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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2008**

**or**

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

**Commission file number: 001-16503**

# WILLIS GROUP HOLDINGS LIMITED

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Bermuda** | **98-0352587** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**c/o Willis Group Limited**
**51 Lime Street, London, EC3M 7DQ, England**
(Address of principal executive offices)
**(011) 44-20-3124-6000**
(Registrant's telephone number, including area code)

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☒ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

As of July 31, 2008, there were outstanding 141,724,027 shares of common stock, par value $0.000115 per share of the registrant.

**WILLIS GROUP HOLDINGS LIMITED**

**QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTER ENDED JUNE 30, 2008**

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## INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS



We have included in this document "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. These forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included in this document that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the potential benefits of the business combination transaction involving Willis Group Holdings Limited and Hilb Rogal & Hobbs Company ("HRH"), our outlook and guidance regarding future adjusted operating margin and adjusted earnings per diluted share, future capital expenditures, expected growth in commissions and fees, business strategies, competitive strengths, goals, the anticipated benefits of new initiatives, growth of our business and operations, plans and references to future successes are forward-looking statements. Also, when we use the words such as "anticipate", "believe", "estimate", "expect", "intend", "plan", "probably", or similar expressions, we are making forward-looking statements.

There are important uncertainties, events and factors that could cause our actual results or performance to differ materially from those in the forward-looking statements contained in this document, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- our ability to achieve the expected cost savings, synergies and other strategic benefits as a result of the proposed acquisition or the amount of time it may take to achieve such cost savings, synergies and benefits expected due to the integration of HRH with our operations,
- the satisfaction of conditions to closing, including receipt of shareholder, regulatory and other approvals on the proposed terms and schedule for the proposed acquisition of HRH,
- our ability to implement and realize anticipated benefits of the Shaping our Future initiative and other new initiatives,
- the extent and timing of, and prices paid in connection with, any share repurchases under existing or future programs,
- our ability to retain existing clients and attract new business, and our ability to retain key employees,
- changes in commercial property and casualty markets, or changes in premiums and availability of insurance products due to a catastrophic event such as a hurricane,
- volatility or declines in other insurance markets and the premiums on which our commissions are based,
- impact of competition,
- the timing or ability to carry out share repurchases or take other steps to manage our capital,
- fluctuations in exchange and interest rates that could affect expenses and revenue,
- rating agency actions that could inhibit ability to borrow funds or the pricing thereof,
- domestic and foreign legislative and regulatory changes affecting both our ability to operate and client demand,
- potential costs and difficulties in complying with a wide variety of foreign laws and regulations, given the global scope of our operations,
- changes in the tax or accounting treatment of our operations,
- our exposure to potential liabilities arising from errors and omissions claims against us,
- the results of regulatory investigations, legal proceedings and other contingencies, and
- the timing of any exercise of put and call arrangements with associated companies.

The foregoing list of factors is not exhaustive and new factors may emerge from time to time that could also affect actual performance and results. See also Part I, Item 1A "Risk Factors" included in the Form 10-K for the year ended December 31, 2007 filed on February 27, 2008 for additional factors.

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

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

## PART I—FINANCIAL INFORMATION

### Item 1—Financial Statements

## WILLIS GROUP HOLDINGS LIMITED

## UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENTS

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except per share data) | | | |
| REVENUES | | | | |
| Commissions and fees | $ 641 | $ 600 | $ 1,413 | $ 1,311 |
| Investment income | 20 | 23 | 42 | 47 |
| Other income (Note 2) | — | 3 | 1 | 7 |
| Total revenues | 661 | 626 | 1,456 | 1,365 |
| EXPENSES | | | | |
| Salaries and benefits | (428) | (360) | (839) | (737) |
| Other operating expenses | (141) | (114) | (290) | (225) |
| Depreciation expense and amortization of intangible assets | (17) | (17) | (33) | (33) |
| Gain on disposal of London headquarters | 2 | 3 | 8 | 6 |
| Total expenses | (584) | (488) | (1,154) | (989) |
| OPERATING INCOME | 77 | 138 | 302 | 376 |
| Interest expense | (21) | (19) | (37) | (31) |
| INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 56 | 119 | 265 | 345 |
| Income taxes | (12) | (36) | (72) | (104) |
| INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 44 | 83 | 193 | 241 |
| Interest in earnings of associates, net of tax | (3) | (4) | 23 | 15 |
| Minority interest, net of tax | (2) | (1) | (11) | (9) |
| NET INCOME | $ 39 | $ 78 | $ 205 | $ 247 |
| EARNINGS PER SHARE (Note 4) | | | | |
| —Basic | $ 0.28 | $ 0.55 | $ 1.44 | $ 1.68 |
| —Diluted | $ 0.27 | $ 0.54 | $ 1.43 | $ 1.65 |
| AVERAGE NUMBER OF SHARES OUTSTANDING (Note 4) | | | | |
| —Basic | 141 | 142 | 142 | 147 |
| —Diluted | 142 | 145 | 143 | 150 |
| CASH DIVIDENDS DECLARED PER COMMON SHARE | $ 0.26 | $ 0.25 | $ 0.52 | $ 0.50 |

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

**WILLIS GROUP HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (millions, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | $ 205 | $ 200 |
| Fiduciary funds—restricted | 1,767 | 1,520 |
| Short-term investments | 37 | 40 |
| Accounts receivable, net of allowance for doubtful accounts of $28 million in 2008 and $32 million in 2007 | 11,013 | 8,241 |
| Fixed assets, net of accumulated depreciation of $271 million in 2008 and $211 million in 2007 | 344 | 315 |
| Goodwill | 1,667 | 1,648 |
| Other intangible assets, net of accumulated amortization of $52 million in 2008 and $46 million in 2007 | 72 | 78 |
| Investments in associates | 247 | 193 |
| Pension benefits asset | 497 | 404 |
| Other assets | 373 | 309 |
| TOTAL ASSETS | $ 16,222 | $ 12,948 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Accounts payable | $ 12,216 | $ 9,265 |
| Deferred revenue and accrued expenses | 331 | 388 |
| Net deferred tax liabilities | 22 | 5 |
| Income taxes payable | 72 | 43 |
| Long-term debt (Note 7) | 1,460 | 1,250 |
| Liability for pension benefits | 42 | 43 |
| Other liabilities | 584 | 559 |
| Total liabilities | 14,727 | 11,553 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| MINORITY INTEREST | 53 | 48 |
| STOCKHOLDERS' EQUITY | | |
| Common shares, $0.000115 par value; Authorized: 4,000,000,000; Issued and outstanding, 141,685,629 shares in 2008 and 143,093,509 shares in 2007 | — | — |
| Additional paid-in capital | 18 | 41 |
| Retained earnings | 1,576 | 1,463 |
| Accumulated other comprehensive loss, net of tax | (148) | (153) |
| Treasury stock, at cost, 66,902 shares in 2008 and 71,858 shares in 2007 | (4) | (4) |
| Total stockholders' equity | 1,442 | 1,347 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 16,222 | $ 12,948 |

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

**WILLIS GROUP HOLDINGS LIMITED**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six months ended June 30, 2008 | Six months ended June 30, 2007 |
|---|---|---|
| | (millions) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 205 | $ 247 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net gain on disposal of operations, fixed and intangible assets and short-term investments | (1) | — |
| Gain on disposal of London headquarters | (8) | (6) |
| Depreciation expense and amortization of intangible assets | 33 | 33 |
| Provision for doubtful accounts | (3) | 2 |
| Minority interest | 4 | 4 |
| Provision for deferred income taxes | 22 | 8 |
| Excess tax benefits from share-based payment arrangements | (1) | (7) |
| Share-based compensation | 19 | 18 |
| Undistributed earnings of associates | (15) | (9) |
| Other | 9 | (18) |
| Changes in operating assets and liabilities, net of effects from purchase of subsidiaries: | | |
| Fiduciary funds—restricted | (221) | 7 |
| Accounts receivable | (2,694) | (1,444) |
| Accounts payable | 2,844 | 1,358 |
| Additional funding of UK and US pension plans | (54) | (69) |
| Other assets | (56) | (24) |
| Other liabilities | (48) | (2) |
| Net cash provided by operating activities | 35 | 98 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds on disposal of fixed and intangible assets | 2 | 3 |
| Additions to fixed assets | (64) | (76) |
| Acquisitions of subsidiaries, net of cash acquired | (11) | (72) |
| Investments in associates | (31) | — |
| Proceeds on sale of short-term investments | 3 | 11 |
| Net cash used in investing activities | (101) | (134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from draw down of revolving credit facility | 210 | — |
| Repayments of debt | — | (200) |
| Senior notes issued, net of debt issuance costs | — | 595 |
| Repurchase of shares | (75) | (457) |
| Proceeds from issue of shares | 4 | 11 |
| Excess tax benefits from share-based payment arrangements | 1 | 7 |
| Dividends paid | (72) | (71) |
| Net cash provided by (used in) financing activities | 68 | (115) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2 | (151) |
| Effect of exchange rate changes on cash and cash equivalents | 3 | 5 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 200 | 288 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 205 | $ 142 |

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

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## 1. NATURE OF OPERATIONS

Willis Group Holdings Limited ("Willis Group Holdings") and subsidiaries (collectively, the "Company") provide a broad range of insurance brokerage, reinsurance and risk management consulting services to its worldwide clients, both directly and indirectly through its associates. The Company provides both specialized risk management advisory and consulting services on a global basis to clients worldwide in specific industrial and commercial activities, and services to small, medium and major corporates through its retail operations.

In its capacity as an advisor and insurance broker, the Company acts as an intermediary between clients and insurance carriers by advising clients on risk management requirements, helping clients determine the best means of managing risk, and negotiating and placing insurance risk with insurance carriers through the Company's global distribution network.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The Interim Financial Statements are unaudited but include all adjustments (consisting of normal recurring adjustments) which the Company's management considers necessary for a fair presentation of the financial position as of such dates and the operating results and cash flows for those periods. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. However, the Company believes that the disclosures are adequate to make the information presented not misleading. The results of operations for the six month period ended June 30, 2008 may not necessarily be indicative of the operating results for the entire fiscal year.

These Interim Financial Statements should be read in conjunction with the Company's consolidated balance sheets as of December 31, 2007 and 2006, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for each of the three years in the period ended December 31, 2007 included in the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 11, 2008.

***Fair value measurement—adoption of FAS 157***

The Company adopted Financial Accounting Standard No. 157 ("FAS 157") on January 1, 2008. FAS 157:

- applies to certain assets and liabilities that are being measured and reported on a fair value basis;
- defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosure about fair value measurements; and
- enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

FAS 157 requires that assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

The following table summarizes the valuation of the Company's assets and liabilities by the FAS 157 fair value hierarchy at June 30, 2008:

| | June 30, 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (millions) | | | |
| Assets at fair value: | | | | |
| Fiduciary funds—restricted | $ 1,767 | $ — | $ — | $ 1,767 |
| Short-term investments | 37 | — | — | 37 |
| Derivative financial instruments | — | 16 | — | 16 |
| Total assets | $ 1,804 | $ 16 | $ — | $ 1,820 |
| Liabilities at fair value: | | | | |
| Derivative financial instruments | $ — | $ 27 | $ — | $ 27 |
| Total liabilities | $ — | $ 27 | $ — | $ 27 |

The Company's fiduciary funds—restricted and short-term investments consist mainly of cash and time deposits. Fair values are based on quoted market values.

The fair value of the Company's derivative financial instruments is computed based on a market approach using information generated by market transactions involving comparable instruments.

***Other Income***

Other income comprises gains on the disposals of intangible assets, which primarily arise on the disposal of books of business. Prior to January 1, 2008, the Company reported these gains within "Commissions and fees". Comparatives have been adjusted accordingly.

Although the Company is not in the business of selling intangible assets (mainly books of business), from time to time the Company will dispose of a book of business (a customer list) or other intangible asset that does not produce adequate margins or fit with the Company's strategy.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

***Recent Accounting Pronouncements***

In December 2007, the FASB issued Financial Accounting Standard No. 141 (revised 2007), *Business Combinations* ("FAS 141R"). FAS 141R makes substantial changes to how entities account for business combinations, establishing principles and requirements for how the acquirer:

- recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree;
- recognizes and measures goodwill acquired in the business combination; and
- determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of the business combination.

FAS 141R is effective for financial years beginning after December 15, 2008 and is effective for the Company from January 1, 2009. Adoption is prospective and early adoption is not permitted. The Company is evaluating the potential impact that the adoption of FAS 141R will have on its financial position and results of operations.

## 3. SEVERANCE COSTS

As part of the Company's 2008 expense review, the Company incurred $24 million of severance costs in the six months ended June 30, 2008 relating to approximately 350 positions that have been, or are in the process of being, eliminated, of which $9 million (relating to approximately 200 positions) was incurred in the three months ended June 30, 2008. Severance costs for these employees were recognized pursuant to the terms of their existing benefit arrangements or employment agreements.

Severance costs also arise in the normal course of business and these charges amounted to $1 million in the six months ended June 30, 2008 (2007: $1 million).

## 4. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net income by the average number of shares outstanding during each period. The computation of diluted earnings per share reflects the potential dilution that could occur if dilutive securities and other contracts to issue shares were exercised or converted into shares or resulted in the issue of shares that then shared in the net income of the Company. At June 30, 2008, time-based and performance-based options to purchase 19.3 million and 0.2 million (2007: 14.6 million and 0.3 million) shares, respectively, and 1.5 million (2007: 1.6 million) restricted shares, were outstanding.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

## 4. EARNINGS PER SHARE (Continued)

Basic and diluted earnings per share are as follows:

| | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Six months ended June 30, 2008 | Six months ended June 30, 2007 |
|---|---|---|---|---|
| | (millions, except per share data) | | | |
| Net income | $ 39 | $ 78 | $ 205 | $ 247 |
| Basic average number of shares outstanding | 141 | 142 | 142 | 147 |
| Dilutive effect of potentially issuable shares | 1 | 3 | 1 | 3 |
| Diluted average number of shares outstanding | 142 | 145 | 143 | 150 |
| Basic earnings per share | $ 0.28 | $ 0.55 | $ 1.44 | $ 1.68 |
| Dilutive effect of potentially issuable shares | (0.01) | (0.01) | (0.01) | (0.03) |
| Diluted earnings per share | $ 0.27 | $ 0.54 | $ 1.43 | $ 1.65 |

Options to purchase 17.5 million shares were not included in the computation of the dilutive effect of stock options for the three and six month periods ended June 30, 2008 because the effect was antidilutive (three and six month periods ended June 30, 2007: 1.7 million).

