Annual Report to Shareholders 2003

Willis

Annual Report to Shareholders 2003

Contents

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 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.

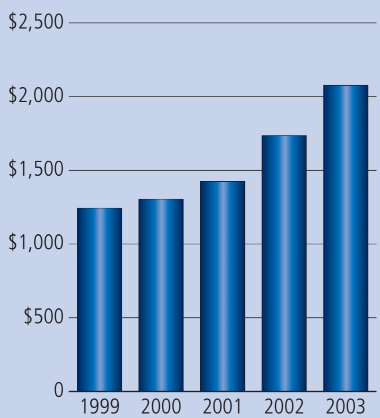
Financial Highlights

Totals for five years ended December 31
(in millions, except per share data and percentages)

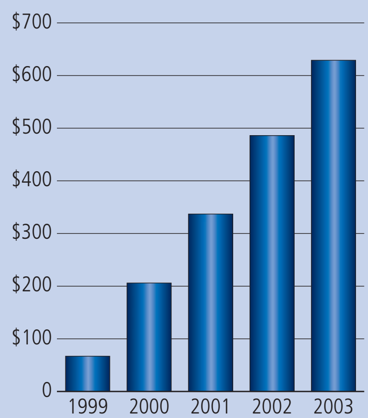
	2003	2002	2001	2000	1999
Revenues	$2,076	$1,735	$1,424	$1,305	$1,244
General and Administrative Expenses (excluding non-cash compensation)	$1,408	$1,214	$1,054	$1,062	$1,136
Adjusted Operating Income	$629	$486	$337	$206	$67
Adjusted Operating Income Margin	30%	28%	24%	16%	5%
Adjusted Net Income	$386	$270	$147	$54	$(67)
Adjusted Net Income per Diluted Share	$2.28	$1.62	$0.99	$0.45	$(0.56)
Long-term Debt and Preferred Capital	$370	$567	$787	$1,230	$1,257
Stockholders' Equity	$1,324	$854	$696	$238	$226
Capitalization Ratio (Long-term Debt and Preferred Capital divided by Stockholders' Equity, Long-term Debt and Preferred Capital)	22%	40%	53%	84%	85%

For discussion of the Group's results, including these measures, see Management's Discussion and Analysis of Financial Condition and Results of Operations

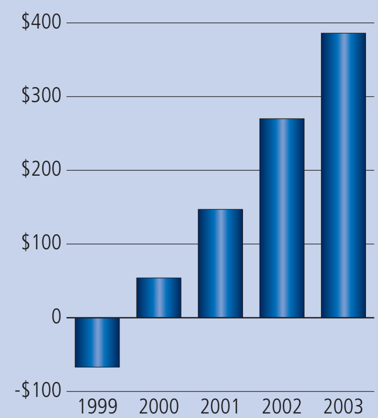
Revenues
(in millions)



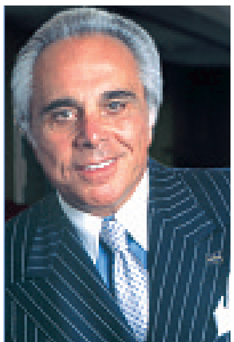
Adjusted Operating Income
(in millions)



Adjusted Net Income
(in millions)



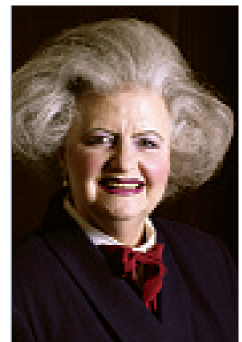
Partners Group

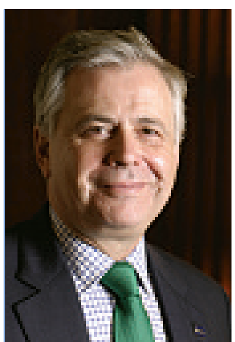

Joe Plumeri

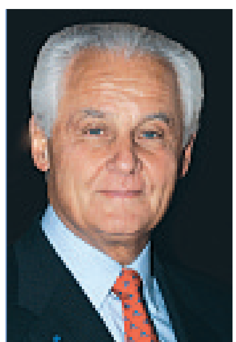

Richard Bucknall

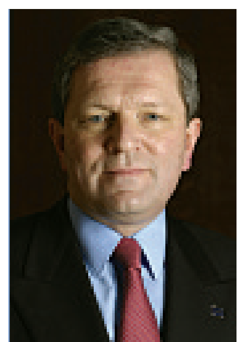

Bill Bowden


Tom Colraine

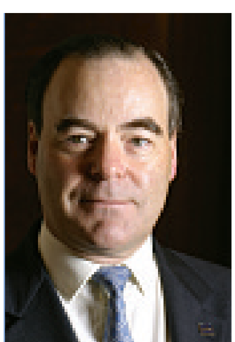

Janet Coolick


Chris London


Patrick Lucas

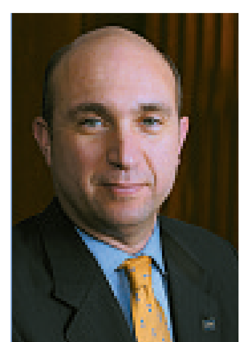

Steve Maycock


Grahame Millwater


John Pelly


Jim Ratcliffe


Sarah Turvill


Mario Vitale

Chairman's Statement

2003 has been another great year for everyone associated with Willis!

The positive momentum we established in 2001 and 2002 gathered pace last year, with record operating results, a strengthened balance sheet, a rising share price and the introduction of a range of initiatives and programs to support our continued growth and development.

But these successes, impressive as they are, have not made us complacent. There is still much to be done as we work together to build the world's greatest insurance broker. The entire Willis team is excited about that journey.

Results

In 2003, we achieved every target we set for ourselves, producing among the best results of any publicly traded insurance broker.

To grow organic revenues at least 15%

Organic revenues, or revenues adjusted for foreign currency exchange, acquisitions and disposals, grew 15% in 2003. Most of this increase was attributable to net new business rather than higher premium rates.

To expand margins

Our adjusted operating margin expanded to 30%, from 28% the year before.

To grow earnings at least 25%

We increased our adjusted net income 43% to $386 million from $270 million last year, while adjusted net income per diluted share rose 41%, to $2.28 from $1.62 in 2002.

To earn an investment grade rating

In September, Standard & Poor's awarded us an investment grade rating in recognition of our "consistent and improved operating performance".

To refinance our debt

At December 31, 2003, total long-term debt was $370 million, down 35 % from $567 million a year ago. During the fourth quarter, the Company repaid the outstanding $78 million bank term loan and put in place a new $450 million bank credit facility and $150 million line of credit. On February 2, 2004, the Company redeemed all of its outstanding 9 percent senior subordinated debentures.

Chairman's Statement

As further evidence of our strong financial position, we increased our dividend to an annual rate of $0.75 per share, 50% higher than the initial dividend a year ago and just two years from our return as a publicly traded company. At December 31 total stockholders equity was $1,324 million, up 55% from a year ago, and there was $247 million of immediately available cash. We also announced a stock buyback program in July, increased the authorization to $300 million from $100 million in February, and in the first quarter of 2004, we repurchased four million shares for approximately $150 million.

All our major business units – Global, North America and International – contributed significantly to these strong results, while continuing to demonstrate disciplined expense management.

Validating our Model

These results are testimony to our business model. The Willis Model is simple, powerful and is being validated every day. We deliver our global risk management resources and insurance broking capabilities locally to the client regardless of geography – our *glocal* approach – and work as one team in a focused, creative, entrepreneurial way. As the complexity of the insurance business continues to grow, companies need a trusted partner who is committed to delivering solutions to meet their unique needs. We are the only global insurance broker solely focused on delivering risk management services.

But it's not just what we do; it's also how we do it.

Our unique Client Advocate culture, for instance, enables clients to have a portal, or one point of contact at Willis who then uses their expertise to match our resources to the specific requirements of the client. Client Advocates know their clients' business in detail and constantly look for ways to help them succeed.

We combine this culture with a dynamic, working environment that stresses execution. Since our initial public offering in June 2001, we have infused a sense of teamwork, discipline and passion throughout the organization. Willis is a team sport and everyone at Willis works under one flag, with one overriding ambition: to support each other in helping create the world's greatest insurance broker.

Sustaining Momentum

During the year we took steps to build on our momentum.

We brought together all our North American businesses – large account and middle market units as well as our fast expanding practice groups that specialize in servicing particular industries – under one management team.

This alignment will yield a more aggressive Willis in North America, driven by a single, integrated growth strategy. By servicing our clients and presenting ourselves to prospects in a consistent manner without regard for the size, geography or industry of the audience, we are already securing major benefits from this reorganization.

In late 2003, we undertook a similar refocusing in the UK and Republic of Ireland where we have combined our UK & ROI Retail, Willis Risk Solutions and Commercial Network businesses into one unit.

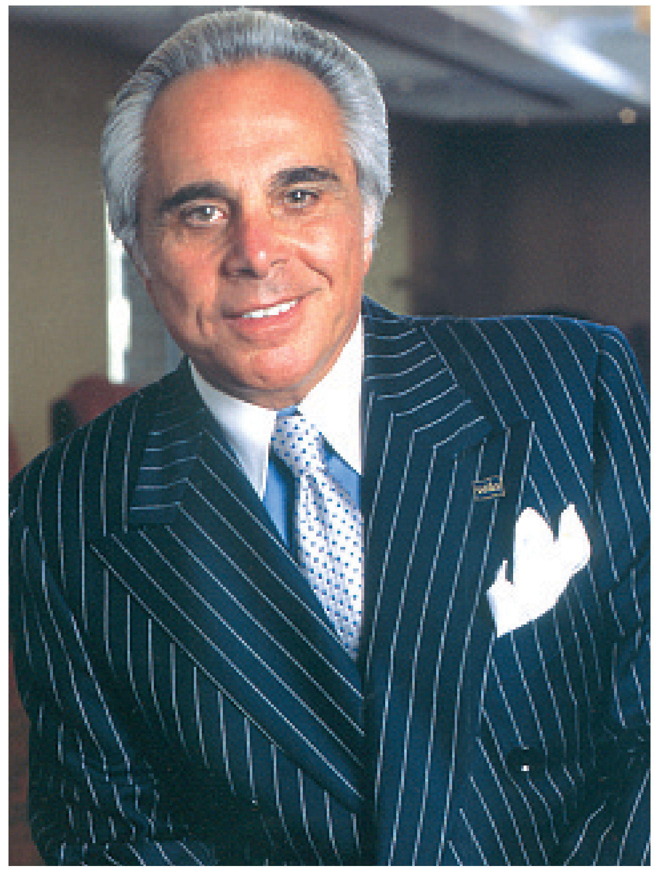
We consolidated our market-oriented operations into one entity, Global Markets, to leverage our global capabilities for the benefit of our clients. Global Markets will work in close partnership with our global retail network to structure and place transactions, and create and access markets, to maximum effect anywhere in the world.

Internationally, we strengthened our distribution channels and made several acquisitions which either support our current market position or establish us in sectors where we see excellent growth prospects. In the past year we increased our controlling interest in Germany and Italy to 100% and in Iberia to 77%. Since the year end we increased our minority interest in Denmark to 100%.

We continue to be the employer of choice, attracting exceptional talent to sustain our growth. During the year we recruited over 380 new business producers.

Since 2001 we have invested over $50 million in technology and systems to improve accuracy and delivery times for our clients and we are on track to deliver superior claims processing from our principal hubs in Ipswich, UK; Mumbai, India; and Nashville, TN.

As we invest for growth, so we stay vigilant in controlling costs. Our expense management philosophy is well embedded throughout the organization and in 2003 we initiated a number of important programs to further reduce risk and cost in our business.



"Internationally, we strengthened our distribution channels and made several acquisitions which either support our current market position or establish us in sectors where we see excellent growth prospects."

Chairman's Statement

"Our vision has not changed. Our business model has not changed. We said what we would do, and we're now doing it … relentlessly."

Corporate Governance

Following KKR's successful secondary offering in February 2004, three directors associated with KKR, Henry R. Kravis, George R. Roberts and Todd A. Fisher, resigned from our Board of Directors and three new directors, Joseph A. Califano, Jr., Wendy E. Lane and James F. McCann, joined the board. I would like to thank Henry, George and Todd for their superb contributions as directors of the Company. Joe, Wendy and Jim, who are each stand-outs in their own right, will bring invaluable new experience and perspective to our board.

These changes are among the steps recently undertaken in order to bring the Company into compliance with the requirements of the Sarbanes-Oxley Act and related New York Stock Exchange regulations. These require, among other things, that a majority of the Company's board be independent before the 2004 Annual General Meeting of Shareholders. All of these changes will become effective as of April 21, 2004.

In addition, the Company's board has amended the charter and reconstituted the members of its Audit and Compensation Committees under Doug Roberts and Perry Golkin. It has also appointed a new Corporate Governance and Nominating Committee under Senator Bill Bradley and adopted broad new corporate governance guidelines which are posted on our website at www.willis.com.

We are fully committed to both the letter and the spirit of the Sarbanes-Oxley Act and related New York Stock Exchange requirements.

Conclusion

Our vision has not changed. Our business model has not changed. We said what we would do, and we're now doing it … relentlessly. We stay focused on building a sales culture, recruiting great people, and watching our expenses – every day.

