

Towers Watson & Co.  
Form 10-K  
August 29, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

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

**For the fiscal year ended June 30, 2011**

**or**

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

**For the transition period from to**

**Commission File Number: 001-34594**

**TOWERS WATSON & CO.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-0676603**

(I.R.S. Employer  
Identification No.)

**875 Third Avenue, New York, NY 10022**

(Address of principal executive offices) (Zip Code)

**(212) 725-7550**

(Registrant's telephone number, including area code)

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

**Title of each class**

**Name of each exchange on which registered**

**Class A Common Stock, \$0.01 par value**

**New York Stock Exchange and  
NASDAQ Global Select Market**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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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       Accelerated filer       Non-accelerated filer       Smaller reporting  
company

(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 Act). Yes  No   
The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant was approximately \$3,793,803,434 based on the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, December 31, 2010.

As of August 17, 2011 there were 55,085,090 outstanding shares of Class A common stock and 2,415,481 of Restricted Class A common stock at a par value of \$0.01 per share; 5,547,733 outstanding shares of Class B-2 common stock at a par value of \$0.01; 5,661,591 outstanding shares of Class B-3 common stock at a par value of \$0.01; and 5,387,241 outstanding shares of Class B-4 common stock at a par value of \$0.01.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report.

**TOWERS WATSON & CO.**  
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 For the Fiscal Year Ended June 30, 2011

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**Special Note Regarding Forward-Looking Statements**

This Annual Report contains a number of forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among others, statements regarding revenue drivers, growth opportunities and operational cost savings expected to result from the merger of Towers Perrin and Watson Wyatt, as well as statements contained in sections such as: Note 10, Retirement Benefits ; Note 5, Goodwill and Intangible Assets ; Note 15, Income Taxes ; Note 11, Debt, Commitments and Contingent Liabilities ; and Note 13, Restricted Stock of the notes to the consolidated financial statements included in Item 15 of this Annual Report; the Executive Overview; Critical Accounting Policies and Estimates; the discussion of our capital expenditures; Off-Balance Sheet Arrangements and Contractual Obligations; Liquidity and Capital Resources; Risk Management; and Part I, Item 3

Legal Proceedings . You can identify these statements and other forward-looking statements in this filing by words such as may , will , expect , anticipate , believe , estimate , plan , intend , continue , or similar words, except for negative of such terms or other comparable terminology. You should read these statements carefully because they contain projections of our future results of operations or financial condition, or state other forward-looking information. A number of risks and uncertainties exist that could cause actual results to differ materially from the results reflected in these forward-looking statements are identified under Risk Factors in Item 1A of this Annual Report on Form 10-K. These statements are based on assumptions that may not come true. All forward-looking disclosure is speculative by its nature. We undertake no obligation to update any of the forward-looking information included in this Annual Report, whether as a result of new information, future events, changed expectations or otherwise.

**PART I**

**Item 1. Business.**

***The Company***

Towers Watson & Co. (referred herein as Towers Watson , the Company , us , or we ) is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. We offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management. We offer our clients comprehensive services across three business segments, Benefits, Risk and Financial Services and Talent and Rewards, through a strong talent pool of approximately 13,100 full-time associates across 38 countries. Our professional staff are trusted advisors and experts in their fields and include approximately 2,500 fully accredited actuaries. Towers Watson was formed on January 1, 2010, from the merger of Towers, Perrin, Forster & Crosby, Inc. ( Towers Perrin ) and Watson Wyatt Worldwide, Inc. ( Watson Wyatt ), two leading professional services firms that trace their roots back more than 100 years.

We help our clients enhance business performance by improving their ability to attract, retain and motivate qualified employees. We focus on delivering consulting services and solutions that help organizations anticipate, identify and capitalize on emerging opportunities in benefits and human capital management. We also advise the insurance industry on a wide range of strategic and risk management issues and we help our clients mitigate risk through insurance, reinsurance and capital markets transactions. In addition, we provide investment advice and solutions to help our clients develop and implement disciplined and efficient strategies to meet their investment goals.

Our target market is generally large, multi-national and domestic companies, with additional focus on the insurance industry. Our clients include many of the world's leading corporations, including approximately 85% of the Fortune Global 500 companies, 84% of the Fortune 1000, 76% of the FTSE 100 and 100% of the Dax 30. We also advise more than three-quarters of the world's leading insurance companies. We work with major corporations, emerging growth companies, governmental agencies and not-for-profit institutions in a wide variety of industries.

***The Merger***

On January 1, 2010, Watson Wyatt and Towers Perrin combined their businesses through two simultaneous mergers (the Merger ) and became Towers Watson & Co. Since the consummation of the Merger, Towers Perrin changed its name to Towers Watson Pennsylvania Inc., and Watson Wyatt changed its name to Towers Watson Delaware Holdings Inc. However, for ease of reference, we continue to use the legacy Towers Perrin and Watson Wyatt names throughout this discussion.

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Watson Wyatt is the accounting predecessor in the Merger and as such, the historical results of Watson Wyatt through December 31, 2009 have become those of the new registrant, Towers Watson, and are presented in this filing. Towers Watson's consolidated financial statements as of and for the fiscal year ended June 30, 2011 include the results of Towers Perrin's operations. The consolidated financial statements of Towers Watson as of and for the fiscal year ended June 30, 2010 include the results of Towers Perrin's operations beginning January 1, 2010.

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***Business Overview***

As leading economies worldwide become more service-oriented and interconnected, effective human resources, financial and risk management are increasingly a source of competitive advantage for companies and other organizations. Employers, regardless of geography or industry, are facing unprecedented challenges involving the management of their people. Changing technology, expectations for innovation and quality enhancements, skill shortages in selected areas, and an aging population in many developed countries have increased employers' focus on attracting and retaining talented employees. Further, employers are focused on achieving productivity improvements and effectively managing the overall size and volatility of their labor costs. The growing demand for employee benefits and human capital management services is directly related to the size, complexity and rapid changes associated with the effective design, financial management and administration of human resources programs. The Benefits segment is our largest segment. This segment provides benefits consulting and administration services through four primary lines of business. Retirement supports organizations worldwide in designing, managing, administering and communicating all types of retirement plans. Health and Group Benefits provides advice on the strategy, design, financing, delivery, ongoing plan management and communication of health and group benefit programs. Through our Technology and Administration Solutions line of business, we deliver cost-effective benefit outsourcing solutions. The International Consulting Group provides expertise in dealing with international human capital management and related benefits and compensation issues for our clients and their subsidiaries. A significant portion of the revenue in this segment is from recurring work, driven in large part by the heavily regulated nature of employee benefits plans and our clients' annual needs for these services. The Benefits segment contributed approximately 59% of revenue during the fiscal year ended June 30, 2011.

The Risk and Financial Services segment, our second largest segment, has three primary lines of business that are united by an approach that focuses on risk, capital and value. Our aim is to help clients improve business performance by effectively integrating risk management into their overall financial management framework. Risk Consulting and Software provides risk consulting and financial modeling software solutions primarily to the insurance industry. Reinsurance and Insurance Brokerage provides a range of risk transfer solutions, principally reinsurance brokerage services. Investment Consulting and Solutions provides consulting and solutions focused on investment strategy, risk assessment, asset allocation, and investment manager selection to institutional investors, primarily pension plans. A significant portion of the revenue in this segment is from recurring work, driven in large part by the heavily regulated nature of the insurance industry and ongoing demand for services such as reinsurance brokerage and investment consulting. The Risk and Financial Services segment contributed approximately 24% of revenue during the fiscal year ended June 30, 2011.

The Talent and Rewards segment has three primary lines of business. Executive Compensation advises our clients management and boards of directors on executive pay and incentive programs. Rewards, Talent and Communication provides consulting on alignment, design and delivery of employee rewards (pay and incentives), talent management programs and processes including career development, performance management and leadership succession, and organization and employee communication and change management. Data, Surveys and Technology provides human capital data, analytics and technology solutions, such as compensation benchmarking data, employee opinion surveys, HR function metrics, and reward administration and talent management technology solutions, to enable benchmarking, evaluation of return on investments, resource allocation decisions and effective administration of human resources programs. The revenues in this segment are largely comprised of project-based work from a stable client base. The Talent and Rewards segment contributed approximately 17% of revenue during the fiscal year ended June 30, 2011.

Our company is recognized for our thought leadership and proprietary industry content. Our insights, derived from our extensive research across these three segments, are a core part of our brand identity and are widely cited by many major news outlets such as *The Wall Street Journal*, *The New York Times*, the *Financial Times*, *BBC News* and *CNBC*. We also produce proprietary studies and white papers on topics such as employee attitudes toward the workplace, executive pay trends, health care quality and costs, the impact of enterprise risk management on business performance and strategies for managing pension risk and investments. Our research on changing demographics in major economies is helping companies prepare for the impact of these changes on costs, productivity and the ability to

attract and retain talented employees.

While we are focused on maintaining depth of expertise in products and services in the areas described above, management believes that one of our primary strengths is our ability to link products and services from our different practices to comprehensively meet the complex needs of our clients that typically span these areas.



**Table of Contents****Principal Services**

Our global operations include three segments: Benefits, Risk and Financial Services, and Talent and Rewards. The percentages of revenue generated in the various groups are as follows:

	Year ended June 30,		
	2011	2010	2009
Benefits	59%	64%	69%
Risk and Financial Services	24	21	17
Talent and Rewards	17	15	14
Total Segment Revenue	100%	100%	100%

For more information about our operating segments, see Note 16, Segment Information, of the notes to the consolidated financial statements included in Item 15 of this Annual Report.

**Benefits Segment**

The Benefits segment is our largest segment with over 6,000 associates. The Benefits segment generated approximately 59% of revenue for the fiscal year ended June 30, 2011. This segment has grown through business combinations as well as strong organic growth. It helps clients create and manage cost-effective benefits programs that help them attract, retain and motivate a talented workforce.

The lines of business within the Benefits segment are:

Retirement;

Health and Group Benefits;

Technology and Administration Solutions; and

International Consulting.

**Retirement**

Our retirement consulting, which comprises a substantial portion of the Benefits segment's revenue and profit, supports organizations worldwide in designing, managing, and administering all types of retirement plans. We are one of the world's leading advisors on retirement plans, providing actuarial and consulting services for large defined benefit and defined contribution plans, including design, funding and risk management strategies. We also help our clients assess the effects of changing workforce demographics on their retirement plans, cash flow requirements, and retiree benefit adequacy and security.

Our professional staff are named actuaries for many of the world's largest retirement plan sponsors. Towers Watson provides actuarial services to more of the top 300 pension funds worldwide than any other consulting firm. In the United States, we provide actuarial services to three of the four largest corporate-sponsored defined benefit plans (based on total pension plan assets), and in the United Kingdom, we are advisor to almost half of the 100 largest corporate pension funds. Additionally, we have market-leading positions in Canada, Germany and the Netherlands. We offer clients a full range of integrated and innovative retirement consulting services to meet the needs of all types of employers including those that continue to offer defined benefit plans and those that are reexamining their retirement benefits strategies. For those clients that want to outsource some or all of their pension plan management, we offer integrated solutions that combine investment consulting, pension administration, core actuarial services and communication assistance.

Our retirement consulting services include:

Retirement strategy and plan design;

Actuarial services and related support;

Retirement financial management;

Settlement solutions;

Compliance and governance strategies;

Risk management; and

Defined contribution solutions.

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Much of our recent consulting with clients relates to managing risk and cost volatility, various regulatory changes (global accounting reform and United States and European pension funding legislation), and a broad-based desire on the part of many employers to revisit their retirement design approach. We use in-depth data and analytics to provide perspective on the overall environment and to help our clients with their design decisions. We have tracked the retirement designs of the largest public companies around the world over many years, providing clients with data to better understand the true magnitude of the movement from defined benefit to defined contribution designs.

To further enhance our retirement consulting services, we dedicate significant resources to technology systems and tools to ensure the consistency and efficiency of service delivery in all our offices worldwide. We also maintain extensive proprietary databases that enable our clients to track and benchmark benefit plan provisions. Retirement typically lags reduction in discretionary spending compared to the other segments, mainly due to ongoing regulatory requirements for our clients. Our retirement consulting relationships are generally longer term in nature and client retention rates are high. Revenue for the retirement practice is seasonal, with most of the work we perform falling around calendar year end reporting and compliance requirements, as clients complete their pension plan valuations; thus, the third quarter of our fiscal year is seasonally strongest. Major revenue growth drivers in this practice include changes in regulations, economic uncertainty, increased global demand and increased market share.

### ***Health and Group Benefits***

Through our second largest line of business in the Benefits segment, Health and Group Benefits, we provide plan management consulting across the full spectrum of health and group benefits programs, including health, dental, disability, life and other coverage. We also advise clients on emerging issues specific to their interests and needs, including the impact of health care reform legislation on their plan strategy and related health plan changes, and the implementation and monitoring of innovative new programs such as wellness or care management. Clients seek our evidence-based, practical solutions to improve employee health, satisfaction and productivity while minimizing costs. Globally, many health care systems are strained by shrinking resources and increasing demand due to population aging and changes in employees' health status. Our health and group benefits consulting services help clients provide health and welfare benefits to attract and retain qualified employees and enhance the health and productivity of their workforce.

In the United States, the enactment of health care reform legislation has prompted employers to reevaluate their health plan strategies in light of expanded coverage requirements and new tax considerations. Also, given continued above-inflation increases in health care costs, employers are seeking new and proven solutions for managing plan costs and engaging members. An increasing number of employers are adopting consumer-oriented health care approaches that encourage employees and retirees to participate more actively in health care buying decisions. These models put employees in charge of spending their own health care dollars and provide them with appropriate incentives, tools and information to make wiser health purchasing decisions.

We believe we have one of the strongest networks in the health and group benefits consulting business. We manage numerous collective purchasing initiatives (e.g., pharmacy, retiree health) that enable employers to achieve greater value from third-party service providers than they can realize on their own. Our approach to health and group benefits consulting emphasizes health and productivity, pharmacy, provider quality, effective communication, and data and metrics.

Our global services include:

Program strategy, design and pricing;

Health condition management consulting;

Pharmacy benefit management consulting;

Workforce well-being evaluation and wellness and health promotion consulting;

Performance measurement and monitoring;

Development of funding strategies and forecasting, budgeting and reserve setting;

Vendor evaluation, selection and management; and

Claims audits and pre- and post-implementation audits.

***Technology and Administration Solutions***

Our Technology and Administration Solutions line of business, the third largest within the Benefits segment, provides benefits outsourcing services to hundreds of clients across multiple industries. Our world-class solutions are supported by our technology systems, including our BenefitConnect system in the United States, and our dedicated, regional service centers.

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Supporting more than six million plan participants, we provide:

Pension and retirement plan administration; and

Health and welfare administration.

We have a 30-year track record of success in benefits outsourcing. We provide clients with three distinct delivery model options to help meet the needs of employers of all types, ranging from a full outsourcing option to co-sourcing along with our clients' internal benefits departments to providing system support only.

In the United States, we are a top-tier benefits outsourcing provider and a market leader for co-sourced defined benefit administration for organizations with 10,000 or more employees. For retirement administration, BenefitConnect includes case management and administration tools to assist plan sponsors in managing the entire life cycle of pension administration, from new hire to retirement, and employee self-service tools that enhance employees' understanding of their retirement benefits' future value. For health and welfare administration, BenefitConnect is a customizable, web-based application that combines self-service employee tools with administrative and call-center components to facilitate the administration and management of health and welfare benefits.

In the United Kingdom, we are a leader in retirement administration outsourcing and flexible benefits administration services to the private sector, using highly automated processes and web technology to enable members to access their records and improve their understanding of their benefits. Our technology also provides trustees and human resources departments with timely management information to monitor activity levels and reduce administration costs. In markets outside the United States with more complex defined contribution arrangements, we have deployed sophisticated defined contribution technology, processes and controls. Our defined contribution administration model in Germany and the United Kingdom leverages web technology and provides clients with back office reconciliation, while offering the clients the option to outsource or co-source the front-office operations as needed. Participants can access data allowing them to be self-sufficient in managing their portfolios.

Within the United States, our client retention rates in our Technology and Administration Solutions line of business are approximately 96% for the fiscal year ended June 30, 2011.

***International Consulting***

To help multi-national companies face the challenges of operating in the global marketplace, Towers Watson provides expertise in dealing with international human capital management and related benefits and compensation advice for corporate headquarters and their overseas subsidiaries. Through our global specialists and in cooperation with our local offices worldwide, we help multi-national companies on a range of issues, including: financial, accounting, cost and risk-control solutions for employee benefit plans globally, global actuarial services, and cross-border support for benefit plan consolidation in mergers, acquisitions and divestitures.