## 5. PENSION PLANS

The components of the net periodic benefit cost of the UK and US defined benefit plans are as follows:

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | UK Pension Benefits | | US Pension Benefits | | UK Pension Benefits | | US Pension Benefits | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | (millions) | | | | | | | |
| Components of net periodic benefit (income) cost: | | | | | | | | |
| Service cost | $ 10 | $ 11 | $ 6 | $ 6 | $ 19 | $ 23 | $ 12 | $ 11 |
| Interest cost | 30 | 28 | 10 | 9 | 61 | 55 | 19 | 18 |
| Expected return on plan assets | (48) | (45) | (12) | (11) | (96) | (89) | (24) | (22) |
| Amortization of unrecognized prior service gain | — | — | (1) | (1) | (1) | (1) | (1) | (1) |
| Amortization of unrecognized actuarial loss | — | 1 | — | — | — | 2 | — | — |
| Net periodic benefit (income) cost | $ (8) | $ (5) | $ 3 | $ 3 | $ (17) | $ (10) | $ 6 | $ 6 |

As of June 30, 2008, the Company had made contributions of $74 million and $8 million to the UK and US defined benefit pension plans (2007: $74 million and $23 million), respectively. The Company expects to contribute approximately $150 million to the UK defined benefit pension plan and $25 million to the US plan for the full year 2008. However, 2008 contributions to the UK plan may decrease subject to the outcome of the full triennial valuation of the UK plan which will be completed later this year.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

## 6. COMMITMENTS AND CONTINGENCIES

***Claims, Lawsuits and Other Proceedings***

The Company is subject to various actual and potential claims, lawsuits and other proceedings relating principally to alleged errors and omissions in connection with the placement of insurance and reinsurance in the ordinary course of business. Similar to other corporations, the Company is also subject to a variety of other claims, including those relating to the Company's employment practices. Some of the claims, lawsuits and other proceedings seek damages in amounts which could, if assessed, be significant.

Errors and omissions claims, lawsuits and other proceedings arising in the ordinary course of business are covered in part by professional indemnity or other appropriate insurance. The terms of this insurance vary by policy year and self-insured risks have increased significantly in recent years. In respect of self-insured risks, the Company has established provisions which are believed to be adequate in the light of current information and legal advice, and the Company adjusts such provisions from time to time according to developments.

On the basis of current information, the Company does not expect that the actual claims, lawsuits and other proceedings, to which the Company is subject, or potential claims, lawsuits and other proceedings relating to matters of which it is aware will ultimately have a material adverse effect on the Company's financial condition, results of operations or liquidity. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company's results of operations or cash flows in particular quarterly or annual periods.

The most significant actual or potential claims, lawsuits and other proceedings, of which we are currently aware are:

*Inquiries and Investigations*

In connection with the investigation commenced by the New York Attorney General in April 2004 concerning, among other things, contingent commissions paid by insurers to insurance brokers, in April 2005, the Company entered into an Assurance of Discontinuance ("NY AOD") with the New York Attorney General and the New York Superintendent of Insurance and paid $50 million to eligible customers. As part of the NY AOD the Company also agreed not to accept contingent compensation and to disclose to customers any compensation the Company will receive in connection with providing policy placement services to the customer. The Company also resolved similar investigations commenced by the Minnesota Attorney General, the Florida Attorney General, the Florida Department of Financial Services and the Florida Office of Insurance Regulation for amounts that were not material to the Company. The Company has co-operated fully with other similar investigations by the regulators and/or attorneys general of other jurisdictions, some of which have been concluded with no indication of any finding of wrongdoing.

The European Commission issued questionnaires pursuant to its Sector Inquiry or, in respect of Norway, the European Free Trade Association Surveillance Authority, related to insurance business practices, including compensation arrangements for brokers, to at least 150 European brokers including our operations in nine European countries. The Company responded to the European Commission questionnaires and has filed the European Free Trade Association Surveillance Authority for two of its

**6. COMMITMENTS AND CONTINGENCIES (Continued)**

Norwegian entities. The European Commission reported on a final basis on September 25, 2007 expressing concerns over potential conflicts of interest in the industry relating to remuneration and binding authorities when assuming a dual role for clients and insurers and also over the nature of the coinsurance market. The Company continues to co-operate with both the European Commission and the European Free Trade Association Surveillance Authority.

Since August 2004, various plaintiffs have filed purported class actions in the United States District Court for the Southern District of New York, the Northern District of Illinois, the Northern District of California, the New Jersey District Court, and the Circuit Court for the Eighteenth Judicial Circuit in and for Seminole County, Florida Civil Division, under a variety of legal theories, including state tort, contract, fiduciary duty and statutory theories, and federal antitrust and RICO theories. Other than a federal suit in Illinois that was voluntarily dismissed by the plaintiff in May 2005, all of these federal actions have been consolidated into two actions in federal court in New Jersey. One of the consolidated actions addresses employee benefits, while the other consolidated action addresses all other lines of insurance. In July 2007, class action suits, similar to the suits consolidated in New Jersey, were filed in the United States District Courts in the Southern District of Florida and the Southern District of New York. In addition to the federal actions, the Company was also named as a defendant in a purported class action in the Eighteenth Judicial Circuit in and for Seminole County, Florida Civil Division. The federal actions and the Florida state action name various insurance carriers and insurance brokerage firms, including the Company, as defendants. The complaints seek monetary damages and equitable relief and make allegations regarding the practices and conduct that have been the subject of the investigation of state attorneys general and insurance commissioners, including allegations that the brokers have breached their duties to their clients by entering into contingent compensation agreements with either no disclosure or limited disclosure to clients and entered into other improper activities. The complaints also allege the existence of a conspiracy among the insurance carriers and brokers and the federal court complaints allege violations of the federal RICO statute. In separate decisions issued in August and September 2007, the Judge in the two consolidated federal actions dismissed the antitrust and RICO claims with prejudice and dismissed certain of the state claims without prejudice. Plaintiffs have filed a notice of appeal regarding these dismissal rulings. In January 2008, the Judge dismissed the ERISA claims with prejudice in the employee benefits suit. Additional actions could be brought in the future by individual policyholders. The Company disputes the allegations in all of these suits and intends to defend itself vigorously against these actions. The outcomes of these lawsuits, however, including any losses or other payments that may occur as a result, cannot be predicted at this time.

*Reinsurance Market Dispute*

Various legal proceedings are pending, have been concluded or may commence between reinsurers, reinsureds and in some cases their intermediaries, including reinsurance brokers, relating to personal accident excess of loss reinsurance for the years 1993 to 1998. The proceedings principally concern allegations by reinsurers that they have sustained substantial losses due to an alleged abnormal "spiral" in the market in which the reinsurance contracts were placed, the existence and nature of which, as well as other information, was not disclosed to them by the reinsureds or their reinsurance broker. A "spiral" is a market term for a situation in which reinsureds and reinsurers reinsure each other with the effect that the same loss or portion of that loss moves through the market multiple times.

**6. COMMITMENTS AND CONTINGENCIES (Continued)**

The reinsurers concerned have taken the position that, despite their decisions to underwrite risks or a group of risks, they are no longer bound by their reinsurance contracts. As a result, they have stopped settling claims and are seeking to recover claims already paid. The Company also understands that there have been at least two arbitration awards in relation to a spiral, among other things, in which the reinsurer successfully argued that it was no longer bound by parts of its reinsurance program. Willis Limited, the Company's principal insurance brokerage subsidiary in the United Kingdom, acted as the reinsurance broker or otherwise as intermediary, but not as an underwriter, for numerous personal accident reinsurance contracts, including two contracts that were involved in one of the arbitrations. Due to the small number of reinsurance brokers generally, Willis Limited was one of a small number of brokers active in the market for this reinsurance during the relevant period. Willis Limited also utilized other brokers active in this market as sub-agents, including brokers who are parties to the legal proceedings described above, for certain contracts and may be responsible for any errors and omissions they may have made. In July 2003, one of the reinsurers received a judgment in the English High Court against certain parties, including a sub-broker Willis Limited used to place two of the contracts involved in this trial. Although neither the Company nor any of its subsidiaries were a party to this proceeding or any arbitration, Willis Limited entered into tolling agreements with certain of the principals to the reinsurance contracts tolling the statute of limitations pending the outcome of proceedings between the reinsureds and reinsurers.

Two former clients of Willis Limited, American Reliable Insurance Company and one of its associated companies ("ARIC") and CNA Insurance Company Limited and two of its associated companies ("CNA") have each terminated their respective tolling agreements with Willis Limited and commenced litigation in the English Commercial Court against Willis Limited. ARIC has alleged conspiracy between a former Willis Limited employee and the ARIC underwriter as well as negligence and CNA has alleged deceit and negligence by the same Willis Limited employee both in connection with placements of personal accident reinsurance in the excess of loss market in London and elsewhere. The Company disputes these allegations and is vigorously defending itself in these actions. ARIC's asserted claim is approximately $257 million (plus unspecified interest and costs) and CNA's asserted claim is approximately $251 million (plus various unspecified claims for exemplary damages, interest and costs). Pleadings have been exchanged in both actions and the Court has fixed a preliminary date for a ten week trial commencing October 7, 2009. The Company cannot predict at this time what, if any, damages might result from this action but believes that any amounts likely required to resolve the claims will be covered by errors and omissions insurance. Various arbitrations continue to be active and from time to time the principals request co-operation from the Company and suggest that claims may be asserted against the Company. Such claims may be made against the Company if reinsurers do not pay claims on policies issued by them. The Company cannot predict at this time whether any such claims will be made or the damages that may be alleged.

*Gender Discrimination Class Action*

In 2008, the Company settled an action in the United States District Court in the Southern District of New York commenced against the Company in 2001 on behalf of an alleged nationwide class of present and former female officer and officer equivalent employees alleging that the Company discriminated against them on the basis of their gender and seeking injunctive relief, money damages, attorneys' fees and costs. Although the Court had denied plaintiffs' motions to certify a nationwide class or to grant

**6. COMMITMENTS AND CONTINGENCIES (Continued)**

nationwide discovery, it did certify a class of approximately 200 female officers and officer equivalent employees based in the Company's offices in New York, New Jersey and Massachusetts. The parties' settlement agreement provides for certain injunctive relief that the Company agreed to provide as well as a monetary settlement, including the amount of attorney fees plaintiffs' counsel are entitled to receive, which was not material to the Company. A former female employee, whose motion to intervene in the class action was denied, has filed a purported class action with almost identical allegations as those contained in the federal class action suit that was settled in 2008, except seeking a class period of 1998 to the time of trial (the class period in the settled suit was 1998 to the end of 2001). The Company's motion to dismiss this suit was denied and the Court did not grant the Company permission to immediately file an appeal from the denial of its motion to dismiss. The suit was recently amended to include two additional plaintiffs. The parties are in the discovery phase of the litigation. The Company cannot predict at this time what, if any, damages might result from this action.

*World Trade Center*

We acted as the insurance broker, but not as an underwriter, for the placement of both property and casualty insurance for a number of entities which were directly impacted by the September 11, 2001 destruction of the World Trade Center complex, including Silverstein Properties LLC, which acquired a 99-year leasehold interest in the twin towers and related facilities from the Port Authority of New York and New Jersey in July 2001. Although the World Trade Center complex insurance was bound at or before the July 2001 closing of the leasehold acquisition, consistent with standard industry practice, the final policy wording for the placements was still in the process of being finalized when the twin towers and other buildings in the complex were destroyed on September 11, 2001. There have been a number of lawsuits in the United States between the insured parties and the insurers for several placements and other disputes may arise in respect of insurance placed by us which could affect the Company including claims by one or more of the insureds that we made culpable errors or omissions in connection with our brokerage activities. However, we do not believe that our role as broker will lead to liabilities which in the aggregate would have a material adverse effect on our results of operations, financial condition or liquidity.

**7. LONG-TERM DEBT**

Long-term debt consists of the following:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (millions) | |
| 5.125% Senior notes due 2010 | $ 250 | $ 250 |
| 5.625% Senior notes due 2015 | 350 | 350 |
| 6.200% Senior notes due 2017 | 600 | 600 |
| Revolving credit facility | 260 | 50 |
| | $ 1,460 | $ 1,250 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

## 8. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures regarding cash flow information and non-cash flow investing and financing activities are as follows:

| | Six months ended June 30, 2008 | Six months ended June 30, 2007 |
|---|---|---|
| | (millions) | |
| Supplemental disclosures of cash flow information: | | |
| Cash payments for income taxes | $ 19 | $ 17 |
| Cash payments for interest | 39 | 21 |
| Supplemental disclosures of non-cash flow investing and financing activities: | | |
| Liabilities accrued for additions to fixed assets | $ 8 | $ 19 |
| Issue of stock on acquisitions of subsidiaries | 9 | 15 |
| Deferred payments on acquisitions of subsidiaries | — | 1 |
| Acquisitions: | | |
| Fair value of assets acquired | $ 10 | $ 10 |
| Less: Liabilities assumed | — | (1) |
| Cash acquired | — | — |
| Net assets acquired, net of cash acquired | $ 10 | $ 9 |

## 9. COMPREHENSIVE INCOME

a) The components of comprehensive income are as follows:

| | Three months ended June 30, 2008 | Three months ended June 30, 2007 | Six months ended June 30, 2008 | Six months ended June 30, 2007 |
|---|---|---|---|---|
| | (millions) | | | |
| Net income | $ 39 | $ 78 | $205 | $247 |
| Other comprehensive income, net of tax: | | | | |
| Foreign currency translation adjustment (net of tax of $nil, $nil, $nil and $nil) | (5) | 11 | 16 | 14 |
| FAS 158 pension adjustment (net of tax of $1 million, $nil, $1 million and $nil) | — | — | (1) | — |
| Net loss on derivative instruments (net of tax of $4 million, $3 million, $4 million and $4 million) | (10) | (6) | (10) | (10) |
| Other comprehensive income (net of tax of $5 million, $3 million, $5 million and $4 million) | (15) | 5 | 5 | 4 |
| Comprehensive income | $ 24 | $ 83 | $210 | $251 |

## 9. COMPREHENSIVE INCOME (Continued)

b) The components of accumulated other comprehensive loss, net of tax, are as follows:

| | June 30, 2008 | December 31, 2007 |
|---|---|---|
| | (millions) | |
| Net foreign currency translation adjustment | $ 32 | $ 16 |
| Net unrealized holding loss | (1) | (1) |
| FAS 158 pension adjustment | (167) | (166) |
| Net unrealized loss on derivative instruments | (12) | (2) |
| Accumulated other comprehensive loss, net of tax | $ (148) | $ (153) |

## 10. SEGMENT INFORMATION

During the periods presented, the Company operated through three segments: Global, North America and International. Global provides specialist brokerage and consulting services to clients worldwide for specific industrial and commercial activities and is organized by specialism. North America and International predominantly comprise our retail operations which provide services to small, medium and major corporates, accessing Global's specialist expertise when required.