We run this business first and foremost for our shareholders. This is a growth company and we intend to grow adjusted net income per share by 15% or better each year, in all market environments.

Finally, I would like to thank every one of my colleagues at Willis, both for their outstanding achievements in 2003 and their enthusiasm for the future. Together, we are building a truly great company.

Joe Plumeri

Joe Plumeri
Chairman

WILLIS GROUP HOLDINGS LIMITED

Financial Contents

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

Executive Summary

Revenues increased by 20% in 2003, with approximately 12% coming from net new business growth, approximately 3% coming from higher insurance premium rates and approximately 5% from the effects of foreign exchange and acquisitions and disposals.

As a result of higher revenues and our continuing tight control over expense growth, our operating margin increased to 30% in 2003, up from 24% in 2002 on a reported basis (or 28% if adjusted as described below).

Net income per diluted share in 2003 was up 91% over 2002 on a reported basis and 41% if adjusted for non-cash compensation charges for performance-based stock options and a one-time UK income tax benefit as described below.

Cash generated from operations in 2003 of $493 million permitted us to invest further in our global network by acquiring 100% ownership of subsidiaries in Germany, Italy, Spain and Portugal. We also made substantial repayments of debt and we commenced paying a quarterly dividend in April 2003, increased the dividend in October 2003 and announced a further increase beginning April 2004.

We entered into a new $600 million credit facility in December 2003 and retired the existing facility. In February 2004, we redeemed all the outstanding $370 million of 9% senior subordinated notes and bought back 4 million shares at a cost of $148 million.

Business and Market Overview

We provide a broad range of insurance brokerage and risk management consulting services to our worldwide clients. In our capacity as an advisor and insurance broker, we act as an intermediary between our clients and insurance carriers by advising our clients on their risk management requirements, helping clients determine the best means of managing risk, and negotiating and placing insurance risk with insurance carriers through our global distribution network.

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 rise we tend to benefit and, when premium rates decline, we tend to experience pressure on our revenues, although in both cases there are many conflicting factors, including changes in buying and selling behavior. We manage expenses to moderate the impact on earnings.

From the late 1980s through late 2000, insurance premium rates generally trended downwards as a result of a number of factors, including the expanded underwriting capacity of insurance carriers; consolidation of both insurance intermediaries and insurance carriers; and increased competition among insurance carriers. Following several years of underwriting losses, the falls in world equity markets and lower interest rates, many insurance carriers began to increase premium rates in 2000. The tragic events of September 11, 2001 acted as a catalyst, especially in areas such as aerospace, and rates generally continued to rise through 2003.

However, during 2003, the rate at which insurance premium rates were rising began to moderate. Rates for casualty insurance in 2003 increased modestly over rates prevailing in 2002, with certain specialized risks, notably directors' and officers' liability and errors and omissions showing double-digit growth. Rates for property insurance overall were flat or slightly down compared with 2002, with the rate reductions being most pronounced in the large accounts and energy sectors. In the middle market, property rates were relatively stable.

At the end of 2003, premium rates, on average, were still rising as insurers maintained a disciplined approach to pricing in most areas. The fundamental need for insurance carriers to strengthen balance sheets and improve credit ratings, together with uncertainties over reinsurance recoveries and reserving levels, would suggest that market rates should not be forced down in the short-term by significant inflows of capital, although it is possible that this may happen. On the other hand, an increasing incidence of large insurance losses could lead to a rise in market rates.

Critical accounting estimates

The Company's accounting policies are described in Note 2 to the consolidated financial statements. Management considers that the following accounting estimates or assumptions are the most important to the presentation of the Company's financial condition or operating performance.

Pension expense

We maintain defined benefit pension plans that cover almost all our employees in the US and UK. 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, 2003, the selected discount rates were 5.5% (2002: 5.6%) for the UK plan liabilities and 6.0% (2002: 6.5%) for the US plan liabilities. A 0.25% change in the discount rates, in the absence of any other factors, would impact 2004 net pension expense by approximately $6 million. The selected long-term rates of return, based on the asset mix of the respective funds, were 7.25% (2002: 7.25%) for the UK plan assets and 8.5% (2002: 8.5%) for US plan assets. A 0.25% change in the long-term rate of return would impact 2004 net pension expense by approximately $4 million.

Net pension expense for our defined benefit pension plans in 2003 was $18 million compared with $2 million in 2002 and a credit of $6 million in 2001. We expect our pension expense in 2004 will increase by approximately $10 million as a result of lower interest rates and expected long-term rates of return.

Deferred tax

At December 31, 2003, the Company had gross deferred tax assets of $308 million (2002: $302 million) against which a valuation allowance of $114 million (2002: $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 carry forward 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.

Commitments, contingencies and accrued liabilities

The Company has established provisions against 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. Such provisions cover claims that have been reported but not paid and also claims that have been incurred but not 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 claims experience. A significant increase in the frequency or severity of claims for errors and omissions could have a material effect on the Company's results of operations.

As a consequence of the increasing cost of purchasing professional indemnity insurance for errors and omissions claims, we raised our self-insured retentions in 2003 and reduced the amount of coverage purchased from our insurers. Accordingly, our provisions for claims, including provisions for claims incurred but not reported, were also adjusted in 2003 to reflect the higher level of risk being retained.

During 2003, several long-outstanding contingencies were either resolved or moved closer to final resolution. As we have previously reported, we were required by the UK Financial Services Authority, in common with many other companies selling personal pension plans in the UK, to review certain categories of personal pensions sold by a former subsidiary of ours between 1988 and 1994. This review was substantially completed in 2003 and we also reached agreement with some of our insurers for a partial recovery of cost incurred in the review. The cost of the review was within the provision established.

We continue to fund the run-off administration costs of our former UK underwriting operations, which ceased underwriting in 1991. Towards the end of 2003, the amounts previously committed to funding the run-off were exhausted. We are continuing to fund the run-off costs and, pending final resolution of this matter with the various parties involved, have increased the provisions for future costs.

At the date of our merger with Corroon & Black in 1990 a provision was established in respect of a former US underwriting subsidiary that was sold in 1986 and put into liquidation in 1994. During 2003 we reached a full and final settlement with the liquidators.

There was no significant impact on our operating results in 2003 when compared to 2002 from all expenses associated with these issues (insurance premiums payable, claims paid and insurance recoveries received, together with adjustments to provisions held).

Operating results—2003 compared with 2002

Revenues

Total revenues increased by 20% to $2,076 million in 2003. Excluding the effects of foreign currency exchange rate movements of 6% and the effects of acquisitions and disposals of (1)%, total revenues on an underlying basis were 15% higher in 2003 than in 2002. We estimate that the increase in revenues arose from net new business growth of approximately 12% and approximately 3% from the impact of higher premium rates.

Global: Revenues generated by our Global business increased by 25% to $1,018 million in 2003. Approximately 9% of the increase in revenues arose from the effects of foreign currency exchange rate movements. The effect of acquisitions and disposals was not significant. Adjusting for these effects, revenues on an underlying basis increased by 16%. All business units, Global Specialties, Global Markets, Willis Reinsurance and Willis UK contributed to this growth, continuing to work closely with North America and International business units to leverage UK-based capabilities and resources throughout the distribution network.

North America: Revenues generated by our North America business increased by 9% to $726 million in 2003. The disposal of the third-party administration units in 2002 impacted the increase in revenues by approximately (5)%. Adjusting for this item, North America's revenues on an underlying basis increased by 14%, attributable to solid contributions from our middle market, large account and specialty practices (notably executive risk, employee benefits and construction) through new business development and recruitment.

International: Revenues generated by our International business increased by 29% to $332 million in 2003. Foreign currency exchange rate movements accounted for approximately 12% of the reported increase in revenues, largely due to the strengthening of the euro. The effect of acquisitions and disposals accounted for a further 2% of the reported increase in revenues. Adjusting for these items, International's revenues on an underlying basis increased by 15%, led by good performance in Continental Europe, notably Italy and Iberia, Latin America, Australia and South Africa. Many new business wins were the result of teamwork with Global Markets and Global Specialties.

In the comparison above, revenues previously reported for 2002 have been restated (Global revenue decreased and North America revenue increased) by $80 million to reflect changes in the Company's reporting structure effective from January 1, 2003.

Expenses

General and administrative expenses (excluding non-cash compensation for performance-based stock options) were $1,408 million for 2003, up 16% from 2002. Approximately 6% of the reported increase in general and administrative expenses was attributable to foreign currency exchange rate movements and approximately (3)% was attributable to the effect of acquisitions and disposals. Adjusting for these items, general and administrative expenses grew by 13% in 2003 compared with 2002.

Most of this increase was attributable to salaries and benefits, including incentive-based compensation, and reflects the increased number of employees. Salaries and benefits, including incentive-based compensation, amounted to 50% of revenues in 2003, the same proportion as in 2002. Depreciation expense increased in 2003 compared with 2002 and we expect this trend will continue in 2004 due to the ongoing investment in our global systems.

Operating results—2002 compared with 2001

Revenues

Total revenues increased by 22% to $1,735 million in 2002. Excluding the effects of foreign currency exchange rate movements 2% and the effects of acquisitions and disposals 2%, total revenues on an underlying basis were 18% higher in 2002 than in 2001. Approximately 10% of this increase was due to net new business growth and 8% due to the impact of higher premium rates prevailing in the market.

Global: Revenues generated by our Global business increased by 20% to $892 million in 2002. Approximately 5% of the increase in revenues arose from the effects of foreign currency exchange rate movements. The disposal of Willis National in July 2001 had a (3)% impact on revenues. Adjusting for these items, Global's revenues increased by 18% on an underlying basis. Global's reinsurance and specialty businesses, particularly aerospace and marine, continued to benefit from the rising premium rates prevailing in these markets.

North America: Revenues generated by our North America business increased by 16% to $585 million in 2002. The acquisition of Goldman and the disposal of the third-party administration units had a (1)% impact on revenues. Adjusting for these items, North America's revenues increased by 17% on an underlying basis. Middle market and upper middle market experienced significant premium rate increases across all lines.

International: Revenues generated by our International business increased by 46% to $258 million in 2002. Approximately 25% of the increase arose from our increased investment in Willis GmbH, which resulted in its full consolidation as a subsidiary from January 1, 2002, and other acquisitions. The impact of foreign currency exchange rate movements was not significant. Adjusting for these acquisitions, International's revenues increased by 21% on an underlying basis, led by good performance in Continental Europe, Eastern Hemisphere (especially Australia) and Latin America. Many new business wins resulted from coordinated efforts with our Global specialty businesses.

Expenses

General and administrative expenses (excluding non-cash compensation for performance-based stock options) were $1,214 million for 2002, up 15% from 2001. The net effect of acquisitions and disposals accounted for approximately 4% of the increase in expenses, but there was no significant impact from foreign currency exchange rate movements. On an underlying basis, excluding acquisitions and disposals, general and administrative expenses were 11% higher 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.

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.

Performance-based stock options

Since 2001, our results have been impacted by non-cash compensation charges for performance-based stock options. These options were granted to management as part of the leveraged buyout in 1998 for meeting or exceeding specified performance targets for the years ended December 31, 2001 and 2002. The actual results for those years exceeded the specified performance targets and, accordingly, all the outstanding performance options were earned in full.

These performance options are accounted for under the variable plan method, which required us to record non-cash compensation charges commencing from the third quarter of 2001, the quarter in which it became probable that the performance targets would be met. As a result, we recorded a non-cash compensation 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 were based on the difference between the price of our stock at the respective year-ends and the exercise price, with the total cost being spread in accordance with the vesting schedule through the end of 2004.

We recorded a further $20 million ($14 million, net of tax) in 2003 based on the vesting schedule and the stock price at the end of the performance period on December 31, 2002 of $28.67.

On a cumulative basis at the end of 2003, we had recognized $258 million, or approximately 95% of the estimated total charge. The remaining charge of approximately $15 million will be recognized quarterly in accordance with the vesting schedule through the end of 2004, when substantially all the performance options will have vested.

Operating income and operating margin

Operating income increased by 48% to $620 million in 2003, having increased by 160% to $419 million in 2002 from $161 million in 2001. Excluding the non-cash compensation charge for performance-based stock options ($20 million in 2003, $80 million in 2002 and $158 million in 2001), the net gain on disposal of operations ($11 million in 2003, $13 million in 2002 and $17 million in 2001) and goodwill amortization in 2001, operating income increased by 29% to $629 million in 2003 having increased by 44% to $486 million in 2002 from $337 million in 2001. We use operating income excluding non-cash compensation and gains on disposals as a measure of cash generated by the businesses.

Operating margin, or operating income as a percentage of revenues, increased to 30% in 2003 compared with 24% in 2002 and 11% in 2001. Excluding non-cash compensation, gains on disposals and goodwill amortization, operating margin expanded to 30% from 28% in 2002 and 24% in 2001.

We earn revenue in an uneven fashion during the year, primarily due to the timing of insurance policy renewals. As many 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. 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. Operating income in 2003, impacted by the effect of performance options and net gain on disposals, was $186 million, $136 million, $106 million and $192 million for the first, second, third and fourth quarters, respectively.

Net gain on disposal of operations

In April 2003, we disposed of the retail property and casualty and employee benefits operations based in Salt Lake City, Utah, recognizing a gain on disposal of $3 million. In June 2003, we disposed of the remaining 49% interest in Buck & Willis Healthcare Limited, a small healthcare specialist in the UK, recognizing a $2 million gain on disposal. In July 2003, we disposed of our office in Chattanooga, Tennessee, recognizing a $5 million gain on disposal.

