

Aon plc
Form 10-Q
July 27, 2018

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

OR

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 98-1030901
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

122 LEADENHALL STREET, LONDON, ENGLAND EC3V 4AN
(Address of Principal Executive Offices) (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 NO

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 NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company) Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of Class A Ordinary Shares of Aon plc, \$0.01 nominal value, outstanding as of July 26, 2018: 242,655,343

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Part I Financial Information
Item 1. Financial Statements

Aon plc
Condensed Consolidated Statements of Income
(Unaudited)

(millions, except per share data)	Three Months		Six Months	
	Ended June 30, 2018	June 30, 2017	Ended June 30, 2018	June 30, 2017
Revenue				
Total revenue	\$2,561	\$2,368	\$5,651	\$4,749
Expenses				
Compensation and benefits	1,494	1,466	3,110	2,935
Information technology	123	98	238	186
Premises	96	86	189	170
Depreciation of fixed assets	47	54	86	108
Amortization and impairment of intangible assets	282	460	392	503
Other general expenses	535	331	853	639
Total operating expenses	2,577	2,495	4,868	4,541
Operating income (loss)	(16)	(127)	783	208
Interest income	1	8	5	10
Interest expense	(69)	(71)	(139)	(141)
Other income (expense)	(3)	4	(18)	2
Income (loss) from continuing operations before income taxes	(87)	(186)	631	79
Income tax benefit	(144)	(143)	(30)	(143)
Net income (loss) from continuing operations	57	(43)	661	222
Net income from discontinued operations	1	821	7	861
Net income	58	778	668	1,083
Less: Net income attributable to noncontrolling interests	10	9	26	23
Net income attributable to Aon shareholders	\$48	\$769	\$642	\$1,060
Basic net income (loss) per share attributable to Aon shareholders				
Continuing operations	\$0.19	\$(0.20)	\$2.57	\$0.75
Discontinued operations	0.01	3.13	0.03	3.27
Net income	\$0.20	\$2.93	\$2.60	\$4.02
Diluted net income (loss) per share attributable to Aon shareholders				
Continuing operations	\$0.19	\$(0.20)	\$2.55	\$0.75
Discontinued operations	—	3.13	0.03	3.24
Net income	\$0.19	\$2.93	\$2.58	\$3.99
Cash dividends per share paid on ordinary shares	\$0.40	\$0.36	\$0.76	\$0.69
Weighted average ordinary shares outstanding - basic	246.0	262.4	247.2	263.6
Weighted average ordinary shares outstanding - diluted	247.4	262.4	248.8	265.7

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

Aon plc
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

(millions)	Three Months		Six Months	
	Ended June 30,	June 30,	Ended June 30,	June 30,
	2018	2017	2018	2017
Net income	\$58	\$ 778	\$668	\$1,083
Less: Net income attributable to noncontrolling interests	10	9	26	23
Net income attributable to Aon shareholders	48	769	642	1,060
Other comprehensive income (loss), net of tax:				
Change in fair value of financial instruments	(1)	4	13	2
Foreign currency translation adjustments	(460)	44	(213)	191
Postretirement benefit obligation	122	20	170	38
Total other comprehensive income (loss)	(339)	68	(30)	231
Less: Other comprehensive loss attributable to noncontrolling interests	(6)	(5)	(3)	(4)
Total other comprehensive income (loss) attributable to Aon shareholders	(333)	73	(27)	235
Comprehensive income (loss) attributable to Aon shareholders	\$(285)	\$ 842	\$615	\$1,295

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

Aon plc

Condensed Consolidated Statements of Financial Position

(Unaudited)