The Company evaluates the performance of its operating segments based on organic revenue growth and operating income. For internal reporting and segmental reporting, the following items are excluded from segmental expenses as they are not directly controlled by segment management:

i) gains and losses on the disposal of operations and major properties;

ii) foreign exchange hedging activities;

iii) amortization of intangible assets;

iv) significant legal and regulatory settlements which are managed centrally; and

v) 2008 expense review costs.

With effect from January 1, 2008, the Company changed its basis of segmental allocation for central costs. In particular, all accounting adjustments for hedging transactions are now held at the Corporate level, together with certain legal costs. As a result of this change, an additional $1 million net operating loss for full year 2007, previously reported within Corporate, has been allocated to the operating segments.

The accounting policies of the operating segments are consistent with those described in Note 2. There are no inter-segment revenues, with segments operating on a revenue-sharing basis equivalent to that used when sharing business with other third-party brokers.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**10. SEGMENT INFORMATION (Continued)**

Selected information regarding the Company's operating segments is as follows:

| | Three months ended June 30, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commissions and Fees | Investment Income | Other Income(1) | Total Revenues | Depreciation and Amortization | Operating Income | Interest in Earnings of Associates, net of tax |
| | | | | (millions) | | | |
| Global | $ 191 | $ 8 | $ — | $ 199 | $ (4) | $ 58 | $ — |
| North America | 193 | 4 | — | 197 | (4) | 32 | — |
| International | 257 | 8 | — | 265 | (6) | 58 | (3) |
| Total Retail | 450 | 12 | — | 462 | (10) | 90 | (3) |
| Total Operating Segments | 641 | 20 | — | 661 | (14) | 148 | (3) |
| Corporate and Other(2) | — | — | — | — | (3) | (71) | — |
| Total Consolidated | $ 641 | $ 20 | $ — | $ 661 | $ (17) | $ 77 | $ (3) |

(1) Prior to January 1, 2008, the Company reported "Other Income" within "Commissions and Fees" as described in Note 2. Comparatives have been adjusted accordingly.

(2) Corporate and Other includes the costs of the holding company; foreign exchange hedging activities; amortization of intangible assets; net gains and losses on disposal of operations; certain legal costs; and the $62 million charge for the 2008 expense review.

| | Three months ended June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commissions and Fees | Investment Income | Other Income(1) | Total Revenues | Depreciation and Amortization | Operating Income | Interest in Earnings of Associates, net of tax |
| | | | | (millions) | | | |
| Global | $ 186 | $ 11 | $ — | $ 197 | $ (6) | $ 56 | $ — |
| North America | 194 | 5 | 3 | 202 | (3) | 44 | — |
| International | 220 | 7 | — | 227 | (4) | 43 | (4) |
| Total Retail | 414 | 12 | 3 | 429 | (7) | 87 | (4) |
| Total Operating Segments | 600 | 23 | 3 | 626 | (13) | 143 | (4) |
| Corporate and Other(2) | — | — | — | — | (4) | (5) | — |
| Total Consolidated | $ 600 | $ 23 | $ 3 | $ 626 | $ (17) | $ 138 | $ (4) |

(1) Prior to January 1, 2008, the Company reported "Other Income" within "Commissions and Fees" as described in Note 2. Comparatives have been adjusted accordingly.

(2) Corporate and Other includes the costs of the holding company; foreign exchange hedging activities; amortization of intangible assets; net gains and losses on disposal of operations; and certain legal costs.

WILLIS GROUP HOLDINGS LIMITED

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

## 10. SEGMENT INFORMATION (Continued)

| | Six months ended June 30, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commissions and Fees | Investment Income | Other Income[1] | Total Revenues | Depreciation and Amortization | Operating Income | Interest in Earnings of Associates, net of tax |
| | | | | (millions) | | | |
| Global | $ 468 | $ 16 | $ — | $ 484 | $ (7) | $ 191 | $ — |
| North America | 384 | 8 | 1 | 393 | (7) | 59 | — |
| International | 561 | 18 | — | 579 | (13) | 162 | 23 |
| Total Retail | 945 | 26 | 1 | 972 | (20) | 221 | 23 |
| Total Operating Segments | 1,413 | 42 | 1 | 1,456 | (27) | 412 | 23 |
| Corporate and Other[2] | — | — | — | — | (6) | (110) | — |
| Total Consolidated | $ 1,413 | $ 42 | $ 1 | $ 1,456 | $ (33) | $ 302 | $ 23 |

(1) Prior to January 1, 2008, the Company reported "Other Income" within "Commissions and Fees" as described in Note 2. Comparatives have been adjusted accordingly.

(2) Corporate and Other includes the costs of the holding company; foreign exchange hedging activities; amortization of intangible assets; net gains and losses on disposal of operations; certain legal costs; and the $95 million charge for the 2008 expense review.

| | Six months ended June 30, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commissions and Fees | Investment Income | Other Income[1] | Total Revenues | Depreciation and Amortization | Operating Income | Interest in Earnings of Associates, net of tax |
| | | | | (millions) | | | |
| Global | $ 447 | $ 22 | $ — | $ 469 | $ (8) | $ 178 | $ — |
| North America | 378 | 10 | 7 | 395 | (6) | 71 | — |
| International | 486 | 15 | — | 501 | (12) | 130 | 15 |
| Total Retail | 864 | 25 | 7 | 896 | (18) | 201 | 15 |
| Total Operating Segments | 1,311 | 47 | 7 | 1,365 | (26) | 379 | 15 |
| Corporate and Other[2] | — | — | — | — | (7) | (3) | — |
| Total Consolidated | $ 1,311 | $ 47 | $ 7 | $ 1,365 | $ (33) | $ 376 | $ 15 |

(1) Prior to January 1, 2008, the Company reported "Other Income" within "Commissions and Fees" as described in Note 2. Comparatives have been adjusted accordingly.

(2) Corporate and Other includes the costs of the holding company; foreign exchange hedging activities; amortization of intangible assets; net gains and losses on disposal of operations; and certain legal costs.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**10. SEGMENT INFORMATION (Continued)**

The following table reconciles total consolidated operating income, as disclosed in the operating segment tables above, to consolidated income before income taxes, interest in earnings of associates and minority interest:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions) | | | |
| Total consolidated operating income | $ 77 | $138 | $ 302 | $376 |
| Interest expense | (21) | (19) | (37) | (31) |
| Income before income taxes, interest in earnings of associates and minority interest | $ 56 | $119 | $ 265 | $345 |

**11. SHARE BUYBACKS**

On November 1, 2007, the Board authorized a new share buyback program for $1 billion. This replaced the previous $1 billion buyback program and its remaining $308 million authorization. The program is an open-ended plan to repurchase the Company's shares from time to time in the open market or through negotiated sales with persons who are not affiliates of the Company. During the six months ended June 30, 2008, the Company repurchased 2.3 million shares, for $75 million, at an average price of $33.12. Repurchased shares were subsequently canceled.

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES**

On July 1, 2005, Willis North America Inc. ("Willis North America") issued debt securities totaling $600 million under its April 2003 registration statement. On March 28, 2007, Willis North America issued further debt securities totaling $600 million under its June 2006 registration statement. The debt securities are jointly and severally, irrevocably and fully and unconditionally guaranteed by Willis Group Holdings, Willis Group Limited, Trinity Acquisition Limited, TA I Limited, TA II Limited, TA III Limited and TA IV Limited.

Presented below is condensed consolidating financial information for: i) Willis Group Holdings, which is a guarantor, on a parent company only basis; ii) the Other Guarantors which are all 100% owned subsidiaries of the parent; iii) the Issuer, Willis North America; iv) Other, which are the non-guarantor subsidiaries, on a combined basis; v) Eliminations; and vi) Consolidated Company and subsidiaries. The equity method has been used for all investments in subsidiaries.

The entities included in the Other Guarantors column are Willis Group Limited, Trinity Acquisition Limited, TA I Limited, TA II Limited, TA III Limited and TA IV Limited.

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Three months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 641 | $ — | $ 641 |
| Investment income | — | — | 5 | 91 | (76) | 20 |
| Other income | — | — | — | — | — | — |
| Total revenues | — | — | 5 | 732 | (76) | 661 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (430) | 2 | (428) |
| Other operating expenses | (3) | — | (6) | (141) | 9 | (141) |
| Depreciation expense and amortization of intangible assets | — | — | (2) | (13) | (2) | (17) |
| Gain on disposal of London headquarters | — | — | — | 2 | — | 2 |
| Total expenses | (3) | — | (8) | (582) | 9 | (584) |
| OPERATING (LOSS) INCOME | (3) | — | (3) | 150 | (67) | 77 |
| Investment income from Group undertakings | 9 | 69 | 6 | 10 | (94) | — |
| Interest expense | (1) | (63) | (20) | (99) | 162 | (21) |
| INCOME (LOSS) BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 5 | 6 | (17) | 61 | 1 | 56 |
| Income taxes | — | (1) | 7 | (5) | (13) | (12) |
| INCOME (LOSS) BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 5 | 5 | (10) | 56 | (12) | 44 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | (3) | — | (3) |
| MINORITY INTEREST, NET OF TAX | — | — | — | — | (2) | (2) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 34 | 30 | 21 | — | (85) | — |
| NET INCOME | $ 39 | $ 35 | $ 11 | $ 53 | $ (99) | $ 39 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Three months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 600 | $ — | $ 600 |
| Investment income | — | — | 5 | 44 | (26) | 23 |
| Other income | — | — | — | 3 | — | 3 |
| Total revenues | — | — | 5 | 647 | (26) | 626 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (360) | — | (360) |
| Other operating expenses | — | 10 | (3) | (129) | 8 | (114) |
| Depreciation expense and amortization of intangible assets | — | — | (2) | (11) | (4) | (17) |
| Gain on disposal of London headquarters | — | — | — | 3 | — | 3 |
| Total expenses | — | 10 | (5) | (497) | 4 | (488) |
| OPERATING INCOME | — | 10 | — | 150 | (22) | 138 |
| Investment income from Group undertakings | — | 56 | 6 | 30 | (92) | — |
| Interest expense | (4) | (51) | (26) | (42) | 104 | (19) |
| (LOSS) INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | (4) | 15 | (20) | 138 | (10) | 119 |
| Income taxes | — | (10) | 8 | (40) | 6 | (36) |
| (LOSS) INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | (4) | 5 | (12) | 98 | (4) | 83 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | (4) | — | (4) |
| MINORITY INTEREST, NET OF TAX | — | — | — | — | (1) | (1) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 82 | (129) | (20) | — | 67 | — |
| NET INCOME (LOSS) | $ 78 | $ (124) | $(32) | $ 94 | $ 62 | $ 78 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 1,413 | $ — | $ 1,413 |
| Investment income | — | — | 10 | 167 | (135) | 42 |
| Other income | — | — | — | 1 | — | 1 |
| Total revenues | — | — | 10 | 1,581 | (135) | 1,456 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (844) | 5 | (839) |
| Other operating expenses | (3) | 3 | (11) | (293) | 14 | (290) |
| Depreciation expense and amortization of intangible assets | — | — | (4) | (24) | (5) | (33) |
| Gain on disposal of London headquarters | — | — | — | 8 | — | 8 |
| Total expenses | (3) | 3 | (15) | (1,153) | 14 | (1,154) |
| OPERATING (LOSS) INCOME | (3) | 3 | (5) | 428 | (121) | 302 |
| Investment income from Group undertakings | 92 | 156 | 56 | 19 | (323) | — |
| Interest expense | (1) | (113) | (39) | (185) | 301 | (37) |
| INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 88 | 46 | 12 | 262 | (143) | 265 |
| Income taxes | — | (5) | 14 | (53) | (28) | (72) |
| INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 88 | 41 | 26 | 209 | (171) | 193 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | 23 | — | 23 |
| MINORITY INTEREST, NET OF TAX | — | — | — | (3) | (8) | (11) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 117 | 67 | (32) | — | (152) | — |
| NET INCOME (LOSS) | $ 205 | $ 108 | $ (6) | $ 229 | $ (331) | $ 205 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | | (millions) | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 1,311 | $ — | $ 1,311 |
| Investment income | — | — | 10 | 84 | (47) | 47 |
| Other income | — | — | — | 7 | — | 7 |
| Total revenues | — | — | 10 | 1,402 | (47) | 1,365 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (745) | 8 | (737) |
| Other operating expenses | — | 12 | (6) | (244) | 13 | (225) |
| Depreciation expense and amortization of intangible assets | — | — | (3) | (23) | (7) | (33) |
| Gain on disposal of London headquarters | — | — | — | 6 | — | 6 |
| Total expenses | — | 12 | (9) | (1,006) | 14 | (989) |
| OPERATING INCOME | — | 12 | 1 | 396 | (33) | 376 |
| Investment income from Group undertakings | 127 | 118 | 103 | 65 | (413) | — |
| Interest expense | (5) | (99) | (44) | (83) | 200 | (31) |
| INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 122 | 31 | 60 | 378 | (246) | 345 |
| Income taxes | — | (6) | 15 | (94) | (19) | (104) |
| INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 122 | 25 | 75 | 284 | (265) | 241 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | 15 | — | 15 |
| MINORITY INTEREST, NET OF TAX | — | — | — | (2) | (7) | (9) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 125 | (249) | (126) | — | 250 | — |
| NET INCOME (LOSS) | $ 247 | $ (224) | $ (51) | $ 297 | $ (22) | $ 247 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Balance Sheet**