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%.

Interest expense

Interest expense in 2003 was $53 million compared with $65 million in 2002 and $82 million in 2001, reflecting lower principal amounts of debt outstanding during the three-year period 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.

Following repayment of all the outstanding senior subordinated notes in February 2004, we expect interest expense in 2004 will be approximately one-third of the 2003 interest expense, although this depends on the level of future interest rates and the extent of hedging entered into. In addition, 2004 will include a $17 million expense for the premium payable on redemption of the notes and related fees.

Income taxes

Income tax expense for 2003 amounted to $159 million, an effective rate of 28%. In the third quarter of 2003, certain changes to UK tax legislation were enacted regarding the taxation of employee stock options. When UK-based employees exercise their stock options, the Company now obtains a corporate tax deduction equal to the market price of the Company's shares on the date of exercise less the option exercise price paid by the employee. This change largely brings UK tax legislation into line with US tax legislation. Non-cash compensation amounting to $116 million in respect of UK performance options had been expensed in periods prior to January 1, 2003 without any income tax benefit being recognized. Accordingly, following the change in UK tax legislation, a one-time income tax benefit of $35 million, and a corresponding deferred asset, was recognized in 2003.

Adjusting for the one-time income tax benefit arising from the change in UK tax legislation, that part of the non-cash performance option charge which is not tax deductible and the net gain on disposal of operations, the underlying tax rate for 2003 was 34%.

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, and 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%.

Net income

Net income in 2003 increased by 97% to $414 million ($2.45 per diluted share) from $210 million ($1.28 per diluted share) in 2002 and from $2 million ($0.01 per diluted share) in 2001. Net income for all three years was impacted by the non-cash charge for performance options and the net gain on disposal of operations. Additionally, net income in 2003 was impacted by certain changes in UK tax legislation regarding the taxation of employee stock options and 2001 was impacted by a non-recurring tax credit arising from an internal restructuring. The change in the basis of amortizing goodwill and other intangible assets also affected the comparison between 2002 and 2001.

Excluding a non-cash charge for performance options, net of tax, of $14 million in 2003, $67 million in 2002 and $132 million in 2001, a net gain on disposal of operations of $7 million in 2003, $7 million in 2002 and $11 million in 2001, a one-time UK tax benefit regarding employee stock options of $35 million in 2003, a non-recurring tax credit of $11 million and goodwill amortization of $35 million in 2001, net income increased by 43% in 2003 to $386 million ($2.28 per diluted share) and by 84% to $270 million in 2002 ($1.62 per diluted share) from $147 million in 2001 ($0.99 per diluted share). We estimate that the impact of foreign currency exchange rate movements during 2003 was a benefit of approximately $0.07 per diluted share. Our exposure to foreign currency exchange rates is discussed below under "Financial Risk Management".

The average number of diluted shares outstanding for the fourth quarter of 2003 was 170 million, as calculated under the treasury stock method. We expect the average number of diluted shares will continue to trend upwards in 2004 depending on the number of share options exercised and our average stock price. We expect that the impact of the 4 million shares bought back in February 2004 on the average number of diluted shares outstanding for the first quarter of 2004 will be entirely offset by the impact of option exercises and higher prevailing average stock prices in the quarter.

LIQUIDITY AND CAPITAL RESOURCES

In December 2003, we replaced our existing senior credit facilities with a new $600 million facility, consisting of a $450 million amortizing five-year term loan and a $150 million revolving credit facility. These new facilities are unsecured. Both the term loan and the revolving credit facility will bear interest at an initial rate of LIBOR plus 95 basis points, subject to adjustment based on future changes in interest coverage, leverage and credit ratings.

On February 2, 2004, we redeemed all the $370 million then outstanding of 9% Senior Subordinated Notes. To finance the repayment, we drew down $300 million of our new term loan facility with the remaining balance of $70 million and call premium of approximately $17 million being financed using cash from operations. Also in February 2004, we repurchased and cancelled 4 million shares of common stock at a cost of $148 million.

Operating activities

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.

We will become subject to new regulations in the UK in January 2005 regarding fiduciary funds held by insurance intermediaries. These regulations will require fiduciary funds to be held in designated trust accounts, restrict the financial instruments in which such funds may be invested and affect the timing of transferring commissions from fiduciary funds to own funds.

We do not anticipate any material impact on revenues or net income from these new regulations although there may be some one-off costs associated with system changes, depending on the precise details of the final regulations. However, the new regulations will have the effect of deferring the withdrawal of commissions from fiduciary funds with a consequential increase in the balances held in fiduciary funds. We anticipate that the increase in fiduciary funds as a result of the new regulations will vary by between approximately $100 million and approximately $200 million in line with the seasonality of revenues. Own funds will decrease by an equivalent amount.

We intend to phase in the new regulations during 2004 so that we will be in full compliance by January 2005. As a consequence, we expect that the cash flow from operating activities in 2004 will be approximately $150 million lower than it would otherwise have been as a result of the one-time effect of phasing in the new regulations. Thereafter, we do not expect any significant impact on the cash flow from operating activities on a full-year basis.

Net cash provided by operations, which excludes fiduciary cash movements, increased to $493 million in 2003 from $343 million in 2002 and $221 million in 2001. These increases were due mainly to increasing revenue and widening operating margins over the three-year period.

Investing activities

Net cash used in investing activities increased to $135 million in 2003 from $50 million in 2002 and $10 million in 2001. Capital expenditures for 2003, 2002 and 2001, less the proceeds from disposals of fixed assets, were $53 million, $44 million and $35 million, respectively. The increased capital expenditures in 2003 related primarily 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 2004 to rise modestly over 2003 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.

Cash used for acquisitions in 2003 amounted to $91 million (net of cash acquired), primarily incurred in acquiring further interests in Willis GmbH, Willis Iberia and Willis Italia. 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.

Net proceeds from the sale of operations in 2003 amounted to $15 million, primarily relating to the disposal of our 49% holding in Buck & Willis Healthcare and two US operations. 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.

Financing activities

Cash used in financing activities amounted to $222 million in 2003 compared with $218 million in 2002 and $167 million in 2001. During 2003, debt repayments amounted to $198 million following repayments of $221 million in 2002 and $172 million in 2001. 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. Subsequent to the 2003 year-end, we used our new credit facilities and existing own cash to retire the outstanding senior subordinated notes.

In February 2003, we declared an initial quarterly cash dividend of $0.125 per share; this was increased in July 2003 by 30% to $0.1625 per share, an annual rate of $0.65 per share. The cash dividends paid during 2003 amounted to $63 million. The quarterly cash dividend was increased in February 2004 by a further 15% to $0.1875 per share, an annual rate of $0.75 per share. At this rate, the expected annual cost of dividends payable in 2004 will be approximately $118 million. We have funded dividends from cash generated internally by operations and expect to continue to do so in the future.

As of December 31, 2003, we had cash and cash equivalents of $364 million, an increase of $153 million from December 31, 2002. We expect that internally generated funds will be sufficient to meet our foreseeable operating cash requirements, capital expenditures and dividend payments. In addition, as part of our new credit facilities, we have an undrawn $150 million revolving credit facility.

CONTRACTUAL OBLIGATIONS

Our contractual obligations at December 31, 2003 were:

		Payments due by			
Obligations	**Total**	**2004**	**2005–2006**	**2007–2008**	**After 2008**
			(millions)		
9% Senior Subordinated Notes	$ 370	$ —	$ —	$—	$370
Operating leases	351	69	107	85	90
Put & call options relating to subsidiaries and associates(1)	496	330	22	12	132
Total contractual obligations	$1,217	$399	$129	$97	$592

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

As mentioned above, all of the 9% senior subordinated notes were redeemed in full in February 2004. The new credit facilities negotiated in December 2003 remained undrawn at the year end. $300 million of the new $450 million term loan facility was drawn down in February 2004 in connection with the redemption of the notes and the balance of $150 million is available for draw down until June 2004. Under the terms of the senior new credit agreement, $150 million of the term loans mature in each of December 2006, December 2007 and December 2008.

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 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, 2003 based on the formula would not have exceeded $56 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 ($154 million at December 31, 2003 exchange rates), or a price based on the formula, which at December 31, 2003 amounted to approximately $319 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.

Off-Balance Sheet Transactions

Apart from commitments, guarantees and contingencies, as disclosed in Note 15 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.

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.

A discussion of our accounting policies for financial and derivative instruments is included in Note 2 of the consolidated financial statements and further disclosure is provided in Note 12 to the consolidated financial statements, included elsewhere in this report.

Foreign exchange risk management

We conduct our business in over 100 currencies. Accordingly, movements in currency exchange rates may affect our results.

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 United Kingdom, however, we earn revenue in a number of different currencies, but expenses are almost entirely incurred in pounds sterling. Outside the United States and the United Kingdom, we predominantly generate revenue and expenses in the local currency. The table below details the breakdown of revenues and expenses by currency in 2003.

	Pounds Sterling	US Dollars	Other currencies
Revenues	13%	58%	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 revenue arising in currencies other than US dollars together with sufficient US dollar revenues to fund the remaining pound sterling expenses. Outside the United Kingdom only those cash flows necessary to fund mismatches between revenues and expenses are converted into local currency; amounts remitted to the United Kingdom 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.

Until November 2003, our operations were financed principally by variable rate bank borrowings and the 9% senior subordinated notes due 2009 issued by a subsidiary. In November 2003, we repaid in full the outstanding variable rate bank borrowings and in February 2004 we redeemed in full the outstanding 9% senior subordinated notes. Our policy is to minimise our exposure to increases in the interest rates on our variable rate borrowings. However, as of December 31, 2003, there were no such borrowings outstanding.

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 consolidated 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 for each of the next three years.

WILLIS GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,		
	2003	2002	2001
	(millions, except per share data)		
REVENUES:			
Commissions and fees	$2,004	$1,661	$1,357
Interest income	72	74	67
Total revenues	2,076	1,735	1,424
EXPENSES:			
General and administrative expenses (excluding non-cash compensation)	1,408	1,214	1,054
Non-cash compensation—performance options (Note 11)	20	80	158
Depreciation expense	36	34	33
Amortization of goodwill and other intangible assets	3	1	35
Net gain on disposal of operations (Note 4)	(11)	(13)	(17)
Total expenses	1,456	1,316	1,263
OPERATING INCOME	620	419	161
Interest expense	53	65	82
INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	567	354	79
INCOME TAXES (Note 5)	159	141	62
INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	408	213	17
EQUITY IN NET INCOME OF ASSOCIATES (Note 6)	14	9	4
MINORITY INTEREST (including preferred stock dividends of $12 in 2001)	(8)	(12)	(19)
NET INCOME	$ 414	$ 210	$ 2
NET INCOME PER SHARE (Note 7)			
—Basic	$ 2.72	$ 1.43	$ 0.01
—Diluted	$ 2.45	$ 1.28	$ 0.01
AVERAGE NUMBER OF SHARES OUTSTANDING (Note 7)			
—Basic	152	147	136
—Diluted	169	164	148

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

WILLIS GROUP HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

	December 31, 2003	December 31, 2002
	(millions, except share data)	
ASSETS		
Cash and cash equivalents	$ 364	$ 211
Fiduciary funds—restricted (Note 8)	1,502	1,369
Short-term investments (Note 8)	61	54
Accounts receivable, net of allowance for doubtful accounts of $32 in 2003 and $30 in 2002	6,980	6,589
Fixed assets (Note 2)	249	213
Goodwill and other intangible assets, net of accumulated amortization of $121 in 2003 and $118 in 2002	1,345	1,262
Investments in associates (Note 6)	118	108
Deferred tax assets (Note 5)	141	151
Other assets	198	188
TOTAL ASSETS	$10,958	$10,145
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 8,210	$ 7,725
Deferred revenue and accrued expenses	327	233
Income taxes payable	137	169
Long-term debt (Note 9)	370	567
Other liabilities	571	572
Total liabilities	9,615	9,266
COMMITMENTS AND CONTINGENCIES (Note 15)		
MINORITY INTEREST	19	25
STOCKHOLDERS' EQUITY:		
Common shares, $0.000115 par value; Authorized: 4,000,000,000; Issued and outstanding, 159,083,048 shares in 2003 and 148,249,419 shares in 2002	—	—
Additional paid-in capital	1,100	960
Retained earnings	367	42
Accumulated other comprehensive loss (Note 14)	(126)	(131)
Treasury stock, at cost, 811,370 shares in 2003 and 886,255 shares in 2002	(17)	(17)
Total stockholders' equity	1,324	854
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,958	$10,145

