Aon plc
Form 10-Q
April 25, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED March 31, 2014

OR

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

Commission file number 1-7933

Aon plc
(Exact Name of Registrant as Specified in Its Charter)

ENGLAND AND WALES (State or Other Jurisdiction of Incorporation or Organization)	98-1030901 (I.R.S. Employer Identification No.)
8 DEVONSHIRE SQUARE, LONDON, ENGLAND (Address of Principal Executive Offices)	EC2M 4PL (Zip Code)

+44 20 7623 5500
(Registrant's Telephone Number,
Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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

Number of Class A Ordinary Shares of Aon plc, $0.01 nominal value, outstanding as of March 31, 2014: 296,483,350

PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Aon plc
Condensed Consolidated Statements of Income
(Unaudited)

(millions, except per share data)	Three Months Ended March 31, 2014	March 31, 2013
Revenue		
Commissions, fees and other	$2,941	$2,908
Fiduciary investment income	6	7
Total revenue	2,947	2,915
Expenses		
Compensation and benefits	1,751	1,725
Other general expenses	727	780
Total operating expenses	2,478	2,505
Operating income	469	410
Interest income	2	1
Interest expense	(58)	(52)
Other income	1	9
Income before income taxes	414	368
Income taxes	78	96
Net income	336	272
Less: Net income attributable to noncontrolling interests	11	11
Net income attributable to Aon shareholders	$325	$261
Basic net income per share attributable to Aon shareholders	$1.07	$0.82
Diluted net income per share attributable to Aon shareholders	$1.06	$0.82
Cash dividends per share paid on ordinary shares	$0.18	$0.16
Weighted average ordinary shares outstanding - basic	303.5	316.4
Weighted average ordinary shares outstanding - diluted	307.2	320.0

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(millions)	Three Months Ended March 31, 2014	March 31, 2013
Net income	$336	$272
Less: Net income attributable to noncontrolling interests	11	11
Net income attributable to Aon shareholders	325	261
Other comprehensive income (loss), net of tax:		
Change in fair value of investments	1	—
Change in fair value of derivatives	9	(14)
Foreign currency translation adjustments	16	(174)
Post-retirement benefit obligation	26	23
Total other comprehensive income (loss)	52	(165)
Less: Other comprehensive income attributable to noncontrolling interests	(2)	—
Total other comprehensive income (loss) attributable to Aon shareholders	54	(165)
Comprehensive income attributable to Aon shareholders	$379	$96

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Financial Position

(millions, except nominal value)	Mar 31, 2014 (Unaudited)	Dec 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$338	$477
Short-term investments	340	523
Receivables, net	2,880	2,896
Fiduciary assets	12,038	11,871
Other current assets	577	563
Total Current Assets	16,173	16,330
Goodwill	9,030	8,997
Intangible assets, net	2,500	2,578
Fixed assets, net	785	791
Investments	143	132
Other non-current assets	1,446	1,423
TOTAL ASSETS	$30,077	$30,251
LIABILITIES AND EQUITY		
LIABILITIES		
CURRENT LIABILITIES		
Fiduciary liabilities	$12,038	$11,871
Short-term debt and current portion of long-term debt	1,077	703
Accounts payable and accrued liabilities	1,499	1,931
Other current liabilities	967	906
Total Current Liabilities	15,581	15,411
Long-term debt	3,669	3,686
Pension, other post-retirement and other post-employment liabilities	1,573	1,607
Other non-current liabilities	1,248	1,352
TOTAL LIABILITIES	22,071	22,056
EQUITY		
Ordinary shares - $0.01 nominal value Authorized: 750 shares (issued: 2014 - 296.5; 2013 - 300.7)	3	3
Additional paid-in capital	4,860	4,785
Retained earnings	5,403	5,731
Accumulated other comprehensive loss	(2,320)	(2,374)
TOTAL AON SHAREHOLDERS' EQUITY	7,946	8,145
Noncontrolling interests	60	50
TOTAL EQUITY	8,006	8,195
TOTAL LIABILITIES AND EQUITY	$30,077	$30,251

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statement of Shareholders' Equity
(Unaudited)

(millions)	Shares	Ordinary Shares and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Non-controlling Interests	Total
Balance at December 31, 2013	300.7	$4,788	$5,731	$ (2,374)	$50	$8,195
Net income	—	—	325	—	11	336
Shares issued - employee benefit plans	0.3	14	—	—	—	14
Shares issued - employee compensation	2.7	(85)	—	—	—	(85)
Shares purchased	(7.2)	—	(600)	—	—	(600)
Tax benefit - employee benefit plans	—	44	—	—	—	44
Share-based compensation expense	—	102	—	—	—	102
Dividends to shareholders	—	—	(53)	—	—	(53)
Net change in fair value of investments	—	—	—	1	—	1
Net change in fair value of derivatives	—	—	—	9	—	9
Net foreign currency translation adjustments	—	—	—	18	(2)	16
Net post-retirement benefit obligation	—	—	—	26	—	26
Purchase of subsidiary shares from non-controlling interests	—	—	—	—	1	1
Dividends paid to non-controlling interests on subsidiary common stock	—	—	—	—	—	—
Balance at March 31, 2014	296.5	$4,863	$5,403	$ (2,320)	$60	$8,006

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions)	Three Months Ended March 31, 2014	March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$336	$272
Adjustments to reconcile net income to cash provided by operating activities:		
Gain from sales of businesses and investments, net	(5)	—
Depreciation of fixed assets	60	59
Amortization of intangible assets	86	99
Share-based compensation expense	102	69
Deferred income taxes	10	13
Change in assets and liabilities:		
Fiduciary receivables	165	(42)
Short term investments - funds held on behalf of clients	(271)	(322)
Fiduciary liabilities	106	364
Receivables, net	13	174
Accounts payable and accrued liabilities	(468)	(417)
Restructuring reserves	(40)	(16)
Current income taxes	2	(65)
Pension, other post-retirement and other post-employment liabilities	(128)	(196)
Other assets and liabilities	21	62
CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(11)	54
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	42	18
Purchases of long-term investments	(10)	(3)
Net sales (purchases) of short-term investments - non-fiduciary	183	(16)
Acquisition of businesses, net of cash acquired	(5)	(2)
Proceeds from sale of businesses	1	1
Capital expenditures	(55)	(60)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	156	(62)
CASH FLOWS FROM FINANCING ACTIVITIES		
Share repurchase	(600)	(300)
Issuance of shares for employee benefit plans	26	36
Issuance of debt	1,195	1,150
Repayment of debt	(829)	(715)
Cash dividends to shareholders	(53)	(50)
Purchase of shares from noncontrolling interests	1	(1)
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(260)	120
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(24)	5
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(139)	117
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	477	291
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$338	$408

Supplemental disclosures:		
Interest paid	$64	$32
Income taxes paid, net of refunds	$66	$148

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and Notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Condensed Consolidated Financial Statements include the accounts of Aon plc and all controlled subsidiaries ("Aon" or the "Company"). All intercompany accounts and transactions have been eliminated. The Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The results for the three months ended March 31, 2014 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2014.

