TRANSMONTAIGNE INC
Form 10-K
September 23, 2004

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

/X/ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended June 30, 2004

OR

/ / **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period to
Commission File Number 001-11763

TRANSMONTAIGNE INC.

Delaware	**06-1052062**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Suite 3100, 1670 Broadway
Denver, Colorado 80202
(Address, including zip code, of principal executive offices)

(303) 626-8200
(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock; $.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report), and (2) has been subject to such filing requirements for the

past 90 days. Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2) Yes /X/ No / /

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $194,621,363. The aggregate market value was computed by reference to the last sale price ($6.42 per share) of the Registrant's Common Stock on the American Stock Exchange on August 30, 2004.

The number of shares of the registrant's Common Stock outstanding on August 30, 2004 was 41,114,144.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III have been omitted from this report, as we expect to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended June 30, 2004, a definitive proxy statement for our annual meeting of stockholders or a subsequent amendment to this Form 10-K. The information required by Items 10, 11, 12, 13 and 14 of Part III of this report, which will appear in our definitive proxy statement or a subsequent amendment to this Form 10-K, is incorporated by reference into this report.

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Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to such reports, are available free of charge on our website at *www.transmontaigne.com* under the heading "Shareholder Information" "Financial Information" "SEC Filings", as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements and information relating to TransMontaigne Inc., including the following:

i. certain statements, including possible or assumed future results of operations, in "Management's Discussion and Analysis of Financial Condition and Results of Operations;"

ii. any statements contained herein or therein regarding the prospects for our business or any of our services;

iii. any statements preceded by, followed by or that include the words "may," "seeks," "believes," "expects," "anticipates," "intends," "continues," "estimates," "plans," "targets," "predicts," "attempts," "is scheduled," or similar expressions; and

iv. other statements contained herein or therein regarding matters that are not historical facts.

Our business and results of operations are subject to risks and uncertainties, many of which are beyond our ability to control or predict. Because of these risks and uncertainties, actual results may differ materially from those expressed or implied by forward-looking statements, and investors are cautioned not to place undue reliance on such statements, which speak only as of the date thereof.

The following risk factors, discussed in more detail under the heading "Risk Factors" in our final prospectus, filed on May 14, 2003, related to our $9^1/_8$% Senior Subordinated Notes due 2010 are important factors that could cause actual results to differ materially from our expectations and may adversely affect our business and results of operations, include, but are not limited to:

> volumes of refined petroleum products shipped in our pipelines and throughput or stored in our terminal facilities;

> the availability of adequate supplies of and demand for petroleum products in the areas in which we operate;

> the effect of any inability to attract customers for our supply chain management service business;

> continued creditworthiness of, and performance by, contract counterparties;

> the effects of competition;

> our ability to renew customer contracts;

> operational hazards;

> availability and cost of insurance on our assets and operations;

> the success of our risk management activities;

> the effect of changes in commodity prices on our liquidity;

> the impact of any failure of our information technology systems;

>

the impact of petroleum product price fluctuations;

>

the availability of acquisition opportunities;

>

successful integration and future performance of acquired assets;

>

the threat of terrorist attacks or war;

>

the impact of current and future laws and governmental regulations;

>

liability for environmental claims; and

> the impact of the departure of any key officers.

In addition, other factors such as the following also could cause actual results to differ materially from our expectations:

> general economic, market or business conditions; and

> force majeure and acts of God.

We do not intend to update these forward-looking statements except as required by law.

Part I

ITEM 1. BUSINESS

The Company

TransMontaigne Inc., formed in 1995, is a refined petroleum products distribution and supply company based in Denver, Colorado with operations in the United States, primarily in the Gulf Coast, Midwest and East Coast regions. We provide integrated terminal, transportation, storage, supply, distribution and marketing services to refiners, wholesalers, distributors, marketers, and industrial and commercial end-users of refined petroleum products. Our principal activities consist of (i) terminal, pipeline and tug and barge operations, (ii) supply, distribution and marketing and (iii) supply chain management services.

We predominantly handle refined petroleum products, with the balance being fertilizer, chemicals and other commercial liquids. The refined petroleum products we handle include gasoline, diesel fuel, heating oil, jet fuel and kerosene. Our acquisition of terminals and related tug and barge operations in Florida from El Paso Corporation expanded our product and service offering to include the sale of bunker fuel, used to power ocean vessels, and No. 6 oil, for powering electricity generating plants, as well as the storage of jet fuel, crude oil and asphalt.

We have assembled an asset infrastructure and developed a shipping history on common carrier pipelines which are focused on the distribution of refined petroleum products from the Gulf Coast region to the Midwest and East Coast regions.

We own and operate terminal infrastructure that handles refined petroleum products and other commercial liquids with transportation connections by pipelines, tankers, barges, rail cars and trucks to our facilities or to third-party facilities. At our terminals, we provide throughput, storage, injection and distribution related services to distributors, marketers, retail gasoline station operators and industrial and commercial end-users of refined petroleum products and other commercial liquids. At June 30, 2004, we owned and operated 55 terminals with an aggregate capacity of approximately 21.4 million barrels.

In our supply, distribution and marketing operations, we purchase refined petroleum products primarily from refineries along the Gulf Coasts of Texas and Louisiana and schedule them for delivery to our terminals, as well as terminals owned by third parties, in the Gulf Coast, Midwest and East Coast regions of the United States. We then sell our products primarily through rack spot sales, contract sales, and bulk sales to cruise ship operators, commercial and industrial end-users, independent retailers, distributors, marketers, government entities and other wholesalers of refined petroleum products.

We also provide supply chain management services to industrial, commercial and governmental customers that have large ground vehicle fleets. We often combine these services with price management solutions to provide our customers an assured source of fuel at a predictable price. Our customer base includes companies involved in the manufacture and distribution of consumer products, express shipping services, waste disposal services, transportation services, and state and local government entities.

TransMontaigne Inc. is a holding company that conducts its operations through four primary subsidiaries: TransMontaigne Product Services Inc., which owns the majority of our terminaling facilities and conducts the majority of our supply, distribution and marketing operations; Coastal Fuels Marketing, Inc., which owns the Florida marine terminals and conducts supply, distribution and

marketing operations principally to marine vessels and power generation plants; Coastal Tug and Barge, Inc., which owns and operates our fleet of tugboats and barges and provides transportation services; and TransMontaigne Transport Inc., which operates our turbo prop aircraft to transport our personnel among locations.

Industry Overview

Product description

Refineries produce refined petroleum products by processing crude oil. Refined petroleum products generally are classified in two groups, "light oils" and "heavy oils." Light oils include gasoline and distillates, such as diesel fuel, heating oil, jet fuel and kerosene. Heavy oils include No. 6 oil and asphalt. When produced at the refinery, refined products of a specific grade, such as unleaded gasoline, are substantially identical in composition from one refinery to the next and are referred to as being "fungible."

Regional production and consumption

The continental United States refined petroleum products market is divided in two distinct regions: the Western United States, which is primarily served by refineries located in the Pacific Coast region; and the Gulf Coast, Midwest and East Coast markets, which are primarily served by refineries located in the Gulf Coast region and imports of refined petroleum products from South America and Europe. Substantially all of TransMontaigne's supply, marketing and distribution operations occur in the Gulf Coast, Midwest and East Coast regions.

The U.S. Department of Energy divides the United States into five geographic regions. These regions are referred to as Petroleum Administration Defense Districts or PADDs. PADD III, which is the Gulf Coast region of the United States, is the largest petroleum refining hub in the U.S. with 55 refineries, responsible for approximately 47% of total U.S. daily refining capacity. The Gulf Coast historically has had an excess supply of refined petroleum products, which are shipped mainly to the East Coast and the Midwest. For the year ended December 31, 2003, the Gulf Coast had average refined petroleum production of approximately 7.6 million barrels per day and average refined petroleum product consumption of approximately 3.5 million barrels per day. For the year ended June 30, 2004, we purchased and scheduled for transportation out of the Gulf Coast approximately 228,000 barrels per day of refined petroleum products through pipelines and an additional 51,000 barrels per day of refined petroleum products by waterborne vessels.

PADD II, which is the Midwest region, is the second largest PADD in terms of crude oil throughput capacity. Production of petroleum product by refiners located in the Midwest region historically has been less than the demand for such product within that region, resulting in product being supplied from surrounding regions, primarily from the Gulf Coast via common carrier pipelines including the Explorer, TEPPCO, Seaway, Phillips and Centennial pipelines. Supply also is available via barge transport up the Mississippi River with significant deliveries into local markets along the Ohio River. For the year ended December 31, 2003, the Midwest region had average refined petroleum production of approximately 3.5 million barrels per day and average refined petroleum product consumption of approximately 4.5 million barrels per day.

PADD I is the East Coast region, and includes the Southeast, Mid-Atlantic and Northeast regions. Production of petroleum product by refiners located in the East Coast region historically has been less than the demand for such product within that region, resulting in product being supplied from surrounding regions, primarily from the Gulf Coast via the Colonial and Plantation pipelines, via barge and tanker and imports from foreign producers directly into East Coast ports. For the year ended December 31, 2003, the East Coast region had average refined petroleum production of approximately 1.9 million barrels per day and average refined petroleum product consumption of approximately 5.6 million barrels per day.

We believe that our geographically diverse terminal infrastructure and our significant pipeline shipping history position us to take advantage of the supply and demand imbalances among the Gulf Coast, Midwest and East Coast regions.

Refining and distribution

Refining. Refineries in the Gulf Coast region, which are owned predominantly by major oil companies, refine crude oil into products that have various characteristics, such as sulfur content, octane level, Reid-vapor pressure, and chemical characteristics. The refined products initially are stored at the refineries' own terminal facilities. The refineries owned by major oil companies then schedule for delivery some of their product output to satisfy their own retail delivery obligations, at branded gasoline stations, for example, and sell the remainder of their product output to independent marketing and distribution companies, such as TransMontaigne, for resale. The major refineries typically prefer to sell their excess product to independent marketing and distribution companies rather than to other refineries, which are their primary competitors.

Transportation. For an independent marketing and distribution company to distribute product from its terminals, it must first schedule that product, at least five to eight days in advance, for shipment on common carrier pipelines. Common carrier pipelines are pipelines with published tariff rates that are regulated by the Federal Energy Regulatory Commission ("FERC"). These pipelines ship product in batches, with each batch consisting of fungible product owned by several different companies. Once in the pipeline, a product may take up to twenty plus days to move from the Gulf Coast to the New York market, with much of the product in the batch being delivered to terminals located along the routes of the common carrier pipelines. A batch of one product, gasoline for example, will then be followed by a batch of different product, such as diesel fuel.

During periods of high demand for a particular product, companies may seek to ship more volume of product than space available in the pipelines, in which case the common carrier pipelines will allocate volume based on the historical shipping history of each company seeking to ship. Companies that consistently ship significant amounts of product on common carrier pipelines are allocated space on these regulated pipelines for future shipments. Companies without significant shipping histories are not guaranteed similar space on the pipelines and have more difficulty shipping their product to various locations around the country when there is high demand for pipeline capacity to those locations. TransMontaigne has a significant shipping history on the Colonial, Plantation, Explorer and TEPPCO pipelines that allows us to ship product through these pipelines during periods of high demand for pipeline capacity.

As a batch of co-mingled product is shipped on a pipeline, each terminal along the way draws the volume of fungible product that is scheduled for that facility as the batch passes in the pipeline. Consequently, each terminal must monitor the type of product in the common carrier pipeline at any time to determine when to draw product scheduled for delivery to that terminal. In addition, both the common carrier pipeline and the terminal monitor the volume of product drawn to ensure that the precise amount scheduled for delivery at that location is actually received.

With respect to product that is shipped to marine terminals, volumes of product are transported by tankers or barges.

At both inland and marine terminals, the various refined petroleum products are segregated and stored in tanks. Because the characteristics of gasoline are required to be changed at least twice per year in many locations to meet government regulations, regular unleaded gasoline produced for winter cannot be stored in a tank together with regular unleaded gasoline produced for summer. Our 55 terminal facilities include over 720 tanks ranging in capacity from 500 to 325,000 barrels per tank.

Delivery. Each inland terminal has a tanker truck loading facility commonly referred to as a "rack." Often, commercial and industrial end-users and independent retailers will rely on independent trucking companies to pick up product at the rack and transport it to the end-user or retailer at its location. Each truck holds an aggregate of approximately 8,000 gallons of various products in different compartments. The driver will swipe a magnetic card that identifies the customer purchasing the product, the carrier and the driver as well as the products to be pumped into the truck. Our computerized system electronically reviews the credentials of the carrier, including insurance and certain mandated certifications, the credit of the customer and confirms the customer is within scheduled allocation limits. When all conditions are verified as being current and correct, the system authorizes the delivery of the product to the truck. As product is being loaded into the truck, additives are blended into products, including all gasoline, to conform to government specifications and individual customer requirements. If a truck is loading gasoline for retail sale by an independent gasoline station, generic additives will be added to the gasoline as it is loaded into the truck. If the gasoline is for delivery to a branded retail gasoline station, the proprietary additive compound of that particular retailer will be added to the gasoline as it is loaded. The type and amount of additive are electronically and mechanically controlled by equipment located at the truck loading rack.

At marine terminals, the product will be stored in tanks and may be delivered to tanker trucks over a rack in the same manner as at an inland terminal. Product also may be delivered to cruise ships and other vessels, known as "bunkering," either at the dock, through a pipeline or truck, or by barge. Cruise ships typically purchase approximately 6,000 to 8,000 barrels, the equivalent of approximately 42 truckloads, of product per refueling. Bunker fuel is a mixture of diesel fuel and No. 6 oil. Each large vessel essentially requires its own mixture of bunker fuel to match the distinct characteristics of that ship's engines. Because the mixture for each ship requires precision to mix and deliver, cruise ships often prefer to refuel in United States ports with experienced companies.

Our Operations

We conduct business in the following business segments:

> *Terminals, pipelines, and tugs and barges* consists of a terminal and pipeline infrastructure that handles refined petroleum products with transportation connections via pipelines, barges, vessels, rail cars and trucks to our facilities or to third-party facilities with an emphasis on transportation connections primarily through the Colonial, Plantation, TEPPCO, Explorer and Magellan pipeline systems.

> *Supply, distribution and marketing* consists of services for the supply and distribution of refined petroleum products through rack spot sales, contract sales, and bulk sales in the physical and derivative markets, with retail, wholesale, industrial and commercial customers using our terminal racks and marine refueling equipment, and providing related value-added fuel procurement and supply chain management services.

Additional information regarding our business segments, including financial information, is set forth under the caption "Management's Discussion and Analysis of financial Condition and Results of Operations" and in the Notes to our Consolidated Financial Statements elsewhere herein.

Terminals, pipelines, and tugs and barges

The refined petroleum product distribution system in the United States links refineries to end-users of gasoline and other refined petroleum products through a network of terminals, pipelines, tankers, barges, rail cars and trucks. We own and operate terminal infrastructure of 55 terminals with

approximately 21.4 million barrels of aggregate capacity that handles refined petroleum products and other commercial liquids. At our terminals, we provide throughput, storage, injection and other distribution related services to wholesalers, distributors, marketers, retail gasoline station operators and industrial and commercial end-users of refined petroleum products and other commercial liquids. The two basic types of terminals are inland terminals, which are supplied by pipelines, rail cars and trucks, and marine terminals, which are supplied by ships and barges. We currently own and operate the following terminal facilities:

- 31 terminals with approximately 9.5 million barrels of capacity, located at various points along the Plantation and Colonial pipeline corridor, which extends from the Gulf Coast through the Southeast, Mid-Atlantic and Northeast regions;
- 15 terminals with approximately 3.6 million barrels of capacity, located in the Midwest and upper and lower Mississippi River areas;
- 8 terminals with approximately 6.0 million barrels of capacity, at various locations in Florida; and
- 1 terminal complex in Brownsville, Texas with approximately 2.3 million barrels of capacity.

Our network of terminals is geographically diverse with our largest terminal, the Brownsville complex, accounting for approximately 10% of our total capacity. Brownsville handles a large volume of liquid product movements between Mexico and south Texas. Fee based revenue generating activities include storage tank rentals, truck scale operations, additive injection, steam generation and handling, direct transfer operations and product blending activities.

In Florida, we currently own and operate 11 tugboats and 14 barges and a proprietary pipeline in Port Everglades, which we use to transport our product to cruise ships and other marine vessels for refueling. We also use our tugs and barges to transport third party product from our storage tanks to their facilities and to relocate our product among our Florida terminals when needed to augment our capacity. We use our tank capacity at our Florida terminals to blend diesel fuel and No. 6 oil into bunker fuel meeting our customers' specifications. In addition, we use our diesel fuel and No. 6 oil hydrant pipeline at Port Everglades to blend these products at dockside for direct delivery into our customers' vessels.

Along the Mississippi River we own and operate a dock facility in Baton Rouge, Louisiana that is interconnected to the Colonial Pipeline. This connection provides the ability to load product originating from the Colonial Pipeline onto barges for distribution up the Mississippi River, as well as serves as an injection point into the Colonial Pipeline for product unloaded from barges transporting it down the Mississippi River.

We own, operate and currently are the sole shipper on an interstate refined petroleum products pipeline operating from Mt. Vernon, Missouri to Rogers, Arkansas known as the Razorback Pipeline, together with associated terminal facilities at Mt. Vernon and Rogers. The Rogers terminal, together with the Mt. Vernon terminal and Razorback Pipeline, allows us flexibility to ship product from the Gulf Coast to this Midwest market via its connection to the Explorer Pipeline.

We generate revenues in our terminal, pipeline and tug and barge operations from throughput fees, storage fees, additization fees, pipeline transportation fees, barge and ship-assist fees, management fees and cost reimbursements and fees from other ancillary services.

Throughput Revenues. We earn throughput fees for each barrel of refined petroleum product that is distributed at our terminals. A significant majority of the throughput at our terminals consists of product that we have purchased, marketed, sold and dispensed over the rack at our terminals. The

remainder of the throughput volume at our terminals is generated from exchange agreements and throughput arrangements with third parties. Terminal throughput fees are based on the volume of products distributed at the facility's truck loading racks, generally at a standard rate per barrel of product. Unlike common-carrier pipeline services, terminal services are not subject to price (tariff) regulations, allowing the marketplace to determine the prices that are charged for services.

For example, our supply, distribution and marketing business may purchase a specific volume of product in the Gulf Coast and enter into a sale agreement for the product in Virginia. The product may be shipped to our terminals serving that area for delivery to the customer or the delivery obligation may be satisfied from our existing inventory in those terminals. In either event, the delivery of product from our terminal constitutes throughput. Third-party throughput operates in the same manner except that it is a third party that directs the product delivery to our terminals rather than our own supply, distribution and marketing business.

Exchange agreements generally are term agreements that involve our receipt of a specified volume of product at one location in exchange for delivery by us of product at a different location. We enter into exchange agreements with major oil companies to increase throughput at our terminals and establish greater shipping history on the common carrier pipelines. We generally receive a fee based on the volume of the product exchanged. The exchange fee takes into account the terminal throughput fee, the cost of transportation from the receipt location to the delivery location, as well as a fee for "regrading" if we deliver one type of product and receive a different type of product. For example, if a major oil company has a one-year agreement to deliver premium gasoline in Atlanta, but does not have a terminal there, that company may enter into an exchange agreement with us whereby we will provide the product at our truck rack in Atlanta and, in exchange, they will provide us with product, which may be the same or a different grade of gasoline, in the Gulf Coast and pay us a negotiated fee.

Storage Revenues. We lease storage capacity at our terminals to third parties and our supply, distribution and marketing operation and earn a storage fee based on the volume of the storage capacity leased. Terminal storage fees generally are based on a per barrel of leased capacity per month rate and will vary with the duration of the storage arrangement (generally less than 18 months), the type of product stored and special handling requirements, particularly when certain types of chemicals and other commercial liquids are involved. For example, the entire 2.3 million barrel capacity at our Brownsville terminal facility is leased, or available for lease, to third parties.

Additization Revenues. Additization or injection is the process of injecting refined petroleum products with additives and dyes. Some injected products, such as detergent additives, are standard and are required to comply with governmental regulations, while other injected products are proprietary to certain of our customers. We provide injection services to our customers in connection with the delivery of product at our terminals. These fees are generally based on the volume of product injected and delivered over the rack at our terminals.

Pipeline Revenues. We earn pipeline transportation fees at our Razorback pipeline based on the volume of product transported and the distance from the origin point to the delivery point. Tariff rates on the Razorback Pipeline are regulated by the FERC. We also earn transportation fees at our Port Everglades pipeline hydrant delivery system based on the volume of product delivered to cruise ships and freight vessels. The Port Everglades hydrant system allows a more efficient refueling process than barge to ship refueling.

Barge and Ship-Assist Revenues. Our barges earn transportation fees from third parties at negotiated rates based on the volume of product that is shipped and the distance to the delivery point. Our barges also provide marine vessel fueling services, referred to as bunkering, at our Port Everglades/Ft.

Lauderdale, Cape Canaveral, Port Manatee/Tampa and Fisher Island/Miami terminals. Bunkering fees are based on the volume and type of product sold. Our tugboats also earn fees for providing docking and other ship-assist services to cruise and cargo ships and other vessels in South Florida ports based on a per docking per tug basis.

Management Fees and Cost Reimbursements. We manage and operate for a major oil company 17 terminals that are adjacent to our Southeast facilities and receive a reimbursement of costs. We also manage and operate for a foreign oil company a bi-directional products pipeline connected to our Brownsville, Texas terminal facility.

Other Service Revenues. In addition to providing storage and distribution services at our terminal facilities, we also provide ancillary services including heating and mixing of stored products and product transfer services. Many heavy oil products, such as No. 6 oil, bunker fuel and asphalt require heating to keep them in a liquid state suitable for shipping. For example, heavy oil products may be transported to a terminal in non-insulated tank rail cars and, therefore, must be re-heated before being transferred into terminal storage tanks or into trucks or barges. We provide these heating services to our customers and charge negotiated fees based on the type and volume of product heated. We also earn transfer fees for transferring product between tanks and transportation equipment. For example, we would charge a fee to transfer product from a rail car or a barge to a storage tank at a customer's request. We also recognize revenues upon the sale of product to our supply, distribution, and marketing operation resulting from the excess of product deposited by third parties into our terminals over the amount of product that the customer is contractually permitted to withdraw from those terminals.

Supply, distribution and marketing

We generally purchase our inventory of refined petroleum products at prevailing prices from refiners and marketers at production points and common trading locations along the Gulf Coasts of Texas and Louisiana. Once we purchase these products, we schedule them for delivery via pipelines and vessels to our terminals, as well as terminals owned by third parties with which we have storage or throughput agreements, in the Midwest and East Coast regions. From these terminal locations, we then sell our products to customers primarily through three types of arrangements: rack spot sales, contract sales, and bulk sales.

Rack Spot Sales. Rack spot sales are sales that do not involve continuing contractual obligations to purchase or deliver product. Rack spot sales are priced and delivered on a daily basis through truck loading racks or marine fueling equipment. At the end of each day for each of our terminals, we establish the next day selling price for each product for each of our delivery locations. We announce or "post" to independent local jobbers via facsimile, website, e-mail, and telephone communications the rack spot sale price of various products for the following morning. Typical rack spot sale purchasers include commercial and industrial end-users, independent retailers and small, independent marketers, referred to as "jobbers," who resell product to retail gasoline stations or other end-users. Our selling price of a particular product on a particular day is a function of our supply at that delivery location or terminal, our estimate of the costs to replenish the product at that delivery location, and our desire to reduce inventory levels at that particular location that day.

We manage the physical quantity of our inventories of product through rack spot sales. Our rack spot sales volume for a particular product is sensitive to changes in price. If our objective is to increase rack spot sales volume for a particular product of ours at a specific delivery location, then we would post the selling price of that product at the low end of the range of competitive prices being offered in the applicable market to induce purchasers in that market to choose to buy our product as opposed to product offered by competitors in that market. This would occur if, for example, we expect that prices for that product will decrease at that location in the near future or if we have significant deliveries scheduled to arrive at that location in the near term.

Contract Sales. Contract sales are made pursuant to negotiated contracts, generally ranging from one to twelve months in duration, that we enter into with local market wholesalers, independent gasoline station chains, heating oil suppliers, cruise ship operators and other customers. Contract sales provide these customers with a specified volume of product during the agreement term. Delivery of product sold under these arrangements generally is at our truck racks or via our marine fueling equipment. At the customer's option, the pricing of the product delivered under a contract sale may be fixed at a stipulated price per gallon, or it may vary based on changes in published indices.

For example, we may enter into an agreement with a retail heating oil supplier in the Northeast to provide the supplier with heating oil, for delivery at our truck rack or a rack owned by a third party, during the high demand winter months at a fixed price.

Bulk Sales. Bulk sales generally involve the sale of products in large quantities in the major cash markets including the Houston Gulf Coast, New York Harbor, Chicago, Illinois and the Tulsa, Oklahoma refining area. We also may make a bulk sale of products while the product is being transported in the common carrier pipelines or by barge or vessel. Finally, we may make a bulk sale to purchasers while our product is in the Gulf Coast prior to the time when this product enters the common carrier pipelines.

Supply disruptions, extreme weather, and other unforeseen factors may cause supply and demand imbalances in major cash markets around the country resulting in price differences, referred to as "basis differentials," between these markets. These price differences often exceed the costs of transporting product between the markets. Bulk sales of products are entered into with major oil companies and independent wholesalers and distributors who purchase product in the market to cover their delivery obligations during such periods of supply and demand imbalance. We attempt to capitalize on these variations by monitoring prices in the major cash markets, re-scheduling shipments and making bulk sales of product in the markets that achieve the highest value to us.

For example, a major oil company may become aware that it is going to have a production outage at its refinery in the Gulf Coast region and may determine that the outage will cause several of its terminals in the Northeast to be short of product within a few days. If the major oil company cannot replace the product, it could fail to meet delivery obligations from the affected terminals and, therefore, must turn to the market to supply its needs. In that case, if we had the required type and volume of product available, either prior to the time when this product enters the common carrier pipelines or in-transit along a pipeline, we may enter into a bulk sales agreement to sell the product to the major oil company in exchange for cash.

Supply chain management services

Industrial, commercial and governmental entities with significant ground fleets need to ensure adequate fuel supplies for their fleet vehicles. For many of these companies and governmental entities, the cost of fuel is a significant expenditure and the administration and record keeping involved is burdensome. Some companies also maintain their own proprietary refueling facilities, which requires monitoring fuel levels, scheduling deliveries, controlling inventories and filing excise tax returns. Other companies use retail gasoline stations to refuel their vehicles, resulting in extensive payment handling as well as exposure to price differences among stations and price fluctuations in the market. In response to these market needs, we developed our supply chain management services business segment. We provide supply chain management services to companies and governmental entities that desire to outsource their fuel supply function to focus their efforts on their core competencies and to reduce the price volatility associated with their fuel supplies for budgetary reasons. These services often include price management solutions that provide our customers an assured source of fuel at a predictable price. Our

customer base includes companies involved in the manufacture and distribution of consumer products, express shipping services, waste disposal services, transportation services, and state and local government entities.

These customers use our proprietary web-based technology, which provides them the ability to budget their fuel costs while outsourcing all or a portion of their procurement, scheduling, routing, excise tax and payment processes. Using electronic metering equipment, we can monitor the amounts of product stored and delivered at our customers' proprietary refueling locations. In addition, through our strategic relationship with Comdata-Comchek MasterCard, we can monitor the volume of fuel purchased by our customers' ground fleet vehicles at retail truck stops and service stations.

We currently offer three types of supply chain management services: delivered fuel price management, retail price management and logistical supply chain management services.

Delivered Fuel Price Management. Delivered fuel price management contracts involve the sales of committed quantities of specific motor fuels delivered to our customer's proprietary fleet refueling locations, at fixed prices for terms up to three years. On a daily basis, for each of our customer's facilities, we procure product, schedule delivery, manage local inventory quantities and summarize each customer's purchases by location and vehicle. Typical customers for delivered fuel price management services have large fleets of vehicles that drive fixed, scheduled routes, making refueling at a proprietary refueling location an attractive choice.

For example, we may enter into a delivered fuel price management contract with a customer that has storage and refueling facilities at its fleet operations centers. We will agree to deliver diesel fuel directly to the customer's proprietary refueling location at a fixed price per gallon. We then monitor the customer's fuel usage and schedule additional fuel deliveries as needed. We will provide the customer with a single invoice for all of the fuel deliveries that includes reconciliation of all bills of lading against deliveries and breaks out accumulated third-party transportation costs. This information is available to the customer on a customized web-based portal.

Retail Price Management. Retail price management contracts typically are entered into for a period of up to 18 months with customers that require flexibility in refueling locations, either because they do not have proprietary refueling facilities or because they generally do not operate along fixed routes. Under these arrangements, customers commit to a specific monthly notional quantity of product within one or more metropolitan areas. The customer's drivers will purchase fuel at a retail gasoline station within the metropolitan area and use their Comdata-Comchek MasterCard to pay the retail price at that station. We then settle with our customer the net financial difference between a stipulated retail price index for that metropolitan area and our customer's contract price on a monthly basis. If the contract price is less than the average indexed price, we will pay the customer the net difference. If the contract price exceeds the average indexed price, the customer will pay us the net difference. In either case, the customer will have effectively managed its exposure to fuel costs at the contract price. Through our proprietary web-based software, our customers receive a monthly report of each of these activities. Typical customers for retail price management services include companies that have large fleets that are dispatched to specific service or delivery locations on an as-needed basis.

For example, we may enter into a retail price management contract with a customer for a price per gallon of gasoline equal to a stipulated retail price index plus a negotiated fee. The customer's fleet drivers are able to purchase fuel at almost any retail gasoline station using their Comdata-Comchek MasterCard. At the time of purchase, the driver pays for the gasoline using the company fleet card, and the vehicle number and the amount and price of fuel purchased are recorded. Comdata-Comchek MasterCard sends daily electronic reports to us indicating a summary of the data collected by the

credit cards. This information is made available to the customer on our proprietary web-site. We then settle the net difference between the indexed price and the customer's contract price on a monthly basis.

Logistical Supply Chain Management. Under our logistical supply chain management arrangements, we provide our proprietary web-based refined petroleum product procurement, inventory management, scheduling, routing, excise tax and consolidated billing services to customers on a stand alone basis without any delivery or price management products. These services also are often integrated with our Comdata-Comchek MasterCard relationship, thereby affording our customers complete flexibility to obtain their supply of products at almost any retail gasoline station. These services typically are charged to the customer on a per gallon basis or at negotiated rates. Typical logistical service customers include governments and customers that are seeking to outsource or streamline record keeping functions but are willing to continue to bear price fluctuations. Often, a customer will initially contract for logistical supply chain management services and later use our delivered fuel price management or retail price management services.

For example, a customer may want the benefits of a single invoice for all fuel purchases and the ability to manage its fuel usage on-line. We provide access to fuel purchase data in real time, providing an automated platform for analysis tailored to each customer. In addition, many customers have diverse logistical requirements, buying fuel in bulk, at retail locations and through mobile refueling services. We can provide integrated management of all supply and logistical requirements for our customers' bulk locations and use our Comdata-Comchek MasterCard relationship to manage the retail and mobile refueling volumes. The company fleet card would capture the fueling transaction data for the bulk, retail and mobile refueling activity facilitating customized reporting on our proprietary web site. Our customers benefit from a single resource for the procurement, pricing and reporting of all fuel data regardless of the logistical requirements.

We have received a revenue ruling from the Internal Revenue Service that allows us to provide state and local government vehicle fleets with a simplified process for managing and obtaining fuel tax exemptions. State and local governments are exempt from paying federal excise taxes on the fuel consumed by their vehicle fleets. Normally, fleet vehicles would purchase gasoline at retail gasoline stations, where excise taxes are included in the price of gasoline, and the government agency would file a tax return to obtain a refund of excise taxes paid. By using our supply chain management services, these tax-exempt government fleets can purchase fuel at almost any retail location using their Comdata-Comchek MasterCard. Comdata pays the merchant and transfers the balance to our account. We then bill our customer net of federal excise taxes. We file all necessary excise tax returns on behalf of these customers with the applicable taxing authorities and we receive a credit against our excise tax payment obligations. We believe that this additional service gives us a competitive advantage that will allow us to attract additional government fleet customers.

Acquisitions

Coastal Fuels assets

On February 28, 2003, we acquired the Coastal Fuels assets, including five Florida terminals, with aggregate storage capacity of approximately 4.9 million barrels, and a related tug and barge operation. The purchase price for the transaction was approximately $156 million, including approximately $37 million of inventory.