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

WILLIS GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2003	2002	2001
		(millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 414	$ 210	$ 2
Adjustments to reconcile net income to net cash provided by operating activities:			
Net gain on sale of subsidiaries, fixed assets and short-term investments	(13)	(13)	(17)
Depreciation	36	34	33
Amortization of goodwill and other intangible assets	3	1	35
Provision for doubtful accounts	2	6	10
Minority interest	2	9	6
Provision for deferred income taxes	6	(8)	(18)
Non-cash compensation expense attributable to performance options	20	80	158
Other	19	(24)	(13)
Changes in operating assets and liabilities, net of effects from purchase of subsidiaries:			
Fiduciary funds—restricted	(47)	(22)	(320)
Accounts receivable	(93)	(563)	(1,142)
Accounts payable	81	547	1,446
Other	63	86	41
Net cash provided by operating activities	493	343	221
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds on disposal of fixed assets	4	3	5
Additions to fixed assets	(57)	(47)	(40)
Net cash proceeds from sale of operations	15	15	22
Acquisitions of subsidiaries, net of cash acquired	(91)	(13)	—
Tax refund relating to prior acquisition	—	—	5
Purchase of short-term investments	(48)	(21)	(16)
Proceeds on sale of short-term investments	42	13	14
Net cash used in investing activities	(135)	(50)	(10)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of debt	(198)	(221)	(172)
Repayment of preference shares	—	—	(273)
Proceeds from initial public offering, net of offering costs	—	—	282
Purchase of treasury stock	(1)	(7)	(11)
Proceeds from issue of shares	40	10	7
Dividends paid	(63)	—	—
Net cash used in financing activities	(222)	(218)	(167)
INCREASE IN CASH AND CASH EQUIVALENTS	136	75	44
Effect of exchange rate changes on cash and cash equivalents	17	8	(4)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	211	128	88
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 364	$ 211	$ 128

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

WILLIS GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	December 31,		
	2003	2002	2001
	(millions, except share data)		
COMMON SHARES OUTSTANDING (thousands)			
Balance, beginning of year	148,249	147,635	123,698
Common shares issued	534	76	23,698
Exercise of stock options	10,300	538	239
Balance, end of year	159,083	148,249	147,635
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	$ 960	$ 867	$ 410
Issue of common shares under employee stock compensation plans and related tax benefits	105	8	—
Proceeds from issue of shares, net of offering costs of $30 in 2001	—	—	296
Issue of common shares for acquisitions	12	—	—
Non-cash compensation—performance options	20	80	158
Gains on sale of treasury stock	3	5	3
Balance, end of year	1,100	960	867
RETAINED EARNINGS (ACCUMULATED DEFICIT)			
Balance, beginning of year	42	(165)	(167)
Net income	414	210	2
Dividends	(89)	—	—
Employee share plans	—	(3)	—
Balance, end of year	367	42	(165)
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME			
Balance, beginning of year	(131)	5	(5)
Foreign currency translation adjustment	(4)	1	(4)
Cumulative effect of accounting change	—	—	8
Unrealized holding (loss) gain	(3)	2	1
Minimum pension liability adjustment	18	(167)	—
Net (loss) gain on derivative instruments	(6)	28	5
Balance, end of year	(126)	(131)	5
TREASURY STOCK			
Balance, beginning of year	(17)	(11)	—
Cost of shares acquired	(1)	(7)	(11)
Shares reissued under stock compensation plans	1	1	—
Balance, end of year	(17)	(17)	(11)
TOTAL STOCKHOLDERS' EQUITY	$ 1,324	$ 854	$ 696

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

WILLIS GROUP HOLDINGS LIMITED
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 their 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.

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

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.

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.

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

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 $2 million in the years ended December 31, 2003, 2002 and 2001, respectively.

Fixed Assets—Fixed assets are stated at cost less accumulated depreciation. Expenditures for improvements are capitalized; repairs and maintenance are charged to expenses as incurred. Depreciation is computed 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 3 to 25 years.

The components of fixed assets are as follows:

	December 31, 2003	December 31, 2002
	(millions)	
Land and buildings	$ 126	$ 113
Leasehold improvements	44	43
Furniture and equipment	240	186
Total fixed assets, cost	410	342
Less accumulated depreciation	(161)	(129)
Total fixed assets, net	$ 249	$ 213

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.

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

Goodwill and other intangible assets—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 annually and whenever facts or circumstances indicate that the carrying amounts may not be recoverable. As part of the evaluation 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 their shares (a put option) 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 derivatives that qualify for hedge accounting recorded in other comprehensive income and changes in fair value of derivatives that do not qualify for hedge accounting 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.

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

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 (Revised 2003), *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.

Had compensation expense for such plans been determined consistent with the fair value method prescribed by SFAS 123, *Accounting for Stock-Based Compensation* ("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,		
	2003	2002	2001
	(millions, except per share data)		
Net income, as reported	$ 414	$ 210	$ 2
Add back: Non-cash compensation expense—performance options, net of related tax of $6 in 2003, $13 in 2002 and $27 in 2001	14	67	131
One-off tax benefit as determined under APB 25[1]	(35)	—	—
Less: Total stock-based employee compensation expense determined under FAS 123 for all awards, net of related tax of $4 in 2003, $2 in 2002 and $1 in 2001	(6)	(5)	(6)
One-off tax benefit as determined under FAS 123[1]	3	—	—
Net income, pro forma	$ 390	$ 272	$ 127
Net income per share:			
Basic:			
As reported	$2.72	$1.43	$0.01
Pro forma	2.57	1.85	0.93
Diluted:			
As reported	$2.45	$1.28	$0.01
Pro forma	2.32	1.66	0.86

(1) Arising from certain changes in UK tax legislation (see Note 5).

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 risk management and other services are recognized as the services are provided.

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

Negotiated fee arrangements for an agreed period covering multiple insurance placements, the provision of risk management and/or other services are determined, contract by contract, on the basis of the relative fair value of the services completed and the services yet to be rendered. The Company establishes contract cancellation reserves where appropriate. At December 31, 2003, 2002 and 2001, 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—In January 2003, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"). This Interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, addresses consolidation by business enterprises of variable interest entities. The Company has assessed the potential impact of FIN 46 and concluded that there is no impact to its financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The Company has assessed the potential impact of SFAS 149 and concluded that there is no material impact to its financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company has assessed the potential impact of SFAS 150 and concluded that there is no impact to its financial position or results of operations. In December 2003, the FASB issued SFAS No. 132 (Revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits* ("SFAS 132R"). SFAS 132R amends FASB Statements No. 87, 88 and 106 and replaces FASB Statement No. 132 to provide revised disclosures over pension plans and other postretirement benefits. SFAS 132R was effective for fiscal years ending after December 15, 2003. The disclosures required by SFAS 132R are presented in note 10 to the financial statements.

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

3. 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.

3. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

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 years ended December 31, 2003 and 2002 have been prepared in accordance with SFAS 142.

	Years ended December 31,		
	2003	2002	2001
	(millions, except per share data)		
Net income, as reported	$ 414	$ 210	$ 2
Amortization of goodwill	—	—	35
Adjusted net income	$ 414	$ 210	$ 37
Basic net income per share, as reported	$2.72	$1.43	$0.01
Amortization of goodwill	—	—	0.26
Adjusted basic net income per share	$2.72	$1.43	$0.27
Diluted net income per share, as reported	$2.45	$1.28	$0.01
Amortization of goodwill	—	—	0.24
Adjusted diluted net income per share	$2.45	$1.28	$0.25

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. In addition, as required by SFAS 142, goodwill has been assessed annually for impairment. These assessments have not resulted in any impairment being recorded for either of the years ended December 31, 2003 or 2002.

4. ACQUISITIONS AND DISPOSITIONS

Acquisitions—On January 1, 2003 the Company acquired the remaining 22% interest, in addition to the 78% already owned, in Willis GmbH, Germany's third largest insurance broker. The aggregate cash purchase price was $17 million, all of which was recorded as goodwill.

On January 1, 2003 the Company also acquired an additional 23% interest in Willis Iberia to add to the 54% already owned. The remaining 23% of Willis Iberia is owned by the Company's associate, Gras Savoye. The aggregate consideration was $38 million, which included $6 million of common shares. The Company has recorded goodwill of $35 million in relation to this acquisition. During 2003 the Company acquired further interests totalling 33% in Willis Italia to add to the 67% already owned taking its ownership to 100%. The aggregate consideration for these interests was $25 million, which included $5 million of common shares. The Company has recorded goodwill of $21 million in relation to these acquisitions.

During 2003, in addition to the acquisitions of Willis GmbH, Willis Iberia and Willis Italia the Company also acquired, or increased its investments in, a number of other businesses. The aggregate purchase price of these acquisitions approximated $14 million, inclusive of deferred payments amounting to $4 million and common shares of $1 million.

4. ACQUISITIONS AND DISPOSITIONS (Continued)

During 2002 and 2001, the Company acquired, or increased its investments in, a number of businesses. The aggregate purchase price of all acquisitions completed during 2002 and 2001 approximated $32 million and $25 million, respectively, inclusive of deferred payments amounting to $9 million in 2002.

Additional consideration of up to $11 million is payable in future periods contingent upon future results 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.

Dispositions—Total proceeds relating to 2003 dispositions of subsidiaries and associates amounted to $16 million, inclusive of deferred proceeds amounting to $2 million, with a gain of $11 million recorded in the consolidated statement of operations.

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.

5. 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,		
	2003	2002	2001
		(millions)	
US	$143	$ 84	$15
UK	330	188	10
Other jurisdictions	94	82	54
Income before income taxes, equity in net income of associates and minority interest	$567	$354	$79

5. INCOME TAXES (Continued)

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

	Years ended December 31, 2003	2002	2001
		(millions)	
Current income taxes:			
US federal tax	$ 34	$ 41	$ 27
US state and local taxes	10	12	10
UK corporation tax	73	70	30
Other jurisdictions	37	26	12
Total current taxes	154	149	79
Deferred taxes:			
US federal tax	22	(25)	(23)
US state and local taxes	1	(4)	(6)
UK corporation tax[(1)]	(18)	22	9
Other jurisdictions	—	(1)	3
Total deferred taxes	5	(8)	(17)
Total income taxes	$159	$141	$ 62

(1) In 2003, certain changes to UK tax legislation were enacted regarding the taxation of employee stock options. When UK-based employees exercise their stock options, the Company now obtains a corporate tax deduction equal to the market price of the Company's shares on the date of exercise less the option exercise price paid by the employee. This change largely brings UK tax legislation into line with US tax legislation.

Non-cash compensation amounting to $116 million in respect of UK performance options was expensed in periods prior to January 1, 2003 without any income tax benefit being recognized. Accordingly, following the change in UK tax legislation, an income tax benefit of $35 million, and a corresponding deferred asset, has been recognized in 2003.

5. INCOME TAXES (Continued)

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,		
	2003	2002	2001
		(millions)	
Income before income taxes, equity in net income of associates and minority interest	$567	$354	$ 79
US federal statutory income tax rate	35%	35%	35%
Income tax expense at US federal tax rate	198	124	28
Adjustments to derive effective rate:			
Non-deductible items:			
Goodwill and other intangible assets amortization	1	1	13
Stock options	1	16	31
Other	1	6	(4)
Other items:			
Prior year adjustment(1)	(32)	(5)	(1)
Tax differentials of foreign earnings:			
UK earnings	(14)	(13)	(5)
Other jurisdictions	9	12	1
Other	(5)	—	(1)
Provision for income taxes	$159	$141	$ 62

(1) Includes the income tax benefit of $35 million arising from the changes in UK tax legislation referred to above.

5. INCOME TAXES (Continued)

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

	December 31, 2003	December 31, 2002
	(millions)	
Deferred tax assets:		
Accrued expenses not currently deductible	$ 10	$ 16
UK net operating losses	33	29
UK capital losses	81	71
Accrued retirement benefits	75	91
Provisions	30	25
Deferred compensation	16	18
Stock options	56	45
Other	7	7
Gross deferred tax assets	308	302
Less: valuation allowance	(114)	(100)
Net deferred tax assets	194	202
Deferred tax liabilities:		
Financial derivative transactions	15	19
Prepaid retirement benefits	15	14
Tax-leasing transactions	9	9
Other	14	9
Deferred tax liabilities	53	51
Net deferred tax assets	$141	$ 151

At December 31, 2003, the Company had a valuation allowance of $114 million (2002: $100 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, 2003, the Company had deferred tax assets of $194 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 $114 million at December 31, 2003 (2002: $100 million) is reduced in future years to recognize deferred tax assets, $81 million (2002: $71 million) will be allocated to reduce goodwill.

5. INCOME TAXES (Continued)

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.

6. 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	2003	2002
Al-Futtaim Willis Faber (Private) Limited	Dubai	49%	49%
Gras Savoye & Cie ("Gras Savoye")	France	33%	33%
Willis A/S[1]	Denmark	30%	30%
Herzfeld & Levy SA	Argentina	40%	40%

(1) On January 1, 2004, the Company acquired the remaining 70% in Willis A/S (see Note 20).

Of those listed above, the Company's principal investment as of December 31, 2003 and 2002 is Gras Savoye, France's leading 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, 2003 and 2002, respectively. As of December 31, 2003 and 2002, 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

6. INVESTMENTS IN ASSOCIATES (Continued)

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.

	2003	2002	2001
		(millions)	
Condensed statement of operations data:			
Net sales	$ 386	$ 294	$307
Income before income taxes	67	44	35
Net income	44	30	24
Condensed balance sheet data:			
Total assets	1,164	1,017	
Total liabilities	(1,033)	(919)	
Stockholders' equity	(131)	(98)	

7. NET INCOME PER SHARE

Basic and diluted 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, 2003, time-based and performance-based options to purchase 15.1 million and 7.3 million (2002: 19.5 million and 11.1 million; 2001: 19.3 million and 11.3 million) shares, respectively, and 0.3 million restricted shares (2002: 0.2 million and 2001: nil), respectively, were outstanding. Basic and diluted net income per share are as follows:

	Years ended December 31,		
	2003	2002	2001
	(millions, except per share data)		
Basic average number of shares outstanding	152	147	136
Dilutive effect of potentially issuable shares	17	17	12
Diluted average number of shares outstanding	169	164	148
Basic net income per share	$ 2.72	$ 1.43	$0.01
Dilutive effect of potentially issuable shares	(0.27)	(0.15)	—
Diluted net income per share	$ 2.45	$ 1.28	$0.01

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.