Use of Estimates

The preparation of the accompanying unaudited Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Aon adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency movements increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

2. Accounting Principles and Practices

Changes in Accounting Principles

Discontinued Operations

In April 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance that increased the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance is effective for Aon in the first quarter of 2015. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued guidance on the presentation of certain unrecognized tax benefits on the financial statements. The guidance requires, unless certain conditions exist, an unrecognized tax benefit to be presented as a reduction to a deferred tax asset in the financial statements for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The guidance is effective for Aon in the first quarter of 2014. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Foreign Currency

In March 2013, the FASB issued new accounting guidance clarifying the accounting for the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance is effective for Aon in the first quarter of 2014. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

3. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash balances and all highly liquid investments with initial maturities of three months or less. Short-term investments include certificates of deposit, money market funds and highly liquid debt instruments purchased with initial maturities in excess of three months but less than one year and are carried at amortized cost, which approximates fair value.

The Company is required to hold £77 million of operating funds in the U.K. by the Financial Conduct Authority, a U.K. based regulator, which were included in Short-term investments. These operating funds, when translated to U.S. dollars, were equal to $128 million and $126 million at March 31, 2014 and December 31, 2013, respectively. Cash and cash equivalents included restricted balances of $125 million and $88 million at March 31, 2014 and December 31, 2013, respectively. The restricted balances primarily relate to cash required to be held as collateral.

4. Other Financial Data

Condensed Consolidated Statements of Income Information

Other Income

Other income consists of the following (in millions):

	Three months ended March 31,	
	2014	2013
Equity earnings	$5	$2
(Loss) gain on investments	(1)	1
Foreign currency remeasurement gain	19	24
Derivative loss	(23)	(18)
Other	1	—
	$1	$9

Condensed Consolidated Statements of Financial Position Information

Allowance for Doubtful Accounts

An analysis of the allowance for doubtful accounts is as follows (in millions):

	Three months ended March 31,	
	2014	2013
Balance at beginning of period	$90	$118
Provision charged to operations	4	10
Accounts written off, net of recoveries	(5)	(9)
Effect of exchange rate changes and other	—	3
Balance at end of period	$89	$122

Other Current Assets

The components of Other current assets are as follows (in millions):

	Mar 31, 2014	Dec 31, 2013

Prepaid expenses	$219	$229
Taxes receivable	130	111
Deferred project costs	102	98
Deferred tax assets	81	93
Other	45	32
	$577	$563

Other Non-Current Assets

The components of Other non-current assets are as follows (in millions):

	Mar 31, 2014	Dec 31, 2013
Prepaid pension (1)	$659	$567
Deferred project costs	259	273
Deferred tax assets	180	193
Taxes receivable	100	108
Other	248	282
	$1,446	$1,423

(1) Increase in prepaid pensions is primarily due to cash funding of the U.K. pension plans.

Other Current Liabilities

The components of Other current liabilities are as follows (in millions):

	Mar 31, 2014	Dec 31, 2013
Deferred revenue	$513	$475
Taxes payable	140	136
Deferred tax liabilities	53	48
Other	261	247
	$967	$906

Other Non-Current Liabilities

The components of Other non-current liabilities are as follows (in millions):

	Mar 31, 2014	Dec 31, 2013
Deferred tax liabilities	$365	$420
Leases	201	204
Taxes payable	194	184
Deferred revenue	128	134
Compensation and benefits	59	105
Other	301	305
	$1,248	$1,352

5. Acquisitions and Dispositions

Acquisitions

During the three months ended March 31, 2014, the Company completed the acquisition of one business in the Risk Solutions segment and one business in the HR Solutions segment. During the three months ended March 31, 2013, the Company completed the acquisition of one business in the HR Solutions segment.

The following table includes the aggregate consideration transferred and the preliminary value of intangible assets recorded as a result of the Company's acquisitions (in millions):

	Three months ended March 31,	
	2014	2013
Consideration	$5	$2
Intangible assets:		
Goodwill	$4	$2
Other intangible assets	4	1
Total	$8	$3

The results of operations of these acquisitions are included in the Condensed Consolidated Financial Statements as of the acquisition date. The results of operations of the Company would not have been materially different if these acquisitions had been reported from the beginning of the period in which they were acquired.

Dispositions

During the three months ended March 31, 2014, the Company completed the disposition of one business in the Risk Solutions segment. Total pretax gain of $1 million was recognized on this sale, which is included in Other income in the Condensed Consolidated Statements of Income. During the three months ended March 31, 2013, the Company completed the disposition of three businesses in the Risk Solutions segment. No gain or loss was recognized on these dispositions.

6. Goodwill and Other Intangible Assets

The changes in the net carrying amount of goodwill by reportable segment for the three months ended March 31, 2014 is as follows (in millions):

	Risk Solutions	HR Solutions	Total
Balance as of December 31, 2013	$6,020	$2,977	$8,997
Goodwill related to current year acquisitions	2	2	4
Goodwill related to prior year acquisitions	(1)	—	(1)
Foreign currency translation	31	(1)	30
Balance as of March 31, 2014	$6,052	$2,978	$9,030

Other intangible assets by asset class are as follows (in millions):

	March 31, 2014			December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Tradenames	$1,019	$—	$1,019	$1,019	$—	$1,019
Intangible assets with finite lives:						
Customer related and contract based	2,729	1,386	1,343	2,720	1,310	1,410
Marketing, technology and other	587	449	138	584	435	149
	$4,335	$1,835	$2,500	$4,323	$1,745	$2,578

Amortization expense from finite lived intangible assets was $86 million and $99 million for the three months ended March 31, 2014 and 2013, respectively.

The estimated future amortization for finite lived intangible assets as of March 31, 2014 is as follows (in millions):

	Risk Solutions	HR Solutions	Total
Remainder of 2014	$77	$183	$260
2015	83	212	295
2016	70	177	247
2017	59	141	200
2018	47	93	140
Thereafter	89	250	339
	$425	$1,056	$1,481

7. Restructuring

Aon Hewitt Restructuring Plan

On October 14, 2010, the Company announced a global restructuring plan ("Aon Hewitt Plan") in connection with the acquisition of Hewitt. The Aon Hewitt Plan was intended to streamline operations across the combined Aon Hewitt organization. The Company incurred all remaining costs for the Aon Hewitt Plan and the plan was closed in the fourth quarter of 2013. For the three months ended March 31, 2014 no charges were taken under the Aon Hewitt Plan. For the three months ended March 31, 2013, $26 million of restructuring expenses were charged, of which $15 million and $11 million were in the HR Solutions segment and Risk Solutions segment, respectively.