| | As at June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer (millions) | Other | Eliminations | Consolidated |
| ASSETS | | | | | | |
| Cash and cash equivalents | $ — | $ — | $ 25 | $ 180 | $ — | $ 205 |
| Fiduciary funds—restricted | — | — | 99 | 1,668 | — | 1,767 |
| Short-term investments | — | — | — | 37 | — | 37 |
| Accounts receivable | 455 | 2,733 | 3,549 | 12,814 | (8,538) | 11,013 |
| Fixed assets | — | — | 25 | 318 | 1 | 344 |
| Goodwill | — | — | — | 149 | 1,518 | 1,667 |
| Other intangible assets | — | — | — | 72 | — | 72 |
| Investments in associates | — | — | — | 321 | (74) | 247 |
| Pension benefits asset | — | — | — | 497 | — | 497 |
| Other assets | — | 114 | 12 | 382 | (135) | 373 |
| Equity accounted subsidiaries | 1,064 | 1,857 | 699 | 2,691 | (6,311) | — |
| TOTAL ASSETS | $ 1,519 | $ 4,704 | $ 4,409 | $ 19,129 | $(13,539) | $ 16,222 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Accounts payable | $ 36 | $ 4,120 | $ 2,832 | $ 13,788 | $ (8,560) | $ 12,216 |
| Deferred revenue and accrued expenses | 2 | — | 2 | 324 | 3 | 331 |
| Net deferred tax liabilities | — | — | (1) | (33) | 56 | 22 |
| Income taxes payable | — | 113 | — | 54 | (95) | 72 |
| Long-term debt | — | — | 1,460 | — | — | 1,460 |
| Liability for pension benefits | — | — | — | 42 | — | 42 |
| Other liabilities | 39 | — | 54 | 448 | 43 | 584 |
| Total liabilities | 77 | 4,233 | 4,347 | 14,623 | (8,553) | 14,727 |
| MINORITY INTEREST | — | — | — | 4 | 49 | 53 |
| STOCKHOLDERS' EQUITY | 1,442 | 471 | 62 | 4,502 | (5,035) | 1,442 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,519 | $ 4,704 | $ 4,409 | $ 19,129 | $(13,539) | $ 16,222 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Balance Sheet**

| | As at December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | (millions) | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | $ 1 | $ — | $ 73 | $ 126 | $ — | $ 200 |
| Fiduciary funds—restricted | — | — | 37 | 1,483 | — | 1,520 |
| Short-term investments | — | — | — | 40 | — | 40 |
| Accounts receivable | 494 | 2,703 | 4,074 | 9,699 | (8,729) | 8,241 |
| Fixed assets | — | — | 26 | 289 | — | 315 |
| Goodwill | — | — | — | 186 | 1,462 | 1,648 |
| Other intangible assets | — | — | — | 78 | — | 78 |
| Investments in associates | — | — | — | 241 | (48) | 193 |
| Pension benefits asset | — | — | — | 404 | — | 404 |
| Other assets | 2 | 56 | 4 | 199 | 48 | 309 |
| Equity accounted subsidiaries | 927 | 2,124 | 700 | 2,620 | (6,371) | — |
| TOTAL ASSETS | $ 1,424 | $ 4,883 | $ 4,914 | $ 15,365 | $(13,638) | $ 12,948 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Accounts payable | $ 37 | $ 4,030 | $ 3,570 | $ 10,339 | $ (8,711) | $ 9,265 |
| Deferred revenue and accrued expenses | 1 | 2 | 3 | 378 | 4 | 388 |
| Net deferred tax liabilities | — | — | 1 | (55) | 59 | 5 |
| Income taxes payable | — | 50 | — | 1 | (8) | 43 |
| Long-term debt | — | — | 1,250 | — | — | 1,250 |
| Liability for pension benefits | — | — | — | 43 | — | 43 |
| Other liabilities | 39 | — | 51 | 417 | 52 | 559 |
| Total liabilities | 77 | 4,082 | 4,875 | 11,123 | (8,604) | 11,553 |
| MINORITY INTEREST | — | — | — | 3 | 45 | 48 |
| STOCKHOLDERS' EQUITY | 1,347 | 801 | 39 | 4,239 | (5,079) | 1,347 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,424 | $ 4,883 | $ 4,914 | $ 15,365 | $(13,638) | $ 12,948 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Statement of Cash Flows**

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $ 90 | $ 44 | $ (13) | $ 25 | $ (111) | $ 35 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds on disposal of fixed and intangible assets | — | — | — | 2 | — | 2 |
| Additions to fixed assets | — | — | (3) | (61) | — | (64) |
| Acquisitions of subsidiaries, net of cash acquired | — | — | — | (11) | — | (11) |
| Investments in associates | — | — | — | (31) | — | (31) |
| Proceeds on disposal of short-term investments | — | — | — | 3 | — | 3 |
| Net cash used in investing activities | — | — | (3) | (98) | — | (101) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Proceeds from draw down of revolving credit facility | — | — | 210 | — | — | 210 |
| Repurchase of shares | (75) | — | — | — | — | (75) |
| Proceeds from issue of shares | 4 | — | — | — | — | 4 |
| Amounts owed by and to Group undertakings | 52 | 60 | (242) | 130 | — | — |
| Excess tax benefits from share-based payment arrangements | — | — | — | 1 | — | 1 |
| Dividends paid | (72) | (104) | — | (7) | 111 | (72) |
| Net cash (used in) provided by financing activities | (91) | (44) | (32) | 124 | 111 | 68 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1) | — | (48) | 51 | — | 2 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 3 | — | 3 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1 | — | 73 | 126 | — | 200 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ — | $ — | $ 25 | $ 180 | $ — | $ 205 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**12. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Statement of Cash Flows**

| | Six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | (millions) | | | |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $ 122 | $ 64 | $ 107 | $ (28) | $ (167) | $ 98 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds on disposal of fixed and intangible assets | — | — | — | 3 | — | 3 |
| Additions to fixed assets | — | — | (6) | (70) | — | (76) |
| Acquisitions of subsidiaries, net of cash acquired | (33) | — | — | (39) | — | (72) |
| Proceeds on disposal of short-term investments | — | — | — | 11 | — | 11 |
| Net cash used in investing activities | (33) | — | (6) | (95) | — | (134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Repayments of debt | — | — | (200) | — | — | (200) |
| Senior notes issued, net of debt issuance costs | — | — | 595 | — | — | 595 |
| Repurchase of shares | (457) | — | — | — | — | (457) |
| Proceeds from issue of shares | 9 | — | — | 2 | — | 11 |
| Amounts owed by and to Group undertakings | 429 | (1) | (517) | 89 | — | — |
| Excess tax benefits from share-based payment arrangements | — | — | — | 7 | — | 7 |
| Dividends paid | (71) | (128) | — | (39) | 167 | (71) |
| Net cash (used in) provided by financing activities | (90) | (129) | (122) | 59 | 167 | (115) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (1) | (65) | (21) | (64) | — | (151) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 5 | — | 5 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 2 | 65 | 46 | 175 | — | 288 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 1 | $ — | $ 25 | $ 116 | $ — | $ 142 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES**

The Company filed a shelf registration on Form S-3 on June 21, 2006 under which Willis Group Holdings may offer debt securities, preferred stock, common stock and other securities. In addition, Trinity Acquisition Limited may offer debt securities ("the Subsidiary Debt Securities"). The Subsidiary Debt Securities, if issued, will be guaranteed by certain of the Company's subsidiaries.

Presented below is condensed consolidating financial information for: i) Willis Group Holdings, which will be a guarantor, on a parent company only basis; ii) the Other Guarantors, which are all wholly owned subsidiaries of the parent; iii) the Issuer, Trinity Acquisition Limited; iv) Other, which are the non-guarantor subsidiaries, on a combined basis; v) Eliminations; and vi) Consolidated Company and subsidiaries. The equity method has been used for all investments in subsidiaries.

The entities included in the Other Guarantors column are TA I Limited, TA II Limited and TA III Limited.

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Three months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 641 | $ — | $ 641 |
| Investment income | — | — | — | 96 | (76) | 20 |
| Other income | — | — | — | — | — | — |
| Total revenues | — | — | — | 737 | (76) | 661 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (430) | 2 | (428) |
| Other operating expenses | (3) | — | 1 | (148) | 9 | (141) |
| Depreciation expense and amortization of intangible assets | — | — | — | (15) | (2) | (17) |
| Gain on disposal of London headquarters | — | — | — | 2 | — | 2 |
| Total expenses | (3) | — | 1 | (591) | 9 | (584) |
| OPERATING (LOSS) INCOME | (3) | — | 1 | 146 | (67) | 77 |
| Investment income from Group undertakings | 9 | — | 46 | 39 | (94) | — |
| Interest expense | (1) | (8) | (15) | (159) | 162 | (21) |
| INCOME (LOSS) BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 5 | (8) | 32 | 26 | 1 | 56 |
| Income taxes | — | 2 | (10) | 9 | (13) | (12) |
| INCOME (LOSS) BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 5 | (6) | 22 | 35 | (12) | 44 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | (3) | — | (3) |
| MINORITY INTEREST, NET OF TAX | — | — | — | — | (2) | (2) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 34 | 41 | 16 | — | (91) | — |
| NET INCOME | $ 39 | $ 35 | $ 38 | $ 32 | $ (105) | $ 39 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Three months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 600 | $ — | $ 600 |
| Investment income | — | — | — | 49 | (26) | 23 |
| Other income | — | — | — | 3 | — | 3 |
| Total revenues | — | — | — | 652 | (26) | 626 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (360) | — | (360) |
| Other operating expenses | — | — | (2) | (120) | 8 | (114) |
| Depreciation expense and amortization of intangible assets | — | — | — | (13) | (4) | (17) |
| Gain on disposal of London headquarters | — | — | — | 3 | — | 3 |
| Total expenses | — | — | (2) | (490) | 4 | (488) |
| OPERATING (LOSS) INCOME | — | — | (2) | 162 | (22) | 138 |
| Investment income from Group undertakings | — | 1 | 41 | 50 | (92) | — |
| Interest expense | (4) | (2) | (8) | (109) | 104 | (19) |
| (LOSS) INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | (4) | (1) | 31 | 103 | (10) | 119 |
| Income taxes | — | — | (16) | (26) | 6 | (36) |
| (LOSS) INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | (4) | (1) | 15 | 77 | (4) | 83 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | (4) | — | (4) |
| MINORITY INTEREST, NET OF TAX | — | — | — | — | (1) | (1) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 82 | (123) | (133) | — | 174 | — |
| NET INCOME (LOSS) | $ 78 | $ (124) | $ (118) | $ 73 | $ 169 | $ 78 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Income Statement**

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 1,413 | $ — | $ 1,413 |
| Investment income | — | — | — | 177 | (135) | 42 |
| Other income | — | — | — | 1 | — | 1 |
| Total revenues | — | — | — | 1,591 | (135) | 1,456 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (844) | 5 | (839) |
| Other operating expenses | (3) | — | — | (301) | 14 | (290) |
| Depreciation expense and amortization of intangible assets | — | — | — | (28) | (5) | (33) |
| Gain on disposal of London headquarters | — | — | — | 8 | — | 8 |
| Total expenses | (3) | — | — | (1,165) | 14 | (1,154) |
| OPERATING (LOSS) INCOME | (3) | — | — | 426 | (121) | 302 |
| Investment income from Group undertakings | 92 | 27 | 79 | 125 | (323) | — |
| Interest expense | (1) | (16) | (18) | (303) | 301 | (37) |
| INCOME BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 88 | 11 | 61 | 248 | (143) | 265 |
| Income taxes | — | 5 | (48) | (1) | (28) | (72) |
| INCOME BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 88 | 16 | 13 | 247 | (171) | 193 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | 23 | — | 23 |
| MINORITY INTEREST, NET OF TAX | — | — | — | (3) | (8) | (11) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 117 | 92 | 103 | — | (312) | — |
| NET INCOME | $ 205 | $ 108 | $ 116 | $ 267 | $ (491) | $ 205 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