(millions, except nominal value)	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 487	\$ 756
Short-term investments	173	529
Receivables, net	2,992	2,478
Fiduciary assets	10,476	9,625
Other current assets	732	289
Total current assets	14,860	13,677
Goodwill	8,291	8,358
Intangible assets, net	1,363	1,733
Fixed assets, net	575	564
Deferred tax assets	452	389
Prepaid pension	1,272	1,060
Other non-current assets	404	307
Total assets	\$ 27,217	\$ 26,088
Liabilities and equity		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,447	\$ 1,961
Short-term debt and current portion of long-term debt	799	299
Fiduciary liabilities	10,476	9,625
Other current liabilities	1,121	870
Total current liabilities	13,843	12,755
Long-term debt	5,659	5,667
Deferred tax liabilities	294	127
Pension, other postretirement, and postemployment liabilities	1,715	1,789
Other non-current liabilities	1,088	1,102
Total liabilities	22,599	21,440
Equity		
Ordinary shares - \$0.01 nominal value		
Authorized: 750 shares (issued: 2018 - 243.0; 2017 - 247.6)	2	2
Additional paid-in capital	5,772	5,775
Retained earnings	2,295	2,302
Accumulated other comprehensive loss	(3,524) (3,496
Total Aon shareholders' equity	4,545	4,583
Noncontrolling interests	73	65
Total equity	4,618	4,648
Total liabilities and equity	\$ 27,217	\$ 26,088

See accompanying Notes to 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, 2017	247.6	\$ 5,777	\$ 2,302	\$ (3,496)	\$ 65	\$ 4,648
Adoption of new accounting guidance	—	—	493	(1)	—	492
Balance at January 1, 2018	247.6	5,777	2,795	(3,497)	65	5,140
Net income	—	—	642	—	26	668
Shares issued - employee stock compensation plans	2.1	(150)	—	—	—	(150)
Shares purchased	(6.7)	—	(955)	—	—	(955)
Share-based compensation expense	—	147	—	—	—	147
Dividends to shareholders	—	—	(187)	—	—	(187)
Net change in fair value of financial instruments	—	—	—	13	—	13
Net foreign currency translation adjustments	—	—	—	(210)	(3)	(213)
Net postretirement benefit obligation	—	—	—	170	—	170
Purchases of shares from noncontrolling interests	—	—	—	—	(1)	(1)
Dividends paid to noncontrolling interests on subsidiary common stock	—	—	—	—	(14)	(14)
Balance at June 30, 2018	243.0	\$ 5,774	\$ 2,295	\$ (3,524)	\$ 73	\$ 4,618

(millions)	Shares	Ordinary Shares and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Tax	Non- controlling Interests	Total
Balance at January 1, 2017	262.0	\$ 5,580	\$ 3,856	\$ (3,912)	\$ 57	\$ 5,581
Net income	—	—	1,060	—	23	1,083
Shares issued - employee stock compensation plans	2.9	(138)	—	—	—	(138)
Shares purchased	(9.2)	—	(1,160)	—	—	(1,160)
Share-based compensation expense	—	148	—	—	—	148
Dividends to shareholders	—	—	(182)	—	—	(182)
Net change in fair value of financial instruments	—	—	—	2	—	2
Net foreign currency translation adjustments	—	—	—	195	(4)	191
Net postretirement benefit obligation	—	—	—	38	—	38
Purchases of shares from noncontrolling interests	—	—	—	—	(1)	(1)
Dividends paid to noncontrolling interests on subsidiary common stock	—	—	—	—	(9)	(9)
Balance at June 30, 2017	255.7	\$ 5,590	\$ 3,574	\$ (3,677)	\$ 66	\$ 5,553

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

Aon plc
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(millions)	Six Months Ended	
	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Net income	\$668	\$1,083
Less: Net income from discontinued operations	7	861
Adjustments to reconcile net income to cash provided by operating activities:		
Loss from sales of businesses, net	1	3
Depreciation of fixed assets	86	108
Amortization and impairment of intangible assets	392	503
Share-based compensation expense	147	148
Deferred income taxes	(93)	(227)
Change in assets and liabilities:		
Fiduciary receivables	(883)	10
Short-term investments — funds held on behalf of clients	(154)	(286)
Fiduciary liabilities	1,037	275
Receivables, net	(371)	(25)
Accounts payable and accrued liabilities	(495)	(377)
Restructuring reserves	12	178
Current income taxes	(144)	(25)
Pension, other postretirement and postemployment liabilities	(84)	(101)
Other assets and liabilities	301	30
Cash provided by operating activities - continuing operations	413	436
Cash provided by operating activities - discontinued operations	—	64
Cash provided by operating activities	413	500
Cash flows from investing activities		
Proceeds from investments	23	29
Payments for investments	(36)	(32)
Net sales (purchases) of short-term investments — non-fiduciary	352	(2,451)
Acquisition of businesses, net of cash acquired	(50)	(149)
Sale of businesses, net of cash sold	1	4,193
Capital expenditures	(111)	(82)
Cash provided by investing activities - continuing operations	179	1,508
Cash used for investing activities - discontinued operations	—	(19)
Cash provided by investing activities	179	1,489
Cash flows from financing activities		
Share repurchase	(971)	(1,100)
Issuance of shares for employee benefit plans	(150)	(139)
Issuance of debt	2,552	1,651
Repayment of debt	(2,027)	(1,990)
Cash dividends to shareholders	(187)	(182)
Noncontrolling interests and other financing activities	(15)	(10)
Cash used for financing activities - continuing operations	(798)	(1,770)
Cash used for financing activities - discontinued operations	—	—
Cash used for financing activities	(798)	(1,770)