As of December 31, 2013, the remaining liabilities for the Company's restructuring plans were $166 million. During the three months ended March 31, 2014, the Company made cash payments of $40 million, partially offset by foreign exchange translation of $1 million, resulting in restructuring liabilities of $127 million as of March 31, 2014.

8. Investments

The Company earns income on cash balances and investments, as well as on premium trust balances that the Company maintains for premiums collected from insureds but not yet remitted to insurance companies, and funds held under the terms of certain outsourcing agreements to pay certain obligations on behalf of clients. Premium trust balances and receivables, as well as a corresponding liability, are included in Fiduciary assets and Fiduciary liabilities in the accompanying Condensed Consolidated Statements of Financial Position.

The Company’s interest-bearing assets and other investments are included in the following categories in the Condensed Consolidated Statements of Financial Position (in millions):

	March 31, 2014	December 31, 2013
Cash and cash equivalents	$338	$477
Short-term investments	340	523
Fiduciary assets (1)	4,088	3,778
Investments	143	132
	$4,909	$4,910

(1) Fiduciary assets include funds held on behalf of clients but does not include fiduciary receivables.

The Company’s investments are as follows (in millions):

	March 31, 2014	December 31, 2013

Equity method investments	$127	$113
Other investments	8	10
Fixed-maturity securities	8	9
	$143	$132

9. Debt

The Company uses proceeds from the commercial paper market from time to time in order to meet short-term working capital needs and to retire other debt obligations. At March 31, 2014, the Company had $374 million in commercial paper outstanding compared to no commercial paper outstanding at December 31, 2013. The weighted average commercial paper outstanding for the three months ended March 31, 2014 was $204 million. The weighted average interest rate of the commercial paper outstanding for the three months ended March 31, 2014 was 0.32%.

10. Income Taxes

The effective tax rate on net income was 18.9% and 26.1% for the quarters ended March 31, 2014 and 2013, respectively. The effective tax rate in the first quarter 2014 was favorably impacted by a change in the geographical distribution of income.

11. Shareholders' Equity

Ordinary Shares

In April 2012, the Company's Board of Directors authorized a share repurchase program under which up to $5.0 billion of Class A Ordinary Shares may be repurchased ("2012 Share Repurchase Program"). Under this program, shares may be repurchased through the open market or in privately negotiated transactions, from time to time, based on prevailing market conditions, and will be funded from available capital.

During the three months ended March 31, 2014, the Company repurchased 7.2 million shares at an average price per share of $83.45 for a total cost of $600 million under the 2012 Share Repurchase Program. During the three months ended March 31, 2013, the Company repurchased 5.0 million shares at an average price per share of $59.82 for a total cost of $300 million under the 2012 Share Repurchase Program. The remaining authorized amount for share repurchase under the 2012 Share Repurchase Program is $2.3 billion. Since the inception of the 2012 Share Repurchase Program, the Company repurchased a total of 43.5 million shares for an aggregate cost of $2.7 billion.

Participating Securities

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities, as defined, and therefore, should be included in computing basic and diluted earnings per share using the two class method. Certain of the Company's restricted share awards allow the holder to receive a non-forfeitable dividend equivalent.

Net income attributable to participating securities was $3 million in both the three months ended March 31, 2014 and 2013.

Weighted average shares outstanding are as follows (in millions):

	Three months ended March 31,	
	2014	2013
Shares for basic earnings per share (1)	303.5	316.4
Common stock equivalents	3.7	3.6
Shares for diluted earnings per share	307.2	320.0

(1) Includes 3.4 million and 4.2 million of participating securities for the three months ended March 31, 2014 and 2013, respectively.

Certain ordinary share equivalents were not included in the computation of diluted net income per share because their inclusion would have been antidilutive. There were no shares excluded from the calculation for the three months ended March 31, 2014. The number of shares excluded from the calculation was 0.2 million for the three months ended March 31, 2013.

Accumulated Other Comprehensive Loss

Changes in Accumulated other comprehensive loss by component, net of related tax, are as follows (in millions):

	Change in Fair Value of Investments (1)	Change in Fair Value of Derivatives (1)	Foreign Currency Translation Adjustments	Post-Retirement Benefit Obligation (2)	Total
Balance at December 31, 2013	$1	$(22)	$169	$(2,522)	$(2,374)
Other comprehensive income (loss) before reclassifications, net	1	—	18	—	19
Amounts reclassified from accumulated other comprehensive loss:					
Amounts reclassified from accumulated other comprehensive loss	—	14	—	36	50
Tax benefit	—	(5)	—	(10)	(15)
Amounts reclassified from accumulated other comprehensive loss, net	—	9	—	26	35
Net current period other comprehensive (loss) income	1	9	18	26	54
Balance at March 31, 2014	$2	$(13)	$187	$(2,496)	$(2,320)

(1) Reclassifications from this category included in Accumulated other comprehensive loss are recorded in Other income
(2) Reclassifications from this category included in Accumulated other comprehensive loss are recorded in Compensation and benefits

12. Employee Benefits

The following table provides the components of the net periodic benefit cost for Aon's material U.K., U.S., and other significant international pension plans, which are located in the Netherlands and Canada (in millions):

	Three months ended March 31,					
	U.K.		U.S.		Other	
	2014	2013	2014	2013	2014	2013
Service cost	$—	$—	$—	$—	$—	$5
Interest cost	58	53	32	28	12	11
Expected return on plan assets	(82)	(75)	(39)	(34)	(15)	(15)
Amortization of net actuarial loss	13	12	10	13	2	6
Net periodic (benefit) cost	(11)	(10)	3	7	(1)	7
Curtailment loss (gain) and other	—	—	1	—	(3)	—
Total net periodic benefit cost	$(11)	$(10)	$4	$7	$(4)	$7

Based on current assumptions, in 2014, Aon plans to contribute $185 million, $173 million, and $27 million to its U.K., U.S., and other significant international pension plans, respectively. During the three months ended March 31, 2014, contributions of $65 million, $40 million, and $12 million were made to the Company's U.K., U.S. and other significant international pension plans, respectively.

13. Share-Based Compensation Plans

The following table summarizes share-based compensation expense recognized in the Condensed Consolidated Statements of Income in Compensation and benefits (in millions):

	Three months ended March 31,	
	2014	2013
Restricted share units ("RSUs")	$60	$55
Performance share awards ("PSAs")	39	11
Share options	—	1
Employee share purchase plans	3	2
Total share-based compensation expense	$102	$69

Restricted Share Units

A summary of the status of the Company's RSUs is as follows (shares in thousands):

	Three months ended March 31,			
	2014		2013	
	Shares	Fair Value (1)	Shares	Fair Value (1)
Non-vested at beginning of period	9,759	$51	10,432	$44
Granted	1,146	83	1,764	60
Vested	(1,950)	51	(2,080)	46
Forfeited	(125)	50	(128)	44
Non-vested at end of period	8,830	56	9,988	47

(1) Represents per share weighted average fair value of award at date of grant.

