**Daniel T. Carroll**  
Chairman  
The Carroll Group, Inc.

**Franklin A. Cole**  
Chairman  
Croesus Corporation

**Edgar D. Jannotta**  
Senior Director  
William Blair & Company, L.L.C.

**Lester B. Knight**  
Former Vice Chairman  
and Director  
Cardinal Health, Inc.

**Perry J. Lewis**  
Partner  
Morgan Lewis Githens & Ahn

**Andrew J. McKenna**  
Chairman and  
Chief Executive Officer  
Schwarz Paper Company

**Newton N. Minow**  
Counsel  
Sidley & Austin

**Richard C. Notebaert**  
Chairman of the Board (retired)  
Ameritech Corporation

**Michael D. O'Halleran**  
President and  
Chief Operating Officer

**Donald S. Perkins**  
Chairman of the Board (retired)  
Jewel Companies Inc.

**John W. Rogers, Jr.**  
President  
Ariel Capital Management, Inc.  
Ariel Mutual Funds

**George A. Schaefer**  
Chairman of the Board (retired)  
Caterpillar Inc.

**Raymond I. Skilling**  
Executive Vice President  
and Chief Counsel

**Fred L. Turner**  
Senior Chairman  
McDonald's Corporation

**Arnold R. Weber**  
President Emeritus  
Northwestern University

**Carolyn Y. Woo**  
Dean  
College of Business  
Administration  
University of Notre Dame

## Corporate Officers

**Patrick G. Ryan**  
Chairman and  
Chief Executive Officer

**Michael D. O'Halleran**  
President and  
Chief Operating Officer

**Michael W. Cashman, Sr.**  
Executive Vice President

**Daniel T. Cox**  
Executive Vice President

**June Drewry**  
Executive Vice President and  
Chief Information Officer

**Harvey N. Medvin**  
Executive Vice President  
and Chief Financial Officer

**Raymond I. Skilling**  
Executive Vice President  
and Chief Counsel

**Michael A. Conway**  
Senior Vice President and  
Senior Investment Officer

**Richard F. Ferrucci**  
Senior Vice President

**Joseph W. Shenton**  
Senior Vice President

**Gary A. Ackland**  
Vice President  
Internal Audit

**Jerome I. Baer**  
Vice President  
Taxes

**Kevann M. Cooke**  
Vice President and  
Corporate Secretary

**Jeffrey R. Jacobs**  
Vice President  
Brand Development

**Melody L. Jones**  
Vice President  
Human Resources

**Sean P. O'Neill**  
Vice President  
Financial Relations

**John A. Reschke**  
Vice President  
Compensation and Benefits

**James D. White**  
Vice President and  
Controller

**Arlene H. Hardy**  
Treasurer

## Corporate Information

Aon Corporation  
123 North Wacker Drive  
Chicago, Illinois 60606  
312 701-3000  
Internet: <http://www.aon.com>

### Stock Trading

Aon Corporation's common stock is listed on the New York, Chicago and London stock exchanges.

Trading Symbol: AOC

### Annual Stockholders' Meeting

The 2000 Annual Meeting of Stockholders will be held on April 18, 2000 at 10:00 a.m. at:

The Aon Center  
The Indiana Room  
200 East Randolph Street  
Chicago, Illinois 60601

### Transfer Agent and Dividend Reinvestment Services Administrator

First Chicago Trust Company  
A Division of EquiServe  
P.O. Box 2500  
Jersey City, New Jersey 07303-2500

Within the U.S. and Canada: 800 446-2617  
Outside the U.S. and Canada: 201 324-0498  
TDD/TTY for hearing impaired: 201 222-4955

Internet: <http://www.equiserve.com>

### Stockholder Information

Copies of the Annual Report, Forms 10-K and 10-Q, and other Aon information may be obtained from our Internet website, <http://www.aon.com>, or by calling Stockholder Communications at:

Within the U.S. and Canada: 888 858-9587  
Outside the U.S. and Canada: 760 704-4425





**Aon Corporation**

123 North Wacker Drive  
Chicago, Illinois 60606