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Effect of exchange rates on cash and cash equivalents	(63)	34
Net increase (decrease) in cash and cash equivalents	(269)	253
Cash and cash equivalents at beginning of period	756	431
Cash and cash equivalents at end of period	\$487	\$684
Supplemental disclosures:		
Interest paid	\$145	\$144
Income taxes paid, net of refunds	\$207	\$108
See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).		

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Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and Notes thereto (the “Financial Statements”) have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The Financial Statements include the accounts of Aon plc and all of its controlled subsidiaries (“Aon” or the “Company”). All intercompany accounts and transactions have been eliminated. The 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 disclosures normally included in the Financial Statements prepared in accordance with U.S. GAAP have been condensed or omitted. These 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, 2017. The results for the three and six months ended June 30, 2018 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2018.

Use of Estimates

The preparation of the accompanying 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. Management believes its estimates to be reasonable given the current facts available. Aon adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency exchange rate 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 would, if applicable, be reflected in the Financial Statements in future periods.

2. Accounting Principles and Practices

Adoption of New Accounting Standards

Presentation of Net Periodic Pension and Postretirement Benefit Costs

In March 2017, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on the presentation of net periodic pension cost and net periodic postretirement benefit cost. The new guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The Company has applied the new guidance retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the Condensed Consolidated Statement of Income, and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension costs and net periodic postretirement benefit cost in assets. The new guidance allows a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. The Company did not apply the practical expedient upon adoption of this guidance. The new guidance was effective for Aon in the first quarter of 2018. The adoption of this guidance had no impact on the net income of the Company.

Upon adoption of the guidance, the presentation of the results reflect a change in Operating income offset by an equal and offsetting change in Other income (expense) for the period ended June 30, 2017 as follows:

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	As Reported	Adjustments	As Adjusted	As Reported	Adjustments	As Adjusted
Operating income (loss) ⁽¹⁾	\$(118)	\$ (9)	\$(127)	\$225	\$ (17)	\$ 208
Other income (expense)	\$(5)	\$ 9	\$ 4	\$(15)	\$ 17	\$ 2

(1) Reclassification from Operating income is recorded in Compensation and benefits.

Income Tax Consequences of Intercompany Transactions

In October 2016, the FASB issued new accounting guidance on the income tax consequences of intra-entity asset transfers other than inventory. The guidance requires that the seller and buyer recognize the consolidated current and deferred income tax consequences of a transaction in the period the transaction occurs rather than deferring to a future period and recognizing those consequences when the asset has been sold to an outside party or otherwise recovered through use (i.e. depreciated, amortized, or impaired). The Company has applied the new guidance on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The new guidance was effective for Aon in the first quarter of 2018. Upon the adoption of this guidance on January 1, 2018, the Company recognized an increase to Deferred tax assets of \$23 million, an increase to Deferred tax liabilities of \$12 million, and a decrease to Other non-current assets of \$26 million on the Condensed Consolidated Statement of Financial Position through a cumulative adjustment of \$15 million decrease to Retained earnings. For the three and six months ended June 30, 2018, the impact of adopting this standard on the Condensed Consolidated Statement of Income was insignificant.