Performance Share Awards

The vesting of PSAs is contingent upon meeting a level of earnings per share performance over a three-year period. The performance conditions are not considered in the determination of the grant date fair value for these awards. The fair value of PSAs is based upon the market price of an Aon ordinary share at the date of grant. Compensation expense is recognized over the performance period based on management's estimate of the number of units expected to vest. Compensation expense is adjusted to reflect the actual number of shares issued at the end of the programs. The actual issue of shares may range from 0-200% of the target number of PSAs granted, based on the terms of the plan and level of achievement of the related performance target. Dividend equivalents are not paid on PSAs.

Information as of March 31, 2014 regarding the Company's target PSAs granted and shares that would be issued at current performance levels for PSAs granted during the three months ended March 31, 2014 and the years ended December 31, 2013 and 2012, respectively, is as follows (shares in thousands, dollars in millions, except fair value):

	As of March 31, 2014	As of December 31, 2013	As of December 31, 2012
Target PSAs granted	816	1,135	1,369
Fair value (1)	$81	$58	$47
Number of shares that would be issued based on current performance levels	816	2,243	2,682
Unamortized expense, based on current performance levels	$65	$82	$34

(1) Represents per share weighted average fair value of award at date of grant.

Share Options

The Company did not grant any share options during the three months ended March 31, 2014 or 2013, respectively.

A summary of the status of the Company's share options and related information is as follows (shares in thousands):

	Three months ended March 31,			
	2014		2013	
	Shares	Weighted- Average Exercise Price	Shares	Weighted- Average Exercise Price
Beginning outstanding	3,462	$ 32	5,611	$ 32
Granted	—	—	—	—
Exercised	(416)	33	(610)	31
Forfeited and expired	(2)	36	(10)	33
Outstanding at end of period	3,044	32	4,991	32
Exercisable at end of period	2,928	32	4,579	32

The weighted average remaining contractual life, in years, of outstanding options was 2.0 years and 2.5 years at March 31, 2014 and 2013, respectively.

The aggregate intrinsic value represents the total pretax intrinsic value, based on options with an exercise price less than the Company's closing share price of $84.28 as of March 31, 2014, which would have been received by the option holders had those option holders exercised their options as of that date. At March 31, 2014, the aggregate intrinsic value of options outstanding was $159 million, of which $154 million was exercisable.

Other information related to the Company's share options is as follows (in millions):

	Three months ended March 31,	
	2014	2013
Aggregate intrinsic value of stock options exercised	$21	$17
Cash received from the exercise of stock options	14	20
Tax benefit realized from the exercise of stock options	6	3

Unamortized deferred compensation expense, which includes both options and awards, amounted to $365 million as of March 31, 2014, with a remaining weighted-average amortization period of approximately 2.0 years.

14. Derivatives and Hedging

The Company is exposed to market risks, including changes in foreign currency exchange rates and interest rates. To manage the risk related to these exposures, the Company enters into various derivative instruments that reduce these risks by creating offsetting exposures. The Company does not enter into derivative transactions for trading or speculative purposes.

Foreign Exchange Risk Management

The Company is exposed to foreign exchange risk when it receives revenues, pays expenses, or enters into intercompany loans denominated in a currency that differs from its functional currency, or other transactions that are denominated in a currency other than its functional currency. The Company uses foreign exchange derivatives, typically forward contracts, options and cross currency swaps, to reduce its overall exposure to the effects of currency fluctuations on cash flows. These exposures are hedged, on average, for less than two years; however, in limited instances, the Company has hedged certain exposures up to five years in the future.

The Company also uses foreign exchange derivatives, typically forward contracts and options, to hedge its net investments in foreign operations for up to two years in the future.

The Company also uses foreign exchange derivatives, typically forward contracts and options, to manage the currency exposure of the Company’s global liquidity profile, including monetary assets or liabilities that are denominated in a non-functional currency of an entity, for up to one year in the future. These derivatives are not accounted for as hedges, and changes in fair value are recorded each period in Other income in the Condensed Consolidated Statements of Income.

Interest Rate Risk Management

The Company holds variable-rate short-term brokerage and other operating deposits. The Company uses interest rate derivatives, typically swaps, to reduce its exposure to the effects of interest rate fluctuations on the forecasted interest receipts from these deposits for up to two years in the future.

Certain derivatives also give rise to credit risks from the possible non-performance by counterparties. The credit risk at the balance sheet date is generally limited to the fair value of those contracts that are favorable to the Company. The Company has reduced its credit risk by using International Swaps and Derivatives Association ("ISDA") master agreements, collateral and credit support arrangements, entering into non-exchange-traded derivatives with highly-rated major financial institutions and by using exchange-traded instruments. The Company monitors the creditworthiness of, and exposure to, its counterparties. As of March 31, 2014, all net derivative positions were free of credit risk contingent features. The Company has not received or pledged any collateral related to derivative arrangements as of March 31, 2014.

The notional and fair values of derivative instruments are as follows (in millions):

	Notional Amount		Derivative Assets (1)		Derivative Liabilities (2)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivatives accounted for as hedges:						
Interest rate contracts	$172	$ 171	$9	$ 9	$—	$ —
Foreign exchange contracts	1,223	1,191	73	71	94	93
Total	1,395	1,362	82	80	94	93
Derivatives not accounted for as hedges:						
Foreign exchange contracts	177	215	—	—	—	—
Total	$1,572	$ 1,577	$82	$ 80	$94	$ 93

(1) Included within Other current assets ($49 million and $46 million at March 31, 2014 and December 31, 2013, respectively) or Other non-current assets ($33 million and $34 million at March 31, 2014 and December 31, 2013, respectively)

(2) Included within Other current liabilities ($18 million and $51 million at March 31, 2014 and December 31, 2013, respectively) or Other non-current liabilities ($76 million and $42 million at March 31, 2014 and December 31, 2013, respectively)

Offsetting of financial assets and derivatives assets are as follows (in millions):

	Gross Amounts of Recognized Assets		Gross Amounts Offset in the Statement of Financial Position		Net Amounts of Assets Presented in the Statement of Financial Position (1)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivatives accounted for as hedges:						
Interest rate contracts	$9	$ 9	$—	$ —	$9	$ 9
Foreign exchange contracts	73	71	(24)	(30)	49	41
Total	82	80	(24)	(30)	58	50
Derivatives not accounted for as hedges:						
Foreign exchange contracts	—	—	—	—	—	—
Total	$82	$ 80	$(24)	$ (30)	$58	$ 50