The Coastal Fuels assets primarily provide sales and storage of bunker fuel, No. 6 oil, diesel fuel and gasoline at Cape Canaveral, Port Manatee/Tampa, Port Everglades/Ft. Lauderdale and Fisher

Island/Miami, and storage of asphalt at Jacksonville, Florida. In addition, the Coastal Fuels assets facilities provide a variety of third-party lease capacity to the asphalt, jet fuel, power generation and crude oil industries.

With the addition of the Coastal Fuels assets, we have significantly expanded our existing Florida operations at our Port Everglades and Tampa terminals. In addition, the acquisition of the Coastal Fuels assets provide the following benefits:

- we have established a leading presence in key bunkering locations in various Florida ports, including the Ports of Miami, Port Everglades, Cape Canaveral and Tampa;
- the ports served are among the top cruise ship ports in the U.S., providing steady year-round demand with greater demand in the winter months;
- the terminals are located primarily in areas with limited opportunity for new terminal expansion because of zoning, land values and environmental considerations;
- no refineries exist in Florida and the major Florida markets are served by waterborne vessels due to the absence of major product supply pipelines;
- Florida is one of the fastest growing states in population, with additional potential demand growth in both the cruise ship bunkering and light oil businesses;
- the Coastal Fuels assets include the only pipeline hydrant delivery system serving Port Everglades, which allows a more efficient refueling process than barge to ship refueling; and
- a number of opportunities to increase operational efficiency exist with our current operations in Florida.

Fairfax, Virginia terminal

On January 31, 2003, we acquired a terminal in Fairfax, Virginia, which extended our supply, distribution and marketing presence in the Mid-Atlantic market. The Fairfax terminal supplies petroleum products to the Washington D.C. market and receives product off the Colonial Pipeline. The strategic reasons for acquiring the Fairfax terminal included:

- the attractive geographic location of the terminal:
- the terminal expands our delivery capabilities into and around Washington, D.C.;
- the terminal is located in an area with limited opportunity for new terminal expansion because of zoning, land values and environmental considerations; and
- the Washington, D.C. area is growing and provides future growth opportunities.
- potential synergies that would result with our existing terminal infrastructure along the Colonial Pipeline.

Norfolk, Virginia terminal

On October 1, 2003, we closed on the purchase of a terminal in Norfolk, Virginia, which increased our supply, distribution and marketing presence in the Mid-Atlantic market. The strategic reasons for acquiring the Norfolk terminal included:

> an opportunity to realize operating synergies by combining these operations with our existing Norfolk, Virginia terminal;

> the acquired terminal provides us with additional storage in the market; and

> the terminal has a docking facility that will permit us to receive shipments from and deliver shipments to the water.

Risk Management

Our risk management committee, composed of senior executives of TransMontaigne, has established risk management policies to monitor and manage commodity price risks. Our risk management strategy generally is intended to maintain a balanced position of forward sale and forward purchase commitments, discretionary inventories held for immediate sale or exchange and risk management contracts, thereby reducing exposure to commodity price fluctuations. We evaluate our exposure to commodity price risk from an overall portfolio basis that considers the continuous movement of discretionary inventory volumes held for immediate sale or exchange and our obligations to deliver products at fixed prices through our sales contracts and supply chain management contracts. Our physical inventory position, which includes firm commitments to buy and sell product, is reconciled daily through the use of our inventory monitoring equipment and software and that position is offset with risk management contracts, principally futures contracts on the New York Mercantile Exchange ("NYMEX"). Futures contracts are obligations to purchase or sell a specific volume of product at a fixed price at a future date.

We purchase product primarily from refineries along the Gulf Coast in Texas and Louisiana. To the extent that we have physical inventory or purchase commitments, we enter into a futures contract on the NYMEX to sell product at a specified future date and, thereby, reduce our exposure to changes in commodity prices. Upon sale of the physical inventory of product to a third party, we enter into a futures contract that offsets all or a portion of the original futures contract and, effectively, cancels our original NYMEX position to the extent of the product sold. If there is correlation in price changes between the NYMEX futures market and the value of physical products in the cash market, the net losses on our risk management activities should be offset by the net operating margins we receive when we sell the underlying discretionary inventory. Conversely, the net gains on our risk management activities should be offset by the net operating deficiencies we incur when we sell the underlying discretionary inventory. Therefore, in order to effectively manage commodity price risk, we must predict when we will sell the underlying product. If we fail to accurately predict the timing of those future sales, and the product remains in our inventory longer than the expiration date of the futures contract, we must settle the old futures contract and enter into a new futures contract to sell the product to manage the commodity price risk against the same inventory. We refer to this as "rolling" the risk management contracts. Furthermore, we may be unable to precisely match the underlying product in our futures contracts with the exact type of product in our physical inventory. To the extent that price fluctuations of the product covered by the NYMEX futures contract does not match the price fluctuations of the product in our physical inventory, our exposure may not be mitigated.

We also manage our exposure to commodity price risks in our supply chain management services business. At the execution of each contract for which we provide price management solutions, we enter into NYMEX futures contracts in volumes equal to the customer's contractual commitment to purchase product to mitigate our exposure to commodity price fluctuations throughout the contract period. However, with respect to a portion of our contracts, we are unable to precisely match the underlying product in our risk management contract to the exact type of product contemplated by our delivered fuel price management contract or retail price management contract. To the extent that the price fluctuations of the product covered in our price management contracts do not match the price fluctuations of the product covered by the NYMEX futures contract that we use, our exposure may not be entirely mitigated.

There are certain risks that we either do not attempt to manage or that cannot be completely managed. For example, we generally do not manage the price risk relating to basis differentials. We attempt to capitalize on basis differentials by transporting product to the delivery location that maximizes the value of the product to us. These basis differentials create opportunities for increased operating margins when we successfully exploit the highest value location for sales of our discretionary inventories of products. However, the margins created from exploiting these market inefficiencies do not occur evenly or predictably from period to period and may cause fluctuations in our results of operations.

Our existing operations require us to maintain base operating inventory volumes of approximately 4.0 million barrels, consisting primarily of product in transit generally on common carrier pipelines. We also maintain product linefill and tank bottom volumes of approximately 1.0 million barrels in our terminals and pipeline connections. Our base operating inventory volumes and product linefill and tank bottom volumes are collectively referred to by us as our minimum volumes. We generally do not manage the commodity price risk relating to minimum volumes because these volumes generally are not available for immediate sale or exchange. As a result, any futures contracts used to manage the commodity price risk relating to the minimum volumes would have to be continuously rolled from period to period, which, during unfavorable market conditions, would result in a realized loss on the futures contract without the realization of an offsetting gain in the value of the base operating inventory. Changes in our operation, such as the acquisition of additional terminals or increases in our contract sales volumes, may result in changes to our minimum volumes.

Our risk management policy allows our management team the discretion under certain market conditions to manage the commodity price risk relating to up to 500,000 barrels of our base operating inventory, which would reduce the unmanaged inventory to approximately 4.5 million barrels, or to leave unmanaged up to 500,000 barrels of our discretionary inventory available for immediate sale or exchange, which would increase our unmanaged inventory to approximately 5.5 million barrels. Management is allowed this discretion in order to create the opportunity to capture financial gains, or prevent financial losses, on predictable price movements with respect to up to 500,000 barrels of physical product. We decide whether to manage the commodity price risk relating to a portion of our base operating inventory or to leave a portion of our discretionary inventory available for immediate sale or exchange unmanaged depending on our expectations of future market changes. To the extent that we do not manage the commodity price risk relating to a portion of our inventory and commodity prices move adversely, we could suffer losses on that inventory value. If, however, prices move favorably, we would realize a gain on the sale of the inventory that we would not realize if substantially all of our inventory was managed.

All of our futures contracts are traded on the NYMEX and, therefore, require daily settlements for changes in commodity prices. Unfavorable commodity price changes subject us to margin calls that require us to provide cash collateral to the NYMEX in amounts that may be material. For example, we may enter into a futures contract to manage the commodity price risk relating to discretionary inventory held for immediate sale or exchange. If commodity prices rise before the expiration date of the futures contract, the futures contract will be "out of the money," which means that we will be obligated to deposit funds to cover a margin call based on the increase in the commodity price. If commodity prices fall before the expiration date of the futures contract, a portion of our margin call deposits with the NYMEX will be returned to us. If there is correlation in pricing and timing between the futures market and the physical products market, the net changes in our margin position should be offset by the net operating margins we receive when we sell the underlying discretionary inventory. We use our credit lines to fund these margin calls, but such funding requirements could exceed our ability to access capital. If we are unable to meet these margin calls with borrowings or cash on hand, we

would be forced to sell product to meet the margin calls or to unwind futures contracts. If we are forced to sell product to meet margin calls, we may have to sell at prices or in locations that are not advantageous, and could incur financial losses as a result.

Industry Trends

Petroleum imports and Gulf Coast production

United States crude oil production has declined from 6.8 million barrels per day in 1993 to 5.6 million barrels per day in 2003. Imports of petroleum from the Middle East, South America and elsewhere have increased substantially over this period from 8.6 million barrels per day in 1993 to 12.3 million barrels per day in 2003. Domestic crude oil production may be refined at any of the regional refineries around the United States. However, the imported crude oil generally is shipped by vessel into the Gulf Coast for processing at the large refining complexes. Crude oil production in the Gulf of Mexico, one of the largest sources of domestic production, also is refined primarily in these Gulf Coast refineries. The refined petroleum products then are shipped to other regions of the United States. We believe that this trend will lead to more refined petroleum product shipment from the Gulf Coast to the Midwest and East Coast, requiring additional transportation and storage capacity in the Midwest and East Coast.

New sulfur regulations

In February 2002, the Environmental Protection Agency ("EPA"), promulgated the Tier 2 Motor Vehicle Emissions Standards Final Rule for all passenger vehicles, establishing standards for sulfur content in gasoline. These regulations mandate that the average sulfur content of gasoline for highway use produced at any refinery not exceed 30 parts per million during any calendar year by January 1, 2006. In addition, in January 2001, the EPA promulgated its on-road diesel regulations, which will require a 97% reduction in the sulfur content of diesel fuel sold for highway use by June 1, 2006. Regulations for off-road diesel equipment also are pending. The stricter regulations will require refining companies to make significant capital expenditures to upgrade their facilities to comply with the new standards. Because of the technical sophistication and the capital outlays that will be required for compliance with such regulations, the large oil companies with major refining operations in the Gulf Coast are expected to be better prepared to meet the new standards than the smaller independent refiners. The large oil companies also may choose to partially refine crude oil in the larger and better-equipped Gulf Coast refineries for the purpose of reducing its sulfur content, and then ship the partially refined product to their smaller and less technically sophisticated inland refineries for final processing. We believe that these trends will lead to more refined petroleum product shipment from the Gulf Coast to the Midwest and East Coast, requiring additional transportation and storage capacity in the Midwest and East Coast.

Consolidation and specialization

In the 1990's, the petroleum industry entered a period of consolidation and specialization.

> Refiners and marketers began to pursue development of large-scale, cost-efficient operations, thus leading to several refinery acquisitions, alliances and joint ventures. The companies involved in several of the mergers of large oil companies have sold retail and terminal assets in order to rationalize merged operations, and to comply with legal requirements to divest assets in certain geographic markets.

- Major oil companies also began to re-deploy their resources to focus on their core competencies of exploration and production, refining and retail marketing. Industry participants have sought to sell portions of their proprietary transportation and storage and distribution networks.

This industry trend towards consolidation and specialization has created opportunities to capitalize on storage and distribution services. We expect that acquisition opportunities will continue to be generated as this trend continues.

The growth in Gulf Coast refining capacity has resulted in part from consolidation in the petroleum industry to take advantage of economies of scale from operating larger, concentrated refineries. The growth in refining capacity and increased product flow attributable to the Gulf Coast region has created a need for additional transportation, storage and distribution facilities in the Gulf Coast, Midwest and East Coast regions. The competition among refiners resulting from the consolidation trend, combined with continued environmental pressures, governmental regulations and market conditions, increasingly is resulting in the closing of smaller, independent inland refiners, creating even greater demand for petroleum products refined by the major oil companies in the Gulf Coast region.

Hypermarkets and alternative retail gasoline outlets

The retail distribution of gasoline is experiencing a transformation as consumer consumption patterns are moving away from gasoline distributed at the retail outlets of large oil companies, or "branded gasoline," toward unbranded gasoline from independent retail outlets offering lower prices and convenient locations. For example, many hypermarkets, grocery stores, convenience stores, discount retailers and wholesale outlets have installed gasoline pumps in their parking lots as a way to expand their product and service offerings and to allow their customers the benefit of "one-stop shopping." The increase in popularity of unbranded outlets has created new sales and distribution opportunities for independent petroleum product suppliers.

Competitive Strengths

We believe that we have the following competitive strengths, which allow us to take advantage of the industry trends outlined above:

Significant asset base and shipping history

The Gulf Coast is a large shipper of refined petroleum products to the Midwest and East Coast regions. We have a geographically diverse network of terminals that allows us to take advantage of the differences between supply in the Gulf Coast and demand in the Midwest and East Coast. Our size, both in terms of number of terminals and total storage capacity, compares favorably with any integrated oil company.

This geographic diversity also allows us to quickly sell our product inventory from time to time in one or more locations while maximizing value to us. To purchase products in the Gulf Coast and sell the products in the Midwest and East Coast, it is necessary to have a shipping history on common carrier pipelines and an extensive network of terminals. Our shipping history on the Colonial, Plantation, Explorer and TEPPCO pipelines allows us to ship large volumes of products over these pipelines to our and third-party terminals. This shipping history provides us the benefit of allocated space on these common carrier pipelines during high demand periods, which is an advantage over competitors that do not have as significant a shipping history when pipeline capacity is over-subscribed.

We believe that we will be able to further capitalize on our network of terminals in the Gulf Coast, Midwest and East Coast following implementation of the new sulfur standards promulgated by the EPA. We anticipate that refining companies will be required to make significant capital expenditures to

upgrade facilities to comply with such new sulfur regulations. Because of the technical sophistication and the capital outlays that will be required for compliance with such regulations, we expect that the large oil companies with major refining operations in the Gulf Coast will gain a competitive advantage over the smaller independent refiners. We believe that this will lead to more petroleum product shipment from the Gulf Coast to the Midwest and the East Coast, and require additional storage capacity in the Midwest and East Coast, providing additional growth opportunities for us.

Ability to link asset base, product supply and management services

Our supply, distribution and marketing operations and our terminal, pipeline and tug and barge operations each utilize and benefit from each other, creating opportunities to realize additional value in each of our business segments that could not be realized if each business segment were operated independently.

Our supply, distribution and marketing operations generally use our terminal, tug and barge and pipeline infrastructure to market various products and provide specialized supply, logistical and risk management services to our customers. A significant portion of the throughput on our terminal and pipeline infrastructure is driven by our own supply, distribution and marketing business. As a result, we do not rely solely on third parties for our throughput activity.

We own and operate terminals located throughout the regions served by four major petroleum product pipelines on which we have a significant shipping history. In addition, we own and operate a petroleum product pipeline and a fleet of tugboats and barges. Also, we own and operate a dock strategically located on the Mississippi River with an interconnection to the Colonial Pipeline. We also have substantial experience in managing complex petroleum product supply and demand arrangements, utilizing equipment and software, that allow us to monitor supplies in all of our facilities on a daily basis.

Because we link our asset base with our supply, distribution and marketing operations, we have the flexibility to market product during adverse market conditions to meet our contractual volume obligations, maintain our common carrier pipeline shipping history and generate throughput revenues.

Our geographically diverse terminal infrastructure allows our supply, distribution and marketing operations to pursue product purchase and sale opportunities across various regions in transactions that maximize value to us. For example, if we have product in the Colonial Pipeline, which serves the Mid-Atlantic and the Northeast, but there is a supply disruption in Chicago, we can take advantage of our Baton Rouge dock facility to redirect the product by drawing it off the Colonial Pipeline and loading it on barges for shipment to the Chicago area to take advantage of the basis differential. We then quickly evaluate whether the redirection of this shipment will result in shortages at any of our other terminals along the Colonial Pipeline and, if so, reduce demand at those terminals by posting a higher rack spot sales price. In addition, we can purchase additional product in the Gulf Coast region and take advantage of our extensive shipping history to be allocated pipeline capacity to increase subsequent shipments on the Colonial Pipeline to make up any shortfall caused by the original redirection of product to Chicago.

Supply chain management services

In order to operate more efficiently and to reduce overhead costs, many companies and governmental entities have begun to outsource their fuel supply function. This trend is creating an emerging market for services that allow these customers to focus their efforts on their core competencies and to reduce the price volatility associated with fuel supply for budgetary reasons. We provide a broad scope of services that include fuel supply, monitoring, excise tax administration and price management

solutions, allowing our customers to obtain all of the required fuel supply chain management functions from a single source. We believe that we are the only significant independent fuel supply chain management services provider in the United States offering this extensive suite of services.

Technology and back-office infrastructure

We have assembled monitoring equipment and software to create an integrated, flexible system that allows us to effectively manage petroleum products throughout our terminal, pipeline and water-borne infrastructure on a real time basis.

All of our terminals are equipped with equipment to monitor product supplies and outflows as well as for any environmentally harmful releases of product, such as leaks or spills. This equipment is interconnected electronically with our central inventory management office and automatically reports supply levels in all of our facilities several times daily. The electronic linkage of our terminals with our product supply function creates an inherent competitive strength by allowing us to make real time decisions on product purchases and sales.

We use a magnetic card system at our terminals that allows us to control product sales deliveries and also allows us to manage our credit risk exposure. Each of our rack customers is given a magnetic card that can be used only at our terminals. Upon arrival at one of our racks, the driver of the truck swipes the magnetic card and inputs a product and volume request. This information is processed through our computerized inventory management system to determine the credentials of the carrier and whether the driver's product and volume request is within the customer's allocation of product for that month. The system also determines if the customer is current in its payments to us. If it is determined that the customer's allocation of product already has been drawn or if the customer is delinquent in paying its invoices to us, then the sale will not be allowed. The magnetic card system at each terminal is interconnected with our inventory management and billing system.

We also use a proprietary web-based system in our supply chain management services business that allows us to provide refined petroleum product procurement, inventory management, scheduling, routing and excise tax and consolidated billing services to our customers. Through our relationship with Comdata-Comchek MasterCard, we provide integrated billing services to our supply chain management services customers. These customers receive MasterCard credit cards that are distributed to their fleet vehicle operators for use in purchasing gasoline at any retail gasoline station that accepts MasterCard as a method of payment. On a daily basis, we receive information on these accounts electronically from Comdata-Comchek MasterCard into our billing system. This information is posted on our web-based system, which can be accessed by our supply chain management services customers, allowing them to closely monitor fuel usage and costs by vehicle on a real time basis.

The refined petroleum products that arrive at terminals do not have excise taxes included in their price. At the time the products are sold over the rack, however, excise tax must be added to the price and paid by the purchasers of our products. The process of calculating, collecting, paying and reporting the excise taxes imposed by state and federal authorities requires extensive knowledge, expertise and administrative infrastructure. For example, we may make a delivery of gasoline at our rack that is located in one state to a truck that will transport the fuel to a neighboring state. Because taxation rules differ among locations, we must keep track of where the fuel will be ultimately delivered, charge the appropriate excise tax and file excise tax returns in the appropriate jurisdictions. We have developed an infrastructure to administer excise taxes on product that is handled at our terminals.

Strategies

The goal of our business strategies is to enhance our position as a leading independent provider of integrated refined petroleum products terminal, storage, supply, distribution and marketing services. Our strategies include:

>
Capitalize on the acquisition of the Coastal Fuels assets in Florida.

>
We intend to take advantage of the steady year-round demand in the ports served.

>
We intend to pursue growth opportunities in both the cruise ship bunkering and light oil businesses.

>
We intend to expand our bunkering service to shipping markets outside of the cruise ship industry.

>
Capitalize on our infrastructure by linking our significant asset base to our supply, distribution and marketing business.

>
We intend to take advantage of our extensive network of terminals, as well as our shipping history on common carrier pipelines, to exploit supply and demand variations and basis differentials among the Gulf Coast, Midwest and East Coast regions.

>
We intend to use our significant terminal capacity to meet the growing demand for boutique blends of gasoline spurred by recent and anticipated changes in government regulations.

>
We intend to capitalize on the favorable location of our Baton Rouge docking facility, which allows us to transfer product between the Colonial Pipeline which serves the East Coast, and the Mississippi River, which serves portions of the Midwest. This allows us to redirect product to the Midwest or the East Coast to take advantage of basis differentials.

>
Pursue attractive acquisitions.

>
We intend to acquire additional terminal and storage facilities that will either complement our existing asset base and distribution capabilities, or provide entry into new markets. In light of the recent industry trend large energy companies divesting their distribution and terminal operations, we believe there will continue to be significant acquisition opportunities.

>
Actively pursue new sales and distribution opportunities by marketing our services to hypermarkets.

>
Expand our supply chain management services.

>
We intend to expand our existing supply chain management team and equipment to enable us to provide supply chain management services to additional customers with large ground transportation fleets.

>
We intend to actively market our supply chain management solution for managing and obtaining excise tax exemptions on fuel purchases to government fleet customers.

>
Continue to manage our exposure to commodity price volatility.

>

Our risk management strategy allows us to continue to have product throughput at our terminals regardless of commodity price volatility, permitting us to buy, market and sell product and services even during adverse commodity market conditions.

>

Our risk management strategy also allows us to keep our efforts focused on maximizing the value of our physical assets and expanding our supply chain management services business.

Environmental Matters

Our operations are subject to extensive federal, state and local laws and regulations covering the discharge of materials into the environment, or otherwise relating to the protection of the environment, and which require expenditures for remediation at various operating facilities, as well as expenditures in connection with the construction of new facilities. We believe that our operations and facilities are in material compliance with applicable environmental regulations. Environmental laws and regulations have changed substantially and rapidly over the last 20 years, and we anticipate that there will be continuing changes in the future. The trend in environmental regulation is to place more restrictions and limitations on activities that may impact the environment, such as emissions of pollutants, generation and disposal of wastes and use and handling of chemical substances. Increasingly strict environmental restrictions and limitations have resulted in increased operating costs for us and other businesses throughout the United States, and the costs of compliance with environmental laws and regulations may continue to increase. We will attempt to anticipate future regulatory requirements that might be imposed and to plan accordingly to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance. We do not anticipate that we will be required in the near future to expend amounts that are material in relation to our total capital expenditures program to comply with environmental laws and regulations, but inasmuch as such laws and regulations are frequently changed, we are unable to predict the ultimate costs of compliance.

TransMontaigne's operations require environmental permits under various federal, state and local environmental statutes and regulations. The cost involved in obtaining and renewing these permits is not material.

Water

The Federal Water Pollution Control Act of 1972, as renamed and amended as the Clean Water Act ("CWA"), imposes strict controls against the discharge of oil and its derivates into navigable waters. The CWA provides penalties for any discharges of petroleum products in reportable quantities and imposes substantial potential liability for the costs of removing an oil or hazardous substance spill. State laws for the control of water pollution also provide for various civil and criminal penalties and liabilities in the event of a release of petroleum or its derivatives in surface waters or into the groundwater. Spill prevention control and countermeasure requirements of federal laws require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum tank spill, rupture or leak. A containment berm is an earthen or cement barrier, impervious to liquids, which surrounds a storage tank holding between 1,000 and 500,000 gallons of petroleum products or other hazardous materials and used to prevent spilling and extensive damage to the environment. The berm is a form of secondary containment with the storage tank itself being the primary instrument of containment.

Contamination resulting from spills or releases of refined petroleum products is an inherent risk in the petroleum terminal and pipeline industry. To the extent that groundwater contamination requiring remediation exists around the assets we own as a result of past operations, we believe any such contamination can be controlled or remedied without having a material adverse effect on our financial condition. However, such costs are often unpredictable and are site specific and, therefore, the effect may be material in the aggregate.

The primary federal law for oil spill liability is the Oil Pollution Act of 1990 ("OPA"), which addresses three principal areas of oil pollution prevention, containment and cleanup. It applies to vessels, offshore platforms, and onshore facilities, including terminals, pipelines and transfer facilities. In order to handle, store or transport oil, shore facilities are required to file oil spill response plans with the

United States Coast Guard, the United States Department of Transportation Office of Pipeline Safety ("OPS"), or the EPA. Numerous states have enacted laws similar to OPA. Under OPA and similar state laws, responsible parties for a regulated facility from which oil is discharged may be liable for removal costs and natural resources damages. We believe that we are in material compliance with regulations pursuant to OPA and similar state laws.

The EPA has adopted regulations that require us to obtain permits to discharge certain storm water run-off. Storm water discharge permits also may be required by certain states in which we operate. Such permits may require us to monitor and sample the effluent from our operations. We believe that we are in material compliance with effluent limitations at our facilities.

Water permits are required for various types of terminal stormwater discharges. There are no TransMontaigne terminal locations that discharge any type of process wastewater. Such discharges generally fall into two categories: petroleum contact and non-contact. The sources of contact water are the truck loading operations at some of the terminals. Many TransMontaigne terminal locations do not have contact water discharges, and thus no need for discharge permits, by virtue of employment of closed-loop water handling systems. The water generated in these systems is transported offsite and disposed of properly. At locations where contact water is discharged on site, permit conditions dictate control technology requirements, effluent limitations and confirmation sampling. Non-contact stormwater is generated at most terminal locations, primarily from rainfall collection in aboveground storage tank secondary containment enclosures or dikes. Various types of permits regulate these discharges, with most being "General" state-wide industry specific mechanisms. The cost involved in obtaining and renewing these permits is not material.

Air emissions

Our operations are subject to the federal Clean Air Act and comparable state and local statutes. The Clean Air Act Amendments of 1990 require most industrial operations in the United States to incur capital expenditures to meet the air emission control standards that are developed and implemented by the EPA and state environmental agencies. Pursuant to the Clean Air Act, any of our facilities that emit volatile organic compounds or nitrogen oxides and are located in ozone non-attainment areas face increasingly stringent regulations, including requirements to install various levels of control technology on sources of pollutants. Some of our facilities have been included within the categories of hazardous air pollutant sources. The Clean Air Act regulations are still being implemented by the EPA and state agencies. We believe that we are in material compliance with existing standards and regulations pursuant to the Clean Air Act and similar state and local laws, and we do not anticipate that implementation of additional regulations will have a material adverse effect on us.

Air permits are required for TransMontaigne's terminaling operations that result in the emission of regulated air contaminants. These operations in general include fugitive volatile organic compounds (primarily hydrocarbons) from truck loading activities and tank working losses. The sources of these emissions are strictly regulated through the permitting process. Such regulation includes stringent control technology, extensive permit review and periodic renewal. The cost involved in obtaining and renewing these permits is not material.

CERCLA

Other than Coastal Fuels Marketing Inc. ("CFMI"), neither TransMontaigne nor any of its subsidiaries is a named party in any Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") related action. CFMI, which is now a wholly owned subsidiary of TransMontaigne, had been named as a PRP in four State of Florida CERCLA actions which originated from waste disposal by third parties at off-site locations prior to TransMontaigne's acquisition of CFMI from El Paso

Corporation in 2003. TransMontaigne has been indemnified by El Paso for any costs TransMontaigne may incur for these issues. Due diligence research at the time of the acquisition of CFMI indicated that El Paso would not be likely to incur any future costs related to these actions; a worst-case analysis estimated El Paso's potential exposure at a total of $850,000.

All of TransMontaigne's terminal facilities are classified by the United States EPA as Conditionally Exempt Small Quantity Generators and do not generate hazardous waste except on isolated and infrequent cases. At such times, only third party disposal sites which have been audited and approved by TransMontaigne are used.

Tariff Regulations

The Razorback Pipeline, which runs between Mt. Vernon, Missouri and Rogers, Arkansas, is an interstate petroleum products pipeline and is subject to regulation by FERC under the Interstate Commerce Act and the Energy Policy Act of 1992 and rules and orders promulgated under those statutes. FERC regulation requires that interstate oil pipeline rates be posted publicly and that these rates be "just and reasonable" and nondiscriminatory. Rates of interstate oil pipeline companies are currently regulated by FERC primarily through an index methodology, whereby a pipeline is allowed to change its rates based on the change from year to year in the Producer Price Index for finished goods, less 1%. In the alternative, interstate oil pipeline companies may elect to support rate filings by using a cost-of-service methodology, competitive market showings or actual agreements between shippers and the oil pipeline company.

Under current FERC regulations, we are permitted to charge "just and reasonable," non-discriminatory tariffs for the transportation of refined products through the Razorback Pipeline. Given our ability to utilize either posted rates subject to increases tied to the Producer Price Index, to utilize rates tied to cost of service methodology, competitive market showing or actual agreements between shippers and TransMontaigne, we do not believe that these regulations would have any negative material monetary impact on us unless the regulations were substantially modified in such a manner so as to prevent a pipeline transportation company's ability to earn a fair return for the shipment of petroleum products utilizing its transportation system, which we believe to be an unlikely scenario.

Safety Regulation

We are subject to regulation by the United States Department of Transportation under the Accountable Pipeline and Safety Partnership Act of 1996, sometimes referred to as the Hazardous Liquid Pipeline Safety Act ("HLPSA"), and comparable state statutes relating to the design, installation, testing, construction, operation, replacement and management of our pipeline facilities. HLPSA covers petroleum and petroleum products and requires any entity that owns or operates pipeline facilities to comply with such regulations and also to permit access to and copying of records and to make certain reports and provide information as required by the Secretary of Transportation. We believe that we are in material compliance with these HLPSA regulations.

OPS regulations require qualification of pipeline personnel. These regulations require pipeline operators to develop and maintain a written qualification program for individuals performing covered tasks on pipeline facilities. The intent of this regulation is to ensure a qualified work force and to reduce the probability and consequence of incidents caused by human error. The regulation establishes qualification requirements for individuals performing covered tasks, and amends certain training requirements in existing regulations. We believe that we are in material compliance with these OPS regulations.

We also are subject to OPS regulation for High Consequence Areas ("HCAs"), for Category 2 pipeline systems (companies operating less than 500 miles of jurisdictional pipeline). This regulation specifies how to assess, evaluate, repair and validate the integrity of pipeline segments that could impact populated areas, areas unusually sensitive to environmental damage and commercially navigable waterways, in the event of a release. Our assets that are subject to these requirements are: (1) the Pinebelt Pipeline (the pipeline connecting the Collins and Purvis, Mississippi complexes); (2) the Razorback Pipeline; (3) the Bellemeade Pipeline (pipeline connecting the Richmond Terminal to the nearby Virginia Power plant); (4) the Birmingham Terminal pipeline connection to Plantation Pipeline; and (5) the Bainbridge Terminal pipeline connection to the nearby SEGCO Power Plant. The regulation requires an integrity management program that utilizes internal pipeline inspection, pressure testing, or other equally effective means to assess the integrity of pipeline segments in HCAs. The program requires periodic review of pipeline segments in HCAs to ensure adequate preventative and mitigative measures exist. Through this program, we evaluated a range of threats to each pipeline segment's integrity by analyzing available information about the pipeline segment and consequences of a failure in a HCA. The regulation requires prompt action to address integrity issues raised by the assessment and analysis. The complete baseline assessment of all segments must be performed by February 17, 2009, with intermediate compliance deadlines prior to that date. We believe that we are in material compliance with the OPS regulation of HCAs.

We also are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA"), and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the Federal Superfund Amendment and Reauthorization Act, and comparable state statutes require us to organize and disclose information about the hazardous materials used in our operations. Certain parts of this information must be reported to employees, state and local governmental authorities, and local citizens upon request. We believe that we are in material compliance with OSHA and state requirements, including general industry standards, record keeping requirements and monitoring of occupational exposures.

In general, we expect to increase our expenditures during the next decade to comply with higher industry and regulatory safety standards such as those described above. Although we cannot estimate the magnitude of such expenditures at this time, we do not believe that they will have a material adverse impact on our results of operations.

Other Regulations

We also are subject to the Jones Act and the Merchant Marine Act of 1936 because of our ownership and operation of ocean vessels. Numerous other federal, state and local rules regulate our operations pursuant to which governmental agencies have the ability to suspend, curtail or modify our operations. We believe that we are in material compliance with these regulations.

Operational Hazards and Insurance

Our terminal and pipeline facilities may experience damage as a result of an accident or natural disaster. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operations. We maintain insurance of various types that we consider adequate to cover our operations and properties.