8. 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, 2003 and 2002, the amortized cost of securities approximated fair value.

Realized gains and losses, net of tax, on debt securities are included in net income. During 2003, 2002 and 2001, sales of debt securities totaled $59 million, $36 million and $21 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, 2003	December 31, 2002
	(millions)	
Fiduciary funds-restricted:		
Cash and cash equivalents(1)	$1,501	$1,240
Other(2)	1	129
	$1,502	$1,369
Short-term investments(3):		
US, UK and other Government securities	$ 28	$ 25
Corporate debt securities	33	29
	$ 61	$ 54

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

(2) Other primarily consists of time deposits and certificates of deposit with original maturities in excess of three months.

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

9. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2003	December 31, 2002
	(millions)	
Senior Credit Facility (retired December 4, 2003), term loans	$ —	$157
9% senior subordinated notes, due 2009	370	410
	$370	$567

9. LONG-TERM DEBT (Continued)

Senior Credit Facility **(*retired December 4, 2003*)**—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 Company repaid in full the outstanding term loans under this facility.

For the years ended December 31, 2003 and 2002, the weighted-average interest rate relating to all loans under the former Senior Credit Facility ranged from 2.16% to 3.10% and 2.75% to 4.31%, respectively; net of an interest rate swap, the ranges were 5.95% to 6.90% and 6.02% to 7.58%, respectively.

Senior Credit Facility **(*entered into December 4, 2003*)**—On December 4, 2003 ("the effective date"), the Company entered into a new credit agreement providing up to $450 million in term loans and $150 million in revolving credit facilities. At December 31, 2003, no amount had been drawn down under this facility. Although to finance the redemption of the 9% senior subordinated notes (see below), Willis North America drew down $300 million of the new facilities.

Under the new credit agreement, the Company is due to make loan repayments of $150 million on the third, fourth and fifth anniversary of the effective date. Loans under this credit agreement bear interest at a rate per annum equal to either adjusted LIBOR or adjusted EURIBOR depending on their underlying currency plus a margin of 0.75% to 1.50% determined by reference to future changes in the Company's interest coverage, leverage and credit ratings. The minimum applicable margin is 0.95% until December 4, 2004.

The new revolving credit facility is available for working capital requirements and general corporate purposes, subject to certain limitations, until December 4, 2008. The revolving credit facility is available for loans denominated in US dollars, pounds sterling and certain other currencies.

The new credit agreement contains numerous operating and financial covenants, including, without limitation, requirements to maintain minimum ratios of consolidated EBITDA to consolidated net interest expense and maximum levels of net indebtedness in relation to consolidated EBITDA, in each case subject to certain adjustments. In addition, the credit agreement includes covenants relating to the delivery of financial statements, reports and notices, limitations on liens, limitations on sales and other disposals of assets, limitations on subsidiary indebtedness and other liabilities, limitations on sale and leaseback transactions, limitations on mergers and other fundamental changes, maintenance of property, maintenance of insurance, nature of business, compliance with applicable laws, maintenance of corporate existence and rights, use of proceeds, payment of taxes and access to information and properties.

All obligations of Willis North America Inc. ("Willis North America") (the borrower) under the credit agreement are guaranteed by Willis Group Holdings Limited, Trinity Acquisition Limited, Willis Group Limited, Willis Partners, TA I Limited, TA II Limited, TA III Limited and TA IV Limited.

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 was payable semi-annually on February 1 and August 1.

On February 2, 2004, Willis North America redeemed the Notes, in whole, at a redemption price of 104.5% of the aggregate principal amount of the Notes being redeemed, plus accrued and unpaid interest.

9. LONG-TERM DEBT (Continued)

During 2003 and 2002, Willis North America bought back and canceled Notes totaling $40 million and $29 million, respectively. The difference between the market price paid and the book value was not material.

The indenture for the Notes contained covenants that, among other things, limited 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, 2003, the Company was in compliance with all covenants.

Scheduled Debt Repayments—The Notes were due to mature in 2009, however, as noted above, the Company redeemed the Notes in full on February 2, 2004. Under the new credit agreement, the Company is due to make loan repayments of $150 million on the third, fourth and fifth anniversary of the effective date, assuming that the term loans under the new credit facility are drawn down in full.

Lines of Credit—The Company also has available $2 million in lines of credit, of which $nil (2002: $nil) was drawn as of December 31, 2003 (excluding the $150 million revolving credit facility).

10. PENSION PLANS

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.

10. PENSION PLANS (Continued)

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:

	UK Pension Benefits		US Pension Benefits	
	2003	2002	2003	2002
	(millions)			
Change in benefit obligation:				
Benefit obligation, beginning of year	$1,190	$ 973	$ 416	$ 371
Service cost	30	25	17	14
Interest cost	67	58	27	25
Employee contributions	3	3	—	—
Amendments	—	(29)	—	—
Actuarial loss	61	86	37	22
Benefits paid	(45)	(41)	(16)	(16)
Foreign currency changes	144	115	—	—
Benefit obligations, end of year	1,450	1,190	481	416
Change in plan assets:				
Fair value of plan assets, beginning of year	1,020	1,102	303	340
Actual return on plan assets	183	(170)	73	(32)
Employee contributions	3	3	—	—
Employer contributions	21	15	14	11
Benefits paid	(45)	(41)	(16)	(16)
Other events	—	—	2	—
Foreign currency changes	129	111	—	—
Fair value of plan assets, end of year	1,311	1,020	376	303
Reconciliation of funded status:				
Funded status	(139)	(170)	(105)	(113)
Unrecognized net actuarial loss	280	276	48	62
Unrecognized prior service gain	(28)	(28)	—	—
Net asset (liability) recognized	113	78	(57)	(51)
Amounts recognized in balance sheet consist of:				
Accrued benefit liability	(90)	(135)	(68)	(81)
Accumulated other comprehensive income	203	213	11	30
Net asset (liability) recognized	$ 113	$ 78	$ (57)	$ (51)

10. PENSION PLANS (Continued)

The following schedule provides information for the Company's UK and US defined benefit pension plans with an accumulated benefit obligation in excess of plan assets:

	December 31,			
	UK Pension Benefits		US Pension Benefits	
	2003	2002	2003	2002
	(millions)			
Projected benefit obligation	$1,450	$1,190	$481	$416
Accumulated benefit obligation	1,401	1,155	444	384
Fair value of plan assets	1,311	1,020	376	303

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

	Years ended December 31,					
	UK Pension Benefits			US Pension Benefits		
	2003	2002	2001	2003	2002	2001
	(millions)					
Components of net periodic benefit (income) cost:						
Service cost	$ 30	$ 25	$ 24	$ 17	$ 14	$ 13
Interest cost	67	58	54	27	25	24
Expected return on plan assets	(97)	(88)	(80)	(26)	(29)	(30)
Amortization of unrecognized prior service gain	(3)	(3)	—	—	—	—
Amortization of unrecognized actuarial (gain) loss	—	—	(6)	3	—	(5)
Net periodic benefit (income) cost	$ (3)	$ (8)	$ (8)	$ 21	$ 10	$ 2

The following schedule provides other information concerning the Company's UK and US defined benefit pension plans:

	Years ended December 31,			
	UK Pension Benefits		US Pension Benefits	
	2003	2002	2003	2002
	(millions, except weighted-averages)			
Decrease (increase) in additional minimum liability included in other comprehensive income	$ 10	$ (213)	$ 19	$ (30)
Weighted-average assumptions to determine benefit obligations:				
Discount rate	5.5%	5.6%	6.0%	6.5%
Rate of compensation increase	3.6%	3.3%	4.0%	4.0%
Weighted-average assumptions to determine net periodic benefit cost:				
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%	4.0%

10. PENSION PLANS (Continued)

The expected return on plan assets was determined on the basis of the weighted-average of the expected future returns of the various asset classes, using the target allocations shown below. The expected returns on UK plan assets are UK and foreign equities 8.0%, debt securities 4.8% and real estate 6.4%. The expected returns on US plan assets are US and foreign equities 9.75% and debt securities 6.0%.

The Company's pension plan asset allocations based on fair values were as follows:

	December 31,			
	UK Pension Benefits		US Pension Benefits	
Asset category	**2003**	**2002**	**2003**	**2002**
Equity securities	74%	75%	65%	57%
Debt securities	18%	20%	34%	39%
Real estate	5%	5%	—%	—%
Other	3%	—%	1%	4%
Total	100%	100%	100%	100%

The Company's investment policy includes a mandate to diversify assets and invest in a variety of asset classes to achieve that goal. The UK Plan's assets are divided into 7 separate portfolios according to asset class and managed by 6 investment managers. The broad target allocations are UK and foreign equities (75%), debt securities (20%) and real estate (5%). The US Plan's assets are currently invested in 16 funds representing most standard equity and debt security classes. The broad target allocations are US and foreign equities (64%) and debt securities (36%).

The Company expects to contribute $30 million and $14 million in 2004 to the UK and US defined benefit pension plans, respectively.

The following benefit payments, which reflect expected future service, as appropriate, are estimated to be paid by the UK and US defined benefit pension plans:

Expected future benefit payments	**UK Pension Benefits**	**US Pension Benefits**
2004	$ 53	$ 17
2005	55	18
2006	58	19
2007	61	20
2008	64	22
2009–2013	362	130

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 2003, 2002 and 2001 were approximately $5 million, $5 million and $5 million, respectively.

11. STOCK BENEFIT PLANS

The Company 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 the Company.

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 ($3.58 using the year-end exchange rate of £1 = $1.79) 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 ($3.58 using the year-end exchange rate of £1 = $1.79). 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 15,000,000 shares available for grant under this plan. Options are exercisable on a variety of dates, including from the first, 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

11. STOCK BENEFIT PLANS (Continued)

quoted market price, subsequent to the initial public offering. Accordingly, pursuant to APB 25 no compensation expense has been recognized 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, 2003 of $20 million ($16 million, net of tax) (2002: $80 million ($67 million, net of tax); 2001: $158 million ($132 million, net of tax)) was recognized based on the 10.9 million (2002: 11.1 million; 2001: 11.3 million) unforfeited performance options outstanding at that date, a quoted market price of $28.67 (2002: $28.67; 2001: $23.55) and an average elapsed performance period of 95% (2002: 85%; 2001: 68%).

The pro forma disclosures in Note 2 were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Years ended December 31,		
	2003	2002	2001
Dividend yield	2%	2%	—%
Expected volatility	24%	34%	30%
Risk-free interest rate	2.55%	2.41%	4.15%
Weighted-average expected life (years)	3	3	3
Weighted-average fair value of options granted	$6.27	$5.38	$4.04

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.

11. STOCK BENEFIT PLANS (Continued)

Stock option transactions under the plans are as follows:

December 31, (shares in thousands)	2003 Shares	2003 Weighted average exercise price(1)	2002 Shares	2002 Weighted average exercise price(1)	2001 Shares	2001 Weighted average exercise price(1)
Time-based stock options						
Balance, beginning of year	19,010	$ 6.28	18,724	$ 4.65	17,323	$ 2.90
Granted	2,766	$30.90	1,112	$28.18	1,963	$16.93
Exercised	(6,386)	$ 3.46	(500)	$ 3.07	(239)	$ 3.31
Forfeited	(493)	$15.74	(326)	$10.05	(323)	$ 3.07
Balance, end of year	14,897	$11.75	19,010	$ 5.98	18,724	$ 4.37
Options exercisable at year-end	5,307	$ 3.58	8,225	$ 3.22	5,386	$ 2.90
Performance-based stock options						
Balance, beginning of year	11,092	$ 3.58	11,275	$ 3.22	11,608	$ 2.90
Granted	—	—	—	—	25	$ 2.90
Exercised	(3,641)	$ 3.58	—	—	—	—
Forfeited	(197)	$ 3.58	(183)	$ 3.22	(358)	$ 2.90
Balance, end of year	7,254	$ 3.58	11,092	$ 3.22	11,275	$ 2.90
Options exercisable at year-end	2,525	$ 3.58	—	—	—	—

(1) Certain options are exercisable at £2 per share. Year-end exchange rates of £1 = $1.79, £1 = $1.61 and £1 = $1.45 have been used as of December 31, 2003, 2002 and 2001, respectively.

A summary of time-based options outstanding and exercisable at December 31, 2003 is as follows:

Range of exercise prices	Options outstanding: Shares outstanding	Options outstanding: Weighted average remaining contractual life (years)	Options outstanding: Weighted average exercise price	Options exercisable: Shares exercisable	Options exercisable: Weighted average exercise price
(shares in thousands)					
$3.58	9,581	5	$ 3.58	5,307	$ 3.58
$13.50	417	7	$13.50	—	—
$16.95–$25.14	1,505	8	$22.00	—	—
$25.25–$35.75	3,394	9	$30.04	—	—
$3.58–$35.75	14,897	6	$11.75	5,307	$ 3.58

The weighted-average remaining contractual life of performance-based options outstanding at December 31, 2003, was five years.