***Risk and Financial Services Segment***

Within the Risk and Financial Services segment, our second largest at approximately 24% of revenue during the fiscal year ended June 30, 2011, we have three lines of business:

Risk Consulting and Software;

Investment Consulting and Solutions; and

Reinsurance and Insurance Brokerage.

We work with a variety of client executives: chief financial officers and treasurers, chief risk officers, senior actuaries, reinsurance buyers, and pension plan sponsors and trustees. Two of our lines of business, Risk Consulting and Software and Reinsurance and Insurance Brokerage, have a particular focus on the insurance industry, while Investment focuses primarily on pension plans. However, all three of our businesses also apply their expertise to serve broader markets.

We believe we can add significant value to our clients by bringing a wider range of Towers Watson products and services to bear in addressing the issues they face. For example, we have combined our risk consulting and software solutions with brokerage to assist insurance executives in more holistically managing their capital and making optimal reinsurance/risk transfer decisions. In addition, our investment experts often work with colleagues in our Benefits

segment on retirement financial management issues. In the future, we will look for more opportunities to combine our services to respond in innovative ways to client needs.

We have also developed a range of financial modeling software products. Our products bring together innovative actuarial thinking with software expertise to provide comprehensive solutions for our insurance clients to price their products, measure value, manage risk and monitor capital adequacy. Our software solutions support a variety of activities, including risk and capital management, asset-

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liability modeling, pricing, reserving and, product development. These are used internally for consulting projects and licensed to clients around the world. We significantly strengthened our software offerings with the acquisition of EMB in January 2011.

***Risk Consulting and Software***

The largest line of business within Risk and Financial Services, Risk Consulting and Software is primarily focused on the insurance industry. Our associates use deep analytical skills to solve practical business problems facing the insurance industry by applying the latest techniques and software solutions to help our clients improve business performance and create competitive advantage. We serve three-quarters of the world's top 100 insurance companies and are also a leading provider of financial modeling software to the insurance industry. In fact, we have more actuaries serving the insurance industry than any other firm.

Our Risk Consulting and Software services include:

Financial and regulatory reporting

Enterprise risk and capital management

M&A and corporate restructuring (including actuarial valuation, capital analysis and due diligence)

Product and market strategies (including pricing and predictive modeling)

Financial modeling software and implementation support

Integrated consulting and risk transfer

We provide a wide range of enterprise risk management services to help insurance companies identify and control their key risks, enhance risk-adjusted returns and meet strategic objectives. We are a major provider of actuarial valuation and due diligence support for insurance industry mergers, acquisitions and restructurings. We also help our clients value liabilities and calculate economic capital for financial reporting and management purposes and we help them respond to regulatory changes that impact financial reporting, such as Solvency II. In addition, we provide other services such as product development, predictive modeling, strategies for entry into new markets, claim consulting and catastrophe modeling. We also help non-insurance entities with risk management issues such as evaluating and optimizing their insurance programs as part of their overall risk and capital management processes, and designing and implementing risk mitigation strategies to align their risk profile with overall financial objectives. Finally, we are extending our offerings into new areas like telematics or usage based insurance building on our traditional strengths in modeling and data analysis.

***Investment Consulting and Solutions***

Investment Consulting and Solutions is the second largest line of business within the Risk and Financial Services segment. Our Investment business helps our clients manage investment complexity, establish their risk tolerance and improve governance.

We have one of the industry's largest investment consulting practices. Our business is focused on creating value for institutional investors through independent, best-in-class investment advice. We provide coordinated investment strategy advice based on expertise in risk assessment, asset-liability modeling, strategic asset allocation policy setting and investment manager selection to some of the world's largest pension funds and institutional investors.

Our Investment services include:

Development of investment policy, governance and risk assessment

Investment strategy

Structured products design

Manager structure and selection

Manager monitoring and evaluation; performance reporting

Implemented consulting

We have a large investment strategy team with more than 100 investment manager research professionals covering all asset classes from mainstream equities and fixed income to alternative investments, including hedge funds and private equity. With deep specialist expertise in asset management, investment banking and actuarial science, we provide practical, independent advice tailored to meet the needs of our clients. While Investment clients primarily include defined benefit and defined contribution pension plans, we see significant growth potential in other areas, including insurance company asset management, endowment funds and sovereign wealth funds.



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***Reinsurance and Insurance Brokerage***

Reinsurance and Insurance Brokerage is the third largest line of business in the Risk and Financial Services segment. Our Brokerage business primarily serves as an intermediary between our clients and the insurance, reinsurance and capital markets. The substantial majority of our business is providing global reinsurance intermediary services and consulting expertise. We cover all major lines of business and maintain trading relationships with more than 200 reinsurers and Lloyd's underwriters.

Our Brokerage services include:

Reinsurance strategy and program review

Claims management and program administration

Catastrophe exposure management

Contract negotiation and placement

Market security evaluation and monitoring

Integrated consulting and risk transfer

In addition to our insurance and reinsurance intermediary services and consulting, we provide capital market broker/dealer capabilities. We help our clients make informed decisions about risk and capital management and execute comprehensive solutions that achieve broad coverage at competitive prices. Our integrated approach to risk and capital management helps our clients allocate, use and protect the capital they need to achieve financial objectives.

While most of our clients are insurance companies, our Brokerage business also places insurance programs for corporate clients. We have offices in North America and Europe to serve clients in all the major insurance markets. Our London office places reinsurance for Lloyd's Syndicates and European insurance companies. In addition, it acts as a correspondent broker, placing reinsurance for North American companies into Lloyd's of London. Together with Risk Consulting and Software, our Brokerage business has an on-the-ground presence in Bermuda to access and serve this important market.

***Talent and Rewards Segment***

Our third largest segment, Talent and Rewards, comprises approximately 17% of revenue for the fiscal year ended June 30, 2011 and is focused on three lines of business:

Executive Compensation;

Rewards, Talent and Communication; and

Data, Surveys and Technology.

***Executive Compensation***

We advise our clients' management and boards of directors on all aspects of executive pay programs, including base pay, annual bonus, long-term incentives, perquisites and other benefits. This work includes helping clients understand market practices relative to levels of compensation as well as the design of incentive programs. Given that companies in all regions of the world are facing more intense scrutiny of executive pay from shareholders, regulators and other stakeholders, our goal is to ensure that pay plans support the organization's business strategy and drive desired performance. We help select effective performance metrics and assess program risks to ensure good governance. Our services include executive compensation philosophy and strategy development, modeling and valuation of pay plan elements, performance measurement selection and calibration, board of director compensation and plan design, advice on change-in-control and severance programs, and total compensation assessment and benchmarking. We also provide clients with executive pay related transactional support associated with various transactions such as mergers, acquisitions, divestitures, executive transitions and business restructuring.

We have a global network of executive pay practitioners, with consults on the ground in key countries worldwide supported by research and data covering the world's top markets, that allows us to provide comprehensive solutions to our clients. We maintain a number of proprietary databases that provide us with competitive advantage. We have dedicated in-house experts on legislative and regulatory requirements, tax and accounting issues, proxy advisor policies, disclosure rules and other key considerations in designing executive pay programs. Whether we are retained by the board's compensation committee or by management, our extensive consulting protocols help ensure that our executive compensation clients receive fully independent, objective advice.

***Rewards, Talent and Communication***

From this line of business, we have a broad array of capabilities in designing and implementing human resources programs and processes for employees, managers and leaders. Our solutions cut across the employment lifecycle: attracting and deploying talent,

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managing and rewarding employees performance, developing their skills, and providing relevant career paths to help retain and engage them over time.

Our primary practice areas are:

**Talent Management.** We help organizations develop integrated programs and processes to identify clients leadership and workforce needs, develop leaders and employees, and provide performance management to align goals and incentives for those employees and leaders with the critical drivers of business performance. Also within this practice, our human resources effectiveness services help clients implement the right human resources structure, service delivery model and staff to meet the needs of both the organization and employees efficiently and effectively.

**Rewards.** We provide the strategy, design and execution support for compensation programs to help clients optimize their reward spend and ensure their programs drive the behaviors and performance required to meet key business goals. Within this practice, we also have a sales effectiveness and rewards service offering focused on sales force productivity and incentives.

**Communication and Change Management.** We offer deep expertise in change management, organizational effectiveness and communication to support our consulting services and help drive employee engagement and align behavior with business results.

### ***Data, Surveys and Technology***

This line of business combines data, analytics and software to enable more effective management of people and human resources programs. It brings together our capabilities in employee surveys, global databases, and talent management and rewards technology.

This business includes our global compensation databases, employee survey practice, human capital metrics and analytics benchmarking offering, HR service delivery consulting, and software applications related to talent, performance and compensation management. These practices generate recurring revenue by leveraging data, technology and a pool of staff resources that can be flexibly deployed.

We have data and tools that our competitors cannot easily match. Our compensation databases cover almost 100 countries across six continents to support global clients wherever they do business. Our employee surveys offer clients access to the world's largest normative database of employee attitudes and opinions, providing benchmarks for over 60 countries and 38 industries. Our human capital metrics database provides benchmarks on key workforce and human resources measures and analyzes how they link to and drive business performance.

We support clients in implementing new HR technology, including Workday, SAP and PeopleSoft. Our capabilities include business case development, project planning, requirements definition, process design and implementation services supported by our change management expertise. We also provide a broad array of proprietary technology solutions, including:

TalentREWARD, an integrated suite of applications that covers recruiting, performance management, global job leveling, compensation planning and administration, succession planning, career development, and learning management

Total Rewards portals and statements

Onboarding applications

HR portals

AnswerKey, a set of tools to help support HR shared services/call centers

### **Competition**

The human capital and risk management consulting and reinsurance brokerage industries are highly competitive. We believe there are significant barriers to entry and we have developed competitive advantages in providing human

resources consulting services. However, we face strong competition from several different sources. Our principal competitors in the global human resources consulting industry are Mercer HR Consulting (a Marsh & McLennan company) and Aon Hewitt Consulting (an Aon company). In addition to these firms, the industry includes other benefits and compensation firms and the human resources consulting divisions of diversified professional service firms, such as Deloitte, Accenture and PricewaterhouseCoopers. Beyond these large players, the global human resources consulting industry is highly fragmented.

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Our major competitors in the insurance consulting and solutions industry include Milliman, Oliver Wyman (a Marsh & McLennan company) and the big four accounting firms. In the reinsurance brokerage industry, our major competitors are Aon Benfield (an Aon company), Guy Carpenter (a Marsh & McLennan company) and Willis. The market for our services is subject to change as a result of economic, regulatory and legislative changes, technological developments, and increased competition from established and new competitors. We believe the primary factors in selecting a human resources or risk management consulting firm or reinsurance broker include reputation, the ability to provide measurable increases to shareholder value and return on investment, global scale, quality of service and the ability to tailor services to clients' unique needs. We believe we compete favorably with respect to these factors.

**Executive Officers of the Company**

As of August 17, 2011, the following individuals were executive officers of the Company:

**Walter W. Bardenwerper (age 60)** has served as Vice President, General Counsel and Secretary of Towers Watson since January 1, 2010. He served as Vice President and General Counsel of Watson Wyatt since joining Watson Wyatt in 1987 and served as Secretary since 1992. Mr. Bardenwerper was a director of Watson Wyatt & Company from 1992 to 1997. Mr. Bardenwerper was previously an attorney with Cadwalader, Wickersham & Taft and Assistant General Counsel and Secretary of Satellite Business Systems. Presently, Mr. Bardenwerper is a director of the Professional Consultants Insurance Company and has served on the board of directors of the Association of Management Consulting Firms. He has a B.A. with Honors in Economics and graduated Phi Beta Kappa from the University of Virginia, has a J.D. from the University of Virginia Law School and served as a law clerk to United States District Court Judge Albert W. Coffrin.

**James K. Foreman (age 53)** has served as Managing Director of the North America region of Towers Watson since January 1, 2010. Prior to the Merger, Mr. Foreman served as Managing Director of the Human Capital Group of Towers Perrin beginning June 2007, with overall responsibility for the global lines of business and geographic operations of Towers Perrin's Human Capital Group. Mr. Foreman joined Towers Perrin in 1985 and worked for almost 20 years at Towers Perrin in a number of leadership positions, including Managing Director of Towers Perrin's Health & Welfare practice and member of Towers Perrin's board of directors from 2003 to 2005, before joining Aetna Inc. in 2005 to become the executive vice president of their national businesses division. He rejoined Towers Perrin in June 2007. Mr. Foreman holds a B.A. in Business Economics from the University of California at Los Angeles.

**Julie J. Gebauer (age 50)** has served as Managing Director of Towers Watson's Talent and Rewards business segment since January 1, 2010. Beginning 2002, she served as a Managing Director of Towers Perrin and led Towers Perrin's global Workforce Effectiveness Practice and the global Towers Perrin-International Survey Research Corporation line of business. Ms. Gebauer was a member of Towers Perrin's board of directors from 2003 through 2006. She joined Towers Perrin in 1986 as a consultant and held several leadership positions at Towers Perrin, serving as the Managing Principal for the New York office from 1999 to 2001 and the U.S. East Region Leader for the Human Capital Group from 2002 to 2006. Ms. Gebauer is a fellow of the Society of Actuaries and is an Enrolled Actuary in the Joint Board for Enrolled Actuaries. Ms. Gebauer graduated Phi Beta Kappa from the University of Nebraska-Lincoln with a B.S. in Mathematics and English.

**Patricia L. Guinn (age 56)** has served as Managing Director of the Risk and Financial Services business segment of Towers Watson since January 1, 2010. Previously, she served as Managing Director of the Risk and Financial Services business group of Towers Perrin beginning in 2001. She was a member of Towers Perrin's board of directors from 2001 through 2004 and from 2007 until the consummation of the Merger. She joined Towers Perrin in 1976 and has held a number of leadership positions at the firm. She is a fellow of the Society of Actuaries, a member of the American Academy of Actuaries and a member of the Conference of Consulting Actuaries. Ms. Guinn graduated with honors from Hendrix College with a B.A. degree in Mathematics.

**John J. Haley (age 61)** has served as the Chief Executive Officer and as Chairman of the Board of Directors of Towers Watson since January 1, 2010. Previously, he served as President and Chief Executive Officer of Watson Wyatt beginning on January 1, 1999, as Chairman of the Board of Watson Wyatt beginning in 1999 and as a director of Watson Wyatt beginning in 1992. Mr. Haley joined Watson Wyatt in 1977. Prior to becoming President and Chief Executive Officer of Watson Wyatt, he was the Global Director of the Benefits Group at Watson Wyatt. Mr. Haley is

a Fellow of the Society of Actuaries and is a co-author of Fundamentals of Private Pensions (University of Pennsylvania Press). Mr. Haley also serves on the boards of MAXIMUS, Inc., a provider of health and human services program management, consulting services and system solutions, and Hudson Highland Group, Inc., an executive search, specialty staffing and related consulting services firm. He has an A.B. in Mathematics from Rutgers College and studied under a Fellowship at the Graduate School of Mathematics at Yale University.

**Mark V. Mactas (age 59)** has served as the President and Chief Operating Officer and as a director of Towers Watson since January 1, 2010. Mr. Mactas became Towers Perrin's Chief Executive Officer and Chairman of the Board of Directors in 2001, and became Towers Perrin's President in 2000. He joined Towers Perrin's New York office as an international consultant in 1980 and also spent

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seven years in Towers Perrin's San Francisco office and five years in Towers Perrin's Chicago office. Mr. Mactas previously managed Towers Perrin's global Health & Welfare practice and has served as a member of Towers Perrin's management committee. Mr. Mactas is a fellow of the Society of Actuaries and the Conference of Consulting Actuaries and is a member of the American Academy of Actuaries and the International Actuarial Association. In addition, he has served as president of the Conference of Consulting Actuaries and has served on the board of directors of the American Academy of Actuaries. He previously served on the board of directors and executive committee of the Association of Management Consulting Firms. He currently serves on the Executive Committee and the Board of Trustees of Save the Children. Mr. Mactas holds a B.A. degree in Mathematics and Economics from Lehigh University.

