Willis

ANNUAL REPORT TO SHAREHOLDERS 2002 Willis

Willis

Shareholder Information

Registered Office

Willis Group Holdings Limited
Cedar House
41 Cedar Avenue
Hamilton, HM12
Bermuda

Principal Offices

Willis Group Limited
Ten Trinity Square
London
EC3P 3AX
England
telephone +44 20 7488 8111
www.willis.com

Willis Group Holdings Limited
7 Hanover Square
New York, New York 10004-2594
telephone +1 800 234 8596 or +1 212 344 8888

Annual Shareholders Meeting

Friday May 9, 2003, 9.00am
Majestic Ballroom
The Westin at Times Square
270 West 43rd Street
New York, NY 10036

Common Stock Data

Common stock is traded on the New York Stock Exchange under the symbol WSH. Daily stock quotes can be found in The Wall Street Journal, The New York Times and on the website, www.willis.com.

2003 Dividend Record and Payment Dates

The Company has declared an initial quarterly dividend of $0.125 per share payable April 15, 2003 to shareholders of record on March 31, 2003. The Company anticipates paying further dividends of $0.125 per share on July 14, 2003, October 13, 2003 and January 13, 2004 to shareholders of record on June 30, 2003, September 30, 2003, and December 31, 2003.

US Branch Registrar and Transfer and Dividend Paying Agent

The Bank of New York
Investor Relations Department
101 Barclay Street
New York, New York 10286
telephone +1 800 524 4458 or www.stockbny.com

Bermuda Registrar

A.S.& K. Services Ltd
Cedar House
41 Cedar Avenue
Hamilton, HM12
Bermuda
telephone +441 295 2244

Other Reports

Copies of Form 10-K are available without charge:
Company Secretary
Willis Group Holdings Limited
c/o Willis Group Limited
Ten Trinity Square
London EC3P 3AX
telephone +44 20 7481 7004
chittym@willis.com

Information

Securities analysts, portfolio managers and others seeking financial information:

Kerry K. Calaiaro
telephone +1 212 837 0880
calaiaro_ke@willis.com

News media:
United Kingdom
Nicholas Jones
telephone +44 20 7488 8190
jonesnr@willis.com

United States
Daniel Prince
telephone +1 212 837 0806
prince_da@willis.com

Stock Records

The Bank of New York
telephone +1 800 524 4458

Address shareholder inquiries to:
Shareholder Relations Department - 11E
P O Box 11258
Church Street Station
New York, New York 10286
Shareowner-svcs@bankofny.com

The Bank of New York's Stock Transfer Website:
www.stockbny.com

Certificates for Transfer and Address changes to:
Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, New York 10286

Cautionary Language Regarding Forward-Looking Statements

This annual report to shareholders contains forward-looking statements, which by their nature involve risks and uncertainties. Please refer to Company's 2002 Annual Report on Form 10-K for 'Information concerning Forward-Looking Statements' and a description of certain factors that may cause actual results to differ materially from historical results or those anticipated.

To create a truly great company, we believe in

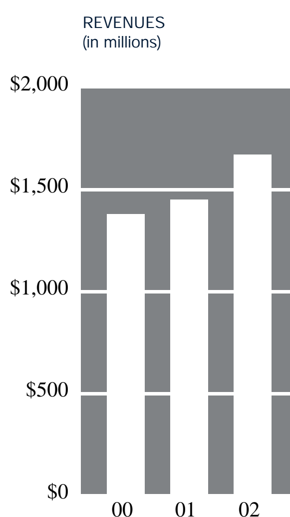
ONE FLAG: to make this Company great we will all work together as a team. We will support one vision for our Company and work toward a shared direction. Working with each other under one flag is more important than working solely for the interests of a team, business or country unit. ENTREPRENEURIAL SPIRIT: we will build on our Company's great tradition and the fine Willis name, working like entrepreneurs: excited for the future, ambitious, hard working, focused on results and excellence. We will banish politics and bureaucracy. GROWTH: we will grow our organization and our people. We will eliminate wastes of money in order to develop new products, train our people, acquire new business and recruit new people. DELIVERING VALUE: clients are the reason we're in business. Our relationship with our clients is determined by the value gap between what a client can do for themselves and what we can do for them. That gap should help our clients solve their problems, fulfill their needs and help them make their business more profitable and efficient. A SUPPORTIVE WORKING ENVIRONMENT: we will create an environment where people – no matter who they are or where they come from – feel empowered. Everyone will be well trained for their role; they will know what their career path is and everyone will feel that their dreams can come true at WILLIS.

FINANCIAL HIGHLIGHTS

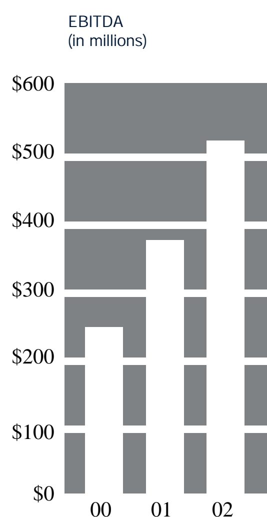
TOTALS FOR THE THREE YEARS ENDED DECEMBER 31, (IN MILLIONS, EXCEPT PER SHARE DATA AND PERCENTAGES)	**2002**	2001	2000
REVENUES	**$1,735**	$1,424	$1,305
GENERAL AND ADMINISTRATIVE EXPENSES (EXCLUDING NON CASH COMPENSATION)	**$1,214**	$1,054	$1,062
EBITDA (REVENUES LESS GENERAL AND ADMINISTRATIVE EXPENSES)	**$521**	$370	$243
EBITDA MARGIN %	**30%**	26%	19%
OPERATING CASH EARNINGS	**$271**	$147	$54
OPERATING CASH EARNINGS PER DILUTED SHARE	**$1.62**	$0.99	$0.45
LONG-TERM DEBT	**$567**	$787	$958
STOCKHOLDERS' EQUITY	**$854**	$696	$238

FOR DISCUSSION OF THE GROUP'S RESULTS, INCLUDING THESE MEASURES, SEE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

REVENUES
(in millions)



EBITDA
(in millions)



OPERATING CASH
EARNINGS
(in millions)

CONTENTS

1 WILLIS VISION
2 FINANCIAL HIGHLIGHTS
3 WILLIS AROUND THE WORLD
4 GROUP EXECUTIVE COMMITTEE
5 CHAIRMAN'S STATEMENT
8 OVERVIEW
21 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
30 FINANCIAL STATEMENTS
64 BOARD OF DIRECTORS AND GROUP EXECUTIVES
INSIDE BACK COVER SHAREHOLDER INFORMATION

WILLIS AROUND THE WORLD

GROUP EXECUTIVE COMMITTEE

Joe Plumeri

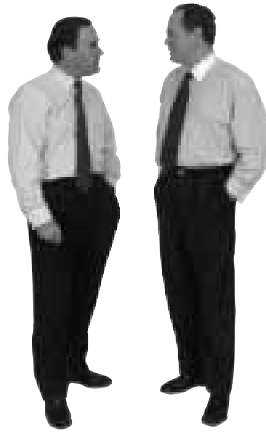
Grahame Millwater

Richard Bucknall

Mario Vitale

Patrick Lucas

Sarah Turvill



John Pelly

Bill Bowden

Tom Colraine

Janet Coolick

Jim Ratcliffe

Joe McSweeny

Mike Sicard

Fred Arnold

Steve Maycock

CHAIRMAN'S STATEMENT

2002 was a fantastic year! We had a solid 2000, a great 2001, during which we took the Company public by listing on the New York Stock Exchange, and now an even better 2002.

We promised we would not rest on our laurels - and we haven't. Working together under One Flag we have not only produced great results, but have also started realizing some of the Group's tremendous potential.

And yet this is only the start; we have just begun our journey to create the world's finest insurance broker.

RESULTS

In the hard market conditions of the past year, characterized by higher premium rates, reduced capacity and more restrictive terms and conditions, our Associates distinguished themselves, providing client services and another set of record operating results.

The success of our efforts was reflected in a major improvement in the fundamentals of the Company. Operating cash earnings increased 84% to $271 million in 2002 from $147 million last year, while operating cash earnings per diluted share for 2002 were $1.62 - an increase of 64% from $0.99 in 2001.

Organic revenues, or revenues adjusted for foreign currency exchange, acquisitions and disposals, rose 18% for 2002, compared with 12% in 2001, as a result of our new business development efforts and rising rates. EBITDA margin, which we use as a measure of cash generated by the business, expanded to 30% from 26% the year before. Our Global, North America and International business units all contributed soundly to this success.

The Group's significant earnings and cash flow have enabled us to substantially reduce our long-term debt. Building upon the progress made in 2001, we repaid a further $220 million during 2002 and at the year-end our total long-term debt was $567 million, down 28% from $787 million a year ago. In addition, we had $117 million of cash on hand at the year-end.

WE COMBINE AN ENTREPRENEURIAL APPROACH WITH TOTAL COMMITMENT TO THE DELIVERY OF CUSTOMIZED SOLUTIONS

Our improved capital position and strengthened balance sheet have given us considerable financial flexibility. Our long-term debt as a percentage of total capital fell to 40% compared to 53% at the previous year end. We generated $291 million of free cash flow and our fixed charges fell to $65 million from $112 million in the year 2000.

Accordingly, we concluded that a dividend was both affordable and merited, and we are proud to initiate a quarterly cash dividend of $0.125 per share, or $0.50 per annum, commencing April 15, 2003.

GROWTH

We achieved substantial growth through increased sales and recruitment of great talent. Some 335 Associates recruited during the year are directly involved in producing business.

We announced four acquisitions in late 2002: Sunaro Inc and Special Risk Advisors International LLC in the US, and Propacta AB and Kombro Risk Management AB in Sweden. We also increased our ownership positions in businesses in Australia, Germany and Indonesia, and announced the disposal of four business units outside of our core brokerage activities.

Our growth was aided by the expense discipline that is now integral to the way we work. We continue to focus on eliminating waste, while investing these savings in productive areas that will aid our growth, including recruitment, training and technology.

THE WILLIS APPROACH

Driven by our commitment to being the world's best broker, we continue to refine our unique business model. Rigorously applying the Willis Model enables us to prosper whatever the market conditions. We manage our business to be successful in all environments – not just when the wind is at our back.

What makes us different is our entrepreneurial approach and commitment to the delivery of customized solutions. We concentrate on what we do best – broking, risk management and consulting. We provide clients with excellent local service, while enabling them to access our extensive network of global resources. We constantly strive to improve our offerings – from state-of-the-art product solutions to excellent claims processing.

But we don't stop there. We apply the 'Value Gap' concept to all that we do. The Value Gap is the difference between what a client can - or wishes to - do for themselves, and what we can do for them. By always seeking to widen this gap, we improve our ability to creatively solve our clients' problems.

Our Client Advocates around the world act as a single point of contact with clients, using their expertise to match Willis resources to the specific requirements of each client. Client Advocates know their clients' businesses inside out and constantly look for ways to help them succeed. Some examples of Advocates with their clients are featured in this Annual Report.

All our actions are geared towards accomplishing one, overriding objective: increasing shareholder value. By managing the Company to be in excellent shape for our shareholders, we ensure we can continue to best look after the interests of our clients and Associates.

OUR PEOPLE

I have always said that Willis' most powerful asset is its people; I am so proud of our superb team and all we have achieved. We remain committed to developing our people and giving them every opportunity to realize their full potential. We have worked hard to nurture an environment in which creativity and innovative thinking are actively encouraged and rewarded.

Many of our Associates are now, I am proud to say, Willis shareholders. In 2002, we expanded our employee share programs from three to 28 countries, with tremendous results - 68% of our full-time workforce are now shareholders. I passionately believe in employee ownership and am delighted that so many colleagues have chosen to come to work every day as owners.

Towards the end of 2001 we launched the 'Celebrating Willis People' program to recognize and reward those Associates who do exceptional work, whether in the workplace or the community. The program has been a great success, with more than 4,000 awards being presented to Associates during the year. We also launched an annual scholarship competition for the children of Willis Associates, enabling them to win financial contributions towards their education.

THE BOARD

In September we welcomed former US Senator Bill Bradley to our Board of Directors. His international experience and perspective will be invaluable to the Group as it enters the next stage of its ambitious development. After the year-end, we also welcomed Douglas B Roberts to the Board. Doug has enjoyed a distinguished career in senior financial roles in both the private and public sectors, including as Treasurer of the State of Michigan. We are honored he will become chairman of the Audit Committee.

THE FUTURE

Looking to the future, we have established a powerful foundation for continued expansion based upon organic sales growth, recruitment and acquisitions. We intend to increase operating cash earnings per share by 25% or better in 2003, over the $1.62 reported for the year ended December 31, 2002. Beyond 2003, we expect to grow operating cash earnings per share by 15% or better each year, in all market environments.

We never lose sight of the fact that we are here to build a great business for our shareholders, and we are in great shape.

I would like to thank our investors for their continued support and belief in Willis and, of course, my colleagues for making the Company what it is. I know they join me in being excited about the year ahead and our longer term future.

Joe Plumeri

Joe Plumeri
Chairman

Creative

Photographed at Dubai Airport is Mick Quinn, Head of Group Safety, Emirates Airlines (left) with Chris Clark, Executive Director of Willis' Aerospace Division.

Emirates has been a Willis client since 1985. Operating one of the youngest state-of-the-art fleets with plans for some 100-plus aircraft, it has won many prestigious airline awards in recent years.

"In addition to excellent client service, we want our suppliers to be proactive in helping us achieve our objectives", says Mick Quinn. "The Willis team has consistently demonstrated a creative, solutions-driven approach on our behalf."

OVERVIEW

Willis is one of the world's leading risk management and insurance intermediaries.

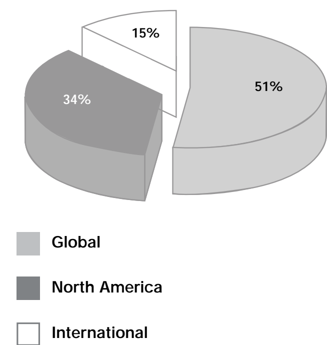
We are in the business of identifying, analyzing and managing risk. In addition to insurance broking services we deliver professional risk transfer, risk management, loss management and actuarial services to companies, as well as financial and employee benefits consulting.

Our skills and insurance broking capabilities enable us to create customized solutions for a broad range of organizations - from small businesses to world-leading multinationals.

We have 13,000 employees, including associated companies, around the world. Our network of subsidiaries and associates operates through 300 offices in some 80 countries. This strong global franchise is bolstered further by a formalized network of correspondent offices in an additional 30 countries.

We are committed to serving our clients, on any scale, anywhere, with exactly the service they need – whether that means efficient, cost-effective solutions from the global markets we access, or cutting-edge advisory services.

Distribution of Reported Revenues by Business Unit



Tailored

Grace Fong (left) of Neptune Orient Lines (NOL) and Iris Teo of Willis Singapore at the Port of Singapore. In the background is the NOL's APL Jeddah, a 34,133 Dwt ship loading some of her cargo of 2,478 containers.

For two decades Willis' Marine Division has worked closely with the Singapore and other Willis offices to deliver tailored solutions for NOL. These include bespoke wording to meet NOL's complex requirements as well as underwriting placement in several markets.

UNDERSTANDING OUR CLIENTS' NEEDS IS CENTRAL TO OUR APPROACH

HOW WE WORK

Understanding our clients' needs is central to our approach. We take time to gain a thorough knowledge of their requirements and then develop innovative insurance and risk management solutions.

We apply our in-depth knowledge of the global insurance markets to match a client's needs to the most appropriate insurance or reinsurance marketplace.

In every case, we follow a rigorous process. Following extensive evaluation and statistical analysis, we advise clients on the best solution for their needs. This may include advice on appropriate levels of self-insurance, and the creation and management of captives.

We operate as one global business. This ensures all clients' interests are handled efficiently and comprehensively, whatever their initial point of contact.

Through our Client Advocacy approach, clients gain access to our major global network of resources, while always receiving a customized service from a dedicated team. Willis Client Advocates throughout the world act as a single point. They form close working relationships with their clients and develop a thorough understanding of their business. They use their extensive knowledge about Willis' resources to provide clients with excellent service and solutions tailored to their precise needs.

Our Client Advocacy system was born out of our long-standing belief in the value of partnership with clients. We place enormous importance on forming and nurturing long-term client relationships. Many of our clients have been with us for several decades.

OUR BUSINESS

Willis' global operations are organized into three main areas: Global, North America and International.

GLOBAL

Our Global business provides specialist brokerage and consulting services to clients worldwide for the risks arising from specific industrial and commercial activities. This operation serves clients in around 180 countries from our UK, US and Asia offices and accounts for 51% of the Group's consolidated revenues. It is divided into Global Specialties, Global Markets, Willis Risk Solutions, Global Reinsurance and UK and Republic of Ireland Retail.