The insurance covers all of our assets in amounts that we consider to be reasonable. The insurance policies are subject to deductibles that we consider reasonable and not excessive. Our insurance does

not cover every potential risk associated with operating pipelines, terminals and other facilities including the potential loss of significant revenues. Consistent with insurance coverage generally available to the industry, our insurance policies provide limited coverage for losses or liabilities relating to pollution, with broader coverage for sudden and accidental occurrences. The events of September 11, 2001, and their overall effect on the insurance industry have adversely impacted the availability and cost of coverage. Due to these events, insurers have excluded acts of terrorism and sabotage from our insurance policies. On certain of our key assets, we have purchased a separate insurance policy for acts of terrorism and sabotage.

Competition

We face intense competition in our terminal and pipeline operations as well as in our supply and marketing operations. Our competitors include other terminal and pipeline companies, the major integrated oil companies, their marketing affiliates and independent gatherers, brokers and marketers of widely varying sizes, financial resources and experience. Some of these competitors have capital resources many times greater than ours, and control greater supplies of refined petroleum products.

Employees

We had 658 employees at August 30, 2004. No employees are subject to representation by unions for collective bargaining purposes.

Market and Industry Data

Market and industry data and other statistical information used throughout this report are based on independent industry publications by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources. Although we believe these sources are reliable, we have not independently verified the information derived from independent sources.

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ITEM 2. PROPERTIES

The locations and approximate shell capacity of our terminals (all of which are owned by us) as of June 30, 2004 are as follows:

Locations	Approximate Shell Capacity (in barrels)

The accounting policies for the business segments are identical to those described in note 1 to the consolidated financial statements.

Planned Divestiture Underwriting Businesses

On April 20, 2001, Aon's Board of Directors approved, in principle, a plan to spin off its insurance underwriting businesses to Aon's common stockholders, creating two independent, publicly traded companies. The spin-off would take the form of a tax-free stock dividend of the outstanding shares of common stock of Combined Specialty Group, Inc. (formerly known as Combined Specialty Corporation), a new company formed to hold the insurance underwriting businesses. The transaction requires final Board approval, a favorable Internal Revenue Service tax ruling and certain insurance regulatory approvals and was expected to be completed in spring 2002. See "Recent Developments" for an update on the planned divestiture. In October 2001, Aon announced plans to expand its underwriting operations to include direct property and casualty insurance policies to meet clients' growing demand for insurance coverage. These expanded operations are intended to be part of the divestiture and may require the raising of additional capital. Also, in 2001, our underwriting subsidiaries invested $227 million to obtain an ownership interest in Endurance Specialty Insurance Ltd. (Endurance), a newly formed Bermuda-based insurer, which offers property and casualty insurance and reinsurance on a worldwide basis. Aon co-sponsored this company to support client demand for much needed underwriting capacity to commercial property and casualty insurance and reinsurance customers. This investment will allow Aon to participate in the growth expected in these areas. It is anticipated that after the divestiture of Combined Specialty, the Endurance investment will be owned by a Combined Specialty entity.

World Trade Center

On September 11, 2001, the World Trade Center in New York was destroyed. Aon occupied space on several of the higher floors of one of the towers, where employees from insurance brokerage, human capital consulting, claims servicing, other specialty operations and accident, health and life insurance underwriting worked. Tragically, 175 of these employees are either confirmed or presumed dead.

The events of September 11 have had an unfavorable impact on near-term financial results due in part to the loss of many highly talented employees. Other factors include business interruption issues and supplemental benefits granted to families of deceased employees. The exact financial impact on Aon from these events is not currently determinable. Future insurance claims may offset some of these costs.

Aon's 2001 results include $158 million of identified World Trade Center costs that have been reported as a pretax unusual charge. These expenses are principally composed of insurance benefits of $45 million, net of approximately $147 million of gross reinsurance recoveries, provided under insurance policies issued by Aon's Combined Insurance Company of America (CICA). Reinsurers have disputed liability as to approximately $90 million of these gross reinsurance recoveries under a Business Travel Accident policy issued by CICA to cover U.S.-based employees of subsidiaries of Aon Corporation, and legal actions have been filed by both parties. Aon has restated its 2001 results to record a pretax $90 million allowance ($56 million after tax) for this potentially uncollectible receivable in the fourth quarter. Aon continues to believe that CICA has valid reinsurance. Also see "Recent Developments". Other unusual charges related to the World Trade Center include a $10 million commitment to the Aon Memorial Education Fund to support the educational needs of the children of Aon employees who were victims of the September 11 attacks, and $13 million of other costs that may not be recoverable from insurance.

Additional World Trade Center related costs are expected in 2002. Most costs incurred have been offset, where appropriate, by insurance claims. Other costs and recoveries remain to be identified and

quantified, including business interruption issues. Aon also had $33 million of depreciable assets at book value destroyed that it has written off. It expects to recover full replacement value for these depreciable assets from its insurance policies. A gain would be reported to the extent the insurance proceeds exceed the book value of the destroyed assets. As analyses of the potential business interruption issues continue, and as additional claims are presented, a gain could potentially be recognized in a future period.

SPECIAL CHARGES

General

Aon's special charges are reflected in general expenses on the consolidated statements of income. Aon's unpaid liabilities relating to the business transformation plan, special charges and purchase accounting are reflected in general expense liabilities on the consolidated statements of financial position.

Business Transformation Plan

In fourth quarter 2000, after final approval by its Board of Directors, Aon began a comprehensive business transformation plan designed to enhance client service, improve productivity through process redesign, and accelerate revenue growth. The majority of the plan costs relate to the Insurance Brokerage and Other Services segment, principally in the U.S. and the United Kingdom, where most of Aon's offices and employees are located. In U.S. retail brokerage, the plan entailed extensive process redesign following the rollout of a new policy management and accounting system (completed in 2000), and substantial job redesign based on functional expertise and the creation of four new Client Service Business Units (CSBUs). There were unexpected delays in implementing components of the plan due to challenges in handling higher volumes of information transfers between field operations and the CSBUs as well as the destruction of Aon's largest and most advanced CSBU, which was housed in the World Trade Center. This delay also adversely affected new business production, as attention was diverted from generating new accounts to completing client conversions and maintaining service to existing New York region clients from Aon's offices throughout the U.S. Expenses have been higher than expected, due in part to additional temporary employee expense necessary to complete the account conversions to the CSBUs, as well as increased compensation for certain brokerage employees and the hiring of employees with specialized skills. The changing dynamics of the insurance marketplace following the World Trade Center disaster have also increased the time requirements and expense for handling certain job functions.

The implementation and results of the Company's business transformation plan for the Company's U.S. retail brokerage operations can only be fully understood in the context of the unprecedented events that occurred during the implementation of the plan:

The Company's largest U.S. retail brokerage office, then located in the World Trade Center, was destroyed on September 11, 2001;

1,100 of the Company's employees worked in the World Trade Center, including employees from all of the Company's major businesses;

250 additional employees either worked in other lower Manhattan offices or were visiting the World Trade Center from around the world on September 11th, which demonstrates the significance of this office to the Company's global operations;

175 of the Company's employees died in the World Trade Center attack on September 11th;

Displaced World Trade Center employees had to be relocated to other New York City metropolitan offices;

The Company's largest and most advanced retail brokerage CSBU (back office regional service center) an important element of the business transformation that had been built and staffed just months before was destroyed on September 11th and had to be rebuilt in Manhattan while client work was rerouted to the remaining three CSBUs in the U.S.;

Regular client servicing was referred to other offices of the Company for handling over varying periods of time until employees had proper temporary work facilities;

The September 11th attacks thrust the insurance industry into the most tumultuous period in its recent history;

Client demand for risk management advice and services has grown dramatically since September 11th;

Premium rates have accelerated to their highest levels in decades;

Insurance capacity has been restricted and policy coverage has tightened;

Workloads for insurance brokers to complete similar tasks have significantly increased; and

Competitive demand for risk management professionals has risen along with compensation requirements.

A summary of the business transformation costs follows, with more complete descriptions following the summary table.

Business Transformation Costs	**2000**	**2001**	**Plan Total**
	(millions except per share data and employees data)		
Pretax expense	$ 82	$ 218	$ 300
After-tax expense	50	133	183
Dilutive EPS	0.19	0.49	0.68
PRETAX EXPENSE BY TYPE:			
TERMINATION BENEFITS	$ 54	$ 109	$ 163
# OF EMPLOYEES (APPROXIMATE)	750	3,150	3,900
EXIT COSTS, IMPAIRMENTS AND OTHER EXPENSES	$ 28	$ 109	$ 137
Abandoned real estate or equipment losses	2	10	12
Impairment of fixed assets	20	10	30
Obligations related to automobile dealer partnerships		44	44
Exit of certain joint venture operations		12	12
Litigation matters and discontinuance of A&H business in one state		14	14
Commission receivable write-off		5	5
Direct costs to complete transformation, cash settlements and other costs	6	14	20
Total pretax expense	$ 82	$ 218	$ 300

In connection with the overall plan and other strategic initiatives, the Company recorded total net expenses of $300 million: $82 million ($50 million after tax or $0.19 per share) in 2000 and $218 million ($133 million after tax or $0.49 per share) in 2001. In recording these expenses, the Company followed the accounting guidance from EITF 94-3, SAB 100, FASB Statement No. 121 and FASB Statement No. 5. The expenses incurred under the guidance contained in EITF 94-3 and SAB 100 were recorded in each of the years referenced above. In each year that the Company recorded accruals for either termination benefits and/or other costs to exit an activity, the Company had met all of the requirements contained in EITF 94-3 and SAB 100 prior to recording an accrual, although the Company's board approved the high-level plan in the fall of 2000. The reason that these expenses were

incurred over two years was that different Company units completed detailed plans and satisfied the employee notification requirements in different timeframes. The $300 million excludes both transition costs primarily relating to parallel system processing and increased compensation for certain U.S. retail brokerage employees. These transition costs amounted to $30 million in 2001. The expenses pertaining to the Company's U.S. retail brokerage operation were approximately 19% of the total charge. The Company does not anticipate additional expenses from the business transformation plan.

Expense amounts of $54 million and $109 million for termination benefits were included in 2000 and 2001, respectively, covering notification of 750 employees in 2000 and 3,150 employees in 2001. A portion of the overall employment reduction was expected to be accomplished through normal attrition and, therefore, no expense was attributable to those reductions.

When the overall business transformation plan was announced in late 2000, the Company estimated a net reduction in personnel of 3,000-3,500. This range included an estimated new hire level of 500 people. By June 30, 2001, the last of the three consecutive quarters that the execution of the detailed plans occurred and termination benefits and other costs were incurred, the Company's charges included termination benefits for 3,900 employees. The new hire level has grown to approximately 900 people related to the business transformation plan; this heightened level of rehires is causing the Company to reach the lower end of the net reduction range. The gross employee reduction level, which is the number tied to the charge for termination benefits, has remained consistent since the commitment date, with the exception of approximately 200 U.S. retail employees. See "Recent Developments" for an update on the business transformation plan.

Of the 3,900 notified employees, more than 3,050 had been removed from the payroll as of December 31, 2001. Approximately 500 and 150 of the remaining notified/not terminated employees are associated with international and domestic business units, respectively, where the exit plans included later termination dates. Employment laws in certain countries require extended periods before a notified employee can be terminated. These exit plans were sufficient in detail as to specific employee groups and, in some cases, specific employees. The employee groups were, at or before the expense accrual date, properly notified and were given adequate information about severance benefits. The plans are being completed in accordance with the original exit plans. The run-off of the associated liability will trail the completion of the plan primarily because the Company's policy is to pay severance ratably over the eligible period, rather than in a lump sum amount, whenever possible.

Included in the total expense of $300 million are approximately $27 million in other costs to exit an activity. Of that amount, $6 million was incurred in 2000, including $2 million in abandoned real estate or equipment leases and $4 million of direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs. In 2001, $21 million of expenses were recorded to exit an activity, which included $10 million for abandoned leases and $11 million for direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs.

As part of the business transformation and other strategic initiatives, other expenses of $110 million were incurred. Of this total, $22 million was recorded in 2000. Impairment of fixed assets accounted for $20 million of the 2000 expense, including $16 million for information systems assets. The net book value of these assets was written off, as these assets no longer had value to the Company. The assets were considered impaired due to: (1) the system being removed from service or (2) the system being under development and the decision to abandon development occurred as a result of the transformation. The other fixed assets, comprised of certain technology infrastructure equipment, were deemed to be impaired as they ceased to have any value to the Company due to the outsourcing of the relevant function to an outside party and the abandonment of the assets. There was $2 million of other costs.

Other expenses of $88 million were recorded in 2001. The Company has acted as a servicing agent for a limited partnership affiliated with automobile dealerships to provide auto financing to dealerships on a cooperative basis through various financing conduit facilities. The Company also has a general partnership interest in the limited partnership. Continued competition from financing provided by the financing arms of automobile manufacturers caused the Company to evaluate whether it wished to continue in this servicing partner relationship. In first quarter 2001, the Company elected to cease new servicing business and run off its existing service obligation. The limited partnership affiliated with automobile dealerships establishes allowances for uncollectible loan balances. In conjunction with the decision to discontinue new auto financing receivables, the limited partners are not obligated to contribute additional capital beyond what they have already provided for any shortfall in the reserves for their individual book of business. The Company is required to fund any shortfalls in accordance with the Company's limited recourse to the funding facility, arranged by the servicing agent. The servicing agent estimated the liability that the Company would have for the existing shortfall at the time the Company decided to discontinue new auto loan financing under the facility. The Company recorded a charge to establish this obligation in accordance with FASB Statement No. 5, which amounted to an expense of $44 million. For the year 2000, the last full year of operation, these servicing operations, which were part of the Company's brokerage segment, generated revenue of $42 million and pretax income of $3 million.

During 2001, the Company exited four other joint venture operations as a part of its business transformation process. For the year 2000, the last full year of operation, these joint ventures, which were part of the Company's brokerage segment, generated less than $1 million of revenue and incurred nearly $3 million of pretax losses. The total cost to exit these four joint ventures was $12 million. Additional expenses in 2001 included a provision of $14 million for discontinuing supplemental accident and health insurance business operations in Mississippi. The charge included severance costs and expenses associated with the reassignment of agents, as well as estimated costs for resolving asserted and unasserted claims and suits. A $5 million expense was recorded relating to the write-down of certain agent receivables in conjunction with the restructuring of a worksite marketing agent commission pay structure and operations.

Further fixed asset impairments of $10 million (of which $9 million related to information systems assets) were taken in 2001, as well as $3 million of other costs.

The insurance brokerage industry has experienced significant expansion since September 11th with increased client demand for risk management services that was not anticipated at the origination of the business transformation. This unanticipated expansion has also caused some of the delay in the implementation of the plan. The Company has incurred additional spending, which partially explains the offset in savings, to take advantage of this industry expansion. However, revenue growth has not yet achieved expected levels as a result of this additional spending.

1999

In first quarter 1999, Aon recorded expenses of $163 million ($102 million after-tax or $0.39 per share). The expenses included provisions for restructuring in the Insurance Brokerage and Other Services and Consulting segments of $120 million (see note 4). Also, in the Consulting segment, expenses of $43 million were recorded in first quarter 1999 to reflect amounts required to compensate customers who switched out of their company pension plans in the U.K. based upon advice offered by financial advisors of current Aon subsidiaries. This advice was given prior to Aon's purchase of these subsidiaries (see note 15).

In fourth quarter 1999, Aon recorded expenses of $150 million ($93 million after-tax or $0.35 per share). These expenses reflect an additional amount related to the pension payments described above

following changes in U.K. government requirements and amounts relating to various litigation matters including Unicover (see note 15).

Aon anticipates the final settlement of the liabilities relating to the U.K. pension selling to be disbursed over the next few years. Portions of the Unicover matter were settled in early 2000. The remaining Unicover issues are complex and, therefore, the timing and amount of resolution cannot be determined at this time.

CONSOLIDATED RESULTS

The consolidated results of operations follows:

	Years ended December 31		
	2001	2000	1999
	(Restated)		
		(millions)	
Revenue:			
Brokerage commissions and fees	$ 5,436	$ 4,946	$ 4,639
Premiums and other	2,027	1,921	1,854
Investment income	213	508	577
Total consolidated revenue	7,676	7,375	7,070
Expenses:			
General expenses	5,813	5,190	5,214
Benefits to policyholders	1,111	1,037	973
Interest expense	127	140	105
Amortization of intangible assets	158	154	143
Unusual charges World Trade Center	158		

	Years ended December 31		
Total expenses	7,367	6,521	6,435
Income before income tax(1)(2)	$ 309	$ 854	$ 635

(1) Excludes minority interest and cumulative effect of change in accounting principle.

(2) Includes $218 million, $82 million and $313 million of one-time items for the years ended December 31, 2001, 2000 and 1999, respectively.

Consolidated Results for 2001 Compared to 2000

Revenue. Revenue of $7.7 billion in 2001 rose 4% over 2000. Excluding the effects of foreign exchange rates, revenues increased 6% over the comparable period. Improvements in brokerage commissions and fees, as well as premiums earned, were partially offset by a decline in investment income resulting from decreased valuations of limited partnerships and lower interest rates, higher losses on disposals of investments and a falloff in parts of U.S. retail brokerage revenue primarily due to slower new account generation and below normal client retention. Aon does not directly hedge revenues against foreign currency translation because it is not cost effective, but does attempt to mitigate the effect of foreign currency fluctuations on pretax income. Consolidated revenue for the operating segments grew approximately 8% on an organic basis over 2000.

Consolidated revenue by geographic area follows:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Revenue by geographic area:			
United States	$ 4,463	$ 4,350	$ 4,131
United Kingdom	1,390	1,363	1,352
Continent of Europe	938	833	841
Rest of World	885	829	746
Total revenue	$ 7,676	$ 7,375	$ 7,070

U.S. consolidated revenue, which represents 58% of total revenue, increased 3% in 2001 compared to 2000, as organic growth and acquisition activity was partially offset by declines in parts of the retail brokerage business as well as a significant drop in investment income. U.K. and Continent of Europe revenue combined increased 6% to $2.3 billion and Rest of World revenue increased 7% to $885 million reflecting acquisitions, new business and the impact of increasing premium rates that tend to increase commissions.

Brokerage commissions and fees increased 10% to $5.4 billion. This improvement was primarily from organic growth in non-U.S. retail brokerage and worldwide reinsurance brokerage, business combination activity (especially Actuarial Sciences Associates, Inc. (ASA) and ASI Solutions Incorporated (ASI)), increased new business and the impact of increased property and casualty premium rates. This was offset somewhat by unfavorable results in parts of U.S. retail brokerage due to delays in the implementation of the business transformation plan.

Premiums and other is primarily related to insurance underwriting operations. Premiums and other improved to $2.0 billion, a 6% increase over 2000. The increase primarily reflects continued organic growth, strong growth in lower margin new business initiatives and the impact of the acquisition of First Extended, Inc. This was somewhat offset by the loss of some accounts in the warranty business, in addition to a general slowdown in the economy.

Investment income, which includes related expenses and income or loss on disposals and impairments, decreased significantly when compared to 2000, primarily reflecting reduced valuations on equity investments in limited partnerships and lower short-term interest rates. The comparison is also negatively impacted by the other than temporary impairment recorded for certain directly owned equity investments in the first and fourth quarters of 2001. Returns on private equity investments tend to fluctuate due to the inherent volatility of equity securities. Investment income from the Insurance Brokerage and Other Services and Consulting segments, primarily relating to fiduciary funds, decreased $31 million compared to 2000, principally due to declining interest rates.

Expenses. General expenses grew $623 million or 12%, reflecting expenditures to grow the brokerage business, the impact of acquisitions and increased costs related to the business transformation plan including transition costs. Excluding expenses related to the business transformation plan, expenses rose 10%. Benefits to policyholders, which excludes the World Trade Center costs, rose $74 million or 7% as a result of new underwriting initiatives and an unusual increase in warranty claims related to an isolated program that will not affect future periods. Interest expense declined $13 million or 9% compared to prior year attributed to decreases in short-term interest rates and lower average debt balances. Unusual charges World Trade Center represent $135 million of insurance benefits paid, a $10 million commitment to the Aon Memorial Education Fund to support the educational needs of the children of Aon employees who were victims of the September 11 attacks and $13 million of other costs that may not be recoverable from insurance.

Income Before Income Tax. Income before income tax declined significantly from $854 million in 2000 to $309 million in 2001, due partially to the inclusion in 2001 of expenses related to the events of September 11 ($158 million) with no comparable amount in 2000. In addition, slower revenue growth in parts of the U.S. retail brokerage business due to delays in the implementation of the business transformation plan negatively impacted results. Results also declined from 2000 due to an increase in year-over-year business transformation expenses of $136 million and a decline in consolidated investment income of $295 million. All of Aon's consolidated income before income tax is from non-U.S. operations.

Income Taxes. The effective tax rate was 39.5% for 2001 and 39.0% for 2000. The overall effective tax rates are higher than the U.S. federal statutory rate primarily because of state income tax provisions and the non-deductibility of certain goodwill amortization.

Net Income. 2001 net income declined to $147 million ($0.53 per dilutive share) compared to $474 million ($1.79 per dilutive share) in 2000. In 2000, the Company adopted the Securities and Exchange Commission's Staff Accounting Bulletin (SAB)No. 101, which resulted in a one-time cumulative non-cash charge of $7 million after-tax ($0.03 per share). Basic net income per share was $0.54 and $1.81 for 2001 and 2000, respectively. Dividends on the redeemable preferred stock have been deducted from net income to compute income per share.

Consolidated Results for Fourth Quarter 2001 Compared to Fourth Quarter 2000

Total revenues in the quarter rose 4%. The impact of the change in foreign exchange rates was minimal for the quarter. The higher revenues reflect 9% organic growth in the operating segments, including the impact of premium rate increases, as well as business combination activity. These factors were somewhat offset by a revenue decline in parts of the U.S. retail brokerage area due to the negative impact of delays in the implementation of the business transformation plan, lower investment income as a result of lower interest rates, a decline in limited partnership income due to valuation changes and loss on disposal of investments mainly due to other-than-temporary impairments. Total expenses increased 10% to $2 billion as a result of costs and investments in new business initiatives, acquisitions, the establishment of an allowance for a potentially uncollectable reinsurance receivable related to the World Trade Center of $90 million and transition costs related to the business transformation plan. Partially offsetting these increases was a 24% decline in interest expense, primarily reflecting lower interest rates and lower debt levels and $82 million of expenses related to the business transformation plan recorded in 2000. Income before income taxes fell 61% to $64 million.

Consolidated Results for 2000 Compared to 1999

Revenue. Total revenue was $7.4 billion, an increase of 4% on a reported basis. On a comparable currency basis, total revenue growth was 7%. This increase was largely attributable to new business growth in the operating segments, business combination activity and the impact of improving premium rates across the property and casualty insurance markets. Negative foreign exchange translations, the absence of Unicover revenue and a significant decrease in corporate and other investment revenues associated with lower income on disposals of securities hurt revenue growth. Consolidated organic revenue growth was approximately 8% over 1999.

U.S. revenues increased 5% in 2000 compared to 1999, primarily due to organic growth and acquisitions. U.K. and Continent of Europe revenues increased slightly to $2.2 billion and Rest of World revenue of $829 million increased 11% in 2000, reflecting acquisitions and new business.

Brokerage commissions and fees increased 7% to $4.9 billion, primarily from organic growth of new business and from business combination activity. Partially offsetting the growth was the negative impact of foreign exchange rates.

Premiums and other increased 4% in 2000 to $1.9 billion. This increase was generated by continued strong growth in the accident and health core businesses driven by the continued expansion of product distribution through worksite marketing programs and the development of new product initiatives introduced in 1999 on a global basis. Revenue growth was partially offset by a reduction in extended warranty revenues primarily from the intentional discontinuation of one major warranty renewal and the loss of revenue from the exit of a major retailer from the appliances and electronics line.

Investment income of $508 million declined 12% in 2000, principally reflecting lower levels of income on disposals of securities. This decline was partially offset by higher investment income from the insurance brokerage and other services and consulting operations, which increased $30 million or 19% in 2000 compared to 1999. Higher short-term interest rates, coupled with improved cash flows also contributed to the increase.

Expenses. General expenses decreased $24 million from 1999 due to lower one-time charges in 2000. General expenses, excluding these expenses, increased $207 million or 4% over 1999 primarily reflecting investments in new business initiatives, acquisitions and technology. Such costs included the rollout of Aon's U.S. retail brokerage computer system platform and related conversions, running of parallel systems and one-time training expenses.

Benefits to policyholders increased 7% in 2000 and exhibited no unusual claims activity.

Interest expense increased 33% from prior year, partly attributable to acquisition financing. Higher short-term interest rates and the issuances of $250 million of 6.9% notes in second quarter 1999 and $250 million of 8.65% notes in second quarter 2000 (see note 8) also contributed to the increase.

Income Before Income Tax. Income before income tax increased $219 million or 34% over 1999 due to lower one-time charges in 2000. Excluding these expenses, income before income tax decreased $12 million or 1%, primarily reflecting lower levels of income on disposals of securities, costs to integrate Aon's global network, additional interest expense and the absence of Unicover revenue. During the year, the net foreign exchange impact to pretax income, after the benefit of derivative activity, was negligible. Approximately 47% of Aon's consolidated income before income tax is from non-U.S. operations.

Income Taxes. The effective tax rate was 39% and 38.3% for 2000 and 1999, respectively. The increase in the 2000 effective tax rate was primarily attributable to a shift in business mix. The overall effective tax rates are higher than the U.S. federal statutory rate primarily because of state income tax provisions and the non-deductibility of certain goodwill amortization.

Net Income. Net income for 2000 was $474 million or $1.79 per share compared to $352 million or $1.33 per share in 1999. The increase in 2000 net income and the related per share amount is influenced primarily by a lower level of 2000 after-tax one-time expenses of $50 million ($0.19 per share) compared to 1999 after-tax one-time expenses of $195 million ($0.74 per share). Partially offsetting the increase in 2000 net income was the adoption of SAB No. 101 which resulted in a one-time cumulative non-cash charge of $7 million after-tax ($0.03 per share). Basic net income per share was $1.81 and $1.35 in 2000 and 1999, respectively. Dividends on the redeemable preferred stock in 2000 and 1999 have been deducted from net income to compute income per share.

OPERATING SEGMENTS

Aon classifies its businesses into three operating segments: Insurance Brokerage and Other Services, Consulting and Insurance Underwriting (see note 16).

Aon's operating segments are identified as those that report separate financial information and that are evaluated on a regular basis in deciding how to allocate resources and assess performance. Total revenue for each of the operating segments is presented both by major product and service and by geographic area in note 16. Revenues are attributed to geographic areas based on the location of the resources producing the revenues. Because Aon's culture fosters interdependence among its operating units, the allocation of expenses by product and geography is difficult to delineate. While revenue is tracked and evaluated separately by management, expenses are allocated to products and services within each of the operating segments. In addition to revenue, Aon also measures a segment's financial performance using its income before income tax.

Operating segment revenue includes investment income related to operating invested assets of that segment. Investment characteristics mirror liability characteristics of the respective operating segments. Aon's Insurance Brokerage and Other Services and Consulting businesses invest fiduciary funds and operating funds in shorter-term obligations. Income derived from these investments, as well as the impact of related derivatives, is included in the revenues of those businesses. In Insurance Underwriting, policyholder claims and other types of non-interest sensitive insurance liabilities are primarily supported by intermediate- to long-term fixed-maturity instruments. Investments underlying interest-sensitive capital accumulation insurance liabilities are fixed- or floating-rate fixed-maturity obligations. The capital of the insurance underwriting subsidiaries is invested in common stocks and other securities. For the Insurance Underwriting segment, operating invested assets are equivalent to average net policy liabilities.

The following tables and commentary provide selected financial information on the operating segments.

	Years ended December 31		
	2001	**2000**	**1999**
	(Restated)		
		(millions)	
Operating segment revenue:			
Insurance brokerage and other services	$ 4,659	$ 4,367	$ 4,144
Consulting	938	770	656
Insurance underwriting	2,250	2,167	2,106
Total operating segments	$ 7,847	$ 7,304	$ 6,906
Income before income tax:			
Insurance brokerage and other services	$ 524	$ 690	$ 493
Consulting	126	106	(42)
Insurance underwriting	150	300	290
Total income before income tax operating segments	$ 800	$ 1,096	$ 741

Insurance Brokerage and Other Services

Aon is the second largest global insurance broker; the largest reinsurance broker and manager of captive insurance companies worldwide; the largest multiline claims services provider in the U.S; and the largest wholesaler broker and underwriting manager in the U.S.

Approximately 59% of Aon's total operating segment revenues are generated from this segment. Revenues are generated primarily through fees paid by clients; commissions and fees paid by insurance

and reinsurance companies; certain other carrier compensation; and interest income on funds held primarily in a fiduciary capacity. As the broker or intermediary, Aon does not accept insurance risk. Revenues vary from quarter to quarter throughout the year as a result of the timing of clients' policy renewals, the net effect of new and lost business, volume-based commissions and overrides and the realization of income on investments. Generally, expenses tend to be more uniform throughout the year, however, in 2001, expenses were impacted by the business transformation plan and the events of September 11.

The highly specialized product development, consulting and administrative risk management needs of professional groups, service businesses, governments, healthcare providers and commercial organizations are addressed in this segment. Affinity products for professional liability, life, disability income and personal lines are provided for individuals, associations and businesses. Certain operating subsidiaries provide marketing and brokerage services to both the primary insurance and reinsurance sectors.

Revenues generated by the Insurance Brokerage and Other Services segment are affected by premium rate levels in the property and casualty insurance markets and available insurance capacity because compensation is frequently related to the premiums paid by insureds.

Insurance Brokerage and Other Services Results for 2001 Compared to 2000

Revenue. Total 2001 Insurance Brokerage and Other Services revenue was $4.7 billion, up 7%, on a reported basis. Organic growth, including the impact of hardening premium rates, as well as acquisitions, accounted for the majority of this revenue growth. Revenue growth was constrained by unfavorable results in parts of the U.S. retail brokerage operations and lower investment income due to declining interest rates. Insurance Brokerage and Other Services operating revenue, on an organic basis, grew approximately 8% in a very competitive environment. Fees of $24 million were collected for managing the capital raising for Endurance. Investment income decreased $30 million in 2001 as declines in short-term interest rates were experienced.

Continuing the trend from last year, the impact of insurance premium rate increases benefited revenues in 2001. After September 11, insurance markets that were already experiencing rising premium rates in many sectors were impacted further by restrictions on the availability of some coverages and the financial strength of certain insurance companies. The property and casualty insurance market is very competitive. As premium rates rise, clients often retain more risk. This may limit revenue growth, thus affecting the future earnings of Aon's brokerage operations.

Insurance Brokerage and Other Services revenue by geographic region and pretax income follows:

	Years ended December 31		
	2001	2000	1999
	(Restated)		
		(millions)	
Revenue by geographic area:			
United States	$ 2,425	$ 2,277	$ 2,146
United Kingdom	918	889	830
Continent of Europe	733	654	680
Rest of World	583	547	488
Total revenue	$ 4,659	$ 4,367	$ 4,144
Income before income tax(1)	$ 524	$ 690	$ 493

(1)

Includes one-time expenses of $187 million, $76 million and $191 million for the years ended December 31, 2001, 2000 and 1999, respectively, as well as an unusual charge related to the World Trade Center of $23 million for the year ended December 31, 2001.

U.S. revenue of $2.4 billion rose 6% in 2001 on the strength of organic growth, the impact of premium rate increases, and growth in claims services, wholesale brokerage and underwriting management. Partially offsetting this growth was slower new business growth in parts of the retail brokerage business and below normal account retention, due in part from delays in the implementation of the business transformation plan and the impact of the World Trade Center attacks. U.K. and Continent of Europe revenues of $1.7 billion increased 7% from 2000 reflecting organic growth and, to a lesser extent, acquisitions, offset partially by unfavorable foreign exchange rates. Rest of World revenue increased $36 million or 7% in 2001 primarily reflecting organic growth resulting from new business and good renewal rates.

Income Before Income Tax. Pretax income in 2001 was $524 million, a $166 million decline from 2000. Pretax margins were 11.2% for 2001 versus 15.8% for 2000. The decline was due, in part, to higher ($111 million) business transformation expenses in 2001 as well as the inclusion of $23 million of World Trade Center costs. Pretax income excluding these one-time items declined 4% from 2000 to $734 million. Pretax margins were 15.8% for 2001 versus 17.5% last year. The margin decline was principally driven by slower new business growth in parts of the U.S. retail brokerage operations, with only minimal offset from the sale of a small non-strategic book of business. In addition, higher costs in certain parts of the U.S. retail business, due partly to delays in implementing the business transformation plan (including expenses to run parallel processes longer than expected, as well as higher compensation and transition costs), also contributed to the pretax margin decline. These factors reduced business transformation savings. Significant growth in our claims services business, which has lower margins, also impacted the year-to-year comparison.