(1) Included within Other current assets ($21 million and $18 million at March 31, 2014 and December 31, 2013, respectively) or Other non-current assets ($37 million and $32 million at March 31, 2014 and December 31, 2013, respectively)

Offsetting of financial liabilities and derivative liabilities are as follows (in millions):

	Gross Amounts of Recognized Liabilities		Gross Amounts Offset in the Statement of Financial Position		Net Amounts of Liabilities Presented in the Statement of Financial Position (2)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivatives accounted for as hedges:						
Interest rate contracts	$—	$—	$—	$—	$—	$—
Foreign exchange contracts	94	93	(24)	(30)	70	63
Total	94	93	(24)	(30)	70	63
Derivatives not accounted for as hedges:						
Foreign exchange contracts	—	—	—	—	—	—
Total	$94	$93	$(24)	$(30)	$70	$63

(2) Included within Other current liabilities ($18 million and $23 million at March 31, 2014 and December 31, 2013, respectively) or Other non-current liabilities ($52 million and $40 million at March 31, 2014 and December 31, 2013, respectively)

The amounts of derivative gains (losses) recognized in the Condensed Consolidated Financial Statements for the three months ended March 31, 2014 and 2013 are as follows (in millions):

	Three months ended March 31,	
Gain (Loss) recognized in Accumulated Other Comprehensive Loss:	2014	2013
Cash flow hedges:		
Interest rate contracts (1)	$—	$—
Foreign exchange contracts (2)	(8)	(29)
Total	$(8)	$(29)
Foreign net investment hedges:		
Foreign exchange contracts	$—	$—

(1) Location of future reclassification from Accumulated Other Comprehensive Loss will be included within Interest Expense
(2) Location of future reclassification from Accumulated Other Comprehensive Loss will be included within Compensation and benefits ($11 million and $4 million gain for the three months ended March 31, 2014 and 2013, respectively), and Other income ($19 million and $33 million loss for the three months ended March 31, 2014 and 2013, respectively)

	Three months ended March 31,	
Gain (Loss) reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion):	2014	2013
Cash flow hedges:		
Interest rate contracts (1)	$—	$—
Foreign exchange contracts (2)	(21)	(11)
Total	(21)	(11)
Foreign net investment hedges:		
Foreign exchange contracts	$—	$—

(1) Included within Interest Expense

(2) Included within Compensation and benefits ($3 million and $1 million loss for the three months ended March 31, 2014 and 2013, respectively), Other general expenses ($1 million loss for the three months ended March 31, 2013), and Other income ($18 million and $9 million loss for the three months ended March 31, 2014 and 2013, respectively)

The amount of gain (loss) recognized in the Condensed Consolidated Financial Statements is as follows (in millions):

	Three months ended March 31, Amount of Gain (Loss) Recognized in Income on Derivative (2)		Amount of Gain (Loss) Recognized in Income on Related Hedged Item	
	2014	2013	2014	2013
Fair value hedges:				
Foreign exchange contracts (1)	$—	$(1)	$—	$1

(1) Relates to fixed rate debt
(2) Included in Interest expense

The Company estimates that approximately $15 million of pretax losses currently included within Accumulated other comprehensive loss will be reclassified into earnings in the next twelve months.

The amount of gain (loss) recognized in income on the ineffective portion of derivatives for the three months ended March 31, 2014 and 2013 was not material.

During the three months ended March 31, 2014 and 2013, the Company recorded a loss of $5 million and $9 million, respectively, in Other income for foreign exchange derivatives not designated or qualifying as hedges.

15. Fair Value Measurements and Financial Instruments

Accounting standards establish a three tier fair value hierarchy that prioritizes the inputs used in measuring fair values as follows:

- Level 1 — observable inputs such as quoted prices for identical assets in active markets;
- Level 2 — inputs other than quoted prices for identical assets in active markets, that are observable either directly or indirectly; and
- Level 3 — unobservable inputs in which there is little or no market data which requires the use of valuation techniques and the development of assumptions.

The following methods and assumptions are used to estimate the fair values of the Company's financial instruments:

Money market funds and highly liquid debt securities are carried at cost and amortized cost, respectively, as an approximation of fair value. Based on market convention, the Company considers cost a practical and expedient measure of fair value.

Cash, cash equivalents, and highly liquid debt instruments consist of cash and institutional short-term investment funds. The Company independently reviews the short-term investment funds to obtain reasonable assurance the fund net asset value is $1 per share.

Equity investments consist of domestic and international equity securities and exchange traded equity derivatives valued using the closing stock price on a national securities exchange. Over the counter equity derivatives are valued using observable inputs such as underlying prices of the equity security and volatility. The Company independently reviews the listing of Level 1 equity securities in the portfolio and agrees the closing stock prices to a national securities exchange, and on a sample basis, independently verifies the observable inputs for Level 2 equity derivatives and securities.

Fixed income investments consist of certain categories of bonds and derivatives. Corporate, government, and agency bonds are valued by pricing vendors who estimate fair value using recently executed transactions and proprietary models based on observable inputs, such as interest rate spreads, yield curves and credit risk. Asset-backed securities are valued by pricing vendors who estimate fair value using discounted cash flow models utilizing observable inputs based on trade and quote activity of securities with similar features. Fixed income derivatives are valued by pricing vendors using observable inputs such as interest rates and yield curves. The Company obtains a detailed understanding of the models, inputs, and assumptions used in developing prices provided by its vendors. This understanding includes discussions with valuation resources at the vendor. During these discussions, the Company uses a fair value measurement questionnaire, which is part of the Company's internal controls over financial reporting, to obtain the information necessary to assert the model, inputs and assumptions used comply with U.S. GAAP, including disclosure requirements. The Company also obtains observable inputs from the pricing vendor and independently verifies the observable inputs, as well as assesses assumptions used for reasonableness based on relevant market conditions and internal Company guidelines. If an assumption is deemed unreasonable, based on the Company's guidelines, it is then reviewed by a member of management and the fair value estimate provided by the vendor is adjusted, if deemed appropriate. These adjustments do not occur frequently and have not historically been material to the fair value estimates used in the Condensed Consolidated Financial Statements.

Pooled funds consist of various equity, fixed income, commodity, and real estate mutual fund type investment vehicles. Pooled investment funds fair value is estimated based on the proportionate share ownership in the underlying net assets of the investment, which is based on the fair value of the underlying securities that trade on a national securities exchange. Where possible, the Company independently reviews the listing securities in the portfolio and agrees the closing stock prices to a national securities exchange. The Company gains an understanding of the investment guidelines and valuation policies of the fund and discusses fund performance with pooled fund managers. The Company obtains audited fund manager financial statements, when available. If the pooled fund is designed to replicate a publicly traded index, the Company compares the performance of the fund to the index to assess the reasonableness of the fair value measurement.