### 13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)

**Condensed Consolidating Income Statement**

| | Six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | (millions) | | | | | |
| REVENUES | | | | | | |
| Commissions and fees | $ — | $ — | $ — | $ 1,311 | $ — | $ 1,311 |
| Investment income | — | — | — | 94 | (47) | 47 |
| Other income | — | — | — | 7 | — | 7 |
| Total revenues | — | — | — | 1,412 | (47) | 1,365 |
| EXPENSES | | | | | | |
| Salaries and benefits | — | — | — | (745) | 8 | (737) |
| Other operating expenses | — | — | (2) | (236) | 13 | (225) |
| Depreciation expense and amortization of intangible assets | — | — | — | (26) | (7) | (33) |
| Gain on disposal of London headquarters | — | — | — | 6 | — | 6 |
| Total expenses | — | — | (2) | (1,001) | 14 | (989) |
| OPERATING (LOSS) INCOME | — | — | (2) | 411 | (33) | 376 |
| Investment income from Group undertakings | 127 | 1 | 80 | 205 | (413) | — |
| Interest expense | (5) | (2) | (17) | (207) | 200 | (31) |
| INCOME (LOSS) BEFORE INCOME TAXES, INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 122 | (1) | 61 | 409 | (246) | 345 |
| Income taxes | — | — | (17) | (68) | (19) | (104) |
| INCOME (LOSS) BEFORE INTEREST IN EARNINGS OF ASSOCIATES AND MINORITY INTEREST | 122 | (1) | 44 | 341 | (265) | 241 |
| INTEREST IN EARNINGS OF ASSOCIATES, NET OF TAX | — | — | — | 15 | — | 15 |
| MINORITY INTEREST, NET OF TAX | — | — | — | (2) | (7) | (9) |
| EQUITY ACCOUNT FOR SUBSIDIARIES | 125 | (223) | (257) | — | 355 | — |
| NET INCOME (LOSS) | $ 247 | $ (224) | $ (213) | $ 354 | $ 83 | $ 247 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Balance Sheet**

| | As at June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | (millions) | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | $ — | $ — | $ — | $ 205 | $ — | $ 205 |
| Fiduciary funds—restricted | — | — | — | 1,767 | — | 1,767 |
| Short-term investments | — | — | — | 37 | — | 37 |
| Accounts receivable | 455 | 107 | 1,764 | 17,225 | (8,538) | 11,013 |
| Fixed assets | — | — | — | 343 | 1 | 344 |
| Goodwill | — | — | — | 149 | 1,518 | 1,667 |
| Other intangible assets | — | — | — | 72 | — | 72 |
| Investments in associates | — | — | — | 321 | (74) | 247 |
| Pension benefits asset | — | — | — | 497 | — | 497 |
| Other assets | — | 7 | — | 501 | (135) | 373 |
| Equity accounted subsidiaries | 1,064 | 1,244 | 532 | 5,500 | (8,340) | — |
| TOTAL ASSETS | $ 1,519 | $ 1,358 | $ 2,296 | $ 26,617 | $(15,568) | $ 16,222 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Accounts payable | $ 36 | $ 887 | $ 825 | $ 19,028 | $ (8,560) | $ 12,216 |
| Deferred revenue and accrued expenses | 2 | — | — | 326 | 3 | 331 |
| Deferred tax liabilities | — | — | — | (34) | 56 | 22 |
| Income taxes payable | — | — | 84 | 83 | (95) | 72 |
| Long-term debt | — | — | — | 1,460 | — | 1,460 |
| Liability for pension benefits | — | — | — | 42 | — | 42 |
| Other liabilities | 39 | — | — | 502 | 43 | 584 |
| Total liabilities | 77 | 887 | 909 | 21,407 | (8,553) | 14,727 |
| MINORITY INTEREST | — | — | — | 4 | 49 | 53 |
| STOCKHOLDERS' EQUITY | 1,442 | 471 | 1,387 | 5,206 | (7,064) | 1,442 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,519 | $ 1,358 | $ 2,296 | $ 26,617 | $(15,568) | $ 16,222 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Balance Sheet**

| | As at December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | (millions) | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | $ 1 | $ — | $ — | $ 199 | $ — | $ 200 |
| Fiduciary funds—restricted | — | — | — | 1,520 | — | 1,520 |
| Short-term investments | — | — | — | 40 | — | 40 |
| Accounts receivable | 494 | 157 | 1,684 | 14,635 | (8,729) | 8,241 |
| Fixed assets | — | — | — | 315 | — | 315 |
| Goodwill | — | — | — | 186 | 1,462 | 1,648 |
| Other intangible assets | — | — | — | 78 | — | 78 |
| Investments in associates | — | — | — | 241 | (48) | 193 |
| Pension benefits asset | — | — | — | 404 | — | 404 |
| Other assets | 2 | 2 | — | 257 | 48 | 309 |
| Equity accounted subsidiaries | 927 | 1,486 | 773 | 5,428 | (8,614) | — |
| TOTAL ASSETS | $ 1,424 | $ 1,645 | $ 2,457 | $ 23,303 | $(15,881) | $ 12,948 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Accounts payable | $ 37 | $ 844 | $ 806 | $ 16,289 | $ (8,711) | $ 9,265 |
| Deferred revenue and accrued expenses | 1 | — | — | 383 | 4 | 388 |
| Net deferred tax liabilities | — | — | — | (54) | 59 | 5 |
| Income taxes payable | — | — | 36 | 15 | (8) | 43 |
| Long-term debt | — | — | — | 1,250 | — | 1,250 |
| Liability for pension benefits | — | — | — | 43 | — | 43 |
| Other liabilities | 39 | — | — | 468 | 52 | 559 |
| Total liabilities | 77 | 844 | 842 | 18,394 | (8,604) | 11,553 |
| MINORITY INTEREST | — | — | — | 3 | 45 | 48 |
| STOCKHOLDERS' EQUITY | 1,347 | 801 | 1,615 | 4,906 | (7,322) | 1,347 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,424 | $ 1,645 | $ 2,457 | $ 23,303 | $(15,881) | $ 12,948 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Statement of Cash Flows**

| | Six months ended June 30, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | | (millions) | | |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $ 90 | $ 11 | $ 60 | $ (15) | $ (111) | $ 35 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds on disposal of fixed and intangible assets | — | — | — | 2 | — | 2 |
| Additions to fixed assets | — | — | — | (64) | — | (64) |
| Acquisitions of subsidiaries, net of cash acquired | — | — | — | (11) | — | (11) |
| Investments in associates | — | — | — | (31) | — | (31) |
| Proceeds on disposal of short-term investments | — | — | — | 3 | — | 3 |
| Net cash used in investing activities | — | — | — | (101) | — | (101) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Proceeds from draw down of revolving credit facility | — | — | — | 210 | — | 210 |
| Repurchase of shares | (75) | — | — | — | — | (75) |
| Proceeds from issue of shares | 4 | — | — | — | — | 4 |
| Amounts owed by and to Group undertakings | 52 | 93 | (60) | (85) | — | — |
| Excess tax benefits from share-based payment arrangements | — | — | — | 1 | — | 1 |
| Dividends paid | (72) | (104) | — | (7) | 111 | (72) |
| Net cash (used in) provided by financing activities | (91) | (11) | (60) | 119 | 111 | 68 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (1) | — | — | 3 | — | 2 |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 3 | — | 3 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1 | — | — | 199 | — | 200 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ — | $ — | $ — | $ 205 | $ — | $ 205 |

**WILLIS GROUP HOLDINGS LIMITED**

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**13. FINANCIAL INFORMATION FOR PARENT GUARANTOR, OTHER GUARANTOR SUBSIDIARIES AND NON-GUARANTOR SUBSIDIARIES (Continued)**

**Condensed Consolidating Statement of Cash Flows**

| | Six months ended June 30, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Willis Group Holdings | The Other Guarantors | The Issuer | Other | Eliminations | Consolidated |
| | | | | (millions) | | |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | $ 122 | $ (1) | $ 91 | $ 53 | $ (167) | $ 98 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | |
| Proceeds on disposal of fixed and intangible assets | — | — | — | 3 | — | 3 |
| Additions to fixed assets | — | — | — | (76) | — | (76) |
| Acquisitions of subsidiaries, net of cash acquired | (33) | — | — | (39) | — | (72) |
| Proceeds on sale of short-term investments | — | — | — | 11 | — | 11 |
| Net cash used in investing activities | (33) | — | — | (101) | — | (134) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | | |
| Repayments of debt | — | — | — | (200) | — | (200) |
| Senior notes issued, net of debt issuance costs | — | — | — | 595 | — | 595 |
| Repurchase of shares | (457) | — | — | — | — | (457) |
| Proceeds from issue of shares | 9 | — | — | 2 | — | 11 |
| Amounts owed by and to Group undertakings | 429 | 129 | (91) | (467) | — | — |
| Excess tax benefits from share-based payment arrangements | — | — | — | 7 | — | 7 |
| Dividends paid | (71) | (128) | — | (39) | 167 | (71) |
| Net cash (used in) provided by financing activities | (90) | 1 | (91) | (102) | 167 | (115) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (1) | — | — | (150) | — | (151) |
| Effect of exchange rate changes on cash and cash equivalents | — | — | — | 5 | — | 5 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 2 | — | — | 286 | — | 288 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 1 | $ — | $ — | $ 141 | $ — | $ 142 |

## 14. ANNOUNCEMENT OF ACQUISITION OF HILB ROGAL & HOBBS COMPANY ("HRH")

On June 8, 2008, the Company announced that it had entered into an agreement pursuant to which it will acquire HRH, the eighth largest insurance and risk management intermediary in the United States.

Under the terms of the definitive agreement, the Company will acquire all of the outstanding shares of common stock of HRH for $46.00 per share (subject to adjustment based on the value of the price per share of the Company's common stock during the ten-day trading period ending two trading days prior to the closing of the transaction), with approximately fifty percent of the total consideration being paid in cash and the other fifty percent being paid in stock of the Company. The total purchase price of approximately $2.1 billion includes the assumption of approximately $400 million of HRH existing debt. Over time, the Company plans to repurchase the majority of the shares issued in connection with the merger.

The transaction is expected to close in the fourth quarter of 2008, subject to customary closing conditions, including regulatory and HRH shareholder approval.

*Additional Information About the Proposed Merger*

The proposed merger between the Company and HRH will be submitted to the HRH shareholders for their consideration. The Company has filed with the Securities and Exchange Commission ("SEC") a Registration Statement on Form S-4 that includes a proxy statement of HRH that also constitutes a prospectus of the Company. HRH will mail the proxy statement/prospectus to its shareholders. Investors are urged to read the proxy statement/prospectus regarding the proposed transaction when it becomes available, because it will contain important information. Investors will be able to obtain a free copy of the proxy statement/prospectus, as well as other filings containing information about the Company and HRH without charge, at the SEC's website (www.sec.gov) once such documents are filed with the SEC. You may also obtain these documents, free of charge, from the Company's website (www.willis.com) under the tab "Investor Relations" and then under the heading "Financial Reporting" then under the item "SEC Filings". You may also obtain these documents, free of charge, from HRH's website (www.hrh.com) under the heading "Investor Relations" and then under the tab "SEC Filings".

The Company, HRH and their respective directors, executive officers and other employees may be deemed to be participants in the solicitation of proxies from HRH shareholders in connection with the proposed transaction. Information about the Company's directors and executive officers is available in the Company's proxy statement, dated March 17, 2008. Information about HRH's directors and executive officers is available in HRH's proxy statement, dated March 31, 2008. Additional information about the interests of potential participants will be included in the prospectus/proxy statement when it becomes available. This document shall not constitute an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus, meeting the requirements of Section 10 of the U.S. Securities Act of 1933, as amended.

**Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations**

**EXECUTIVE SUMMARY**

*This discussion includes references to non-GAAP financial measures as defined in Regulation G of SEC rules. We present such non-GAAP financial measures, as we believe such information is of interest to the investment community because it provides additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent on a GAAP basis. These financial measures should be viewed in addition to, not in lieu of, the Company's condensed consolidated financial statements for the six months ended June 30, 2008.*

*This discussion includes forward-looking statements, including under the heading "Summary—2008 Expense Review" and "—Financial Targets". Please see "Information Concerning Forward-Looking Statements" for certain cautionary information regarding forward-looking statements and a list of factors that could cause actual results to differ materially from those predicted in the forward-looking statements.*

**SUMMARY**

*Overview*

The difficult market conditions in 2007 have continued into 2008 with further rate decreases across most sectors of the market in which we operate. We believe premium rate declines were between 10 to 40 percent in the United States and 5 to 15 percent elsewhere during second quarter 2008.

In the reinsurance market, we continue to see a combination of declining rates and high retentions at the primary underwriter level.

Despite these difficult trading conditions, we reported 3 percent organic commissions and fee growth for both the three and six months ended June 30, 2008, mainly reflecting growth in our International and Global Specialties operations.

Operating margin for second quarter 2008 was 12 percent, compared with 22 percent in second quarter 2007, and for first half 2008 operating margin was 21 percent, compared with 28 percent in first half 2007. The lower margins were primarily attributable to charges for our 2008 expense review, discussed below, partly mitigated by improved productivity.

*Results for second quarter 2008*

Net income in second quarter 2008 was $39 million, or $0.27 per diluted share, compared with $78 million, or $0.54 per diluted share, in 2007 as the benefits of increased revenues and a lower tax rate were more than offset by the impact of the $62 million charge for our 2008 expense review.

Total revenues at $661 million for second quarter 2008 were $35 million, or 6 percent, higher than in second quarter 2007 of which 4 percent was attributable to foreign currency translation. Organic revenue growth was 3 percent reflecting net new business growth of 5 percent and a 2 percent negative impact from declining rates and other market factors.

Operating margin at 12 percent in second quarter 2008 was 10 percentage points lower than in 2007 with the decrease mainly reflecting:

- the $62 million charge for the 2008 expense review discussed below, equivalent to approximately 9 percentage points;
- increased property costs relating to our new buildings; and
- further investments in Shaping our Future initiatives;

partly offset by

- increased productivity, with revenues per full time employee ("FTE") increasing to $189,000 on a trailing 12 month basis compared with $186,000 in full year 2007; and

- good cost control, the realization of savings from last year's Shaping our Future initiatives, and lower pension costs.

Effective tax planning in second quarter 2008 enabled us to reduce our expected effective tax rate, excluding the tax effect of the disposal of our London headquarters, to 28 percent for the full year compared with 30 percent in 2007. The second quarter therefore benefited from both the new lower rate and a catch-up relating to the first quarter.

*Results for the six months ended June 30, 2008*

Net income for the first half 2008 was $205 million, or $1.43 per diluted share, compared with $247 million, or $1.65 per diluted share, in 2007. Total revenues at $1,456 million were $91 million, or 7 percent, higher than in 2007 of which 5 percent was attributable to foreign currency translation. Organic revenue growth was 3 percent which primarily reflected growth in our International and Global Specialties businesses.

Operating margin at 21 percent in first half 2008 was 7 percentage points lower than in 2007 which was mainly attributable to charges for our 2008 expense review, discussed below. Increased costs relating to new hires and property were offset by savings from last year's Shaping our Future initiatives, a lower pension cost and good expense control.

*2008 expense review*

Our Shaping our Future strategy is a series of initiatives designed to deliver profitable growth. As previously announced, we have decided:

- to invest in further key hires and initiatives in 2008 and 2009;

and, in order to fund a portion of these initiatives,

- to conduct a thorough review in 2008 of all businesses to identify additional opportunities to rationalize our expense base.

In second quarter 2008, we incurred a pre-tax charge of $62 million ($45 million net of tax, equivalent to $0.32 per diluted share) in connection with this expense review, bringing the



total charge for first half 2008 to $95 million comprising:

- $42 million to buy out remuneration packages that no longer align with the Group's overall remuneration strategy;

- $24 million of severance costs relating to approximately 350 positions which have been, or are in the process of being, eliminated; and

- $29 million of other operating expenses, including property and systems rationalization costs.

We anticipate that these charges, together with other actions arising from the expense review, will lead to cost savings in the range of $25 million to $35 million in 2008, rising to approximately $45 million to $55 million in 2009. These savings are in addition to the anticipated annualized net benefit from the 2006 Shaping our Future charges which are currently estimated to be approximately $30 million in 2008 and $45 million by 2009.