Consulting

Aon Consulting is one of the world's largest integrated human capital consulting organizations. The operations of this segment provide a full range of human capital management services. These services are delivered predominantly to corporate clientele utilizing five major practices: employee benefits, compensation, management consulting, outsourcing and communications. This segment generates 12% of Aon's total operating segment revenues. The acquisitions of ASA in 2000 and ASI in 2001 expanded the Company's abilities, especially outsourcing services.

The employee benefits practice constructs and implements benefit packages as well as conducts proprietary research on employee commitment and loyalty. The compensation practice focuses on

designing salary, bonus, commission, stock option and other pay structures. Management consulting assists clients in process improvement and design, leadership, organization and human capital development. The outsourcing practice offers employment processing, performance improvement, benefits administration and other employment services. Communication consultants advise companies on initiatives that support their corporate vision.

Revenues in the Consulting segment are affected by changes in clients' industries, including government regulation, as well as new products and services, the state of the economic cycle, broad trends in employee demographics and the management of large organizations.

Consulting Results for 2001 Compared to 2000

Revenue. Revenues of $938 million in 2001 represent a 22% increase over 2000. Excluding the impact of foreign exchange rates, the growth rate was 24%. On a global basis, the improvement in revenue was influenced by strong growth in the U.S. employee benefits business and by acquisition activity, especially ASA and ASI. Revenue grew 7% on an organic basis, as client demand for solutions that enhance workforce productivity continued. However, the worsening economy put some pressure on organic revenue growth, especially the hiring slowdown by some clients.

Consulting revenue by geographic area and pretax income follows:

	Years ended December 31		
	2001	**2000**	**1999**

	Years ended December 31		
	(millions)		
Revenue by geographic area:			
United States	$ 628	$ 486	$ 405
United Kingdom	157	151	147
Continent of Europe	77	67	44
Rest of World	76	66	60
Total revenue	$ 938	$ 770	$ 656
Income (loss) before income tax(1)	$ 126	$ 106	$ (42)

(1) Includes one-time expenses of $7 million, $3 million and $122 million for the years ended December 31, 2001, 2000 and 1999, respectively.

U.S. revenue of $628 million grew 29% from 2000. The improvement reflects acquisitions and strong fundamental operating performance, particularly in the employee benefits practice. U.K. revenue rose slightly when compared with 2000. Good growth was mostly offset by the impact of the sale of a financial planning consulting business last year, along with unfavorable foreign exchange rates. Both the Continent of Europe and Rest of World revenues rose $10 million from 2000 on organic growth.

Income Before Income Tax. Pretax income in 2001 was $126 million, a $20 million increase over 2000. Pretax margins were 13.4% for 2001 versus 13.8% for 2000. Excluding expenses related to the business transformation plan for both years, pretax income was $133 million, a 22% increase from last year. In 2001, pretax margins in this segment were 14.2%, even with 2000. Pretax margins were constrained following the loss of talented employees in the World Trade Center disaster and the expansion of lower margin outsourcing business.

Insurance Underwriting

The Insurance Underwriting segment provides supplemental accident and health and life insurance coverage through several distribution networks, most of which are directly owned by Aon's subsidiaries,

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and extended warranty and casualty insurance products. This segment has operations in the United States, Canada, Latin America, Europe and Asia/Pacific and generates approximately 29% of Aon's total operating segment revenues. In April 2001, Aon announced a plan to spin off its current insurance underwriting businesses to Aon's common stockholders (see note 2). See "Recent Developments" for an update on the planned divestiture.

In the accident and health and life operations, Aon provides an array of accident, sickness, short-term disability and other supplemental insurance products. Most of these products are primarily fixed-indemnity obligations, and are thereby not subject to escalating medical costs. A sales force of approximately 7,000 exclusive career agents call on clients to initiate or renew coverage. Also, Aon has developed relationships with select brokers and consultants to reach specific niche markets. In addition to the traditional business, product distribution has been expanded to include direct response programs, affinity groups and worksite marketing, creating access to new markets and potential new policyholders.

Subsidiaries in North America, Latin America, Asia/Pacific and Europe provide warranties on automobiles and a variety of consumer goods, including electronics and appliances. In addition, Aon provides non-structural home warranties and other warranty products, such as credit card enhancements and affinity warranty programs. Aon has plans for a new initiative to actively write commercial property and casualty policies. Revenues earned from the administration of certain warranty services on automobiles, electronic goods, personal computers and appliances are reflected in the Insurance Brokerage and Other Services segment based on how the business is reviewed by management, but will be reflected as revenue in Combined Specialty after the planned divestiture.

In 2001, the underwriting businesses invested $227 million to obtain an ownership interest in Endurance, which will offer property and casualty insurance and reinsurance on a worldwide basis. This investment will provide much needed underwriting capacity to commercial firms and insurance and reinsurance customers and will benefit from growth expected in these areas.

Revenue. Revenues of $2.3 billion in 2001 represented an increase of 4% over 2000. Excluding the impact of exchange rates, revenues rose 6%. Improvement over last year was driven by the development of new product initiatives and a higher volume of business in accident and health products, which continued to expand distribution through worksite marketing programs. Organic revenue growth was 6% in 2001.

Insurance underwriting revenue by geographic area and pretax income follows:

	Years ended December 31		
	2001	2000	1999
	(Restated)		
		(millions)	
Revenue by geographic area:			
United States	$ 1,615	$ 1,545	$ 1,457
United Kingdom	302	308	349
Continent of Europe	125	111	115
Rest of World	208	203	185
Total revenue	$ 2,250	$ 2,167	$ 2,106
Income before income tax(1)	$ 150	$ 300	$ 290

(1) Includes expenses related to the business transformation of $24 million and $3 million for the years ended December 31, 2001 and 2000, respectively as well as an unusual charge related to the World Trade Center of $135 million for the year ended December 31, 2001.

U.S. revenue increased $70 million in 2001 to $1.6 billion. Higher revenues reflect new product initiatives and acquisitions, and more than compensated for the decline in electronic warranty product

revenue and declines in investment income. U.K. and Continent of Europe revenue increased 2% to $427 million. Unfavorable foreign exchange rates and the slowdown of business in the warranty area offset organic growth in the U.K. and Continent of Europe. Rest of World revenue was up 2% to $208 million.

Income Before Income Tax. Pretax income fell $150 million from 2000 to $150 million in 2001. Pretax margins were 6.7% for 2001 versus 13.8% in 2000. Excluding charges related to the World Trade Center of $135 million and expenses related to the business transformation for both years, pretax income of $309 million increased 2% from 2000. Pretax margins fell from 14.0% in 2000 to 13.7% in 2001. New underwriting initiatives drove premium growth but also resulted in increased benefits to policyholders. In addition, an unusual increase in warranty claims occurred during early 2001 related to an isolated program that did not affect subsequent periods.

Corporate and Other

The components of Corporate and Other revenue and expenses follow:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Corporate and other revenue:			
Change in valuation of private limited partnership investments	$ (94)	$ 73	$ 60
Income from marketable equity securities and other investments	7	9	26
Corporate and other revenue before income (loss) on disposals and related expenses	(87)	82	86
Income (loss) on disposals and related expenses	(84)	(11)	78
Corporate and other revenue	$ (171)	$ 71	$ 164
Expenses:			
General expenses	$ 75	$ 59	$ 63
Interest expense	127	140	105
Amortization of goodwill	118	114	102
Loss before income tax	$ (491)	$ (242)	$ (106)

Corporate and Other segment revenue consists primarily of investment income and losses from private limited partnership investments and income or loss on disposals. Also included are other-than- temporary impairment writedowns of all securities, including those pertaining to assets supporting the operating segments.

Private equities are principally carried at cost and usually do not pay a dividend. Limited partnerships are accounted for on the equity method and changes in the value of the underlying partnership investments flow through Corporate and Other segment revenue. Because the limited partnership investments include exchange-traded securities, Corporate and Other segment revenue fluctuates with the market values of underlying publicly-traded equity investments. Limited partnership interests consist of investments plus commitments to invest. Limited partnership investments have historically provided higher returns over a longer time horizon than broad market common stocks. However, in the short run, the returns are inherently more variable. On December 31, 2001, Aon securitized $450 million of its limited partnership investments plus associated limited partnership commitments, which represented the majority of its limited partnership interests. Aon received a combination of cash and securities in connection with the securitization. This transaction is expected to lessen the variability of revenue reported in this segment in future years. The limited partnership investments were previously included in Aon's consolidated statements of financial position. The cash

and securities received from the securitization are now included in Aon's consolidated statements of financial position.

The fixed-maturity portfolio had a $58 million gross unrealized loss at December 31, 2001, including $8 million related to deferred amortizable derivative losses, and is subject to interest rate risk, market risk and credit risk. The equity portfolio is comprised of non-redeemable preferred stocks and private and publicly-traded common stocks. The non-redeemable preferred stock portfolio had a $24 million gross unrealized loss and is subject to interest rate risk, market risk, credit risk and illiquidity risk. The common stock portfolio had a $25 million gross unrealized loss at December 31, 2001 and is subject to illiquidity risk, concentration risk, and operating performance risk relative to private equities and market risk relative to publicly-traded stocks. Aon's portfolios are highly diversified but remain exposed to market, equity and credit risk.

The following table contains an analysis of Aon's investment positions with unrealized losses segmented by quality and period of continuous unrealized loss (excluding deferred amortizable derivative losses of $8 million) as of December 31, 2001:

Investment Positions with Unrealized Losses
Segmented by Quality and period of Continuous Unrealized Loss*

	Investment Grade				Non-Investment Grade				Not Rated				
($ in millions)	**0-6 Months**	**6 -12 Months**	**>12 Months**	**Total**	**0-6 Months**	**6 -12 Months**	**>12 Months**	**Total**	**0-6 Months**	**6 -12 Months**	**>12 Months**	**Total**	**Grand Total**
FIXED MATURITIES													
# of positions	87	7	68	162	11	5	18	34	2			2	198
Fair Value	$ 447	$ 23	$ 349	$ 819	$ 30	$ 6	$ 47	$ 83	$ 5	$	$	$ 5	$ 907
Cost or Amortized Cost	455	23	379	857	33	7	55	95	5			5	957
Unrealized Loss	(8)		(30)	(38)	(3)	(1)	(8)	(12)					(50)
EQUITIES; PREFERRED													
# of positions	4		33	37			3	3					40
Fair Value	$ 12	$	$ 222	$ 234	$	$	$ 13	$ 13	$	$	$	$	$ 247
Cost	13		242	255			16	16					271
Unrealized Loss	(1)		(20)	(21)			(3)	(3)					(24)
EQUITIES; COMMON													
# of positions	1		4	5					7		2	9	14
Fair Value	$ 10	$	$ 9	$ 19	$	$	$	$	$ 47	$	$ 1	$ 48	$ 67
Cost	19		17	36					54		2	56	92
Unrealized Loss	(9)		(8)	(17)					(7)		(1)	(8)	(25)
OTHER													
# of positions													
Fair Value	$	$	$	$	$	$	$	$	$	$	$	$	$
Cost													
Unrealized Loss													
TOTAL													
# of positions	92	7	105	204	11	5	21	37	9		2	11	252
Fair Value	$ 469	$ 23	$ 580	$ 1,072	$ 30	$ 6	$ 60	$ 96	$ 52	$	$ 1	$ 53	$ 1,221
Cost or Amortized Cost	487	23	638	1,148	33	7	71	111	59		2	61	1,320
Unrealized Loss	(18)		(58)	(76)	(3)	(1)	(11)	(15)	(7)		(1)	(8)	(99)
% of Total Unrealized Loss	18%	0%	59%	77%	3%	1%	11%	15%	7%	0%	1%	8%	100%

* For categorization purposes, we consider any rating of Baa or higher by Moody's, or equivalent rating agency, to be investment grade. For common equities, we view the most senior long-term debt of the issuer, if any, as the basis for establishing investment grade for the purpose of analysis in this table.

At December 31, 2001, Aon's diversified fixed-maturity portfolio had 198 positions and $50 million of total gross unrealized losses, excluding deferred amortizable derivative losses. No single position had an unrealized loss greater than $2 million. Aon's total fixed-maturity portfolio is 94% investment grade based on market value. Fixed-maturity securities with an unrealized loss are 90% investment grade and have a weighted average rating of "A" based on amortized cost.

At December 31, 2001, Aon's equity portfolio, including non-redeemable preferred stocks, had 54 positions and $49 million of total gross unrealized losses. No single position had an unrealized loss greater than $3 million except one insurance industry investment with an unrealized loss of $9 million at December 31, 2001 that as late as the third quarter 2001 was trading at a gain to its cost basis.

Aon's non publicly-traded fixed maturity portfolio had a carrying value of $152 million at December 31, 2001, including $115 million in notes received from PEPS I on December 31, 2001 related to the securitization of limited partnerships. Valuations of these securities primarily reflect the fundamental analysis of the issuer and current market price of comparable securities.

Management periodically reviews securities with material unrealized losses and tests for other than temporary impairments. Management analyzes various risk factors and determines if any specific asset impairments exist. Once a determination has been made that a specific asset impairment exists, a realized loss is incurred and the cost basis of the impaired asset is adjusted to its fair value.

Management reviews invested assets with material unrealized losses each quarter. Those assets are separated into two categories: (1) assets with unrealized losses due to issuer-specific events; and (2) assets with unrealized losses due to market conditions or industry-related events.

Management's analysis of investments with unrealized losses due to issuer-specific events are segmented among four categories: fixed-maturity investments; preferred stocks; publicly-traded common stocks; and private common stocks and other invested assets.

Fixed Maturity Investments Creditworthiness of corporate obligors is reviewed at least quarterly. Creditworthiness factors reviewed include: nationally recognized credit rating agency rating changes; and, changes in fundamental financial performance of the underlying entity. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. Management monitors for other than temporary impairment all bonds and asset-backed securities that have exhibited a decline in financial performance.

Preferred Stocks Similar to fixed-maturity investments, issuer creditworthiness is reviewed at least quarterly. Creditworthiness factors reviewed include: nationally recognized credit rating agency rating changes; and changes in financial performance of the underlying issuer. Management monitors for other than temporary impairment all preferred stock investments that have exhibited a decline in financial performance.

Publicly-Traded Common Stocks Each common stock investment is reviewed quarterly to determine if it has incurred a decline in value deemed other than temporary. Criteria include a review of issuer financial trends, and market expectations based on third-party forward-looking analytical reports, when available.

Private Common Stocks and Other Invested Assets Private issue valuations include: recent transaction valuations between the issuer and a third party; financial performance reviews; and, financial trend comparisons with publicly-traded companies in the same or similar industries. These assets are reviewed quarterly.

For fixed-maturity investments, common and preferred stock investments with continuous material unrealized losses due to issuer-specific events, an other than temporary impairment loss is recognized based upon all relevant facts and circumstances for each investment, as appropriate, in accordance with SAB 59, FASB Statement No. 115 and related guidance.

Invested assets with unrealized losses due to market conditions or industry-related events include those adversely impacted by: increasing U.S. Treasury or local sovereign interest rates; corporate and asset-backed credit spread widening; common stock price volatility due to conditions in the overall market or a particular industry; and illiquid market conditions.

For fixed-maturity investments with unrealized losses due to market conditions or industry-related events where there exists a reasonable market recovery expectation and where management has no positive current intent on selling and Aon has the intent and ability to hold the investment until maturity or a market recovery is realized, the decline in value below cost is not assumed to be other than temporary. Management believes that the intent and ability to hold a fixed-maturity investment with a continuous material unrealized loss due to market conditions or industry-related events for a period of time sufficient to allow a market recovery or to maturity is a decisive factor when considering an impairment loss. In the event that Aon's intent or ability to hold a fixed-maturity investment with a continuous material unrealized loss for a period of time sufficient to allow a market recovery or to maturity were to change, an evaluation for other than temporary impairment is performed. An other than temporary impairment loss will be recognized based upon all relevant facts and circumstances for each investment, as appropriate, in accordance with SAB 59, FASB Statement No. 115 and related guidance. Aon continues to monitor these securities on a quarterly basis to ensure that unrealized losses do not become the result of issuer-specific events.

For preferred and common stock investments with continuous material unrealized losses for two consecutive quarters due to market conditions or industry-related events, an evaluation for other than temporary impairment is performed. An other than temporary impairment loss is recognized based upon all relevant facts and circumstances for each investment, as appropriate. Aon continues to monitor these securities on a quarterly basis to ensure that unrealized losses are not the result of issuer-specific events.

The risks inherent in the assessment methodology include the risk that market factors may differ from Aon's expectations; Aon may decide to subsequently sell a security for unforeseen liquidity needs; or the credit assessment or equity characteristics may change from our original assessment.

Revenue. Corporate and Other revenue was a negative $171 million versus positive $71 million last year. The falloff in revenue primarily reflects reduced valuations of private limited partnership investments. While positive returns were generated from the limited partnership portfolios through 2000, the investments were negatively impacted by

unfavorable market conditions in 2001. The comparison is also affected by $57 million of impairment writedowns of certain fixed maturity and equity investments, mainly in the first and fourth quarters of 2001.

Loss Before Income Tax. Corporate and Other expenses were $320 million, an increase of $7 million from the comparable period in 2000. Interest expense declined $13 million compared to prior year, reflecting lower interest rates as well as lower debt levels. General expenses rose $16 million over 2000, in part from the duplicate occupancy costs involving major moves to new office space. General expenses in 2000 benefited from the gain on sale of a non-core business in the U.K. Goodwill amortization increased as a result of new acquisitions made prior to July 1, 2001. Beginning in 2002, goodwill will no longer be amortized but will instead be tested annually for impairment (see note 1).

The revenue and expense comparisons discussed above contributed to the overall Corporate and Other pretax loss of $491 million in 2001 versus a loss of $242 million in 2000.

Discontinued Operations

Discontinued operations are composed of certain insurance underwriting subsidiaries acquired with Alexander and Alexander Services, Inc. (A&A) that are currently in run-off and the indemnification by A&A of certain liabilities relating to subsidiaries sold by A&A prior to its acquisition by Aon. Management believes that, based on current estimates, these discontinued operations are adequately reserved. The liability is included as a component of other liabilities on the consolidated statements of financial position. In January 2002, Aon settled certain of these liabilities. The settlement had no material effect on the consolidated financial statements.

FINANCIAL CONDITION AND LIQUIDITY

Aon's routine liquidity needs are primarily for servicing its debt and for the payment of dividends on stock issued and the capital securities. Dividends from Aon's subsidiaries are the primary source for meeting these requirements. After meeting its routine dividend and debt servicing requirements, Aon used a portion of the remaining subsidiary dividends received throughout the year to invest in acquisitions to expand its operating segment businesses. There are certain regulatory restrictions relating to dividend capacity of the insurance subsidiaries that are discussed in note 11. Insurance subsidiaries' statutory capital and surplus at year-end 2001 exceeded the risk-based capital target set by the National Association of Insurance Commissioners by a satisfactory level. Aon's operating subsidiaries anticipate that there will be adequate liquidity to meet their needs in the foreseeable future and to provide funds to the parent company. The businesses of Aon's operating subsidiaries continue to provide substantial positive cash flow. Brokerage cash flow has been used primarily for business reinvestment, acquisition financing and payments of business transformation, other special charge and purchase accounting liabilities, as well as to reduce debt. Aon anticipates continuation of its subsidiaries' positive cash flow and the ability of the parent company to access adequate short-term lines of credit. In 2001, the Company received advances on its insurance claims from the World Trade Center of approximately $30 million. See "Recent Developments" for an update on liquidity.

Operating Cash Flows. Cash flows from operating activities represent the net income earned by Aon in the reported periods adjusted for non-cash charges, as well as changes in assets and liabilities. Cash flows provided by operating activities for 2001 were $559 million, a $180 million decrease from 2000. Gross benefits, before reinsurance recoveries, paid due to the World Trade Center tragedy, accounted for $151 million of the shortfall. The use of cash for income taxes is due to the inability to currently deduct certain expenses incurred during the year, resulting in more taxes paid in 2001 than in the prior year. The positive non-cash effect of lower valuations on Aon's limited partnership portfolios, coupled with impairments of investments and net losses on disposals, was partially offset by lower net income. Insurance operation assets and liabilities reflect a use of cash in 2001, partially as a result of settlements of liabilities on cancelled contracts.

Investing Cash Flows. Investing activities used cash of $616 million, an increase of $479 million over last year. The net sale of investments provided cash of $405 million during 2001. On December 31, 2001, Aon securitized most of its limited partnership portfolio via a sale to Private Equity Partnership Structures I, LLC (PEPS I). In return, Aon received securities of PEPS I and $171 million in proceeds from an outside investor. Net purchase of short-term investments was $633 million. Cash used for acquisition activity during 2001 was $107 million, reflecting both brokerage and consulting acquisitions, and was slightly higher than last year. Expenditures for property and equipment increased $102 million over 2000. Higher domestic purchases, plus lower proceeds on the sale of assets, drove the increase.

Financing Cash Flows. Cash of $620 million was used during 2001 for financing activities, which was $307 million more than was utilized in 2000. The higher usage of cash compared to last year is primarily due to repayments of long-term borrowings in 2001, while in 2000, $250 million of long-term

debt was issued. In 2001, more cash was received from stock option exercise proceeds than was expended to purchase treasury stock. In 2000, treasury stock purchases exceeded stock option exercise proceeds. Cash was used to pay dividends of $238 million on common stock and $3 million on redeemable preferred stock during 2001. Various regulatory requirements applied to Aon's underwriting and overseas operations limit availability of operating cash flows for general corporate purposes.

Financial Condition. Total assets increased $79 million to $22.3 billion since year-end 2000. Invested assets at December 31, 2001 increased $127 million from last year, primarily resulting from the growth in short-term investments. More cash was invested in short-term investments at year-end 2001 than at December 31, 2000, which is a major factor in the reduced cash balance this year. Cash was lower in 2001 following debt paydowns of $156 million.

Aon's consolidated statement of financial position as of December 31, 2001 contains a general expense liability of $61 million related to purchase restructuring liabilities (see note 4) and $79 million related to the business transformation plan (see note 5). Aon anticipates that most of the outstanding termination benefits will be paid over the next few years. The remaining items primarily reflect lease obligations and will run off over a period up to 10 years. Aon does not anticipate that payments for termination benefits and lease obligations will have a material impact on cash flows in subsequent periods. Restructuring liabilities related to recent acquisitions and prior year special charges have been reduced by payments as planned.

Capital Resources

Short-term Borrowings and Notes Payable. At December 31, 2001, Aon had $1.2 billion of back-up lines of credit available to support its $254 million outstanding commercial paper at December 31, 2001. In February 2002, Aon renegotiated its back-up lines of credit. In anticipation of the impending divestiture of its insurance underwriting subsidiaries, Aon's line of credit was reduced to $875 million. This new agreement will expire in 2005. In order to achieve tax-efficient financing, Aon renegotiated, in September 2001, a new committed revolving bank credit facility under which certain European subsidiaries can borrow up to EUR 500 million. As of December 31, 2001, Aon had borrowed EUR 269 million ($239 million) under this facility, of which $152 million is classified as short-term borrowings and $87 million is classified as notes payable in the consolidated statements of financial position.

Notes payable decreased by $104 million when compared to year-end 2000. The principal reason for the decline was the paydown of the Euro credit facility. Funds received from the issuance of $150 million of notes with a floating interest rate of LIBOR +1% due January 2003, and $250 million of 6.2% notes due January 2007 (see note 8) were used to pay down U.S. commercial paper. Contractual maturities of notes payable and operating lease commitments (with initial or remaining non-cancelable lease terms in excess of one year) by due date are disclosed in note 8.

Aon borrows funds from and lends funds to its various subsidiaries. As of December 31, 2001, Aon had obligations to its subsidiaries of approximately $581 million. These obligations have competitive interest rates.

Stockholders' Equity. At December 31, 2001, common stockholders' equity per share decreased to $12.82 from $13.02 in 2000. Stockholders' equity increased by $77 million. The principal factors influencing the growth of equity were net income of $147 million and net unrealized investment gains of $30 million. Additionally, common stock and paid-in additional capital increased $977 million of which $783 million related to shares which were issued in conjunction with the acquisition of two entities controlled by Aon's Chairman and Chief Executive Officer. A corresponding offset amount is reflected as treasury stock, as the Company received 22.4 million shares of stock in the transaction (see note 4). In addition, the ASI and First Extended acquisitions were financed through the issuance of $197 million of common stock. Offsetting this increase were dividends to stockholders of $241 million

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and net foreign exchange losses of $58 million. Unrealized investment and foreign exchange fluctuations from period to period are largely based on market conditions. Aon believes it is not economical to hedge these short-term noncash fluctuations. Also, the additional minimum pension liability adjustment increased $124 million.

During 2001, certain of Aon's defined benefit plans, particularly in the United Kingdom, suffered significant valuation losses in the assets backing the related pension obligation. These losses were primarily a result of the decline in the international equity markets. Accounting principles generally accepted in the U.S. require a company to maintain, at a minimum, a liability on its balance sheet equal to the difference between the present value of benefits incurred to date for pension obligations and the market value of the assets supporting these obligations. At year-end 2001, this minimum pension liability amounted to $204 million, up from $82 million at the end of 2000. The after-tax effect on accumulated other comprehensive loss was $168 million at December 31, 2001. The related pension plan assets are maintained in separate trust accounts and are not part of Aon's consolidated financial statements.

Related Party Transactions. During 2001, Aon completed a transaction with Patrick G. Ryan, Chairman and CEO, and his family members. The result of the transaction is that the Ryan family and their trusts now have direct ownership of their Aon shares versus indirect ownership through corporations owned by the Ryan family. The transaction in no way changes Mr. Ryan and his family's 12% beneficial ownership of Aon's common shares.

Aon's Board of Directors approved the transaction following receipt of the unanimous recommendation of a Special Committee of the Board comprised solely of outside directors who were advised by legal and financial advisors separately retained by the Special Committee. The recommendation and approval were based upon consideration of contractual terms and other benefits of the transaction to Aon including the receipt of cash, net of expenses, of approximately $5 million, and certain stock transfer restrictions.

Special Purpose Entities. Aon utilizes special purpose entities and qualifying special purpose entities (QSPE), also known as special purpose vehicles, in certain of its operations, following the guidance contained in Financial Accounting Standards Board Statement No. 140 (Statement No. 140) and other relevant accounting guidance.

Certain of Aon's special purpose vehicles, were formed for the sole purpose of purchasing financing receivables and selling those balances to conduits owned and managed by third-party financial institutions. Subject to certain limitations, agreements provide for sales to these conduit vehicles on a continuing basis through December 2002. It is management's intent to renew these conduit facilities, which are used to support Aon's financing operations, upon their expiration. Factors that would affect the utilization and availability of the conduit facilities and special purpose vehicles would be adverse bank, regulatory, tax or accounting rule changes. As of December 31, 2001, the maximum commitment by the financial institutions contained in these agreements was $2.4 billion. Under the agreements, the receivables are sold to the conduits. Consequently, credit risks on the receivables are borne by the conduits subject to limited recourse in the form of credit loss reserves provided by Aon's subsidiaries and guaranteed by Aon. Aon's maximum credit risk under recourse provisions of these agreements was approximately $225 million at December 31, 2001. These special purpose vehicles are not included in Aon's consolidated financial statements.

On December 31, 2001, Aon sold the vast majority of its limited partnership (LP) portfolio, valued at $450 million, to PEPS I, a QSPE. The common stock interest in PEPS I is held by a limited liability company which is owned by one of Aon's subsidiaries (49%) and by a charitable trust, which is not controlled by Aon, established for victims of the September 11 attacks (51%). Approximately $171 million of investment grade fixed-maturity securities were sold by PEPS I to unaffiliated third parties. PEPS I then paid the Company's insurance underwriting subsidiaries the $171 million in cash and

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issued to them an additional $279 million in fixed-maturity and preferred stock securities. The fixed-maturity securities Aon subsidiaries received from PEPS I are rated as investment grade by Standard & Poor's Ratings Services. As part of this transaction the insurance companies are required to purchase from PEPS I additional fixed-maturity securities in an amount equal to the unfunded LP commitments as they are requested. As of December 31, 2001, these unfunded commitments amounted to $136 million. If the insurance companies fail to purchase additional fixed-maturity securities as commitments are drawn down, Aon has guaranteed their purchase. While this transaction should significantly reduce the reported earnings volatility associated with these limited partnership investments, it will not significantly limit Aon's ability to recoup past losses or realize potential gains. Subsequent to the closing of the securitization, one of the insurance subsidiaries sold PEPS I fixed-maturity securities with a value of $20 million to Aon. The assets and liabilities and operations of PEPS I are not included in Aon's consolidated financial statements.

As part of CICA's strategy to issue stable value investments contracts to institutional investors, Combined Global Funding, LLC (Combined Global), a Cayman Islands-based special purpose entity, was formed solely to issue notes to investors under a European Medium Term Note (EMTN) Program. The proceeds of the notes are used to purchase Funding Agreement policies issued by CICA. The contract terms of the Funding Agreement mirror the terms of the trust medium-term notes. At the stated maturity of the Funding Agreement, CICA is required to settle with Combined Global, which then redeems the notes issued to investors. Neither CICA nor its affiliates own any shares of Combined Global. The authorized program size is $1 billion; outstanding Funding Agreements at December 31, 2001 were $79 million and are included in Aon's consolidated statements of financial position in other policyholder funds.

INVESTMENT OPERATIONS

Aon invests in broad asset categories related to its diversified operations. Investments are managed with the objective of maximizing earnings while monitoring asset and liability durations, interest and credit risks and regulatory requirements. Aon maintains well-capitalized operating companies. The financial strength of these companies permits a diversified investment portfolio including invested cash, fixed-income obligations, public and private equities and limited partnerships.

Invested assets and related investment income not directly required to support the insurance brokerage and consulting businesses, together with the assets in excess of net policyholder liabilities of the underwriting business and related income, are allocated to the Corporate and Other segment. These insurance assets, which are publicly-traded equities, as well as less liquid private equities and limited partnerships, represent a more aggressive investment strategy that provides an opportunity for greater returns with a longer-term investment horizon. These assets, owned by the insurance underwriting companies, are necessary to support strong claims paying ratings by independent rating agencies and are unavailable for other uses such as debt reduction or share repurchases without consideration of regulatory requirements (see note 11).

Many of the limited partnerships in which Aon invests have significant holdings in publicly-traded equities. Changes in market value of these equities flow through the valuation of the limited partnerships. Aon's ownership share of this partnership valuation is included in Aon's reported Corporate and Other segment revenue. By comparison, changes in the market value of directly-held, publicly-traded equities are recorded directly in stockholders' equity. As a consequence of this accounting, the Corporate and Other segment exhibits greater variability in investment income than is the case of investments supporting the operating segments. On December 31, 2001, Aon securitized $450 million of limited partnership investments and associated limited partnership commitments, which represent most of the limited partnership investments held by Aon, via a sale to PEPS I. The securitization gives Aon's underwriting subsidiaries greater liquidity and is expected to lessen the revenue variability that has been experienced in the past in the Corporate and Other segment.

With a carrying value of $2.1 billion at December 31, 2001, Aon's total fixed-maturity portfolio is invested primarily in investment grade holdings (94%) and has a fair value which is 99% of amortized cost. Aon's general investment philosophy is to hold fixed-rate assets for long-term investment. Thus, it does not have a trading portfolio. Aon has determined that its portfolio of bonds, notes and redeemable preferred stocks is available to be sold in response to changes in market interest rates, relative value of asset sectors and individual securities prepayment and credit risks and Aon's need for liquidity.

In 1999, Aon addressed and implemented system modifications necessary for full conversion to the euro effective January 1, 2002. The costs related to the euro conversion did not have a material impact on Aon's European operations in 2001 or 2000.

Recent Developments

Planned Divestiture of Underwriting Business

As noted above, Aon's Board of Directors approved, in principle, a plan to spin-off its insurance underwriting businesses to Aon's common stockholders. In March 2002, Combined Specialty filed its Form 10 with the Securities and Exchange Commission. In April 2002, Aon received a favorable private letter ruling from the U.S. Internal Revenue Service (IRS).