Alternative investments consist of limited partnerships, private equity and hedge funds. Alternative investment fair value is generally estimated based on the proportionate share ownership in the underlying net assets of the investment as determined by the general partner or investment manager. The valuations are based on various factors depending on investment strategy, proprietary models, and specific financial data or projections. The Company obtains audited fund manager financial statements, when available. The Company obtains a detailed understanding of the models, inputs and assumptions used in developing prices provided by the investment managers (or appropriate party) through regular discussions. During these discussions with the investment managers, the Company uses a fair value measurement questionnaire, which is part of the Company's internal controls over financial reporting, to obtain the information necessary to assert the model, inputs and assumptions used comply with U.S. GAAP, including disclosure requirements. The Company also obtains observable inputs from the investment manager and independently verifies the observable inputs, as well as assesses assumptions used for reasonableness based on relevant market conditions and internal Company guidelines. If an assumption is deemed unreasonable, based on the Company's guidelines, it is then reviewed by a member of management and the fair value estimate provided by the vendor is adjusted, if deemed appropriate. These adjustments do not occur frequently and have not historically been material to the fair value estimates in the Condensed Consolidated Financial Statements.

Derivatives are carried at fair value, based upon industry standard valuation techniques that use, where possible, current market-based or independently sourced pricing inputs, such as interest rates, currency exchange rates, or implied volatilities.

Annuity contracts consist of insurance group annuity contracts purchased to match the pension benefit payment stream owed to certain selected plan participant demographics within a few major United Kingdom defined benefit plans. Annuity contracts are valued using a discounted cash flow model utilizing assumptions such as discount rate, mortality, and inflation. The Company independently verifies the observable inputs.

Real estate and REITs consist of publicly traded real estate investment trusts ("REITs") and direct real estate investments. Level 1 REITs are valued using the closing stock price on a national securities exchange. The Level 3 values are based on the proportionate share of ownership in the underlying net asset value as determined by the investment manager. The Company independently reviews the listing of Level 1 REIT securities in the portfolio and agrees the closing stock prices to a national securities exchange. The Company gains an understanding of the investment guidelines and valuation policies of the Level 3 real estate funds and discusses performance with the fund managers. The Company obtains audited fund manager financial statements, when available. See the description of

"Alternative investments" for further detail on valuation procedures surrounding Level 3 REITs.

Guarantees are carried at fair value, which is based on discounted estimated cash flows using published historical cumulative default rates and discount rates commensurate with the underlying exposure.

Debt is carried at outstanding principal balance, less any unamortized discount or premium. Fair value is based on quoted market prices or estimates using discounted cash flow analyses based on current borrowing rates for similar types of borrowing arrangements.

The following tables present the categorization of the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2014 and December 31, 2013 (in millions):

	Balance at March 31, 2014	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds and highly liquid debt securities (1)	$2,086	$2,061	$ 25	$ —
Other investments:				
Fixed maturity securities:				
Corporate bonds	1	—	—	1
Government bonds	7	—	7	—
Equity securities	15	6	9	—
Derivatives:				
Interest rate contracts	9	—	9	—
Foreign exchange contracts	73	—	73	—
Liabilities:				
Derivatives:				
Foreign exchange contracts	94	—	94	—

(1) Includes $2,061 million of money market funds and $25 million of highly liquid debt securities that are classified as Fiduciary assets, Short-term investments or Cash and cash equivalents in the Condensed Consolidated Statements of Financial Position, depending on their nature and initial maturity. See Note 8 "Investments" for additional information regarding the Company's investments.

	Balance at December 31, 2013	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds and highly liquid debt securities (1)	$2,079	$2,054	$ 25	$ —
Other investments:				
Fixed maturity securities:				
Corporate bonds	2	—	—	2
Government bonds	7	—	7	—
Equity securities	13	6	7	—
Derivatives:				
Interest rate contracts	9	—	9	—
Foreign exchange contracts	71	—	71	—
Liabilities:				
Derivatives:				
Foreign exchange contracts	93	—	93	—

(1) Includes \$2,054 million of money market funds and \$25 million of highly liquid debt securities that are classified as Fiduciary assets, Short-term investments or Cash and cash equivalents in the Condensed Consolidated Statements of Financial Position, depending on their nature and initial maturity. See Note 8 “Investments” for additional information regarding the Company’s investments.

There were no transfers of assets or liabilities between fair value hierarchy levels in the three months ended March 31, 2014 and 2013, respectively. There were no realized or unrealized gains or losses recognized in the Condensed Consolidated Statements of Income during either the three months ended March 31, 2014 or 2013, related to assets and liabilities measured at fair value using unobservable inputs.

The fair value of Long-term debt is classified as Level 2 of the fair value hierarchy. The following table discloses the Company's financial instruments where the carrying amounts and fair values differ (in millions):

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$3,669	$3,966	$3,686	$3,894

16. Commitments and Contingencies

Legal

Aon and its subsidiaries are subject to numerous claims, tax assessments, lawsuits and proceedings that arise in the ordinary course of business, which frequently include errors and omissions ("E&O") claims. The damages claimed in these matters are or may be substantial, including, in many instances, claims for punitive, treble or extraordinary damages. Aon has historically purchased E&O insurance and other insurance to provide protection against certain losses that arise in such matters. Aon has exhausted or materially depleted its coverage under some of the policies that protect the Company and, consequently, is self-insured or materially self-insured for some historical claims. Accruals for these exposures and legal fees, and related insurance receivables, when applicable, have been provided to the extent that losses are deemed probable and are reasonably estimable. These amounts are adjusted from time to time as developments warrant. Amounts related to settlement provisions are recorded in Other general expenses in the Condensed Consolidated Statements of Income.

A retail insurance brokerage subsidiary of Aon provides insurance brokerage services to Northrop Grumman Corporation ("Northrop"). This Aon subsidiary placed Northrop's excess property insurance program for the period covering 2005. Northrop suffered a substantial loss in August 2005 when Hurricane Katrina damaged Northrop's facilities in the Gulf states. Northrop's excess insurance carrier, Factory Mutual Insurance Company ("Factory Mutual"), denied coverage for the claim pursuant to a flood exclusion. Northrop sued Factory Mutual in the United States District Court for the Central District of California and later sought to add this Aon subsidiary as a defendant, asserting that if Northrop's policy with Factory Mutual does not cover the losses suffered by Northrop stemming from Hurricane Katrina, then this Aon subsidiary will be responsible for Northrop's losses. On August 26, 2010, the court granted in large part Factory Mutual's motion for partial summary judgment regarding the applicability of the flood exclusion and denied Northrop's motion to add this Aon subsidiary as a defendant in the federal lawsuit. On January 27, 2011, Northrop filed suit against this Aon subsidiary in state court in Los Angeles, California, pleading claims for negligence, breach of contract and negligent misrepresentation. Northrop has since settled with Factory Mutual. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of this lawsuit, and the amount of any losses or other payments that may result, cannot be estimated at this time.