*Acquisitions*

On January 2, 2008 we purchased an additional 4 percent of the voting rights in Gras Savoye for $31 million, bringing our total voting rights to 42 percent.

On June 8, 2008, the Company announced that it had entered into an agreement pursuant to which it will acquire Hilb Rogal & Hobbs Company ("HRH"), the eighth largest insurance and risk management intermediary in the United States.

Under the terms of the definitive agreement, the Company will acquire all of the outstanding shares of common stock of HRH for $46.00 per share (subject to adjustment based on the value of the price per share of the Company's stock during the ten day period ending two trading days prior to the closing of the transaction), with approximately fifty percent of the total consideration being paid in cash and the other fifty percent being paid in stock of the Company. The total purchase price of approximately $2.1 billion includes the assumption of approximately $400 million of HRH existing debt. Over time, the Company plans to repurchase the majority of the shares issued in connection with the merger.

The transaction is expected to close in the fourth quarter of 2008, subject to customary closing conditions, including regulatory and HRH shareholder approval.

*Financial targets*

The following financial targets assume that the HRH acquisition closes on December 31, 2008; therefore the 2008 targets exclude any impact HRH may have on our results if the transaction closes earlier in 2008 or does not close in 2008.

*2008 targets:* Excluding the charge for the 2008 expense review, we continue to expect an adjusted operating margin (operating margin excluding net gains and losses on disposals and other one-time items) of approximately 24 percent in 2008, as underlying business growth and cost savings are reinvested. In addition, we also expect to deliver adjusted diluted earnings per share (diluted earnings per share excluding net gains and losses on disposals and other one-time items) in the range of $2.85-$2.95 in 2008.

*2009 and 2010 targets:* We issued revised financial guidance for 2009 and 2010 in conjunction with the HRH acquisition announcement and expect adjusted operating margins of 24 percent in 2009 and 27 percent in 2010. We also expect to deliver adjusted diluted earnings per share in the range of $3.15-$3.25 in 2009, and $4.05-$4.15 in 2010.

*Share buybacks*

On November 1, 2007, the Board authorized a new share buyback program for $1 billion. This replaced our previous $1 billion buyback program and its remaining $308 million authorization.

In first quarter 2008, we repurchased 2.3 million shares at a cost of $75 million under the new authorization. There were no share buybacks in second quarter 2008.

*Cash and financing*

Cash at June 30, 2008 was $205 million, $5 million higher than at December 31, 2007.



Net cash from operating activities of $35 million and a $210 million drawdown on our revolving credit facility, together with other smaller cash flows totaling $13 million, were used to fund: share buybacks of $75 million; dividend payments of $72 million; fixed asset additions of $64 million of which $38 million related to our new London headquarters building; and acquisitions of $42 million.

Total long-term debt at June 30, 2008 was $1,460 million (December 31, 2007: $1,250 million) and total stockholders' equity was $1,442 million (December 31, 2007: $1,347 million) giving a capitalization ratio (total long-term debt to total long-term debt and stockholders' equity) of 50 percent at June 30, 2008 compared with 48 percent at December 31, 2007. The increase in this ratio principally reflects the $75 million of share buybacks and the $210 million drawdown under our revolving credit facility.

In connection with the proposed acquisition of HRH, we have arranged committed bank financing that will enable us to complete the transaction, as discussed below under "Liquidity and Capital Resources".

*London headquarters*

We completed the move from Ten Trinity Square into our new London headquarters on Lime Street in April 2008. We entered into an agreement to lease the Lime Street building in November 2004, and took control of the building in June 2007, under a 25 year lease. Annual rentals are $41 million per year and we have subleased or agreed to sublease approximately 25 percent of the site under leases with terms up to 15 years. The outstanding contractual obligation for lease rentals at June 30, 2008 was $931 million and the amounts receivable from committed subleases were $158 million.

In Mumbai, we are reaching capacity at our current site as we continue to move systems and back office processing there. Consequently, on July 25, 2008 we signed a 9 year lease for a second Mumbai site with annual lease rentals of $1 million.

**BUSINESS AND MARKET OVERVIEW**

We provide a broad range of insurance brokerage and risk management consulting services to our worldwide clients.

Our core Global businesses include Aerospace; Energy; Marine; Construction; Financial and Executive Risks; Fine Art, Jewelry and Specie; Special Contingency Risks; and Reinsurance. Our North America and International retail businesses provide services to small, medium and major corporate clients, accessing Global's specialist expertise when required.

In our capacity as an advisor and insurance broker, we act as an intermediary between our clients and insurance carriers by advising our clients on their risk management requirements, helping clients determine the best means of managing risk, and negotiating and placing insurance risk with insurance carriers through our global distribution network.

**OPERATING RESULTS—GROUP**

**Revenues**

We derive most of our revenues from commissions and fees for brokerage and consulting services and we do not determine the insurance premiums on which our commissions are generally based.

From 2000 through 2003 we benefited from a hard market with premium rates stable or increasing.

During 2004, we saw a rapid transition from a hard market to a soft market, with premium rates falling in most markets. The soft market continued through 2005 and 2006 with rates declining in most sectors, with the exception of catastrophe exposed markets.

In 2007, the market softened further and this has continued into 2008 with year on year premium rate decreases in North America of between 10 and 40 percent and between 5 and 15 percent elsewhere.

| | Three months ended June 30, 2008 | 2007(i) | % change | Change attributable to: Foreign currency translation | Acquisitions and disposals | Organic revenue growth(ii) |
|---|---|---|---|---|---|---|
| | (millions) | | | | | |
| Global | $ 191 | $ 186 | 3% | 3% | —% | —% |
| North America | 193 | 194 | (1)% | —% | —% | (1)% |
| International | 257 | 220 | 17% | 7% | —% | 10% |
| Commissions and fees | 641 | 600 | 7% | 4% | —% | 3% |
| Investment income | 20 | 23 | (13)% | | | |
| Other income(i) | — | 3 | n/a% | | | |
| Total revenues | $ 661 | $ 626 | 6% | | | |

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| | Six months ended June 30, 2008 | 2007(i) | % change | Change attributable to: Foreign currency translation | Acquisitions and disposals | Organic revenue growth(ii) |
|---|---|---|---|---|---|---|
| | (millions) | | | | | |
| Global | $ 468 | $ 447 | 5% | 4% | —% | 1% |
| North America | 384 | 378 | 2% | —% | 1% | 1% |
| International | 561 | 486 | 15% | 8% | —% | 7% |
| Commissions and fees | 1,413 | 1,311 | 8% | 5% | —% | 3% |
| Investment income | 42 | 47 | (11)% | | | |
| Other income(i) | 1 | 7 | (86)% | | | |
| Total revenues | $ 1,456 | $ 1,365 | 7% | | | |

(i) Other income represents gains on disposals of intangible assets, including books of business. Prior to January 1, 2008 these gains were reported within total commissions and fees. As a result of this change, $3 million of income previously reported as North America commissions and fees in second quarter 2007 has been transferred to other income ($7 million for the six months ended June 30, 2007).

(ii) Organic revenue growth excludes the impact of foreign currency translation, acquisitions and disposals, investment income and other income from reported revenues. We use organic growth as a measure of business growth generated by operations that were part of the Group at the end of the period. Our method of calculating this measure may differ from that used by other companies and therefore comparability may be limited.



Second quarter 2008 revenues at $661 million were $35 million, or 6 percent, higher than in 2007 of which 4 percent was attributable to foreign currency translation. Revenues for the six months ended June 30, 2008 at $1,456 million were $91 million or 7 percent higher than 2007, of which 5 percent was attributable to foreign currency translation.

Our International and Global operations earn a significant portion of their revenues in currencies other than the US dollar. In both second quarter and first half 2008, reported revenues in International and Global benefited significantly from the year on year effect of foreign currency translation, in particular due to the weakening of the dollar against the Euro, compared with 2007.

Investment income was $20 million for second quarter 2008, $3 million lower than 2007, and $42 million for first half 2008, $5 million lower than 2007, with the decreases reflecting the lower average interest rates in 2008.

Organic revenue growth was 3 percent in both the three and six months ending June 30, 2008 compared with 2007 reflecting:

- net new business growth of 5 percent in second quarter 2008 and 4 percent for first half 2008 primarily related to our International and Global Specialties businesses. Net new business growth benefited from a 1 percentage point improvement in client retention rates to 91 percent in both second quarter and first half 2008 compared with 90 percent for full year 2007;

partly offset by

- a negative 2 percent impact from premium rates and other market factors in second quarter 2008 and a negative 1 percent for first half 2008, with the impact of significant rate decreases largely offset by the benefit of other market factors, including higher commission rates, client profitability analyses, higher insured values and changes in limits or exposures.

Organic revenue growth by segment is discussed further in 'Operating Results—Segment Information' below.

**General and administrative expenses**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except percentages) | | | |
| Salaries and benefits | $ 428 | $ 360 | $ 839 | $ 737 |
| Other | 141 | 114 | 290 | 225 |
| General and administrative expenses | $ 569 | $ 474 | $ 1,129 | $ 962 |
| Salaries and benefits as a percentage of revenues | 65% | 58% | 58% | 54% |
| Other as percentage of revenues | 21% | 18% | 20% | 16% |



*Second quarter 2008*

General and administrative expenses at $569 million for second quarter 2008 were $95 million, or 20 percent, higher than in 2007. This increase was mainly attributable to:

- the $62 million charge for the 2008 expense review discussed above, equivalent to 13 percentage points, of which $51 million related to salaries and benefits and $11 million to other expenses; and
- a 2 percentage point adverse impact from foreign currency translation.

Salaries and benefits were 65 percent of second quarter 2008 revenues, compared with 58 percent in 2007, with the increase reflecting:

- $42 million to buy out remuneration packages that no longer align with the Group's overall remuneration strategy, equivalent to approximately 6 percentage points;
- $9 million of severance costs, equivalent to approximately 1 percentage point, relating to approximately 200 positions that have been, or are in the process of being, eliminated as part of the 2008 expense review;
- an adverse impact from foreign currency translation, equivalent to approximately 1 percentage point; and
- continued hiring in targeted development areas;

partly offset by

- increased productivity: for the twelve months ended June 30, 2008 average revenues per full time employee were approximately $189,000 compared with $186,000 for full year 2007;
- benefits of cost controls and previous Shaping our Future initiatives; and
- a $3 million reduction in pension charges. This decrease was mainly attributable to an increase in the expected return on assets in the UK pension plan reflecting higher asset levels due to the significant additional contributions we made in 2007 and 2006.

Other expenses were 21 percent of revenues in second quarter 2008 compared with 18 percent in 2007, with the increase reflecting:

- $11 million of costs relating to the 2008 expense review, equivalent to 2 percentage points;
- a 1 percentage point adverse impact from foreign currency translation;
- an additional $8 million in rental expense, mainly relating to our new London headquarters; and
- a favorable legal settlement in second quarter 2007;

partly offset by

- the benefits of our continued focus on cost control.

*Six months ended June 30, 2008*

General and administrative expenses at $1,129 million for first half 2008 were

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$167 million, or 17 percent, higher than in 2007. This increase was mainly attributable to:

- the $95 million charge for the 2008 expense review discussed above, equivalent to 10 percentage points, of which $66 million related to salaries and benefits and $29 million to other expenses; and
- a 1 percentage point adverse impact from foreign currency translation.

Salaries and benefits were 58 percent of first half 2008 revenues, compared with 54 percent in 2007, with the increase reflecting:

- $42 million to buy out remuneration packages that no longer align with the Group's overall remuneration strategy, equivalent to approximately 3 percentage points;
- $24 million of severance costs, equivalent to approximately 2 percentage points, relating to approximately 350 positions that have been, or are in the process of being, eliminated as part of the 2008 expense review;
- an adverse impact from foreign currency translation, equivalent to approximately 1 percentage point; and
- continued hiring in targeted development areas;

partly offset by

- increased productivity;
- benefits of cost controls and previous Shaping our Future initiatives; and
- a $7 million reduction in pension charges. This decrease was mainly attributable to an increase in the expected return on assets in the UK pension plan reflecting higher asset levels due to the significant additional contributions we made in 2007 and 2006.

Other expenses were 20 percent of revenues in second quarter 2008 compared with 16 percent in 2007, with the increase mainly reflecting:

- $29 million of costs relating to the 2008 expense review, equivalent to 2 percentage points, including property and systems rationalization costs; and
- an additional $19 million in rental expense, mainly relating to our new London headquarters;

partly offset by

- the benefits of our continued focus on cost control.

**Operating income and margin (operating income as a percentage of revenues)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except percentages) | | | |
| Revenues | $ 661 | $ 626 | $ 1,456 | $ 1,365 |
| Operating income | 77 | 138 | 302 | 376 |
| Operating margin or operating income as a percentage of revenues | 12% | 22% | 21% | 28% |

*Second quarter 2008*

Operating margin at 12 percent in second quarter 2008 was 10 percentage points lower than in 2007 with the decrease mainly reflecting:

- the $62 million charge for the 2008 expense review, equivalent to approximately 9 percentage points;
- increased property costs relating to our new London Offices buildings; and
- further investments in Shaping our Future initiatives and new hires;

partly offset by

- increased productivity, with revenues per full time employee increasing to $189,000 on a trailing 12 month basis compared with $186,000 in full year 2007; and
- good cost control, the realization of savings from last year's Shaping our Future initiatives, and lower pension costs.

Operating segment margins are discussed in "Operating Results—Segment Information" below.

*Six months ended June 30, 2008*

Operating margin at 21 percent in first half 2008 was 7 percentage points lower than in 2007, with the decrease mainly attributable to the $95 million charge for the 2008 expense review. Increased costs relating to new hires and other initiatives, together with higher property costs were offset by savings from last year's Shaping our Future initiatives, a lower pension cost and good expense control.

**Income taxes**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except percentages) | | | |
| Income before taxes | $ 56 | $ 119 | $ 265 | $ 345 |
| Income taxes | 12 | 36 | 72 | 104 |
| Effective tax rate | 21% | 30% | 27% | 30% |

The effective tax rate in second quarter 2008 was 21 percent compared with 30 percent in 2007. Second quarter 2008 benefited from a change in our expected tax rate, together with a change in the geographical mix of profits compared with 2007.