Partnership

Greg Parnell, (left) Chairman of Willis Construction Risks in the UK and John Middlemiss, Risk Manager Bechtel Ltd are shown at St Pancras rail station, London. Bechtel has a key role in the design and project management of the new high speed rail link between St Pancras and the Channel Tunnel on England's South Coast.

Willis has been Bechtel's London and international broker since 1974. During this partnership, Willis has provided Bechtel Risk Management with a broad range of corporate and project insurance services, from international airports in Saudi Arabia to the Chernobyl rehabilitation project in the Ukraine and, more recently, the Tacoma Narrows Bridge project in the USA.

GLOBAL SPECIALTIES

Willis has strong global positions in aerospace, marine, construction, and several niche businesses.

AEROSPACE

We are highly experienced in providing insurance and reinsurance brokerage and risk management services to aerospace clients, including aircraft manufacturers, air cargo handlers and shippers, airport managers and general aviation companies.

Our services include claims recovery, contract and leasing risk management, safety services and market information.

Our clients include 250 airlines and more than 40% of the world's leading insured non-American airports by passenger movement.

MARINE

Marine insurance and reinsurance broking is our oldest line of business – dating back to our establishment in 1828. We offer broking services for liabilities including hull, cargo and general marine, as well as protection and indemnity services.

CONSTRUCTION

The Construction practice offers risk management advice and places cover for a wide range of UK and international construction operations, including major projects such as Hong Kong's Chek Lap Kok airport and the deactivation of the Chernobyl nuclear power plant.

NICHE

The Fine Art, Jewellery, and Specie unit provides specialist risk management and insurance services to fine art, diamond and jewelry businesses.

Special Contingency Risks offers expert consultancy and other services to mitigate the risks associated with kidnap, extortion and product contamination. SCR is a leader in this specialist market.

The Hughes-Gibb unit principally serves the insurance needs of the horse racing and horse breeding industries, and also arranges the reinsurance of horse racing and horse breeding-related business for insurers worldwide.

The Willis Commercial Network comprises franchise partnerships with more than 50 privately-owned local UK insurance brokers and is designed to enable them to meet the insurance requirements of small companies and individuals.

Responsive

Photographed in Sedona, Arizona at the Sedona Medical Center is Jim Puffenberger (right), Executive Vice President and CFO of Northern Arizona Healthcare and KJ Wagner, Senior Vice President of Willis' Arizona office.

Northern Arizona Healthcare has been a Willis property/casualty client for over ten years and a Willis employee benefit client since 1989. Northern Arizona Healthcare is the premier provider of medical care services in northern Arizona.

"Willis has been totally responsive to our needs, on a timely basis," says Jim Puffenberger of NAH. "I have no hesitation to highly recommend them to others for their insurance needs."

WE PLACE ENORMOUS IMPORTANCE ON FORMING AND NURTURING LONG-TERM RELATIONSHIPS

GLOBAL MARKETS

Global Markets comprises Global Markets North America, Global Markets International, Global Markets Structured Financial Solutions (SFS), Global Markets Bermuda and Global Markets Carrier Relations.

GLOBAL MARKETS NORTH AMERICA

This unit develops global solutions and marketing capability for all our businesses based in North America. The core areas of focus are property, casualty and management liability risks.

GLOBAL MARKETS INTERNATIONAL

This business links with the UK and International retail networks to further develop access to global markets, and provide structuring and placing skills in the relevant areas of property, casualty and management liability. This unit also includes the specialist global energy business.

GLOBAL MARKETS STRUCTURED FINANCIAL SOLUTIONS (SFS)

This unit specializes in strategic risk assessment, transactional risk transfer and alternative risk financing solutions.
It incorporates our market-leading political risk unit, as well as structured finance and credit teams.

GLOBAL MARKETS BERMUDA

This unit enables our clients around the world to benefit from the increasing insurance and reinsurance capacity in Bermuda. Over the years it has built up a significant placing capability for complex risks to provide access to the capacity available.

GLOBAL MARKETS CARRIER RELATIONS

This department analyzes, oversees and coordinates our Group activities and relationships with underwriting markets globally.

WILLIS RISK SOLUTIONS

Based in London, WRS arranges customized solutions for major companies, including constituents of the UK FTSE 250. Its retail broking services are provided by teams specializing in major industry sectors.
It also provides extensive advisory services in business risk practice, operational risk management, loss management, captive management, environmental and revenue enhancement.

Global

Photographed at BHP Billiton's Middelburg mine in South Africa is Matthew Frost, Risk Finance Manager (left) of BHP Billiton and Bob Martin, Executive Director of Willis Risk Solutions.

As one of the world's largest natural resource companies, operating in around 20 countries, BHP Billiton was looking for a broker to coordinate its insurance requirements on a global basis. Explains Matthew Frost: "Through its experience and the specialist expertise of Willis Associates, Willis has been able to provide us with an integrated and comprehensive service and strategic support for our global risk financing program"

WE MATCH A CLIENT'S NEEDS TO THE MOST APPROPRIATE INSURANCE OR REINSURANCE MARKETPLACE

GLOBAL REINSURANCE

Willis is one of the world's largest reinsurance intermediaries and has leading positions in such major markets as the UK, Japan and Australia and a rapidly growing presence in the US, the world's largest market.

We provide insurers and reinsurers with a wide range of transactional capabilities, as well as analytical and advisory services such as hazard modeling, financial and balance sheet analysis, and reinsurance optimization studies.

We have recently established a consulting unit with expertise in actuarial and hazard modeling and the financial implications of catastrophe losses.

UK AND REPUBLIC OF IRELAND RETAIL

UK and Republic of Ireland Retail offers risk management and broking services to corporate clients and individuals via 17 offices. Each office serves its own clients, accessing the Group's global resources as appropriate to suit the clients' requirements.

NORTH AMERICA

Our North America business, which represents 34% of consolidated revenues, offers comprehensive risk management and retail insurance broking services to clients in the US and Canada.

The business comprises both our large account and middle market units, which were brought together after the year-end within Willis North America. This amalgamation will enable us to service our clients and present ourselves to prospects in a consistent manner, without regard for the size, geography or industry of the audience.

Willis North America enjoys prominent positions in several key sectors. The construction division, for example, provides risk management, insurance and surety bonding services and numbers around one fifth of the Engineering New Record Top 400 contractors among its clients. It also has one third of the nation's largest housebuilders as clients.

Our employee benefits practice helps clients design and implement benefits and compensation plans. We are also one of the largest providers of healthcare insurance and consulting services to local healthcare professionals in the US.

Personal

Willis' Fine Art, Jewellery and Specie (FAJS) unit has managed Tiffany & Co.'s global jewelry program since 1998. FAJS is the foremost broker in the specialized niche of diamond and jewelry insurances.

Account Director Elizabeth Maddock (right) is shown with Tiffany & Co.'s UK Managing Director, Barbara Kovacs, admiring the diamond necklace from the TIFFANY LACE™ Collection, comprising over 1,700 diamonds.

Elizabeth has built up a strong working relationship with the client over the years so that, while Tiffany & Co. is the largest fine jeweler in the world, it always receives a very personal service.

The advanced risk management services division specializes in providing captive management services, actuarial consulting and a wide range of other risk consulting services to large clients.

In addition, we offer specialist advice to clients and underwriters through practices across the North American network, focusing on areas of increasing concern to our clients, such as environmental risk. Our wholesale unit provides specialist services to the US insurance industry. The major entity within the unit is Stewart Smith, which assists brokers by offering advice and expertise in the placement of specialist and complex risks, including property, casualty, and professional and surplus lines.

INTERNATIONAL

Willis International Holdings (WIH), which is responsible for our retail interests outside of the US and UK, enjoys a market-leading position in many of the 72 countries in which it operates. It now represents 15% of the Group's consolidated revenues.

WIH's network of subsidiaries and associates enables clients to access Willis' global resources, while benefiting from products and services tailored to their local market.

WIH has grown rapidly since 1997, both organically and through acquisitions. It owns substantial stakes in a number of major European brokers, including a 33% holding in Gras Savoye, the leading French insurance broker.

During the year, we completed two acquisitions in Sweden and increased our ownership in businesses in Australia and Indonesia. In addition, we boosted our holding in Germany's third largest insurance broker Willis GmbH to 78% in September 2002, before acquiring the remaining 22% of the business in January of 2003.

FINANCIAL CONTENTS

Willis Group Holdings Limited

21 Management's Discussion and Analysis of Financial Condition and Results of Operations

30 Independent Auditors' Report and Report of Management

31 Consolidated Statements of Operations

32 Consolidated Balance Sheets

33 Consolidated Statements of Cash Flows

34 Consolidated Statements of Stockholders' Equity

35 Notes to the Consolidated Financial Statements

61 Five-Year Summary of Operations

62 Selected Quarterly Financial Data

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company provides a broad range of value-added risk management consulting and insurance brokerage services, both directly and indirectly through its associates, to a diverse base of clients internationally. The Company provides specialized risk management advisory and other services on a global basis to clients in various industries, including the construction, aerospace, marine and energy industries. 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. The Company also provides other value-added services.

We generate revenue from commissions and fees on insurance placements and fees from consulting and other services. We also earn interest on premiums held before remittance to the insurer and on claims held before payment to the insured.

The majority of our revenue is commission based and varies based upon the premiums on the policies we place on behalf of our clients. As such, when premium rates in the insurance market decline, as they have in certain markets in past years, we experience pressure on our revenues and earnings, and when pricing increases, we tend to benefit, although in both cases there are many conflicting factors, including changes in buying and selling behavior. Beginning in late 2000, market pricing generally began to move upward for the first time in recent years and this continued throughout 2001 and 2002. We anticipate premium rates will continue to rise during 2003.

Like many insurance brokers, we earn revenue in an uneven fashion during the year, primarily due to the timing of insurance policy renewals. As many insurance and reinsurance policies incept and renew as of December 31 or January 1, we generate the majority of our revenues in the first and fourth calendar quarters. In 2002 for example, we generated 26% of our revenues in the first quarter and 28% of our revenues in the fourth quarter. The second and third quarters are less substantial revenue quarters, accounting for 24% and 22%, respectively, of 2002 revenues. General and administrative expenses (excluding non-cash compensation), however, are incurred on a relatively even basis throughout the year. As a result, we have historically earned the majority of our operating income in the first and fourth quarters, with the second and third quarters accounting for a lower percentage of full year operating income. Operating income in 2002, impacted by the effect of performance options and net gain on disposals, was $128 million, $30 million, $64 million and $197 million for the first, second, third and fourth quarters, respectively. EBITDA, defined as revenues less general and administrative expenses (excluding non-cash compensation), as a percentage of the full year, was 30%, 22%, 17% and 31% for the first, second, third and fourth quarters, respectively.

We conduct our business in over 100 currencies. Accordingly, movements in foreign currency exchange rates affect our results. Our exposure to market risk from foreign currency exchange rates is discussed below under "Financial Risk Management". In the discussion below, we have expressed certain percentage changes in terms of constant currency, meaning that we have translated foreign currency amounts included in the totals for both periods using the same exchange rates rather than the applicable actual exchange rates.

In recent years, we have completed a number of acquisitions and dispositions as part of our efforts to focus our business on our core broking activities and to expand our global capabilities. During 2002, we increased our investment in Willis GmbH, Germany's third largest insurance broker, from 45% to 78%. We also completed two acquisitions in Sweden, strengthening our leading share in that market place, and increased our ownership to 100% of certain businesses in Australia and Indonesia. In the fourth quarter of 2002, we announced the acquisition of Special Risk Advisors, a sports and entertainment insurance broker, based in Marietta, Georgia, and Sunaro, an employee benefits technology solutions company, based in Atlanta, Georgia. The aggregate purchase price of these acquisitions was $32 million. Subsequent to the 2002 year-end, we acquired the remaining 22% interest in Willis GmbH and increased our ownership of Willis Iberia to 77%, with our French associate, Gras Savoye, owning the other 23%.

During 2001, we increased our investment in Willis Italia Holdings S.p.A. from 50.1% to 67% and acquired Richard N Goldman & Co ("Goldman"), an insurance broker based in San Francisco, California. In 2000, we acquired several businesses in Latin America, South Africa and Norway.

During 2002, we disposed of two third-party administration units and several other non-core businesses. In 2001, we disposed of our 51% interest in Willis National, an independent financial advisory business and the PENCO programs division of our North America Wholesale operation.

PERFORMANCE-BASED STOCK OPTIONS

During 2001 and 2002, our results were impacted by non-cash compensation charges for performance-based stock options. Management were granted these options, as part of the leveraged buyout in 1998, for meeting or exceeding specified 2001 and 2002 performance targets. These targets related to the cumulative consolidated cash flow and annual EBITDA (as defined) of our subsidiary, Willis Group Limited, for the years ended December 31, 2001 and 2002. The actual results for those years exceeded the targets and, accordingly, all the outstanding performance options were earned in full.

These options are accounted for under the variable plan method, which required us to record non-cash compensation charges from the third quarter of 2001 when it became probable that the performance conditions would be satisfied. As a result, we recorded a non-cash charge of $158 million ($132 million, net of tax) in 2001 and a further $80 million ($67 million, net of tax) in 2002. These charges are based on the difference between the price of our stock at the respective year-ends and the exercise price, which is generally £2 per share, with the total cost being spread over the performance period. At the end of 2002, 85% of the total performance period had elapsed and a further 10% will elapse during 2003, which will result in a non-cash charge of approximately $28 million, with the remainder thereafter.

CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are described in Note 2 to the consolidated financial statements. Management believes that the following policies are the most important to the portrayal of the Company's financial condition.

Revenue recognition

The Company takes credit for commissions (or fees negotiated in lieu of commission) in respect of insurance placements at the date when the insured is billed or at the inception date of the policy, whichever is the later. Fees for other services are generally recognized as the services are provided. Negotiated fee arrangements for an agreed period covering the placement of multiple insurances and the provision of risk management or other services are becoming more widespread. This trend gives rise to judgments concerning the allocation of revenue between accounting periods. This allocation is determined, contract by contract, on the basis of the relative fair value of the services completed and the services yet to be rendered.

Pension expense

We maintain defined benefit pension plans that cover almost all our employees in the UK and US. Elsewhere, pension benefits are typically provided through defined contribution plans. The key assumptions in determining pension expense for the defined benefit plans are the expected long-term rate of return on plan assets, the expected long-term rate of compensation increase and the discount rate applicable to the plan liabilities.

At December 31, 2002, the selected discount rates, based on AA-rated corporate bonds, were 5.6% for the UK plan liabilities and 6.5% for the US plan liabilities. A 0.25% change in these discount rates, in the absence of any other factors, would impact 2003 net pension expense by approximately $5 million. The selected long-term rates of return, based on the asset mix of the respective funds, were 7.25% for UK plan assets and 8.5% for US plan assets. A 0.25% change in the long-term rate of return would impact 2003 net pension expense by approximately $4 million.

Deferred tax

At December 31, 2002, the Company had gross deferred tax assets of $302 million against which a valuation allowance of $100 million had been recognized. To the extent that the actual future taxable income in the periods during which the temporary differences are expected to reverse differs from current projections, or assumed prudent and feasible tax planning strategies fail to materialize, or new tax planning strategies are developed, or material changes occur in actual tax rates or loss carryforward time limits, the Company may

adjust the deferred tax asset considered realizable in future periods. Such adjustments could result in a significant increase or decrease in the effective tax rate and have a material impact on our net income, although management does not believe that this is likely.

Provisions

The Company has established provisions against actual and potential claims, lawsuits and proceedings relating principally to alleged errors and omissions in connection with the placement of insurance and reinsurance in the ordinary course of business. Such provisions cover claims that have been reported but not paid and also claims that have been incurred but not yet reported. These provisions are established based on advice received from qualified professionals, including external legal advice, and are developed using actuarial principles and assumptions, including historical claim payment patterns. A significant change in historical payment patterns or increased frequency or severity of claims for errors and omissions could have a material effect on the Company's results of operations.

Further, as detailed in Note 10 to the financial statements, the Company has established provisions for the costs of the UK review of personal pension plans sold to individuals between 1988 and 1994, for future lease rental payments of leasehold properties surplus to operational requirements and for discontinued operations. Although there remains some uncertainty as to the ultimate liability with respect to these matters, management believes that it is unlikely that the eventual outcome will have a material adverse effect on the Company's reported results.

OPERATING RESULTS – 2002 compared with 2001

Summary

Total revenues increased by $311 million (22%) to $1,735 million in 2002 from $1,424 million in 2001. Excluding the effects of foreign currency exchange rate movements and the effects of acquisitions and disposals, total revenues on an underlying basis were 18% higher in 2002 than in 2001. We estimate the increase in revenues was due 55% to net new business growth and 45% due to the impact of higher premium rates prevailing in the market.

Operating income increased by $258 million (160%) to $419 million in 2002 from $161 million in 2001. Excluding the non-cash compensation charge for performance-based stock options ($80 million in 2002 and $158 million in 2001), the net gain on disposal of operations ($13 million in 2002 and $17 million in 2001), and non-cash amortization of goodwill and other intangible assets ($1 million in 2002 and $35 million in 2001), operating income increased by $150 million (45%) in 2002. The effect of foreign currency exchange rate movements on operating income in 2002 was not material.