**Roger F. Millay (age 54)** has served as Vice President and Chief Financial Officer of Towers Watson since January 1, 2010, and he previously held the same position at Watson Wyatt from August 2008 until the consummation of the Merger. Prior to joining Watson Wyatt, Mr. Millay was with Discovery Communications LLC, a global cable TV programmer and digital media provider, where he served as Senior Executive Vice President and Chief Financial Officer beginning in 2006. At Discovery, he was responsible for the global financial functions, including accounting, treasury, budgeting, audit and tax. From 1999 to 2006, Mr. Millay was Senior Vice President and Chief Financial Officer with Airgas, Inc., an industrial gases and supplies distributor and producer. Mr. Millay has over 25 years of experience in financial officer positions, including roles at Arthur Young & Company, Citigroup, and GE Capital. He holds a B.A. degree from the University of Virginia and an M.S. in Accounting from Georgetown University's Graduate School of Business, and he is a Certified Public Accountant.

**Chandrasekhar (Babloo) Ramamurthy (age 55)** has served as Managing Director for Towers Watson in Europe, the Middle East and Africa since January 1, 2010. He was Vice President, Regional Manager (Europe) of Watson Wyatt from 2005 until the consummation of the Merger, and he served as a member of Watson Wyatt's board of directors from 2005 to 2008. He joined The Wyatt Company in 1977. Following the establishment of the global Watson Wyatt Worldwide alliance in 1995, Mr. Ramamurthy became a partner of Watson Wyatt LLP. Mr. Ramamurthy was based primarily in London, although between 1983 and 1986 he transferred to the international benefits and compensation consulting team based in the New York region, where he dealt primarily with the head offices of U.S. multinational companies. Upon returning to Europe, Mr. Ramamurthy was the account manager for a number of the company's major clients in the U.K., advising on a broad range of human capital and employee benefits issues both in the U.K. and overseas. Mr. Ramamurthy was the Head of the European Benefits Consulting Practice from 1999 to 2004, before being appointed Managing Partner of Watson Wyatt LLP in 2004, and has also served on Watson Wyatt LLP's Partnership Board. Mr. Ramamurthy holds an honours degree in Mathematics from King's College, London.

**Gene H. Wickes (age 59)** has served as the Managing Director of the Benefits business segment of Towers Watson since January 1, 2010. Previously, he served as the Global Director of the Benefits Practice of Watson Wyatt beginning in 2005 and as a member of Watson Wyatt's board of directors from 2002 to 2007. Mr. Wickes was Watson Wyatt's Global Retirement Practice Director in 2004 and the U.S. West Division's Retirement Practice Leader from 1997 to 2004. Mr. Wickes joined Watson Wyatt in 1996 as a senior consultant and consulting actuary. Prior to joining Watson Wyatt, he spent 18 years with Towers Perrin, where he assisted organizations with welfare, retirement, and executive benefit issues. Mr. Wickes is a Fellow of the Society of Actuaries and has a B.S. in Mathematics and Economics, an M.S. in Mathematics and an M.S. in Economics, all from Brigham Young University.

**Employees**

We employed approximately 13,100 full-time associates as of June 30, 2011 in the segments listed below; in addition, we have a number of part-time and contract associates whose numbers fluctuate based on short-term demands.

	<b>As of June 30,</b>	
	<b>2011</b>	<b>2010</b>
Benefits	6,300	6,200
Risk and Financial Services	2,300	2,000
Talent and Rewards	2,100	2,000

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Other	300	200
Business Services (incl. Corporate and field support)	2,100	2,400
Total associates	13,100	12,800

***Access to Public Filings, Code of Business Conduct and Ethics and Board Committee Charters***

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports are available, without charge, on our web site ([www.towerswatson.com](http://www.towerswatson.com)) or the Securities and Exchange Commission ( SEC ) web site ([www.sec.gov](http://www.sec.gov)), as soon as reasonably practicable after they are electronically with, or furnished to, the SEC. We have also adopted a Code of Business Conduct and Ethics applicable to all associates, senior financial employees, the principal executive



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officer, other officers and members of senior management. We also have a Code of Business Conduct and Ethics that applies to all of our directors. Both codes are posted on our website. Any amendments to the codes or any waivers of the director code requirements, or to the Code of Business Conduct and Ethics for any of our Chief Executive Officer, Chief Financial Officer, or our Chief Accounting Officer and Controller will be disclosed on our website or in a Form 8-K. Towers Watson's Audit Committee, Compensation Committee, Nominating and Governance Committee and Risk Committee all operate pursuant to written charters adopted by our board of directors, which are available on our website. We have also adopted a set of Corporate Governance Guidelines, copies of which are available on our website. Copies of all these documents are also available, without charge, from our Investor Relations Department at 901 N. Glebe Road, Arlington, VA 22203.

### **Item 1A Risk Factors.**

In addition to the factors discussed elsewhere in this Annual Report, the following are some of the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements. These risk factors should be carefully considered in evaluating our business. The descriptions below are not the only risks and uncertainties that we face. Additional risks and uncertainties that are presently unknown to us may also impair our business operations, financial condition or results. If any of the risks and uncertainties below or other risks were to occur, our business operations, financial condition or results of operations could be materially and adversely impacted.

***If we are not able to successfully integrate the operations of Towers Perrin and Watson Wyatt, we may fail to realize the anticipated growth opportunities and other anticipated benefits of the Merger.***

We face significant challenges in integrating Towers Perrin's and Watson Wyatt's technologies, organizations, procedures, policies and operations, as well as in addressing differences in the business cultures of the two companies, and retaining key Towers Perrin and Watson Wyatt personnel. The integration process is complex and time consuming and requires substantial resources and effort. These efforts could divert management's focus and resources from other strategic opportunities and from business operations during the integration process. Difficulties may occur during the integration process, including:

Loss of key officers and employees;

Loss of key clients;

Loss of revenues; and

Increases in operating, tax or other costs.

The success of the Merger will depend in part on our ability to realize the anticipated growth opportunities and cost savings from integrating the businesses of Towers Perrin and Watson Wyatt, while minimizing or eliminating any difficulties that may occur. Even if the integration of the businesses of Towers Perrin and Watson Wyatt is successful, it may not result in the realization of the full benefits of the growth opportunities that we currently expect or these benefits may not be achieved within the anticipated time frame. Any failure to timely realize these anticipated benefits could have a material adverse effect on our revenues, expenses and results of operations.

***The effects of the Merger may be dilutive to our earnings per share in the short term, and our estimates of the operational cost savings we expect to result from the Merger and of the costs we expect will be required to achieve such savings are inherently uncertain and may not be accurate, and we may not be able to achieve the operational cost savings in the expected time frame or at all.***

While we expect to realize significant savings during the first three years following completion of the Merger, it is uncertain if we will achieve these savings, and the effects of the Merger may be dilutive to our earnings per share in the short term. We anticipate that full realization of pretax annual operational cost savings will take at least three years to achieve. Our operational cost savings estimates are based on a number of assumptions, including the assumption that we will be able to implement cost saving programs such as personnel reductions and consolidation of operations, technologies, and administrative functions. In addition, our estimated expenses required to achieve operational cost savings do not include certain other costs we expect to incur, including those relating to rebranding, lease termination costs and facilities consolidation, among others. We may not be able to achieve the operational cost savings that we

anticipate in the expected time frame, based on the expected costs or at all. Failure to successfully implement cost savings programs on a timely basis, or the need to spend more than anticipated to implement such programs, will result in lower than expected cost savings in connection with the Merger and could have a material adverse effect on our operating results.

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***Changes in Towers Watson's compensation structure relative to each of Towers Perrin's and Watson Wyatt's current compensation structures could impair Towers Watson's ability to retain certain current associates of each of Towers Perrin and Watson Wyatt.***

In order to meet our operating margin goals and increase our level of retained earnings, we have changed Towers Perrin's and Watson Wyatt's respective compensation structures. In particular, Towers Perrin, as a private company, had not retained a significant amount of annual earnings, resulting in significant flexibility to vary its levels of cash compensation. Our compensation practices are different from Towers Perrin's pre-merger practices, because a larger proportion of earnings will be retained compared to Towers Perrin's historical practice, which may affect, in particular, Towers Watson's ability to retain current associates formerly of Towers Perrin accustomed to the historical compensation structure of Towers Perrin as a private company. The changes in compensation structure could materially adversely affect Towers Watson's ability to retain current former Towers Perrin and Watson Wyatt associates if they do not perceive Towers Watson's total compensation program to be competitive with that of other firms.

***The loss of key associates could damage or result in the loss of client relationships and could result in such associates competing against Towers Watson.***

Our success depends on our ability to attract, retain and motivate qualified personnel, including key managers and associates. In addition, our success largely depends upon our associates' abilities to generate business and provide quality services. In particular, our associates' business relationships with our clients are a critical element of obtaining and maintaining client engagements. If we lose associates who manage substantial client relationships or possess substantial experience or expertise or if we are unable to successfully attract new talent, it could materially adversely affect our ability to secure and complete engagements, which would materially adversely affect our results of operations and prospects. In addition, if any of our key associates were to join a competitor or form a competing company, existing and potential clients could choose to use the services of that competitor instead of Towers Watson's services.

There can be no assurance that confidentiality and non-solicitation/non-competition agreements signed by senior associates who were former Towers Perrin or Watson Wyatt associates before the merger of equals between the two entities, or agreements signed by Towers Watson associates in the future, will be effective in preventing a loss of business.

***Our clients could terminate or reduce our services at any time, which could decrease associate utilization, adversely impacting our profitability and results of operations.***

Our clients generally are able to terminate or reduce our engagements at any time. If a client reduces the scope of, or terminates the use of, our services with little or no notice, our associate utilization will decline. In such cases, we will need to rapidly re-deploy our associates to other engagements (if possible) in order to minimize the potential negative impact on our financial performance. In addition, because a sizeable portion of our work is project-based rather than recurring in nature, our associate utilization will depend on our ability to continually secure additional engagements.

***Our quarterly revenues could fluctuate while our expenses are relatively fixed.***

Quarterly variations in our revenues and results of operations have occurred in the past and could occur as a result of a number of factors, such as:

The significance of client engagements commenced and completed during a quarter;

The seasonality of certain types of services. For example, our retirement revenues typically are more heavily weighted toward the first and fourth quarters of the calendar year, when annual actuarial valuations are required to be completed for calendar year-end companies and the related services are performed;

The number of business days in a quarter;

Associate hiring and utilization rates;

Clients' ability to terminate engagements without penalty;

The size and scope of assignments; and

General economic conditions.

A sizeable portion of our total operating expenses is relatively fixed, encompassing the majority of administrative, occupancy, communications and other expenses, depreciation and amortization, and salaries and employee benefits excluding fiscal year-end incentive bonuses. Therefore, a variation in the number of client assignments or in the timing of the initiation or the completion of client assignments or our inability to forecast demand can cause significant variations in quarterly operating results and could result in losses and volatility in our stock price.

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***Improper management of our engagements could hurt our financial results.***

Most of our contracts are structured on a fixed-fee basis or a time-and-expense basis. The profitability of our fixed-fee engagements depends on our ability to correctly estimate the costs and timing required for completion of the engagements and our ability to control our costs and improve our efficiency. The profitability of the engagements that are priced on a time-and-expense basis depends on our ability to maintain competitive billing rates, as well as our ability to control our costs. If we do not correctly estimate the costs and manage the performance of our engagements, we may incur losses on individual engagements and experience lower profit margins and, as a result, our overall financial results could be materially adversely affected.

***The trend of employers shifting from defined benefit plans to defined contribution plans could materially adversely affect our business and results of operations.***

Our retirement consulting and actuarial business comprises a substantial portion of our revenue and profit. We provide clients with actuarial and consulting services relating to both defined benefit and defined contribution pension plans. Defined benefit pension plans generally require more actuarial services than defined contribution plans because defined benefit plans typically involve large asset pools, complex calculations to determine employer costs, funding requirements and sophisticated analysis to match liabilities and assets over long periods of time. If organizations shift to defined contribution plans more rapidly than we anticipate, or if we are unable to otherwise compensate for the decline in our business that results from employers moving away from defined benefit plans, our business operations and related results of operations will be materially adversely affected.

***Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government regulations or if government regulations decrease the need for our services or increase our costs.***

A material portion of our revenue is affected by statutory changes. Many areas in which we provide services are the subject of government regulation, which is constantly evolving. Changes in government and accounting regulations in the United States and the United Kingdom, two of our principal geographic markets, affecting the value, use or delivery of benefits and human capital programs, including recent changes in regulations relating to health care (such as medical plans), defined contribution plans (such as 401(k) plans), defined benefit plans (such as pension plans) or executive compensation, may materially adversely affect the demand for, or the profitability of, our services. Changes to insurance regulatory schemes, or our failure to keep pace with such changes, could negatively affect demand for services in our Risk and Financial Services business segment. For example, our continuing ability to provide investment advisory services or reinsurance brokerage services depends on compliance with the rules and regulations in each of these jurisdictions. Any failure to comply with these regulations could lead to disciplinary action, including compensating clients for loss, the imposition of fines or the revocation of the authorization to operate as well as damage to our reputation.

In addition, we have significant operations throughout the world, which further subject us to applicable laws and regulations of countries outside the United States and the United Kingdom. Changes in legislation or regulations and actions by regulators in particular countries, including changes in administration and enforcement policies, could require operational improvements or modifications, which may result in higher costs or hinder our ability to operate our business in those countries.

If we are unable to adapt our services to applicable laws and regulations, our ability to provide effective services in these areas will be substantially diminished.

***Our business could be negatively affected by currently proposed or future legislative or regulatory activity concerning compensation consultants.***

Recent legislative and regulatory activity in the United States has focused on the independence of compensation consultants retained to provide advice to compensation committees of publicly traded companies. On December 16, 2009, the SEC published final rules, which became effective in February 2010, with respect to issuer disclosures on compensation consultants. Among other requirements, the rules require disclosure of fees paid to compensation consultants as well as a description of any additional services provided to the issuer by the compensation consultant and its affiliates and the aggregate fees paid for such services. Due in part to this regulation and continued legislative activity, prior to the Merger, some clients of Towers Perrin and Watson Wyatt and, after the Merger, some clients of Towers Watson decided to terminate their relationships with the respective company (either with respect to

compensation consulting services or with respect to other consulting services) to avoid perceived or potential conflicts of interest.

In addition, on July 21, 2010, the U.S. President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires the SEC to issue rules directing national securities exchanges and associations to require the compensation committee of a listed company to consider the independence of an advisor when selecting a compensation consultant. The SEC is required to identify factors affecting independence.

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On March 30, 2011, the SEC issued proposed rules to implement these provisions of the Dodd-Frank Act pertaining to the role of, and certain disclosure relating to, compensation consultants. The proposed rules would require the national security exchanges to adopt listing standards requiring a company's compensation committee to consider certain independence factors, including whether the compensation consultant's firm provides other services to the company, before selecting a compensation consultant. The proposed rules would also require a company to disclose in its proxy statement whether its compensation committee has retained or obtained the advice of a compensation consultant, whether the work of the compensation consultant raised any conflicts of interest, and if so, the nature of the conflicts and how any such conflicts are being addressed.

The proposed rules do not require that the selected compensation consultant be independent. But if the proposed rules are adopted substantially in their current form and companies' compensation committees engage compensation consultants that do not perform any other services for the company, then this could cause additional clients to terminate their relationships with Towers Watson (either with respect to compensation consulting services or with respect to other consulting services) to avoid perceived or potential conflicts of interest. If this happens, the future termination of such relationships could have a material adverse effect on our business, financial condition and results of operations.

In addition, due in part to such regulation and continued legislative activity, some former Towers Perrin, Watson Wyatt or Towers Watson consultants terminated their relationships with us, and many have begun to compete with us or have indicated that they intend to compete with us. Such talent migration, and any future such talent migration, could have a material adverse effect on our business, financial condition and results of operations.

### ***Competition could result in loss of our market share and reduced profitability.***

The markets for our principal services are highly competitive. Our competitors include other human capital and risk management consulting and actuarial firms, as well as the human capital and risk management divisions of diversified professional services, insurance, brokerage and accounting firms. Some of our competitors have greater financial, technical and marketing resources than us, which could enhance their ability to finance acquisitions, fund internal growth and respond more quickly to professional and technological changes. Some competitors have or may develop a lower cost structure. New competitors or alliances among competitors could emerge, creating additional competition and gaining significant market share, resulting in a loss of business for us and a corresponding decline in revenues and profit margin. In order to respond to increased competition and pricing pressure, we may have to lower our prices, which would also have an adverse effect on our revenues and profit margin.