Statement of Cash Flows

In August 2016, the FASB issued new accounting guidance on the classification of certain cash receipts and cash payments. Under the new guidance, an entity no longer has discretion to choose the classification for a number of transactions, including contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. The new standard was effective for the Company in the first quarter of 2018. The adoption of this guidance had no impact on the Company's Condensed Consolidated Statements of Cash Flows.

Financial Assets and Liabilities

In January 2016, the FASB issued new accounting guidance on recognition and measurement of financial assets and financial liabilities. The amendments in the new guidance make targeted improvements, which include the requirement to measure equity investments with readily determinable fair values at fair value through net income, simplification of the impairment assessment for equity investments without readily determinable fair values, adjustments to existing and additional disclosure requirements, and additional tax considerations. The Company applied the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with the exception of the amendments related to equity securities without readily determinable fair values, including disclosure requirements, which were applied prospectively. Upon the adoption of this guidance on January 1, 2018, the Company recognized an increase to Accumulated other comprehensive loss of \$1 million on the Condensed Consolidated Statement of Financial Position through a cumulative adjustment of \$1 million increase to Retained earnings. For the three and six months ended June 30, 2018, the impact of adopting this standard on the Condensed Consolidated Statement of Income was insignificant.

Revenue Recognition

In May 2014, the FASB issued a new accounting standard on revenue from contracts with customers (the "Standard" or "ASC 606"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP ("ASC 605"). The core principal of the Standard is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Standard also requires additional disclosure about the nature, amount, timing, and uncertainty

of revenue and cash flows arising from customer contracts, including significant judgments, changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. Two methods of transition were permitted upon adoption: full retrospective and modified retrospective. The Company elected to apply the modified retrospective adoption approach to all contracts. Under this approach, prior periods were not restated. Rather, revenues and other disclosures for prior periods were provided in the notes to the financial statements as

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previously reported under ASC 605, and the cumulative effect of initially applying the guidance was recognized as an adjustment to Retained earnings.

The following summarizes the significant changes to the Company as a result of the adoption of ASC 606 on January 1, 2018.

The Company previously recognized revenue either at a point in time or over a period of time based on the transfer of value to customers or as the remuneration became determinable. Under ASC 606, the revenue related to certain brokerage services recognized over a period of time is recognized on the effective date of the associated policies when control of the policy transfers to the customer. As a result, revenue from these arrangements are typically recognized in earlier periods under ASC 606 in comparison to ASC 605, changing the timing and amount of revenue recognized for annual and interim periods. This change resulted in a significant shift in timing of interim revenue for the Reinsurance Solutions revenue line and, to a lesser extent, certain other brokerage services.

The Standard provides guidance on accounting for certain revenue-related costs including when to capitalize costs associated with obtaining and fulfilling a contract. The majority of these costs were previously expensed as incurred under ASC 605. Assets recognized for the costs to obtain a contract, which includes certain sales commissions, are amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates, considering anticipated renewals when applicable. For situations where the renewal period is one year or less and renewal costs are commensurate with the initial contract, the Company applied a practical expedient and recognizes the costs of obtaining a contract as an expense when incurred. Assets recognized as costs to fulfill a contract, which includes internal costs related to pre-placement broking activities, as well as other costs, are amortized on a systematic basis that is consistent with the transfer of the services to which the asset relates, which is generally less than one year.

As a result of applying the modified retrospective method to adopt ASC 606, the following adjustments were made to the Condensed Consolidated Statement of Financial Position as of January 1, 2018:

(millions)	December 31, 2017 As Reported	Adjustments	January 1, 2018 As Adjusted
Assets			
Receivables, net	\$ 2,478	\$ 252	\$ 2,730
Other current assets	\$ 289	\$ 298	\$ 587
Deferred tax assets	\$ 389	\$ (128)	\$ 261
Other non-current assets	\$ 307	\$ 145	\$ 452
Liabilities			
Accounts payable and accrued liabilities	\$ 1,961	\$ 8	\$ 1,969
Other current liabilities	\$ 870	\$ 13	\$ 883
Deferred tax liabilities	\$ 127	\$ 42	\$ 169
Other non-current liabilities	\$ 1,102	\$ (3)	\$ 1,099
Equity			
Total equity	\$ 4,648	\$ 507	\$ 5,155

The following tables summarize the impacts of adopting ASC 606 on the Company's Condensed Consolidated Statement of Income, Financial Position, and Cash Flows as of and for the three and six months ended June 30, 2018.