Operating margin, defined as revenues less general and administrative expenses, depreciation and amortization of goodwill and other intangible assets as a percentage of revenues, increased to 28% in 2002 compared with 21% in 2001. We use EBITDA, defined as revenues less general and administrative expenses, as a measure of cash generated by the businesses. EBITDA margin, or EBITDA as a percentage of revenues, expanded to 30% from 26% in 2001.

Revenues

Revenues consist of commissions and fees, which increased by $304 million (22%) to $1,661 million in 2002 from $1,357 million in 2001, and interest income, which increased by $7 million (10%) to $74 million in 2002 from $67 million in 2001.

Global: Revenues generated by our Global business increased by $151 million (20%) to $892 million in 2002 from $741 million in 2001. Adjusting for the effect of the Willis National disposal in July 2001, revenues increased by 18% in constant currency terms. Global's reinsurance and specialty businesses, particularly aerospace and marine, continued to benefit from the rising premium rates prevailing in these markets, although there were some indications of the rate of growth slowing in some markets in the fourth quarter of 2002.

North America: Revenues generated by our North America business increased by $79 million (16%) to $585 million in 2002 from $506 million in 2001. Adjusting for the acquisition of Goldman and the disposal of the third-party administration units, revenues increased by 17%. Middle market and upper middle market experienced significant premium rate increases across all lines.

International: Revenues generated by our International business increased by $81 million (46%) to $258 million in 2002 from $177 million in 2001. Adjusting for the effect on revenues of increasing our investment in Willis GmbH, which resulted in full consolidation as a subsidiary, and other acquisitions, International revenues increased by 21% in constant currency terms led by good performance in Continental Europe, Eastern Hemisphere (especially Australia) and Latin America. We believe that many new business wins resulted from coordinated efforts with our Global specialty businesses.

Expenses

Total expenses increased by $53 million (4%) to $1,316 million in 2002 from $1,263 million in 2001. Excluding the non-cash compensation charges of $80 million and $158 million for performance-based stock options, and net gains of $13 million and $17 million on disposal of operations in 2002 and 2001, respectively, total expenses increased by $127 million (11%).

General and administrative expenses (excluding non-cash compensation for performance-based stock options) were $1,214 million for 2002, up 15% from 2001. On an underlying basis, excluding acquisitions and disposals, general and administrative expenses were 11% higher in constant currency terms than in 2001. Much of the increase related to revenue generating expenses. We continued to invest in recruitment and training as well as systems and information technology to enhance our client service and management information capabilities. Increased revenues and profitability led to higher performance-based compensation. However, the growth rate in revenues more than outpaced expense growth leading to increased operating margins.

Net pension expense in 2002 for our defined benefit pension plans was $2 million compared with a credit of $6 million in 2001 and a credit of $3 million in 2000. As a result of lower interest rates and declining values of our pension plan assets, we expect pension expense in 2003 to increase by between $15 million and $20 million.

The Company adopted Statement of Financial Accounting Standards No. 142, *"Goodwill and Other Intangible Assets"* ("SFAS 142"), effective from January 1, 2002. In accordance with SFAS 142, the Company no longer amortizes goodwill and other intangible assets that have an indefinite life but rather tests such assets at least annually for impairment. No impairment charges resulted from the implementation of SFAS 142 nor were any impairment charges subsequently recognized during 2002. Amortization of goodwill in 2001 amounted to $35 million. Acquired intangible assets with a finite useful life are being amortized over their expected useful lives. Amortization of intangible assets amounted to $1 million in 2002.

OPERATING RESULTS – 2001 compared with 2000

Summary

Total revenues increased by $119 million (9%) to $1,424 million in 2001 from $1,305 million in 2000. Excluding the effects of foreign currency exchange rate movements and the effects of acquisitions and disposals, total revenues on an underlying basis were 12% higher in 2001 than in 2000. The increase in revenues was primarily due to increased business from existing clients, new business exceeding lost business and generally higher premium rates and volumes.

Operating income increased by $7 million (5%) to $161 million in 2001 from $154 million in 2000. Excluding the non-cash compensation charge in 2001 for performance-based stock options of $158 million, net gain on disposal of operations ($17 million in 2001 and $1 million in 2000) and restructuring costs ($18 million in 2000), operating income increased by $131 million (77%) in 2001. The effect of foreign currency exchange rate movements on operating income in 2001 was not material.

Operating margin increased to 21% in 2001 compared with 13% in 2000. EBITDA margin expanded to 26% from 19% in 2000.

Revenues

Revenues consist of commissions and fees, which increased by $120 million (10%) to $1,357 million in 2001 from $1,237 million in 2000, and interest income, which decreased by $1 million (1%) to $67 million in 2001 from $68 million in 2000.

Global: Revenues generated by our Global business increased by $68 million (10%) to $741 million in 2001 from $673 million in 2000. In constant currency terms, revenues increased by 12%. Adjusting for the effect of the Willis National disposal in July 2001, revenues increased by 16%, with strong new business performance being supplemented by rising premium rates.

North America: Revenues generated by our North America business increased by $22 million (5%) to $506 million in 2001 from $484 million in 2000. Adjusting for the effect of the disposal of the PENCO programs division in January 2001, revenues increased by 7% in constant currency terms, primarily attributable to increased premium rates.

International: Revenues generated by our International business increased by $30 million (20%) to $177 million in 2001 from $147 million in 2000. In constant currency terms, revenues increased by 26%, mainly as a result of our acquisitions in Norway, Colombia and South Africa. Excluding the effect on revenue of these acquisitions, International business revenues increased by 14% in constant currency terms. Most international insurance markets hardened in line with UK and US markets, although rates lagged in some countries.

Expenses

Total expenses increased by $112 million (10%) to $1,263 million in 2001 from $1,151 million in 2000. Excluding the non-cash compensation charge of $158 million for performance-based stock options, and net gains of $17 million and $1 million on disposal of operations in 2001 and 2000, respectively, and $18 million of restructuring charges in 2000, total expenses decreased by $12 million (1%).

General and administrative expenses (excluding non-cash compensation for performance-based stock options) were $1,054 million for 2001, down 1% from 2000. Severance and consulting expenses declined by $19 million in 2001 compared with 2000. On an underlying basis, excluding acquisitions and disposals, severance and consulting, general and administrative expenses were 5% higher in constant currency terms than in 2000. Much of this increase related to higher incentive payments arising from improved revenues and operating profits. Excluding these incentives and other expenses linked to revenue growth, expenses were flat in 2001 compared with 2000 as we eliminated waste and improved productivity.

NET GAIN ON DISPOSAL OF OPERATIONS

In June 2002, we sold Safety Solutions, a small health and safety consulting business in the UK, recognizing a $1 million loss on disposal. In November 2002, we completed the sale of our life and health third-party administration unit, based in Nashville, Tennessee and Wichita, Kansas, recognizing a gain on disposal of $14 million.

In July 2001, we sold our 51% interest in Willis National, a UK-based independent financial advisor, recognizing a gain on disposal of $22 million. In December 2001, we incurred a $5 million loss, including a net goodwill write-off of $3 million, on restructuring Willis Italia Holdings S.p.A., which involved the disposal of part of that business in exchange for an increase in our ownership of the remainder from 50.1% to 67%.

The gain on disposal of $1 million in 2000 arose from the disposal of the business of E J Welton & Co Limited, a small UK-based wholesale broker.

INTEREST EXPENSE

Interest expense in 2002 was $65 million compared with $82 million in 2001 and $89 million in 2000, reflecting lower principal amounts of debt outstanding following early repayment of term loans under our senior credit facilities and the repurchase in the open market, and subsequent cancellation, of senior subordinated notes.

INCOME TAXES

Income tax expense for 2002 amounted to $141 million, an effective rate of 40%. Adjusting for the non-cash compensation charge for performance options, for which approximately 60% of the total charge was non-deductible, acquisitions and disposals, the underlying tax rate for 2002 was 35%.

Income tax expense for 2001 amounted to $62 million, an effective rate of 78%. This exceptionally high rate arose because tax deductions were not available for approximately 60% of the non-cash performance options charge and 100% of the goodwill amortization charge. Also, during 2001, there was a tax credit of $11 million which arose from the restructuring of certain subsidiary companies. Adjusting for these items, and the $6 million tax charge which arose from the disposal of operations, the underlying tax rate for 2001 was 36%.

Income tax expense for 2000 amounted to $33 million, an effective rate of 51%. Excluding goodwill amortization charges and the need to establish valuation allowances against certain deferred tax asset balances that may not be recoverable, the underlying tax rate for 2000 was 34%.

For 2003, we expect the underlying tax rate to remain at approximately the same level as 2002 before taking account of a proposed change in UK tax legislation. We expect the UK Government will pass tax legislation in the second or third quarter of 2003 granting a statutory tax deduction for the compensation cost attributable to exercises of stock options by UK employees. If the legislation is enacted as currently drafted, we would expect to establish a deferred tax asset and recognize a related tax benefit based upon the Company's share price and number of options outstanding at the end of the quarter in which the legislation is enacted. Had the proposed legislation been in force at December 31, 2002, we would have established a deferred tax asset and recorded an equivalent tax benefit of approximately $40 million.

ASSOCIATES

Equity in net income of our associates rose by $5 million to $9 million in 2002 as most of our associates, led by Gras Savoye in France, reported higher earnings. In 2001, equity in net income of our associates increased by $2 million to $4 million mainly from higher earnings of Gras Savoye and Willis GmbH. Willis GmbH became a subsidiary from January 1, 2002.

MINORITY INTEREST

Excluding the dividends on our preference shares, which were repaid in June 2001, minority interest increased by $5 million in 2002 to $12 million. This increase was largely due to the consolidation of Willis GmbH from January 1, 2002, when that former associate became a subsidiary, and higher earnings of our less than wholly-owned subsidiaries, notably within Continental Europe. In 2001, minority interest, excluding preference dividends, increased by $5 million to $7 million as a result of higher earnings and acquisitions during 2000 in Latin America, South Africa and Norway.

NET INCOME

Net income in 2002 increased by $208 million to $210 million ($1.28 per diluted share) from $2 million ($0.01 per diluted share) in 2001 and $9 million ($0.07 per diluted share) in 2000.

Net income in both 2001 and 2002 was impacted by the non-cash charge for performance options and the net gain on disposal of operations. Net income in 2001 was also impacted by a non-recurring tax credit and 2000 was impacted by restructuring costs. The change in basis of amortizing goodwill and other intangible assets also affected the comparison.

Management believes that operating cash earnings is a measure helpful to investors because it shows the results of our trading and finance costs without the impact of non-cash and non-recurring items. Operating cash earnings increased by $124 million (84%) in 2002 over 2001 having increased by $93 million (172%) in 2001 over 2000. Operating cash earnings per diluted share were $1.62 in 2002, an increase of 64% over 2001. The reconciliation of operating cash earnings to net income is shown below:

Year ended December 31, (millions, except per share data)	**2002**	2001	2000
Net income, as reported	**$210**	$2	$9
Non-cash compensation – performance options (net of tax $13, $26)	**67**	132	–
Amortization of goodwill and other intangible assets	**1**	35	35
Net gain on disposal of operations (net of tax $6, $6, nil)	**(7)**	(11)	(1)
Restructuring costs (net of tax $7)	**–**	–	11
Non-recurring tax credit arising from an internal restructuring	**–**	(11)	–
Operating Cash Earnings	**$271**	$147	$54
Average number of diluted shares outstanding, as reported	**164**	148	121
Dilutive effect of performance options assuming earned in full from beginning of 2002 (1)	**3**	–	–
Average number of diluted shares outstanding, operating basis	**167**	148	121
Operating Cash Earnings per diluted share	**$1.62**	$0.99	$0.45

(1) The average number of diluted shares outstanding for 2002, used in calculating Operating Cash Earnings per diluted share, assumes that the performance options had been earned in full from the beginning of 2002. Under US GAAP, performance options are only included in the reported average number of diluted shares outstanding from the beginning of the period in which the actual results exceeded the performance targets, which occurred in the third quarter of 2002.

LIQUIDITY AND CAPITAL RESOURCES

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.

Net cash provided by operations, which excludes fiduciary cash movements, increased to $343 million in 2002 from $221 million in 2001 and $79 million in 2000. These increases were due mainly to increasing revenue and widening operating margins over the three-year period.

Although we discontinued our UK underwriting operations in 1991, we still handle the administration of claims arising from insurance business previously written by our subsidiary, Willis Faber (Underwriting Management) Limited, on behalf of Sovereign Marine & General Insurance Company Limited (in Scheme of Arrangement) and third-party insurance carriers. Cash payments in connection with the renegotiated arrangements for administering the run-off amounted to $6 million during 2002, $3 million in 2001 and $6 million in 2000. We expect payments in 2003 will be around the same level as recent years.

Cash payments in connection with the UK government-initiated review of personal pensions amounted to $12 million in 2002, $18 million in 2001 and $21 million in 2000. We expect expenditures will reduce further in 2003 as the majority of cases have now been settled.

Capital expenditures for 2002, 2001 and 2000, less the proceeds from disposals of fixed assets, were $44 million, $35 million and $23 million, respectively. Much of the increased capital expenditure in 2002 related to information technology systems. This is being managed in a disciplined manner with future information technology expenditures not being committed ahead of cash generation. We expect capital expenditures for 2003 to rise modestly over 2002 levels. We have funded our requirements for capital expenditures by cash generated internally from operations and expect to continue to do so in the future.

Our free cash flow, representing operating and investing cash flows excluding cash flows related to acquisitions and disposals of subsidiaries and associates, increased to $291 million in 2002 from $184 million in 2001 and $46 million in 2000. We use free cash flow as a measure of the cash generated by our operations that is available to finance acquisitions, debt repayments and dividends.

Cash used for acquisitions in 2002 amounted to $13 million (net of cash acquired), primarily incurred in acquiring Goldman and further interests in Willis GmbH. No cash was used for acquisitions in 2001. In 2000, cash used amounted to $8 million on acquisitions in Latin America and Norway. Net proceeds from the sale of operations in 2002 amounted to $15 million, mainly related to the disposal of the third-party administration units, and in 2001 amounted to $22 million from the sale of Willis National. Proceeds from disposals in 2000 amounted to $1 million.

Cash used for financing activities amounted to $218 million in 2002 compared with $167 million in 2001 and $23 million in 2000. During 2002 debt repayments amounted to $221 million following repayments of $172 million in 2001 and $32 million in 2000. In 2001, the net proceeds of $282 million from our initial public offering were used to redeem the outstanding $273 million of preference shares in a subsidiary company.

In February 2003, we declared an initial quarterly cash dividend of $0.125 per share, the annual cost of which will be approximately $74 million.

CONTRACTUAL OBLIGATIONS

Our contractual obligations at December 31, 2002 were:

		Payments due by period			
Obligations (millions)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Senior Credit Facility	$157	$–	$83	$74	$–
9% Senior Subordinated Notes	410	–	–	–	410
Operating leases	305	62	92	67	84
Put & call options relating to subsidiaries and associates (1)	338	246	17	18	57
Total contractual obligations	$1,210	$308	$192	$159	$551

(1) Based on the earliest dates on which options could be exercised.

In 1998, our wholly owned subsidiary, Willis North America, entered into a credit agreement consisting of a term loan facility of $450 million, and a revolving credit facility of $150 million. The term loans were drawn in full in 1998 to refinance certain existing indebtedness. During 2002, 2001 and 2000, repayments totaling $191 million, $60 million and $30 million, respectively, were made. As a consequence, we are ahead of our repayment schedule. As of December 31, 2002, the outstanding balance on the term loans was $157 million. The next mandatory repayment under the facility is not due until 2005, with final maturity in 2006. The revolving credit portion is available for working capital requirements and general corporate purposes, subject to certain limitations, and remained undrawn as of December 31, 2002.

Willis North America entered into an interest rate swap agreement on December 4, 1998 with JPMorgan Chase Bank under which its LIBOR-based floating rate interest payment obligations on the full amount of the term loans have been swapped for fixed rate interest payment obligations, resulting in an effective base rate of 5.099% per annum, plus the applicable margin, until the final maturity of those term loans. The swap agreement provides for a reduction of the notional amount of the swap obligation on a semi-annual basis and, to the extent the actual amount outstanding under the term loans exceeds the notional amount at any time, Willis North America would be exposed to the risk of increased interest rates on that excess.

In 1999, Willis North America issued $550 million of 9% senior subordinated notes, the proceeds from which were used to repay short-term facilities. The notes mature on February 1, 2009 and interest is payable on the notes semi-annually on February 1 and August 1 of each year. During 2002 and 2001, Willis North America, using cash from operations, repurchased in the open market and retired $29 million and $111 million, respectively, of these notes. There was no material gain or loss from the repurchase. As of December 31, 2002, the principal amount outstanding was $410 million.