Aon had previously stated its intention to raise common equity in connection with the proposed spin-off, subject to market conditions, regulatory review, a favorable IRS ruling and final board approval. However, current market conditions are not conducive to raising capital. On August 7, 2002, Aon announced that it is investigating alternative options for Combined Specialty, including a sale of all or part of Combined Specialty, and/or a spin-off of part of Combined Specialty.

Business Transformation Plan

In fourth quarter 2000, Aon began a comprehensive business transformation plan designed to enhance client service, improve productivity through process redesign and accelerate revenue growth. This plan began in 2000 and continues into 2002. Outside of U.S. retail brokerage, the plan has been substantially implemented and has delivered the expected benefits, including improved revenue growth and enhanced productivity. In second quarter 2002, $6 million of business transformation expenses previously recorded were reversed due to the substantial completion of the plan in U.S. retail brokerage. This credit is primarily related to a decision made during the second quarter that certain employees whose employment had been targeted for termination would remain employed.

World Trade Center

On September 11, 2002, CICA's action with respect to the BTA policy was dismissed by the Court for the lack of subject matter jurisdiction. CICA is seeking an expedited appeal.

Litigation Matters

One of Aon's insurance subsidiaries is a defendant in several lawsuits in Mississippi. The lawsuits generally allege misconduct by the subsidiary in the solicitation and sale of insurance policies. Attorneys representing the plaintiffs in these lawsuits have advised the subsidiary that approximately 2,700 other current or former policyholders may file similar claims. Each lawsuit includes, and each threatened claim could include, a request for punitive damages. Aon's insurance subsidiary has been litigating the pending suits and investigating the claims. In the second quarter 2002, Aon negotiated a compromise of several of the lawsuits and approximately 2,000 of the claims. Thus far in the third quarter of 2002, the settlement of approximately 1,000 of these claims has been concluded. The remainder of the settlements are still in the process of being documented and finalized. Of the remaining settlements

already reached or concluded there will still be at least several hundred threatened claims outstanding. Each of the remaining lawsuits and any threatened claims are being investigated and vigorously defended.

On August 30, 2002, two of the three carriers referred to in note 15 of the Notes to the Consolidated Financial Statements filed a complaint in the United States District Court for the District of Connecticut against the Aon brokerage subsidiary, which is a defendant in the Allianz action. The two carriers are currently involved in an arbitration proceeding with Allianz, related to the original litigation, in which Allianz seeks the recission of the reinsurance placements. These carriers also seek to recover from the Aon brokerage subsidiary any damages, costs and expenses, including legal fees, suffered by such carriers as a result of an adverse arbitration award.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Aon is subject to various market risk exposures including foreign exchange rate risk, interest rate risk and equity price risk. The following disclosures reflect estimates of future performance and economic conditions. Actual results may differ.

Aon is subject to foreign exchange rate risk associated with translating financial statements of its foreign subsidiaries into U.S. dollars. Additionally, certain of Aon's foreign brokerage subsidiaries receive revenues in currencies that differ from their functional currencies. Aon's primary exposures are associated with the British pound, the Canadian dollar, the Australian dollar and the euro. Aon uses various derivative financial instruments (see note 14) to protect against adverse transaction and translation effects of exchange rate fluctuations. The potential decrease to Aon's consolidated stockholders' equity at December 31, 2001, resulting from a hypothetical 10% adverse change in quoted year-end foreign currency exchange rates, amounts to $163 million and $136 million at December 31, 2001 and 2000, respectively. The impact to 2001 and 2000 pretax income in the event of a hypothetical 10% adverse change in the respective quoted year-end exchange rates would not be material after consideration of derivative positions.

The nature of the income of Aon's businesses is affected by changes in international and domestic short-term interest rates. Aon hedges its net exposure to short-term interest rates with various derivative financial instruments. A hypothetical 1% decrease in interest rates would cause a decrease, net of derivative positions, of $10 million and $11 million to 2001 and 2000 pretax income, respectively.

The valuation of Aon's fixed-maturity portfolio is subject to interest rate risk. A hypothetical 1% increase in long-term interest rates would decrease the fair value of the portfolio at December 31, 2001 and 2000 by approximately $89 million and $103 million, respectively. Aon has long-term notes payable and capital securities outstanding with a fair value of $2.5 billion and $2.6 billion at December 31, 2001 and 2000, respectively. Such fair value was greater than the carrying value by $38 million and less than the carrying value by $10 million at December 31, 2001 and 2000, respectively. A hypothetical 1% decrease in interest rates would increase the fair value by approximately 6% and 10% at

December 31, 2001 and 2000, respectively.

The valuation of Aon's marketable equity security portfolio is subject to equity price risk. If market prices were to decrease by 10%, the fair value of the equity portfolio would have a corresponding decrease of $38 million at December 31, 2001 compared to $49 million at December 31, 2000. At December 31, 2001 and 2000, there were no outstanding derivatives hedging the price risk on the equity portfolio.

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

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The translated value of revenue and expense from Aon's international brokerage and underwriting operations are subject to fluctuations in foreign exchange rates. However, the net impact of these fluctuations on Aon's net income or cash flows has not been material.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

Board of Directors and Stockholders
Aon Corporation

We have audited the accompanying consolidated statements of financial position of Aon Corporation as of December 31, 2001 (as restated) and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001 (as restated for the year ended December 31, 2001). Our audits also included the financial statement schedules (as restated) as listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aon Corporation at December 31, 2001 (as restated) and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 (as restated), in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules (as restated), when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, the company has restated the financial statements for the year ended December 31, 2001 to establish an allowance for certain reinsurance recoverables that had previously been established in the first quarter of 2002.

As discussed in Note 1, in 2000 the Company changed its method of accounting for certain commission and fee revenue and also changed its method of accounting for derivative financial instruments.

/s/ Ernst & Young LLP

Chicago, Illinois
February 12, 2002

except for Note 1, as to which the date
is August 14, 2002

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of December 31	
	2001	**2000**
	(Restated)	
	(millions)	
ASSETS		
INVESTMENTS		
Fixed maturities at fair value	$ 2,149	$ 2,337
Equity securities at fair value	382	492
Short-term investments	2,975	2,325
Other investments	640	865
Total investments	6,146	6,019
CASH	439	1,118
RECEIVABLES		
Insurance brokerage and consulting services	7,033	6,952
Other receivables	863	1,278
Total receivables (net of allowance for doubtful accounts: 2001 $187; 2000 $92)	7,896	8,230
CURRENT INCOME TAXES	46	20
DEFERRED INCOME TAXES	582	353
DEFERRED POLICY ACQUISITION COSTS	704	656
EXCESS OF COST OVER NET ASSETS PURCHASED (net of accumulated amortization: 2001 $698; 2000 $580)	3,555	3,427
OTHER INTANGIBLE ASSETS (net of accumulated amortization: 2001 $859; 2000 $819)	529	489
OTHER ASSETS	2,433	1,939
TOTAL ASSETS	$ 22,330	$ 22,251
LIABILITIES AND STOCKHOLDERS' EQUITY		
INSURANCE PREMIUMS PAYABLE	$ 8,233	$ 8,212
POLICY LIABILITIES		
Future policy benefits	1,026	1,054
Policy and contract claims	937	801
Unearned and advance premiums and contract fees	2,214	2,053
Other policyholder funds	813	1,069
Total policy liabilities	4,990	4,977
GENERAL LIABILITIES		
General expenses	1,770	1,619
Short-term borrowings	257	309
Notes payable	1,694	1,798

	As of December 31	
Other liabilities	1,071	1,098
TOTAL LIABILITIES	18,015	18,013
COMMITMENTS AND CONTINGENT LIABILITIES		
REDEEMABLE PREFERRED STOCK	50	50
COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED CAPITAL SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY THE COMPANY'S JUNIOR SUBORDINATED DEBENTURES	800	800
STOCKHOLDERS' EQUITY		
Common stock $1 par value		
Authorized: 750 shares; issued	293	264
Paid-in additional capital	1,654	706
Accumulated other comprehensive loss	(535)	(377)
Retained earnings	3,021	3,127
Treasury stock at cost (shares: 2001 22.5; 2000 3.8)	(786)	(118)
Deferred compensation	(182)	(214)
TOTAL STOCKHOLDERS' EQUITY	3,465	3,388
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 22,330	$ 22,251

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

	Years ended December 31		
	2001	**2000**	**1999**
	(Restated)		
	(millions except per share data)		
REVENUE			
Brokerage commissions and fees	$ 5,436	$ 4,946	$ 4,639
Premiums and other	2,027	1,921	1,854
Investment income (note 7)	213	508	577
Total revenue	7,676	7,375	7,070
EXPENSES			
General expenses (notes 4, 5 and 15)	5,813	5,190	5,214
Benefits to policyholders	1,111	1,037	973
Interest expense	127	140	105
Amortization of intangible assets	158	154	143
Unusual charges World Trade Center (notes 1 and 15)	158		

	Years ended December 31		
Total expenses	7,367	6,521	6,435
INCOME BEFORE INCOME TAX, MINORITY INTEREST AND ACCOUNTING CHANGE	309	854	635
Provision for income tax (note 9)	122	333	243
INCOME BEFORE MINORITY INTEREST AND ACCOUNTING CHANGE	187	521	392
Minority interest, net of tax Company-obligated mandatorily redeemable preferred capital securities (note 11)	(40)	(40)	(40)
INCOME BEFORE ACCOUNTING CHANGE	147	481	352
Cumulative effect of change in accounting principle, net of tax (note 1)		(7)	
NET INCOME	$ 147	$ 474	$ 352
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS	$ 144	$ 471	$ 349
BASIC NET INCOME PER SHARE:			
Before accounting change	$ 0.54	$ 1.84	$ 1.35
Cumulative effect of change in accounting principle		(0.03)	
Basic net income per share	$ 0.54	$ 1.81	$ 1.35
DILUTIVE NET INCOME PER SHARE:			
Before accounting change	$ 0.53	$ 1.82	$ 1.33
Cumulative effect of change in accounting principle		(0.03)	
Dilutive net income per share	$ 0.53	$ 1.79	$ 1.33
CASH DIVIDENDS PER SHARE PAID ON COMMON STOCK	$ 0.895	$ 0.87	$ 0.82
DILUTIVE AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	272.4	263.0	262.7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31		
	2001	2000	1999
	(Restated)		
		(millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 147	$ 474	$ 352
Adjustments to reconcile net income to cash provided by operating activities			

	Years ended December 31		
Cumulative effect of change in accounting principle, net of tax		7	
Insurance operating assets and liabilities, net of reinsurance	(45)	46	91
Amortization of intangible assets	158	154	143
Depreciation and amortization of property, equipment and software	181	179	187
Income taxes	(97)	145	(106)
Special and unusual charges and purchase accounting liabilities (notes 4, 5 and 15)	59	(57)	160
Valuation changes on investments and income on disposals	158	(66)	(134)
Other receivables and liabilities net	(2)	(143)	(231)
CASH PROVIDED BY OPERATING ACTIVITIES	559	739	462
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments			
Fixed maturities			
Maturities	120	100	80
Calls and prepayments	100	129	160
Sales	1,220	400	1,152
Equity securities	379	253	461
Other investments	272	281	114
Purchase of investments			
Fixed maturities	(1,112)	(455)	(959)
Equity securities	(227)	(148)	(385)
Other investments	(347)	(436)	(357)
Short-term investments net	(633)	3	(93)
Acquisition of subsidiaries	(107)	(85)	(395)
Property and equipment and other net	(281)	(179)	(271)
CASH USED BY INVESTING ACTIVITIES	(616)	(137)	(493)
CASH FLOWS FROM FINANCING ACTIVITIES			
Treasury stock transactions net	49	(59)	(66)
Issuance (repayment) of short-term borrowings net	(395)	11	408
Issuance of long-term debt	400	250	250
Repayment of long-term debt	(148)	(70)	(100)
Interest sensitive, annuity and investment-type contracts			
Deposits	20	218	444
Withdrawals	(305)	(437)	(574)
Cash dividends to stockholders	(241)	(226)	(210)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(620)	(313)	152
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2)	(8)	(7)
INCREASE (DECREASE) IN CASH	(679)	281	114
CASH AT BEGINNING OF YEAR	1,118	837	723
CASH AT END OF YEAR	$ 439	$ 1,118	$ 837

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years ended December 31		
	2001	2000	1999
	(Restated)		
		(millions)	
COMMON STOCK Balance at January 1	$ 264	$ 259	$ 172
Effect of three-for-two stock split			86
Issued for business combinations	28	4	1
Issued for employee benefit plans	1	1	
	293	264	259
PAID-IN ADDITIONAL CAPITAL Balance at January 1	706	525	450
Effect of three-for-two stock split			(86)
Business combinations (notes 4 and 11)	952	141	47
Employee benefit plans	(4)	40	114
	1,654	706	525
ACCUMULATED OTHER COMPREHENSIVE LOSS Balance at January 1	(377)	(309)	(116)
Cumulative effect of change in accounting principle related to derivatives (note 1)		3	
Net derivative gains (losses)	(6)	3	
Net unrealized investment gains (losses)	30	49	(199)
Net foreign exchange losses	(58)	(115)	(54)
Net additional minimum pension liability adjustment	(124)	(8)	60
Other comprehensive loss	(158)	(68)	(193)
	(535)	(377)	(309)
RETAINED EARNINGS Balance at January 1	3,127	2,905	2,782
Net income	147	474	352
Dividends to stockholders	(241)	(226)	(210)
Loss on treasury stock reissued	(10)	(24)	(18)
Employee benefit plans	(2)	(2)	(1)
	3,021	3,127	2,905
TREASURY STOCK Balance at January 1	(118)	(90)	(58)
Cost of shares acquired non-cash exchange (notes 4 and 11)	(783)		
Cost of shares acquired	(5)	(102)	(105)

	Years ended December 31		
Shares reissued at average cost	120	74	73
	(786)	(118)	(90)
DEFERRED COMPENSATION Balance at January 1	(214)	(239)	(213)
Net issuance of stock awards	(3)	(7)	(73)
Debt guarantee of employee stock ownership plan			17
Amortization of deferred compensation	35	32	30
	(182)	(214)	(239)
STOCKHOLDERS' EQUITY AT DECEMBER 31	$ 3,465	$ 3,388	$ 3,051
COMPREHENSIVE INCOME (LOSS)			
NET INCOME	$ 147	$ 474	$ 352
OTHER COMPREHENSIVE LOSS (NOTE 3)	(158)	(68)	(193)
COMPREHENSIVE INCOME (LOSS)	$ (11)	$ 406	$ 159

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND PRACTICES

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

Restatement of Financial Information. On September 11, 2001, the World Trade Center was destroyed. Aon occupied space on several of the higher floors of one of the towers and 175 employees are either confirmed or presumed dead. In 2001, Aon incurred $275 million of expenses (before insurance and reinsurance recoveries) related to this event. These costs include $192 million of insurance benefits paid by Aon's Combined Insurance Company of America subsidiary (CICA) under life insurance policies issued for the benefit of deceased employees, and is partially offset by gross reinsurance recoveries of $147 million. Reinsurers have disputed their liability as to approximately $90 million of these gross reinsurance recoveries under a Business Travel Accident (BTA) policy issued by CICA to cover U.S.-based employees of subsidiaries of Aon, and legal actions have been filed by both parties. In the first quarter 2002, Aon recorded a pretax $90 million allowance ($56 million after tax or $0.20 per dilutive share) for this potentially uncollectible receivable. This allowance was established due to an April 2002 court ruling (in an unrelated case) that may impact the venue for litigation between Aon and its reinsurers. This ruling has impacted Aon's ability to reasonably estimate the probable recovery under the claim. Aon continues to believe that CICA has valid reinsurance.

After discussions with the SEC staff regarding the proper timeframe to record the above-mentioned allowance, Aon is, by means of this filing, restating its previously issued financial statements for the year ended December 31, 2001 to establish a $90 million pretax allowance for the reinsurance recoverables in the fourth quarter 2001 that had previously been established in the first quarter 2002.

Set forth below is a comparison of the previously reported and restated net income, dilutive and basic net income per share and stockholders' equity for the fourth quarter and twelve months ended December 31, 2001.

4th Quarter 2001	12 Months 2001

	As Reported	As Restated	As Reported	As Restated
	(millions except per share data)			
Net income	$ 83	$ 27	$ 203	$ 147
Dilutive net income per share	0.30	0.10	0.73	0.53
Basic net income per share	0.30	0.10	0.74	0.54
Stockholders' Equity	3,521	3,465	3,521	3,465

In addition, the SEC staff requested that Aon add certain disclosures or not report certain items. The consolidated financial statements have been amended as appropriate to respond to these requests.

Brokerage Commissions and Fees. Commission income is recognized at the later of the billing or effective date of the policy. However, in circumstances where a binding order has been received before the end of the accounting period and coverage is effective, but processing has not yet occurred in the billing system due to timing, an accrual is recorded. The amounts recorded for these accruals are generally consistent from period to period and the total accrual has not materially impacted the historical trend of revenue and earnings in any quarterly or annual period. The Company's policy for estimating allowances for return commissions on policy cancellations is to record an allowance based on a historical evaluation of cancellations as a percentage of related revenue. Certain life insurance

commissions, commissions on premiums billed directly by insurance companies and certain other carrier compensation are generally recognized as income when received. Revenues may be recorded in advance of the cash receipts in cases where the amounts due to be received have been confirmed by the insurance company, or when the Company has sufficient information in its records to estimate amounts for premium based revenue accruals in accordance with agreements the Company has with insurance carriers. Commissions on premium adjustments are recognized as they occur. Fees for claims services, benefit consulting, human capital outsourcing, reinsurance services and other services are recognized when the services are rendered. The portion of the revenues received on extended warranty contracts that are for the marketing, administration and servicing of those contracts are reported as earned consistent with the method used to earn the premium portion of those revenues, and revenues that represent administrative fee-for-service arrangements for which Aon does not bear the underwriting risk, which are earned as those services are performed. These fee-for-service arrangements include the marketing and servicing of extended warranty contracts on behalf of other companies and brokerage commissions for accident and health products placed with non-Aon insurance carriers.

Premium Revenue. For accident and health products, premiums are reported as earned in proportion to insurance protection provided over the period covered by the policies. For life products, premiums are recognized as revenue when due. For extended warranty products, premium revenues represent the portion of revenue from these contracts that are submitted to an Aon insurance carrier for coverage and are earned over the period of risk in proportion to the amount of insurance protection provided in accordance with FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises.

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

Unusual Charges World Trade Center. On September 11, 2001, the World Trade Center was destroyed. Aon occupied space on several of the higher floors of one of the towers, where employees from various operations worked. Tragically, 175 employees are either confirmed or presumed dead. In 2001, Aon incurred $275 million of expenses (before insurance and reinsurance recoveries) related to this event. These costs include $192 million of insurance benefits paid by Aon's Combined Insurance Company of America subsidiary (CICA) under life insurance policies issued for the benefit of deceased employees, and is partially offset by gross reinsurance recoveries of $147 million. Reinsurers have disputed their liability as to approximately $90 million of these gross reinsurance recoveries under a Business Travel Accident (BTA) policy issued by CICA to cover U.S.-based employees of subsidiaries of Aon, and legal actions have been filed by both parties. Aon has restated its 2001 results to record a pretax $90 million allowance ($56 million after tax) for this potentially uncollectible receivable in the fourth quarter. See "Restatement of Financial Information" in Note 1. This allowance was established due to an April 2002 court ruling (in an unrelated case) that may impact the venue for litigation between Aon and its reinsurers. This ruling has impacted Aon's ability to reasonably estimate the probable recovery under the claim. Aon continues to believe that CICA has valid reinsurance. Other costs incurred were $33 million of destroyed assets at book value and $50 million for salaries and benefits for victims and other costs. Partially offsetting these other costs are estimated insurance recoveries of $60 million. Some further costs and insurance recoveries, including estimated proceeds from Aon's business interruption policies,

are expected during 2002. In 2001, Aon recorded a pretax charge of $158 million ($97 million after-tax or $0.35 per diluted share), which is net of estimated insurance and reinsurance recoveries of $117 million.

Reinsurance. Reinsurance premiums, commissions and expense reimbursements on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits to policyholders ceded to other companies have been reported as a reduction of premium revenue and benefits to policyholders. Expense reimbursements received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs or, to the extent such reimbursements exceed the related acquisition costs, as other revenue. Reinsurance receivables and prepaid reinsurance premium amounts are reported as assets.

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

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

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

	2001	2000	1999
	(millions except per share data)		
Net income	$ 147	$ 474	$ 352
Redeemable preferred stock dividends	(3)	(3)	(3)
Net income available for common stockholders	$ 144	$ 471	$ 349
Basic shares outstanding	269	260	259
Common stock equivalents	3	3	4
Dilutive potential common shares	272	263	263
Net income per share:			
Basic	$ 0.54	$ 1.81	$ 1.35
Dilutive	$ 0.53	$ 1.79	$ 1.33

Investments. Fixed-maturity securities are available for sale and are carried at fair value. The amortized cost of fixed maturities is adjusted for amortization of premiums and the accretion of discounts to maturity that are included in investment income. Marketable equity securities that are held directly are carried at fair value. Unrealized gains and temporary unrealized losses on fixed maturities and directly-held equity securities are excluded from income and are recorded directly to stockholders' equity in accumulated other comprehensive income or loss, net of deferred income taxes. Mortgage loans and policy loans are generally carried at cost or unpaid principal balance. Private equity investments are generally carried at cost, which approximates fair value, except where Aon has significant influence, in which case they are carried under the equity method. See note 2, Spin-Off of Underwriting Business, for additional disclosure of equity method investments.

Limited partnership investments are carried under the equity method. Certain of the limited partnerships in which Aon invests have holdings in publicly-traded equities. Changes in market value of these indirectly-held equities flow through the limited partnerships' financial statements. Aon's ownership share of these valuation changes is included in Aon's Corporate and Other segment revenue. On December 31, 2001, Aon securitized $450 million of limited partnership investments, plus associated limited partnership commitments, via a sale to Private Equity Partnership Structures I, LLC (PEPS I). Aon received $171 million in cash plus $279 million of newly-issued securities of PEPS I.

The underlying equity in the limited partnerships was the basis for determining the fair value of the cash and securities received in the securitization. No significant management assumptions were used in determining the fair value of the cash and securities received in the securitization. At December 31, 2001, a 10% or 20% decrease in the underlying equity of the limited partnerships would have resulted in a decrease in the securities received by $45 million and $90 million, respectively.

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

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

Accounting policies relating to derivative financial instruments are discussed in note 14.

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

Intangible Assets. In general, the excess of cost over net assets purchased relating to business acquisitions has been amortized into income over periods not exceeding 40 years using the straight-line method, with a weighted-average life of 35 years. Goodwill related to acquisitions made after June 30, 2001 has not been amortized. Beginning January 2002, goodwill will not be amortized but instead tested for impairment under new authoritative guidance on business combinations and goodwill. See Accounting and Disclosure Changes (note 1) for further information. The cost of other intangible assets is being amortized over a range of 4 to 25 years with a weighted-average life of 18 years.

In the unexpected event of a significant deterioration in profitability that is projected to be recurring, Aon would assess the recoverability of its intangible assets through an analysis of expected future cash flows.

Property and Equipment. Property and equipment, reported in other assets, are generally depreciated using the straight-line method over their estimated useful lives. Included in this category is internal use software, which is software that is acquired, internally developed or modified solely to meet internal needs, with no plan to market externally. Costs related to directly obtaining, developing or upgrading internal use software are capitalized. These costs are generally amortized using the straight-

line method over a range of 2 to 8 years. The weighted-average life of Aon's software at December 31, 2001 is 5.1 years.

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

Other investments are composed of mortgage loans, policy loans, private equity investments, limited partnerships and Aon's investment in Endurance Specialty Insurance, Ltd. (note 2). The fair value for mortgage loans and policy loans is estimated using discounted cash flow analysis, using interest rates currently being offered for similar loans to borrowers with similar credit ratings. It is generally not practical to estimate the fair value of private equity investments and limited partnerships without incurring excessive costs.

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

Future Policy Benefits, Policy and Contract Claims, Unearned Premiums and Contract Fees. Future policy benefit liabilities on non-universal life and accident and health products have been provided on the net level premium method. The liabilities are calculated based on assumptions as to investment yield, mortality, morbidity and withdrawal rates that were determined at the date of issue and provide for possible adverse deviations. Interest assumptions are graded and range from 4.5% to 7.0% at December 31, 2001. Withdrawal assumptions are based principally on insurance subsidiaries' experience and vary by plan, year of issue and duration.

Policyholder liabilities on universal life and investment products are generally based on policy account values. Interest credit rates for these products range from 5.0% to 8.1%.

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

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

Foreign Currency Translation. In general, foreign revenues and expenses are translated at average exchange rates. Foreign assets and liabilities are translated at year-end exchange rates. Net foreign exchange gains and losses on translation are generally reported in stockholders' equity, in accumulated other comprehensive income or loss, net of deferred income tax. The effect of transaction gains and losses on the consolidated statements of income is insignificant for all periods presented.

Accounting and Disclosure Changes. As of October 1, 2000, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement No. 133), as amended. The adoption of Statement No. 133 resulted in a

$5 million cumulative effect of a change in accounting principle before applicable income taxes of $2 million and was recognized as an increase to accumulated other comprehensive loss (note 3) in the consolidated statement of stockholders' equity for the year ended December 31, 2000. The adoption of Statement No. 133 did not have a material effect on net income for the year ended December 31, 2000. Refer to note 14 for a description of accounting policies relating to derivative financial instruments.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, which provides guidance for applying generally accepted accounting principles relating to the timing of revenue recognition in financial statements filed with the SEC. Effective January 1, 2000, in accordance with the provisions of SAB No. 101, Aon established a provision for estimated returned commissions from policy cancellations. In 1999 and previous years, Aon recognized returned commissions when they occurred. The cumulative effect of this accounting change was an after-tax charge of $7 million or $0.03 per share in the first quarter of 2000. Previously reported results for the remaining quarters of 2000 were not impacted by this accounting change. Pro forma results for 1999 are not materially different from previously reported results.

In September 2000, the FASB issued Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Statement No. 140 replaces Statement No. 125 and revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures. Statement No. 140 became effective for all transfers of financial assets occurring after March 31, 2001. Implementation of Statement No. 140 did not have a material impact on the consolidated financial statements.

In June 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement No. 141 superceded Accounting Principles Board (APB) Opinion No. 16, and amended or superceded a number of interpretations of APB No. 16. Certain purchase accounting guidance in APB No. 16, as well as certain of its amendments and interpretations, have been carried forward. The statement eliminated the pooling of interests method of accounting for business combinations. It also changed the criteria to recognize intangible assets apart from goodwill. The requirements of Statement No. 141 were effective for any business combination accounted for by the purchase method that was completed after June 30, 2001. Statement No. 142 supercedes APB No. 17. Under Statement No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that have finite lives will continue to be amortized over their useful lives. The amortization provisions of Statement No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill acquired prior to July 1, 2001, amortization will be discontinued effective as of January 1, 2002. Based on an evaluation of goodwill as of December 31, 2001, no goodwill impairment will occur from the adoption of Statement No. 142. Reported goodwill amortization was $118 million, $114 million and $102 million for the years ended December 31, 2001, 2000 and 1999, respectively.

In accordance with Statement No. 141, other intangible assets which resulted from acquisitions made prior to July 1, 2001, that do not meet the criteria for recognition apart from goodwill (as defined by Statement No. 141) are to be classified as goodwill upon adoption. Aon has begun its analysis of these other intangible assets. As of December 31, 2001, Aon has determined that, at a minimum, approximately one-half of these intangibles will be classified as goodwill as of January 1, 2002. Reported amortization expense for all other intangibles was $40 million, $40 million and $41 million for the years ended December 31, 2001, 2000 and 1999, respectively.

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A reconciliation of net income for the years ended December 31, 2001, 2000 and 1999 to adjusted net income had Statement No. 142 and the reclassification provisions of Statement No. 141 been applicable for all periods presented follows.

	Year Ended December 31, 2001			**Year Ended December 31, 2000**			**Year Ended December 31, 1999**		
	Amount	**Basic Net Income Per Share**	**Dilutive Net Income Per Share**	**Amount**	**Basic Net Income Per Share**	**Dilutive Net Income Per Share**	**Amount**	**Basic Net Income Per Share**	**Dilutive Net Income Per Share**
Reported net income	$ 147	$ 0.54	$ 0.53	$ 474	$ 1.81	$ 1.79	$ 352	$ 1.35	$ 1.33
Add back amortization (net of tax):									
Goodwill	104	0.38	0.38	98	0.37	0.37	84	0.32	0.32
Intangible assets reclassified to goodwill	10	0.04	0.04	10	0.04	0.04	10	0.04	0.04
Less amortization (net of tax):									
Other intangible assets change in amortization periods	(5)	(0.02)	(0.02)	(5)	(0.02)	(0.02)	(5)	(0.02)	(0.02)
	$ 256	$ 0.94	$ 0.93	$ 577	$ 2.20	$ 2.18	$ 441	$ 1.69	$ 1.67

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In August 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Statement No. 144 supercedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and provides new rules on asset impairment and a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of Statement No. 121, the new rules significantly change the criteria that would have to be met to classify an asset as held-for-sale. The new rules also supercede the provisions of APB No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, with regard to reporting the effects of a disposal of a segment of a business and require expected future operating losses from discontinued operations to be displayed in discontinued operations in the period(s) in which the losses are incurred. Statement No. 144 is effective January 1, 2002. This statement is not expected to have a material impact on Aon's consolidated financial statements.

Reclassification. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to the 2001 presentation.

2. SPIN-OFF OF UNDERWRITING BUSINESS

On April 20, 2001, Aon's Board of Directors approved, in principle, a plan to spin off its current underwriting business to Aon's common stockholders, creating two independent, publicly-traded companies. The spin-off is expected to take the form of a tax-free stock dividend to Aon's common stockholders, pending a favorable Internal Revenue Service (IRS) ruling. The transaction is subject to final Board approval, a favorable IRS ruling and certain insurance regulatory approvals. The spin-off company will be named Combined Specialty Corporation (CSC). The spin-off is currently expected to be completed by spring 2002. In October 2001, Aon announced that it will be expanding its insurance underwriting business to include direct property and casualty insurance policies. These coverages will be provided through the operations intended to become part of CSC and may require the raising of additional capital.

In November 2001, Aon announced that it would cosponsor a new Bermuda-based insurance and reinsurance company with total initial capitalization of $1.2 billion to provide additional underwriting capacity to commercial property and casualty insurance and reinsurance clients. Aon's investment in Endurance Specialty Insurance Ltd. (Endurance), was funded in December 2001 with $227 million of operating cash generated by the underwriting subsidiaries and will be spun off as part of CSC. The investment in Endurance is carried under the equity method and is included in Other Investments in the December 31, 2001 consolidated statement of financial position.

3. OTHER COMPREHENSIVE LOSS

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

	Years ended December 31								
	2001			2000			1999		
	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes	Amount Before Taxes	Income Tax (Expense) Benefit	Amount Net of Taxes
	(millions)								
Cumulative effect of change in accounting principle related to derivatives	$	$	$	$ 5	$ (2)	$ 3	$	$	$
Net derivative losses arising during the year	(6)	2	(4)						
Net derivative gains arising during fourth quarter 2000				4	(1)	3			
Reclassification adjustment	(4)	2	(2)						
Net derivative gains (losses)	(10)	4	(6)	9	(3)	6			
Unrealized holding gains (losses) arising during the year	(9)	3	(6)	45	(14)	31	(263)	92	(171)
Reclassification adjustment	59	(23)	36	26	(8)	18	(45)	17	(28)
Net unrealized investment gains (losses)	50	(20)	30	71	(22)	49	(308)	109	(199)
Net foreign exchange losses	(95)	37	(58)	(188)	73	(115)	(89)	35	(54)
Net additional minimum pension liability adjustment	(203)	79	(124)	(13)	5	(8)	95	(35)	60

	Years ended December 31								
Total other comprehensive loss	$ (258)	$ 100	$ (158)	$ (121)	$ 53	$ (68)	$ (302)	$ 109	$ (193)

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

	As of December 31		
	2001	2000	1999
		(millions)	
Net derivative gains	$	$ 6	$
Net unrealized investment losses	(42)	(72)	(121)
Net foreign exchange losses	(325)	(267)	(152)
Net additional minimum pension liability	(168)	(44)	(36)
Accumulated other comprehensive loss	$ (535)	$ (377)	$ (309)

4. BUSINESS COMBINATIONS

Acquisitions. In 2001, Aon acquired ASI Solutions Incorporated (ASI), a worldwide provider of human resource outsourcing and compensation consulting services, and First Extended, Inc. (FEI), an underwriter and administrator of automotive extended warranty products, and certain other insurance brokerage and consulting operations. FEI will be spun off as part of CSC. In these transactions, Aon paid an aggregate of approximately $107 million in cash and $197 million in common stock. Internal funds, short-term borrowings and common stock financed the acquisitions. Excess of cost over net assets purchased of approximately $282 million and other intangible assets of approximately $72 million, accounted for on a preliminary basis, resulted from these acquisitions.