### ***Consolidation in the industries that we serve could materially adversely affect our business.***

Companies in the industries that we serve may seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If two or more of our clients merge or consolidate and combine their operations, we may experience a decrease in the amount of services we perform for these clients. If one of our clients merges or consolidates with a company that relies on another provider for its services, we may lose work from that client or lose the opportunity to gain additional work. The increased market power of larger companies could also increase pricing and competitive pressures on us. Any of these possible results of industry consolidation could materially adversely affect our revenues and profits. Our reinsurance brokerage business is especially susceptible to this risk given the limited number of insurance companies seeking reinsurance and reinsurance providers in the marketplace.

### ***We are subject to risks of doing business internationally.***

For the year ended June 30, 2011, 51% of our revenue relates to business located outside the United States. As a result, a significant portion of our business operations is subject to foreign financial, tax and business risks, which could arise in the event of:

Currency exchange rate fluctuations;

Unexpected increases in taxes or changes in U.S. or foreign tax laws;

Compliance with a variety of international laws and regulations, such as data privacy, employment regulations, trade barriers and restrictions on the import and export of technologies, as well as U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act of 1977 and sanctions

programs administered by the U.S. Department of the Treasury Office of Foreign Assets Control, and similar foreign laws such as the U.K. Bribery Act;

Absence in some jurisdictions of effective laws to protect our intellectual property rights;

New regulatory requirements or changes in policies and local laws that materially affect the demand for our services or directly affect our foreign operations;

Local economic and political conditions, including unusual, severe, or protracted recessions in foreign economies and inflation risk;

The length of payment cycles and potential difficulties in collecting accounts receivable, particularly in light of the number of insolvencies in the current economic environment and the numerous bankruptcy laws to which they are subject;

Unusual and unexpected monetary exchange controls, price controls or restrictions on transfers of cash; or



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Civil disturbance, terrorism or other catastrophic events that reduce business activity in other parts of the world.

These factors may lead to decreased revenues or profits and therefore may have a material adverse effect on our business, financial condition and results of operations.

***Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.***

Should we experience a disaster or other business continuity problem, such as an earthquake, hurricane, terrorist attack, pandemic, security breach, power loss, telecommunications failure or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, we could experience near-term operational challenges with regard to particular areas of our operations.

In particular, our ability to recover from any disaster or other business continuity problem will depend on our ability to protect our technology infrastructure against damage from business continuity events that could have a significant disruptive effect on our operations. We could potentially lose client data or experience material adverse interruptions to our operations or delivery of services to our clients in a disaster.

We will continue to regularly assess and take steps to improve upon our business continuity plans. However, a disaster on a significant scale or affecting certain of our key operating areas within or across regions, or our inability to successfully recover should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm, damaged client relationships or legal liability.

***Demand for our services could decrease for various reasons, including a general economic downturn, a decline in a client's or an industry's financial condition or prospects, or a decline in defined benefit pension plans that could materially adversely affect our results of operations.***

We can give no assurance that the demand for our services will grow or that we will compete successfully with our existing competitors, new competitors or our clients' internal capabilities. Client demand for our services may change based on the clients' needs and financial conditions.

Our results of operations are affected directly by the level of business activity of our clients, which in turn are affected by the level of economic activity in the industries and markets that they serve. Economic slowdowns in some markets, particularly in the United States, have caused and may continue to cause reduction in discretionary spending by our clients, result in longer client payment terms, an increase in late payments by clients and an increase in uncollectible accounts receivable, each of which may reduce the demand for our services, increase price competition and adversely impact our growth, profit margins and liquidity. If our clients enter bankruptcy or liquidate their operations (which has already occurred with respect to some of our current clients), our revenues could be materially adversely affected.

In addition, the demand for many of our core benefit services, including compliance-related services, is affected by government regulation and taxation of employee benefit plans. Significant changes in tax or social welfare policy or other regulations could lead some employers to discontinue their employee benefit plans, including defined benefit pension plans, thereby reducing the demand for our services. A simplification of regulations or tax policy also could reduce the need for our services.

***The unaudited pro forma financial data included in this Annual Report are illustrative and the actual financial condition and results of operations of Towers Watson may differ materially from the historical financial statements of Watson Wyatt and the unaudited pro forma financial data included in this Annual Report.***

The unaudited pro forma financial data included in this Annual Report are presented solely for illustrative purposes and are not necessarily indicative of what our results of operations would have been had the Merger been completed on the date indicated. The pro forma financial data reflect adjustments that were developed using preliminary estimates based on currently available information and certain assumptions, and may be revised as additional information becomes available. Accordingly, the unaudited pro forma financial data included in this Annual Report are illustrative only. The results of operations of Towers Watson will differ materially from the historical financial statements of Watson Wyatt and may also differ materially from the unaudited pro forma financial data included in this Annual Report.



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***Our growth strategy depends, in part, on our ability to make acquisitions, and if we have difficulty in acquiring, overpay for, or are unable to acquire other businesses, our business may be materially adversely affected.***

Our growth depends in part on our ability to make acquisitions. We may not be successful in identifying appropriate acquisition candidates or consummating acquisitions on terms acceptable or favorable to us, on the proposed timetables, or at all. We also face additional risks related to acquisitions such as our recent acquisitions of Aliquant and EMB, including that we could overpay for acquired businesses and that any acquired business could significantly underperform relative to our expectations. If we are unable to identify and successfully make acquisitions, our business could be materially adversely affected.

***We face risks when we acquire businesses, and may have difficulty integrating or managing acquired businesses, which may harm our business, financial condition, results of operations or reputation.***

We may acquire other companies in the future. We cannot be certain that our acquisitions will be accretive to earnings or otherwise meet our operational or strategic expectations. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies and difficulties in integrating acquired businesses, and acquired businesses may not achieve the levels of revenue, profit or productivity we anticipate or otherwise perform as we expect. In addition, if the operating performance of an acquired business deteriorates significantly, we may need to write down the value of the goodwill and other acquisition-related intangible assets recorded on our balance sheet. We may be unable to effectively integrate an acquired business, such as the recently acquired Aliquant and EMB businesses, into our organization, and may not succeed in managing such acquired businesses or the larger company that results from such acquisitions. The process of integration of an acquired business may subject us to a number of risks, including:

Diversion of management attention;

Amortization of intangible assets, adversely affecting our reported results of operations;

Inability to retain the management, key personnel and other employees of the acquired business;

Inability to establish uniform standards, controls, systems, procedures and policies;

Inability to retain the acquired company's clients;

Exposure to legal claims for activities of the acquired business prior to acquisition; and

Incurrence of additional expenses in connection with the integration process.

If acquisitions are not successfully integrated, our business, financial condition and results of operations could be materially adversely affected, as well as our professional reputation.

***Damage to our reputation could damage our businesses.***

Maintaining a positive reputation is critical to our ability to attract and maintain relationships with clients and associates. Damage to our reputation could therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory action, failure to deliver minimum standards of service and quality, compliance failures and unethical behavior. Negative publicity regarding us, whether or not true, may also result in harm to our prospects.

We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. The failure or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions. There can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

***We could be subject to claims arising from our work, as well as government inquiries and investigations, which could materially adversely affect our reputation, business and financial condition.***

Professional services providers, including those in the human capital and risk management sectors such as Towers Watson, depend in large part on their relationships with clients and their reputation for high-quality services. Clients

that may become dissatisfied with our services may terminate their business relationships with us and clients and third parties that claim they suffered damages caused by our services may bring lawsuits against us. The nature of our work, particularly our actuarial services, necessarily involves the use of assumptions and the preparation of estimates relating to future and contingent events, the actual outcome of which we cannot know in advance. Our actuarial services also rely on substantial amounts of data provided by clients, the accuracy and quality of which we cannot ensure. In addition, we could make computational, software programming or data management errors in connection with the services we provide to clients.

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Clients may seek to hold us responsible for the financial consequences of variances between assumptions and estimates and actual outcomes or for errors. For example, clients may make:

Claims that actuarial assumptions were unreasonable or that there were computational errors leading to pension plan underfunding or under-reserving for insurance claim liabilities;

Claims of failure to review adequately or detect deficiencies in data, which could lead to an underestimation of pension plan or insurance claim liabilities; and

Claims that employee benefit plan documents were misinterpreted or plan amendments were faulty, leading to unintended plan benefits or overpayments to beneficiaries.

Given that we frequently work with large pension funds and insurance companies, relatively small percentage errors or variances can create significant financial variances and result in significant claims for unintended or unfunded liabilities. The risks from such variances or errors could be aggravated in an environment of declining pension fund asset values and insurance company capital levels. In almost all cases, our exposure to liability with respect to a particular engagement is substantially greater than the revenue opportunity that the engagement generates for us. In the case of liability for pension plan actuarial errors, a client's claims might focus on the client's alleged reliance that actuarial assumptions were reasonable and, based on such reliance, the client made benefit commitments the client may later claim are not affordable or funding decisions that result in plan underfunding if and when actual outcomes vary from actuarial assumptions.

Lawsuits arising out of any of our services could adversely affect our financial performance and financial condition and could result in increased insurance costs or a reduction in the amount of available insurance coverage. In addition to defense costs and liability exposure, which may be significant, claims may produce negative publicity that could hurt our reputation and business and could require substantial amounts of management attention, which could affect management's focus on operations.

Finally, we may be subject to inquiries and investigations by federal, state or other governmental agencies regarding aspects of our clients' businesses or our own businesses, especially regulated businesses such as our broker-dealer and investment advisory services. Such inquiries or investigations may consume significant management time and result in regulatory sanctions, fines or other actions as well as significant legal fees, which could have a material adverse impact on our business, results of operations and liquidity.

***We advise or act on behalf of clients regarding investments whose results are not guaranteed, and clients that experience investment return shortfalls may assert claims against us.***

We provide advice on both asset allocation and selection of investment managers. For some clients, we are responsible for making decisions on both these matters, or we may serve in a fiduciary capacity. Asset classes may experience poor absolute performance, and investment managers may underperform their benchmarks; in both cases the investment return shortfall can be significant. Clients experiencing this underperformance may assert claims against us, and such claims may be for significant amounts. Defending against these claims can involve potentially significant costs, including legal defense costs. Our ability to limit our potential liability may be limited in certain jurisdictions or in connection with claims involving breaches of fiduciary duties or other alleged errors or omissions.

***Our investment activities may require specialized operational competencies, and if we fail to properly execute our role in cash and investment management, our clients or third parties may assert claims against us.***

For certain clients, we are responsible for some portions of cash and investment management, including rebalancing of investment portfolios and guidance to third parties on structure of derivatives and securities transactions. Our failure to properly execute our role can cause monetary damage to our clients or such third parties for which we might be found liable, and such claims may be for significant amounts. Defending against these claims can involve potentially significant costs, including legal defense costs. Our ability to limit our potential liability may be constrained in certain jurisdictions.

***Towers Watson may be engaged in providing services outside the core human capital and risk management business currently conducted by Towers Perrin and Watson Wyatt, which may carry greater risk of liability.***

We continue to grow the business of providing professional services to institutional investors and financial services companies. The risk of claims from these lines of business may be greater than from our core human capital and risk management business, and such claims may be for significant amounts. For example, we may assist a pension plan to hedge its exposure to changes in interest rates. If the hedge does not perform as expected, we could be exposed to claims. Contractual provisions intended to mitigate risk may not be enforceable.

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***Our business faces rapid technological change, and our failure to respond to this change quickly could materially adversely affect our business.***

To remain competitive in the business lines in which we engage, we have to identify and offer the most current technologies and methodologies. In some cases, significant technology choices and investments are required. If we do not respond correctly, quickly or in a cost-effective manner, our business and results of operations might be harmed. The effort to gain technological expertise and develop new technologies in our business may require us to incur significant expenses and, in some cases, to implement these new technologies globally, particularly with respect to the integration activities that are ongoing in connection with the Merger. If we cannot offer new technologies as quickly or effectively as our competitors, we could lose market share. We also could lose market share if our competitors develop more cost-effective technologies than we will offer or develop.

***Limited protection of our intellectual property could harm our business, and we face the risk that our services or products may infringe upon the intellectual property rights of others.***

We cannot guarantee that trade secret, trademark and copyright law protections are adequate to deter misappropriation of our intellectual property (including our software, which may become an increasingly important part of our business). Existing laws of some countries in which we provide services or products may offer only limited protection of our intellectual property rights. Redressing infringements may consume significant management time and financial resources. Also, we may be unable to detect the unauthorized use of our intellectual property and take the necessary steps to enforce our rights, which may have a material adverse impact on our business, financial condition or results of operations. We cannot be sure that our services and products, or the products of others that we offer to our clients, do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us or our clients. These claims may harm our reputation, result in financial liability and prevent us from offering some services or products.

***We could have liability or our reputation could be damaged if we do not protect client data or information systems or if our information systems are breached.***

We depend on information technology networks and systems to process, transmit and store electronic information and to communicate among our locations around the world and with our alliance partners and clients. Security breaches could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. We also are required at times to manage, utilize and store sensitive or confidential client or employee data. As a result, we are subject to numerous U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as the European Union Directive on Data Protection and various U.S. federal and state laws governing the protection of health or other individually identifiable information. If any person, including any of our associates, fails to comply with, disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, fines or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, accident, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our associates or third parties, could result in significant additional expenses (including expenses relating to notification of data security breaches and costs of credit monitoring services), negative publicity, legal liability and damage to our reputation, as well as require substantial resources and effort of management, thereby diverting management's focus and resources from business operations.

***Insurance may become more difficult or expensive to obtain.***

The availability, terms and price of insurance are subject to many variables, including general insurance market conditions, loss experience in related industries and in the actuarial and benefits consulting industry, and the specific claims experience of an individual firm. We are subject to various regulatory requirements relating to insurance as well as client requirements. There can be no assurance that we will be able to obtain insurance at cost-effective rates or with reasonable retentions. Increases in the cost of insurance could affect our profitability and the unavailability of insurance to cover certain risks could have a material adverse effect on our financial condition or our ability to transact business in certain geographic areas, particularly in any specific period.

***Towers Watson and its subsidiaries could encounter significant obstacles in securing adequate insurance coverage for errors and omissions liability risks on favorable or acceptable terms.***

Towers Perrin and Watson Wyatt each historically obtained primary insurance for errors and omissions liability risks from a Vermont-regulated group captive insurance company known as Professional Consultants Insurance Company, Inc. (which we refer to as PCIC ). The stockholders and insureds of PCIC were legacy Towers Perrin, legacy Watson Wyatt and Milliman, Inc. ( Milliman ).



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On January 1, 2010, the effective date of the Merger of Towers Perrin and Watson Wyatt, Towers Watson became the owner of 72.8% of the stock of PCIC.

Towers Perrin and Watson Wyatt provided PCIC with notice of non-renewal of the respective PCIC policies of insurance that expired at 12:01 a.m. on July 1, 2010. PCIC provided a notice of non-renewal to Milliman and will not issue a policy of insurance to Milliman for the policy period starting July 1, 2010 or thereafter. PCIC will continue to operate in order to pay losses arising from claims reported by its insureds during the periods covered by previously issued policies of insurance.

Since July 1, 2010, we have obtained our primary insurance for errors and omissions liability risks from a Vermont-regulated wholly owned captive insurance company known as Stone Mountain Insurance Company ( Stone Mountain ). Stone Mountain has secured reinsurance for a portion of the Towers Watson risks it underwrites. Towers Watson has secured excess errors and omissions liability coverage above the coverage provided by Stone Mountain in amounts we consider to be prudent. Stone Mountain has issued a policy of insurance to us that is substantially similar in form to the policy of insurance issued by PCIC.

The combination of the formation of Stone Mountain, which essentially results in self-insurance by us of our primary errors and omissions risk, and our controlling ownership interest in PCIC and the accompanying requirement that we consolidate PCIC's financial results into our financial results is likely to result in increased earnings volatility for us. In addition, the inability of Stone Mountain to secure reinsurance or our inability to secure excess errors and omissions professional liability coverage in the future could have a material adverse impact on our financial condition or our ability to transact business in certain geographic areas, particularly in any specific period.

### ***We have material pension liabilities that can fluctuate significantly.***

Towers Perrin and Watson Wyatt have material pension liabilities, which were assumed by us on January 1, 2010. The combined projected benefit obligation for legacy Towers Perrin and legacy Watson Wyatt pension and other postretirement benefit plans at June 30, 2011 was \$3.6 billion, of which \$876.1 million represented unfunded pension and postretirement liabilities. Movements in the interest rate environment, inflation or changes in other assumptions that are used for the estimates of our benefit obligations and other factors could have a material effect on the level of liabilities in these plans at any given time. These pension plans have minimum funding requirements that may require material amounts of periodic additional funding. Cash required to fund pension plans may have to be diverted from other corporate initiatives.