Total long-term debt outstanding at December 31, 2002 was $567 million, down 28% from $787 million at the end of 2001. Total stockholders' equity at December 31, 2002 was $854 million, resulting in a total long-term debt to capital ratio of 40%.

Stockholders' equity of $854 million at December 31, 2002 is stated after recording a minimum pension liability adjustment of $167 million, net of deferred tax of $76 million. As a result of declining investment returns and a decrease in the value of investments held by the Company's defined benefit plans, the accumulated benefit obligations at that date exceeded the fair value of plan assets by $216 million.

In connection with many of our investments in less than wholly-owned subsidiaries and associates, we retain rights to increase our ownership percentage over time, typically to a majority or 100% ownership position. In addition, in certain instances, the other owners have a right, typically at a price calculated pursuant to a formula based on revenues or earnings, to put some or all of their shares to us.

As part of our acquisition of 33% of Gras Savoye, we entered into a put arrangement, whereby the other shareholders in Gras Savoye (primarily two families, two insurance companies and Gras Savoye's executive management team) could put their shares to us. Until 2011, we will be obligated to buy the shares of certain shareholders to the extent that those shareholders put their shares, potentially increasing our ownership from 33% to 90% if all shareholders put their shares, at a price determined by a contractual formula based on earnings and revenue. Management shareholders of Gras Savoye (representing approximately 10% of shares) do not have general put rights before 2011, but have certain put rights on their death, disability or retirement from which payments, at December 31, 2002 based on the formula, would not have exceeded $35 million. Until 2005, the incremental 57% of Gras Savoye may be put to us at a price equal to the greater of approximately 800 million French francs ($128 million at December 31, 2002 exchange rates), or a price based on the formula, which at December 31, 2002 amounted to approximately $197 million. After 2005, the put price is determined solely by the formula. The shareholders may put their shares individually at any time during the put period.

While neither we nor the management of Gras Savoye expect significant exercises of the puts, on a separate or aggregate basis, in the near to medium term, we nevertheless believe that, should the aggregate amount of shares be put to us, sufficient funds would be available to satisfy this obligation. In addition, we have a call option to move to majority ownership under certain circumstances and in any event by 2009. Upon exercising this call option, the remaining Gras Savoye shareholders have a put.

Apart from commitments, guarantees and contingencies, as disclosed in Note 17 of Notes to the 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.

As of December 31, 2002, we had cash and cash equivalents of $211 million, an increase of $83 million from December 31, 2001. We expect that internally generated funds will be sufficient to meet our foreseeable operating cash requirements, capital expenditures, scheduled debt repayments, the next of which is not due until 2005, and dividend payments. In addition, we have an undrawn $150 million revolving credit facility.

FINANCIAL RISK MANAGEMENT

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

Foreign exchange risk management

We report our operating results and financial condition in US dollars. Our US operations earn revenue and incur expenses primarily in US dollars. In the UK, however, we earn revenue in a number of different currencies, but expenses are almost entirely incurred in pounds sterling. Outside the US and the UK, we predominantly generate revenue and expenses in the local currency. The table below details the breakdown of revenues and expenses by currency in 2002.

	Pounds Sterling	US Dollars	Other Currencies
Revenues	14%	57%	29%
Expenses	36%	43%	21%

Our operations are exposed to foreign exchange risk arising from cash flows and financial instruments that are denominated in currencies other than the US dollar. Our primary foreign exchange risk arises from changes in the exchange rates between US dollars and pounds sterling. Our objective is to maximize our cash flow in US dollars. Our policy is to convert into pounds sterling all revenues arising in currencies other than US dollars together with sufficient US dollar revenues to fund the remaining pound sterling expenses. Outside the UK, only those cash flows necessary to fund mismatches between revenues and expenses are converted into local currency; amounts remitted to the UK are generally converted into pounds sterling. These transactional currency exposures are generally managed by entering into forward exchange contracts. It is our policy to hedge at least 25% of the next 12 months' exposure in significant currencies. We do not generally hedge exposures beyond three years.

Interest rate risk management

We are subject to market risk from exposure to changes in interest rates based on our financing and investing activities. Our primary interest rate risk arises from changes in short-term interest rates in both US dollars and pounds sterling.

Our operations are financed principally by variable rate bank borrowings and the 9% senior subordinated notes due 2009 issued by a subsidiary. Interest rate swaps are used to generate the desired interest rate profile and to manage our exposure to interest rate fluctuations. Our policy is to minimize our exposure to increases in interest rates on our borrowings. Accordingly, the majority of our variable rate borrowings is currently hedged through the use of interest rate swaps to convert the borrowings to reflect a fixed rate of interest.

As a consequence of our insurance and reinsurance broking activities, there is a delay between the time we receive cash for premiums and claims and the time the cash needs to be paid. We earn interest on this float, which is included in our financial statements as interest income. This float is regulated in terms of access and the instruments in which it may be invested, most of which are short-term in maturity. We manage the interest rate risk arising from this exposure primarily through the use of interest rate swaps. It is our policy that, for currencies with significant balances, a minimum of 25% of forecast income arising is hedged over the next three years.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Willis Group Holdings Limited
Hamilton, Bermuda

We have audited the accompanying consolidated balance sheets of Willis Group Holdings Limited and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Willis Group Holdings Limited and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 4 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets".

Deloitte & Touche
London, England
February 5, 2003

REPORT OF MANAGEMENT

The management of Willis Group Holdings Limited ("the Company") is responsible for the preparation and integrity of the consolidated financial statements and the related financial comments appearing in this annual report. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based on management's best estimates and judgments. Other financial information presented in this annual report is consistent with the consolidated financial statements.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed as authorized and are recorded and reported properly. This system of controls is based on written policies and procedures, appropriate divisions of responsibility and authority, and the utilization of an internal audit function.

Deloitte & Touche, independent auditors, has audited the Company's consolidated financial statements and their report is presented herein.

The Board of Directors has an Audit Committee and Deloitte & Touche has direct access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

Thomas Colraine
Group Chief Financial Officer
February 5, 2003

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, (millions, except per share data)	**2002**	2001	2000
Revenues:			
Commissions and fees	**$1,661**	$1,357	$1,237
Interest income	**74**	67	68
Total revenues	**1,735**	1,424	1,305
Expenses:			
General and administrative expenses (excluding non-cash compensation)	**1,214**	1,054	1,062
Non-cash compensation – performance options (note 13)	**80**	158	–
Depreciation expense	**34**	33	37
Amortization of goodwill and other intangible assets	**1**	35	35
Net gain on disposal of operations (note 5)	**(13)**	(17)	(1)
Restructuring costs (note 3)	**–**	–	18
Total expenses	**1,316**	1,263	1,151
Operating income	**419**	161	154
Interest expense	**65**	82	89
Income before income taxes, equity in net income of associates and minority interest	**354**	79	65
Income tax expense (note 6)	**141**	62	33
Income before equity in net income of associates and minority interest	**213**	17	32
Equity in net income of associates (note 7)	**9**	4	2
Minority interest (including preferred stock dividends of $12 in 2001 and $23 in 2000)	**(12)**	(19)	(25)
Net income	**$210**	$2	$9
Net income per share (note 8)			
– Basic	**$1.43**	$0.01	$0.07
– Diluted	**$1.28**	$0.01	$0.07
Average number of shares outstanding (note 8)			
– Basic	**147**	136	121
– Diluted	**164**	148	121

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

CONSOLIDATED BALANCE SHEETS

December 31, (millions, except share data)	**2002**	2001
Assets		
Cash and cash equivalents	**$211**	$128
Fiduciary funds – restricted (note 9)	**1,369**	1,282
Short-term investments (note 9)	**54**	42
Accounts receivable, net of allowance for doubtful accounts of $30 in 2002 and $25 in 2001	**6,589**	5,703
Fixed assets, net of accumulated depreciation of $129 in 2002 and $95 in 2001	**213**	185
Goodwill and other intangible assets, net of accumulated amortization of $118 in 2002 and $115 in 2001	**1,262**	1,201
Investments in associates (note 7)	**108**	135
Deferred tax assets (note 6)	**151**	75
Other assets	**188**	198
Total assets	**$10,145**	$8,949
Liabilities and stockholders' equity		
Accounts payable	**$7,725**	$6,799
Deferred revenue and accrued expenses	**233**	163
Income taxes payable	**169**	75
Long-term debt (note 11)	**567**	787
Provisions (note 10)	**129**	140
Other liabilities	**443**	273
Total liabilities	**9,266**	8,237
Commitments and contingencies (note 17)		
Minority interest	**25**	16
Stockholders' equity:		
Common shares, $0.000115 par value; Authorized: 4,000,000,000;		
Issued and outstanding, 148,249,419 shares in 2002 and 147,635,170 shares in 2001	**–**	–
Additional paid-in capital	**960**	867
Retained earnings (accumulated deficit)	**42**	(165)
Accumulated other comprehensive (loss) income (note 16)	**(131)**	5
Treasury stock, at cost, 886,255 shares in 2002 and 816,981 shares in 2001	**(17)**	(11)
Total stockholders' equity	**854**	696
Total liabilities and stockholders' equity	**$10,145**	$8,949

JJ Plumeri
Chairman

P Golkin
Director

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, (millions)	2002	2001	2000
Cash flows from operating activities:			
Net income	**$210**	$2	$9
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (gain) loss on sale of subsidiary, fixed assets and short-term investments	**(13)**	(17)	2
Depreciation	**34**	33	37
Amortization of goodwill and other intangible assets	**1**	35	35
Provision for doubtful accounts	**6**	10	8
Minority interest	**9**	6	3
Provisions	**(18)**	(13)	(23)
Provision for deferred income taxes	**(8)**	(18)	(8)
Non-cash compensation expense attributable to performance options	**80**	158	–
Other	**(6)**	–	3
Changes in operating assets and liabilities, net of effects from purchase of subsidiaries:			
Fiduciary funds – restricted	**(22)**	(320)	(124)
Accounts receivable	**(563)**	(1,142)	(742)
Accounts payable	**547**	1,446	851
Other	**86**	41	28
Net cash provided by operating activities	**343**	221	79
Cash flows from investing activities:			
Proceeds on disposal of fixed assets	**3**	5	7
Additions to fixed assets	**(47)**	(40)	(30)
Net cash proceeds from sale of operations	**15**	22	1
Acquisitions of subsidiaries, net of cash acquired	**(13)**	–	(8)
Investments in and advances to associates	**–**	–	(1)
Tax refund relating to prior acquisition	**–**	5	–
Purchase of short-term investments	**(21)**	(16)	(32)
Proceeds on sale of short-term investments	**13**	14	25
Other, net	**–**	–	(3)
Net cash used in investing activities	**(50)**	(10)	(41)
Cash flows from financing activities:			
Repayments of debt	**(221)**	(172)	(32)
Repayment of preference shares	**–**	(273)	–
Proceeds from initial public offering, net of offering costs	**–**	282	–
Purchase of treasury stock, net of sale proceeds	**(1)**	(11)	–
Proceeds from issue of shares	**4**	7	9
Net cash used in financing activities	**(218)**	(167)	(23)
Increase in cash and cash equivalents	**75**	44	15
Effect of exchange rate changes on cash and cash equivalents	**8**	(4)	(7)
Cash and cash equivalents, beginning of year	**128**	88	80
Cash and cash equivalents, end of year	**$211**	$128	$88

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

December 31, (millions, except share data)	**2002**	2001	2000
Common shares outstanding (thousands)			
Balance, beginning of year	**147,635**	123,698	120,568
Common shares issued	**76**	23,698	3,069
Exercise of stock options	**538**	239	61
Balance, end of year	**148,249**	147,635	123,698
Additional paid-in capital			
Balance, beginning of year	**$867**	$410	$401
Proceeds from issue of common shares, net of offering costs of $30 in 2001	**5**	296	9
Non-cash compensation – performance options	**80**	158	–
Employee share plans	**3**	–	–
Gains on sale of treasury stock	**5**	3	–
Balance, end of year	**960**	867	410
Retained earnings (accumulated deficit)			
Balance, beginning of year	**(165)**	(167)	(176)
Net income	**210**	2	9
Employee share plans	**(3)**	–	–
Balance, end of year	**42**	(165)	(167)
Accumulated other comprehensive (loss) income			
Balance, beginning of year	**5**	(5)	1
Foreign currency translation adjustment	**1**	(4)	(8)
Cumulative effect of accounting change	**–**	8	–
Unrealized holding gains	**2**	1	2
Minimum pension liability adjustment	**(167)**	–	–
Net gain on derivative instruments	**28**	5	–
Balance, end of year	**(131)**	5	(5)
Treasury stock			
Balance, beginning of year	**(11)**	–	–
Cost of shares acquired	**(7)**	(11)	–
Shares reissued under stock compensation plans	**1**	–	–
Balance, end of year	**(17)**	(11)	–
Total stockholders' equity	**$854**	$696	$238

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and its operations

Business – Willis Group Holdings Limited ("Willis Group Holdings") and subsidiaries (collectively, the "Company") provide a broad range of value-added risk management consulting and insurance brokerage services, both directly and indirectly through its associates, to a diverse base of clients internationally. The Company provides specialized risk management advisory and other services on a global basis to clients in various industries, including the construction, aerospace, marine and energy industries. 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. The Company also provides other value-added services.

Organization – Willis Group Holdings was incorporated on February 8, 2001 as an exempted company under the Companies Act 1981 of Bermuda, for the sole purpose of redomiciling the ultimate parent company of the Willis Group (comprised of TA I Limited and subsidiaries) from the United Kingdom ("UK") to Bermuda. On incorporation, Willis Group Holdings was wholly owned by Profit Sharing (Overseas), Limited Partnership, an affiliate of Kohlberg Kravis Roberts & Co., L.P. and one of the existing stockholders of TA I Limited ("TA I").

Willis Group Holdings, effective from May 8, 2001, exchanged its common shares for all the issued and outstanding ordinary shares of TA I ("the Exchange Offer"). As a result of the Exchange Offer, the former stockholders of TA I acquired a majority voting interest in Willis Group Holdings. Under accounting principles generally accepted in the United States of America ("US GAAP"), the company whose stockholders retain the majority interest in a combined business must be treated as the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a "reverse acquisition" for financial reporting purposes and TA I is deemed to have acquired 100% of the equity interest in Willis Group Holdings. The relevant acquisition process utilizes the capital structure of Willis Group Holdings and the assets and liabilities of TA I and subsidiaries (collectively, the "Predecessor") are recorded at historical cost. The Predecessor is the operating entity for financial reporting purposes and the financial statements prior to May 8, 2001 represent the Predecessor's financial position and results of operations. The assets and liabilities and results of operations of the Predecessor are included as of May 8, 2001. Although TA I was deemed to be the acquiring corporation for financial accounting and reporting purposes, the legal status of Willis Group Holdings as the surviving corporation did not change. For the period prior to June 11, 2001, the date of Willis Group Holdings' initial public offering, the computation of net income per share has been retroactively restated to reflect the number of shares received in the Exchange Offer.

2. Basis of presentation and significant accounting policies

The consolidated financial statements of the Company have been prepared on the accrual basis of accounting. A summary of the major accounting policies followed in the preparation of the accompanying consolidated financial statements, which conform to US GAAP, is presented below.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Willis Group Holdings and its subsidiaries, all of which are controlled through the ownership of a majority voting interest. Intercompany balances and transactions have been eliminated on consolidation.

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

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

Use of Estimates – The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the year. In the preparation of these consolidated financial statements, estimates and assumptions have been made by management concerning the selection of useful lives of fixed assets and intangible assets, provisions necessary for trade receivables and liabilities, the carrying value of investments, income tax valuation allowances and other similar evaluations. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents primarily consist of time deposits and certificates of deposit with original maturities of three months or less.

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

Included in fiduciary funds-restricted are cash and cash equivalents, time deposits, certificates of deposit and debt securities. These securities are carried at fair market value, with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on investments sold are included in net income and are derived using the specific identification method for determining the cost of securities.

Accounts Receivable and Accounts Payable – In its capacity as an insurance agent or broker, the Company collects premiums from insureds and, after deducting its commissions, remits the premiums to the respective insurers; the Company also collects claims or refunds from insurers on behalf of insureds. Unremitted insurance premiums and claims are held in a fiduciary capacity. The obligation to remit these funds is recorded as accounts payable on the Company's consolidated balance sheets. The period for which the Company holds such funds is dependent upon the date the insured remits the payment of the premium to the Company and the date the Company is required to forward such payment to the insurer. Balances arising from insurance brokerage transactions are reported as separate assets or liabilities unless such balances are due to or from the same party and a right of offset exists, in which case the balances are recorded net.

Accounts receivable are stated at estimated net realizable values. Allowances are recorded, when necessary, in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts. The write-off of accounts receivable was $2 million, $2 million and $7 million in the years ended December 31, 2002, 2001 and 2000, respectively.

Short-Term Investments – The Company classifies all short-term investments as available-for-sale in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. These securities are carried at fair market value, with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on investments sold are included in net income and are derived using the specific identification method for determining the cost of securities.