In July 2001, Aon acquired the common stock of two entities controlled by Aon's Chairman and Chief Executive Officer. The acquisition was financed by the issuance of approximately 22.4 million shares of Aon common stock. The two acquired entities owned, in the aggregate, approximately 22.4 million shares of Aon common stock, which are included in treasury stock, and had additional net

assets, net of expenses, totaling $5 million. This transaction did not have a material effect on Aon's total assets, liabilities or stockholders' equity.

In 2000, Aon acquired Actuarial Sciences Associates, Inc., Horizon Consulting Group, Inc., and certain other insurance brokerage and consulting operations for approximately $85 million in cash and $145 million in common stock. Internal funds, short-term borrowings and common stock financed the acquisitions. Excess of cost over net assets purchased of approximately $225 million resulted from these acquisitions.

In 1999, Aon acquired The Nikols Group, Presidium Holdings, Inc., Societe Generale d'Assurance et de Prevoganie, and certain other insurance brokerage and consulting operations for approximately $440 million. Aon also acquired insurance underwriting blocks of business for $50 million. The purchase accounting for these acquisitions was finalized in 2000. The acquisitions were financed by internal funds, short-term borrowings and common stock. Excess of cost over net assets purchased of approximately $500 million resulted from these acquisitions.

The results of operations of these acquisitions, all of which were accounted for by the purchase method, are included in the consolidated financial statements from the dates they were acquired. Pro forma results of these acquisitions are not materially different from reported results.

In accordance with a 1992 purchase agreement, securities with a value of $41 million are being held pursuant to an escrow agreement (as amended). The escrowed securities are scheduled to be released on a pre-determined basis through 2007.

Restructuring Charges. In 2001, Aon made payments of $24 million on restructuring charges and purchase accounting liabilities related to business combinations.

In 1999 and 1998, Aon recorded charges of $120 million and $70 million, respectively, for a plan to restructure Aon's operations as a result of business combination activity and finalization of the purchase accounting for the 1997 Jauch & Hubener acquisition. These charges primarily related to termination benefits of $107 million, related pension expense of $32 million, lease abandonments and other costs to exit an activity of $41 million and asset impairments of $10 million. Termination of approximately 1,000 individuals occurred as a result of these plans. As of December 31, 2001, these liabilities have been reduced to termination benefits of $2 million and lease abandonments of $1 million.

In 1996 and 1997, Aon recorded pretax special charges of $60 million and $145 million, respectively, related to management's commitment to a formal plan of restructuring Aon's brokerage operations as a result of the acquisition of Alexander & Alexander Services, Inc. (A&A). Also in 1997, following management's commitment to a formal plan of restructuring the A&A and Bain Hogg brokerage operations, Aon recorded $264 million in costs to restructure those acquisitions. Together, these costs were primarily related to termination benefits of $152 million, lease abandonments and other exit costs of $280 million and asset impairments of $37 million relating to the abandonment of systems and real estate space. All termination benefits have been paid. The remaining liability of $58 million is for lease abandonments and other exit costs, and is being paid out over several years as planned.

The following table sets forth the activity related to these liabilities:

	(millions)
Balance at December 31, 1998	$ 155
Cash payments in 1999	(52)
Charge to expense in 1999	2
Balance at December 31, 1999	105
Cash payments in 2000	(25)
Charge to expense in 2000	4
Foreign currency revaluation	(6)
Balance at December 31, 2000	78
CASH PAYMENTS IN 2001	(19)
FOREIGN CURRENCY REVALUATION	(1)
BALANCE AT DECEMBER 31, 2001	$ 58

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

5. BUSINESS TRANSFORMATION PLAN

In fourth quarter 2000, Aon announced a formal plan of restructuring Aon's worldwide operations. This plan constitutes the "business transformation plan" and will continue into 2002. Pretax charges of $218 million and $82 million were recorded in 2001 and 2000, respectively, and are recorded in general expenses in the consolidated statements of income.

In 2000, expenses included costs related to termination benefits of $54 million, covering notification to 750 employees. Other costs to exit an activity of $6 million were incurred, which included $2 million for abandoned leases and $4 million for direct costs necessary to complete portions of the business transformation plan, cash settlement necessary to exit contractual obligations and other costs. Other expenses of $22 million were also recorded in 2000, including fixed asset impairments of $20 million (of which $16 million related to information systems assets), as well as $2 million of other costs.

For 2001, expenses included costs related to termination benefits of $109 million, covering notification to 3,150 employees. Other costs to exit an activity of $21 million were incurred, which included $10 million for abandoned leases and $11 million for direct costs necessary to complete portions of the business transformation plan, cash settlements necessary to exit contractual obligations and other costs.

Other expenses of $88 million were recorded in 2001. The Company has acted as a servicing agent for a limited partnership affiliated with automobile dealerships to provide auto financing to dealerships on a cooperative basis through various financing conduit facilities. The Company also has a general partnership interest in the limited partnership. Continued competition from financing provided by the financing arms of automobile manufacturers caused the Company to evaluate whether it wished to continue in this servicing partner relationship. In first quarter 2001, the Company elected to cease new servicing business and run off its existing service obligation. The limited partnership affiliated with automobile dealerships established allowances for uncollectible loan balances. In conjunction with the decision to discontinue new auto financing receivables, the limited partners are not obligated to contribute additional capital beyond what they have already provided for any shortfall in the reserves for their individual book of business. The Company is required to fund any shortfalls in accordance with the Company's limited recourse to the funding facility arranged by the servicing agent. The servicing agent estimated the liability that the Company would have for the existing shortfall at the

time the Company decided to discontinue new auto loan financing under the facility. The Company recorded a charge to establish this obligation in accordance with FASB Statement No. 5, which amounted to an expense of $44 million. For the year 2000, the last full year of operation, these servicing operations, which were part of the Company's brokerage segment, generated revenue of $42 million and pretax income of $3 million.

During 2001 the Company exited four other joint venture operations as a part of its business transformation process. For the year 2000, the last full year of operation, these joint ventures, which were part of the Company's brokerage segment, generated less than $1 million of revenue and incurred nearly $3 million of pretax losses. The total cost to exit these four joint ventures was $12 million. Additional expenses in 2001 included a provision of $14 million for discontinuing supplemental accident and health insurance business operations in Mississippi. The expense included severance costs and expenses associated with the reassignment of agents, as well as estimated costs for resolving asserted and unasserted claims and suits. A $5 million expense was recorded relating to the write-down of certain agent receivables in conjunction with the restructuring of a worksite marketing agent commission pay structure and operations.

Further fixed asset impairments of $10 million (of which $9 million related to information systems assets) were taken in 2001, as well as $3 million of other costs.

The following table sets forth the activity related to the liability for termination benefits and other costs to exit an activity:

	Termination Benefits	Other Costs to Exit an Activity	Total
		(millions)	
Expense charged in 2000	$ 54	$ 6	$ 60
Cash payments in 2000	(13)	(3)	(16)
Balance at December 31, 2000	41	3	44
EXPENSE CHARGED IN 2001	109	21	130
CASH PAYMENTS IN 2001	(73)	(20)	(93)
FOREIGN CURRENCY REVALUATION	(2)		(2)
BALANCE AT DECEMBER 31, 2001	$ 75	$ 4	$ 79

Approximately 3,900 employees have either departed voluntarily or have positions that have been eliminated. Most of the terminations have occurred and are related to the Insurance Brokerage and Other Services segment in the U.S. and the U.K.

All of Aon's unpaid liabilities relating to the business transformation plan are reflected in general expense liabilities in the consolidated statements of financial position.

6. DISCONTINUED OPERATIONS

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

As of December 31, 2001, the liabilities associated with the foregoing indemnities were included in other liabilities in the consolidated statements of financial position. Such liabilities amounted to $117

million, net of reinsurance recoverables and other assets of $153 million. In January 2002, Aon settled certain of these liabilities. The settlement had no material effect on the consolidated financial statements.

The insurance liabilities represent estimates of known and future claims expected to be settled over the next 20 to 30 years, principally with regards to asbestos, pollution and health hazard exposures.

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

7. INVESTMENTS

The components of investment income are as follows:

	Years ended December 31		
	2001	**2000**	**1999**
		(millions)	
Short-term investments	$ 191	$ 214	$ 173
Fixed maturities:			
Interest income	137	172	195
Income on disposals	37	13	52
Losses on disposals	(21)	(12)	(13)
Total	153	173	234
Equity securities:			
Dividend income	25	31	42
Income on disposals	13	28	18
Losses on disposals	(37)	(9)	(11)
Total	1	50	49
Limited partnerships equity earnings	(94)	73	60
Other investments:			
Interest, dividend and other income	10	11	19
Income (losses) on disposals	(41)	(5)	48

	Years ended December 31		
Total	(31)	6	67
Gross investment income	220	516	583
Less: investment expenses	7	8	6
Investment income	$ 213	$ 508	$ 577

The components of net unrealized losses are as follows:

	As of December 31		
	2001	2000	1999
	(millions)		
Fixed maturities	$ (28)	$ (45)	$ (100)
Equity securities	(43)	(72)	(88)
Other investments	4		
Deferred tax credit	25	45	67
Net unrealized investment losses	$ (42)	$ (72)	$ (121)

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

	Years ended December 31		
	2001	2000	1999
	(millions)		
Fixed maturities	$ 17	$ 55	$ (208)
Equity securities	29	16	(100)
Other investments	4		
Total	$ 50	$ 71	$ (308)

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

	As of December 31, 2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(millions)			
U.S. government and agencies	$ 355	$ 8	$ (2)	$ 361

	As of December 31, 2001			
States and political subdivisions	3			3
Foreign governments	515	8	(2)	521
Corporate securities	1,243	14	(54)	1,203
Mortgage-backed securities	42			42
Other fixed maturities	19			19
Total fixed maturities	2,177	30	(58)	2,149
Total equity securities	425	6	(49)	382
Total	$ 2,602	$ 36	$ (107)	$ 2,531

	As of December 31, 2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(millions)			
U.S. government and agencies	$ 189	$ 5	$ (1)	$ 193
States and political subdivisions	8			8
Foreign governments	722	16	(3)	735
Corporate securities	1,407	9	(71)	1,345
Mortgage-backed securities	32			32
Other fixed maturities	24			24
Total fixed maturities	2,382	30	(75)	2,337
Total equity securities	564	20	(92)	492
Total	$ 2,946	$ 50	$ (167)	$ 2,829

The amortized cost and fair value of fixed maturities by contractual maturity are as follows:

	As of December 31, 2001	
	Amortized Cost	Fair Value
	(millions)	
Due in one year or less	$ 200	$ 202
Due after one year through five years	844	845
Due after five years through ten years	519	509
Due after ten years	572	551
Mortgage-backed securities	42	42
Total fixed maturities	$ 2,177	$ 2,149

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities on deposit for regulatory authorities as required by law, all relating to the insurance underwriting subsidiaries, amounted to $259 million at December 31, 2001 and $311 million at December 31, 2000. As required by the by-laws of Lloyd's brokers, cash and short-term investments subject to floating charges for the benefit of insurance creditors amounted to $1.0 billion at December 31, 2000. In 2001, regulatory supervision has been transferred from Lloyd's to the General Insurance Standards Council, which does not apply such charges. Aon maintains premium trust bank accounts for premiums collected from insureds but not yet remitted to insurance companies of $2.3 billion and $1.3 billion at December 31, 2001 and 2000, respectively.

At December 31, 2001 and 2000, Aon had $25 million and $66 million, respectively, of non-income producing investments.

Limited Partnership Securitization. On December 31, 2001, Aon sold the vast majority of its limited partnership (LP) portfolio, valued at $450 million, to Private Equity Partnership Structures I, LLC (PEPS I), a QSPE. The common stock interest in PEPS I is held by a limited liability company which is owned by one of Aon's subsidiaries (49%) and by a charitable trust, which is not controlled by Aon, established for victims of the September 11 attacks (51%). Approximately $171 million of investment grade fixed-maturity securities were sold by PEPS I to unaffiliated third parties. PEPS I then paid the Company's insurance underwriting subsidiaries the $171 million in cash and issued to them an additional $279 million in fixed-maturity and preferred stock securities. The fixed-maturity securities Aon subsidiaries received from PEPS I are rated as investment grade by Standard & Poor's Ratings Services.

To achieve the benefits of the securitization, Aon gave up all future voting interests in and control over the limited partnership interests sold to PEPS I and has no voting interest, control or significant influence over the business activities of PEPS I.

Aon has obtained a true sale/non-consolidation opinion from qualified external legal counsel.

PEPS I will be holding limited partnership investments. The legal documents that established PEPS I specify the actions that PEPS I and the servicer will undertake when PEPS I is required to make a voting decision (due to the general partner of a limited partnership calling for the vote of limited partners or proxy voting on a money market fund that PEPS I is invested in). Additionally, the legal documents contain specific instructions regarding actions to be taken if PEPS I receives (or has the ability to receive) distributions of investments held by limited partnerships in which it is invested. In instances where the general partner of a given investment may distribute underlying invested company

shares to the limited partners (such as PEPS I), the legal documents that establish PEPS I outline very specific disposal instructions.

Throughout the life of PEPS I, at least 10% of the beneficial interests will be held by parties other than the transferor, its affiliates, or its agents. This 10% threshold is accomplished through the first tranche notes outstanding to unaffiliated third party investors.

PEPS I will invest cash collected from the limited partnerships pending distribution to holders of beneficial interests. PEPS I invests only in relatively risk free investments with maturities no later than an expected distribution date.

All holders of each of the above beneficial interests have the right to pledge or exchange (sell), without any constraints, the beneficial interests that they hold. As such, there are no conditions that constrain the beneficial interest holders from pledging or exchanging their beneficial interest(s) and provide the transferor with more than a trivial benefit.

8. DEBT AND LEASE COMMITMENTS

Notes Payable. The following is a summary of notes payable:

	As of December 31	
	2001	**2000**
	(millions)	
Commercial paper	$ 254	$ 600
6.2% debt securities, due January 2007	250	
8.65% debt securities, due May 2005	250	250
6.9% debt securities, due July 2004	250	250

	As of December 31	
6.3% debt securities, due January 2004	100	100
6.7% debt securities, due June 2003	150	150
LIBOR +1% debt securities (2.9% at December 31, 2001), due January 2003	150	
7.4% debt securities, due October 2002	100	100
Euro credit facility, due June 2003 with interest at 4% to 5%	87	225
Notes payable, due in varying installments, with interest at 4.6% to 10%	103	123
Total notes payable	$ 1,694	$ 1,798

Commercial paper borrowings of $254 million at December 31, 2001 and $600 million at December 31, 2000 have been included in notes payable based on Aon's intent and ability to maintain or refinance these obligations on a long-term basis through 2005.

In December 2001, Aon issued $150 million of debt securities with a floating interest rate of LIBOR +1% due January 2003 and $250 million of 6.2% debt securities due January 2007. This debt was not registered under the Securities Act of 1933. It was sold to qualified buyers under Rule 144A of the Securities Act and the net proceeds were used to reduce short-term borrowings.

In May 1999, Aon filed a universal shelf registration on Form S-3 with the SEC for the issuance of $500 million of debt and equity securities. In a 1999 public offering based on the shelf registration, Aon issued $250 million of 6.9% debt securities due July 2004. In May 2000, Aon filed a prospectus supplement to use the remaining $250 million of its May 1999 universal shelf registration and issued $250 million of 8.65% debt securities due May 2005. The net proceeds from the sale of the 8.65% notes were used for general corporate purposes, including securities repurchase programs, capital expenditures, working capital, repayment or reduction of long-term notes payable and short-term borrowings and the financing of acquisitions.

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Interest is payable semi-annually on most debt securities. In addition, the debt securities are not redeemable by Aon prior to maturity and contain no sinking fund provisions. Maturities of notes payable are $131 million, $555 million, $423 million, $250 million and $85 million in 2002, 2003, 2004, 2005 and 2006, respectively.

In September 2001, Aon entered into a new committed bank credit facility under which certain European subsidiaries can borrow up to EUR 500 million. At December 31, 2001, Aon had borrowed EUR 269 million ($239 million) under this facility, of which $152 million is classified as short-term borrowings and $87 million is classified as notes payable in the consolidated statements of financial position.

Aon has $1.2 billion of other unused committed bank credit facilities at December 31, 2001 to support $359 million of commercial paper and other short-term borrowings of which $105 million is classified as short-term borrowings at December 31, 2001. Aon has recently renegotiated these facilities, entering into a new 3-year agreement on February 8, 2002. The new amount of committed bank credit facilities is $875 million.

Information related to notes payable and short-term borrowings is as follows:

	Years ended December 31		
	2001	**2000**	**1999**
Interest paid (millions)	$ 127	$ 140	$ 105
Weighted-average interest rates short-term borrowings	4.5%	6.4%	5.4%

Lease Commitments. Aon has noncancelable operating leases for certain office space, equipment and automobiles. Future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2001 are:

(millions)

	(millions)
2002	$ 233
2003	215
2004	188
2005	168
2006	146
Later years	707
Total minimum payments required	$ 1,657

Rental expenses for all operating leases for the years ended December 31, 2001, 2000 and 1999 amounted to $242 million, $217 million and $198 million, respectively.

9. INCOME TAX

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

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Income (loss) before income tax and the cumulative effect of a change in accounting principle and the provision for income tax consist of the following:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Income (loss) before income tax*:			
U.S.	$ (66)	$ 454	$ 444
Foreign	375	400	191
Total	$ 309	$ 854	$ 635
Provision for income tax:			
Current:			
Federal	$ 15	$ 115	$ 201
Foreign	122	124	60
State	6	28	20
Total current	143	267	281
Deferred (credit):			
Federal	(28)	46	(42)
Foreign	9	16	7
State	(2)	4	(3)
Total deferred	(21)	66	(38)
Provision for income tax	$ 122	$ 333	$ 243

	Years ended December 31		

*
Before cumulative effect of change in accounting principle.

During 2001, 2000 and 1999, Aon's consolidated statements of income reflect each year a tax benefit of $26 million on the 8.205% capital securities issued in January 1997 (see note 11).

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

	Years ended December 31		
	2001	2000	1999
Statutory tax rate	35.0%	35.0%	35.0%
Tax-exempt investment income	(0.7)	(0.5)	(1.2)
Amortization of intangible assets relating to acquired businesses	4.3	2.1	2.8
State income taxes	1.4	2.5	1.7
Other net	(0.5)	(0.1)	
Effective tax rate	39.5%	39.0%	38.3%

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

	As of December 31	
	2001	2000
	(millions)	
Deferred tax assets:		
Net operating loss and tax credit carryforwards	$ 81	$ 71
Certain purchase accounting and special charges	81	31
Unrealized investment losses	26	42
Unearned and advanced premiums and contract fees	110	107
Employee benefit plans	141	81
Unrealized foreign exchange losses	210	170
Other	146	76
Total	795	578
Deferred tax liabilities:		
Policy acquisition costs	(91)	(64)
Other	(101)	(133)
Total	(192)	(197)

	As of December 31	
Valuation allowance on deferred tax assets	(21)	(28)
Net deferred tax assets	$ 582	$ 353

There are limitations on the utilization of net operating loss and tax credit carryforwards after a change of control, consequently, there will be annual limitations on the realization of these tax assets. Accordingly, valuation allowances were established for various acquisitions. Subsequently, recognized tax benefits for these items would reduce excess of cost over net assets purchased. The valuation allowance changed to $21 million in 2001 from $28 million in 2000, corresponding to reductions in related deferred tax assets, with no effect on net income. Although future earnings cannot be predicted with certainty, management currently believes that realization of the net deferred tax asset after consideration of the valuation allowance is more likely than not.

Prior to 1984, the life insurance companies were required to accumulate certain untaxed amounts in a memorandum "policyholders' surplus account." Under the Tax Reform Act of 1984, the "policyholders' surplus account" balances were "capped" at December 31, 1983, and the balances will be taxed only to the extent distributed to stockholders or when they exceed certain prescribed limits. As of December 31, 2001, the combined "policyholders' surplus account" of Aon's life insurance subsidiaries approximates $363 million. Aon's life insurance subsidiaries do not intend to make any taxable distributions or exceed the prescribed limits in the foreseeable future; therefore, no income tax provision has been made. However, if such taxes were assessed, the amount of taxes payable would be approximately $127 million.

The amount of income taxes paid in 2001, 2000 and 1999 was $193 million, $158 million and $324 million, respectively.

10. REINSURANCE AND CLAIM RESERVES

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

A summary of reinsurance activity is as follows:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Ceded premiums earned	$ 921	$ 845	$ 624
Ceded premiums written	1,020	888	510
Assumed premiums earned	391	379	178
Assumed premiums written	384	304	116
Ceded benefits to policyholders	630	552	377

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

Years ended December 31		
2001	2000	1999

	Years ended December 31		
	(millions)		
Liabilities at beginning of year	$ 377	$ 448	$ 483
Incurred losses:			
Current year	1,110	840	890
Prior years	(11)	16	(39)
Total	1,099	856	851
Payment of claims:			
Current year	(769)	(633)	(618)
Prior years	(252)	(294)	(268)
Total	(1,021)	(927)	(886)
Liabilities at end of year (net of reinsurance recoverables: 2001 $482, 2000 $424, 1999 $316)	$ 455	$ 377	$ 448

11. REDEEMABLE PREFERRED STOCK, CAPITAL SECURITIES AND STOCKHOLDERS' EQUITY

Redeemable Preferred Stock. At December 31, 2001, one million shares of redeemable preferred stock are outstanding. Dividends are cumulative at an annual rate of $2.55 per share. The shares of redeemable preferred stock will be redeemable at the option of Aon or the holders, in whole or in part, at $50.00 per share beginning one year after the occurrence of certain future events.

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

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

Common Stock. In December 2001, Aon filed a universal shelf registration on Form S-3 for the issuance of $750 million of debt and equity securities.

In 2000, Aon's stockholders approved an amendment to the Certificate of Incorporation of the Company to increase the number of authorized shares of common stock from 300 million to 750 million.

Aon repurchased 0.1 million, 3.5 million and 2.8 million shares in 2001, 2000 and 1999, respectively, of its common stock, primarily to provide shares for stock compensation plans. In

connection with the acquisition of two entities controlled by Aon's Chairman and Chief Executive Officer (note 4), Aon obtained approximately 22.4 million shares of its common stock. These treasury shares are restricted as to their reissuance.

The acquisition was financed by the issuance of approximately 22.4 million new shares of Aon stock. In addition, Aon issued 6.2 million new shares of common stock in 2001 for employee benefit plans and for acquisitions.

Dividends. A summary of dividends declared is as follows:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Redeemable preferred stock	$ 3	$ 3	$ 3
Common stock	238	223	207
Total dividends declared	$ 241	$ 226	$ 210

Statutory Capital and Surplus. Generally, the capital and surplus of Aon's insurance subsidiaries available for transfer to the parent company are limited to the amounts that the insurance subsidiaries' statutory capital and surplus exceed minimum statutory capital requirements; however, payments of the amounts as dividends may be subject to approval by regulatory authorities. See note 9 for possible tax effects of distributions made out of untaxed earnings.

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

	Years ended December 31		
	2001	2000	1999
		(millions)	
Life insurance	$ (61)	$ 133	$ 101
Property casualty	60	49	57

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

	As of December 31		
	2001	2000	1999
		(millions)	
Life insurance	$ 421	$ 492	$ 502
Property casualty	484	491	411

The National Association of Insurance Commissioners revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual was effective January 1, 2001. The domiciliary states of Aon's major insurance subsidiaries have adopted the provisions of the revised manual. The revised manual changed, to some extent, prescribed statutory accounting practices and resulted in changes to the accounting practices that Aon's major insurance subsidiaries use to prepare their statutory-basis financial statements. The impact of these changes was to increase Aon's major insurance subsidiaries' statutory capital and surplus by approximately 6% as of January 1, 2001.

12. EMPLOYEE BENEFITS

Savings and Profit Sharing Plans. Aon subsidiaries maintain contributory savings plans for the benefit of United States salaried and commissioned employees. Provisions made for these plans were $43 million, $39 million and $37 million in 2001, 2000 and 1999, respectively.

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

U.S. Pension and Other Benefit Plans. The following tables provide a reconciliation of the changes in obligations and fair value of assets for the years ended December 31, 2001 and 2000 and a statement of the funded status as of December 31, 2001 and 2000, for both qualified and nonqualified plans. The measurement date for the U.S. plans is November 30.

	Pension 2001	Benefits 2000	Other 2001	Benefits 2000
	(millions)			
RECONCILIATION OF BENEFIT OBLIGATION				
Obligation at beginning of period	$ 792	$ 773	$ 69	$ 69
Service cost	33	32	2	2
Interest cost	65	60	5	5
Participant contributions			6	6
Actuarial loss (gain)	12	2	(1)	(1)
Benefit payments	(49)	(48)	(13)	(12)
Curtailments	(10)			
Acquisitions	21			
Change in interest rate	97	(27)	5	
Obligation at end of period	$ 961	$ 792	$ 73	$ 69
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS				
Fair value at beginning of period	$ 932	$ 933	$ 8	$ 8
Actual return on plan assets	21	45		
Employer contributions	2	2	13	12
Benefit payments	(49)	(48)	(13)	(12)
Acquisitions	25			
Fair value at end of period	$ 931	$ 932	$ 8	$ 8
FUNDED STATUS				
Funded status at end of period	$ (30)	$ 140	$ (65)	$ (61)
Unrecognized prior-service	(3)	(5)		
Unrecognized loss (gain)	76	(125)	(12)	(17)
Net amount recognized	$ 43	$ 10	$ (77)	$ (78)
Prepaid benefit cost	$ 93	$ 50	$	$
Accrued benefit liability	(60)	(46)	(77)	(78)
Other comprehensive income	10	6		
Net amount recognized	$ 43	$ 10	$ (77)	$ (78)

In 2001, plans with a projected benefit obligation (PBO) in excess of the fair value of plan assets were unfunded plans with a PBO of $71 million, and plans with an accumulated benefit obligation (ABO) in excess of the fair value of plan assets were unfunded plans with an ABO of $60 million. In

2000, plans with a PBO in excess of the fair value of plan assets were unfunded plans with a PBO of $55 million, and plans with an ABO in excess of the fair value of plan assets were unfunded plans with an ABO of $46 million.

In both 2001 and 2000, pension plan assets include 3.7 million shares of common stock issued by Aon on which dividends of $3 million were received in both 2001 and 2000.

The following table provides the components of net periodic benefit cost (credit) for the plans for the years ended December 31, 2001, 2000 and 1999:

	Pension Benefits		
	2001	2000	1999
	(millions)		
Service cost	$ 33	$ 32	$ 33
Interest cost	65	60	58
Expected return on plan assets	(104)	(95)	(89)
Amortization of prior-service	(1)	(1)	(1)
Amortization of net gain	(8)	(7)	(5)
Net periodic benefit credit	$ (15)	$ (11)	$ (4)

	Other Benefits		
	2001	2000	1999
	(millions)		
Service cost	$ 2	$ 2	$ 2
Interest cost	5	5	5
Amortization of prior-service		(5)	(5)
Amortization of net gain	(1)	(1)	(1)
Net periodic benefit cost	$ 6	$ 1	$ 1

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

	Pension 2001	Benefits 2000	Other 2001	Benefits 2000
Discount rate	7.5%	8.3%	7.5%	8.3%
Expected return on plan assets	10.3	10.3		
Rate of compensation increase	4.0	4.0	4.0	4.0

Assumptions for Other Postretirement Benefits. The employer's liability for future plan cost increase is limited in any year to 5% per annum. For measurement purposes in 2001, 2000 and 1999, the annual rate of increase in the per capita cost of covered health care benefits (trend rate) adjusted for actual current year cost experience was assumed to be 12.0%, 7.5% and 7.0%, respectively, decreasing gradually to 5.5% in year 2014 and remaining the same thereafter. However, with the employer funding increase cap limited to 5% per year, net employer trend rates are effectively limited to 5% per year in the future.

As a result, a 1% change in assumed healthcare cost trend rates has no effect on the service and interest cost components of net periodic postretirement healthcare benefit cost and on the accumulated postretirement benefit obligation for the measurement period ended in 2001.

International Pension Plans. The following tables provide a reconciliation of the changes in obligations and fair value of assets for the years ended December 31, 2001 and 2000 and a statement of

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the funded status as of December 31, 2001 and 2000, for material international plans, which are located in the United Kingdom and The Netherlands. The measurement date for these plans is September 30.

	International Pension	
	2001	2000
RECONCILIATION OF BENEFIT OBLIGATION		
Obligation at beginning of period	$ 2,036	$ 2,210
Service cost	51	65
Interest cost	124	123
Participant contributions	4	4
Benefit payments	(69)	(64)
Change in interest rate	(81)	(126)
Foreign exchange translation	(54)	(176)
Obligation at end of period	$ 2,011	$ 2,036
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS		
Fair value at beginning of period	$ 2,000	$ 2,122
Actual return on plan assets	(243)	55
Employer contributions	53	50
Participant contributions	4	4
Benefit payments	(69)	(64)
Foreign exchange translation	(52)	(167)
Fair value at end of period	$ 1,693	$ 2,000
FUNDED STATUS		
Funded status at end of period	$ (318)	$ (36)
Unrecognized prior-service		1
Unrecognized loss	558	235
Net amount recognized	$ 240	$ 200
Prepaid benefit cost	$ 119	$ 169
Accrued benefit liability	(144)	(36)
Other comprehensive income	265	67
Net amount recognized	$ 240	$ 200

In 2001, plans with a PBO in excess of the fair value of plan assets had a PBO of $1.9 billion and plan assets with a fair value of $1.5 billion, and plans with an ABO in excess of the fair value of plan assets had an ABO of $1.0 billion and plan assets with a fair value of $0.9 billion.

In 2000, plans with a PBO in excess of the fair value of plan assets had a PBO of $1.2 billion and plan assets with a fair value of $1.1 billion, and plans with an ABO in excess of the fair value of plan assets had an ABO of $434 million and plan assets with a fair value of $399 million.

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The following table provides the components of net periodic benefit cost for the international plans for the measurement period ended in 2001, 2000 and 1999:

	2001	2000	1999
		(millions)	
Service cost	$ 51	$ 65	$ 74
Interest cost	124	123	127
Expected return on plan assets	(182)	(193)	(196)
Amortization of net loss	11	10	8
Net periodic benefit cost	$ 4	$ 5	$ 13

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

	2001	2000	1999
Discount rate	6.3 - 7.0%	6.0 - 7.0%	6.0 - 7.0%
Expected return on plan assets	7.0 - 9.5	7.0 - 10.0	7.0 - 10.0
Rate of compensation increase	4.0	4.0 - 4.5	4.0 - 4.5

13. STOCK COMPENSATION PLANS

In 2001, Aon stockholders approved the Aon Stock Incentive Plan, which replaced all existing incentive compensation plans, including the Aon Stock Award Plan and the Aon Stock Option Plan. Under the new plan, nonqualified and incentive stock options, stock appreciation rights and stock awards may be granted. The number of shares authorized to be issued under the new plan will be equal to 18% of the number of common shares outstanding of Aon. Initially, 19 million shares have been approved for issuance under the new plan, plus the number of shares which are currently available for awards or which become available under the former plans.

Stock Awards. Generally, employees are required to complete three continuous years of service before the award begins to vest in increments until the completion of a 10-year period of continuous employment. In general, most awarded shares are issued as they become vested. In certain circumstances, an employee can elect to defer the receipt of vested shares to a later date. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each award is deferred and amortized over the period of continuous employment using the straight-line method. At December 31, 2001, the number of shares available for award is included with options available for grant.

Aon common stock awards outstanding consist of the following:

	Years ended December 31		
	2001	2000	1999
		(shares in thousands)	
Shares outstanding at beginning of year	8,881	9,865	9,321
Granted	258	586	2,056
Vested	(1,488)	(1,216)	(1,159)
Canceled	(227)	(354)	(353)
Shares outstanding at end of year	7,424	8,881	9,865

Stock Options. Options to purchase common stock are granted to certain officers and employees of Aon and its subsidiaries at 100% of market value on the date of grant. Generally, employees are

required to complete two continuous years of service before the options begin to vest in increments until the completion of a 4-year period of continuous employment. For all grants made prior to an amendment to the former stock option plan in 2000, employees were required to complete three continuous years of service before the options began to vest in increments until the completion of a 6-year period of continuous employment.