### ***Towers Perrin and Towers Watson are defendants in several lawsuits commenced by former Towers Perrin shareholders.***

On November 5, 2009, certain former Towers Perrin shareholders commenced a legal proceeding in the United States District Court for the Eastern District of Pennsylvania (the *Dugan Action* ) against Towers Perrin, members of its board of directors, and certain members of senior management. Plaintiffs are former members of Towers Perrin's senior management who left Towers Perrin at various times between 1995 and 2000. They seek to represent a class of former Towers Perrin shareholders who separated from service on or after January 1, 1971, and who meet certain other specified criteria. Although the complaint in the *Dugan Action* does not contain a quantification of the damages sought, on December 9, 2009, plaintiffs made a settlement demand on Towers Perrin of \$800 million to settle the action on behalf of the proposed class.

On December 17, 2009, four other former Towers Perrin shareholders, all of whom voluntarily left Towers Perrin in May or June 2005 and all of whom are excluded from the proposed class in the *Dugan Action*, commenced a separate legal proceeding (the *Allen Action* ) in the United States District Court for the Eastern District of Pennsylvania alleging the same claims in a form similar to those alleged in the *Dugan Action*. These plaintiffs are proceeding in their individual capacities and do not seek to represent a proposed class.

On January 15, 2010, another former Towers Perrin shareholder who separated from service in March 2005 when Towers Perrin and Electronic Data Systems, Inc. launched a joint venture that led to the creation of a corporate entity known as ExcellerateHRO ( eHRO ), commenced a separate legal proceeding (the *Pao Action* ) in the United States District Court for the Eastern District of Pennsylvania, also alleging the same claims in a form similar to those alleged in the *Dugan Action*. The plaintiff in this action, in which Towers Watson also is named as a defendant, seeks to represent a class of former Towers Perrin shareholders who separated from service in connection with the formation

of eHRO and who are excluded from the proposed class in the *Dugan Action*.

The complaints assert claims for breach of contract, breach of express trust, breach of fiduciary duty, promissory estoppel, quasi-contract/unjust enrichment, and constructive trust, and seek equitable relief including an accounting, disgorgement, rescission and/or restitution, and the imposition of a constructive trust. On January 20, 2010, the United States District Court for the Eastern District of Pennsylvania consolidated the three actions for all purposes. On February 22, 2010, defendants filed a motion to dismiss the complaints in their entirety. By order dated September 30, 2010, the court granted the motion to dismiss plaintiffs' claim for a constructive trust and denied the motion with respect to all other claims alleged. Pursuant to the court's September 30 order,

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defendants also filed answers to plaintiffs' complaints on October 22, 2010. The parties are currently engaged in fact discovery. We believe the claims are without merit and intend to continue to vigorously defend against the actions. We are likely to incur significant costs defending against these claims. The outcome of these legal proceedings is inherently uncertain and could be unfavorable to us.

***Our reinsurance brokerage business could be subject to claims arising from its work, which could materially adversely affect our reputation and business.***

Our reinsurance brokerage business may be subject to claims brought against it by clients or third parties. Clients are likely to assert claims if they fail to make full recoveries in respect of their own claims. If reinsurers with whom we place business for our clients become insolvent or otherwise fail to make claims payments, this may also result in claims against us.

Our reinsurance business assists its clients in placing reinsurance and handling related claims, which could involve substantial amounts of money. If our work results in claims, claimants may seek large damage awards and defending these claims can involve potentially significant costs and may not be successful. Claims could, by way of example, arise as a result of our reinsurance brokers failing to:

Place the reinsurance coverage requested by the client;

Report claims on a timely basis or as required by the reinsurance contract or program;

Communicate complete and accurate information to reinsurers relating to the risks being reinsured; or

Appropriately model or advise our clients in relation to the extent and scope of reinsurance coverage that is advisable for a client's needs.

Moreover, Towers Perrin's reinsurance brokerage contracts generally do not limit the maximum liability to which Towers Perrin, as a subsidiary of Towers Watson, may be exposed for claims involving alleged errors or omissions.

***Reinsurance brokerage revenue is influenced by factors that are beyond our control, and volatility or declines in premiums or other trends in the insurance and reinsurance markets could significantly undermine the profitability of our reinsurance brokerage business.***

For the year ended June 30, 2011, we derived approximately five percent of our consolidated revenue from our reinsurance brokerage business, which in turn derives a majority of its revenue from commissions. Revenue earned in our capacity as a reinsurance broker is based in large part on the rates that the global reinsurance marketplace prices for risks. For example, we do not determine reinsurance premiums on which commissions are generally based.

Premiums are cyclical in nature and may vary widely based on market conditions. When premium rates decline, the commissions and fees earned for placing certain reinsurance contracts and programs also tend to decrease. When premium rates rise, we may not be able to earn increased revenue from providing brokerage services because clients may purchase less reinsurance, there may be less reinsurance capacity available, or clients may negotiate a reduction to the compensation rate or a reduced fee for our services.

To the extent our clients are or become materially adversely affected by declining business conditions in the current economic environment, they may choose to limit their purchases of insurance and reinsurance coverage, as applicable, which would limit our ability to generate commission revenue. Clients also may decide not to utilize our risk management services, which would limit our ability to generate fee revenue.

***We may not be able to obtain financing on favorable terms or at all.***

The maintenance and growth of our business depends on our access to capital, which will depend in large part on cash flow generated by our business and the availability of equity and debt financing. There can be no assurance that our operations will generate sufficient positive cash flow to finance all of our capital needs or that we will be able to obtain equity or debt financing on favorable terms or at all.

***Our revolving credit facility contains a number of restrictive covenants that restrict our operations.***

The Towers Watson \$500 million revolving credit facility contains a number of customary restrictive covenants imposing operating and financial restrictions on Towers Watson, including restrictions that limit our ability to engage in acts that may be in our long-term best interests. These covenants include, among others, limitations (and in some

cases, prohibitions) that, directly or indirectly, restrict our ability to:

Incur liens or additional indebtedness (including guarantees or contingent obligations);

Engage in mergers and other fundamental changes;

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Sell or otherwise dispose of property or assets;

Pay dividends and other distributions; and

Change the nature of our business.

The credit agreement also contains financial covenants that limit our interest expense and total debt relative to EBITDA.

The operating restrictions and financial covenants in our credit agreement do, and any future financing agreements may, limit our ability to finance future operations or capital needs or to engage in other business activities. Our ability to comply with any financial covenants could be materially affected by events beyond our control, and there can be no assurance that we will satisfy any such requirements. If we fail to comply with these covenants, we may need to seek waivers or amendments of such covenants, seek alternative or additional sources of financing or reduce our expenditures. We may be unable to obtain such waivers, amendments or alternative or additional financing at all, or on terms favorable to us.

The credit agreement specifies several events of default, including non-payment, certain cross-defaults, certain bankruptcy events, covenant or representation breaches and certain changes in control. If an event of default occurs, the lenders under the credit agreement are expected to be able to elect to declare all outstanding borrowings, together with accrued interest and other fees, to be immediately due and payable. We may not be able to repay all amounts due under the credit agreement in the event these amounts are declared due upon an event of default.

***We rely on third parties to provide services and their failure to perform the services could harm our business.***

As part of providing services to clients and managing our business, we rely on a number of third-party service providers. Our ability to perform effectively depends in part on the ability of these service providers to meet their obligations, as well as on our effective oversight of their performance. The quality of our services could suffer or we could be required to incur unanticipated costs if our third-party service providers do not perform as expected or their services are disrupted. This could have a material adverse effect on our business and results of operations.

***We are a holding company and, therefore, may not be able to receive dividends or other distributions in needed amounts from our subsidiaries.***

The Company is organized as a holding company, a legal entity separate and distinct from our operating subsidiaries. As a holding company without significant operations of our own, we are dependent upon dividends and other payments from our operating subsidiaries to meet our obligations for paying principal and interest on outstanding debt obligations, for paying dividends to stockholders and for corporate expenses. In the event our operating subsidiaries are unable to pay dividends and other payments to the Company, we may not be able to service debt, pay obligations or pay dividends on common stock.

Further, the Company derives a significant portion of its revenue and operating profit from operating subsidiaries located outside the U.S. Since the majority of financing obligations as well as dividends to stockholders are made from the U.S., it is important to be able to access cash generated outside the U.S. Funds from the Company's operating subsidiaries outside of the U.S. are periodically repatriated to the U.S. via shareholder distributions and repayment of intercompany financing. A number of factors may arise that could limit our ability to repatriate funds or make repatriation cost prohibitive, including, but not limited to, foreign exchange rates and tax-related costs.

In the event we are unable to generate cash from our operating subsidiaries for any of the reasons discussed above, our overall liquidity could deteriorate.

***Changes in our accounting estimates and assumptions could negatively affect our financial position and results of operations.***

We prepare our financial statements in accordance with U.S. GAAP. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of our financial statements. We are also required to make certain judgments that affect the reported amounts of revenues and expenses during each reporting period. We periodically evaluate our estimates and assumptions including those relating to restructuring, pensions, goodwill and other intangible assets, contingencies, share-based payments and income taxes. We base our estimates on historical experience and various

assumptions that we believe to be reasonable based on specific circumstances. Actual results could differ from these estimates, and changes in accounting standards could have an adverse impact on our future financial position and results of operations.

***Our accounting for our long-term outsourcing contracts requires using estimates and projections that may change over time. These changes may have a significant or adverse effect on our reported results of operations or financial condition.***

Projecting contract profitability on our long-term outsourcing contracts requires us to make assumptions and estimates of future contract results. All estimates are inherently uncertain and subject to change. In an effort to maintain appropriate estimates, we review each of our long-term outsourcing contracts, the related contract reserves and intangible assets on a regular basis. If we determine that

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we need to change our estimates for a contract, we will change the estimates in the period in which the determination is made. These assumptions and estimates involve the exercise of judgment and discretion, which may also evolve over time in light of operational experience, regulatory direction, developments in accounting principles and other factors. Further, changes in assumptions, estimates or developments in the business or the application of accounting principles related to long-term outsourcing contracts may change our initial estimates of future contract results. Application of, and changes in, assumptions, estimates and policies may adversely affect our financial results.

***The stock price of Class A common stock may be volatile.***

The stock price of the Class A common stock may in the future be volatile and subject to wide fluctuations. In addition, the trading volume of the Class A common stock may in the future fluctuate and cause significant price variations to occur. Some of the factors that could cause fluctuations in the stock price or trading volume of the Class A common stock include:

General market and economic conditions, including market conditions in the human capital and risk and financial management consulting industries and regulatory developments in the United States, foreign countries or both;

Actual or expected variations in our quarterly results of operations and in the quarterly results of operations of companies perceived to be similar to us;

Differences between actual results of operations and those expected by investors and analysts;

Changes in recommendations by securities analysts;

Operations and stock performance of competitors;

Accounting charges, including charges relating to the impairment of goodwill or other intangible assets;

Significant acquisitions, dispositions or strategic alliances by us or by competitors;

Sales of the Class A common stock, including sales by our directors and officers or significant investors;

Incurrence of additional debt;

Dilutive issuance of equity;

Recruitment or departure of key personnel;

Loss or gain of key clients;

Litigation involving us, our general industry or both; and

Changes in reserves for professional liability claims.

There can be no assurance that the stock price of the Class A common stock will not fluctuate or decline significantly in the future. In addition, the stock market in general can experience considerable price and volume fluctuations that may be unrelated to our performance.

***Shares of Towers Watson common stock eligible for public sale could adversely affect the stock price.***

On January 1, 2010, the then-former Towers Perrin security holders received, in the aggregate, 44% of Towers Watson's voting common stock then outstanding. Those shares are subject to various restrictions. For example, shares of Class B common stock issued to the then-former Towers Perrin security holders automatically convert into freely tradable Class A common stock in equal annual installments over four years. The first conversion of Class B common

stock to Class A common stock occurred on January 1, 2011.

In addition, transfer restrictions on restricted shares of Class A common stock received by a holder of Towers Perrin restricted stock units lapse over the course of a three-year vesting schedule (or such other vesting schedule as may be set forth in the holder's Towers Perrin restricted stock unit award agreement). The first tranche of restricted stock units received by legacy Towers Perrin associates vested on January 1, 2011. As of August 17, 2011 there were 55,085,090 outstanding shares of Class A common stock and 2,415,481 of Restricted Class A common stock; 5,547,733 outstanding shares of Class B-2 common stock; 5,661,591 outstanding shares of Class B-3 common stock; and 5,387,241 outstanding shares of Class B-4 common stock.

In addition, pursuant to our certificate of incorporation, our board of directors has the discretion to accelerate the conversion of any number of shares of Class B common stock into shares of freely tradable Class A common stock. The sales or potential sales of a substantial number of shares of Class A common stock in the public market after the Class B common stock automatically converts or shares are converted by our Board of Directors, or shares of restricted Class A common stock vest, could depress the market price of Class A common stock at such time and could then impair our ability to raise capital through the sale of additional securities.

***We will only pay dividends if and when declared by our board of directors.***

Any determination to pay dividends in the future is at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law, rule or regulation, business and



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investment strategy, and other factors that our board of directors deems relevant. If we do not pay dividends, then the return on an investment in our common stock will depend entirely upon any future appreciation in its stock price. There is no guarantee that our common stock will appreciate in value or maintain its value.

***We have various mechanisms in place that could prevent a change in control that a stockholder might favor.***

Our certificate of incorporation and bylaws contain provisions that might discourage, delay or prevent a change in control that a stockholder might favor. Our certificate of incorporation or bylaws:

Authorize the issuance of preferred stock without fixed characteristics, which could be issued by our board of directors pursuant to a stockholder rights plan and deter a takeover attempt;

Provide that only the Chief Executive Officer, President or our board of directors may call a special meeting of stockholders;

Limit business at special stockholder meetings to such business as is brought before the meeting by or at the direction of our board of directors;

Prohibit stockholder action by written consent, and require all stockholder actions to be taken at an annual or special meeting of the stockholders;

Provide our board of directors with exclusive power to change the number of directors;

Provide that all vacancies on our board of directors, including new directorships, may only be filled by a resolution adopted by a majority of the directors then in office;

Do not opt out of Section 203 of the Delaware General Corporation Law, which prohibits business combinations between a corporation and any interested stockholder for a period of three years following the time that such stockholder became an interested stockholder;

Require a supermajority vote for the stockholders to amend the bylaws; and

Prohibit any stockholder from presenting a proposal or director nomination at an annual stockholders meeting unless such stockholder provides us with sufficient advance notice.

### **Item 1B. Unresolved Staff Comments.**

None.

### **Item 2. Properties.**

As of June 30, 2011, we operated offices in more than 100 cities and 38 countries throughout North America, Europe, Asia-Pacific and Latin America. Operations of each of our segments are carried out in leased offices under operating leases that typically do not exceed 10 years in length. We do not anticipate difficulty in meeting our space needs at lease expiration.

The fixed assets owned by us represented approximately five percent of total assets as of June 30, 2011, and consisted primarily of computer equipment and software, office furniture and leasehold improvements.

### **Item 3. Legal Proceedings.**

From time to time, we are a party to various lawsuits, arbitrations or mediations that arise in the ordinary course of business. The disclosure called for by Item 3 regarding our legal proceedings is incorporated by reference herein from Note 11, Debt, Commitments and Contingent Liabilities, of the notes to the consolidated financial statements in this Annual Report on Form 10-K for the year ending June 30, 2011.

### **Item 4. (Removed and Reserved).**

## **Part II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

***Market Information***

Towers Watson & Co. Class A common stock is currently traded on the New York Stock Exchange and NASDAQ under the symbol TW.

The following table sets forth, for the periods indicated, the high and low sales prices per share of our Class A common stock since January 4, 2010, the first trading day of the Class A common stock following consummation of the Merger.

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	<b>High</b>	<b>Low</b>
<b>Fiscal Year 2010</b>		
Third quarter (January 4, 2010 - March 31, 2010)	\$ 51.48	\$ 42.72
Fourth quarter (April 1, 2010 - June 30, 2010)	\$ 50.00	\$ 38.85
<b>Fiscal Year 2011</b>		
First quarter (July 1, 2010 - September 30, 2010)	\$ 49.18	\$ 38.35
Second quarter (October 1, 2010 - December 31, 2010)	\$ 53.47	\$ 48.96
Third quarter (January 1, 2011 - March 31, 2011)	\$ 58.80	\$ 52.89
Fourth quarter (April 1, 2011 - June 30, 2011)	\$ 65.71	\$ 54.33
<b>Fiscal Year 2012</b>		
First quarter (July 1, 2011 - August 17, 2011)	\$ 66.38	\$ 52.26

**Holdings**

As of August 17, 2011, there were approximately 234 registered stockholders of our Class A common stock and 564 registered stockholders of our Class B common stock.