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

Depreciation on buildings and long leaseholds is calculated over 50 years. Depreciation on leasehold improvements is calculated over the lesser of the useful life of the assets or the lease term. Depreciation on furniture and equipment is calculated based on a range of three to 25 years.

The components of fixed assets are as follows:

December 31, (millions)	2002	2001
Land and buildings	**$113**	$98
Leasehold improvements	**43**	33
Furniture and equipment	**186**	149
Total fixed assets, cost	**342**	280
Less accumulated depreciation	**(129)**	(95)
Total fixed assets, net	**$213**	$185

Recoverability of Fixed Assets – In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets and certain identifiable intangible assets held and used by a company are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the undiscounted future cash flow is less than the carrying amount of the asset, the asset is deemed impaired. The amount of the impairment is measured as the difference between the carrying value and the fair value of the asset. Generally, long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Goodwill – Goodwill represents the excess of the cost of businesses acquired over the fair market value of identifiable net assets at the dates of acquisition. The Company reviews goodwill for impairment whenever facts or circumstances indicate that the carrying amounts may not be recoverable. If an evaluation is required, the estimated future undiscounted cash flows associated with the underlying business operation are compared to the carrying amount of goodwill to determine if a write-down is required. If such an assessment indicates that the undiscounted future cash flows will not be recovered, the carrying amount is reduced to the estimated fair value. Acquired intangible assets are being amortized on a straight-line basis over their estimated useful life.

Investments in Associates – Investments in entities less than 50% owned in which the Company has the ability to exercise significant influence are accounted for by the equity method of accounting whereby the investment is carried at cost of acquisition, plus the Company's equity in undistributed net income since acquisition, less dividends received. Investments in entities less than 20% owned are accounted for by the cost method. Such investments are not publicly traded. The Company periodically reviews its investments in associates for which fair value is less than cost to determine if the decline in value is other than temporary. If the decline in value is judged to be other than temporary, the cost basis of the investment is written down to fair value. The amount of any write-down is included in the results of operations as a realized loss.

Put and Call Options Relating to Subsidiaries and Associates – For certain subsidiaries and associates, the Company has the right to purchase shares (a call option) from co-shareholders at various dates in the future. In addition, the co-shareholders of certain subsidiaries and associates have the right to sell (a put option) their shares to the Company at various dates in the future. Generally, the exercise price of such puts and calls is formula-based (using revenues and earnings) and is designed to reflect fair value. On inception of an option agreement, the Company records the puts and calls at fair value. The put and call options are subsequently marked to market at each reporting period with changes in value being recognized in the statements of operations.

Derivative Financial Instruments – The Company uses derivative financial instruments for other than trading purposes to alter the risk profile of an existing underlying exposure. Interest rate swaps are used to manage interest risk exposures. Forward foreign currency exchange contracts are used to manage currency exposures arising from future income. The fair value of derivative contracts are recorded in other assets and other liabilities with changes in fair value of effective hedges recorded in other comprehensive income and changes in fair value of ineffective hedges recorded in general and administrative expenses. Amounts are reclassified from other comprehensive income into earnings when the hedged exposure affects earnings.

Income Taxes – The Company accounts for income taxes under the provisions of SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). SFAS 109 requires recognition of deferred tax assets and liabilities for the estimated future tax consequences of events attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating and capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted rates in effect for the year in which the differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of changes in tax rates is recognized in the statement of operations in the period in which the enactment date changes. Deferred tax assets and liabilities are reduced through the establishment of a valuation allowance at such time as, based on available evidence, it is more likely than not that the deferred tax assets will not be realized.

Pensions – The Company accounts for pension expense in accordance with SFAS No. 87, *Employers' Accounting for Pensions*. Pension information is presented in accordance with SFAS No. 132, *Employers' Disclosures About Pensions and Other Post Retirement Benefits.*

Stock-Based Compensation – The Company accounts for its stock option and stock-based compensation plans using the intrinsic-value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Accordingly, the Company computes compensation costs for each employee stock option granted as the amount by which the quoted market price (or estimated fair value for options granted before the initial public offering) of the Company's shares on the date of the grant exceeds the amount the employee must pay to acquire the shares. As required by SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company has included, in Note 13, the required SFAS 123 pro forma disclosures of net income and net income per share as if the fair value-based method of accounting had been applied.

Revenue Recognition – Revenue includes insurance commissions, fees for services rendered, certain commissions receivable from insurance carriers and interest income.

The Company takes credit for commissions (or fees negotiated in lieu of commission) in respect of insurance placements at the date when the insured is billed or at the inception date of the policy, whichever is later. Commissions on additional premiums and adjustments are recognized as and when advised. Fees for consulting services are recorded as the services are provided or, for short-term projects, on completion of the project. Fees for other services, including captive management and third party administration, are recognized over the period for which the services are rendered. The Company establishes contract cancellation reserves where appropriate. At December 31, 2002, 2001 and 2000, such amounts were not material.

Commissions receivable from insurance carriers such as commissions contingent on the performance of insurance policies placed are recognized at the earlier of the date when cash is received, or when formal, written notification of the actual amount due is received from the insurance carrier. If some of the commissions received are potentially subject to full or partial repayment to the carrier, then recognition is deferred until the conditions for repayment have passed. Interest income is recognized as earned.

Accounting Changes and Recent Accounting Pronouncements – SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, was effective for the Company from January 1, 2001. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Gains or losses resulting from changes in the value of derivatives are accounted for depending on the intended use of the derivative and whether they qualify for hedge accounting. The adoption of SFAS 133, effective January 1, 2001, resulted in an increase in other comprehensive income, net of tax, of $8 million reported as the cumulative effect of adopting an accounting principle.

In April 2002, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections* ("SFAS 145"). SFAS 145 addresses a number of different issues and is effective at various dates during 2002 and 2003. The Company has assessed the potential impact of the adoption of SFAS 145 and concluded that there is no material impact to its financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Cost to Exit an Activity (including Certain Costs Incurred in a Restructuring).* The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS 146 at January 1, 2003 will not have a material impact on the Company's financial position or results of operations, but that adoption could, in future, affect the timing of when certain costs associated with exit or disposal activities are recognized.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB– Statement No 123* ("SFAS 148"). SFAS 148 amends SFAS 123 to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. These three alternatives are: (1) the prospective method which recognizes fair value expense for all awards granted in the year of adoption but not previous awards; (2) the modified prospective method which recognizes fair value expense for the unvested portion of all stock options granted, modified, or settled since 1994 (i.e., the unvested portion of the prior awards or those granted in the year of adoption must be recorded using the fair value method); or (3) retroactive restatement method which is similar to the modified prospective method except that all prior periods are restated. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years beginning after December 15, 2002. Management is still assessing the impact of SFAS 148.

In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 specifies certain accounting and disclosure requirements for guarantees to third parties including indebtedness. FIN 45 is effective on a prospective basis for guarantees issued or modified after December 31, 2002. The Company has assessed the potential impact of the adoption of FIN 45 and concluded that there is no material impact on the Company's financial position or results of operations.

Reclassifications – Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

3. Restructuring costs

The Company recorded a restructuring charge of $18 million primarily for employee termination benefits and excess operating lease obligations as a result of restructuring plans during the year ended December 31, 2000.

In 1999, the Company announced a comprehensive restructuring plan to segment accounts, eliminate unprofitable accounts and activities, consolidate several sales process functions and streamline and centralize client service functions in the North American operations. This restructuring plan resulted in the Company recording a charge of $11 million representing excess operating lease obligations (net of expected sublease income) in 2000.

In 2000, the Company developed a plan to exit certain business lines including the sale of the municipality business of Public Entities National Company ("PENCO"), part of the US wholesale operations, and the sale of certain other non-strategic businesses. As a result of this plan, it was expected that approximately 250 employees would be terminated. The sale of the municipality business of PENCO was completed in January 2001 and the sale of certain third party administration businesses were completed during 2002. Restructuring charges of $7 million were recorded by the Company in the fourth quarter of 2000, representing $4 million of employee termination benefits and $3 million of other exit costs relating to these plans. At December 31, 2002, 239 employees had been transferred or terminated.

The amounts used in the year ended December 31, 2002, were $3 million (2001: $6 million; 2000: $10 million) representing employee termination benefits of $nil (2001: $3 million; 2000: $6 million) and excess operating lease obligations and other exit costs of $3 million (2001: $3 million; 2000: $4 million). Consequently, at December 31, 2002, the balance of restructuring charges was $6 million (2001: $9 million; 2000: $15 million), representing employee termination benefits $2 million (2001: $2 million; 2000: $5 million) and excess operating lease obligations and other exit costs of $4 million (2001: $7 million; 2000: $10 million).

4. Goodwill and other intangible assets

The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"), with effect from January 1, 2002. Upon initial adoption of SFAS 142, reclassification of the carrying amounts of previously acquired intangible assets was not required.

A reconciliation table is provided to exclude the effect of goodwill amortization in accordance with the transitional disclosures relating to SFAS 142. Results for the year ended December 31, 2002 have been prepared in accordance with SFAS 142.

Years ended December 31, (millions, except per share data)	**2002**	2001	2000
Net income, as reported	**$210**	$2	$9
Amortization of goodwill	**–**	35	35
Adjusted net income	**$210**	$37	$44
Basic net income per share, as reported	**$1.43**	$0.01	$0.07
Amortization of goodwill	**–**	0.26	0.29
Adjusted basic net income per share	**$1.43**	$0.27	$0.36
Diluted net income per share, as reported	**$1.28**	$0.01	$0.07
Amortization of goodwill	**–**	0.24	0.29
Adjusted diluted net income per share	**$1.28**	$0.25	$0.36

A transitional assessment of goodwill impairment at January 1, 2002 was completed by June 30, 2002. Management concluded that the fair value of the Company's individual reporting units exceeded the carrying value of the net assets including goodwill, and hence this process did not result in any impairment being recorded on adoption of SFAS 142.

5. Acquisitions and dispositions

Acquisitions – On January 1, 2002 the Company acquired a further 22% in addition to the 45% already owned, in Willis GmbH, Germany's third largest insurance broker, to improve the Company's market position and broaden its global offering and capabilities on behalf of its clients. Accordingly, Willis GmbH has been accounted for as a subsidiary from January 1, 2002. A further 11% interest was acquired on September 30, 2002. The aggregate cash purchase price for the further 33% interest was $23 million, of which $5 million was deferred to 2003. The Company initially recorded goodwill of $20 million pending completion of the purchase price allocation. In January 2003, the Company acquired the remaining 22% interest in Willis GmbH.

The following table provides supplemental pro forma information about the Company's results of operations as though the business combination had been completed as of the beginning of the reporting periods:

	2002	2001
Years ended December 31, (millions, except per share data)	**Actual**	Pro forma
Total revenues	**$1,735**	$1,475
Income before income taxes, equity in net income of associates and minority interests	**354**	83
Net income	**210**	3
Net income per share		
– Basic	**$1.43**	$0.02
– Diluted	**$1.28**	$0.02

During 2002, in addition to the acquisition of Willis GmbH, the Company also acquired, or increased its investment in, a number of other businesses. The aggregate purchase price of these acquisitions approximated $9 million, inclusive of deferred payments amounting to $4 million. During 2001 and 2000, the Company acquired, or increased its investments in, a number of businesses. The aggregate purchase price of all acquisitions completed during 2001 and 2000 approximated $25 million and $12 million, respectively, inclusive of deferred payments amounting to $4 million in 2000. Additional consideration of up to $4 million is payable in future periods contingent upon future revenues of the acquired businesses reaching specified thresholds.

All of these transactions were recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired businesses and the Company's increased share of the undistributed net income of associates have been included in the Company's consolidated results from their respective acquisition dates. The assets acquired and liabilities assumed were recorded at estimated fair values. Pro forma results from these acquisitions would not have been materially different from the amounts reported.

The preliminary purchase price allocations for the acquisitions are subject to adjustment during the year following acquisition.

Dispositions – In November 2002, the Company completed the sale of its Life and Health third-party administration business. The gain on disposal of $14 million included a goodwill write-off of $3 million and has been recorded in the statement of operations. Total proceeds relating to other disposals in 2002 were not material.

In July 2001, the Company completed the sale of its 51% interest in Willis National Holdings Limited. The gain on disposal amounted to $22 million and has been recorded in the statement of operations. In December 2001, the Company completed a restructuring of Willis Italia Holdings S.p.A. in which a subsidiary of that entity was disposed of in exchange for an increase in the Company's investment in Willis Italia Holdings S.p.A. from 50.1% to 67%. The loss on disposal of $5 million included a net goodwill write-off of $3 million. Total proceeds relating to 2000 were not material.

6. Income Taxes

The components of income before income taxes, equity in net income of associates and minority interest are as follows:

Years ended December 31, (millions)	**2002**	2001	2000
US	**$84**	$15	$21
UK	**188**	10	23
Other jurisdictions	**82**	54	21
Income before income taxes, equity in net income of associates and minority interest	**$354**	$79	$65

The provision for income taxes by location of the taxing jurisdiction consisted of the following:

Years ended December 31, (millions)	**2002**	2001	2000
Current income taxes:			
US federal tax	**$41**	$27	$13
US state and local taxes	**12**	10	5
UK corporation tax	**70**	30	4
Other jurisdictions	**26**	12	14
Total current taxes	**149**	79	36
Deferred taxes:			
US federal tax	**(25)**	(23)	(5)
US state and local taxes	**(4)**	(6)	(1)
UK corporation tax	**22**	9	6
Other jurisdictions	**(1)**	3	(3)
Total deferred taxes	**(8)**	(17)	(3)
Total income taxes	**$141**	$62	$33

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on its income, profits or capital gains. The following table reconciles the income tax expense in these financial statements to that which would be expected at the US federal statutory income tax rate:

Years ended December 31, (millions)	**2002**	2001	2000
Income before income taxes, equity in net income of associates and minority interest	**$354**	$79	$65
Corporation tax rate	**35%**	35%	35%
Income tax expense at corporation tax rate	**124**	28	23
Adjustments to derive effective rate:			
Non-deductible items:			
Goodwill and other intangible assets amortization	**1**	13	13
Stock options	**16**	31	–
Other	**6**	(4)	10
Other items:			
Change in valuation allowance	**–**	–	(3)
Prior year adjustment	**(5)**	(1)	(1)
Tax differentials of foreign earnings:			
UK earnings	**(13)**	(5)	(2)
Other jurisdictions	**12**	1	4
Other	**–**	(1)	(11)
Provision for income taxes	**$141**	$62	$33

The significant components of deferred income tax assets and liabilities and their balance sheet classifications are as follows:

December 31, (millions)	**2002**	2001
Deferred tax assets:		
Accrued expenses not currently deductible	**$16**	$12
UK net operating losses	**29**	29
UK capital losses	**71**	63
Accrued retirement benefits	**91**	19
Provisions	**25**	27
Deferred compensation	**18**	16
Stock options	**45**	30
Other	**7**	3
Gross deferred tax assets	**302**	199
Less: valuation allowance	**(100)**	(92)
Net deferred tax assets	**202**	107
Deferred tax liabilities:		
Financial derivative transactions	**19**	5
Prepaid retirement benefits	**14**	8
Tax-leasing transactions	**9**	11
Other	**9**	8
Deferred tax liabilities	**51**	32
Net deferred tax assets	**$151**	$75

At December 31, 2002, the Company had a valuation allowance of $100 million (2001: $92 million) to reduce its deferred tax assets to estimated realizable value. The valuation allowance relates to the deferred tax assets arising from UK tax operating loss carryforwards and UK capital loss carryforwards, both of which have no expiration date. UK tax operating loss carryforwards can only be used against income arising in certain UK subsidiaries. In addition, the capital loss carryforwards can only be offset against future UK capital gains.

At December 31, 2002, the Company had deferred tax assets of $202 million, net of the valuation allowance. Management believes, based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are anticipated to reverse, and prudent and feasible tax-planning strategies, it is more likely than not that the Company will realize the benefits of these deductible differences, net of the valuation allowance. However, the amount of the deferred tax asset considered realizable could be adjusted in the future if estimates of taxable income are revised. In the event that the valuation allowance of $100 million at December 31, 2002 (2001: $92 million) is reduced in future years to recognize deferred tax assets, $71 million (2001: $63 million) will be allocated to reduce goodwill.

The Company recognizes a deferred tax liability related to the undistributed earnings of subsidiaries when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. The Company does not, however, provide for income taxes on the unremitted earnings of certain other subsidiaries where, in management's opinion, such earnings have been indefinitely reinvested in those operations, or will be remitted either in a tax-free liquidation or as dividends with taxes substantially offset by foreign tax credits. It is not practical to determine the amount of unrecognized deferred tax liabilities for temporary differences related to these investments.