A summary of Aon's stock option activity (including options granted pursuant to the former Aon Stock Award Plan) and related information consists of the following:

	Years ended December 31					
	2001		2000		1999	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(shares in thousands)					
Beginning outstanding	16,156	$ 29	11,223	$ 31	10,298	$ 26
Granted	7,647	34	6,812	25	2,417	43
Exercised	(1,751)	18	(1,174)	17	(1,026)	17
Canceled	(754)	32	(705)	33	(466)	28
Ending outstanding	21,298	$ 32	16,156	$ 29	11,223	$ 31
Exercisable at end of year	2,538	$ 29	2,607	$ 21	1,833	$ 17
Options available for grant	14,444		2,368		4,843	

A summary of options outstanding and exercisable is as follows:

	As of December 31, 2001				
	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Shares Exercisable	Weighted-Average Exercise Price
	(shares in thousands)				
$14.69 - $22.89	1,471	1.0	$ 20.95	1,022	$ 20.09
23.41 - 23.94	5,735	8.1	23.93	40	23.69
26.53 - 31.22	2,304	6.1	29.35	734	28.71
31.53 - 32.53	3,804	9.3	32.51		
32.64 - 35.18	2,330	9.4	34.74	4	35.06
35.20 - 43.33	3,803	7.4	39.44	712	41.57
43.44 - 49.29	1,851	7.2	43.57	26	46.26
$14.69 - $49.29	21,298	7.5	$ 31.50	2,538	$ 28.96

	As of December 31, 2001				

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	As of December 31, 2000				
	Shares Outstanding	**Weighted-Average Remaining Contractual Life (Years)**	**Weighted-Average Exercise Price**	**Shares Exercisable**	**Weighted-Average Exercise Price**
			(shares in thousands)		
$14.17 - $15.89	1,704	0.8	$ 15.40	1,305	$ 15.25
21.72 - 23.89	1,514	2.3	22.90	656	22.86
23.94 - 23.94	5,894	9.1	23.94		
26.53 - 28.92	1,885	6.1	28.75	534	28.70
29.63 - 42.67	1,228	8.7	33.42	112	35.41
43.33 - 43.33	1,943	7.2	43.33		
43.44 - 49.29	1,988	8.2	43.56		
$14.17 - $49.29	16,156	6.9	$ 28.97	2,607	$ 20.79

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

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

	Years ended December 31		
	2001	**2000**	**1999**
Net income (millions):			
As reported	$ 147	$ 474	$ 352
Pro forma	137	458	341
Net income per share:			
Basic			
As reported	0.54	1.81	1.35
Pro forma	0.51	1.75	1.31
Dilutive			
As reported	0.53	1.79	1.33
Pro forma	0.50	1.73	1.29

The fair value per share of options and awards granted is estimated as $8.66 and $29.78 in 2001, $6.33 and $25.73 in 2000 and $10.87 and $35.02 in 1999, respectively, on the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2001	**2000**	**1999**
Dividend yield	2.0%	2.0%	2.0%
Expected volatility	28%	27%	21%
Risk-free interest rate	6%	6%	6%
Expected term life beyond vesting date (in years):			

	2001	2000	1999
Stock options	1.06	0.94	0.87
Stock awards			

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

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

Employee Stock Purchase Plans

United States. Effective July 1, 1998, Aon adopted an employee stock purchase plan which provides for the purchase of a maximum of 7.5 million shares of Aon's common stock by eligible U.S. employees. Under the original plan, shares of Aon's common stock could be purchased at 6-month intervals at 85% of the lower of the fair market value of the common stock on the first or the last day of each 6-month period. Effective July 1,2000, the plan was amended by changing the purchase period to 3-month intervals. In 2001, 2000 and 1999, 680,000 shares, 940,000 shares and 720,000 shares, respectively, were issued to employees under the plan. There was no compensation expense associated with this plan.

United Kingdom. In 1999, Aon adopted an employee stock purchase plan which provides for the purchase of approximately 720,000 shares of Aon common stock by eligible U.K. employees after a 3-year period and is similar to the U.S. plan described above. No shares were issued under the plan in 2001 or 2000. There was no compensation expense associated with this plan.

14. FINANCIAL INSTRUMENTS

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

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

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. The credit risk is generally limited to the fair value of those contracts that are favorable to Aon. Aon has limited its credit risk by restricting investments in derivative contracts to a diverse group of highly rated major financial institutions and by using exchange-traded instruments. Aon closely monitors the creditworthiness of and exposure to its counterparties and considers its credit risk to be minimal. At December 31, 2001 and 2000, Aon placed securities relating to these derivative contracts in escrow amounting to $4 million and $1 million, respectively.

Foreign currency forward contracts (forwards) and interest rate swaps entered into require no up-front premium. Forwards settle at the expiration of the related contract. The net effect of swap payments is settled periodically and reported in income. The premium and commission paid for purchased options, including interest rate caps and floors, and premium received, net of commission paid, for written options represent the cost basis of the position until it expires or is closed. The commission paid for futures contracts represents the cost basis of the position, until it expires or is closed. Exchange-traded futures are valued and settled daily. Unless otherwise noted, derivative instruments are generally reported in other receivables and liabilities in the consolidated statements of financial position.

Accounting Policy for Derivative Instruments. Effective October 1, 2000, Aon adopted Statement No. 133. Statement No. 133 requires all derivative instruments to be recognized in the consolidated statements of financial position at fair value. Changes in fair value are recognized immediately in earnings unless the derivative is designated as a hedge and qualifies for hedge accounting.

Statement No. 133 identifies three hedging relationships where a derivative (hedging instrument) may qualify for hedge accounting: a hedge of the change in fair value of a recognized asset or liability or firm commitment (fair value hedge), a hedge of the variability in cash flows from a recognized asset or liability or forecasted transaction (cash flow hedge) and a hedge of the net investment in a foreign subsidiary.

In order for a derivative to qualify for hedge accounting, the derivative must be formally documented and designated as a hedge at inception and be consistent with Aon's overall risk management policy. The hedge relationship must be highly effective at inception and on an ongoing basis. For a highly effective hedge, changes in the fair value of the hedging instrument must be expected to substantially offset changes in the fair value of the hedged item. Aon performs frequent analyses to measure hedge effectiveness.

The change in fair value of a hedging instrument designated and qualified as a fair value hedge and the change in value of the hedged item attributable to the risk being hedged are both recognized currently in earnings. The effective portion of the change in fair value of a hedging instrument designated and qualified as a cash flow hedge is recognized in other comprehensive income (OCI) and subsequently reclassified to income when the hedged item affects earnings. The ineffective portion of the change in fair value of a cash flow hedge is recognized immediately in earnings. For a derivative designated and qualified as a hedge of a net investment in a foreign subsidiary, the effective portion of the change in fair value is reported in OCI as part of the cumulative translation adjustment. The ineffective portion of the change in fair value of a hedge of a net investment in a foreign subsidiary is recognized immediately in earnings.

Prior to the adoption of Statement No. 133, the ineffective portion of the change in fair value of a hedging instrument designated and qualified as a hedge was not recognized immediately in earnings.

Foreign Exchange Risk Management. Certain of Aon's foreign brokerage subsidiaries, primarily in the United Kingdom, receive revenues in currencies that differ from their functional currencies. To reduce the variability of cash flows from these transactions, Aon has entered into foreign exchange forwards and options with settlement dates prior to January 2004. Upon adoption of Statement No. 133, designated and qualified forwards are accounted for as cash flow hedges of forecasted transactions. As of December 31, 2001, a $5 million pretax loss has been deferred to OCI, $4 million of which is expected to impact earnings in 2002. There was no material ineffectiveness recorded.

Prior to the adoption of Statement No. 133, these transactions did not qualify for hedge accounting and changes in the fair value related to these derivatives were recorded in general expenses in the consolidated statements of income. Certain other forward and option contracts did not meet the hedging requirements of Statement No. 133. Changes in fair value related to these contracts were recorded in general expenses in the consolidated statements of income.

Aon uses exchange-traded foreign currency futures and options on futures, as well as over-the-counter options and forward contracts to reduce the impact of foreign currency fluctuations on the translation of the financial statements of Aon's foreign operations. These derivatives are not afforded hedge accounting as defined by Statement No. 133 and prior accounting guidance. Changes in the fair value of these derivatives are recorded in general expenses in the consolidated statements of income.

In 2000, Aon entered into a cross currency swap to hedge the foreign currency and interest rate risks associated with a foreign denominated fixed-rate policyholder liability. This swap has been designated as a fair value hedge of the combined exposure. There was no material ineffectiveness related to this hedge.

Interest Rate Risk Management. Aon uses futures contracts and purchases options on futures contracts to reduce the price volatility of its fixed-maturity portfolio. Upon adoption of Statement No. 133, derivatives designated and qualified as hedging specific fixed-income securities are accounted

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for as fair value hedges. There were no designated and qualified hedges at December 31, 2001. Prior to the adoption of Statement No. 133, realized gains and losses on derivatives that qualified as hedges were deferred and reported as an adjustment of the cost basis of the hedged item and are being amortized into earnings over the remaining life of the hedged item.

In December 2001, Aon issued $250 million of fixed-rate debt securities and entered into an interest rate swap to hedge the fair value of the debt. The swap qualifies as a fair value hedge and there was no ineffectiveness recorded. Prior to the adoption of Statement No. 133, Aon purchased futures contracts to hedge the fair value of its fixed-rate notes from changes in interest rates. Aon deferred the gains from the termination of the contracts and is amortizing these gains over the remaining life of the fixed-rate notes.

Aon issued fixed-rate notes in May 2000. Aon purchased options on interest rate swaps to hedge against the change in interest rates prior to the issuance. These options qualified as a hedge of an anticipated transaction under prior accounting guidance and related gains were deferred

and are being amortized as an offset to interest expense over the remaining life of the notes. Upon the adoption of Statement No. 133, pretax deferred gains of $5 million were reclassified to OCI. At December 31, 2001, $4 million remains in OCI, $1 million of which is expected to offset interest expense in 2002.

Aon enters into interest rate swap and floor agreements and uses exchange-traded futures and options to limit its net exposure to short-term interest rates, primarily relating to brokerage fiduciary funds in the U.S. and U.K. Aon also sells exchange-traded futures to limit its exposure to increasing long-term interest rates. Since the adoption of Statement No. 133, there were no designated and qualified cash flow hedges of these exposures. Changes in fair value related to these contracts were recorded in investment income in the consolidated statements of income. Under prior accounting guidance, realized gains and losses were deferred and recognized in earnings as the hedged item affected earnings.

Aon uses interest rate swaps and caps to limit its exposure to changes in interest rates related to interest rate guarantees provided by a subsidiary of Aon to certain unaffiliated entities. Under prior accounting guidance, these derivatives qualified for hedge accounting treatment, and realized gains and losses were deferred and recognized in earnings as the hedged item affected earnings. In August 2000, these guarantees were replaced with new offsetting interest rate swaps between Aon and an unaffiliated entity, with Aon essentially retaining the same exposure. Following the replacement of the original hedged item, hedge accounting was terminated and previously deferred realized gains and losses as well as previously unrecognized changes in fair value were recognized in earnings. The termination of this hedging relationship did not have a material effect on pretax earnings. The adoption of Statement No. 133 did not affect the accounting for these derivative instruments.

Equity Price Risk Management. Aon sells futures contracts and purchases options to reduce the price volatility of its equity securities portfolio and equity securities it owns indirectly through limited partnership investments. Since the adoption of Statement No. 133, there were no designated and qualified hedges of this exposure. Prior to the adoption of Statement No. 133, realized gains and losses on derivatives that qualified as hedges were deferred and reported as an adjustment of the cost basis of the hedged item and are being amortized into earnings over the remaining life of the hedged item. Realized gains and losses on derivatives that did not qualify for hedge accounting treatment were recognized immediately in investment income in the consolidated statements of income.

Other Financial Instruments. Aon has certain investment commitments to provide capital and fixed-rate loans, as well as certain forward contract purchase commitments. The investment commitments, which would be collateralized by related properties of the underlying investments, involve varying elements of credit and market risk. Investment commitments outstanding at December 31, 2001 and 2000 totaled $136 million and $184 million, respectively.

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

Unconsolidated Special Purpose Entities (SPES) Excluding PEPS I. Certain of Aon's subsidiaries make loans to businesses for the financing of insurance premiums and then securitize the finance receivables through securitization transactions that meet the criteria for sale accounting in accordance with FASB Statement No. 140. These premium financing securitizations are accomplished through the use of special purpose entities which are considered qualifying SPEs ("QSPEs") pursuant to FASB Statement No. 140, and commercial paper bank conduits (multi-seller non-qualified SPEs). Aon has determined that each of the QSPEs meets the requirements of FASB Statement No. 140, paragraph 35 because (i) each QSPE is demonstrably distinct from Aon and any of its subsidiaries, (ii) each QSPE's permitted activities are significantly limited and entirely specified in the documents that established the QSPE and may be significantly changed only with the approval of the holders of at least a majority of the beneficial interests issued by the QSPE, and (iii) each QSPE's only assets are financial assets transferred to it that are passive in nature and the QSPE's ability to sell or otherwise dispose of transferred assets is consistent with the conditions specified in FASB Statement No. 140 and EITF Topic D-66. FASB Statement No. 140 provides that a QSPE should not be consolidated in the financial statements of a transferor or its affiliates (Aon's subsidiaries).

Premium financing securitizations performed by Aon's Canadian and Australian subsidiaries utilize multi-seller non-qualified SPEs. Based on an analysis of the qualitative and quantitative factors (purpose, name, nature, ability to control, continuing involvement, placement of debt obligations, residual economics and fee arrangements) of the SPEs, Aon has determined that it is not the sponsor of the SPEs. Additionally, independent third parties (i) have made substantial equity investments in the SPEs, (ii) have voting control of the SPEs and (iii) generally have the risks and rewards of ownership of the assets of the SPEs. Based on these factors, Aon has determined non-consolidation to be the appropriate accounting treatment in accordance with current accounting guidance.

The process of securitizing the premium financing contracts has been in place for a number of years. Aon evaluated the premium funding securitizations to determine whether they meet all of the requirements of FASB Statement No. 140. In that regard, the following should be noted about Aon's premium financing securitization transactions:

The transferred assets have been isolated from Aon put presumptively beyond the reach of Aon and its creditors, even in bankruptcy or other receivership. In support of this, Aon has obtained appropriate legal opinions indicating the sold receivables have been isolated from Aon under local law and would not be consolidated with Aon or any of its subsidiaries in a bankruptcy proceeding.

The holders of the beneficial interests of the QSPE (or, in the case of a non-QSPE, the transferee itself) have the right to pledge or exchange the beneficial interests (transferred assets) and no conditions restrain the holders of the beneficial interests (or transferees) from taking advantage of their right to pledge or exchange the beneficial interests (or transferred assets).

Aon does not maintain effective control over the transferred assets because Aon does not have the ability to repurchase or redeem the transferred assets.

With regard to the guidance in FASB Statement No. 140, at the date of transfer, Aon's retained interests (in the form of interest-only strips) in the transferred assets are recorded by allocating the previous carrying amount between the assets sold and the retained interests, based on their relative fair values. Gain on sale of the receivables is recognized at the time of the sale as the difference between the proceeds of sale and previous carrying value allocated to the sold receivables, as discussed above. Subsequently, the retained interests are carried at fair value with unrealized gains and losses, net of tax, reported in equity. In addition, Aon records a liability for its recourse obligation equal to the fair value of the recourse obligation. With respect to servicing rights retained by Aon for sold receivables, Aon estimated that the fees to be received for servicing rights provide benefits just equal to adequate compensation. As a result, no servicing assets or liabilities have been recorded.

As of December 31, 2001 and 2000, the maximum commitment contained in these agreements were $1.4 billion and $1.1 billion, respectively, and the maximum credit risk under recourse provisions was approximately $82 million and $60 million, respectively, which represents the extent of the limited recourse. As of December 31, 2001 and 2000, the amount of financing outstanding was $1.3 billion and $1.1 billion, respectively.

Aon is also a general partner in a limited partnership ("LP") that purchased automobile installment contracts from automobile dealers and subsequently securitized these contracts through securitization transactions in accordance with the requirements of FASB Statement No. 140. Effective April 1, 2001, the LP ceased purchasing and securitizing new automobile installment contracts. Aon continues to service the LP's existing portfolio. Aon uses the equity method of accounting to record its share of the net income or loss of the LP. As of December 31, 2001 and 2000, the amount of financing outstanding in this LP was $1 billion and $1.7 billion, respectively, with $143 million and $137 million, respectively, subject to limited recourse to Aon. As of December 31, 2001 and 2000, the maximum commitment contained in the LP's agreements were $1 billion and $1.8 billion, respectively. The amounts for the LP have been included in Aon's disclosure because Aon has guaranteed a portion of the LP's maximum recourse obligations.

Fair Value of Financial Instruments. Accounting standards require the disclosure of fair values for certain financial instruments. The fair value disclosures are not intended to encompass the majority of policy liabilities, various other non-financial instruments or other intangible assets related to Aon's business. Accordingly, care should be exercised in deriving conclusions about Aon's business or

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financial condition based on the fair value disclosures. The carrying value and fair value of certain of Aon's financial instruments are as follows:

	As of December 31

	As of December 31			
	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(millions)			
Assets:				
Fixed maturities and equity securities	$ 2,531	$ 2,531	$ 2,829	$ 2,829
Other investments	640	639	865	863
Cash, receivables and short-term investments*	11,264	11,264	11,632	11,632
Derivatives	46	46	44	44
Liabilities:				
Investment type insurance contracts	813	782	1,069	1,040
Short-term borrowings, premium payables and general expenses	10,260	10,260	10,140	10,140
Notes payable	1,694	1,750	1,798	1,818
Capital securities	800	782	800	770
Derivatives	55	55	46	46

*
Excludes derivatives.

15. CONTINGENCIES

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

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

Except for an action filed to compel Aon to produce documents, which has been settled, the Allianz lawsuit is the only lawsuit or arbitration relating to Unicover in which any Aon-related entity is a party. In 1999, Aon charged general expenses for $72 million in the Insurance Brokerage and Other Services segment covering a variety of disputes, including allegations of errors and omissions, Unicover, and disputes with former employees.

Certain United Kingdom subsidiaries of Aon have been required by their regulatory body, the Personal Investment Authority (PIA), to review advice given by those subsidiaries to individuals who bought pension plans during the period from April 1988 to June 1994. These reviews have resulted in a requirement to pay compensation to clients based on guidelines issued by the PIA. In 1999, Aon charged general expenses for $121 million in the Consulting segment to provide for these payments. Aon's ultimate exposure from the private pension plan review, as presently calculated, is subject to a number of variable factors including, among others, general level of pricing in the equity markets, the

interest rate established quarterly for calculating compensation and the precise scope, duration and methodology of the review, including whether recent regulatory guidance will have to be applied to previously settled claims. These variable factors are ones that the U.K. Financial Services Authority, the current governing body in the U.K., has used as a basis in the past for establishing the calculation tables to determine redress or compensatory amounts. Because the Company is unable to predict if, or how, regulators may change these tables or if, or how, they may apply future regulatory guidance to previous claims, the Company has been, and will continue to be, unable to determine a range or estimate or additional possible exposure.

One of Aon's insurance subsidiaries is a defendant in twelve lawsuits in Mississippi. The lawsuits generally allege misconduct by the subsidiary in the solicitation and sale of insurance policies. Attorneys representing the plaintiffs in these lawsuits have advised the subsidiary that approximately 1,800 other current or former policyholders may file similar claims. The attorneys have furnished no or only sparse details of these possible claims. Each lawsuit includes, and each threatened claim could include, a request for punitive damages. Each suit and any threatened claim that matures into a suit will be most vigorously defended.

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

16. SEGMENT INFORMATION

Aon classifies its businesses into three operating segments: Insurance Brokerage and Other Services, Consulting, and Insurance Underwriting. A fourth non-operating segment, Corporate and Other, when aggregated with the operating segments, totals to the amounts in the accompanying consolidated financial statements. Revenues are attributed to geographic areas based on the location of the resources producing the revenues. Intercompany revenues and expenses are eliminated in computing consolidated revenues and income before tax. There are no material inter-segment amounts to be eliminated. Long-lived assets and related depreciation and amortization are not material.

Consolidated Revenue By Geographic Area Follows:

	Total	United States	United Kingdom	Continent of Europe	Rest of World
			(millions)		
Revenue for the years ended December 31:					
2001	$ 7,676	$ 4,463	$ 1,390	$ 938	$ 885
2000	7,375	4,350	1,363	833	829
1999	7,070	4,131	1,352	841	746

The Insurance Brokerage and Other Services segment consists principally of Aon's retail, reinsurance and wholesale brokerage, as well as related insurance services, including claims services, underwriting management, captive insurance company management services and premium financing. Aon's retail brokerage area provides a broad spectrum of advisory and outsourcing services including risk identification and assessment, alternative risk financing, safety engineering, loss management and program administration for clients. This area also designs, places and implements customized insurance solutions. Aon's reinsurance brokerage activities offer sophisticated advisory services in program design

that enhance the risk/return characteristics of insurance policy portfolios and improve capital utilization, along with the evaluation of catastrophic loss exposures. Aon also actively participates in placement and captive management services, designing tax-efficient programs that enable clients to manage certain risks that would be cost prohibitive or unavailable in the traditional insurance markets. Aon offers claims administration and loss cost management services to insurance companies, firms with self-insurance programs, agents and brokers.

The wholesale operations, serving thousands of independent insurance brokers and agents nationwide, provide brokering expertise and underwriting solutions, and custom-designed products and services in several specialty areas, including entertainment, public entities, directors' and officers' and professional liability, workers' compensation, media, financial institutions, marine, aviation, construction, healthcare and energy.

Aon Consulting is one of the world's largest integrated human capital consulting organizations. The operations of this segment provide a full range of human capital management services. These services are delivered predominantly to corporate clientele utilizing five major practices: employee benefits, compensation, management consulting, outsourcing and communications.

The Insurance Underwriting segment provides supplemental accident and health and life insurance coverage through several distribution networks, most of which are directly owned by Aon's subsidiaries, and extended warranty and casualty insurance products.

Operating Segment Revenue By Product Follows:

	Total Operating	Retail	Reinsurance, Wholesale, Claims and Other Services	Consulting	Accident, Health and Life	Extended Warranty and Casualty
	(millions)					
Revenue for the years ended December 31:						
2001	$ 7,847	$ 3,009	$ 1,650	$ 938	$ 1,507	$ 743
2000	7,304	2,947	1,420	770	1,424	743
1999	6,906	2,831	1,313	656	1,338	768

Selected Information Reflecting Aon's Operating Segments Follows:

	Years ended December 31								
	Insurance Brokerage and Other Services(1)			Consulting(2)			Insurance Underwriting(3)		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
	(millions)								
Revenue by geographic area:									
United States	$ 2,425	$ 2,277	$ 2,146	$ 628	$ 486	$ 405	$ 1,615	$ 1,545	$ 1,457
United Kingdom	918	889	830	157	151	147	302	308	349
Continent of Europe	733	654	680	77	67	44	125	111	115
Rest of World	583	547	488	76	66	60	208	203	185
Total revenues	4,659	4,367	4,144	938	770	656	2,250	2,167	2,106
General expenses(4)	4,074	3,640	3,613	810	661	695	854	830	843
Benefits to policyholders							1,111	1,037	973
Amortization of intangible assets	38	37	38	2	3	3			
Unusual charges World Trade Center	23						135		
Total expenses	4,135	3,677	3,651	812	664	698	2,100	1,867	1,816
Income (loss) before income tax	$ 524	$ 690	$ 493	$ 126	$ 106	$ (42)	$ 150	$ 300	$ 290
Identifiable assets at December 31	$ 10,393	$ 10,035	$ 9,467	$ 232	$ 232	$ 248	$ 5,526	$ 5,594	$ 5,640

(1) General expenses include one time items of $187 million, $76 million and $191 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(2) General expenses include one time items of $7 million, $3 million and $122 million for the years ended December 31, 2001, 2000 and 1999, respectively.

(3) General expenses include one time items of $24 million and $3 million for the years ended December 31, 2001 and 2000, respectively.

(4) Insurance underwriting general expenses include amortization of deferred acquisition costs of $217 million, $215 million and $247 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Corporate and Other segment revenue consists primarily of valuation changes of investments in limited partnerships and certain other investments (which include non-income producing equities), and income and losses on disposals of all securities, including those pertaining to assets maintained by the operating segments. Corporate and Other segment general expenses include administrative and certain information technology costs.

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Selected Information Reflecting Aon's Corporate and Other Segment Follows:

	Years ended December 31		
	2001	2000	1999
		(millions)	
Revenue	$ (171)	$ 71	$ 164
General expenses	75	59	63
Interest expense	127	140	105
Amortization of goodwill	118	114	102
Total expenses	320	313	270
Loss before income tax	$ (491)	$ (242)	$ (106)
Identifiable assets at December 31(1)	$ 6,179	$ 6,390	$ 5,777

(1) Limited partnerships were $42 million, $602 million and $465 million as of December 31, 2001, 2000 and 1999, respectively.

Selected Information Reflecting Aon's Investment Income Follows:

Years ended December 31		
2001	2000	1999

	Years ended December 31		
	(millions)		
Insurance brokerage and other services (primarily short-term investments)	$ 156	$ 186	$ 159
Consulting (primarily short-term investments)	5	6	3
Insurance underwriting (primarily fixed maturities)	223	245	251
Corporate and other (primarily limited partnerships and equity investments)	(171)	71	164
Total investment income	$ 213	$ 508	$ 577

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QUARTERLY FINANCIAL DATA

	1Q	2Q	3Q	4Q	2001
				(Restated)	(Restated)
	(millions except common stock and per share data)				
INCOME STATEMENT DATA					
Brokerage commissions and fees	$ 1,281	$ 1,347	$ 1,297	$ 1,511	$ 5,436
Premiums and other	508	492	510	517	2,027
Investment income	22	78	105	8	213
Total revenue	$ 1,811	$ 1,917	$ 1,912	$ 2,036	$ 7,676
Net income(1)	$ 19	$ 29	$ 72	$ 27	$ 147
DILUTIVE PER SHARE DATA(1)	$ 0.07	$ 0.11	$ 0.26	$ 0.10	$ 0.53
BASIC NET INCOME PER SHARE	$ 0.07	$ 0.11	$ 0.26	$ 0.10	$ 0.54
COMMON STOCK DATA					
Dividends paid per share	$ 0.22	0.225	0.225	0.225	$ 0.895
Stockholders' equity per share	12.84	13.02	13.47	12.82	12.82
Price range	38.18-30.81	36.50-29.75	42-33.26	44.80-32.50	44.80-29.75
Shares outstanding (in millions)	261.9	266.5	269.2	270.2	270.2
Average monthly trading volume (in millions)	17.6	21.4	20.4	24.4	21.0

(1) Includes expenses net of tax of $44 million ($0.16 per dilutive share) and $89 million ($0.33 per dilutive share) in the first and second quarter for the business transformation plan and unusual charges World Trade Center of $32 million ($0.12 per dilutive share) and $65 million ($0.23 per dilutive share) in the third and fourth quarter, respectively.

1Q(2)	2Q(2)	3Q(2)	4Q	2000

	1Q(2)	2Q(2)	3Q(2)	4Q	2000
	(millions except common stock and per share data)				
INCOME STATEMENT DATA					
Brokerage commissions and fees	$ 1,205	$ 1,203	$ 1,176	$ 1,362	$ 4,946
Premiums and other	468	491	476	486	1,921
Investment income	137	125	133	113	508
Total revenue	$ 1,810	$ 1,819	$ 1,785	$ 1,961	$ 7,375
Income before accounting change(1)	$ 123	$ 129	$ 139	$ 90	$ 481
Cumulative effect of change in accounting principle(2)	(7)				(7)
Net income	$ 116	$ 129	$ 139	$ 90	$ 474
DILUTIVE PER SHARE DATA					
Income before accounting change(1)	$ 0.47	$ 0.49	$ 0.53	$ 0.33	$ 1.82
Cumulative effect of change in accounting principle(2)	(0.03)				(0.03)
Net income	$ 0.44	$ 0.49	$ 0.53	$ 0.33	$ 1.79
BASIC NET INCOME PER SHARE	$ 0.44	$ 0.50	$ 0.53	$ 0.34	$ 1.81
COMMON STOCK DATA					
Dividends paid per share	$ 0.21	$ 0.22	$ 0.22	$ 0.22	$ 0.87
Stockholders' equity per share	12.05	12.08	12.40	13.02	13.02
Price range	42 3/4-20 11/16	36 15/16-24 7/16	42-29	42 5/16-28 1/8	42 3/4-20 11/16
Shares outstanding (in millions)	255.9	255.0	256.1	260.3	260.3
Average monthly trading volume (in millions)	29.8	15.4	16.9	32.3	23.6

(1) Includes expenses net of tax of $50 million ($0.19 per dilutive share) in the fourth quarter for the business transformation plan.

(2) Adoption of SEC Staff Accounting Bulletin 101, effective January 1, 2000, net of tax. Except for the cumulative adjustment, the impact of the change in accounting principle was not material to any quarter.

SCHEDULE I

Aon Corporation
(PARENT COMPANY)

CONDENSED STATEMENTS OF FINANCIAL POSITION

	As of December 31	
	2001	2000
	(Restated)	
	(millions)	
ASSETS		
Investments in subsidiaries	$ 6,552	$ 6,127
Other investments	20	
Notes receivable subsidiaries	58	515
Cash and cash equivalents	4	1
Other assets	39	111
TOTAL ASSETS	$ 6,673	$ 6,754
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term borrowings	$ 254	$ 853
6.3% long-term debt securities	100	100
7.4% long-term debt securities	100	100
8.65% long-term debt securities	250	250
6.9% long-term debt securities	250	250
6.7% long-term debt securities	150	150
6.2% long-term debt securities	250	
Floating rate long-term debt securities	150	
Subordinated debt	800	800
Notes payable subsidiaries	595	571
Notes payable other	70	70
Accrued expenses and other liabilities	189	172
TOTAL LIABILITIES	3,158	3,316
Redeemable Preferred Stock	50	50
STOCKHOLDERS' EQUITY		
Common stock	293	264
Paid-in additional capital	1,654	706
Accumulated other comprehensive loss	(535)	(377)
Retained earnings	3,021	3,127
Less treasury stock at cost	(786)	(118)
Less deferred compensation	(182)	(214)
TOTAL STOCKHOLDERS' EQUITY	3,465	3,388
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,673	$ 6,754

See notes to condensed financial statements.

Aon Corporation
(PARENT COMPANY)

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31		
	2001 (Restated)	2000	1999
	(millions)		
REVENUE			
Dividends from subsidiaries	$ 333	$ 379	$ 467
Other investment income	1	9	20
TOTAL REVENUE	334	388	487
EXPENSES			
Operating and administrative	14	22	13
Interest subsidiaries	93	103	96
Interest other	107	122	85
TOTAL EXPENSES	214	247	194
INCOME BEFORE INCOME TAXES AND EQUITY (DEFICIT) IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	120	141	293
Income tax benefit	85	95	70
	205	236	363
EQUITY (DEFICIT) IN UNDISTRIBUTED INCOME OF SUBSIDIARIES	(58)	238	(11)
NET INCOME	$ 147	$ 474	$ 352

See notes to condensed financial statements

Aon Corporation
(PARENT COMPANY)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2001	2000	1999
	(millions)		
CASH FLOWS FROM OPERATING ACTIVITIES	$ 170	$ 137	$ 287

	Years Ended December 31		
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments in subsidiaries	(24)	(124)	(363)
Other investments	(20)		
Notes receivables from subsidiaries	60	(40)	(208)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	16	(164)	(571)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Treasury stock transactions net	49	(59)	(66)
Issuance (repayment) of short-term borrowings net	(599)	30	387
Issuance of notes payable and long-term debt	608	266	284
Repayment of long-term debt			(100)
Cash dividends to stockholders	(241)	(226)	(210)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(183)	11	295
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3	(16)	11
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1	17	6
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4	$ 1	$ 17

See notes to condensed financial statements

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Aon Corporation
(Parent Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS

(1) See notes to consolidated financial statements included in Item 14(a).