**Dividends**

Our board of directors has approved the payment of a quarterly cash dividend in the amount of \$0.075 per share. Total dividends paid in fiscal year 2011 and in fiscal year 2010 were \$21.6 million and \$15.2 million, respectively.

In August, 2011, our board of directors approved an increase in future quarterly cash dividends to \$0.10 per share. Our next dividend is payable in October, 2011 to the stockholders of record at the close of our first quarter of fiscal 2012, on September 30, 2011.

The continued payment of cash dividends in the future is at the discretion of our board of directors and depends on numerous factors, including, without limitation, our net earnings, financial condition, availability of capital, debt covenant limitations and our other business needs, including those of our subsidiaries and affiliates. Additionally, our credit facility requires us to observe certain covenants, including requirements for minimum net worth, which potentially act to restrict dividends.

**Performance Graph**

The graphs below depict total cumulative stockholder return on \$100 invested on June 30, 2006 and January 4, 2010, respectively in (i) Watson Wyatt Worldwide Inc. common stock and Towers Watson & Co. common stock, (ii) the New York Stock Exchange Composite Index; (iii) an old peer group index comprised of the common stock of certain publicly traded companies within the management consulting services standard industrial classification code having a reported market capitalization exceeding \$150 million, and (iv) a new peer group index comprised of the common stock of Aon Corporation and Marsh & McLennan Companies and certain publicly traded companies within the management consulting services standard industrial classification code having a reported market capitalization exceeding \$150 million. The graphs assume reinvestment of dividends.

Aon Corporation was added to the new peer group index due in part to Aon Corporation's acquisition of Hewitt Associates Inc. and in part to its subsidiary, Aon Benfield, being a direct competitor. Hewitt Associates was previously included in the old peer group index and has been eliminated from the old peer group index due to its acquisition by Aon Corporation. Marsh & McLennan Companies was added to the new peer group index due to its subsidiaries, Mercer HR Consulting, Guy Carpenter and Oliver Wyman, being some of Towers Watson's closest competitors.

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	<b>6/06</b>	<b>6/07</b>	<b>6/08</b>	<b>6/09</b>	<b>12/09</b>
Watson Wyatt Worldwide, Inc.	100.00	144.59	152.40	108.84	138.27
NYSE Composite	100.00	123.47	110.83	77.89	95.83
Old Peer Group	100.00	136.48	131.57	107.63	128.46
New Peer Group	100.00	128.21	124.12	101.13	115.09

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	<b>1/4/10</b>	<b>6/30/10</b>	<b>6/30/11</b>
Towers Watson & Co.	100.00	77.96	132.60
NYSE Composite	100.00	91.14	120.29
Old Peer Group	100.00	93.03	142.18
New Peer Group	100.00	96.64	143.04

The two Performance Graphs respectively show (i) legacy Watson Wyatt's stock performance from June 30, 2006 through December 31, 2009, the day prior to the closing date of the Merger and (ii) Towers Watson's stock performance from January 4, 2010 through June 30, 2011. As a result of the Merger, as discussed previously, legacy Towers Perrin and legacy Watson Wyatt became wholly owned subsidiaries of Jupiter Saturn Holding Company (subsequently renamed Towers Watson & Co.). Legacy Watson Wyatt no longer exists as a publicly traded entity and ceased all trading of its common stock as of the close of business on December 31, 2009, the date preceding the Merger.

Companies included in the new peer group index in both graphs include: Accenture PLC, Aon Corporation, FTI Consulting Inc., Huron Consulting Group Inc.; Marsh & McLennan Companies; Maximus Inc.; Navigant Consulting Inc.; and The Corporate Executive Board Company.

Companies included in the old peer group index in both graphs include: Accenture PLC, FTI Consulting Inc., Huron Consulting Group Inc.; Maximus Inc.; Navigant Consulting Inc.; and The Corporate Executive Board Company.

***Issuer Purchases of Equity Securities***

Towers Watson will periodically repurchase shares of common stock, one purpose of which is to offset potential dilution from shares issued in connection with its benefit plans. During the third quarter of fiscal year 2010, the Company's Board of Directors approved the repurchase of up to 750,000 shares of our Class A Common Stock. During the second quarter of fiscal year 2011, the Company's Board of Directors approved the repurchase of up to \$100 million of the Company's Class A common stock. This repurchase is in

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addition to the ongoing stock repurchase program initiated by the Company to offset dilution from employee benefit plans in fiscal year 2010. There are no expiration dates for either of these repurchase plans or programs. The table below presents specified information about our Class A common stock repurchases in the fourth quarter of fiscal year 2011 and our repurchase plans:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (b)
April 1, 2011 through April 30, 2011	33,000	55.19	33,000	2,128,838
May 1, 2011 through May 31, 2011	36,000	59.48	36,000	2,092,838
June 1, 2011 through June 30, 2011	334,489	61.93	334,489	1,758,349
	403,489		403,489	1,758,349

- (a) Of the 403,489 shares of Class A common stock repurchased in the fourth quarter of fiscal year 2011, 54,000 shares were repurchased under the plan approved by our Board of Directors during the third quarter of fiscal year 2010. The remaining 349,489 shares were repurchased under the plan approved by our Board of Directors during the second quarter of fiscal year 2011.
- (b) The maximum number of shares that may yet be purchased under our plans includes the remaining shares under our two stock repurchase plans. An estimate of the maximum number of shares under the repurchase of up to \$100 million of 1,521,838 shares was determined using the closing price of our stock on June 30, 2011 of \$65.71.

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The following table sets forth selected consolidated financial data of Towers Watson for each of the years in the five-year period ended June 30, 2011. The selected consolidated financial data as of June 30, 2011 and 2010, and for each of the three years in the period ended June 30, 2011, were derived from the audited consolidated financial statements of Towers Watson included in this Annual Report on Form 10-K. The selected consolidated financial data as of June 30, 2009, 2008 and 2007, and for each of the years ended June 30, 2008 and 2007, were derived from audited consolidated financial statements of Towers Watson not included in this Annual Report on Form 10-K. The consolidated financial data should be read in conjunction with our consolidated financial statements and notes thereto.

**Statement of Operations Data:**

(amounts are in thousands, except per share data)	<b>Year Ended June 30,</b>				
	<b>2011</b>	<b>2010 (a)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Revenue	\$ 3,259,451	\$ 2,387,829	\$ 1,676,029	\$ 1,760,055	\$ 1,486,523
Costs of providing services:					
Salaries and employee benefits	2,043,063	1,540,417	1,029,299	1,052,992	879,341
Professional and subcontracted services	246,348	163,848	119,323	138,983	116,527
Occupancy	144,191	109,454	72,566	83,255	75,704
General and administrative expenses	281,576	220,937	172,010	185,624	178,411
Depreciation and amortization	130,575	101,084	73,448	72,428	57,235
Transaction and integration expenses	100,535	87,644			
	2,946,288	2,223,384	1,466,646	1,533,282	1,307,218
Income from operations	313,163	164,445	209,383	226,773	179,305
Income/(Loss) from affiliates	1,081	(1,274)	8,350	2,325	(5,500)
Interest income	5,523	2,950	2,022	5,584	4,066
Interest expense	(12,475)	(7,508)	(2,778)	(5,977)	(1,581)
Other non-operating income	19,349	11,304	4,926	464	178
Income before income taxes	326,641	169,917	221,903	229,169	176,468
Provision for income taxes	129,916	50,907	75,276	73,470	60,193
Net income before non-controlling interests	196,725	119,010	146,627	155,699	116,275
Net income/(loss) attributable to non-controlling interests	2,288	(1,587)	169	258	
Net income attributable to controlling interests	\$ 194,437	\$ 120,597	\$ 146,458	\$ 155,441	116,275
Earnings per share: net income attributable to controlling interests:					
Basic	\$ 2.62	\$ 2.04	\$ 3.43	\$ 3.65	\$ 2.74
Diluted	\$ 2.62	\$ 2.03	\$ 3.42	\$ 3.50	\$ 2.60
Dividends declared per share	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30
Weighted average shares of common stock (000):					
Basic	74,075	59,257	42,690	42,577	42,413
Diluted	74,139	59,372	42,861	44,381	44,684

**Balance Sheet and Other Data:**

(amounts are in thousands)	<b>As of June 30,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 528,923	\$ 435,927	\$ 209,832	\$ 124,632	\$ 248,186

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Restricted Cash	153,154	164,539			
Working capital	472,074	479,521	231,938	172,241	326,354
Goodwill and Intangible assets	2,638,496	2,400,782	728,987	870,943	594,651
Total assets	5,098,950	4,573,617	1,626,319	1,715,976	1,529,709
Revolving credit facility					105,000
Dividends declared	22,846	17,661	12,785	12,768	12,717
Stockholders equity	2,591,527	1,955,607	853,638	984,395	787,519
Shares outstanding	73,601	74,204	42,657	43,578	42,299

(a) Includes the effect of the Merger as of January 1, 2010

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
Executive Overview**

***General***

We are a global consulting firm focusing on providing human capital and financial consulting services. In the short term, our revenue is driven by many factors, including the general state of the global economy and the resulting level of discretionary spending, the continuing regulatory compliance requirements of our clients, changes in investment markets, the ability of our consultants to attract new clients or provide additional services to existing clients, the impact of new regulations in the legal and accounting fields and the impact of our ongoing cost saving initiatives. In the long term, we expect that our financial results will depend in large part upon how well we succeed in deepening our existing client relationships through thought leadership and a focus on developing cross-practice solutions, actively pursuing new clients in our target markets, cross selling and making strategic acquisitions. We believe that the highly fragmented industry in which we operate offers us growth opportunities, because we provide a unique business combination of benefits and human capital consulting, as well as risk and capital management and strategic technology solutions.

***Segments***

We provide services in three business segments: Benefits, Risk and Financial Services and Talent and Rewards. **Benefits Segment.** The Benefits segment is our largest and most established segment. This segment has grown through business combinations as well as strong organic growth. It helps clients create and manage cost-effective benefits programs that help them attract, retain and motivate a talented workforce.

The Benefits segment provides benefits consulting and administration services through four primary lines of business:

Retirement;

Health and Group Benefits;

Technology and Administration Solutions; and

International Consulting.

Retirement supports organizations worldwide in designing, managing, administering and communicating all types of retirement plans. Health and Group Benefits provides advice on the strategy, design, financing, delivery, ongoing plan management and communication of health and group benefit programs. Through our Technology and Administration Solutions line of business, we deliver cost-effective benefit outsourcing solutions. The International Consulting Group provides expertise in dealing with international human capital management and related benefits and compensation advice for corporate headquarters and their subsidiaries. A significant portion of the revenue in this segment is from recurring work, driven in large part by the heavily regulated nature of employee benefits plans and our clients' annual needs for these services. For the fiscal year ended June 30, 2011, the Benefits segment contributed 59% of our segment revenue. For the same period, approximately 44% of the Benefits segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations.

**Risk and Financial Services Segment.** Within the Risk and Financial Services segment, our second largest segment, we have three primary lines of business:

Risk Consulting and Software ( RCS );

Investment Consulting and Solutions ( Investment ); and

Reinsurance and Insurance Brokerage ( Brokerage ).

The Risk and Financial Services segment accounted for 24% of our total revenue for the fiscal year ended June 30, 2011. Approximately 65% of the segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. The segment has a strong base of recurring revenue, driven by long-term client relationships in reinsurance brokerage services, retainer investment consulting relationships, consulting services on financial reporting, and actuarial opinions on property/casualty loss reserves.

Some of these relationships have been in place for more than 20 years. A portion of the revenue is related to project work, which is more heavily dependent on the overall level of discretionary spending by clients. This work is favorably influenced by strong client relationships, particularly related to mergers and acquisitions consulting.

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Major revenue growth drivers include changes in regulations, the level of mergers and acquisitions activity in the insurance industry, growth in pension and other asset pools, and reinsurance retention and pricing trends.

**Talent and Rewards Segment.** Our third largest segment, Talent and Rewards, is focused on three primary lines of business:

Executive Compensation;

Rewards, Talent and Communication; and

Data, Surveys and Technology.

The Talent and Rewards segment accounted for approximately 17% of our total revenue for the fiscal year ended June 30, 2011. Few of the segment's projects have a recurring element. As a result, this segment is most sensitive to changes in discretionary spending due to cyclical economic fluctuations. Approximately 50% of the segment's revenue originates from outside the United States and is thus subject to translation exposure resulting from foreign exchange rate fluctuations. Revenue for Talent and Rewards consulting has minimal seasonality, with a small degree of heightened activity in the second half of the year during the annual compensation, benefits and survey cycles. Major revenue growth drivers in this group include demand for workforce productivity improvements and labor cost reductions, focus on high performance culture, globalization of the workforce, changes in regulations and benefits programs, mergers and acquisitions activity, and the demand for universal metrics related to workforce engagement.

**Financial Statement Overview**

Towers Watson's fiscal year ends June 30.

Shown below are Towers Watson's top five markets based on percentage of consolidated revenue. The fiscal years ended June 30, 2011 and 2010 include data of Towers Watson's geographic regions. The fiscal year ended June 30, 2009 includes only data of historical Watson Wyatt's geographic regions.

<b>Geographic Region</b>	<b>Fiscal Year</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
United States	49%	52%	43%
United Kingdom	22	22	32
Canada	6	6	4
Germany	4	4	4
Netherlands	3	3	3

We derive the majority of our revenue from fees for consulting services, which generally are billed at standard hourly rates and expense reimbursement, which we refer to as time and expense, or on a fixed-fee basis. Management believes the approximate percentages for time and expense and fixed-fee basis engagements are 60% and 40%, respectively. Clients are typically invoiced on a monthly basis with revenue generally recognized as services are performed. No single client accounted for more than 1% of our consolidated revenues for any of our most recent three fiscal years.

Our most significant expense is compensation to associates, which typically comprises approximately 70% of total costs of providing services. We compensate our directors and select executives with incentive stock-based compensation plans from time to time. When granted, awards are governed by the Towers Watson & Co. 2009 Long Term Incentive Plan, which provides for the awards to be valued at their grant date fair value which is amortized over the expected term of the awards, generally three years. In connection with the issuance of Towers Watson restricted Class A common stock to Towers Perrin RSU holders in the Merger, we expect the total non-cash compensation expense relating to Towers Watson restricted Class A common stock for the three year period to be \$160.0 million. This estimate was determined assuming a 10% annual forfeiture rate based on actual and expected attrition and the graded method of expense methodology. This expense methodology assumes that the restricted shares were issued to Towers Perrin RSU holders in equal amounts of shares that vest over one year, two years and three years giving the effect of more expense in the first year than the second and third. In the event that an associate is involuntarily terminated other than for cause, vesting is accelerated and expense is recorded immediately.

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Salaries and employee benefits are comprised of wages paid to associates, related taxes, severance, benefit expenses such as pension, medical and insurance costs, and fiscal year-end incentive bonuses.

Professional and subcontracted services represent fees paid to external service providers for employment, marketing and other services. For the three most recent fiscal years, approximately 40 to 60% of the professional and subcontracted services were directly incurred on behalf of clients and were reimbursed by them, with such reimbursements being included in revenue. For the fiscal year

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ended June 30, 2011 for Towers Watson, approximately 36% of professional and subcontracted services represent these reimbursable services.

Occupancy includes expenses for rent and utilities.

General and administrative expenses include legal, marketing, human resources, finance, research, technology support, supplies, telephone and other costs to operate office locations as well as professional fees and insurance, including premiums on excess insurance and losses on professional liability claims, non-client-reimbursed travel by associates, publications and professional development. This line item also includes miscellaneous expenses, including gains and losses on foreign currency transactions.

Depreciation and amortization includes the depreciation of fixed assets and amortization of intangible assets and internally-developed software.

Transaction and integration expenses include fees and charges associated with the Merger and with our other acquisitions. Transaction and integration expenses principally consist of investment banker fees, regulatory filing expenses, integration consultants, as well as legal, accounting, marketing, and information technology integration expenses.