7. Investments in associates

The Company holds a number of investments which it accounts for using the equity method. The Company's interest in the outstanding stock of the more significant associates is as follows:

December 31,	**Country**	**2002**	2001
Al-Futtaim Willis Faber (Private) Limited	Dubai	**49%**	49%
Willis GmbH & Co. K.G. (note 5)	Germany	**–**	45%
Gras Savoye & Cie ("Gras Savoye")	France	**33%**	33%
Willis A/S	Denmark	**30%**	30%
Herzfeld & Levy SA	Argentina	**40%**	40%

Of those listed above, the Company's principal investment as of December 31, 2002 and 2001 is Gras Savoye, a French insurance broker. Included in the carrying amount of the Gras Savoye investment is goodwill of $72 million and $72 million, net of accumulated goodwill amortization of $7 million and $7 million as of December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, the Company's other investments in associates individually and in the aggregate were not material to the Company's operations.

On July 23, 1997, the Company entered into an agreement with Gras Savoye whereby, among other things, the co-shareholders of Gras Savoye (other than management) have the right to sell (put option) their shares to the Company possibly increasing the Company's ownership interest from 33% to 90%. The option expires in 2011 and Gras Savoye's eligible co-shareholders may exercise their rights from January 1, 2001. In addition, the Company has the right to purchase (call option) at least 50.1% of Gras Savoye's shares from the co-shareholders. The call option is exercisable from December 1, 2009. The exact amount payable by the Company under the put and call is based on the greater of a price per Gras Savoye share defined contractually or a formula-based price contingent on Gras Savoye's future results.

Unaudited condensed financial information for associates, in the aggregate, as of and for the years ended December 31, is presented below. For convenience purposes: (i) balance sheet data has been translated to US dollars at the relevant year-end exchange rate, and (ii) condensed statement of operations data has been translated to US dollars at the relevant average exchange rate.

(millions)	**2002**	2001	2000
Condensed statement of operations data:			
Net sales	**$294**	$307	$286
Income before income taxes	**44**	35	33
Net income	**30**	24	17
Condensed balance sheet data:			
Total assets	**1,017**	742	
Total liabilities	**(919)**	(665)	
Stockholders' equity	**(98)**	(77)	

8. Net income per share

Basic net income per share is calculated by dividing net income by the average number of shares outstanding during each period. The computation of diluted net income 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.

The computation of net income per share has been retroactively restated to reflect the number of shares of Willis Group Holdings, after consummation of the Exchange Offer.

For the year ended December 31, 2002, time-based and performance-based options to purchase 19,514,534 and 11,091,859 (2001: 19,266,392 and 11,274,672; 2000: 17,865,957 and 11,608,109) shares, respectively, and 198,174 restricted shares (2001 and 2000: nil), respectively, were outstanding. Basic and diluted net income per share are as follows:

Years ended December 31, (millions, except per share data)	**2002**	2001	2000
Basic average number of shares outstanding	**147**	136	121
Dilutive effect of potentially issuable shares	**17**	12	–
Diluted average number of shares outstanding	**164**	148	121
Basic net income per share	**$1.43**	$0.01	$0.07
Dilutive effect of potentially issuable shares	**(0.15)**	–	–
Diluted net income per share	**$1.28**	$0.01	$0.07

During the third quarter of 2002, the reported results for the nine months ended September 30, 2002 exceeded the performance criteria (based on the twelve months' results ending December 31, 2002) necessary to trigger the vesting of the performance options. In accordance with SFAS No. 128, *Earnings per Share*, such potentially issuable shares have been included in the calculation of the average number of diluted shares from the beginning of the third quarter.

For the year ended December 31, 2000, time-based options to purchase 17,865,957 of management shares were outstanding. The exercise price of these options was established based on management's estimate of the fair value of these options on the measurement dates. In addition, the Predecessor's shares were not publicly traded during this period and, in the opinion of management, the average market value was not in excess of the exercise price. Accordingly, such options had no dilutive nor antidilutive effect on net income per share for the year ended December 31, 2000.

9. Fiduciary funds – restricted and short-term investments

The Company's fiduciary funds-restricted and short-term investments consist of cash, time deposits, certificates of deposit and debt securities. Accrued interest on investments is recorded as other assets.

The debt securities are recorded at fair market value. Fair market value is based upon the market price of the security plus accrued interest, if any. Unrealized holding gains and losses are reported, net of tax, as a component of other comprehensive income. As of December 31, 2002 and 2001, the amortized cost of securities approximated fair value.

Realized gains and losses, net of tax, on debt securities are included in net income. During 2002, 2001 and 2000, sales of debt securities totaled $36 million, $21 million and $52 million, respectively, on which realized gains and losses were not material to the consolidated results of the Company.

Fiduciary funds-restricted and short-term investments consist of the following:

December 31, (millions)	**2002**	2001
Fiduciary funds-restricted:		
Cash and cash equivalents[1]	**$1,240**	$855
Certificates of deposits	**69**	416
US Treasury bills[2]	**9**	7
Time deposits	**51**	4
	$1,369	$1,282
Short-term investments[2]:		
US Government securities	**$6**	$4
UK Government securities	**2**	3
Other foreign government securities	**17**	21
Corporate debt securities	**29**	14
	$54	$42

(1) Cash and cash equivalents primarily consist of time deposits and certificates of deposit with original maturities of three months or less.

(2) Debt securities classified as available-for-sale.

10. Provisions

Provisions as of and for the years ended December 31, are as follows:

(millions)	**Claims**	**Pension Review**	**Surplus Properties**	**Discontinued Operations**	**Total**
January 1, 2000	$56	$77	$22	$37	$192
Charge to operations	15	–	11	–	26
Used in the year	(14)	(21)	(8)	(6)	(49)
Foreign exchange and other adjustments	(4)	(5)	(2)	–	(11)
December 31, 2000	53	51	23	31	158
Charge to operations	29	–	1	–	30
Used in the year	(14)	(18)	(7)	(4)	(43)
Foreign exchange and other adjustments	(2)	(2)	–	(1)	(5)
December 31, 2001	66	31	17	26	140
Charge to operations	**13**	**–**	**2**	**–**	**15**
Used in the year	**(9)**	**(12)**	**(5)**	**(7)**	**(33)**
Foreign exchange and other adjustments	**–**	**4**	**1**	**2**	**7**
December 31, 2002	**$70**	**$23**	**$15**	**$21**	**$129**

The claims provision represents management's assessment of liabilities that may arise from asserted and unasserted claims for errors and omissions that arise in the ordinary course of the Company's business. Where some of the potential liability is recoverable under the Company's external insurance arrangements, the full assessment of the liability is included in the provision with the associated insurance recovery shown separately as an asset. There were no insurance recoveries recognized as of December 31, 2002 and 2001.

In common with many companies involved in selling personal pension plans in the UK, the Company's financial advisory business, Willis Corroon Financial Planning Limited ("WCFP"), is required by the Financial Services Authority ("the Regulator"), which regulates these matters, to review certain categories of personal pension plans sold to individuals between 1988 to 1994. WCFP is required to compensate those individuals who transferred from, opted out or did not join, their employer-sponsored pension plan if the expected benefits from their personal pension plan did not equal the benefits that would have been available from their employer-sponsored pension plan. Whether compensation is due to a particular individual, and the amount thereof, is dependent upon the subsequent performance of the personal pension plan sold and the net present value of the benefits that would have been available from the employer-sponsored pension plan calculated using financial and demographic assumptions prescribed by the Regulator.

The surplus properties provision relates to future lease rentals of leasehold properties which are surplus to the Company's operational requirements. The provision amount represents the discounted contracted lease payments less an allowance for future rental income.

The provision for discontinued operations includes estimates for future costs of administering the run-off of the Company's former US and UK underwriting operations. The US underwriting operation was disposed of in 1986 and put into liquidation in 1994. In the UK Willis Faber (Underwriting Management) Limited ("WFUM"), a wholly-owned subsidiary of the Company provided underwriting agency and other services to certain insurance companies including Sovereign Marine & General Insurance Company Limited ("Sovereign") (in Scheme of Arrangement) (collectively, the "stamp companies") and in 1991 ceased arranging new business on behalf of the stamp companies. Willis Faber Limited has agreed with certain of the stamp companies to fund certain costs of the run-off, subject to agreed guidelines as to timing and amount. Although the Company expects the run-off to be conducted in an orderly manner, it may ultimately prove to be a lengthy and expensive process. The amounts to be funded under the run-off arrangements are currently within the aggregate of the provisions made.

11. Long-term debt

Long-term debt consists of the following:

December 31, (millions)	2002	2001
Senior Credit Facility term loan, variable rate due 2005 to 2006	**$157**	$348
9% senior subordinated notes, due 2009	**410**	439
	$567	$787

Senior Credit Facility – During 1998, the Company entered into a credit agreement providing up to $450 million in term loans and $150 million in revolving credit facilities. The credit agreement, as amended, includes a term loan facility under which tranches of the loan mature between 2005 and 2006.

Pursuant to the credit agreement, the Company makes loan repayments based on the amortization schedule specified in the credit agreement. In addition, during 2002, 2001 and 2000, the Company made non-mandatory early repayments totaling $191 million, $60 million and $30 million, respectively. As a consequence, the Company's next scheduled repayment under the facility is not due until 2005. For the years ended December 31, 2002 and 2001, the weighted-average interest rate relating to all loans under the Senior Credit Facility ranged from 2.75% to 4.31% and 5.63% to 6.88%, respectively; net of an interest rate swap, the ranges were 6.02% to 7.58% and 6.26% to 7.50%, respectively.

The revolving credit facility is available for working capital requirements and general corporate purposes, subject to certain limitations, until 2005. The revolving credit facility is available for loans denominated in US dollars, pounds sterling and certain other currencies and for letters of credit, including to support loan note guarantees.

The credit agreement contains numerous operating and financial covenants, including, without limitation, requirements to maintain minimum ratios of adjusted earnings before interest, tax, depreciation and amortization ("EBITDA"), to interest and maximum levels of indebtedness in relation to adjusted EBITDA. In addition, the credit agreement includes covenants relating to limitation on liens, limitations on sales and other disposals of assets, limitations on indebtedness and other liabilities, limitations on capital expenditures, limitations on investments, mergers, acquisitions, loans and advances, limitations on dividends and other distributions, limitations on prepayment, redemption or amendment of the senior subordinated notes, maintenance of property, environmental matters, employee benefit matters, maintenance of insurance, nature of business, compliance with applicable laws, corporate existence and rights, payment of taxes and access to information and properties. At December 31, 2002, the Company was in compliance with all covenants.

All obligations of Willis North America Inc. ("Willis North America") (the borrower) under the credit agreement are guaranteed by Trinity Acquisition Limited and its UK and US subsidiaries, including Willis Group Limited, with certain exceptions. Obligations under the credit agreement are secured by a pledge of capital stock of certain subsidiaries of Trinity Acquisition, including capital stock of Willis Group Limited, its direct subsidiaries (with certain exceptions), Willis North America and its direct US subsidiaries, the partnership interests of Willis Partners, as well as, in some circumstances, certain intercompany notes and certain non-cash proceeds of asset sales, in each case subject to exceptions and conditions included in the credit agreement. The pledge of stock owned by Willis Group Limited is supported by a general lien filed in the UK against Willis Group Limited's assets.

9% Senior Subordinated Notes – In February 1999, Willis North America refinanced a short-term loan by issuing 9% senior subordinated notes due 2009 (the "Notes") in the aggregate principal amount of $550 million. The interest on the Notes is payable semi-annually on February 1 and August 1.

From and after February 1, 2004, Willis North America may redeem the Notes, in whole or in part, at a redemption price equal to 104.5% of the aggregate principal amount of the Notes being redeemed in 2004, which percentage declines by 1.5% per annum over the next years to 100% in 2007, plus accrued and unpaid interest.

During 2002 and 2001, Willis North America bought back and canceled Notes totaling $29 million and $111 million, respectively. The difference between the market price paid and the book value was not material.

If Willis North America becomes subject to a change of control, holders of its Notes will have the right to require the Company to purchase all of their Notes at a price equal to 101% of the aggregate principal amount of the Notes, plus accrued and unpaid interest to the date of repurchase. In addition, under specified circumstances, Willis North America will be required to offer to purchase the Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to the date of purchase, with the excess proceeds of certain asset sales.

The indenture for the Notes contains covenants that, among other things, limit the ability of Willis North America, Willis Group Limited, Willis Partners and some of their subsidiaries to incur additional indebtedness and issue preferred stock; pay dividends or make other distributions; repurchase capital stock or subordinated indebtedness; create liens; enter into some transactions with associates; sell assets and assets of subsidiaries; issue or sell capital stock of some subsidiaries; and enter into some mergers and acquisitions. At December 31, 2002, the Company was in compliance with all covenants.

Two of Willis Group Holdings' wholly-owned subsidiaries, Willis Group Limited and Willis Partners, have jointly and severally and fully and unconditionally guaranteed the prompt and complete performance of Willis North America in respect of the Notes.

Scheduled Debt Repayments – Aggregate maturities of long-term debt for the five years subsequent to December 31, 2002 are as follows:

(millions)	
2005	$83
2006	74
Thereafter	410
	$567

Lines of Credit – The Company also has available $2 million in lines of credit, of which $nil (2001: $nil) was drawn as of December 31, 2002 (excluding the $150 million revolving credit facility).

12. Pension plans

Willis North America has a 401(k) plan covering all eligible employees of Willis North America and its subsidiaries. The plan allows participants to make pre-tax contributions and the Company provides a matching contribution of 3% of employees' annual eligible compensation. All investment assets of the plan are held in a trust account administered by independent trustees. The Company's 401(k) mandatory matching contributions for 2002, 2001 and 2000 were approximately $5 million, $5 million and $6 million, respectively.

The Company has two principal defined benefit pension plans funded externally which cover all eligible employees. One plan exists in the UK and the other in the US. It is the Company's policy to fund pension costs as required by applicable laws and regulations.

The following schedules provide information concerning the Company's UK and US defined benefit pension plans as of and for the years ended December 31:

(millions)	UK Pension Benefits		US Pension Benefits	
	2002	2001	**2002**	2001
Change in benefit obligation:				
Benefit obligation, beginning of year	**$973**	$946	**$371**	$337
Service cost	**25**	24	**14**	13
Interest cost	**58**	54	**25**	24
Employee contributions	**3**	2	**–**	–
Amendments	**(29)**	–	**–**	–
Actuarial loss	**86**	16	**22**	12
Benefits paid	**(41)**	(38)	**(16)**	(15)
Foreign currency changes	**115**	(31)	**–**	–
Benefit obligations, end of year	**1,190**	973	**416**	371
Change in plan assets:				
Fair value of plan assets, beginning of year	**1,102**	1,246	**340**	358
Actual return on plan assets	**(170)**	(80)	**(32)**	(8)
Employee contributions	**3**	2	**–**	–
Employer contributions	**15**	15	**11**	5
Benefits paid	**(41)**	(38)	**(16)**	(15)
Foreign currency changes	**111**	(43)	**–**	–
Fair value of plan assets, end of year	**1,020**	1,102	**303**	340
Reconciliation of funded status:				
Funded status	**(170)**	129	**(113)**	(31)
Unrecognized net actuarial loss (gain)	**276**	(84)	**62**	(20)
Unrecognized prior service gain	**(28)**	–	**–**	–
Net asset (liability) recognized	**78**	45	**(51)**	(51)
Amounts recognized in balance sheet consist of:				
Prepaid benefit cost	**–**	45	**–**	–
Accrued benefit liability	**(135)**	–	**(81)**	(51)
Accumulated other comprehensive income	**213**	–	**30**	–
Net asset (liability) recognized	**$78**	$45	**$(51)**	$(51)

The weighted-average actuarial assumptions utilized in determining the above amounts for the UK and US defined benefit plans were as follows:

	UK Pension Benefits		US Pension Benefits	
Years ended December 31,	**2002**	2001	**2002**	2001
Weighted-average assumptions:				
Discount rate	**5.6%**	5.8%	**6.5%**	7.0%
Expected return on plan assets	**7.3%**	7.3%	**8.5%**	8.5%
Rate of compensation increase	**3.3%**	3.5%	**4.0%**	5.0%

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the US plan with accumulated benefit obligations in excess of plan assets were $416 million, $384 million and $303 million, respectively, as of December 31, 2002. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the UK plan with accumulated benefit obligations in excess of plan assets were $1,190 million, $1,155 million and $1,020 million, respectively, as of December 31, 2002.

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

	UK Pension Benefits			US Pension Benefits		
Years ended December 31, (millions)	**2002**	2001	2000	**2002**	2001	2000
Components of net periodic benefit (income) cost:						
Service cost	**$25**	$24	$27	**$14**	$13	$13
Interest cost	**58**	54	56	**25**	24	22
Expected return on plan assets	**(88)**	(80)	(80)	**(29)**	(30)	(30)
Recognized actuarial gain	**(3)**	(6)	(2)	**–**	(5)	(9)
Net periodic benefit (income) cost	**$(8)**	$(8)	$1	**$10**	$2	$(4)

13. Stock benefit plans

Willis Group Holdings has adopted the plans described below providing for the grant of time-based options and performance-based options and various other share-based grants to employees. The objectives of these plans include attracting and retaining the best personnel, motivating management personnel by means of growth-related incentives to achieve long-range goals and providing employees with the opportunity to increase their share ownership in Willis Group Holdings.