(2) Generally, the net assets of Aon's insurance subsidiaries available for transfer to the parent company are limited to the amounts that the insurance subsidiaries' statutory net assets exceed minimum statutory capital requirements; however, payments of the amounts as dividends in excess of $95 million may be subject to approval by regulatory authorities.

(3) In 2001, Aon entered into a new committed bank credit facility under which certain European subsidiaries can borrow up to EUR 500 million. At December 31, 2001, loans of EUR 269 million ($239 million) were outstanding under this facility.

An indirect wholly-owned subsidiary of Aon Corporation manages various investment portfolios, totaling $249 million at December 31, 2001, held in a collateral trust for the benefit of certain unaffiliated entities and is obligated to produce specified investment returns for those portfolios. Aon Corporation has unconditionally guaranteed the obligations of this subsidiary.

(4) In 2001, the Condensed Statements of Cash Flows exclude the impact of certain non-cash transfers primarily related to notes receivable from subsidiaries and notes payable to subsidiaries.

(5)
During 2001, Aon Corporation (Parent Company) reclassified $520 million of notes receivable subsidiaries to investments in subsidiaries related to its shared services operations.

SCHEDULE II

AON CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 2001, 2000 and 1999

Description	Balance at Beginning of Year	Additions: Charged to Cost and Expenses	Additions: Charged/ (Credited) to Other Accounts	Deductions(1)	Balance at End of Year
			(millions)		
YEAR ENDED DECEMBER 31, 2001					
Allowance for doubtful accounts(2) (deducted from insurance brokerage and consulting receivables)	$ 88	$ 30	$ (2)	$ (23)	$ 93
Allowance for doubtful accounts (deducted from premiums and other)	4	90			94
YEAR ENDED DECEMBER 31, 2000					
Allowance for doubtful accounts(2) (deducted from insurance brokerage and consulting receivables)	$ 88	$ 19	$ (2)	$ (17)	$ 88
Allowance for doubtful accounts (deducted from premiums and other)	6			(2)	4
YEAR ENDED DECEMBER 31, 1999					
Allowance for doubtful accounts(2) (deducted from insurance brokerage and consulting receivables)	93	12	(3)	(14)	88
Allowance for doubtful accounts (deducted from premiums and other)	6	1		(1)	6

(1)
Amounts deemed to be uncollectible.

(2)
Amounts shown in additions charged/(credited) to other accounts primarily represent reserves related to acquired business and foreign exchange.

SCHEDULE II.1

AON CORPORATION AND SUBSIDIARIES

CONSOLIDATED SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

AS OF DECEMBER 31, 2001

	Amortized Cost or Cost	Fair Value	Amount Shown in Statement of Financial Position
		(millions)	
FIXED MATURITIES AVAILABLE FOR SALE:			
U.S. government and agencies	$ 355	$ 361	$ 361
States and political subdivisions	3	3	3
Debt securities of foreign governments not classified as loans	515	521	521
Corporate securities	1,169	1,131	1,131
Public utilities	74	72	72
Mortgage-backed securities	42	42	42
Other fixed maturities	19	19	19
TOTAL FIXED MATURITIES	2,177	2,149	2,149
EQUITY SECURITIES AVAILABLE FOR SALE:			
Common stocks:			
Banks, trusts and insurance companies	79	68	68
Industrial, miscellaneous and all other	60	53	53
Non-redeemable preferred stocks	286	261	261
TOTAL EQUITY SECURITIES	425	382	382
Mortgage loans on real estate	3*		3*
Policy loans	51*		51*
Other long-term investments	583*		586*
Short-term investments	2,975		2,975
TOTAL INVESTMENTS	$ 6,214		$ 6,146

* These investment categories are combined and are shown as other investments in the Consolidated Statements of Financial Position

SCHEDULE II.2

AON CORPORATION AND SUBSIDIARIES

REINSURANCE

	Year Ended December 31, 2001				
	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(millions)				
LIFE INSURANCE IN FORCE	$ 20,265	$ 13,660	$ 11,189	$ 17,794	63%
PREMIUMS					
Life Insurance	$ 198	$ 110	$ 76	$ 164	46%
A&H Insurance	1,293	329	222	1,186	19%
Specialty Property & Casualty	1,061	482	93	672	14%
TOTAL PREMIUMS	$ 2,552	$ 921	$ 391	$ 2,022	19%

	Year Ended December 31, 2000				
	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(millions)				
LIFE INSURANCE IN FORCE	$ 18,803	$ 9,442	$ 9,367	$ 18,728	50%
PREMIUMS					
Life Insurance	$ 198	$ 156	$ 102	$ 144	71%
A&H Insurance	1,209	309	189	1,089	17%
Specialty Property & Casualty	965	380	88	673	13%
TOTAL PREMIUMS	$ 2,372	$ 845	$ 379	$ 1,906	20%

	Year Ended December 31, 1999				
	Gross Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(millions)				
LIFE INSURANCE IN FORCE	$ 14,444	$ 10,023	$ 3,050	$ 7,471	41%
PREMIUMS					

	Year Ended December 31, 1999				
Life Insurance	$ 227	$ 93	$ 2	$ 136	1%
A&H Insurance	1,167	257	91	1,001	9%
Specialty Property & Casualty	860	274	85	671	13%
TOTAL PREMIUMS	$ 2,254	$ 624	$ 178	$ 1,808	10%

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SCHEDULE II.3

AON CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION

	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Expenses	Unearned Premiums and Other Policyholders' Funds(3)	Premium Revenue	Net Investment Income(1)
			(millions)		
YEAR ENDED DECEMBER 31, 2001					
Insurance brokerage and other services	$	$	$	$	$ 156
Consulting					5
Insurance underwriting	704	1,963	3,027	2,022	223
Corporate and other					(171)
TOTAL	$ 704	$ 1,963	$ 3,027	$ 2,022	$ 213
YEAR ENDED DECEMBER 31, 2000					
Insurance brokerage and other services	$	$	$	$	$ 186
Consulting					6
Insurance underwriting	656	1,855	3,122	1,906	245
Corporate and other					71
TOTAL	$ 656	$ 1,855	$ 3,122	$ 1,906	$ 508
YEAR ENDED DECEMBER 31, 1999					
Insurance brokerage and other services	$	$	$	$	$ 159
Consulting					3
Insurance underwriting	636	1,769	3,337	1,808	251
Corporate and other					164
TOTAL	$ 636	$ 1,769	$ 3,337	$ 1,808	$ 577

(1) The above results reflect allocations of investment income and certain expense elements considered reasonable under the circumstances. Results include income (loss) on disposals of investments.

(2) Net of reinsurance ceded.

(3) 2000 and 1999 were reclassified to conform with the 2001 presentation.

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	Commissions, Fees and Other	Benefits Claims, Losses and Settlement Enpenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written(2)
			(millions)		
YEAR ENDED DECEMBER 31, 2001					
Insurance brokerage and other services	$ 4,503	$	$	$ 4,135	$
Consulting	933			812	
Insurance underwriting	5	1,111	217	772	1,966
Corporate and other				320	
TOTAL	$ 5,441	$ 1,111	$ 217	$ 6,039	$ 1,966
YEAR ENDED DECEMBER 31, 2000					
Insurance brokerage and other services	$ 4,181	$	$	$ 3,677	$
Consulting	764			664	
Insurance underwriting	16	1,037	215	615	1,887
Corporate and other				313	
TOTAL	$ 4,961	$ 1,037	$ 215	$ 5,269	$ 1,887
YEAR ENDED DECEMBER 31, 1999					
Insurance brokerage and other services	$ 3,985	$	$	$ 3,651	$
Consulting	653			698	
Insurance underwriting	47	973	247	596	1,787
Corporate and other				270	
TOTAL	$ 4,685	$ 973	$ 247	$ 5,215	$ 1,787

(1) The above results reflect allocations of investment income and certain expense elements considered reasonable under the circumstances. Results include income (loss) on disposals of investments.

(2) Net of reinsurance ceded.

(3) 2000 and 1999 were restated to conform with the 2001 presentation.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The Registrant hereby incorporates by reference the information on pages 3, 6 and 7 of the Proxy Statement For The Annual Meeting of the Stockholders on April 19, 2002, of the Registrant ("Proxy Statement") concerning the following Directors of the Registrant, each of whom also serves as an executive officer of the Registrant as defined in Rule 16a-1(f): Patrick G. Ryan, Michael D. O'Halleran and Raymond I. Skilling. Information concerning additional executive officers of the Registrant is contained in Part I hereof, pursuant to General Instruction G(3) and Instruction 3 to Item 401(b) of Regulation S-K. The Registrant also hereby incorporates by reference the information on pages 10 and 11 of the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION.

The Registrant hereby incorporates by reference the information under the headings "Executive Compensation," "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values," "Option Grants in 2001 Fiscal Year" and "Pension Plan Table" on pages 14 through 17 of the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The Registrant hereby incorporates by reference the share ownership data contained on pages 2, 8 and 9 of the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Registrant hereby incorporates by reference the information under the heading "Transactions With Management" on pages 21 and 22 of the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A)(1) AND (2). The following documents have been included in Part II, Item 8

Report of Ernst & Young LLP, Independent Auditors
Consolidated Statements of Financial Position As of December 31, 2001 and 2000
Consolidated Statements of Income Years Ended December 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows Years Ended December 31, 2001, 2000 and 1999
Consolidated Statements of Stockholders' Equity Years Ended December 31, 2001, 2000 and 1999
Notes to Consolidated Financial Statements
Quarterly Financial Data

Financial statement schedules of the Registrant and consolidated subsidiaries filed herewith:

Consolidated Financial Statement Schedules

	Schedule
Condensed Financial Information of Registrant	I
Valuation and Qualifying Accounts	II

All other schedules for Aon Corporation and Subsidiaries have been omitted because the required information is not present in amounts sufficient to require submission of the schedules or because the information required is included in the respective financial statements or notes thereto.

The following supplementary schedules have been provided for Aon Corporation and Subsidiaries as they relate to the insurance underwriting operations:

	Schedule
Summary of Investments Other than Investments in Related Parties	II.1
Reinsurance	II.2
Supplementary Insurance Information	II.3

(A)(3). EXHIBITS

(a) Second Restated Certificate of Incorporation of the Registrant incorporated by reference to Exhibit 3(a) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1991 (the "1991 Form 10-K").

(b) Certificate of Amendment of the Registrant's Second Restated Certificate of Incorporation incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994 (the "First Quarter 1994 Form 10Q").

(c) Certificate of Amendment of the Registrant's Second Restated Certificate of Incorporation incorporated by reference to Exhibit 3 to the Registrant's current Form 8-K, dated May 9, 2000.

(d) Amended Bylaws of the Registrant incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2000 (the "2000 Form 10-K").

(e) Indenture dated September 15, 1992 between the Registrant and Continental Bank Corporation (now known as Bank of America Illinois), as Trustee incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated September 23, 1992.

(f)

Resolutions establishing terms of 7.40% Notes Due 2002 incorporated by reference to Exhibits 4(d) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1992 (the "1992 Form 10-K").

(g)

Resolutions establishing the terms of 6.70% Notes Due 2003 and 6.30% Notes Due 2004 incorporated by reference to Exhibits 4(c) and 4(d) of the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1993 (the "1993 Form 10-K").

(h)

Resolutions establishing the terms of the 6.90% Notes Due 2004 incorporated by reference to Exhibit 4(e) of the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K").

(i)

Resolutions establishing the terms of the 8.65% Notes due 2005 incorporated by reference to Exhibit 4(f) of the 2000 Form 10-K.

(j)

Junior Subordinated Indenture dated as of January 13, 1997 between the Registrant and The Bank of New York, as trustee incorporated by reference to Exhibit 4.1 of the Registrant's Amendment No. 1 to Registration Statement on Form S-4 No. 333-21237 dated March 27, 1997 (the "Capital Securities Registration").

(k)

First Supplemental Indenture dated as of January 13, 1997 between the Registrant and the Bank of New York, as trustee incorporated by reference to Exhibit 4.2 of the Capital Securities Registration.

(l)

Certificate of Trust of Aon Capital A incorporated by reference to Exhibit 4.3 of the Capital Securities Registration.

(m)

Amended and Restated Trust Agreement of Aon Capital A dated as of January 13, 1997 among the Registrant, as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, the Administrative Trustees named therein and the holders, from time to time, of the Capital Securities incorporated by reference to Exhibit 4.5 of the Capital Securities Registration.

(n)

Capital Securities Guarantee Agreement dated as of January 13, 1997 between the Registrant and the Bank of New York, as guarantee trustee incorporated by reference to Exhibit 4.8 of the Capital Securities Registration.

(o)

Capital Securities Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.10 of the Capital Securities Registration.

(p)

Debenture Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.11 of the Capital Securities Registration.

(q)

Guarantee Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.12 of the Capital Securities Registration.

(r)

Certificate of Designation for the Registrant's Series C Cumulative Preferred Stock incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated February 9, 1994.

(s)

Registration Rights Agreement dated November 2, 1992 by and between the Registrant and Frank B. Hall & Co., Inc. incorporated by reference to Exhibit 4(c) to the Third Quarter 1992 Form 10-Q.

(t)
Registration rights agreement by and among the Registrant and certain affiliates of Ryan Insurance Group, Inc. (including Patrick G. Ryan and Andrew J. McKenna) incorporated by reference to Exhibit (f) to the 1982 Form 10-K.

(u)
Aon Corporation Outside Director Deferred Compensation Agreement by and among the Registrant and Registrant's directors who are not salaried employees of Registrant or Registrant's affiliates.

(v)
Amendment and Waiver Agreement dated as of November 4, 1991 among the Registrant and each of Patrick G. Ryan, Shirley Ryan, Ryan Enterprises Corporation and Harvey N. Medvin incorporated by reference to Exhibit 10(j) to the 1991 Form 10-K.

(w)
Statement regarding Computation of Ratio of Earnings to Fixed Charges.

(x)
Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

(y)
Aon Corporation 1994 Amended and Restated Outside Director Stock Award Plan incorporated by reference to Exhibit 10(b) to the First Quarter 1994 Form 10-Q.

(z)
List of Subsidiaries of the Registrant.

(aa)
Consent of Ernst & Young LLP to the incorporation by reference of its report included in Aon's Annual Report on Form 10K/A into Aon's Registration Statement Nos. 33-27984, 33-42575, 33-59037, 333-21237, 333-50607, 333-55773, 333-78723, 333-49300, 333-57706, 333-65624 and 333-74364.

(ab)
Certification of CEO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

(ac)
Certification of CFO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

(ad)
Executive Compensation Plans and Arrangements:

(A)
Aon Stock Award Plan (as amended and restated through February 2000) incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the Quarter ended June 30, 2000 (the "Second Quarter 2000 Form 10-Q").

(B)
Aon Stock Option Plan (as amended and restated through 1997) incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarter ended March 31, 1997 (the "First Quarter 1997 Form 10-Q").

(C)
First Amendment to the Aon Stock Option Plan as amended and restated through 1997 incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the Quarter ended March 31, 1999 (the "First Quarter 1999 Form 10-Q").

(D)
Aon Stock Award Plan (as amended and restated through 1997) incorporated by reference to Exhibit 10(b) to the First Quarter 1997 Form 10-Q.

(E) First Amendment to the Aon Stock Award Plan as Amended and Restated Through 1997 incorporated by reference to Exhibit 10(b) to the First Quarter 1999 Form 10-Q.

(F) Aon Corporation 1995 Senior Officer Incentive Compensation Plan incorporated by reference to Exhibit 10(p) to the Registrant's Annual Report to the Securities and

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Exchange Commission on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K").

(G) Aon Deferred Compensation Plan and First Amendment to the Aon Deferred Compensation Plan incorporated by reference to Exhibit 10(q) of the 1995 Form 10-K.

(H) 1999 Aon Deferred Compensation Plan incorporated by reference to Exhibit 10(1) of the 1999 Form 10-K.

(I) Employment Agreement dated June 1, 1993 by and among the Registrant, Aon Risk Services, Inc. and Michael D. O'Halleran, incorporated by reference to Exhibit 10(p) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1998.

(J) Aon Severance Plan incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report to the Securities and Exchange Commission and Form 10-Q for the quarter ended June 30, 1997.

(ae) Asset Purchase Agreement dated July 24, 1992 between the Registrant and Frank B. Hall & Co. Inc. incorporated by reference to Exhibit 10(c) to the Registrant's Quarterly Report on Form 10- Q for the period ended June 30, 1992.

(af) Stock Purchase Agreement by and among the Registrant, Combined Insurance Company of America, Union Fidelity Life Insurance Company and General Electric Capital Corporation dated as of November 11, 1995 incorporated by reference to Exhibit 10(s) of the 1995 Form 10-K.

(ag) Stock Purchase Agreement by and among the Registrant; Combined Insurance Company of America; The Life Insurance Company of Virginia; Forth Financial Resources, Ltd.; Newco Properties, Inc.; and General Electric Capital Corporation dated as of December 22, 1995 incorporated by reference to Exhibit 10(t) of the 1995 Form 10-K.

(ah) Agreement and Plan of Merger among the Registrant; Subsidiary Corporation, Inc. ("Purchaser"); and Alexander & Alexander Services Inc. ("A&A") dated as of December 11, 1996 incorporated by reference to Exhibit (c)(1) of the Registrant's Tender Offer Statement on Schedule 14D-1 filed by the Registrant with the Securities and Exchange Commission ("SEC") on December 16, 1996 (the "Schedule 14D-1").

(ai) First Amendment to Agreement and Plan of Merger, dated as of January 7, 1997, among the Registrant, Purchaser and A&A incorporated by reference to Exhibit (c)(3) to the Schedule 14D-1 filed by the Registrant with the SEC on January 9, 1997.

(aj) Agreement and Plan of Merger dated July 16, 2001 among Aon Corporation, Ryan Holding Corporation of Illinois, Ryan Enterprises Corporation of Illinois, Holdco #1, Inc., Holdco #2, Inc., Patrick G. Ryan, Shirley W. Ryan and the stockholders of Ryan Holding Corporation of Illinois and of Ryan Enterprises Corporation of Illinois set forth on the signature pages thereto incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the Quarter ended June 30, 2001 (the "Second Quarter 2001 Form 10-Q").

(ak)
Stock Restriction Agreement dated July 16, 2001 among Aon Corporation, Patrick G. Ryan, Shirley W. Ryan, Patrick G. Ryan Jr., Robert J.W. Ryan, the Corbett M.W. Ryan Living Trust dated July 13, 2001, the Patrick G. Ryan Living Trust dated July 10, 2001, the Shirley W. Ryan Living Trust dated July 10, 2001, the 2001 Ryan Annuity Trust dated April 20, 2001 and the Family GST Trust under the PGR 2000 Trust dated November 22, 2000 incorporated by reference to Exhibit 10.2 to the Second Quarter 2001 Form 10-Q.

(al)
Escrow Agreement dated July 16, 2001 among Aon Corporation, Patrick G. Ryan, Shirley W. Ryan, Patrick G. Ryan, Jr., Robert J.W. Ryan, the Corbett M.W. Ryan Living Trust dated July 13, 2001, the Patrick G. Ryan Living Trust dated July 10, 2001, the Shirley W. Ryan Living Trust dated July 10, 2001, the 2001 Ryan Annuity Trust dated April 20, 2001 and the Family GST Trust under the PGR 2000 Trust dated November 22, 2000 and American National Bank and Trust Company of Chicago, as escrow agent incorporated by reference to Exhibit 10.3 to the Second Quarter 2001 Form 10-Q.

(am)
Indenture dated December 13, 2001, between the Registrant and the Bank of New York as Trustee (Floating Rate Notes due 2003).

(an)
Indenture dated December 13, 2001, between the Registrant and the Bank of New York as Trustee (6.2% Notes due 2007).

(ao)
Indenture dated December 31, 2001 between Private Equity Partnerships Structure I, LLC, as issuer and the Bank of New York as Trustee, Custodian, Calculation Agent, Note Registrar, Transfer Agent and Paying Agent.

(B)
REPORTS ON FORM 8-K.

During the quarter ended December 31, 2001, the Registrant filed three Current Reports on Form 8-K.

(i)
A Current Report on Form 8-K dated November 8, 2001 reporting its third quarter 2001 results and updating the status of its business transformation plan, the impact of September 11, 2001 attacks and spin-off plans.

(ii)
A Current Report on Form 8-K dated December 3, 2001 reporting pro-forma financial statements relating to previously announced plans to spin-off its insurance underwriting operations.

(iii)
A Current Report on Form 8-K dated December 4, 2001 announcing that the Company had filed a $750 million universal shelf registration with the Securities and Exchange Commission.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, ON THE 27TH DAY OF SEPTEMBER, 2002.

Aon Corporation

By: /s/ PATRICK G. RYAN

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

CERTIFICATIONS

I, Patrick G. Ryan, the Chief Executive Officer of Aon Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Aon Corporation;

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

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

Date: September 27, 2002

/s/ PATRICK G. RYAN

Patrick G. Ryan
Chief Executive Officer

I, Harvey N. Medvin, the Chief Financial Officer of Aon Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Aon Corporation;

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

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

Date: September 27, 2002

/s/ HARVEY N. MEDVIN

Harvey N. Medvin
Chief Financial Officer

Cross Reference Sheet, Pursuant to General Instruction G(4)

Item in Form 10-K		Incorporated by Reference to
Part III		
Item 10.	Directors and Executive Officers of the Registrant	Proxy Statement For Annual Meeting of Stockholders on April 19, 2002 of the Registrant ("Proxy Statement") pages 3, 6, 7, 10 and 11.
Item 11.	Executive Compensation	Proxy Statement pages 14 through 17.
Item 12.	Security Ownership of Certain Beneficial Owners and Management	Proxy Statement pages 2, 8 and 9.
Item 13.	Certain Relationships and Related Transaction	Proxy Statement pages 21 and 22 ("Transactions With Management").

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EXHIBIT INDEX

Exhibit Number Regulation S-K, Item 601			Page Number of Sequentially Numbered Copy
(3)	Articles of incorporation and bylaws:		
	(a)	Second Restated Certificate of Incorporation of the Registrant incorporated by reference to Exhibit 3(a) to the 1991 Form 10-K.	
	(b)	Certificate of Amendment of the Registrant's Second Restated Certificate of Incorporation incorporated by reference to Exhibit 3 to the First Quarter 1994 Form 10-Q.	
	(c)	Certificate of Amendment of the Registrant's Second Restated Certificate of Incorporation incorporated by reference to Exhibit 3 to the Registrant's current Form 8-K, dated May 9, 2000.	
	(d)	Amended Bylaws of the Registrant incorporated by reference to Exhibit 3(d) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 2000 (the "2000 Form 10-K").	
	(e)	Certificate of Designation for the Registrant's Series C Cumulative Preferred Stock incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated February 9, 1994.	
(4)	Instruments defining the rights of security holders, including indentures:		
	(a)	Indenture dated September 15, 1992 between the Registrant and Continental Bank Corporation (now known as Bank of America Illinois), as Trustee incorporated by reference to Exhibit 4(a) of the Registrant's Current Report on Form 8-K dated September 23, 1992.	
	(b)	Resolutions establishing terms of 7.40% Notes Due 2002 incorporated by reference to Exhibit 4(d) to the 1992 Form 10-K.	
	(c)	Resolutions establishing the terms of 6.70% Notes Due 2003 incorporated by reference to Exhibit 4(c) to the 1993 Form 10-K.	
	(d)	Resolutions establishing the terms of 6.30% Notes Due 2004 incorporated by reference to Exhibit 4(d) to the 1993 Form 10-K.	

Exhibit Number Regulation S-K, Item 601		Page Number of Sequentially Numbered Copy
(e)	Resolutions establishing the terms of 6.90% Notes due 2004 incorporated by reference to Exhibit 4(e) to the 1999 Form 10-K.	
(f)	Resolutions establishing the terms of 8.65% Notes due 2005 incorporated by reference to Exhibits 4(f) to the 2000 Form 10-K.	
(g)	Indenture dated December 13, 2001, between the Registrant and the Bank of New York as Trustee (Floating Rate Notes due 2003).*	
(h)	Indenture dated December 13, 2001, between the Registrant and the Bank of New York as Trustee (6.2% Notes due 2007).*	

(i)	Indenture dated December 31, 2001 between Private Equity Partnerships Structure I, LLC, as issuer and the Bank of New York as Trustee, Custodian, Calculation Agent, Note Registrar, Transfer Agent and Paying Agent.*	
(j)	Junior Subordinated Indenture dated as of January 13, 1997 between the Registrant and The Bank of New York, as trustee incorporated by reference to Exhibit 4.1 of the Registrant's Amendment No. 1 to Registration Statement on Form S-4 No. 333-21237 dated March 27, 1997 (the "Capital Securities Registration").	
(k)	First Supplemental Indenture dated as of January 13, 1997 between the Registrant and the Bank of New York, as trustee incorporated by reference to Exhibit 4.2 of the Capital Securities Registration.	
(l)	Certificate of Trust of Aon Capital A incorporated by reference to Exhibit 4.3 of the Capital Securities Registration.	
(m)	Amended and Restated Trust Agreement of Aon Capital A dated as of January 13, 1997 among the Registrant, as Depositor, The Bank of New York, as Property Trustee, The Bank of New York (Delaware), as Delaware Trustee, the Administrative Trustees named therein and the holders, from time to time, of the Capital Securities incorporated by reference to Exhibit 4.5 of the Capital Securities Registration.	
(n)	Capital Securities Guarantee Agreement dated as of January 13, 1997 between the Registrant and the Bank of New York, as guarantee trustee incorporated by reference to Exhibit 4.8 of the Capital Securities Registration.	
(o)	Capital Securities Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.10 of the Capital Securities Registration.	
(p)	Debenture Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.11 of the Capital Securities Registration.	
(q)	Guarantee Exchange and Registration Rights Agreement dated as of January 13, 1997 among the Registrant, Aon Capital A and Morgan Stanley & Co. Incorporated and Goldman, Sachs & Co. incorporated by reference to Exhibit 4.12 of the Capital Securities Registration.	

(10) Material Contracts:

(a) Aon Stock Option Plan (as amended and restated through February 2000) incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarter June 30, 2000 (the "Second Quarter 2000 Form 10-Q").

(b) Aon Stock Option Plan (as amended and restated through 1997) incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarter ended March 31, 1997 (the "First Quarter 1997 Form 10-Q").

(c) First Amendment to the Aon Stock Option Plan as Amended and Restated Through 1997 incorporated by reference to Exhibit 10(a) to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the quarter ended March 31, 1999 (the "First Quarter 1999 Form 10-Q").

(d) Registration Rights Agreement by and among the Registrant and certain affiliates of Ryan Insurance Group, Inc. (Including Patrick G. Ryan and Andrew J. McKenna) incorporated by reference to Exhibit (f) to the 1982 Form 10-K.

(e) Aon Corporation Outside Director Deferred Compensation Agreement by and among Registrant and Registrant's directors who are not salaried employees of Registrant or Registrant's affiliates.

(f) Aon Stock Award Plan (as amended and restated through 1997) incorporated by reference to Exhibit 10(b) to the First Quarter 1997 Form 10-Q.

(g) First Amendment to the Aon Stock Award Plan as Amended and Restated Through 1997 incorporated by reference to exhibit 10(b) to the First Quarter 1999 Form 10-Q.

(h) Amendment and Waiver Agreement dated as of November 4, 1991 among the Registrant and each of Patrick G. Ryan, Shirley Ryan, Ryan Enterprises Corporation and Harvey N. Medvin incorporated by reference to Exhibit 10(j) to the 1991 Form 10-K.

(i) Registration Rights Agreement dated November 2, 1992 by and between the Registrant and Frank B. Hall & Co., Inc. incorporated by reference to Exhibit 4(c) to the Third Quarter 1992 Form 10-Q.

(j) Aon Corporation 1994 Amended and Restated Outside Director Stock Award Plan incorporated by reference to Exhibit 10(b) to the First Quarter 1994 Form 10-Q.

(k) Aon Corporation 1995 Senior Officer Incentive Compensation Plan incorporated by reference to Exhibit 10(p) to the 1995 Form 10-K.

(l) Aon Deferred Compensation Plan and First Amendment to the Aon Deferred Compensation Plan incorporated by reference to Exhibit 10(q) to the 1995 Form 10-K.

(m) 1999 Aon Deferred Compensation Plan incorporated by reference to Exhibit 10(1) of the 1999 Form 10-K.

(n) Aon Severance Plan incorporated by reference to Exhibit 10 to the Registrant's Quarterly

Report to the Securities and Exchange Commission on Form 10-Q for the quarter ended June 30, 1997.

(o) Asset Purchase Agreement dated July 24, 1992 between the Registrant and Frank B. Hall & Co. Inc. incorporated by reference to Exhibit 10(c) to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1992.

(p) Stock Purchase Agreement by and among the Registrant, Combined Insurance Company of America, Union Fidelity Life Insurance Company and General Electric Capital Corporation dated as of November 11, 1995 incorporated by reference to Exhibit 10(s) of the 1995 Form 10-K.

(q) Stock Purchase Agreement by and among the Registrant; Combined Insurance Company of America; The Life Insurance Company of Virginia; Forth Financial Resources, Ltd.; Newco Properties, Inc.; and General Electric Capital Corporation dated as of December 22, 1995 incorporated by reference to Exhibit 10(t) to the 1995 Form 10-K.

(r) Agreement and Plan of Merger among the Registrant, Purchaser and A&A dated as of December 11, 1996 incorporated by reference to Exhibit (c)(1) to the Registrant's Schedule 14D-1 filed with the SEC on December 16, 1996.

(s) First Amendment to Agreement and Plan of Merger dated as of January 7, 1997 among the Registrant, Purchaser and A&A incorporated by reference to Exhibit (c)(3) to Schedule 14D-1 filed by the Registrant with the SEC on January 9, 1997.

(t) Employment Agreement dated June 1, 1993 by and among the Registrant, Aon Risk Services, Inc. and Michael D. O'Halleran, incorporated by reference to Exhibit 10(p) to the Registrant's Annual Report to the Securities and Exchange Commission on Form 10-K for the year ended December 31, 1998.

(u) Agreement and Plan of Merger dated July 16, 2001 among Aon Corporation, Ryan Holding Corporation of Illinois, Ryan Enterprises Corporation of Illinois, Holdco #1, Inc., Holdco #2, Inc., Patrick G. Ryan, Shirley W. Ryan and the stockholders of Ryan Holding Corporation of Illinois and of Ryan Enterprises Corporation of Illinois set forth on the signature pages thereto incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report to the Securities and Exchange Commission on Form 10-Q for the Quarter ended June 30, 2001 (the "Second Quarter 2001 Form 10-Q").

(v) Stock Restriction Agreement dated July 16, 2001 among Aon Corporation, Patrick G. Ryan, Shirley W. Ryan, Patrick G. Ryan Jr., Robert J.W. Ryan, the Corbett M.W. Ryan Living Trust dated July 13, 2001, the Patrick G. Ryan Living Trust dated July 10, 2001, the Shirley W. Ryan Living Trust dated July 10, 2001, the 2001 Ryan Annuity Trust dated April 20, 2001 and the Family GST Trust under the PGR 2000 Trust dated November 22, 2000 incorporated by reference to Exhibit 10.2 to the Second Quarter 2001 Form 10-Q.

(w) Escrow Agreement dated July 16, 2001 among Aon Corporation, Patrick G. Ryan, Shirley W. Ryan, Patrick G. Ryan, Jr., Robert J.W. Ryan, the Corbett M.W. Ryan Living Trust dated July 13, 2001, the Patrick G. Ryan Living Trust dated July 10, 2001, the Shirley W. Ryan Living Trust dated July 10, 2001, the 2001 Ryan Annuity Trust dated April 20, 2001 and the Family GST Trust under the PGR 2000 Trust dated November 22, 2000 and American National Bank and Trust Company of Chicago, as escrow agent incorporated by reference to Exhibit 10.3 to the Second Quarter 2001 Form 10-Q.

(12) Statements regarding Computation of Ratios.

(a) Statement regarding Computation of Ratio of Earnings to Fixed Charges.

(b) Statement regarding Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

(21) List of subsidiaries of the Registrant.*

(23) Consent of Ernst & Young LLP to the incorporation by reference of its report included in Aon's Annual Report on Form 10K/A into Aon's Registration Statement Nos. 33-27984, 33-42575, 33-59037, 333-21237, 333-50607, 333-55773, 333-78723, 333-49300, 333-57706, 333-65624 and 333-74364.

(99.1) Certification of CEO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

(99.2) Certification of CFO Pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.

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* Previously filed.

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