Condensed Consolidated Statement of Income

(millions)	Three months ended June 30, 2018			Six months ended June 30, 2018		
	As Reported	Adjustments	Balances Without Adoption of ASC 606	As Reported	Adjustments	Balances Without Adoption of ASC 606
Revenue						
Total revenue	\$2,561	\$ 3	\$ 2,564	\$5,651	\$ (410)	\$ 5,241
Expenses						
Compensation and benefits	\$1,494	\$ (13)	\$ 1,481	\$3,110	\$ (78)	\$ 3,032
Other general expenses	\$535	\$ 2	\$ 537	\$853	\$ 2	\$ 855
Other income (expense)	\$(3)	\$(1)	\$(4)	\$(18)	\$ —	\$(18)
Income taxes	\$(144)	\$ 7	\$(137)	\$(30)	\$(75)	\$(105)

Adoption of ASC 606 had an unfavorable impact of \$6 million on net income from continuing operations, or \$0.02 per share, for the three months ended June 30, 2018, and a favorable impact of \$259 million on net income from continuing operations, or \$1.05 per share, for the six months ended June 30, 2018.

Condensed Consolidated Statement of Financial Position

As of June 30, 2018

(millions)	As Reported	Adjustments	Balances
			Without Adoption of ASC 606
Assets			
Receivables, net	\$2,992	\$ (657)	\$ 2,335
Other current assets	\$732	\$ (216)	\$ 516
Deferred tax assets	\$452	\$ 128	\$ 580
Other non-current assets	\$404	\$ (144)	\$ 260
Liabilities			
Other current liabilities	\$1,121	\$ (61)	\$ 1,060
Deferred tax liabilities	\$294	\$ (71)	\$ 223
Other non-current liabilities	\$1,088	\$ 1	\$ 1,089

Equity

Total equity	\$4,618	\$ (758)	\$ 3,860
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Condensed Consolidated Statement of Cash Flows

Six months ended June 30, 2018

(millions)	As Reported	Adjustments	Balances
			Without Adoption of ASC 606
Cash flows from operating activities			

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Net income	\$668	\$ (259)	\$ 409
Deferred income taxes	\$(93) \$ (29)	\$ (122)
Receivables, net	\$(371)	\$ 405		\$ 34
Accounts payable and accrued liabilities	\$(495)	\$ 8		\$ (487)
Current income taxes	\$(144)	\$ (46)	\$ (190)
Other assets and liabilities	\$301	\$ (79)	\$ 222

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The adoption of ASC 606 had no impact on total Cash Provided by Operating Activities.

Refer to Note 3 “Revenue from Contracts with Customers” to the Financial Statements for further information.

Accounting Standards Issued But Not Yet Adopted

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued new accounting guidance related to reclassification of certain tax effects from accumulated other comprehensive income. The guidance allows a reclassification from accumulated comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (“the Tax Reform Act”). In addition, the entity is required to provide certain disclosures regarding stranded tax effects. The guidance is effective for Aon in the first quarter of 2019 and early adoption is permitted, including adoption in any interim period. The guidance should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is currently evaluating the impact that the guidance will have on the Financial Statements and the period in which it plans to adopt. Refer to Note 11 “Income Taxes” for further discussion of the Tax Reform Act.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued new accounting guidance on targeted improvements to accounting for hedging activities. The new guidance amends its hedge accounting model to enable entities to better portray their risk management activities in the Financial Statements. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and requires the effect of a hedging instrument to be presented in the same income statement line as the hedged item. An entity will apply the new guidance on a modified retrospective basis with a cumulative effect adjustment to accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the period of adoption. Changes to income statement presentation and financial statement disclosures will be applied prospectively. The new guidance is effective for Aon in the first quarter of 2019 and early adoption is permitted. The Company is currently evaluating the impact that the standard will have on the Financial Statements and the period of adoption.

Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued new accounting guidance on simplifying the test for goodwill impairment.