12. FINANCIAL INSTRUMENTS

The Company's principal financial instruments, other than derivatives, comprise bank loans, the new 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, as amended by SFAS 149, in accounting for these financial instruments.

Interest Rate Risk—Until November 2003, the Company's operations were financed principally through the former Senior Credit Facility, which was retired in December 2003 and had a variable interest rate and the Notes, which had a 9% fixed interest rate. Interest rate swaps were used to generate the desired interest rate profile and to manage the Company's exposure to interest rate fluctuations.

Willis North America 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 were swapped for fixed rate interest payment obligations until the final maturity of those term loans. The swap agreement provided 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 exceeded the notional amount at any time, Willis North America would have been exposed to the risk of increased interest rates on that excess.

The Company designated this 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 were recorded as a component of other comprehensive income. A gain of $4 million was recorded for the year ended December 31, 2003 (2002: gain $1 million; 2001: loss $9 million). Amounts were reclassified from other comprehensive income into earnings when the hedged exposure affected earnings.

The differential paid or received was recognized as an adjustment to interest expense as incurred. The swap agreement was canceled as of November 19, 2003 at a cost of $2 million.

As of December 31, 2003, there were no amounts drawn down under the new Senior Credit Facility.

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 cash flow hedges recorded in other comprehensive income and changes in fair

12. FINANCIAL INSTRUMENTS (Continued)

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, 2003, the Company has recorded losses of $15 million in other comprehensive income relating to changes in fair value on contracts which are effective cashflow hedges as defined in SFAS 133 (2002: gain $20 million; 2001: gain $8 million). For contracts which were not designed for hedge accounting as defined in SFAS 133, the Company has recorded a loss of $1 million in general and administrative expenses representing the change in fair value for the year ended December 31, 2003 (2002: loss $1 million; 2001: gain $8 million).

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

		December 31,			
				Weighted average Interest Rates	
		Notional Amount(1)	Termination Dates	Receive	Pay
		(millions)		%	%
2003					
US dollar	Receive fixed–pay variable	$984	2004-2007	4.27	2.44
Pounds sterling	Receive fixed–pay variable	431	2004-2007	5.18	4.65
Euro	Receive fixed–pay variable	171	2004-2007	3.97	3.04
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

(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 December 4, 2008, 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.

12. FINANCIAL INSTRUMENTS (Continued)

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, 2003, the Company has recorded a gain of $5 million in other comprehensive income relating to changes in the fair value on contracts which are effective cashflow hedges as defined in SFAS 133 (2002: gain $7 million; 2001: gain $6 million). For contracts which were not designated for hedge accounting as defined in SFAS 133, the Company has recorded a loss of $2 million in general and administrative expenses representing the change in the fair value for the year ended December 31, 2003 (2002: gain $2 million; 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,	
	Sell 2003(1)	Sell 2002
	(millions)	
US dollar	$123	$125
Euro	132	81
Japanese yen	33	30

(1) Forward exchange contracts range in maturity from 2004 to 2006.

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, 2003.

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

12. FINANCIAL INSTRUMENTS (Continued)

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.

	December 31, 2003 Carrying amount	December 31, 2003 Fair Value	December 31, 2002 Carrying amount	December 31, 2002 Fair Value
	(millions)			
Assets:				
Cash and cash equivalents	$ 364	$ 364	$ 211	$ 211
Fiduciary funds—restricted	1,502	1,502	1,369	1,369
Short-term investments	61	61	54	54
Derivative financial instruments	58	58	69	69
Liabilities:				
Long-term debt	370	387	567	596
Derivative financial instruments	8	8	8	8

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.

13. 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,		
	2003	2002	2001
		(millions)	
Supplemental disclosures of cash flow information:			
Cash payments for income taxes	$125	$ 70	$ 41
Cash payments for interest	$ 50	$ 62	$ 82
Supplemental disclosures of non-cash flow investing and financing activities:			
Issue of preference shares in lieu of dividend	$ —	$ —	$ 1
Purchase of fixed assets	—	—	1
Issue of stock on acquisition of subsidiaries	12	1	11
Deferred payments on acquisitions of subsidiaries	4	9	11
Acquisitions:			
Fair value of assets acquired	1	79	19
Less:			
liabilities assumed	9	(74)	(15)
cash acquired	—	(21)	(5)
Acquisitions, net of cash acquired	$ 10	$(16)	$ (1)

14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive income are as follows:

	Years ended December 31,		
	2003	2002	2001
		(millions)	
Net income	$414	$210	$ 2
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	(4)	1	(4)
Cumulative effect of accounting change (net of tax of $(5) in 2001)	—	—	8
Unrealized holding (loss) gain (net of tax of $1 in 2003 and $(1) in 2002)	(3)	2	1
Minimum pension liability adjustment (net of tax of $(11) in 2003 and $76 in 2002)	18	(167)	—
Net (loss) gain on derivative instruments (net of tax of $2 in 2003 and $(12) in 2002)	(6)	28	5
Other comprehensive income (loss) (net of tax of $(8) in 2003, $63 in 2002 and $(5) in 2001)	5	(136)	10
Comprehensive income	$419	$ 74	$ 12

14. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (Continued)

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

	December 31,		
	2003	2002	2001
	(millions)		
Net foreign currency translation adjustment	$ (12)	$ (8)	$(9)
Net unrealized holding gain	—	3	1
Net minimum pension liability adjustment	(149)	(167)	—
Net gain on derivative instruments	35	41	13
Accumulated other comprehensive (loss) income	$(126)	$(131)	$ 5

15. 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, 2003, the aggregate future minimum rental commitments under all non-cancellable operating lease agreements are as follows:

	Gross Rental Commitments	Rentals from Subleases	Net Rental Commitments
		(millions)	
2004	$ 69	$11	$ 58
2005	58	9	49
2006	49	9	40
2007	45	9	36
2008	40	9	31
Thereafter	90	20	70
Total	$351	$67	$284

Rent expense amounted to $70 million, $71 million and $63 million for the years ended December 31, 2003, 2002 and 2001, respectively. The Company's rental income from subleases was $8 million, $9 million and $6 million for the years ended December 31, 2003, 2002 and 2001, respectively.

Guarantees—Guarantees issued by certain of Willis Group Holdings' subsidiaries with respect to the new 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 $158 million and $140 million at December 31, 2003 and 2002, respectively.

15. COMMITMENTS AND CONTINGENCIES (Continued)

In addition, the Company has given guarantees to bankers and other third parties relating principally to letters of credit amounting to $9 million and $8 million at December 31, 2003 and 2002, 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 2004 from these options is not expected to exceed $330 million. Of this balance, $319 million relates to Gras Savoye, as disclosed in Note 6.

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.

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 claims, lawsuits and proceedings to which the Company is subject or of which it is aware, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or liquidity.

16. 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, 2003, 2002 and 2001.

16. SEGMENT INFORMATION (Continued)

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

	Years ended December 31, 2003	2002	2001
		(millions)	
Commissions and fees(1)			
UK	$ 791	$ 638	$ 516
US	834	737	641
Other(3)	379	286	200
Total	$2,004	$1,661	$1,357
Long-lived assets(2)			
UK	$ 180	$ 142	$ 120
US	49	54	51
Other(3)	20	17	14
Total	$ 249	$ 213	$ 185

(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.

17. 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 85,467 and 47,093 shares during the years ended December 31, 2003 and 2002, respectively. At December 31, 2003 and 2002, the ESOP shares outstanding were 696,127 and 781,594, respectively. No dividends have been distributed on the shares held by the ESOP.

KKR 1996 Fund (Overseas), Limited Partnership beneficially owned approximately 22% of Willis Group Holdings share capital at December 31, 2003. Effective as of February 25, 2004 the percentage beneficially owned reduced to 7.5%. 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. ("KKR") and Fisher Capital Corp. L.L.C. ("Fisher"), 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

17. RELATED PARTY TRANSACTIONS (Continued)

fees payable quarterly in arrears. In 2003 and 2002, the Company paid amounts of $1,000,000, in the case of KKR and $350,000, in the case of Fisher for those services. Included in accrued expenses is $55,149 and $56,582 payable to Fisher as of December 31, 2003 and 2002, respectively.

In addition, the Company and Fisher entered into a share option agreement dated January 27, 1999, whereby the Company granted to Fisher 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 2003, options over 153,001 shares were exercised (2002: 38,341 shares). 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. Mr. J.R. Fisher, as the managing member and majority owner of Fisher may be deemed to share beneficial ownership of any options owned by Fisher but disclaims such beneficial ownership.

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

The Willis North America Inc. (“Willis North America”) debt securities registered in April 2003 will be, if issued, jointly and severally, irrevocably and fully and unconditionally guaranteed by Willis Group Holdings, Willis Group Limited, Willis Partners, Trinity Acquisition Limited, TA I Limited, TA II Limited, TA III Limited and TA IV Limited.

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

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

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
				(millions)		
REVENUES:						
Commissions and fees	$ —	$ —	$ —	$2,004	$ —	$ 2,004
Interest income	—	—	8	81	(17)	72
Total revenues	—	—	8	2,085	(17)	2,076
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	2	(21)	11	1,457	(41)	1,408
Non-cash compensation—performance options	—	—	—	20	—	20
Depreciation expense	—	—	5	31	—	36
Amortization of intangible assets	—	—	—	—	3	3
Net gain on disposal of operations	—	—	—	(9)	(2)	(11)
Total expenses	2	(21)	16	1,499	(40)	1,456
OPERATING (LOSS) INCOME	(2)	21	(8)	586	23	620
Investment income from Group undertakings	68	529	137	106	(840)	—
Interest expense	—	(243)	(48)	(66)	304	(53)
INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	66	307	81	626	(513)	567
INCOME TAX EXPENSE (BENEFIT)	—	2	(1)	155	3	159
INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	66	305	82	471	(516)	408
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	15	(1)	14
MINORITY INTEREST	—	—	—	—	(8)	(8)
EQUITY ACCOUNT FOR SUBSIDIARIES	348	111	54	—	(513)	—
NET INCOME	$414	$ 416	$136	$ 486	$(1,038)	$ 414

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
REVENUES:						
Commissions and fees	$ —	$ —	$—	$1,661	$ —	$1,661
Interest income	—	—	9	95	(30)	74
Total revenues	—	—	9	1,756	(30)	1,735
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	2	(11)	(7)	1,264	(34)	1,214
Non-cash compensation—performance options	—	—	—	80	—	80
Depreciation expense	—	—	6	28	—	34
Amortization of goodwill and other intangible assets	—	—	—	—	1	1
Net gain on disposal of operations	—	—	—	(15)	2	(13)
Total expenses	2	(11)	(1)	1,357	(31)	1,316
OPERATING (LOSS) INCOME	(2)	11	10	399	1	419
Investment income from Group undertakings	—	226	69	86	(381)	—
Interest expense	—	(258)	(75)	(57)	325	(65)
(LOSS) INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	(2)	(21)	4	428	(55)	354
INCOME TAX (BENEFIT) EXPENSE	—	(9)	—	130	20	141
(LOSS) INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	(2)	(12)	4	298	(75)	213
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	10	(1)	9
MINORITY INTEREST	—	—	—	(1)	(11)	(12)
EQUITY ACCOUNT FOR SUBSIDIARIES	212	220	73	—	(505)	—
NET INCOME	$210	$ 208	$77	$ 307	$(592)	$ 210

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2001					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
				(millions)		
REVENUES:						
Commissions and fees	$—	$ —	$—	$ 1,357	$ —	$1,357
Interest income	1	5	10	83	(32)	67
Total revenues	1	5	10	1,440	(32)	1,424
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	1	15	4	1,045	(11)	1,054
Non-cash compensation—performance options	—	—	—	158	—	158
Depreciation expense	—	—	5	28	—	33
Amortization of goodwill and other intangible assets	—	—	—	—	35	35
Net gain on disposal of operations	—	—	—	(20)	3	(17)
Total expenses	1	15	9	1,211	27	1,263
OPERATING (LOSS) INCOME	—	(10)	1	229	(59)	161
Investment income from Group undertakings	—	302	81	216	(599)	—
Interest expense	—	(232)	(89)	(59)	298	(82)
INCOME (LOSS) BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	—	60	(7)	386	(360)	79
INCOME TAX (BENEFIT) EXPENSE	—	(15)	(4)	75	6	62
INCOME (LOSS) BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	—	75	(3)	311	(366)	17
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	8	(4)	4
MINORITY INTEREST	—	(12)	—	—	(7)	(19)
EQUITY ACCOUNT FOR SUBSIDIARIES	2	(61)	43	—	16	—
NET INCOME	$ 2	$ 2	$40	$ 319	$(361)	$ 2