### **Critical Accounting Policies and Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates. The areas that we believe are critical accounting policies include revenue recognition, valuation of billed and unbilled receivables from clients, discretionary compensation, income taxes, pension assumptions, incurred but not reported claims, and goodwill and intangible assets. The critical accounting policies discussed below involve making difficult, subjective or complex accounting estimates that could have a material effect on our financial condition and results of operations. These critical accounting policies require us to make assumptions about matters that are highly uncertain at the time of the estimate or assumption. Different estimates that we could have used, or changes in estimates that are reasonably likely to occur, may have a material effect on our financial condition and results of operations.

#### ***Revenue Recognition***

Revenue includes fees primarily generated from consulting services provided. We recognize revenue from these consulting engagements when hours are worked, either on a time-and-expense basis or on a fixed-fee basis, depending on the terms and conditions defined at the inception of an engagement with a client. We have engagement letters with our clients that specify the terms and conditions upon which the engagements are based. These terms and conditions can only be changed upon agreement by both parties. Individual associates' billing rates are principally based on a multiple of salary and compensation costs.

Revenue for fixed-fee arrangements that span multiple months is based upon the percentage of completion method. We typically have three types of fixed-fee arrangements: annual recurring projects, projects of a short duration, and non-recurring system projects. Annual recurring projects and the projects of short duration are typically straightforward and highly predictable in nature. As a result, the project manager and financial staff are able to identify, as the project status is reviewed and bills are prepared monthly, the occasions when cost overruns could lead to the recording of a loss accrual.

We have non-recurring system projects that are longer in duration and subject to more changes in scope as the project progresses. We evaluate at least quarterly, and more often as needed, project managers' estimates-to-complete to assure that the projects' current statuses are accounted for properly. Certain software contracts generally provide that if the client terminates a contract, we are entitled to payment for services performed through termination.

Revenue recognition for fixed-fee engagements is affected by a number of factors that change the estimated amount of work required to complete the project such as changes in scope, the staffing on the engagement and/or the level of client participation. The periodic engagement evaluations require us to make judgments and estimates regarding the overall profitability and stage of project completion that, in turn, affect how we recognize revenue. We recognize a

loss on an engagement when estimated revenue to be received for that engagement is less than the total estimated direct and indirect costs associated with the engagement. Losses are recognized in the period in which the loss becomes probable and the amount of the loss is reasonably estimable. We have experienced certain costs in excess of estimates from time to time. Management believes it is rare, however, for these excess costs to result in overall project losses.

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We have developed various software programs and technologies that we provide to clients in connection with consulting services. In most instances, such software is hosted and maintained by us and ownership of the technology and rights to the related code remain with us. Software developed to be utilized in providing services to a client, but for which the client does not have the contractual right to take possession, is capitalized during the implementation stage. Revenue associated with the related contract, together with amortization of the related capitalized software, is recognized over the service period. As a result, we do not recognize revenue during the implementation phase of an engagement.

In connection with the Merger, we acquired the reinsurance brokerage business of Towers Perrin. In our capacity as a reinsurance broker, we collect premiums from reinsureds and, after deducting our brokerage commissions, we remit the premiums to the respective reinsurance underwriters on behalf of reinsureds. In general, compensation for reinsurance brokerage services is earned on a commission basis. Commissions are calculated as a percentage of a reinsurance premium as stipulated in the reinsurance contracts with our clients and reinsurers. We recognize brokerage services revenue on the later of the inception date or billing date of the contract. In addition, we hold cash needed to settle amounts due reinsurers or reinsureds, net of any commissions due to us, pending remittance to the ultimate recipient. We are permitted to invest these funds in high quality liquid instruments.

Revenue recognized in excess of billings is recorded as unbilled accounts receivable. Cash collections and invoices generated in excess of revenue recognized are recorded as deferred revenue until the revenue recognition criteria are met. Client reimbursable expenses, including those relating to travel, other out-of-pocket expenses and any third-party costs, are included in revenue, and an equivalent amount of reimbursable expenses are included in professional and subcontracted services as a cost of revenue.

***Valuation of Billed and Unbilled Receivables from Clients***

We maintain allowances for doubtful accounts to reflect estimated losses resulting from the clients' failure to pay for the services after the services have been rendered, including allowances when customer disputes may exist. The related provision is recorded as a reduction to revenue. Our allowance policy is based on the aging of the billed and unbilled client receivables and has been developed based on the write-off history. Facts and circumstances such as the average length of time the receivables are past due, general market conditions, current economic trends and our clients' ability to pay may cause fluctuations in our valuation of billed and unbilled receivables.

***Discretionary Compensation***

Our compensation program includes a discretionary bonus that is determined by management and has historically been paid once per fiscal year in the form of cash and/or deferred stock units after our annual operating results are finalized. As a result of the Merger, interim bonuses were paid in March 2010 relating to the period ended December 31, 2009 and were also paid September 2010 relating to the six-month period ended June 30, 2010, after which time bonuses are expected to be paid annually each September.

An estimated annual bonus amount is initially developed at the beginning of each fiscal year in conjunction with our budgeting process. Estimated annual operating performance is reviewed quarterly and the discretionary annual bonus amount is then adjusted, if necessary, by management to reflect changes in the forecast of pre-bonus profitability for the year.

***Income Taxes***

We account for income taxes in accordance with Accounting Standards Codification ( ASC ) 740, *Income Taxes*, which prescribes the use of the asset and liability approach to the recognition of deferred tax assets and liabilities related to the expected future tax consequences of events that have been recognized in our financial statements or income tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets when it is more likely than not that a portion or all of a given deferred tax asset will not be realized. In accordance with ASC 740, income tax expense includes (i) deferred tax expense, which generally represents the net change in the deferred tax asset or liability balance during the year plus any change in valuation allowances and (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a taxing authority plus amounts accrued for expected tax contingencies (including both tax and interest). ASC 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for

all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. We continually review tax laws, regulations and related guidance in order to properly record any uncertain tax positions. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.



**Table of Contents*****Incurred But Not Reported (IBNR) Claims***

We accrue for IBNR professional liability claims that are probable and estimable, and for which we have not yet contracted for insurance coverage. We use actuarial assumptions to estimate and record a liability for IBNR professional liability claims. Our estimated IBNR liability is based on long-term trends and averages, and considers a number of factors, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, and legislation and economic decisions. Our estimated IBNR liability does not include actuarial projections for the effect of claims data for large cases due to the insufficiency of actuarial experience with such cases. Our estimated IBNR liability will fluctuate if claims experience changes over time. Our IBNR liability was \$274.8 million and \$222.3 million as of June 30, 2011 and 2010, respectively. To the extent our captive insurance companies, PCIC and SMIC, expect losses to be covered by a third party they record a receivable for the amount expected to be recovered. This receivable is classified in other current or other noncurrent assets in our consolidated balance sheet.

***Pension Assumptions***

We sponsor both qualified and non-qualified defined benefit pension plans and other post-retirement benefit plan or OPEB plans in North America and Europe. These plans represented 98% of our total pension obligations as of June 30, 2011. We also sponsor funded and unfunded defined benefit pension plans in certain other countries representing the remaining 2% of the liability.

Under the legacy Watson Wyatt plans in North America, benefits are based on the number of years of service and the associate's compensation during the five highest paid consecutive years of service. The non-qualified plan, included only in North America, provides for pension benefits that would be covered under the qualified plan but are limited by the Internal Revenue Code. The non-qualified plan has no assets and therefore is an unfunded arrangement. Beginning January 2008, Watson Wyatt made changes to the plan in the United Kingdom related to years of service used in calculating benefits for associates. Benefits earned prior to January 2008 are based on the number of years of service and the associate's compensation during the three years before leaving the plan and benefits earned after January 2008 are based on the number of years of service and the associate's average compensation during the associate's term of service since that date. The plan liabilities in Germany were a result of Watson Wyatt's acquisition of Heissmann GmbH in 2007. A significant percentage of the liabilities represent the grandfathered pension benefit for associates hired prior to a July 1991 plan amendment. The pension plan for those hired after July 1991 is a defined contribution type arrangement. In the Netherlands, the pension benefit is a percentage of service and average salary over the working life of the associate, where salary includes allowances and bonuses up to a set maximum salary and is offset by the current social security benefit. The benefit liability is reflected on the balance sheet. The measurement date for each of the plans is June 30.

The legacy Towers Perrin pension plans in the United States accrue benefits under a cash-balance formula for associates hired or rehired after 2002 and for all associates for service after 2007. For associates hired prior to 2003 and active as of January 2003, benefits prior to 2008 are based on a combination of a cash balance formula, for the period after 2002, and a final average pay formula based on years of plan service and the highest five consecutive years of plan compensation prior to 2008. Under the cash balance formula benefits are based on a percentage of each year of the associate's plan compensation. The Canadian Retirement Plan provides a choice of a defined benefit approach or a defined contribution approach. The non-qualified plans in North America provide for pension benefits that would be covered under the qualified plan in the respective country but are limited by statutory maximums. The non-qualified plans have no assets and therefore are unfunded arrangements. The U.K. Plan provides predominantly lump sum benefits. Benefit accruals under the U.K. Plan ceased on March 31, 2008. The plans in Germany mostly provide benefits under a cash balance benefit formula. Benefits under the Netherlands plan accrue on a final pay basis on earnings up to a maximum amount each year. The benefit assets and liabilities are reflected on the balance sheet. The measurement date for each of the plans has historically been December 31, but has been changed to June 30 as a result of the Merger. The determination of our pension benefit obligations and related benefit expense under the plans is based on a number of assumptions that, given the longevity of the plans, are long-term in focus. A change in one or a combination of these assumptions could have a material impact on our pension benefit obligation and related expense. For this reason, management employs a long-term view so that assumptions do not change frequently in response to short-term volatility in the economy. Any difference between actual and assumed results is amortized into

our pension expense over the average remaining service period of participating associates. We consider several factors prior to the start of each fiscal year when determining the appropriate annual assumptions, including economic forecasts, relevant benchmarks, historical trends, portfolio composition and peer comparisons.

The compensation committee of our board of directors approved an amendment to the terms of the existing U.S. qualified and non-qualified defined benefit pension plans, postretirement benefit plans and defined contribution plans which was communicated in September 2010. Effective December 31, 2010, the existing U.S. qualified and non-qualified pension plans were frozen to new participants, and benefit accruals will be frozen under the current benefit formulas effective December 31, 2011. New pension benefits will accrue beginning on January 1, 2012 under a new stable value pension design for qualified and non-qualified pension plans maintained for U.S. associates, including U.S. named executive officers. Retiree medical benefits provided under our U.S. postretirement benefit plans were frozen to new hires effective January 1, 2011. Life insurance benefits under the same plans will be frozen with respect to service, eligibility and amounts as of January 1, 2012 for active associates. As a result of these changes to the U.S. pension and post-retirement benefit plans, there were remeasurements of the legacy Watson Wyatt U.S. plans and the legacy

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Towers Perrin post-retirement benefit plan as of September 30, 2010. The legacy Towers Perrin pension plan was not required to be remeasured due to the plan design.

*Assumptions Used in the Valuations of the Defined Benefit Pension Plans*

The following assumptions were used in the valuations of Towers Watson's defined benefit pension plans. The assumptions presented for the North American plans represent the weighted-average of rates for all U.S. and Canadian plans. The assumptions presented for Towers Watson's European plans represent the weighted-average of rates for the U.K., Germany and Netherlands plans. In relation to the acquisition of Towers Perrin on January 1, 2010, the legacy plans of Towers Perrin have been included in the assumptions as of and for the years ended June 30, 2011 and 2010. The assumptions as of and for the year ended June 30, 2009 represent only the legacy Watson Wyatt plans. The assumptions used to determine net periodic benefit cost for the fiscal years ended June 30, 2011, 2010 and 2009 were as follows:

	Year Ended June 30,					
	2011		2010		2009	
	North America	Europe	North America	Europe	North America	Europe
Discount rate	5.80%	5.25%	6.43%	6.03%	6.91%	6.47%
Expected long-term rate of return on assets	8.16%	6.79%	8.11%	6.48%	8.61%	6.53%
Rate of increase in compensation levels	3.88%	3.88%	3.93%	5.09%	4.08%	5.36%

The following table presents the assumptions used in the valuation to determine the projected benefit obligation for the fiscal years ended June 30, 2011 and 2010:

	June 30, 2011		June 30, 2010	
	North America	Europe	North America	Europe
	Discount rate	5.79%	5.62%	5.86%
Rate of increase in compensation levels	3.82%	3.93%	3.88%	3.88%

For the 2011 fiscal year, the discount rate used to determine net periodic benefit cost was initially based on the rates in the table shown above for the determination of the projected benefit obligation as of June 30, 2010, which included a 5.86% rate for North America. As a result of plan changes adopted during the first quarter of fiscal year 2011, the legacy Watson Wyatt U.S. Pension Plans were remeasured as of September 30, 2010. Upon remeasurement the discount rate assumption was changed for these plans and the net periodic benefit cost for the 2011 fiscal year is now calculated using a weighted average discount rate of 5.79% for North America.

Towers Watson's discount rate assumptions were determined by matching expected future pension benefit payments with current AA corporate bond yields from the respective countries for the same periods. In the United States, specific bonds were selected to match plan cash flows. In Canada, yields were taken from a corporate bond yield curve. In Europe, the discount rate was set based on yields on European AA corporate bonds at the measurement date. The expected rates of return assumptions at 8.16% and 6.79% per annum for North America and Europe, respectively, were supported by an analysis performed by Towers Watson of the weighted-average yield expected to be achieved with the anticipated makeup of investments.

The following information illustrates the sensitivity to a change in certain assumptions for the North American pension plans for fiscal year 2012:

Change in Assumption	Effect on FY
	2012 Pre-Tax Pension

	<b>Expense</b>
25 basis point decrease in discount rate	+\$8.3 million
25 basis point increase in discount rate	-\$8.2 million
25 basis point decrease in expected return on assets	+\$4.9 million
25 basis point increase in expected return on assets	-\$4.9 million

The above sensitivities reflect the impact of changing one assumption at a time. Economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not necessarily linear.

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The following information illustrates the sensitivity to a change in certain assumptions for the European pension plans for fiscal year 2012:

	<b>Effect on FY 2012 Pre-Tax Pension Expense</b>
<b>Change in Assumption</b>	
25 basis point decrease in discount rate	+\$3.9 million
25 basis point increase in discount rate	-\$4.0 million
25 basis point decrease in expected return on assets	+\$1.5 million
25 basis point increase in expected return on assets	-\$1.5 million

The sensitivities reflect the effect of assumption changes occurring after acquisition accounting has been applied. The differences in the discount rate and compensation level assumption used for the North American and European plans above can be attributed to the differing interest rate environments associated with the currencies and economies to which the plans are subject. The differences in the expected return on assets are primarily driven by the respective asset allocation in each plan, coupled with the return expectations for assets in the respective currencies.

**Goodwill and Intangible Assets**

In applying the purchase method of accounting for business combinations, amounts assigned to identifiable assets and liabilities acquired were based on estimated fair values as of the date of the acquisitions, with the remainder recorded as goodwill. Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets with indefinite lives are tested for impairment annually as of March 31. The fair value of the intangible assets is compared with their carrying value and an impairment loss would be recognized for the amount by which the carrying amount exceeds the fair value. Goodwill is tested for impairment annually as of March 31, and whenever indicators of impairment exist. The evaluation is a two-step process whereby the fair value of the reporting unit is compared with its carrying amount, including goodwill. In estimating the fair value of a reporting unit, we used valuation techniques that fall under income or market approaches. Under the discounted cash flow method, an income approach, the business enterprise value is determined by discounting to present value the terminal value which is calculated using debt-free after-tax cash flows for a finite period of years. Key estimates in this approach are internal financial projection estimates prepared by management, business risk, and expected rate of return on capital. The guideline company method, a market approach, develops valuation multiples by comparing our reporting units to similar publicly traded companies. Key estimates and selection of valuation multiples rely on the selection of similar companies, obtaining estimates of forecasted revenue and EBITDA estimates for the similar companies and selection of valuation multiples as they apply to the reporting unit characteristics. Under the similar transactions method, a market approach, actual transaction prices and operating data from companies deemed reasonably similar to the reporting units is used to develop valuation multiples as an indication of how much a knowledgeable investor in the marketplace would be willing to pay for the business units. As the fair value of our reporting units exceeds their carrying value, we do not perform step two to determine the impairment loss. In the event that a reporting unit's carrying value exceeded its fair value, we would determine the implied fair value of the reporting unit used in step one to all the assets and liabilities of that reporting unit (including any recognized or unrecognized intangible assets) as if the reporting unit had been acquired in a business combination. Then the implied fair value of goodwill would be compared to the carrying amount of goodwill to determine if goodwill is impaired. For the fiscal year ended June 30, 2011, we did not record any impairment losses of goodwill or intangibles.