Effective tax planning in second quarter 2008 led us to reduce our expected effective tax rate, excluding the tax effect of the disposal of our London headquarters, to 28 percent for the full year compared with 30 percent in 2007. The second quarter therefore benefited from both the new lower rate and a catch-up relating to the first quarter.

**Net income and earnings per diluted share**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except per share data) | | | |
| Net income | $ 39 | $ 78 | $ 205 | $ 247 |
| Earnings per diluted share | $ 0.27 | $ 0.54 | $ 1.43 | $ 1.65 |
| Average diluted number of shares outstanding | 142 | 145 | 143 | 150 |

*Second quarter 2008*

Net income for second quarter 2008 was $39 million, or $0.27 per diluted share, compared with $78 million, or $0.54 per diluted share.

Earnings per diluted share in second quarter 2008 included a $0.06 benefit from the change in the expected full year tax rate, discussed above, and a $0.01 benefit from foreign currency translation.

*Six months ended June 30, 2008*

Net income for first half 2008 was $205 million, or $1.43 per diluted share, compared with $247 million, or $1.65 per diluted share in 2007.

Average diluted sharecount reduced from 150 million in first half 2007 to 143 million in first half 2008 primarily reflecting the impact of the 11.5 million shares repurchased under accelerated share repurchase programs in first half 2007. After taking into account incremental funding costs, there was a $0.05 benefit to diluted earnings per share from these share buybacks for first half 2008.

Foreign currency translation had a $0.09 positive year on year impact on diluted earnings per share in first half 2008.

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**OPERATING RESULTS—SEGMENT INFORMATION**

We organize our business into three segments: Global, North America and International. Our Global business provides specialist brokerage and consulting services to clients worldwide for risks arising from specific industries and activities. North America and International comprise our retail operations and provide services to small, medium and major corporations.

The following table is a summary of our operating results by segment for the three and six months ended June 30, 2008 and 2007:

| | Three months ended June 30, 2008 | | | Three months ended June 30, 2007(i) | | |
|---|---|---|---|---|---|---|
| | Revenues | Operating Income | Operating Margin | Revenues | Operating Income | Operating Margin |
| | (millions) | | | (millions) | | |
| Global | $ 199 | $ 58 | 29% | $ 197 | $ 56 | 28% |
| North America | 197 | 32 | 16% | 202 | 44 | 22% |
| International | 265 | 58 | 22% | 227 | 43 | 19% |
| Total Retail | 462 | 90 | 19% | 429 | 87 | 20% |
| Corporate & Other(ii) | — | (71) | n/a | — | (5) | n/a |
| Total Consolidated | $ 661 | $ 77 | 12% | $ 626 | $ 138 | 22% |

| | Six months ended June 30, 2008 | | | Six months ended June 30, 2007(i) | | |
|---|---|---|---|---|---|---|
| | Revenues | Operating Income | Operating Margin | Revenues | Operating Income | Operating Margin |
| | (millions) | | | (millions) | | |
| Global | $ 484 | $ 191 | 39% | $ 469 | $ 178 | 38% |
| North America | 393 | 59 | 15% | 395 | 71 | 18% |
| International | 579 | 162 | 28% | 501 | 130 | 26% |
| Total Retail | 972 | 221 | 23% | 896 | 201 | 22% |
| Corporate & Other(ii) | — | (110) | n/a | — | (3) | n/a |
| Total Consolidated | $ 1,456 | $ 302 | 21% | $ 1,365 | $ 376 | 28% |

(i) With effect from January 1, 2008, we changed the basis of segmental allocations for certain costs. In particular, all accounting adjustments for hedging transactions are now held at the Corporate level, together with certain legal costs. As a result of this change, an additional $3 million net operating profit for second quarter 2007, previously reported within Corporate, has been allocated to the operating segments ($12 million loss for the six months ended June 30, 2007).

(ii) Corporate and Other includes the costs of the holding company; foreign exchange hedging activities; amortization of intangible assets; net gains and losses on disposal of operations and properties; certain legal costs; and, in second quarter 2008, the $62 million charge for the 2008 expense review ($95 million for the six months ended June 30, 2008).

**Global**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except percentages) | | (millions, except percentages) | |
| Commissions and fees | $ 191 | $ 186 | $ 468 | $ 447 |
| Investment income | 8 | 11 | 16 | 22 |
| Total revenues | $ 199 | $ 197 | $ 484 | $ 469 |
| Operating income | $ 58 | $ 56 | $ 191 | $ 178 |
| Organic revenue growth(i) | 0% | 0% | 1% | 2% |
| Operating margin | 29% | 28% | 39% | 38% |

(i) Organic revenue growth excludes the impact of foreign currency translation, acquisitions and disposals, investment income and other income from reported revenues. We use organic growth as a measure of business growth generated by operations that were part of the Group at the end of the period. Our method of calculating this measure may differ from that used by other companies and therefore comparability may be limited.

Our Global operations comprise Global Specialties and Reinsurance.

*Revenue*

Commissions and fees were $5 million, or 3 percent higher, in second quarter 2008 compared with 2007 of which 3 percent was attributable to foreign currency translation. Organic revenue growth was flat in second quarter 2008 with the benefit of growth in Global Specialties offset by negative growth in Reinsurance.

Global Specialties revenue growth reflected the benefit of good growth in Marine, Energy and Inspace and was achieved despite significant rate reductions in the range of 5 to 15 percent.

Organic revenues in Reinsurance in second quarter 2008 were adversely impacted by a combination of declining rates and a reduction in amounts reinsured. On average premium rates have declined between 5 to 15 percent. We continue to make investments in Reinsurance to strengthen capital markets and analytics capabilities, which we believe will drive future growth opportunities.

Commissions and fees were 5 percent higher in first half 2008 compared with 2007 of which 4 percent was attributable to foreign currency translation. The organic revenue growth of 1 percent again reflected growth in Global Specialties offset by negative growth in Reinsurance.

*Operating margin*

Operating margin in our Global operations was 29 percent in second quarter 2008 compared with 28 percent in 2007 and 39 percent in first half 2008 compared with 38 percent in 2007. This improvement reflected the benefit of 2007 Shaping our Future initiatives and lower pension costs.

**North America**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (millions, except percentages) | | (millions, except percentages) | |
| Commissions and fees | $ 193 | $ 194 | $ 384 | $ 378 |
| Investment income | 4 | 5 | 8 | 10 |
| Other income(i) | — | 3 | 1 | 7 |
| Total revenues | $ 197 | $ 202 | $ 393 | $ 395 |
| Operating income | $ 32 | $ 44 | $ 59 | $ 71 |
| Organic revenue growth(ii) | (1)% | 5% | 1% | 5% |
| Operating margin | 16% | 22% | 15% | 18% |

(i) Other income represents gains on disposals of intangible assets, including books of business. Prior to January 1, 2008 these gains were reported within total commissions and fees but were excluded from organic revenue growth with effect from April 1, 2007. As a result of this change, $3 million of income previously reported as North America commissions and fees in second quarter 2007, has been transferred to other income ($7 million for the six months ended June 30, 2007).

(ii) Organic revenue growth excludes the impact of foreign currency translation, acquisitions and disposals, investment income and other income from reported revenues. We use organic growth as a measure of business growth generated by operations that were part of the Group at the end of the period. Our method of calculating this measure may differ from that used by other companies and therefore comparability may be limited.



*Revenues*

Commissions and fees in North America were $1 million, or 1 percent, lower in second quarter 2008 compared with 2007 reflecting negative organic revenue growth. However, for first half 2008 overall, organic revenue growth was a positive 1 percent.

The Northeast, New York and Central regions all continued to perform well and client retention levels improved to 92 percent in second quarter 2008, 4 percentage points higher than full year 2007.

Producer headcount at June 30, 2008 was broadly in line with December 31, 2007 but productivity improved with a 2 percent rise in revenues per FTE since December 31, 2007.

However, market conditions remain difficult with rate decreases of between 10 and 40 percent compared with 2007.

*Operating margin*

Operating margin at 16 percent in second quarter 2008 was 6 percentage points lower than in 2007 and for first half 2008 was 3 percentage points lower than in 2007. The lower margins in 2008 reflected:

- the benefit of a favorable legal settlement in second quarter 2007; and
- 2008 investments in InsuranceNoodle and other initiatives;

partly offset by

- the benefit of increased revenues per FTE, lower pension costs and other savings.

**International**

| | Three months ended June 30, 2008 | | Three months ended June 30, 2007 | | Six months ended June 30, 2008 | | Six months ended June 30, 2007 | |
|---|---|---|---|---|---|---|---|---|
| | (millions, except percentages) | | | | (millions, except percentages) | | | |
| Commissions and fees | $ | 257 | $ | 220 | $ | 561 | $ | 486 |
| Investment income | | 8 | | 7 | | 18 | | 15 |
| Total revenues | $ | 265 | $ | 227 | $ | 579 | $ | 501 |
| Operating income | $ | 58 | $ | 43 | $ | 162 | $ | 130 |
| Organic revenue growth(i) | | 10% | | 7% | | 7% | | 7% |
| Operating margin | | 22% | | 19% | | 28% | | 26% |

(i) Organic revenue growth excludes the impact of foreign currency translation, acquisitions and disposals, investment income and other income from reported revenues. We use organic growth as a measure of business growth generated by operations that were part of the Group at the end of the period. Our method of calculating this measure may differ from that used by other companies and therefore comparability may be limited.

*Revenues*

Commissions and fees in International were $37 million, or 17 percent, higher in second quarter 2008 compared with 2007. Of this increase, 7 percent was attributable to foreign currency translation as a significant part of International's revenues are earned in currencies that have strengthened against the dollar on a year on year basis, in particular the Euro. For first half 2008, commissions and fees were $75 million, or 15 percent, higher than in 2007 with 8 percent of this increase attributable to foreign currency translation.

Organic revenue growth of 10 percent for second quarter 2008 and 7 percent for first half 2008 was achieved despite declining rates in most countries, with decreases of between 10 and 15 percent in most areas, and higher decreases in some emerging market countries.

We have seen consistent growth in our International business over the last two years, with the last eleven quarters all showing growth of 5 percent or higher. Average client retention levels across International remained high at 91 percent.

We saw strong growth in Spain and Denmark, together with strong contribution from Latin America (especially Argentina, Chile and Peru), China, Indonesia, Singapore and Korea.

*Operating margin*

Operating margin in International was 3 percentage points higher in second quarter 2008 than in 2007, and 2 percentage points higher for first half 2008, with the improvement reflecting the strong organic revenue growth. In particular, there was strong profit growth in Latin America, together with the United Kingdom, Spain and Germany.

**C**

The accounting estimates or assumptions that management considers to be the most important to the presentation of the Company's financial condition or operating performance were discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, and our Current Report on Form 8-K filed on July 11, 2008. There were no significant additions or changes to these assumptions for the six months ended June 30, 2008.

**NEW ACCOUNTING STANDARDS**

There were no new accounting standards issued during the second quarter 2008 that would have a significant impact on the Company's reporting.

**LIQUIDITY AND CAPITAL RESOURCES**

On June 8, 2008, we announced that we had entered into an agreement pursuant to which we will acquire Hilb Rogal & Hobbs Company ("HRH").

Under the terms of the definitive merger agreement, we will acquire all of the outstanding shares of common stock of HRH for $46.00 per share (subject to adjustment based on the value of the price per share of our stock during the ten day period ending two trading days prior to the closing of the transaction), with approximately fifty percent of the total consideration being paid in cash and the other fifty percent being paid in our stock. The total purchase price of approximately $2.1 billion includes the assumption of approximately $400 million of HRH existing debt.

We have committed bank financing in place that will enable us to complete the merger with HRH. The financing comprises a $700 million term loan facility, a $300 million revolving credit facility and a $1.25 billion 364-day interim term loan facility. The $700 million term loan facility may be increased by an additional $250 million if, prior to or on the closing date of the merger, we obtain sufficient commitments on the $700 million and $300 million facilities.

The Company also intends to issue senior notes in one or more series in an aggregate principal amount of up to $1.25 billion. The net proceeds of any note issues will be used either to finance in part the merger and related transactions, or if issued after the merger to repay outstanding amounts under the $1.25 billion interim term facility. The net proceeds of any note issues may also be used to repurchase the Company's common stock and for general corporate purposes.

On November 1, 2007, the Board authorized a new share buyback program for $1 billion. This replaced our previous $1 billion buyback program and its remaining $308 million authorization. In first quarter 2008, we repurchased 2.3 million shares at a cost of $75 million under the new authorization. There were no share buybacks in second quarter 2008. Over time, the Company plans to repurchase the majority of the shares issued in connection with the HRH merger.



**Fiduciary funds**

As an intermediary, we hold funds generally in a fiduciary capacity for the account of third parties, typically as the result of premiums received from clients that are in transit to insurers and claims due to clients that are in transit from insurers. We report premiums, which are held on account of, or due from, clients as assets with a corresponding liability due to the insurers. Claims held by, or due to, us which are due to clients are also shown as both assets and liabilities. All these balances due or payable are included in accounts receivable and accounts payable on the balance sheet. We earn interest on these funds during the time between the receipt of the cash and the time the cash is paid out. Fiduciary cash must be kept in certain regulated bank accounts subject to guidelines, which generally emphasize capital preservation and liquidity, and is not generally available to service our debt or for other corporate purposes.

**Own funds**

As of June 30, 2008, we had cash and cash equivalents of $205 million, compared with $200 million at December 31, 2007, and $40 million of our $300 million revolving credit facility remained available to draw.

**Operating activities**

Net cash provided by operations was $35 million in first half 2008 compared with $98 million in first half 2007, with the decrease being attributable to the reduction in net income of $42 million together with the timing of cash collections and other working capital movements.

**Investing activities**

Total net cash used in investing activities was $101 million in first half 2008 compared with $134 million in the same period of 2007.

In first half 2008 we purchased a further 4 percent of voting rights in Gras Savoye & Cie, our French associate, for $31 million.

In first half 2007 we purchased an additional 17 percent of Coyle Hamilton Willis, our Irish subsidiary, for $33 million; and acquired InsuranceNoodle, a US internet distributor of small business property-casualty insurance for $29 million.