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

Condensed Consolidating Balance Sheet

	As at December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
ASSETS						
Cash and cash equivalents	$ 48	$ 9	$ 148	$ 159	$ —	$ 364
Fiduciary funds—restricted	—	—	97	1,405	—	1,502
Short-term investments	—	—	—	61	—	61
Accounts receivable	7	2,687	876	7,808	(4,398)	6,980
Goodwill and other intangible assets	—	—	—	159	1,186	1,345
Other assets	—	52	69	676	(91)	706
Equity accounted subsidiaries	1,295	2,014	541	1,713	(5,563)	—
TOTAL ASSETS	$1,350	$4,762	$1,731	$11,981	$(8,866)	$10,958
LIABILITIES AND STOCKHOLDERS' EQUITY						
Accounts payable	$ —	$3,377	$ 681	$ 8,574	$(4,422)	$ 8,210
Other liabilities	26	91	431	838	19	1,405
Total liabilities	26	3,468	1,112	9,412	(4,403)	9,615
MINORITY INTEREST	—	—	—	1	18	19
STOCKHOLDERS' EQUITY	1,324	1,294	619	2,568	(4,481)	1,324
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,350	$4,762	$1,731	$11,981	$(8,866)	$10,958

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

Condensed Consolidating Balance Sheet

	As at December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
ASSETS						
Cash and cash equivalents	$ 1	$ —	$ 97	$ 113	$ —	$ 211
Fiduciary funds—restricted	—	—	103	1,266	—	1,369
Short-term investments	—	—	—	54	—	54
Accounts receivable	—	2,698	952	7,127	(4,188)	6,589
Goodwill and other intangible assets	—	—	—	145	1,117	1,262
Other assets	—	4	35	638	(17)	660
Equity accounted subsidiaries	856	1,541	398	1,454	(4,249)	—
TOTAL ASSETS	$857	$4,243	$1,585	$10,797	$(7,337)	$10,145
LIABILITIES AND STOCKHOLDERS' EQUITY						
Accounts payable	$ 2	$3,377	$ 574	$ 8,030	$(4,258)	$ 7,725
Other liabilities	1	14	635	803	88	1,541
Total liabilities	3	3,391	1,209	8,833	(4,170)	9,266
MINORITY INTEREST	—	—	—	2	23	25
STOCKHOLDERS' EQUITY	854	852	376	1,962	(3,190)	854
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$857	$4,243	$1,585	$10,797	$(7,337)	$10,145

WILLIS GROUP HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(2)	$ 8	$ 5	$ 482	$—	$ 493
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	(3)	(54)	—	(57)
Acquisitions of subsidiaries, net of cash acquired	4	—	—	(95)	—	(91)
Purchase of short-term investments	—	—	—	(48)	—	(48)
Proceeds on sale of short-term investments	—	—	—	42	—	42
Other	—	—	11	8	—	19
Net cash provided by (used in) investing activities	4	—	8	(147)	—	(135)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	(1)	(197)	—	—	(198)
Amounts owed by and to Group undertakings	3	40	152	(195)	—	—
Proceeds from issue of shares	37	3	—	—	—	40
Dividends paid	5	(40)	83	(111)	—	(63)
Other	—	(1)	—	—	—	(1)
Net cash provided by (used in) financing activities	45	1	38	(306)	—	(222)
INCREASE IN CASH AND CASH EQUIVALENTS	47	9	51	29	—	136
Effect of exchange rate changes on cash and cash equivalents	—	—	—	17	—	17
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1	—	97	113	—	211
CASH AND CASH EQUIVALENTS, END OF YEAR	$48	$ 9	$ 148	$ 159	$—	$ 364

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ —	$(69)	$ 12	$ 400	$ —	$ 343
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	(9)	(38)	—	(47)
Acquisitions of subsidiaries, net of cash acquired	(11)	—	—	(2)	—	(13)
Purchase of short-term investments	—	—	—	(21)	—	(21)
Proceeds on sale of short-term investments	—	—	—	13	—	13
Other	—	—	—	18	—	18
Net cash used in investing activities	(11)	—	(9)	(30)	—	(50)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	(1)	(220)	—	—	(221)
Amounts owed by and to Group undertakings	12	67	284	(363)	—	—
Proceeds from issue of shares	4	6	—	—	—	10
Other	(4)	(3)	—	—	—	(7)
Net cash provided by (used in) financing activities	12	69	64	(363)	—	(218)
INCREASE IN CASH AND CASH EQUIVALENTS	1	—	67	7	—	75
Effect of exchange rate changes on cash and cash equivalents	—	—	—	8	—	8
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	—	—	30	98	—	128
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1	$ —	$ 97	$ 113	$ —	$ 211

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2001					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (5)	$ (17)	$ (5)	$ 248	$ —	$ 221
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	(15)	(25)	—	(40)
Purchase of short-term investments	—	—	—	(16)	—	(16)
Proceeds on sale of short-term investments	—	—	—	14	—	14
Investments in subsidiaries	(273)	(273)	—	—	546	—
Other	—	—	—	32	—	32
Net cash (used in) provided by investing activities	(273)	(273)	(15)	5	546	(10)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	(1)	(171)	—	—	(172)
Amounts owed by and to Group undertakings	(10)	28	213	(231)	—	—
Repayment of preference shares	—	(273)	—	—	—	(273)
Proceeds from initial public offering, net of offering costs	282	—	—	—	—	282
Proceeds from issue of shares	6	547	—	—	(546)	7
Other	—	(11)	—	—	—	(11)
Net cash provided by (used in) financing activities	278	290	42	(231)	(546)	(167)
INCREASE IN CASH AND CASH EQUIVALENTS	—	—	22	22	—	44
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(4)	—	(4)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	—	—	8	80	—	88
CASH AND CASH EQUIVALENTS, END OF YEAR	$ —	$ —	$ 30	$ 98	$ —	$ 128

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

The Trinity Acquisition Limited debt securities registered in April 2003 will be, if issued, jointly and severally, irrevocably and fully and unconditionally guaranteed by Willis Group Holdings, TA I Limited, TA II Limited and TA III Limited.

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

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

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
REVENUES:						
Commissions and fees	$ —	$ —	$ —	$2,004	$ —	$2,004
Interest income	—	—	—	89	(17)	72
Total revenues	—	—	—	2,093	(17)	2,076
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	2	—	(5)	1,452	(41)	1,408
Non-cash compensation—performance options	—	—	—	20	—	20
Depreciation expense	—	—	—	36	—	36
Amortization of intangible assets	—	—	—	—	3	3
Net gain on disposal of operations	—	—	—	(9)	(2)	(11)
Total expenses	2	—	(5)	1,499	(40)	1,456
OPERATING (LOSS) INCOME	(2)	—	5	594	23	620
Investment income from Group undertakings	68	203	161	408	(840)	—
Interest expense	—	—	(56)	(301)	304	(53)
INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	66	203	110	701	(513)	567
INCOME TAX EXPENSE	—	—	37	119	3	159
INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	66	203	73	582	(516)	408
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	15	(1)	14
MINORITY INTEREST	—	—	—	—	(8)	(8)
EQUITY ACCOUNT FOR SUBSIDIARIES	348	213	343	—	(904)	—
NET INCOME	$414	$416	$416	$ 597	$(1,429)	$ 414

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
				(millions)		
REVENUES:						
Commissions and fees	$ —	$ —	$ —	$1,661	$ —	$1,661
Interest income	—	—	—	104	(30)	74
Total revenues	—	—	—	1,765	(30)	1,735
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	2	—	3	1,243	(34)	1,214
Non-cash compensation—performance options	—	—	—	80	—	80
Depreciation expense	—	—	—	34	—	34
Amortization of intangible assets	—	—	—	—	1	1
Net gain on disposal of operations	—	—	—	(15)	2	(13)
Total expenses	2	—	3	1,342	(31)	1,316
OPERATING (LOSS) INCOME	(2)	—	(3)	423	1	419
Investment income from Group undertakings	—	—	160	221	(381)	—
Interest expense	—	—	(68)	(322)	325	(65)
(LOSS) INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	(2)	—	89	322	(55)	354
INCOME TAX EXPENSE	—	—	24	97	20	141
(LOSS) INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	(2)	—	65	225	(75)	213
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	10	(1)	9
MINORITY INTEREST	—	—	—	(1)	(11)	(12)
EQUITY ACCOUNT FOR SUBSIDIARIES	212	208	143	—	(563)	—
NET INCOME	$210	$208	$208	$ 234	$(650)	$ 210

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

Condensed Consolidating Statement of Operations

	Year ended December 31, 2001					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
				(millions)		
REVENUES:						
Commissions and fees	$—	$ —	$ —	$1,357	$ —	$1,357
Interest income	1	—	—	98	(32)	67
Total revenues	1	—	—	1,455	(32)	1,424
EXPENSES:						
General and administrative expenses (excluding non-cash compensation)	1	—	12	1,052	(11)	1,054
Non-cash compensation—performance options	—	—	—	158	—	158
Depreciation expense	—	—	—	33	—	33
Amortization of intangible assets	—	—	—	—	35	35
Net gain on disposal of operations	—	—	—	(20)	3	(17)
Total expenses	1	—	12	1,223	27	1,263
OPERATING (LOSS) INCOME	—	—	(12)	232	(59)	161
Investment income from Group undertakings	—	27	117	440	(584)	—
Interest expense	—	—	(82)	(283)	283	(82)
INCOME BEFORE INCOME TAXES, EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	—	27	23	389	(360)	79
INCOME TAX EXPENSE	—	—	16	40	6	62
INCOME BEFORE EQUITY IN NET INCOME OF ASSOCIATES AND MINORITY INTEREST	—	27	7	349	(366)	17
EQUITY IN NET INCOME OF ASSOCIATES	—	—	—	8	(4)	4
MINORITY INTEREST	—	(12)	—	—	(7)	(19)
EQUITY ACCOUNT FOR SUBSIDIARIES	2	(13)	7	—	4	—
NET INCOME	$ 2	$ 2	$ 14	$ 357	$(373)	$ 2

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

Condensed Consolidating Balance Sheet

	As at December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
ASSETS						
Cash and cash equivalents	$ 48	$ —	$ —	$ 316	$ —	$ 364
Fiduciary funds—restricted	—	—	—	1,502	—	1,502
Short-term investments	—	—	—	61	—	61
Accounts receivable	7	20	1,511	9,840	(4,398)	6,980
Goodwill and other intangible assets	—	—	—	159	1,186	1,345
Other assets	—	—	—	797	(91)	706
Equity accounted subsidiaries	1,295	1,292	455	4,385	(7,427)	—
TOTAL ASSETS	$1,350	$1,312	$1,966	$17,060	$(10,730)	$10,958
LIABILITIES AND STOCKHOLDERS' EQUITY						
Accounts payable	$ —	$ 18	$ 601	$12,013	$ (4,422)	$ 8,210
Other liabilities	26	—	73	1,287	19	1,405
Total liabilities	26	18	674	13,300	(4,403)	9,615
MINORITY INTEREST	—	—	—	1	18	19
STOCKHOLDERS' EQUITY	1,324	1,294	1,292	3,759	(6,345)	1,324
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,350	$1,312	$1,966	$17,060	$(10,730)	$10,958

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

Condensed Consolidating Balance Sheet

	As at December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
ASSETS						
Cash and cash equivalents	$ 1	$ —	$ —	$ 210	$ —	$ 211
Fiduciary funds—restricted	—	—	—	1,369	—	1,369
Short-term investments	—	—	—	54	—	54
Accounts receivable	—	9	1,544	9,224	(4,188)	6,589
Goodwill and other intangible assets	—	—	—	145	1,117	1,262
Other assets	—	—	4	673	(17)	660
Equity accounted subsidiaries	856	849	18	3,768	(5,491)	—
TOTAL ASSETS	$857	$858	$1,566	$15,443	$(8,579)	$10,145
LIABILITIES AND STOCKHOLDERS' EQUITY						
Accounts payable	$ 2	$ 6	$ 706	$11,269	$(4,258)	$ 7,725
Other liabilities	1	—	11	1,441	88	1,541
Total liabilities	3	6	717	12,710	(4,170)	9,266
MINORITY INTEREST	—	—	—	2	23	25
STOCKHOLDERS' EQUITY	854	852	849	2,731	(4,432)	854
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$857	$858	$1,566	$15,443	$(8,579)	$10,145

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2003					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
			(millions)			
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$(2)	$(1)	$ 111	$ 385	$ —	$ 493
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	—	(57)	—	(57)
Acquisitions of subsidiaries, net of cash acquired	4	—	—	(95)	—	(91)
Purchase of short-term investments	—	—	—	(48)	—	(48)
Proceeds on sale of short-term investments	—	—	—	42	—	42
Other	—	—	—	19	—	19
Net cash provided by (used in) investing activities	4	—	—	(139)	—	(135)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	—	(1)	(197)	—	(198)
Amounts owed by and to Group undertakings	3	1	(42)	38	—	—
Proceeds from issue of shares	37	—	—	3	—	40
Dividends paid	5	—	(68)	—	—	(63)
Other	—	—	—	(1)	—	(1)
Net cash provided by (used in) financing activities	45	1	(111)	(157)	—	(222)
INCREASE IN CASH AND CASH EQUIVALENTS	47	—	—	89	—	136
Effect of exchange rate changes on cash and cash equivalents	—	—	—	17	—	17
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1	—	—	210	—	211
CASH AND CASH EQUIVALENTS, END OF YEAR	$48	$—	$ —	$ 316	$ —	$ 364