**Results of Operations**

Watson Wyatt is the accounting predecessor in the Merger; as such, the historical results of Watson Wyatt have become those of Towers Watson and are presented herein as historical results. The consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2011 includes the results of operations of the merged

Towers Watson.

The consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2010 includes the results of Towers Perrin s operations beginning January 1, 2010, or six months of the twelve-month period. As a result, the consolidated statement of operations for fiscal year ended June 30, 2011 is compared to the pro forma combined financial information for fiscal year ended June 30, 2010 is prepared and presented to aid in explaining the results of operations of the merged Towers Watson. The pro forma unaudited consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2010 is prepared as if the Merger occurred on July 1, 2009. The pro forma unaudited consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2009 is prepared as if the Merger occurred on July 1, 2008.

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The consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2009 includes only the financial results of Watson Wyatt.

As a result of the Merger, Towers Watson aligned and grouped general and administrative accounts using a natural account methodology. The accounting predecessor, Watson Wyatt, allocated certain support service charges to general and administrative expenses from specific offices, teams and accounts. The results of operations for the fiscal years ended June 30, 2010, and 2009 have been retrospectively realigned to the new general and administrative expense methodology.

**Table of Contents****Historical Results of Operations**

The table below sets forth our consolidated statements of operations, on a historical basis, and data as a percentage of revenue for the periods indicated.

**Consolidated Statements of Operations**  
(Thousands of U.S. dollars)

	<b>Fiscal Year Ended June 30,</b>					
	<b>2011</b>		<b>2010</b>		<b>2009</b>	
Revenue	\$ 3,259,451	100%	\$ 2,387,829	100%	\$ 1,676,029	100%
Costs of providing services:						
Salaries and employee benefits	2,043,063	63%	1,540,417	65%	1,029,299	61%
Professional and subcontracted services	246,348	8%	163,848	7%	119,323	7%
Occupancy	144,191	4%	109,454	5%	72,566	4%
General and administrative expenses	281,576	9%	220,937	9%	172,010	10%
Depreciation and amortization	130,575	4%	101,084	4%	73,448	4%
Transaction and integration expenses	100,535	3%	87,644	4%		%
	2,946,288	90%	2,223,384	93%	1,466,646	88%
Income from operations	313,163	10%	164,445	7%	209,383	12%
Income/(loss) from affiliates	1,081	%	(1,274)	%	8,350	%
Interest income	5,523	%	2,950	%	2,022	%
Interest expense	(12,475)	%	(7,508)	%	(2,778)	%
Other non-operating income	19,349	1%	11,304	%	4,926	%
Income before income taxes	326,641	10%	169,917	7%	221,903	13%
Provision for income taxes	129,916	4%	50,907	2%	75,276	4%
Net income before non-controlling interests	196,725	6%	119,010	5%	146,627	9%
Net income/(loss) attributable to non-controlling interests	2,288	%	(1,587)	%	169	%
Net income attributable to controlling interests	\$ 194,437	6%	\$ 120,597	5%	\$ 146,458	9%

**Historical Results of Operations for the Fiscal Year Ended June 30, 2011 Compared to Fiscal Year Ended June 30, 2010**



Revenue for the fiscal year ended June 30, 2011 was \$3.3 billion, an increase of \$871.6 million, or 37%, compared to \$2.4 billion for the fiscal year ended June 30, 2010. The increase was primarily a result of the Merger and combination of Towers Perrin's and Watson Wyatt's operations as of January 1, 2010. Net income attributable to controlling interests for the fiscal year ended June 30, 2011 was \$194.4 million, an increase of \$73.8 million, or 61%, compared to \$120.6 million for the fiscal year ended June 30, 2010.

Salaries and employee benefits were 63% of revenue for the fiscal year ended June 30, 2011, a decrease of 2% from 65% of revenue for the fiscal year ended June 30, 2010. Transaction and integration expenses related to the Merger were 3% of revenue for fiscal year 2011, a decrease 1%, from 4% of revenue for fiscal year 2010. There were no other significant increases or decreases of more than one percent comparing the statements of operations line items as a percent of revenue period over period for the fiscal years ended June 30, 2011 and 2010.

The provision for income taxes for fiscal year 2011 is 39.8% compared with 30.0% in fiscal year 2010. Our effective tax rate increased for fiscal year 2011 as compared to fiscal year 2010 primarily due to a change in the mix of income between foreign and U.S. operations and an increase in the valuation allowance for foreign jurisdictions for fiscal year 2011. The effective tax rate in fiscal year 2010 was significantly lower due to a valuation allowance release on U.S. foreign tax credits as we determined that it was more likely than not that these foreign tax credits would be realized within the carryforward period.

**Table of Contents***Net income attributable to controlling interests.*

Net income attributable to controlling interests for the fiscal year ended June 30, 2011 was \$194.4 million compared to net income attributable to controlling interests of \$120.6 million for the fiscal year ended June 30, 2010.

*Earnings per share.*

Diluted earnings per share for the fiscal year ended June 30, 2011 was \$2.62, compared to \$2.03 for the fiscal year ended June 30, 2010.

**Non-U.S. GAAP Measures**

Diluted earnings per share has been adjusted to exclude certain Merger-related items including amortization of intangible assets, transaction and integration expenses (deductible and non-deductible for taxes), stock-based compensation related to Restricted Class A shares (recorded in salaries and employee benefits), other tax items and a deferred payment from divestiture. After excluding these items, adjusted diluted earnings per share, a non-U.S. GAAP measure, for the fiscal year ended June 30, 2011 was \$4.46.

We use EBITDA, Adjusted EBITDA, Adjusted Net Income Attributable to Controlling Interests and Adjusted Diluted Earnings Per Share, non-U.S. GAAP measures, to evaluate our financial performance and separately evaluate our performance of the transaction and integration activities as well as changes in tax law. We believe these measures are useful in evaluating our results of operations and in providing a baseline for the evaluation of future operating results. We define EBITDA as net income before non-controlling interests adjusted for provision for income taxes, interest, net and depreciation and amortization. Reconciliation of EBITDA and Adjusted EBITDA to net income before non-controlling interests, Adjusted Net Income Attributable to Controlling Interests to net income attributable to controlling interests and Adjusted Diluted Earnings Per Share to diluted earnings per share are included in the tables below. These non-U.S. GAAP measures are not defined in the same manner by all companies and may not be comparable to other similarly titled measures of other companies.

Non-U.S. GAAP measures should be considered in addition to, and not as a substitute for, the information contained within our financial statements.

	<b>2011</b>	<b>Year Ended June 30, 2010</b>	<b>2009</b>
		<b>(in thousands)</b>	
Reconciliation of net income before non-controlling interests to EBITDA and Adjusted EBITDA is as follows:			
Net income before non-controlling interests	\$ 196,725	\$ 119,010	\$ 146,627
Provision for income taxes	129,916	50,907	75,276
Interest, net	6,952	4,558	756
Depreciation and amortization	130,575	101,084	73,448
<b>EBITDA</b>	<b>464,168</b>	<b>275,559</b>	<b>296,107</b>
Transaction and integration expenses	100,535	87,644	
Stock-based compensation (a)	71,715	48,006	
Other non-operating income (b)	(20,430)	(10,030)	(13,276)
<b>Adjusted EBITDA</b>	<b>\$ 615,988</b>	<b>\$ 401,179</b>	<b>\$ 282,831</b>

(a) Stock-based compensation is included in salary and employee benefits expense and relates to shares of Restricted Class A common stock held by our current associates which were awarded to them as former Towers Perrin employees in connection with the Merger.

(b) Other non-operating income includes income from affiliates, and other non-operating income.

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A reconciliation of net income attributable to controlling interests, as reported under generally accepted accounting principles, to adjusted net income attributable to controlling interests, and of diluted earnings per share as reported under generally accepted accounting principles to adjusted diluted earnings per share is as follows:

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	<b>Year Ended June 30, 2011 (In thousands, except share and per share amounts)</b>
Net income attributable to controlling interests	\$ 194,437
Adjusted for certain Merger-related items (c):	
Amortization of intangible assets	34,087
Transaction and integration expenses including severance (d)	64,799
Stock-based compensation (e)	46,850
Deferred payment from divestiture (f)	(9,429)
Other tax items	603
Adjusted net income attributable to controlling interests	\$ 331,347
Weighted average shares of common stock diluted (000)	74,139
Earnings per share diluted, as reported	\$ 2.62
Adjusted for certain Merger-related items:	
Amortization of intangible assets	0.46
Transaction and integration expenses including severance	0.87
Stock-based compensation	0.63
Deferred payment from divestiture	(0.13)
Other tax items	0.01
Adjusted earnings per share diluted	\$ 4.46

- (c) The adjustments to net income attributable to controlling interests and diluted earnings per share of certain Merger-related items are net of tax. In calculating the net of tax amounts, the effective tax rate for amortization of intangible assets was 34.4%, transaction and integration expenses including severance was 35.6%, stock-based compensation was 34.7%, other non-operating income was 34.5%, deferred payment was 34.5%. Included in other tax items was a \$1.1 million benefit resulting from a tax restructuring in Japan and \$1.7 million expense resulting from incorporation of former Watson Wyatt branches, which is included in the consolidated statement of operations under provision for income taxes.
- (d) Included in transaction and integration expenses including severance is approximately \$2.0 million of expenses related to the recent acquisitions of Aliquant and EMB which were completed in the second quarter and third quarter of fiscal year 2011, respectively.
- (e) Stock-based compensation relates to shares of Restricted Class A common stock held by our current associates which were awarded to them as former Towers Perrin employees in connection with the Merger.
- (f) Reflects a gain on the sale of e-Value, a sale of a financial modeling software, and the deferred payment from divestiture received in the second quarter related to a divestiture by former Towers Perrin in June 2009 before the closing of the Merger which is included in non-operating income. Both items are included in non operating

income.

**Historical Results of Operations for the Fiscal Year Ended June 30, 2010 Compared to Fiscal Year Ended June 30, 2009**

Revenue for the fiscal year ended June 30, 2010 was \$2.4 billion, an increase of \$711.8 million, or 42%, compared to \$1.7 billion for the fiscal year ended June 30, 2009. The increase was primarily a result of the Merger and combination of Towers Perrin's and Watson Wyatt's operations as of January 1, 2010. Net income attributable to controlling interests for the fiscal year ended June 30, 2010 was \$120.6 million, a decrease of \$25.9 million, or 18%, compared to \$146.5 million for the fiscal year ended June 30, 2009. The decrease was primarily due to transaction and integration expenses of \$87.6 million incurred in connection with the Merger during fiscal year ended June 30, 2010. Salaries and employee benefits were 65% of revenue for the fiscal year ended June 30, 2010, an increase of 4% from 61% of revenue for the fiscal year ended June 30, 2009. This increase is the result of stock-based compensation of \$54.7 million recorded in the second half of fiscal 2010, which consisted of \$48.0 million related to the vesting of Restricted A shares issued to Towers Perrin employees in the Merger and \$4.6 million related to the vesting of the unamortized fair value of Watson Wyatt stock options and deferred stock units outstanding at the time of the Merger. The remaining increase is the result of higher salaries and employee benefits as a percentage of revenue for Towers Perrin. There were no other significant increases or decreases of more than one percent comparing the statements of operations line items as a percent of revenue period over period for the fiscal years ended June 30, 2010 and 2009. Provision for income taxes for the fiscal year ended June 30, 2010 was \$50.9 million, compared to \$75.3 million for the fiscal year ended June 30, 2009. The effective tax rate for the year was 30.0% for the fiscal year ended June 30, 2010 and 33.9% for the fiscal year ended June 30, 2009. The provision for income taxes for fiscal year 2010 includes a deferred tax charge for \$10.6 million due to the enactment of the Patient Protection and Affordable Care Act and U.S. Health Care and Education Reconciliation Act of 2010. We also released a net valuation allowance of \$27.5 million for U.S. foreign tax credits. We believe that it is more likely than not that these foreign tax credits will be realized within the carryforward period as a result of generating future sources of foreign income.

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Moreover, we released \$3.6 million of reserves related to uncertain tax positions as a result of expiring statutes of limitations and effectively settled tax positions following the examination of our 2007 and 2008 U.S. federal corporate income tax returns.

*Net income attributable to controlling interests.*

Net income attributable to controlling interests for the fiscal year ended June 30, 2010 was \$120.6 million inclusive of the amortization of deal-related intangible assets, deductible and non-deductible transaction and integration expenses including severance, stock-based compensation related to Restricted Class A shares (recorded in salaries and employee benefits), loss of the Medicare Part D subsidy and other Merger-related tax items, compared to net income attributable to controlling interests of \$146.5 million for the fiscal year ended June 30, 2009.

*Earnings per share.*

Diluted earnings per share for the fiscal year ended June 30, 2010 were \$2.03, compared to \$3.42 for the fiscal year ended June 30, 2009.

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**UNAUDITED SUPPLEMENTAL PRO FORMA COMBINED STATEMENTS OF OPERATIONS**

The consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2010 includes the results of Towers Perrin's operations beginning January 1, 2010, or six months of the twelve-month period. As a result, the consolidated statement of operations for fiscal year ended June 30, 2011 is compared to the unaudited supplemental pro forma combined financial information for fiscal year ended June 30, 2010 is prepared and presented to aid in explaining the results of operations of the merged Towers Watson. The pro forma unaudited consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2010 is prepared as if the Merger occurred on July 1, 2009.

The pro forma consolidated statement of operations for the fiscal year ended June 30, 2010 combines Towers Watson's historical unaudited consolidated statement of operations for the six months ended June 30, 2010 with Watson Wyatt's and Towers Perrin's historical unaudited consolidated statements of operations for the six months ended December 31, 2009. Watson Wyatt's fiscal year ended on June 30 while Towers Perrin's fiscal year ended on December 31. Towers Perrin's financial information has been recast to conform to Watson Wyatt's fiscal year end.

The pro forma unaudited consolidated statement of operations of Towers Watson for the fiscal year ended June 30, 2009 is prepared as if the Merger occurred on July 1, 2008. Towers Perrin's historical unaudited consolidated statement of operations for the six months ended December 31, 2009 was derived by subtracting Towers Perrin's unaudited consolidated statement of operations for the six months ended June 30, 2009 from Towers Perrin's audited consolidated statement of operations for the year ended December 31, 2009. The unaudited pro forma combined financial statements should be read together with the respective historical financial statements and related notes of Towers Perrin and Watson Wyatt and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The unaudited pro forma combined statements of operations give effect to the Merger including:  
related Merger consideration;

adjustments made to record the assets and liabilities of Towers Perrin at their estimated fair values;

reclassifications made to conform Towers Perrin's and Watson Wyatt's historical financial statement presentation to Towers Watson's; and

the consolidation of Professional Consultants Insurance Company, Inc., which we refer to as PCIC.

Prior to the Merger, Towers Perrin was a private, employee-owned corporation. As a result, Towers Perrin's historical unaudited consolidated statement of operations for the six months ended June 30, 2009 does not reflect the level of net income that Towers Perrin contributes to Towers Watson, as a public company. Further, the revenue growth that we expect Towers Watson to achieve from strengthening core services and expanding the existing portfolio of services is not reflected in the unaudited pro forma combined financial statements.

The unaudited pro forma combined statements of operations for the fiscal year ended June 30, 2010 do not reflect certain financial targets relating to the Merger, such as our targeted synergy cost savings, reductions in compensation and benefits expense resulting from the retirement of Class R participants, and a further targeted reduction in compensation expense resulting from the elimination of the principal bonus payments historically paid to legacy Towers Perrin Principals.

Pro forma earnings per share reflect the impact of significant non-cash and non-recurring expenses resulting from the Merger, including compensation expense incurred as a result of the issuance of Towers Watson Restricted Class A common stock to Towers Perrin restricted stock unit (RSU) holders and the incremental amortization of acquired intangible assets.

Towers Watson is implementing an integration plan that may affect how the assets acquired, including intangibles, will be utilized. If assets in the combined company are phased out or no longer used, additional amortization, depreciation and/or impairment charges would be recorded.

The following unaudited pro forma combined statements of operations for the fiscal years ended June 30, 2010 and 2009 are provided for informational purposes only. They do not purport to represent what Towers Watson's results of

operations would have been had the Merger been completed as of the date indicated and do not purport to be indicative of the results of operations that Towers Watson may achieve in the future.



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**Consolidated Statement of Operations  
Year Ended June 30, 2011**

**Year  
Ended**