**Financing activities**

Cash provided by financing activities amounted to $68 million in first half 2008 comprising a $210 million drawdown on our revolving credit facility, share buybacks of $75 million and dividends of $72 million, together with other smaller movements totaling a net $5 million inflow.

*Long-term debt*

In first half 2008, we drew down $210 million on our revolving credit facility, primarily to fund share buybacks and fixed asset additions related to our new London headquarters building.

In March 2007, we issued $600 million of 10 year senior notes at 6.20 percent. We used the proceeds of the notes to fund share buybacks and to repay $200 million on our revolving credit facility.

*Share buybacks*

We repurchased 2.3 million shares for $75 million of cash during the first half 2008 compared with 11.5 million shares at a cost of $458 million in first half 2007.

*Dividends*

Cash dividends paid in first half 2008 were $72 million compared with $71 million in the same period 2007. In February 2008, the quarterly cash dividend declared was increased by 4 percent to $0.26 per share, an annual rate of $1.04 per share.

**CONTRACTUAL OBLIGATIONS**

Except for the following, there have been no material changes in our contractual obligations since December 31, 2007.

In first half 2008, we drew down an additional $210 million on our revolving credit facility which expires in October 2010, taking our outstanding balance under this facility to $260 million as at June 30, 2008.

**OFF-BALANCE SHEET TRANSACTIONS**

Apart from commitments, guarantees and contingencies, as disclosed in Note 6 to the Condensed Consolidated Financial Statements, the Company has no off-balance sheet arrangements that have, or are reasonably likely to have, a material effect on the Company's financial condition, results of operations or liquidity.

**Item 3—Quantitative and Qualitative Disclosures about Market Risk**

There has been no material change with respect to market risk from that described in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 4—Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

As of June 30, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer and the Group Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Group Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that the information required to be included in the Company's periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to them as appropriate to allow for timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting*

The Company introduced a new broking system as part of the "Shaping our Future" initiative. The roll-out of the system commenced in 2006 with one of the business units going live on December 4, 2006, processing policies with inception dates after April 1, 2007 and consequently impacting financial periods commencing after April 1, 2007. During the fourth quarter ended December 31, 2007, the new Broking system was rolled-out to another Business unit. The new system has resulted in a change to the controls over initiation, authorization, recording, processing and reporting of "revenue" in the two business units. The system is intended, among other things, to enhance the Company's internal controls over financial reporting.

With the exception of the above, there have been no other changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1—Legal Proceedings

The information set forth in Note 6 of Notes to the Condensed Consolidated Financial Statements, provided in Part I, Item 1 of this report, is incorporated herein by reference.

### Item 1A—Risk Factors

The following is added to the risk factors set forth under Part I, Item 1A "Risk Factors" in the Company's Form 10-K for the year ended December 31, 2007:

*We may fail to realize all of the anticipated benefits of the merger with HRH.*

The success of the merger will depend, in part, on our ability to achieve the anticipated cost synergies and other strategic benefits from combining the businesses of the Company and HRH. We expect the Company to benefit from operational synergies resulting from the consolidation of capabilities and elimination of redundancies as well as greater efficiencies from increased scale. However, to realize these anticipated benefits, we must successfully combine the businesses of the Company and HRH. If we are not able to achieve these objectives, the anticipated cost synergies and other strategic benefits of the merger may not be realized fully or at all or may take longer to realize than expected. We may fail to realize some or all of the anticipated benefits of the transaction in the amounts and times projected for a number of reasons, including that the integration may take longer than anticipated, be more costly than anticipated or have unanticipated adverse results relating to the Company's or HRH's existing businesses.

*The integration of the businesses and operations of the Company and HRH involves risks, and the failure to integrate successfully the businesses and operations in the expected time frame may adversely affect the Company's future results.*

Historically, the Company and HRH have operated as independent companies, and they will continue to do so until the completion of the merger. The management of the Company may face significant challenges in consolidating the functions of the Company and HRH and their subsidiaries, integrating their technologies, organizations, procedures, policies and operations, addressing differences in the business cultures of the two companies, retaining key personnel and maintaining relationships with certain third parties. In connection with the merger, the Company expects to integrate certain operations of the Company and HRH, and the integration of the two companies will be complex and time consuming, and require substantial resources and effort. The integration process and other disruptions resulting from the merger may disrupt each company's ongoing businesses or cause inconsistencies in standards, controls, procedures and policies that adversely affect our relationships with clients and customers of the Company and HRH and with other market participants, employees, regulators and others with whom we have business or other dealings. If the Company fails to manage the integration of these businesses effectively, its growth strategy and future profitability could be negatively affected, and it may fail to achieve the intended benefits of the merger.

*The Company's incurrence of additional debt to pay a portion of the merger consideration will significantly increase the Company's interest expense, financial leverage and debt service requirements.*

In connection with the merger, the Company expects to incur incremental borrowings of up to $2.25 billion (initially consisting of a $700 million term loan facility, a $300 million revolving credit facility and a $1.25 billion 364-day interim term loan facility). Incurrence of this new debt will significantly increase the combined company's leverage. Although management believes that the combined company's cash flows will be more than adequate to service this debt, there may be circumstances in which required payments of principal and/or interest on this new debt could adversely affect the combined company's cash flows and this level of indebtedness may:

- require the Company to dedicate a significant portion of its cash flow from operations to payments on its debt, thereby reducing the availability of cash flow to fund capital expenditures, to pursue other acquisitions or investments in new technologies, to pay dividends and for general corporate purposes;
- increase the Company's vulnerability to general adverse economic conditions, including increases in interest rates if the borrowings bear interest at variable rates;
- limit the Company's flexibility in planning for, or reacting to, changes or challenges relating to its business and industry; and
- put the Company at a competitive disadvantage against competitors who have less indebtedness or are in a more favorable position to access additional capital resources.

The terms of the proposed financing also include certain limitations on the amount and type of investments that may be made and the amount of dividends that may be declared. In addition, any borrowings may be made at variable interest rates, making the Company vulnerable to increases in interest rates generally.

In addition, to the extent that the credit ratings of the Company are below pre-merger levels, borrowing costs may increase (including with respect to the Company's credit facilities and outstanding notes), and to the extent that the combined company's credit ratings were to fall below investment grade, the terms of the financing obligations could include restrictions, such as affirmative and negative covenants (including restricting the Company's ability to pay dividends, incur additional debt or sell assets), conditions to borrowing, subsidiary guarantees and stock pledges. A failure to comply with these restrictions could result in a default under the financing obligations or could require the Company to obtain waivers from its lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could cause the Company's obligations with respect to its debt to be accelerated and have a material adverse effect on the Company's business, financial condition or results of operations.

**Item 2—Unregistered Sales of Equity Securities and Use of Proceeds**

During the quarter ended June 30, 2008, the Company issued a total of 158,772 shares of common stock without registration under the Securities Act of 1933, as amended, in reliance upon the exemption under Section 4(2) of such Act relating to sales by an issuer not involving a public offering, none of which involved the sale of more than 1% of the outstanding common stock of the Company.

The following sales of shares related to part consideration for the acquisition of interest in the following companies:

| Date of Sale | Number of Shares | Acquisition |
|---|---|---|
| June 30, 2008 | 146,502 | Willis A/S Denmark |

On April 28, 2008, the Company additionally issued 12,270 shares to The Donald MacDonald Partnership LLP as part consideration for intangible assets acquired.

On November 1, 2007, the Board authorized a new share buyback program for $1 billion. This replaced the previous $1 billion buyback program and its remaining $308 million authorization. The program is an open-ended plan to repurchase the Company's shares from time to time in the open market or through negotiated sales with persons who are not affiliates of the Company. The Company did not repurchase any of its own common stock during the quarter covered by this report.

**Item 3—Defaults Upon Senior Securities**

None.

**Item 4—Submission of Matters to a Vote of Security Holders**

The Company held its Annual General Meeting on April 23, 2008 at which shareholders elected Ms. Anna C. Catalano, Ms. Wendy E. Lane and Ms. Robyn S. Kravit and Messrs. William W. Bradley, Joseph A. Califano Jr., Eric G. Friberg, Sir Roy Gardner, Sir Jeremy Hanley, James F. McCann, Joseph J. Plumeri and Douglas B. Roberts to serve as directors until the next Annual General Meeting unless they are earlier removed or resign.

The table below sets out the number of votes cast for, against or withheld for each director:

| Director | For | Against | Withheld |
|---|---|---|---|
| William W. Bradley | 123,017,880 | 5,506,479 | 74,990 |
| Joseph A. Califano, Jr. | 122,582,934 | 5,947,899 | 68,516 |
| Anna C. Catalano | 123,038,744 | 5,484,289 | 76,316 |
| Eric G. Friberg | 123,062,951 | 5,461,502 | 74,896 |
| Sir Roy Gardner | 111,208,955 | 17,316,345 | 74,049 |
| Sir Jeremy Hanley | 122,684,390 | 5,837,863 | 77,096 |
| Robyn S. Kravit | 122,759,536 | 5,764,705 | 75,108 |
| Wendy E. Lane | 122,487,223 | 6,010,933 | 101,193 |
| James F. McCann | 117,214,201 | 11,305,447 | 79,701 |
| Joseph J. Plumeri | 122,862,871 | 5,670,939 | 65,539 |
| Douglas B. Roberts | 123,001,006 | 5,522,406 | 75,937 |

The shareholders also re-appointed Deloitte & Touche LLP as independent auditors until the conclusion of the next Annual General Meeting of shareholders. Of the shares voted, 128,457,182 were in favor, 56,488 voted against and 85,769 were withheld.

The shareholders also approved the adoption of the Willis Group Holdings Limited 2008 Share Purchase and Option Plan. Of the shares voted, 64,219,730 were in favor, 57,646,512 voted against and 399,327 were withheld.

The shareholders also approved an amendment to Clause 5 of the Company's Memorandum of Association with the substitution of the monetary value "$1.00" for "$12,000". Of the shares voted, 128,066,159 were in favor, 51,324 voted against and 481,866 were withheld.

The shareholders also approved an amendment to Bye-law 1(1) by the insertion of the following definition of "Treasury Shares"; "Treasury Shares" shall mean any Shares repurchased by the Company as treasury shares. Of the shares voted, 125,395,599 were in favor, 2,730,992 voted against and 472,758 were withheld.

The shareholders also approved the deletion of Bye-law 4(2) and its replacement with the following: "The Board may, at its discretion and without the sanction of a Resolution, authorize the purchase of its own Shares of any class at any price (whether at par or above or below) and so that any Shares of any class may be selected in any manner whatsoever, upon such terms as the Board may in its discretion determine, and that any Shares so purchased may be canceled or held as treasury shares as the Board may in its discretion determine; provided always that such purchase is effected in accordance with the provisions of the Companies Acts". Of the shares voted, 125,395,599 were in favor, 2,730,992 voted against and 472,758 were withheld.

The shareholders also approved the deletion of Bye-law 7 and its replacement with the following: "Subject to the provisions of these Bye-Laws, the unissued Shares of the Company and any Treasury

Shares (whether forming part of the original capital or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of or transfer them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may determine, but no Share may be issued at a discount." Of the shares voted, 125,395,599 were in favor, 2,730,992 voted against and 472,758 were withheld.

**Item 5—Other Information**

None.

**Item 6—Exhibits**

2.1 Agreement and Plan of Merger, dated as of June 7, 2008, by and among Willis Group Holdings Limited, Hermes Acquisition Corp. and Hilb Rogal & Hobbs Company (incorporated by reference to Exhibit 10.1 to Willis Group Holdings Limited's Form 8-K filed on June 12, 2008)

10.1 Fourth Amendment dated May 28, 2008 to the Assurance of Discontinuance dated April 8, 2005, as amended, with the Attorney General of the State of New York and the Superintendent of Insurance of the State of New York (incorporated by reference to Exhibit 10.1 to Willis Group Holdings Limited's Form 8-K filed on June 3, 2008)

10.2 Form of Willis Partners Plan Option Agreement (May 6, 2008) under the Willis Group Holdings Limited 2008 Share Purchase and Option Plan (incorporated by reference to Exhibit 10.2 to Willis Group Holdings Limited's Form 8-K filed on June 26, 2008)

10.3 Agreement of Restrictive Covenants and Other Obligations dated as of May 6, 2008 between the Company and Peter Hearn (incorporated by reference to Exhibit 10.2 to Willis Group Holdings Limited's Form 8-K filed on June 26, 2008)

31.1 Certification Pursuant to Rule 13a-14(a)

31.2 Certification Pursuant to Rule 13a-14(a)

32.1 Certification Pursuant to 18 U.S.C. Section 1350

32.2 Certification Pursuant to 18 U.S.C. Section 1350

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WILLIS GROUP HOLDINGS LIMITED
(REGISTRANT)

By: /s/ PATRICK C. REGAN

Patrick C. Regan
*Group Chief Operating Officer and*
*Group Chief Financial Officer*

Dated: August 6, 2008

QuickLinks

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO RULE 13a-14(a)**

I, Joseph J. Plumeri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willis Group Holdings Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6 2008

By: /s/ JOSEPH J. PLUMERI
Joseph J. Plumeri
*Chairman and Chief Executive Officer*

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO RULE 13a-14(a)**

I, Patrick C. Regan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Willis Group Holdings Limited;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6 2008

By: /s/ PATRICK C. REGAN
Patrick C. Regan
*Group Chief Operating Officer and*
*Group Chief Financial Officer*

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, of Willis Group Holdings Limited (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Joseph J. Plumeri, Chairman and Chief Executive Officer of the Company, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, certify that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6 2008

By: /s/ JOSEPH J.PLUMERI
Joseph J. Plumeri
*Chairman and Chief Executive Officer*

A signed original of this written statement required by Section 906 has been provided to Willis Group Holdings Limited and will be retained by Willis Group Holdings Limited and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, of Willis Group Holdings Limited (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick C. Regan, Group Chief Operating Officer and Group Chief Financial Officer of the Company, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, certify that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6 2008

By: /s/ PATRICK C. REGAN
Patrick C. Regan
*Group Chief Operating Officer and*
*Group Chief Financial Officer*

A signed original of this written statement required by Section 906 has been provided to Willis Group Holdings Limited and will be retained by Willis Group Holdings Limited and furnished to the Securities and Exchange Commission or its staff upon request.