Another retail insurance brokerage subsidiary of Aon has been sued in Tennessee state court by a client, Opry Mills Mall Limited Partnership ("Opry Mills") that sustained flood damage to its property in May 2010. The lawsuit seeks $200 million from numerous insurers with whom this Aon subsidiary placed the client's property insurance coverage. The insurers contend that only $50 million in coverage is available for the loss because the flood event occurred on property in a high hazard flood zone. Opry Mills is seeking full coverage from the insurers for the loss and has sued this Aon subsidiary in the alternative for the same $150 million difference on various theories of professional liability if the court determines there is not full coverage. In addition, Opry Mills seeks prejudgment interest, attorneys' fees and enhanced damages which could substantially increase Aon's exposure. Aon believes it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of this lawsuit, and the amount of any losses or other payments that may result, cannot be estimated at this time.

A pensions consulting and administration subsidiary of Hewitt before its acquisition by Aon provided advisory services to the Trustees of the Philips UK pension fund and the relevant employer of fund beneficiaries (together, “Philips”). In January 2014, the Aon subsidiary was served with a High Court lawsuit alleging negligence and breach of duty. The proceedings assert Philips' right to claim damages related to Philips' use of a credit default swap hedging strategy pursuant to the supply of the advisory services, which is said to have resulted in substantial damages to Philips. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. The outcome of this lawsuit, and the amount of any losses or other payments that may result, cannot be estimated at this time.

Mazeikiu Nafta ("MN"), which operates an oil refinery in Lithuania, has sued an insurance brokerage subsidiary of Aon in London. Aon placed property damage and business interruption coverage for MN. There was a fire at the refinery in 2006. MN settled with insurers in November 2011 and claimed against Aon in December 2012. The claim is for $125 million, which is the shortfall alleged by MN to have been caused by Aon's failure to obtain appropriate business interruption coverage. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these allegations. The outcome of this lawsuit, and the amount of any losses or other payments that may result, cannot be estimated at this time.

The International Road Transport Union ("IRU") sued Aon in a court in Switzerland. IRU alleges, among other things, that, between 1995 and 2004, a predecessor of Aon and, later, an Aon subsidiary (1) accepted commissions for certain insurance placements that violated a fee agreement entered between the parties and (2) negligently failed to ask certain insurance carriers to contribute to the IRU's risk management costs. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of these proceedings, and the amount of any losses or other payments that may result, cannot be estimated at this time.

AXA Versicherung Aktiengesellschaft ("AXA") started arbitral proceedings against an insurance and reinsurance brokerage subsidiary of Aon in Germany. Predecessors of AXA granted predecessors of the Aon subsidiary a mandate to underwrite non-proportional reinsurance business from 1975 through 1999. AXA alleges, among other things, that the Aon-related entities intentionally exceeded their mandate and that, if AXA had known of this intention, it would not have granted a mandate. Aon believes that it has meritorious defenses and intends to vigorously defend itself against these claims. The outcome of these proceedings, and the amount of any losses or other payments that may result, cannot be estimated at this time.

From time to time, Aon's clients may bring claims and take legal action pertaining to the performance of fiduciary responsibilities. Whether client claims and legal action related to the Company's performance of fiduciary responsibilities are founded or unfounded, if such claims and legal actions are resolved in a manner unfavorable to the Company, they may adversely affect Aon's financial results and materially impair the market perception of the Company and that of its products and services.

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.

Guarantees and Indemnifications

In connection with the redomicile of Aon's headquarters ("the Redomestication"), the Company on April 2, 2012 entered various agreements pursuant to which it agreed to guarantee the obligations of its subsidiaries arising under issued and outstanding debt securities. Those agreements included the (1) Amended and Restated Indenture, dated as of April 2, 2012, among Aon Corporation, Aon plc, and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") (amending and restating the Indenture, dated as of September 10, 2010, between Aon Corporation and the Trustee), (2) Amended and Restated Indenture, dated as of April 2, 2012, among Aon Corporation, Aon plc and the Trustee (amending and restating the Indenture, dated as of December 16, 2002, between Aon Corporation and the Trustee), (3) Amended and Restated Indenture, dated as of April 2, 2012, among Aon Corporation, Aon plc and the Trustee (amending and restating the Indenture, dated as of January 13, 1997, as supplemented by the First Supplemental Indenture, dated as of January 13, 1997) (4) First Supplemental Indenture, dated as of April 2, 2012, among Aon Finance N.S. 1, ULC, as issuer, Aon Corporation, as guarantor, Aon plc, as guarantor, and Computershare Trust Company of Canada, as trustee, and (5) Amended and Restated Trust Deed, among Aon Corporation, Aon plc, Aon Services Luxembourg & Co S.C.A. (formerly known as Aon Financial Services Luxembourg S.A.) ("Aon Luxembourg") and BNY Mellon Corporate Trustee Services Limited, as trustee (the "Luxembourg Trustee") (amending and restating the Trust Deed, dated as of July 1, 2009, as amended and restated on January 12, 2011, among Aon Delaware, Aon Luxembourg and the Luxembourg Trustee).

Effective as of the same date, the Company also entered into agreements pursuant to which it agreed to guarantee the obligations of its subsidiaries arising under the (1) $450,000,000 Term Credit Agreement dated June 15, 2011, among Aon Corporation, as borrower, Bank of America, N.A., as administrative agent and the other agents and lenders party thereto, (2) $400,000,000 Five-Year Agreement dated March 20, 2012, among Aon Corporation, as borrower, Citibank, N.A., as administrative agent and the other agents and lenders party thereto and (3) €650,000,000 Facility Agreement, dated October 15, 2010, among Aon Corporation, the subsidiaries of Aon Corporation party thereto as borrowers, Citibank International plc, as agent, and the other agents and lenders party thereto, as amended on July 18, 2011.

The Company provides a variety of guarantees and indemnifications to its customers and others. The maximum potential amount of future payments represents the notional amounts that could become payable under the guarantees and indemnifications if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or other methods. These amounts may bear no relationship to the expected future payments, if any, for these guarantees and indemnifications. Any anticipated amounts payable are included in the Company's Condensed Consolidated Financial Statements, and are recorded at fair value.

The Company expects that, as prudent business interests dictate, additional guarantees and indemnifications may be issued from time to time.

Letters of Credit

The Company had total letters of credit ("LOCs") outstanding for approximately $66 million at March 31, 2014, compared to $71 million at December 31, 2013. These letters of credit cover the beneficiaries related to certain of Aon's U.S. and Canadian non-qualified pension plan schemes and secure deductible retentions for Aon's own workers compensation program. The Company has also issued LOCs to cover contingent payments for taxes and other business obligations to third parties, and other guarantees for miscellaneous purposes at its international subsidiaries. Amounts are accrued in the Condensed Consolidated Financial Statements, and are recorded at fair value.