Amended and Restated 1998 Share Purchase and Option Plan – This plan, which was established on December 18, 1998, provides for the granting of time-based and performance-based options to employees of the Company. There are 30,000,000 shares available for grant under this plan provided, however, that in no event the total number of shares subject to options and other equity for current and future participants exceed 25% of the equity of Willis Group Holdings on a fully diluted basis. All options granted under this plan are exercisable at £2 per share ($3.22 using the year-end exchange rate of £1 = $1.61) except for 111,111 time-based options which are exercisable at $13.50. No further grants are to be made under this plan.

Time-based options are earned upon the fulfilment of vesting requirements. Options are generally exercisable in equal instalments of 20% per year over a five-year period commencing on or after December 18, 2000.

Performance-based options became exercisable, subject to the fulfilment of vesting requirements, with effect from January 1, 2003, upon the achievement of cash flow and EBITDA (as defined in the plan agreements) targets of Willis Group Limited. Options are generally exercisable in equal instalments of 25% per year over a four-year period commencing on or after December 18, 2001.

Willis Award Plan – This plan, which was established on July 13, 2000, provides for the granting of time-based options to selected employees who have been identified as superior performers. There are 5,000,000 shares available for grant under this plan provided, however, that in no event the total number of shares subject to options and other equity for current and future participants exceed 25% of the equity of Willis Group Holdings on a fully diluted basis. All options granted under this plan are exercisable at £2 per share ($3.22 using the year-end exchange rate of £1 = $1.61). The options vest immediately on the grant date and are exercisable any time up to July 13, 2010.

2001 Share Purchase and Option Plan – This plan, which was established on May 3, 2001, provides for the granting of time-based options and various other share-based grants at fair market value to employees of the Company. There are 10,000,000 shares available for grant under this plan. Options are exercisable from the third, sixth or eighth anniversary of grant, although for certain options the exercisable date may accelerate depending on the achievement of certain performance goals. Unless terminated sooner by the board of directors, the 2001 Plan will expire 10 years after its adoption. That termination will not affect the validity of any grant outstanding at that date.

Compensation Expense – Willis Group Holdings applies the intrinsic value method allowed by APB 25 in accounting for its stock option plans. Under APB 25, compensation expense resulting from awards under fixed plans (time-based options, options granted pursuant to the Willis Award Plan and various other share-based grants to employees) are measured as the difference between the quoted (or best estimate of) market price, and the exercise price on the measurement date. All fixed plan options have been granted by Willis Group Holdings at an exercise price equal to management's best estimate of the market price at the measurement date, prior to the initial public offering, and equal to the quoted market price, subsequent to the initial public offering. Accordingly, pursuant to APB 25 no compensation expense has been recognised for fixed option plans in the statements of operations.

Compensation expense resulting from awards under variable plans (performance-based options) is measured as the difference between the quoted market price and the exercise price at the date when the number of shares is known (the date the performance conditions are satisfied). The cost is recognized over the period the employee performs related services. Estimates of compensation expense were recorded before the measurement date based on the quoted market price of the shares at the intervening dates in situations where it was probable that the performance conditions would be attained.

Management determined in the third quarter of 2001 that it was probable that the maximum performance condition would be attained. The measurement date under APB 25 was December 31, 2002. Accordingly, compensation expense for the year ended December 31, 2002 of $80 million ($67 million, net of tax) (2001: $158 million ($132 million, net of tax)) was recognized based on the 11.1 million (2001: 11.3 million) unforfeited performance options outstanding at that date, a quoted market price of $28.67 (2001: $23.55) and an average elapsed performance period of 85% (2001: 68%).

Had compensation expense for such plans been determined consistent with the fair value method prescribed by SFAS 123 using the Black-Scholes option-pricing model, the Company's pro forma net income and net income per share would have been:

Years ended December 31, (millions, except per share data)	**2002**	2001	2000
Net income:			
As reported	**$210**	$2	$9
Pro forma	**272**	127	4
Net income per share:			
Basic:			
As reported	**$1.43**	$0.01	$0.07
Pro forma	**1.85**	0.93	0.03
Diluted:			
As reported	**$1.28**	$0.01	$0.07
Pro forma	**1.66**	0.86	0.03
Assumptions:			
Dividend yield	**2%**	0%	0%
Expected volatility	**34%**	30%	30%
Risk-free interest rate	**2.41%**	4.15%	5.26%
Weighted-average expected life (years)	**3**	3	3
Weighted-average fair value of options granted	**$5.38**	$4.04	$0.82

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

The Black-Scholes model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions. Because Willis Group Holdings employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Time-based stock option transactions under the plans are as follows:

December 31, (shares in thousands)	2002 Shares	2002 Weighted average exercise price[1]	2001 Shares	2001 Weighted average exercise price[1]	2000 Shares	2000 Weighted average exercise price[1]
Balance, beginning of year	**18,724**	**$4.65**	17,323	$2.90	11,004	$3.00
Granted	**1,112**	**$28.18**	1,963	$16.93	7,155	$3.00
Exercised	**(500)**	**$3.07**	(239)	$3.31	(61)	$3.00
Forfeited	**(326)**	**$10.05**	(323)	$3.07	(775)	$3.00
Balance, end of year	**19,010**	**$5.98**	18,724	$4.37	17,323	$3.00
Options exercisable at year-end	**8,225**	**$3.22**	5,386	$2.90	2,439	$3.00

[1] Certain options are exercisable at £2 per share. Year-end exchange rates of £1 = $1.61, £1 = $1.45 and £1 = $1.50 have been used as of December 31, 2002, 2001 and 2000, respectively.

A summary of time-based options outstanding and exercisable at December 31, 2002 is as follows:

(shares in thousands)	Options outstanding			Options exercisable	
Range of exercise prices	Shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Shares exercisable	Weighted average exercise price
$3.22	**16,132**	**6**	**$3.22**	**8,225**	**$3.22**
$13.50	**963**	**9**	**$13.50**	**–**	**–**
$16.95 – $23.32	**950**	**9**	**$21.43**	**–**	**–**
$27.95 – $35.75	**965**	**10**	**$29.39**	**–**	**–**
$3.22 – $35.75	**19,010**	**6**	**$5.98**	**8,225**	**$3.22**

Performance-based stock option transactions under the plans are as follows:

December 31, (shares in thousands)	2002 Shares	2002 Weighted average exercise price[1]	2001 Shares	2001 Weighted average exercise price[1]	2000 Shares	2000 Weighted average exercise price[1]
Balance, beginning of year	**11,275**	**$3.22**	11,608	$2.90	11,004	$3.00
Granted	**–**	**–**	25	$2.90	1,379	$3.00
Forfeited	**(183)**	**$3.22**	(358)	$2.90	(775)	$3.00
Balance, end of year	**11,092**	**$3.22**	11,275	$2.90	11,608	$3.00
Options exercisable at year-end	**–**	**–**	–	–	–	–

[1] All options are exercisable at £2 per share. Year-end exchange rates of £1 = $1.61, £1 = $1.45 and £1 = $1.50 have been used as of December 31, 2002, 2001 and 2000, respectively.

The weighted-average remaining contractual life of performance-based options outstanding at December 31, 2002, was 6 years.

14. Financial instruments

The Company's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, the Senior Credit Facility and the Notes, cash deposits and short-term investments. The Company also enters into derivative transactions (principally interest rate swaps and forward foreign currency contracts) in order to manage interest rate and currency risks arising from the Company's operations and its sources of finance. The Company does not hold financial instruments for trading purposes.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company's board of directors reviews and agrees policies for managing each of these risks as summarized below. The Company has applied SFAS 133 in accounting for these financial instruments.

Interest Rate Risk – The Company's operations are financed principally through the Senior Credit Facility, which has a variable interest rate and the Notes, which have a 9% fixed interest rate. Interest rate swaps are used to generate the desired interest rate profile and to manage the Company's exposure to interest rate fluctuations.

Willis North America has entered into an interest rate swap agreement under which its LIBOR-based variable rate interest payment obligations on the full amount of the term loans have been swapped for fixed rate interest payment obligations until the final maturity of those term loans. The swap agreement provides for a reduction of the notional amount of the swap obligation on a semi-annual basis, and to the extent the actual amount outstanding under the term loans exceeds the notional amount at any time, Willis North America would be exposed to the risk of increased interest rates on that excess.

The Company has designated the interest rate swap agreement as a cash flow hedge as defined by SFAS 133 with the fair value recorded in other liabilities on the balance sheet. Changes in fair value are recorded as a component of other comprehensive income. Gains of $1 million were recorded for the year ended December 31, 2002 (2001: loss $9 million). Amounts are reclassified from other comprehensive income into earnings when the hedged exposure affects earnings.

The differential to be paid or received is recognized as an adjustment to interest expense as incurred. The swap agreement matures on or before the Senior Credit Facility to which it is matched.

As a result of the Company's operating activities, the Company receives cash for premiums and claims which it deposits in short-term investments denominated in US dollars and other currencies. The Company earns interest on these funds, which is included in the Company's financial statements as interest income. These funds are regulated in terms of access and the instruments in which they may be invested, most of which are short-term in maturity. In order to manage interest rate risk arising from these financial assets, the Company enters into interest rate swaps to receive a fixed rate of interest and pay a variable rate of interest fixed in the various currencies related to the short-term investments. The use of interest rate contracts essentially converts groups of short-term investments to fixed rates.

The fair value of these contracts is recorded in other assets and other liabilities, with changes in fair value of effective cashflow hedges recorded in other comprehensive income and changes in fair value of ineffective hedges recorded in general and administrative expenses. Amounts are reclassified from other comprehensive income into earnings when the hedged exposure affects earnings. For the year ended December 31, 2002, the Company has recorded gains of $20 million in other comprehensive income relating to changes in fair value on contracts which are effective cashflow hedges as defined in SFAS 133 (2001: gain $8 million). For contracts which were not designed for hedge accounting as defined in SFAS 133, the Company has recorded losses of $1 million in general and administrative expenses representing the change in fair value for the year ended December 31, 2002 (2001: gain $8 million).

A summary of the Company's interest rate swaps by major currency is as follows:

December 31, (millions)		Notional Amount[1]	Termination Dates	Weighted Average Interest Rates Receive	Weighted Average Interest Rates Pay
2002				**%**	**%**
US dollar	Receive fixed – pay variable	**$878**	**2003-2006**	**5.55**	**1.64**
	Receive variable – pay fixed	**157**	**2004**	**1.72**	**5.10**
Pounds sterling	Receive fixed – pay variable	**316**	**2003-2005**	**5.68**	**4.00**
Euro	Receive fixed – pay variable	**109**	**2003-2006**	**4.70**	**3.00**
2001					
US dollar	Receive fixed – pay variable	$1,044	2002-2006	5.91	4.15
	Receive variable – pay fixed	328	2006	4.10	5.10
Pounds sterling	Receive fixed – pay variable	299	2002-2005	6.19	5.20
Euro	Receive fixed – pay variable	89	2002-2006	4.71	4.27

(1) Notional amounts represent US dollar equivalents translated at the spot rate as of December 31.

Liquidity Risk – The Company's objective is to ensure that it has the ability to generate sufficient cash either from internal or external sources, in a timely and cost-effective manner, to meet its commitments as they fall due. The Company's management of liquidity risk is embedded within its overall risk management framework. Scenario analysis is continually undertaken to ensure that its resources can meet liquidity requirements. These resources are supplemented by a $150 million revolving credit facility which expires on November 19, 2005, of which no amount is currently drawn.

Foreign Currency Risk – The Company's objective is to maximize its cash flow in US dollars. In all locations with the exception of the UK, the Company predominantly generates revenues and expenses in the local currency. In the UK, however, the Company earns revenues in a number of different currencies but expenses are almost entirely in pounds sterling. This mismatch creates a currency exposure.

The Company's policy within the UK is to convert into sterling all revenues arising in currencies other than US dollars together with sufficient US dollar revenues to fund the remaining sterling expenses. Outside the UK, only those cash flows necessary to fund mismatches between revenues and expenses are converted into local currency; amounts remitted to the UK are generally converted into sterling. These transactional currency exposures are principally managed by entering into forward foreign exchange contracts.

The fair value of these contracts is recorded in other assets and other liabilities, with changes in the fair value of effective cashflow hedges recorded in other comprehensive income and changes in fair value of ineffective hedges recorded in general and administrative expenses. Amounts are reclassified from other comprehensive income into earnings when the hedged exposure affects earnings. For the year ended December 31, 2002, the Company has recorded a gain of $7 million in other comprehensive income relating to changes in the fair value on contracts which are effective cashflow hedges as defined in SFAS 133 (2001: gain $6 million). For contracts which were not designated for hedge accounting as defined in SFAS 133, the Company has recorded a gain of $2 million in general and administrative expenses representing the change in the fair value for the year ended December 31, 2002 (2001: loss $6 million).

The table below summarizes, by major currency, the contractual amounts of the Company's forward contracts to exchange foreign currencies for pounds sterling. Foreign currency notional amounts are reported in US dollars translated at spot rates at December 31.

December 31, (millions)	Sell 2002[1]	Sell 2001
US dollar	**$125**	$128
Euro	**81**	25
Japanese yen	**30**	20

[1] Forward exchange contracts range in maturity from 2003 to 2005.

Credit Risk and Concentrations of Credit Risk – Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted and from movements in interest rates and foreign exchange rates. The Company does not anticipate non-performance by counterparties. The Company generally does not require collateral or other security to support financial instruments with credit risk; however, it is the Company's policy to enter into master netting arrangements with counterparties as practical.

Concentrations of credit risk that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Financial instruments on the balance sheet that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable, and derivatives which are recorded at fair value. The Company maintains a policy providing for the diversification of cash and cash equivalent investments and places such investments in an extensive number of high quality financial institutions to limit the amount of credit risk exposure. Concentrations of credit risk with respect to receivables are limited due to the large number of clients and markets in which the Company does business, as well as the dispersion across many geographic areas. Management does not believe significant risk exists in connection with the Company's concentrations of credit as of December 31, 2002.

Fair Value – The estimated fair value of the Company's financial instruments held or issued to finance the Company's operations is summarized below. Certain estimates and judgments were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that the Company would realize upon disposition nor do they indicate the Company's intent or ability to dispose of the financial instrument.

	2002		2001	
December 31, (millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	**$211**	**$211**	$128	$128
Fiduciary funds – restricted	**1,369**	**1,369**	1,282	1,282
Short-term investments	**54**	**54**	42	42
Derivative financial instruments	**69**	**69**	33	33
Liabilities:				
Long-term debt	**567**	**596**	787	805
Derivative financial instruments	**8**	**8**	13	13

The following methods and assumptions were used by the Company in estimating its fair value disclosure for financial instruments:

Cash and Cash Equivalents – The estimated fair value of these financial instruments approximates their carrying values due to their short maturities.

Fiduciary Funds – Restricted and Short-Term Investments – Fair values are based on quoted market values.

Long-Term Debt – The estimated fair values of the Company's long-term debt are based on current interest rates available to the Company for debt instruments with similar terms and remaining maturities.

Derivative Financial Instruments – Market values have been used to determine the fair value of interest rate swaps and forward foreign exchange contracts based on estimated amounts the Company would receive or have to pay to terminate the agreements, taking into account the current interest rate environment or current foreign currency forward rates.

15. Supplemental disclosures of cash flow information

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

Years ended December 31, (millions)	**2002**	2001	2000
Supplemental disclosures of cash flow information:			
Cash payments for income taxes	**$70**	$41	$27
Cash payments for interest	**$62**	$82	$85
Supplemental disclosures of non-cash flow investing and financing activities:			
Issue of preference shares in lieu of dividend	**$–**	$1	$3
Purchase of fixed assets	**–**	1	–
Issue of stock on acquisition of subsidiaries	**1**	11	–
Deferred payments on acquisitions of subsidiaries	**9**	11	4
Acquisitions:			
Fair value of assets acquired	**79**	19	38
Less: liabilities assumed	**(74)**	(15)	(25)
cash acquired	**(21)**	(5)	(6)
Acquisitions, net of cash acquired	**$(16)**	$(1)	$7

16. Accumulated other comprehensive (loss) income

The components of other comprehensive income are as follows:

Years ended December 31, (millions)	**2002**	2001	2000
Net income	**$210**	$2	$9
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	**1**	(4)	(8)
Cumulative effect of accounting change (net of tax of $5 in 2001)	**–**	8	–
Unrealized holding gains (net of tax of $1 in 2002 and $1 in 2000)	**2**	1	2
Minimum pension liability adjustment (net of tax of $76 in 2002)	**(167)**	–	–
Net gain on derivative instruments (net of tax of $12 in 2002)	**28**	5	–
Other comprehensive (loss) income (net of tax of $89 in 2002, $5 in 2001 and $1 in 2000)	**(136)**	10	(6)
Comprehensive income	**$74**	$12	$3

The components of accumulated other comprehensive (loss) income are as follows:

December 31, (millions)	2002	2001	2000
Net foreign currency translation adjustment	**$(8)**	$(9)	$(5)
Net cumulative effect of accounting change	**8**	8	–
Net unrealized holding gains	**3**	1	–
Net minimum pension liability adjustment	**(167)**	–	–
Net gain on derivative instruments	**33**	5	–
	$(131)	$5	$(5)

17. Commitments and contingencies

Operating Leases – The Company leases certain land, buildings and equipment under various operating lease arrangements. Original non-cancellable lease terms typically are between 10 and 20 years and may contain escalation clauses, along with options that permit early withdrawal. The total amount of the minimum rent is expensed on a straight-line basis over the term of the lease.