Currently the standard requires an entity to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. The new guidance removes Step 2. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. An entity will apply the new guidance on a prospective basis. The new guidance is effective for Aon in the first quarter of 2020 and early adoption is permitted. The Company is currently evaluating the impact that the standard will have on the Financial Statements and the period of adoption.

Credit Losses

In June 2016, the FASB issued new accounting guidance on the measurement of credit losses on financial instruments. The new guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. An entity will apply the new guidance through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The guidance is effective for Aon in the first quarter of 2020 and early adoption is permitted beginning in the first quarter of 2019. Aon is currently evaluating the impact that the standard will have on its Financial Statements, as well as the period of adoption.

Leases

In February 2016, the FASB issued a new accounting standard on leases, which requires lessees to recognize assets and liabilities for most leases. Under the new standard, a lessee should recognize in the Condensed Consolidated Statement of Financial Position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current U.S. GAAP standards. The new standard will be effective for the Company in the first quarter of 2019,

with early adoption permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset.

The Company is currently evaluating the impacts of the new accounting standard and is in the process of developing and implementing operational processes, including a system solution, to address the identified impacts. The Company expects to recognize significant lease liabilities and corresponding right of use assets on its Condensed Consolidated Statements of Financial Position, but is unable to provide quantitative information at this time. The Company has implemented a comprehensive approach to review existing arrangements that may contain a lease, and is performing completeness assessments over the identified lease population and assessing system requirements in order to determine the appropriate accounting upon transition and on an ongoing basis.

Additionally, the Company expects to expand its disclosures around lease arrangements. The Company expects to adopt the new accounting standard in the first quarter of 2019 and is currently evaluating the practical expedients that will be applied.

3. Revenue from Contracts with Customers

The Company generates revenues primarily through commissions, compensation from insurance and reinsurance companies for services provided to them, and fees from clients. Commissions and fees for brokerage services vary depending upon several factors, which may include the amount of premium, the type of insurance or reinsurance coverage provided, the particular services provided to a client, insurer, or reinsurer, and the capacity in which the Company acts. Compensation from insurance and reinsurance companies includes fees for consulting and analytics services and fees and commissions for administrative and other services provided to or on behalf of insurers. Fees from clients for advice and consulting services are dependent on the extent and value of the services provided.

Payment terms are consistent with current industry practices.

The Company recognizes revenue when control of the promised services is transferred to the customer in the amount that best reflects the consideration to which the Company expects to be entitled in exchange for those services. For arrangements where control is transferred over time, an input or output method is applied that represents a faithful depiction of the progress towards completion of the performance obligation. For arrangements that include variable consideration, the Company assesses whether any amounts should be constrained. For arrangements that include multiple performance obligations, the Company allocates consideration based on their relative fair values.

Costs incurred by the Company in obtaining a contract are capitalized and amortized on a systematic basis that is consistent with the transfer of control of the services to which the asset relates, considering anticipated renewals when applicable. Certain contract related costs, including pre-placement brokerage costs, are capitalized as a cost to fulfill and are amortized on a systematic basis consistent with the transfer of control of the services to which the asset relates, which is generally less than one year.

The Company has elected to apply practical expedients to not disclose the revenue related to unsatisfied performance obligations if (1) the contract has an original duration of 1 year or less, (2) the Company has recognized revenue for the amount in which it has the right to bill, and (3) the variable consideration is allocated entirely to an unsatisfied performance obligation which is recognized as a series of distinct goods or services that form a single performance obligation.

Disaggregation of Revenue

The following is a description of principal service lines from which the Company generates its revenue:

Commercial Risk Solutions includes retail brokerage, cyber solutions, global risk consulting, and captives. Revenue primarily includes insurance commissions and fees for services rendered. Revenues will generally be recognized at a point in time upon the effective date of the underlying policy or over the term of the arrangement to depict the transfer of control of the services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Revenues are recorded net of allowances for estimated policy cancellations, which are determined based on an evaluation of historical and current cancellation data.