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2002					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ —	$—	$ 95	$ 248	$ —	$343
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	—	(47)	—	(47)
Acquisitions of subsidiaries, net of cash acquired	(11)	—	—	(2)	—	(13)
Purchase of short-term investments	—	—	—	(21)	—	(21)
Proceeds on sale of short-term investments	—	—	—	13	—	13
Other	—	—	—	18	—	18
Net cash used in investing activities	(11)	—	—	(39)	—	(50)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	—	(1)	(220)	—	(221)
Amounts owed by and to Group undertakings	12	—	(94)	82	—	—
Proceeds from issue of shares	4	—	—	6	—	10
Other	(4)	—	—	(3)	—	(7)
Net cash provided by (used in) financing activities	12	—	(95)	(135)	—	(218)
INCREASE IN CASH AND CASH EQUIVALENTS	1	—	—	74	—	75
Effect of exchange rate changes on cash and cash equivalents	—	—	—	8	—	8
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	—	—	—	128	—	128
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1	$—	$ —	$ 210	$ —	$211

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

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2001					
	Willis Group Holdings	The Other Guarantors	The Issuer	Other	Eliminations	Consolidated
	(millions)					
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (5)	$ —	$ 19	$207	$ —	$221
CASH FLOWS FROM INVESTING ACTIVITIES:						
Additions to fixed assets	—	—	—	(40)	—	(40)
Purchase of short-term investments	—	—	—	(16)	—	(16)
Proceeds on sale of short-term investments	—	—	—	14	—	14
Investment in subsidiaries	(273)	(273)	—	—	546	—
Other	—	—	—	32	—	32
Net cash used in investing activities	(273)	(273)	—	(10)	546	(10)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Repayments of debt	—	—	(1)	(171)	—	(172)
Amounts owed by and to Group undertakings	(10)	(1)	(18)	29	—	—
Repayment of preference shares	—	(273)	—	—	—	(273)
Proceeds from initial public offering, net of offering costs	282	—	—	—	—	282
Proceeds from issue of shares	6	547	—	—	(546)	7
Other	—	—	—	(11)	—	(11)
Net cash provided by (used in) financing activities	278	273	(19)	(153)	(546)	(167)
INCREASE IN CASH AND CASH EQUIVALENTS	—	—	—	44	—	44
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(4)	—	(4)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	—	—	—	88	—	88
CASH AND CASH EQUIVALENTS, END OF YEAR	$ —	$ —	$ —	$128	$ —	$128

20. SUBSEQUENT EVENTS

On January 1, 2004, the Company acquired a further 70%, in addition to the 30% already owned, in Willis A/S, Denmark's largest insurance broker, to improve the Company's market position and broaden its global offering and capabilities on behalf of its clients. Accordingly, Willis A/S will be accounted for as a subsidiary from the date of acquisition. The aggregate purchase price was $57 million which included $17 million of common shares. The aggregate purchase price also includes $6 million of deferred consideration, of which $2 million is payable in common shares.

The following table summarizes the estimated fair value of the assets and liabilities acquired on a 100% basis as they will be consolidated from January 1, 2004:

	(millions)
Current assets	$ 29
Fixed assets	2
Goodwill and other intangible assets	56
Current liabilities	(26)
Minority interest	(1)
	60
Less: Equity investment at December 31, 2003	(3)
Net assets acquired	$ 57

The purchase price allocation has yet to be finalized. None of the goodwill will be deductible for tax purposes.

On February 25, 2004, concurrent with the offering of common stock by certain shareholders of the Company, Willis Group Holdings purchased 4 million common shares directly from the selling shareholders at the underwritten price of $37.03 per share. The total payment of $148 million was funded from cash generated by operations. Upon completion of the transaction the common shares were canceled.

WILLIS GROUP HOLDINGS LIMITED

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, 2003 and 2002, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
London, England
February 4, 2004

FIVE-YEAR SUMMARY OF OPERATIONS

	2003	2002	2001	2000	1999
	Years ended December 31, (millions, except per share data)				
Revenues	**$ 2,076**	$ 1,735	$ 1,424	$ 1,305	$ 1,244
Expenses:					
General and administrative expenses (excluding non-cash compensation)	**1,408**	1,214	1,054	1,062	1,136
Non-cash compensation—performance options	**20**	80	158	—	—
Unusual items[1]	**—**	—	—	18	47
Depreciation expense	**36**	34	33	37	41
Amortization of goodwill and other intangible assets	**3**	1	35	35	35
Net gain on disposal of operations	**(11)**	(13)	(17)	(1)	(7)
Total expenses	**1,456**	1,316	1,263	1,151	1,252
Operating income (loss)	**620**	419	161	154	(8)
Interest expense and other expenses[2]	**53**	65	82	89	96
Income (loss) before income taxes, equity in net income of associates and minority interest	**567**	354	79	65	(104)
Income tax expense	**159**	141	62	33	7
Income (loss) before equity in net income of associates and minority interest	**408**	213	17	32	(111)
Equity in net income of associates	**14**	9	4	2	7
Minority interest	**(8)**	(12)	(19)	(25)	(28)
Net income (loss)	**$ 414**	$ 210	$ 2	$ 9	$ (132)
Net income (loss) per share					
—Basic	**$ 2.72**	$ 1.43	$ 0.01	$ 0.07	$ (1.11)
—Diluted	**$ 2.45**	$ 1.28	$ 0.01	$ 0.07	$ (1.11)
Average number of shares outstanding					
—Basic	**152**	147	136	121	119
—Diluted	**169**	164	148	121	119
Operating income (loss)	**$ 620**	$ 419	$ 161	$ 154	$ (8)
Net gain on disposal of operations	**(11)**	(13)	(17)	(1)	(7)
Non-cash compensation—performance options	**20**	80	158	—	—
Amortization of goodwill	**—**	—	35	35	35
Unusual items[1]	**—**	—	—	18	47
Adjusted operating income	**$ 629**	$ 486	$ 337	$ 206	$ 67
Net income (loss)	**$ 414**	$ 210	$ 2	$ 9	$ (132)
Net gain on disposal of operations (net of tax $4 in 2003, $6 in 2002 and $6 in 2001)	**(7)**	(7)	(11)	(1)	(7)
Non-cash compensation—performance options (net of tax $6 in 2003, $13 in 2002 and $26 in 2001)	**14**	67	132	—	—
One-time income tax benefit—performance options	**(35)**	—	—	—	—
Amortization of goodwill	**—**	—	35	35	35
Unusual items (net of tax $7 in 2000 and $14 in 1999)	**—**	—	—	11	33
Other expenses (net of tax $3 in 1999)	**—**	—	—	—	4
Non-recurring tax credit	**—**	—	(11)	—	—
Adjusted net income (loss)	**$ 386**	$ 270	$ 147	$ 54	$ (67)
Year End Financial Position					
Total assets	**$10,958**	$10,145	$ 8,949	$ 7,590	$ 6,969
Long-term debt	**370**	567	787	958	988
Stockholders' equity	**1,324**	854	696	238	226
Other information					
Number of full-time equivalent employees (excluding associated companies)	**11,017**	10,554	10,249	10,231	10,020
Share price					
—High[3]	**$ 34.40**	$ 37.14	$ 26.29		
—Low[3]	**$ 23.48**	$ 21.50	$ 13.50		
—Year-end close	**$ 34.07**	$ 28.67	$ 23.55		

(1) Unusual items comprise restructuring charges of $18 million and $7 million in 2000 and 1999, respectively and pension review expenses of $40 million in 1999.

(2) Other expenses include debt issuance costs of $7 million in 1999.

(3) Based on high-low trading prices.

SELECTED QUARTERLY FINANCIAL DATA

	1Q	2Q	3Q	4Q	2002
	(millions, except per share data)				
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
Operating income	$ 128	$ 30	$ 64	$ 197	$ 419
Net loss (gain) on disposal of operations	—	1	—	(14)	(13)
Non-cash compensation—performance options	18	78	18	(34)	80
Adjusted operating income	$ 146	$ 109	$ 82	$ 149	$ 486
Net income (loss)	$ 68	$ (7)	$ 31	$ 118	$ 210
Net loss (gain) on disposal of operations (net of tax $6 in 4Q)	—	1	—	(8)	(7)
Non-cash compensation—performance options (net of tax expense (benefit) $3, $13, $3 and $(6))	15	65	15	(28)	67
Adjusted net income	$ 83	$ 59	$ 46	$ 82	$ 270
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.

SELECTED QUARTERLY FINANCIAL DATA

	1Q	2Q	3Q	4Q	2003
	(millions, except per share data)				
Revenues	$ 555	$ 492	$ 452	$ 577	**$2,076**
Expenses:					
General and administrative expenses (excluding non-cash compensation)	351	346	339	372	**1,408**
Non-cash compensation—performance options	8	5	4	3	**20**
Depreciation expense	9	9	8	10	**36**
Amortization of intangible assets	1	—	1	1	**3**
Net gain on disposal of operations	—	(4)	(6)	(1)	**(11)**
Total expenses	369	356	346	385	**1,456**
Operating income	186	136	106	192	**620**
Interest expense	15	13	12	13	**53**
Income before income taxes, equity in net income of associates and minority interest	171	123	94	179	**567**
Income tax expense (benefit)	61	44	(3)	57	**159**
Income before equity in net income of associates and minority interest	110	79	97	122	**408**
Equity in net income of associates	10	1	3	—	**14**
Minority interest	(3)	—	(1)	(4)	**(8)**
Net income	$ 117	$ 80	$ 99	$ 118	**$ 414**
Net income per share					
—Basic	$ 0.79	$ 0.53	$ 0.65	$ 0.76	**$ 2.72**
—Diluted	$ 0.69	$ 0.47	$ 0.59	$ 0.69	**$ 2.45**
Average number of shares outstanding					
—Basic	149	152	153	156	**152**
—Diluted	169	169	168	170	**169**
Operating income	$ 186	$ 136	$ 106	$ 192	**$ 620**
Net gain on disposal of operations	—	(4)	(6)	(1)	**(11)**
Non-cash compensation—performance options	8	5	4	3	**20**
Adjusted operating income	$ 194	$ 137	$ 104	$ 194	**$ 629**
Net income	$ 117	$ 80	$ 99	$ 118	**$ 414**
Net gain on disposal of operations (net of tax $1 in 2Q and $3 in 3Q)	—	(3)	(3)	(1)	**(7)**
Non-cash compensation—performance options (net of tax expense $2 in 1Q, $3 in 3Q and $1 in 4Q)	6	5	1	2	**14**
One-time income tax benefit—performance options	—	—	(35)	—	**(35)**
Adjusted net income	$ 123	$ 82	$ 62	$ 119	**$ 386**
Other information					
Share price					
—High(1)	$29.18	$33.25	$31.40	$34.40	**$34.40**
—Low(1)	$23.48	$27.32	$27.18	$30.19	**$23.48**
—Quarter-end close	$27.70	$30.75	$30.75	$34.07	**$34.07**

(1) Based on high-low trading prices.

BOARD OF DIRECTORS AND PARTNERS GROUP

Board of Directors*

Joseph J. Plumeri
Chairman and Chief Executive Officer

William W. Bradley
Managing Director,
Allen & Company LLC

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

Joseph A. Califano, Jr.
Chairman of the Board and President of the National Center on Addiction and Substance Abuse at Columbia University

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

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

Wendy E. Lane
Chairman of Lane Holdings, Inc.

James F. McCann
Chairman and
Chief Executive Officer,
1-800-FLOWERS.COM, Inc.

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

Douglas B. Roberts
Former Treasurer, State of Michigan

** Effective as of April 21, 2004*

Partners Group

William P. Bowden, Jr.
Group General Counsel

Richard J. S. Bucknall
Vice Chairman and Co-Chief Operating Officer

Thomas Colraine
Vice Chairman, Co-Chief Operating Officer and Group Chief Financial Officer

Janet Coolick
Group Chief Administrative Officer

Christopher M. London
Chief Operating Officer, Global Specialties

Patrick Lucas
Executive Vice President and Managing Partner, Gras Savoye

Stephen G. Maycock
Group Human Resources Director

Grahame J. Millwater
Chief Executive Officer, Global Markets and Willis Re

John M. Pelly
Chairman, Global Markets and Willis Re

James A Ratcliffe
Chief Executive Officer,
Global Specialties

Sarah J. Turvill
Chief Executive Officer,
International Operations

Mario Vitale
Chief Executive Officer,
Willis North America

Committees of the Board*

Audit
Douglas B. Roberts (Chairman), Wendy E. Lane and James F. McCann

Compensation
Perry Golkin (Chairman), Joseph A. Califano, Jr. and Paul M. Hazen.

Corporate Governance and Nominating
William W. Bradley (Chairman),
Joseph A. Califano, Jr.,
Wendy E. Lane and Scott C. Nuttall

Executive
Joseph J. Plumeri (Chairman), William W. Bradley, Perry Golkin, Paul M. Hazen and Scott C. Nuttall

Shareholder Information

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Bermuda

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telephone +44 20 7488 8111

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 7, 2004, 9:00 am
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 our website, www.willis.com.

2004 Dividend Record and Payment Dates
The Company has declared a quarterly dividend of $0.1875 per share payable April 15, 2004 to shareholders of record on March 31, 2004. The Company anticipates paying further dividends of $0.1875 per share on July 13, 2004, October 13, 2004 and January 14, 2005 to shareholders of record on June 30, 2004, September 30, 2004 and December 31, 2004.

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
Reid Management Limited
Argyle House
41a Cedar Avenue
Hamilton HM 12
Bermuda
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Copies of Form 10-K are available without charge:
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Church Street Station
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shareowners@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 2003 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.

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