Commitments

The Company has provided commitments to fund certain limited partnerships in which it has an interest in the event that the general partners request funding. Some of these commitments have specific expiration dates and the maximum potential funding under these commitments was $24 million at March 31, 2014 compared to $34 million at December 31, 2013. During the three months ended March 31, 2014, the Company funded $10 million of these commitments.

Premium Payments

The Company has certain contractual contingent guarantees for premium payments owed by clients to certain insurance companies. Costs associated with these guarantees, to the extent estimable and probable, are provided in Aon's allowance for doubtful accounts. The maximum exposure with respect to such contractual contingent guarantees was approximately $64 million at March 31, 2014 compared to $98 million at December 31, 2013.

17. Segment Information

The Company has two reportable segments: Risk Solutions and HR Solutions. Unallocated income and expenses, when combined with the operating segments and after the elimination of intersegment revenues and expenses, equal the amounts in the Condensed Consolidated Financial Statements.

Reportable operating segments have been determined using a management approach, which is consistent with the basis and manner in which Aon's chief operating decision-maker ("CODM") uses financial information for the purposes of allocating resources and evaluating performance. The CODM assesses performance based on operating income and generally accounts for inter-segment revenue as if the revenue were from third parties and at what management believes are current market prices. The Company does not present net assets by segment as this information is not reviewed by the CODM.

Risk Solutions acts as an advisor and insurance and reinsurance broker, helping clients manage their risks, via consultation, as well as negotiation and placement of insurance risk with insurance carriers through Aon's global distribution network.

HR Solutions partners with organizations to solve their most complex benefits, talent and related financial challenges, and improve business performance by designing, implementing, communicating and administering a wide range of human capital, retirement, investment management, health care, compensation and talent management strategies.

Aon’s total revenue is as follows (in millions):

	Three months ended March 31,	
	2014	2013
Risk Solutions	$1,994	$1,971
HR Solutions	965	954
Intersegment eliminations	(12)	(10)
Total revenue	$2,947	$2,915

Commissions, fees and other revenues by product are as follows (in millions):

	Three months ended March 31,	
	2014	2013
Retail brokerage	$1,579	$1,562
Reinsurance brokerage	409	402
Total Risk Solutions Segment	1,988	1,964
Consulting services	384	382
Outsourcing	589	581
Intrasegment	(8)	(9)
Total HR Solutions Segment	965	954
Intersegment	(12)	(10)
Total commissions, fees and other revenue	$2,941	$2,908

Fiduciary investment income by segment is as follows (in millions):

	Three months ended March 31,	
	2014	2013
Risk Solutions	$6	$7
HR Solutions	—	—
Total fiduciary investment income	$6	$7

A reconciliation of segment operating income before tax to income before income taxes is as follows (in millions):

	Three months ended March 31,	
	2014	2013
Risk Solutions	$445	$403
HR Solutions	67	51
Segment income before income taxes	512	454
Unallocated expenses	(43)	(44)
Interest income	2	1
Interest expense	(58)	(52)
Other income	1	9
Income before income taxes	$414	$368

Unallocated expenses include administrative or other costs not attributable to the operating segments, such as corporate governance costs. Interest income represents income earned primarily on operating cash balances and certain income producing securities. Interest expense represents the cost of debt obligations.

Other income consists of equity earnings, realized gains or losses on the sale of investments, gains or losses on the disposal of businesses, gains or losses on derivatives, and gains or losses on foreign currency transactions.

18. Guarantee of Registered Securities

As described in Note 16, in connection with the Redomestication, Aon plc entered into various agreements pursuant to which it agreed to guarantee the obligations of Aon Corporation arising under issued and outstanding debt securities. Aon Corporation is a 100% directly owned subsidiary of Aon plc. The debt securities that are subject to Rule 3-10 of Regulation S-X are the 3.50% senior notes due September 2015, the 3.125% senior notes due May 2016, the 5.00% senior notes due September 2020, the 8.205% junior subordinated deferrable interest debentures due January 2027 and the 6.25% senior notes due September 2040. All guarantees of Aon plc are full and unconditional. There are no other subsidiaries of Aon plc that are guarantors of the debt.

Aon Corporation entered into an agreement pursuant to which it agreed to guarantee the obligations of Aon plc arising under the 4.250% Notes Due 2042 exchanged for Aon Corporation's outstanding 8.205% junior subordinated deferrable interest debentures due January 2027 in both Original Notes and Exchange Notes form. Those notes are subject to Rule 3-10 of Regulation S-X. Aon Corporation also agreed to guarantee the obligations of Aon plc arising under the 4.45% Notes Due 2043 issued on May 21, 2013 and the 4.00% Notes Due November 2023 issued on November 21, 2013. In each case, the guarantee of Aon Corporation is full and unconditional. There are no subsidiaries of Aon plc, other than Aon Corporation, that are guarantors of the 4.250% Notes Due 2042, the 4.45% Notes Due 2043 or the 4.00% Notes Due 2023.

The following tables set forth condensed consolidating statements of income for the three months ended March 31, 2014 and 2013, condensed consolidating statements of comprehensive income for the three months ended March 31, 2014 and 2013, condensed consolidating statements of financial position as of March 31, 2014 and December 31, 2013, and condensed consolidating statements of cash flows for the three months ended March 31, 2014 and 2013 in accordance with Rule 3-10 of Regulation S-X. The condensed consolidating financial information includes the accounts of Aon plc, the accounts of Aon Corporation, and the combined accounts of the non-guarantor subsidiaries. The condensed consolidating financial statements are presented in all periods as a merger under common control, with Aon plc presented as the parent company in all periods prior and subsequent to the Redomestication. The principal consolidating adjustments are to eliminate the investment in subsidiaries and intercompany balances and transactions.

In July 2013, Aon Holdings LLC, an intermediate holding company and the then-direct parent of Aon Corporation, transferred its ownership of Aon Corporation to Aon plc via distribution. The financial results of Aon Holdings LLC were included in the Other Non-Guarantor Subsidiaries column of the Condensed Consolidating Financial Statements. The Company has reflected the transfer of Aon Corporation from Aon Holdings LLC to Aon plc below for all periods presented.

Condensed Consolidating Statement of Income

	Three months ended March 31, 2014				
(millions)	Aon plc	Aon Corporation	Other Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue					
Commissions, fees and other	$1	$—	$ 2,940	$ —	$ 2,941
Fiduciary investment income	—	—	6	—	6
Total revenue	1	—	2,946	—	2,947
Expenses					
Compensation and benefits	12	8	1,731	—	1,751
Other general expenses	7	17			