Reinsurance Solutions includes treaty and facultative reinsurance brokerage and capital markets. Revenue primarily includes reinsurance commissions and fees for services rendered. Revenues will generally be recognized at a point in time upon the effective date of the underlying policy (or policies) or over the term of the arrangement to depict the transfer of control of the services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

Retirement Solutions includes core retirement, investment consulting, and talent, rewards & performance. Revenue consists primarily of fees paid by clients for consulting services, such as risk management strategies, health and benefits, and human capital consulting services. Revenue recognized for these arrangements are typically recognized at a point-in-time upon completion of the service or over time to depict the transfer of control of the services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. For consulting arrangements recognized over-time, revenue will be recognized based on a measure of progress that depicts the transfer of control of the services to the customer, utilizing an appropriate input or output measure. Fees paid by clients for consulting services are typically charged on an hourly, project or fixed-fee basis. Revenues from time-and-materials or cost-plus arrangements are recognized as services are performed.

Reimbursements received for out-of-pocket expenses are recorded as a component of revenue.

Health Solutions includes health and benefits brokerage and healthcare exchanges. Revenue primarily includes insurance commissions and fees for services rendered. For brokerage commissions, revenue is typically recognized at the effective date of the underlying policy (or policies) or over the term of the arrangement to depict the transfer of control of the services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. Revenues from health care exchange arrangements are typically recognized upon successful enrollment of participants, net of a reserve for estimated cancellations.

Data & Analytic Services includes Affinity, Aon InPoint, and ReView. Revenue consists primarily of fees for services rendered and is generally recognized over the term of the arrangement to depict the transfer of control of the services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. For Data & Analytic Services arrangements recognized over-time, revenue will be recognized based on a measure of progress that depicts the transfer of control of the services to the customer, utilizing an appropriate input or output measure.

The following table summarizes revenue from contracts with customers by principal service line (in millions):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Commercial Risk Solutions	\$1,166	\$2,350
Reinsurance Solutions	380	1,122
Retirement Solutions	431	855
Health Solutions	309	760
Data & Analytic Services	277	571
Elimination	(2)	(7)
Total revenue	\$2,561	\$5,651

Consolidated revenue from contracts with customers by geographic area, which is attributed on the basis of where the services are performed, is as follows (in millions):

	Three months ended June 30, 2018	Six months ended June 30, 2018
United States	\$1,125	\$2,241

Americas other than United States	243	480
United Kingdom	413	897
Europe, Middle East, & Africa other than United Kingdom	493	1,472
Asia Pacific	287	561
Total revenue	\$2,561	\$5,651

Contract Costs

The Company recognizes an asset for costs incurred to fulfill a contract for costs that are specifically identified and relate to a contract or anticipated contract, generate or enhance resources used in satisfying the Company's performance obligations, and are expected to be recovered. Assets recognized as costs to fulfill a contract, which includes internal costs related to pre-placement

broking activities, as well as other costs, are amortized on a systematic basis that is consistent with the transfer of control of the services to which the asset relates. The amortization is primarily included in Compensation and benefits on the Condensed Consolidated Statements of Income.

The changes in the net carrying amount of costs to fulfill contracts with customers are as follows (in millions):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Balance at beginning of period ⁽¹⁾	\$ 240	\$ 298
Additions	341	711
Amortization	(353)	(785)
Impairment	—	—
Foreign currency translation and other	(12)	(8)
Balance at end of period	\$ 216	\$ 216

⁽¹⁾ Upon adoption of the new revenue recognition standard on January 1, 2018, Aon capitalized \$298 million of costs to fulfill contracts with customers.

The Company capitalizes incremental costs to obtain a contract with a customer that are expected to be recovered. Assets recognized for the costs to obtain a contract, which includes certain sales commissions, will be amortized on a systematic basis that is consistent with the transfer of control of the services to which the asset relates, considering anticipated renewals when applicable. For situations where the renewal period is one year or less and renewal costs are commensurate with the initial contract, the Company has applied a practical expedient and recognized the costs of obtaining a contract as an expense when incurred. The amortization is primarily included in Compensation and benefits on the Condensed Consolidated Statements of Income.

The changes in the net carrying amount of costs to obtain contracts with customers are as follows (in millions):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Balance at beginning of period ⁽¹⁾	\$ 144	\$ 145
Additions	13	21
Amortization	(11)	(21)
Impairment	—	—
Foreign currency translation and other	(2)	(1)
Balance at end of period	\$ 144	\$ 144

⁽¹⁾ Upon adoption of the new revenue recognition standard on January 1, 2018, Aon capitalized \$145 million of costs to obtain contracts with customers.