As of December 31, 2002, the aggregate future minimum rental commitments under all non-cancellable operating lease agreements are as follows:

(millions)	Gross Rental Commitments	Rentals from Subleases	Net Rental Commitments
2003	$62	$11	$51
2004	50	10	40
2005	42	9	33
2006	34	8	26
2007	33	7	26
Thereafter	84	23	61
Total	$305	$68	$237

Rent expense amounted to $71 million, $63 million and $66 million for the years ended December 31, 2002, 2001 and 2000, respectively. The Company's rental income from subleases was $9 million, $6 million and $4 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Guarantees – Guarantees issued by certain of Willis Group Holdings' subsidiaries with respect to the Senior Credit Facility and the Notes are discussed elsewhere in these consolidated financial statements.

Certain of Willis Group Holdings' subsidiaries have given the landlords of some leasehold properties occupied by the Company in the UK and the US guarantees in respect of the performance of the lease obligations of the subsidiary holding the lease. The operating lease obligations subject to such guarantees amounted to $140 million and $120 million at December 31, 2002 and 2001, respectively.

In addition, the Company has given guarantees to bankers and other third parties relating principally to letters of credit amounting to $8 million and $7 million at December 31, 2002 and 2001, respectively.

Put and Call Options Relating to Subsidiaries and Associates – For certain subsidiaries and associates, the Company has the right to purchase shares (a call option) from co-shareholders at various dates in the future. In addition, the co-shareholders of certain subsidiaries and associates have the right to sell (a put option) their shares to the Company at various dates in the future. Generally, the exercise price of such puts and calls is formula-based (using revenues and earnings) and is designed to reflect fair value. Based on current projections of profitability and exchange rates, the potential amount payable in 2003 from these options is not expected to exceed $246 million. Of this balance, $197 million relates to Gras Savoye, as disclosed in Note 7.

Claims, Lawsuits and Proceedings – The Company is subject to various actual and potential claims, lawsuits and 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 those claims, lawsuits and proceedings seek damages in amounts which could, if assessed, be significant.

The Company acted as insurance broker, but not as underwriter, for the placement of both property and casualty insurance for a number of entities that were directly impacted by the September 11, 2001 destruction of the World Trade Center complex, including Silverstein Properties L.L.C., 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.
There are a number of lawsuits pending in the US between the insured parties and the insurers. Although the Company is not a party to any of these lawsuits, other disputes may arise with respect to the destruction of the World Trade Center complex which could affect the Company.

Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by professional indemnity or other appropriate insurance. In respect of self-insured deductibles, the Company has established provisions against these items 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 outcome of the actual claims, lawsuits and proceedings to which the Company is subject or potential claims, lawsuits or proceedings, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

18. Segment information

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131") establishes standards for reporting information about operating segments and related disclosures, products and services, geographic areas and major customers. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance.

The Company conducts its worldwide insurance brokerage activities through three operating segments: Global, North America and International. Each operating segment exhibits similar economic characteristics, provides similar products and services and distributes same through common distribution channels to a common type or class of customer. In addition, the regulatory environment in each region is similar. Consequently, for financial reporting purposes the Company has aggregated these three operating segments into one reportable segment.

None of the Company's customers represented more than 10% of the Company's consolidated commissions and fees for the years ended December 31, 2002, 2001 and 2000.

Information regarding the Company's geographic locations is as follows:

Years ended December 31, (millions)	2002	2001	2000
Commissions and fees[1]			
UK	$638	$516	$479
US	774	669	616
Other[3]	249	172	142
Total	$1,661	$1,357	$1,237
Long-lived assets[2]			
UK	$142	$120	$135
US	56	53	42
Other[3]	15	12	15
Total	$213	$185	$192

(1) Commissions and fees are attributed to countries based upon the location of the subsidiary generating the revenue.

(2) Long-lived assets include identifiable fixed assets.

(3) Other than in the UK and the US, the Company does not conduct business in any country in which its commissions and fees and/or long-lived assets exceed 10% of consolidated commissions and fees and/or long-lived assets, respectively.

The Company has not reported revenues from external customers for each product and service or each group of similar products and services as the Company's internal systems do not allow for the generation of such information.

19. Related party transactions

The Company has an Employee Stock Ownership Plan (the "ESOP") which invests in Willis Group Holdings' shares. The trustee of the ESOP transferred 47,093 and 424,724 shares during the years ended December 31, 2002 and 2001, respectively. At December 31, 2002 and 2001, the ESOP shares outstanding were 781,594 and 828,687, respectively. No dividends have been distributed on the shares held by the ESOP.

KKR 1996 Fund (Overseas), Limited Partnership beneficially owns approximately 40% of Willis Group Holdings share capital. The general partner of KKR 1996 Fund (Overseas), Limited Partnership is KKR Associates II (1996), Limited Partnership, a limited partnership of which the general partner is KKR 1996 Overseas, Limited, a company owned by Messrs. Kravis, Roberts, Golkin and T.A. Fisher and other members of the limited liability company which is the general partner of Kohlberg Kravis Roberts & Co. L.P. KKR 1996 Overseas has sole voting and investment power with respect to the share capital owned by KKR 1996 Fund (Overseas).

Kohlberg Kravis Roberts & Co. L.P. and Fisher Capital Corp. LLC, a company for which Mr. J.R. Fisher, a director of Willis Group Holdings, is the managing member and majority owner, render management, consulting and certain other services to the Company for annual fees payable quarterly in arrears. In 2002 and 2001, the Company paid amounts of $1,000,000, in the case of Kohlberg Kravis Roberts & Co. L.P. and $350,000, in the case of Fisher Capital Corp. LLC for those services. Included in accrued expenses is $56,582 and $70,827 payable to Fisher Capital Corp. LLC as of December 31, 2002 and 2001, respectively.

In addition, the Company and Fisher Capital Corp. LLC entered into a share option agreement dated January 27, 1999, whereby the Company granted to Fisher Capital Corp. LLC 422,501 options to purchase an equivalent number of shares. The options vest upon grant date and are exercisable any time up to January 27, 2014. During 2002, options over 38,341 shares were exercised. The fair value of the options, computed on grant date using the Black-Scholes option-pricing model and assuming a dividend yield of 0%, expected volatility of 30%, a risk-free interest rate of 6.42% and a weighted-average expected life of three years, amounts to $334,905. This cost may not be indicative of the future benefit to be received by Fisher Capital Corp. LLC. Mr. J.R. Fisher, as the managing member and majority owner of Fisher Capital Corp. LLC may be deemed to share beneficial ownership of any options owned by Fisher Capital Corp. LLC but disclaims such beneficial ownership.

During 2000, Willis North America acquired from Mr. J.J. Plumeri, the Chairman and Chief Executive Officer of Willis Group Holdings, a 12½% undivided interest in a Citation V Ultra Aircraft for $693,719; as of December 31, 2000, this balance was recorded as a payable. This transaction was consummated on terms equivalent to those that prevail in arm's-length transactions.

FIVE-YEAR SUMMARY OF OPERATIONS

Years ended December 31, (millions, except per share data)	2002	2001	2000	1999	1998[1]
Revenues	**$1,735**	$1,424	$1,305	$1,244	$1,185
Expenses:					
General and administrative expenses (excluding non-cash compensation)	**1,214**	1,054	1,062	1,136	1,029
Non-cash compensation – performance options	**80**	158	–	–	–
Unusual items[2]	**–**	–	18	47	59
Depreciation expense	**34**	33	37	41	40
Amortization of goodwill and other intangible assets	**1**	35	35	35	31
Net gain on disposal of operations	**(13)**	(17)	(1)	(7)	(2)
Total expenses	**1,316**	1,263	1,151	1,252	1,157
Operating income (loss)	**419**	161	154	(8)	28
Interest expense and other expenses[3]	**65**	82	89	96	72
Income (loss) before income taxes, equity in net income of associates and minority interest	**354**	79	65	(104)	(44)
Income tax expense	**141**	62	33	7	29
Income (loss) before equity in net income of associates and minority interest	**213**	17	32	(111)	(73)
Equity in net income of associates	**9**	4	2	7	9
Minority interest	**(12)**	(19)	(25)	(28)	(11)
Net income (loss)	**$210**	$2	$9	$(132)	$(75)
Net income (loss) per share					
– Basic	**$1.43**	$0.01	$0.07	$(1.11)	
– Diluted	**$1.28**	$0.01	$0.07	$(1.11)	
Average number of shares outstanding					
– Basic	**147**	136	121	119	
– Diluted	**164**	148	121	119	
Net income (loss)	**$210**	$2	$9	$(132)	$(75)
Amortization of goodwill and other intangible assets	**1**	35	35	35	31
Net gain on disposal of operations (net of tax $6 in 2002 and $6 in 2001)	**(7)**	(11)	(1)	(7)	(2)
Non-cash compensation – performance options (net of tax $13 in 2002 and $26 in 2001)	**67**	132	–	–	–
Unusual items (net of tax $7 in 2000 and $14 in 1999)	**–**	–	11	33	46
Other expenses (net of tax $3 in 1999)	**–**	–	–	4	39
Non-recurring tax credit	**–**	(11)	–	–	–
Operating cash earnings	**$271**	$147	$54	$(67)	$39
Year End Financial Position					
Total assets	**$10,145**	$8,949	$7,590	$6,969	$6,904
Long-term debt	**567**	787	958	988	1,040
Stockholders' equity	**854**	696	238	226	321
Other information					
Number of full-time equivalent employees (excluding associated companies)	**10,554**	10,249	10,231	10,020	9,501
Share price					
– High[4]	**$37.14**	$26.29			
– Low[4]	**$21.50**	$13.50			
– Year-end close	**$28.67**	$23.55			

(1) The selected consolidated financial data as of and for the year ended December 31, 1998, has been derived from the audited consolidated financial statements of our predecessor. The net loss per share and average number of shares outstanding of our predecessor in 1998 are not comparable.

(2) Unusual items comprise restructuring charges of $18 million and $7 million in 2000 and 1999, respectively; pension review expenses of $40 million and $41 million in 1999 and 1998, respectively and costs incurred in connection with the acquisition of our predecessor of $18 million in 1998.

(3) Other expenses include debt issuance costs of $7 million in 1999 and loss on closure of operations of $34 million in l998.

(4) Based on high-low trading prices.

SELECTED QUARTERLY FINANCIAL DATA

(millions, except per share data)	1Q	2Q	3Q	4Q	2001
Revenues	$375	$337	$325	$387	$1,424
Expenses:					
General and administrative expenses (excluding non-cash compensation)	268	259	257	270	1,054
Non-cash compensation – performance options	–	–	145	13	158
Depreciation expense	9	8	8	8	33
Amortization of goodwill	9	8	9	9	35
Net (gain) loss on disposal of operations	–	–	(22)	5	(17)
Total expenses	286	275	397	305	1,263
Operating income (loss)	89	62	(72)	82	161
Interest expense	21	21	21	19	82
Income (loss) before income taxes, equity in net income of associates and minority interest	68	41	(93)	63	79
Income tax expense	31	16	(11)	26	62
Income (loss) before equity in net income of associates and minority interest	37	25	(82)	37	17
Equity in net income of associates	9	(1)	1	(5)	4
Minority interest	(7)	(7)	–	(5)	(19)
Net income (loss)	$39	$17	$(81)	$27	$2
Net income (loss) per share					
– Basic	$0.31	$0.13	$(0.55)	$0.18	$0.01
– Diluted	$0.30	$0.12	$(0.55)	$0.16	$0.01
Average number of shares outstanding					
– Basic	124	128	146	146	136
– Diluted	132	138	146	165	148
Net income (loss)	$39	$17	$(81)	$27	$2
Amortization of goodwill	9	8	9	9	35
Net (gain) loss on disposal of operations (net of tax $6 in 3Q)	–	–	(16)	5	(11)
Non-cash compensation – performance options (net of tax $24 in 3Q and $2 in 4Q)	–	–	121	11	132
Non-recurring tax credit	–	–	(8)	(3)	(11)
Operating cash earnings	$48	$25	$25	$49	$147
Other information					
Share price					
– High[1]	–	$18.50	$24.59	$26.29	$26.29
– Low[1]	–	$13.50	$15.50	$21.80	$13.50
– Quarter-end close	–	$17.75	$23.39	$23.55	$23.55

(1) Based on high-low trading prices.

SELECTED QUARTERLY FINANCIAL DATA (CONTINUED)

(millions, except per share data)	1Q	2Q	3Q	4Q	2002
Revenues	$451	$411	$390	$483	$1,735
Expenses:					
General and administrative expenses (excluding non-cash compensation)	297	294	299	324	1,214
Non-cash compensation – performance options	18	78	18	(34)	80
Depreciation expense	8	8	9	9	34
Amortization of goodwill and other intangible assets	–	–	–	1	1
Net loss (gain) on disposal of operations	–	1	–	(14)	(13)
Total expenses	323	381	326	286	1,316
Operating income	128	30	64	197	419
Interest expense	17	17	16	15	65
Income before income taxes, equity in net income of associates and minority interest	111	13	48	182	354
Income tax expense	43	20	20	58	141
Income (loss) before equity in net income of associates and minority interest	68	(7)	28	124	213
Equity in net income of associates	6	1	3	(1)	9
Minority interest	(6)	(1)	–	(5)	(12)
Net income (loss)	$68	$(7)	$31	$118	$210
Net income (loss) per share					
– Basic	$0.46	$(0.05)	$0.21	$0.80	$1.43
– Diluted	$0.43	$(0.05)	$0.19	$0.70	$1.28
Average number of shares outstanding					
– Basic	147	147	147	147	147
– Diluted	159	147	167	168	164
Net income (loss)	$68	$(7)	$31	$118	$210
Net loss (gain) on disposal of operations (net of tax of $6 in 4Q)	–	1	–	(8)	(7)
Amortization of goodwill and other intangible assets	–	–	–	1	1
Non-cash compensation – performance options (net of tax expense (benefit) $3, $13, $3 and $(6))	15	65	15	(28)	67
Operating cash earnings	$83	$59	$46	$83	$271
Other information					
Share price					
– High[1]	$28.58	$34.02	$33.85	$37.14	$37.14
– Low[1]	$21.50	$24.60	$24.80	$27.20	$21.50
– Quarter-end close	$24.70	$32.91	$33.49	$28.67	$28.67

[1] Based on high-low trading prices.

BOARD OF DIRECTORS AND GROUP EXECUTIVES

Board of Directors

Joseph J Plumeri
Chairman and Chief Executive Officer

Bill Bradley
Managing Director,
Allen & Company LLC

James R Fisher
Managing Member,
Fisher Capital Corp. L.L.C.

Todd A Fisher
Member, KKR & Co. L.L.C.

Perry Golkin
Member, KKR & Co. L.L.C.

Paul M Hazen
Chairman and CEO, Retired
Wells Fargo & Co

Henry R Kravis
Managing Member, KKR & Co. L.L.C.

Scott C Nuttall
Executive, Kohlberg Kravis & Roberts & Co.

Douglas B Roberts
Former Treasurer, State of Michigan

George R Roberts
Managing Member, KKR & Co. L.L.C.

Group Executives

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Group Executive Vice President,
Strategic Development

William P Bowden Jr.
Group General Counsel

Richard J S Bucknall
Group Chief Operating Officer

Thomas Colraine
Group Chief Financial Officer

Janet Coolick
Group Chief Administrative Officer

Patrick Lucas
Executive Vice President
and Managing Partner,
Gras Savoye

Stephen G Maycock
Group Human Resources Director

Joseph M McSweeny
Chairman,
Willis Risk Solutions – North America

Grahame J Millwater
Chief Executive Officer,
Global Markets

John M Pelly
Chairman and Chief Executive Officer,
Willis Re

James A Ratcliffe
Chief Executive,
Global Specialties

Michael J Sicard
Chief Operating Officer,
Willis North America

Sarah J Turvill
Chief Executive,
International operations

Mario Vitale
Chief Executive Officer,
Willis North America

Committees of the Board

Audit

James R Fisher
Todd A Fisher
Perry Golkin
Paul M Hazen
Scott C Nuttall
Douglas B Roberts

Compensation

Bill Bradley
Todd A Fisher
Perry Golkin
Paul M Hazen
Scott C Nuttall

Executive

Todd A Fisher
Perry Golkin
Joseph J Plumeri