4. Discontinued Operations

On February 9, 2017, the Company entered into a Purchase Agreement with Tempo Acquisition, LLC (the “Purchase Agreement”) to sell its benefits administration and business process outsourcing business (the “Divested Business”) to an entity formed and controlled by affiliates of The Blackstone Group L.P. (the “Buyer”) and certain designated purchasers that are direct or indirect subsidiaries of the Buyer.

On May 1, 2017, the Buyer purchased all of the outstanding equity interests of the Divested Business, plus certain related assets and liabilities, for a purchase price of \$4.3 billion in cash paid at closing, subject to customary adjustments set forth in the Purchase Agreement, and deferred consideration of up to \$500 million (the “Transaction”). Cash proceeds after customary adjustments and before taxes due were \$4.2 billion.

Aon and the Buyer entered into certain transaction related agreements at the closing, including two commercial agreements, a transition services agreement, certain intellectual property license agreements, sub-leases, and other customary agreements. Aon expects to continue to be a significant client of the Divested Business and the Divested Business has agreed to use Aon for its broking and other services for a specified period of time.

The financial results of the Divested Business for the three and six months ended June 30, 2018 and 2017 are presented as Income from discontinued operations on the Company's Condensed Consolidated Statements of Income. The following table presents the financial results of the Divested Business (in millions):

	Three months ended June 30 2018	Six months ended June 30 2017
Revenue		
Total revenue	\$—	\$171
Expenses		
Total operating expenses	— 156	3 626
Income (loss) from discontinued operations before income taxes	— 26	(3) 83
Income tax expense (benefit)	— 3	(1) 20
Income (loss) from discontinued operations excluding gain, net of tax	— 23	(2) 63
Gain on sale of discontinued operations, net of tax	1 798	9 798
Net income from discontinued operations	\$1	\$821

Upon triggering held for sale criteria in February 2017, Aon ceased depreciating and amortizing all long-lived assets included in discontinued operations. Total operating expenses for 2017 include \$8 million of depreciation of fixed assets and \$11 million of intangible asset amortization for the time prior to the Company triggering held for sale criteria.

The Company's Condensed Consolidated Statements of Cash Flows present the operating, investing, and financing cash flows of the Divested Business as discontinued operations. Aon uses a centralized approach to cash management and financing of its operations. Prior to the closing of the Transaction, portions of the Divested Business's cash were transferred to Aon daily, and Aon would fund the Divested Business as needed. There were no Cash and cash equivalents of discontinued operations at June 30, 2017. Total proceeds received for the sale of the divested business and taxes paid as a result of the sale are recognized on the Condensed Consolidated Statements of Cash Flows in Cash provided by investing activities - continuing operations and Cash provided by operating activities - continuing operations, respectively.

5. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash balances and all highly liquid instruments with initial maturities of three months or less. Short-term investments consist of money market funds. The estimated fair value of cash and cash equivalents and short-term investments approximates their carrying values.

At June 30, 2018, Cash and cash equivalents and Short-term investments were \$660 million compared to \$1,285 million at December 31, 2017, a decrease of \$625 million. Of the total balances, \$99 million and \$96 million were restricted as to their use at June 30, 2018 and December 31, 2017, respectively. Included within the June 30, 2018 and December 31, 2017 balances was £42.7 million (\$56.5 million at June 30, 2018 exchange rates and \$57.1 million at December 31, 2017 exchange rates) of operating funds required to be held by the Company in the United Kingdom by the Financial Conduct Authority (the "FCA"), a U.K.-based regulator, which were included in Short-term investments.

6. Other Financial Data

Condensed Consolidated Statements of Income Information

Other Income (Expense)

Other income (expense) consists of the following (in millions):

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Foreign currency remeasurement gain (loss)	\$29	\$(2)	\$13	\$(12)
Loss on disposal of business	—	—	(1)	(2)
Pension and other postretirement income (expense)	(7)	9	(5)	17
Equity earnings	1	3	2	9
Loss on financial instruments	(27)	(6)	(27)	(10)